

# Prudential Investment Funds (1)

Annual investment report and financial statements (audited)

December 2009

# Contents

<b>Introduction</b>	Page	1
Company information <sup>+</sup>	Page	1
Note to shareholders <sup>+</sup>	Page	1
Authorised Corporate Director's report <sup>+</sup>	Page	2
<b>Prudential Investment Funds (1)</b>	Page	3
Authorised Corporate Director's responsibilities	Page	3
Depositary's responsibilities and report	Page	3
Independent auditor's report	Page	4
<b>Aggregated financial statements (audited)</b>	Page	5
Directors' statement	Page	7
<b>Investment report<sup>+</sup> and financial statements for</b>		
Prudential Cautious Managed Growth Fund	Page	9
Prudential Managed Defensive Fund	Page	17
<b>Further information<sup>+</sup></b>	Page	25
Risk factor	Page	25
Liquidity	Page	25
Dilution	Page	25
The EU savings directive	Page	25

<sup>+</sup> Collectively, these comprise the Authorised Corporate Director's report.

# Introduction

## Company information

### Company

Prudential Investment Funds (1)

### Registered Office

Laurence Pountney Hill, London EC4R 0HH

### Authorised Corporate Director (ACD)

Prudential Unit Trusts Limited,  
Laurence Pountney Hill, London EC4R 0HH  
(Authorised and regulated by the Financial Services Authority)

### Directors of the ACD

T Cheal  
C I Jackson  
M Lewis  
G W MacDowall  
L U Midwinter  
L J Mumford  
W J Nott  
L J Scrine  
J R Talbot

### Investment manager

M&G Investment Management Limited,  
Laurence Pountney Hill, London EC4R 0HH  
(Authorised and regulated by the Financial Services Authority)

### Secretary

M&G Management Services Limited

### Registrar

International Financial Data Services (UK) Limited,  
IFDS House, St. Nicholas Lane, Basildon Essex SS15 5FS  
(Authorised and regulated by the Financial Services Authority)

### Depositary

The Royal Bank of Scotland plc, Trustee & Depositary Services,  
The Broadstone, 50 South Gyle Crescent, Edinburgh EH12 9UZ  
(Authorised and regulated by the Financial Services Authority)

### Independent auditors

PricewaterhouseCoopers LLP,  
Hay's Galleria, 1 Hay's Lane, London SE1 2RD

### Customer relations

Prudential Unit Trusts Limited,  
PO Box 9022 Chelmsford, Essex CM99 2WA  
Telephone: 0845 783 5500

For security purposes and to improve the quality of our service, we may record and monitor telephone calls. You will require your customer number. Failure to provide this will affect your ability to transact with us.

Copies of the Prospectus are available on request free of charge.

Prudential Unit Trusts Limited is a member of the Investment Management Association.

You are classified as a 'Retail Client' as defined in the FSA Handbook unless we notify you in writing to the contrary.

## Note to shareholders

Mr Trevor Cheal was appointed as a Director of Prudential Unit Trusts Limited on 4 February 2009.

# Introduction

## Authorised Corporate Director's report

**The Authorised Corporate Director (ACD) presents its annual investment report and audited financial statements for the year ended 31 October 2009.**

The sub-funds in this report are all part of an umbrella Open-Ended Investment Company (OEIC), Prudential Investment Funds (1). This OEIC is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the Financial Services Authority (FSA) under the Financial Services and Markets Act 2000. Prudential Investment Funds (1), as an umbrella OEIC, contains two sub-funds, each of which are non-UCITS retail schemes as defined in the Collective Investment Schemes sourcebook, as issued (and amended) by the FSA:

Prudential Cautious Managed Growth Fund

Prudential Managed Defensive Fund

The Company was authorised on 8 February 2007 and was launched on 16 February 2007.

The Company's principal activity is to carry on business as an OEIC. The Company is structured as an umbrella company, and different sub-funds may be established by the ACD from time to time with the agreement of the Depositary and approval from the FSA. The sub-funds are operated separately and the assets of each sub-fund are managed in accordance with the investment objective and policy applicable to that sub-fund.

The annual investment report and financial statements for each sub-fund for the year ended 31 October 2009 are set out in detail in their section of this report (see contents page).

G W MacDowall  
Director of Prudential Unit Trusts Limited

J R Talbot  
Director of Prudential Unit Trusts Limited

14 December 2009

# Prudential Investment Funds (1)

## Authorised Corporate Director's responsibilities

### Statement of the Authorised Corporate Director's responsibilities in respect of the annual investment report and financial statements of the Company

The Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Services Authority (FSA), requires the Authorised Corporate Director (ACD) to prepare the investment report and financial statements for each financial year which give a true and fair view of the financial position of the Company as at the end of the financial year, and the net revenue and the net gains / (losses) for the year. In preparing the financial statements, the ACD is required to:

- a) comply with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in November 2008, the Instrument of Incorporation, generally accepted accounting principles and applicable accounting standards subject to any material departures which are required to be disclosed and explained in the financial statements;
- b) select suitable accounting policies and then apply them consistently;
- c) make judgments and estimates that are reasonable and prudent;
- d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation.

The ACD is required to keep proper accounting records, and to manage the Company in accordance with the Collective Investment Schemes sourcebook, as issued (and amended) by the FSA, the Instrument of Incorporation and the Prospectus, and to take reasonable steps for the prevention and detection of fraud or other irregularities.

## Depositary's responsibilities and report

### Statement of the Depositary's responsibilities in respect of the financial statements of the Company

The Depositary is under a duty to take into custody and to hold the property of the Company. Under the Regulations relating to Reports, it is the duty of the Depositary to enquire into the conduct of the Authorised Corporate Director in the management of the Company in each accounting period and report thereon to shareholders in a report which shall contain the matters prescribed by the Regulations. A copy of the Depositary's report is included in this report.

### Report of the Depositary to the shareholders of Prudential Investment Funds (1) for the year ended 31 October 2009

The Depositary is responsible for the safekeeping of all of the property of the Company (other than tangible moveable property) which is entrusted to it and for the collection of income that arises from that property.

It is the duty of the Depositary to take reasonable care to ensure that the Company is managed in accordance with the Financial Services Authority's Collective Investment Schemes sourcebook (COLL), as amended, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228), as amended ('the OEIC Regulations'), the Company's Instrument of Incorporation and Prospectus, in relation to the pricing of, and dealings in, shares in the Company; the application of income of the Company; and the investment and borrowing powers applicable to the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the Authorised Corporate Director:

- has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with COLL and, where applicable, the OEIC Regulations, the Instrument of Incorporation and Prospectus of the Company, and
- has observed the investment and borrowing powers and restrictions applicable to the Company.

The Royal Bank of Scotland plc  
Trustee and Depositary Services  
Edinburgh

14 December 2009

# Prudential Investment Funds (1)

## Independent auditors' report

### Independent auditors' report to the shareholders of Prudential Investment Funds (1) ICVC (the 'Company')

We have audited the financial statements of Prudential Investment Funds (1) for the year ended 31 October 2009 which comprise the aggregated statement of total return, the aggregated statement of change in net assets attributable to shareholders, the aggregated balance sheet and related notes and for each of the Company's sub-funds, the statement of total return, the statement of change in net assets attributable to shareholders, the balance sheet, the related notes and the distribution tables. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of the Authorised Corporate Director and Auditors

The Authorised Corporate Director's responsibilities for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of the Authorised Corporate Director's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) and the requirements of the Collective Investment Schemes sourcebook. This report, including the opinion has been prepared for and only for the Company's shareholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook as required by paragraph 67(2) of the Open-Ended Investment Companies Regulations 2001 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the IMA in November 2008, the Collective Investment Schemes sourcebook and the Instrument of Incorporation. We also report to you whether, in our opinion, proper accounting records for the Company have not been kept or whether the financial statements are not in agreement with those records, and whether the information given in the Authorised Corporate Director's Report is consistent with the financial statements. In addition, we state whether we have obtained all the information and explanations necessary for the purposes of our audit.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Authorised Corporate Director's Report and the other items set out on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Authorised Corporate Director in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the financial position of the Company and each of the sub-funds at 31 October 2009 and of the net revenue and the net gains / (losses) of the property of the Company and each of the sub-funds for the year then ended; and
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds issued by the IMA in November 2008, the Collective Investment Schemes sourcebook and the Instrument of Incorporation.

We have obtained all the information and explanations we consider necessary for the purposes of the audit.

In our opinion the information given in the Authorised Corporate Director's Report is consistent with the financial statements.

PricewaterhouseCoopers LLP  
Chartered Accountants and  
Statutory Auditors  
London  
14 December 2009

The financial statements are published at [www.pru.co.uk/managersreports](http://www.pru.co.uk/managersreports) which is a website maintained by Prudential UK ('Prudential'). The maintenance and integrity of the website maintained by Prudential or any of its subsidiaries is, so far as it relates to Prudential Investment Funds (1), the responsibility of Prudential. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website.

# Aggregated financial statements

for the year ended 31 October 2009

## Statement of total return

Note	2009		2008 <sup>[a]</sup>	
	£'000	£'000	£'000	£'000
<b>Income</b>				
Net capital gains / (losses)	3	31,985	(28,233)	
Revenue	4	9,410	7,943	
Expenses	5	(321)	(293)	
Finance costs: Interest	12	(9)	(8)	
Net revenue before taxation		9,080	7,642	
Taxation	6	(286)	(312)	
Net revenue after taxation		8,794	7,330	
<b>Total return before distributions</b>				
		40,779	(20,903)	
Finance costs: Distributions	12	(8,790)	(7,330)	
<b>Change in net assets attributable to shareholders from investment activities</b>				
		31,989	(28,233)	

[a] Restated (see note 1a to underlying sub-funds).

## Statement of change in shareholders' net assets

	2009		2008	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>				
		166,858	68,339	
Amounts received on issue of shares		9,021	19,283	
Value of securities transferred from in-specie issues		0	112,105	
Amounts paid on cancellation of shares		(4,796)	(4,729)	
		4,225	126,659	
Stamp Duty Reserve Tax (SDRT)		(52)	(22)	
Change in net assets attributable to shareholders from investment activities (see above)		31,989	(28,233)	
Retained distributions on Accumulation shares		212	115	
<b>Closing net assets attributable to shareholders</b>				
		203,232	166,858	

## Balance sheet

	as at 31 October 2009		as at 31 October 2008	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		201,687		170,953
<b>Debtors</b>				
Amounts receivable on issues		161		279
Bank interest receivable		0		1
Debt security interest receivable		122		617
Distributions receivable		149		167
Management fee rebates due		21		0
Prepaid expenses		0		1
Tax recoverable		1,267		906
		1,720		1,971
Cash held as bank balances		824		837
Cash held on deposit		8,930		728
		9,754		1,565
<b>Total other assets</b>		<b>11,474</b>		<b>3,536</b>
<b>Total assets</b>		<b>213,161</b>		<b>174,489</b>
<b>Liabilities</b>				
Investment liabilities		(1,011)		0
<b>Creditors</b>				
Amounts payable on cancellations		(103)		0
Corporation tax payable		(178)		(187)
Deferred taxation		(4)		(6)
Expenses payable		(32)		(22)
Income tax payable		(1,512)		(1,247)
Net distributions payable on Income shares		(7,083)		(6,166)
SDRT payable		(6)		(3)
<b>Total other liabilities</b>		<b>(8,918)</b>		<b>(7,631)</b>
<b>Total liabilities</b>		<b>(9,929)</b>		<b>(7,631)</b>
<b>Net assets attributable to shareholders</b>		<b>203,232</b>		<b>166,858</b>

# Aggregated financial statements

## Notes to the financial statements

### 1 Accounting policies

The accounting policies applied are set out in the notes to the financial statements of each of the sub-funds.

The aggregated financial statements represent the summation of the financial statements for each of the sub-funds.

### 2 Risk management policies

The risk management policies are set out in the notes to the financial statements of each of the sub-funds.

### 3 Net gains / (losses) on investments

	2009 £'000	2008 <sup>[a]</sup> £'000
Non-derivative securities	36,431	(25,555)
Forward currency contracts	(4,684)	(2,649)
Currency gains / (losses)	242	(23)
Transaction charges	(4)	(6)
<b>Net gains / (losses) on investments</b>	<b>31,985</b>	<b>(28,233)</b>

<sup>[a]</sup> Restated (see note 1a to underlying sub-funds).

### 4 Revenue

	2009 £'000	2008 £'000
Annual payments	1,477	1,303
Bank interest	3	16
Deposit interest	35	267
HM Revenue & Customs interest	4	2
Interest distributions	5,575	3,634
Interest on debt securities	568	1,490
Management fee rebates	633	462
Overseas dividends	654	487
UK dividends	461	282
	<b>9,410</b>	<b>7,943</b>

### 5 Expenses

	2009 £'000	2008 <sup>[a]</sup> £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge <sup>[b]</sup>	105	58
Administration fee	179	191
	<b>284</b>	<b>249</b>
<b>Payable to the Depositary or associate</b>		
Depositary's fee (including VAT)	17	15
<b>Other expenses</b>		
Audit fee (including VAT)	18	18
Audit fee (including VAT): under-accrual for prior year	0	4
Legal fees	0	4
Safe custody charge	2	3
	<b>20</b>	<b>29</b>
<b>Total expenses</b>	<b>321</b>	<b>293</b>

<sup>[a]</sup> Restated (see note 1a to underlying sub-funds).

<sup>[b]</sup> This charge excludes management fee rebates received from Prudential Unit Trusts Limited, or an associate, in relation to the annual management charge of the underlying collective investment schemes for which Prudential Unit Trusts Limited, or an associate, acts as Authorised Corporate Director / Manager. These rebates have been recognised as revenue in note 4 and amount to £633,000 (2008: £462,000).

### 6 Taxation

	2009 £'000	2008 <sup>[a]</sup> £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	240	242
Tax on annual payments	110	125
Double taxation relief	(62)	(55)
	<b>288</b>	<b>312</b>
Current tax charge (note 6b)	288	312
Deferred tax (note 6c)	(2)	0
	<b>286</b>	<b>312</b>

#### b) Factors affecting taxation charge for the year

Net revenue before taxation	9,080	7,642
Corporation tax at 20%	1,816	1,528

Effects of:

UK dividends <sup>[b]</sup>	(92)	(56)
Overseas dividends not taxable <sup>[b]</sup>	(76)	0
Interest distributions	(1,512)	(1,247)
Current period expenses not utilised	101	36
Income taxable in different periods	3	(19)
Tax on annual payments	110	125
Double taxation relief	(62)	(55)

<b>Current tax charge (note 6a)</b>	<b>288</b>	<b>312</b>
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<sup>[a]</sup> Restated (see note 1a to underlying sub-funds).

<sup>[b]</sup> As an Open-Ended Investment Company these items are not subject to corporation tax.

#### c) Provision for deferred taxation

Provision at the start of the year	6	6
Deferred tax in profit and loss account (note 6a)	(2)	0
<b>Provision at the end of the year</b>	<b>4</b>	<b>6</b>

### 7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (31.10.08: same).

### 8 Related parties

The required disclosures are set out in the notes to the financial statements of each of the sub-funds.

### 9 Financial instruments

The required disclosures are set out in the notes to the financial statements of each of the sub-funds.

### 10 Portfolio transaction costs

	2009 £'000	2008 £'000
<b>a) Purchases</b>		
Purchases excluding transaction costs	99,104	176,524
Commissions	0	9
<b>Total purchases including transaction costs</b>	<b>99,104</b>	<b>176,533</b>
<b>b) Sales</b>		
Sales excluding transaction costs	104,325	47,627
Commissions	(1)	0
<b>Total sales net of transaction costs</b>	<b>104,324</b>	<b>47,627</b>

# Aggregated financial statements

## Notes to the financial statements (continued)

### 11 Shareholder funds

The required disclosures are set out in the notes to the financial statements of each of the sub-funds.

### 12 Finance costs

	2009 £'000	2008 <sup>[a]</sup> £'000
<b>Income shares (sterling)</b>		
Class 'A'- Dividend distributions	40	22
- Interest distributions	9	3
Class 'C'- Dividend distributions	1,071	1,077
- Interest distributions	5,963	5,064
<b>Accumulation shares (sterling)</b>		
Class 'A'- Dividend distributions	151	104
- Interest distributions	61	11
	7,295	6,281
Income tax deducted at source	1,512	1,247
	8,807	7,528
Income deducted on cancellation of shares	138	67
Income received on issue of shares	(155)	(265)
<b>Finance costs: Distributions</b>	<b>8,790</b>	<b>7,330</b>
Finance costs: Interest	9	8
<b>Total finance costs</b>	<b>8,799</b>	<b>7,338</b>
Net income per statement of total return	8,794	7,330
Undistributed income brought forward	2	2
Undistributed income carried forward	(6)	(2)
<b>Finance costs: Distributions</b>	<b>8,790</b>	<b>7,330</b>

[a] Restated (see note 1a to underlying sub-funds).

## Directors' statement

This report has been prepared in accordance with the requirements of the Collective Investment Schemes sourcebook as issued (and amended) by the Financial Services Authority.

G W MacDowall

J R Talbot

Directors

Prudential Unit Trusts Limited

14 December 2009

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# Prudential Cautious Managed Growth Fund

## Authorised Corporate Director's report

### Investment objective of the

#### Prudential Cautious Managed Growth Fund

The Fund's objective is to deliver long-term total return (the combination of income and growth of capital).

### Policy for achieving the objective of the

#### Prudential Cautious Managed Growth Fund

The Fund aims to achieve its objective through asset allocation unconstrained by any benchmark. The Fund may invest globally either directly or via other collective investment schemes in assets including transferable securities, debt instruments, money market instruments, cash, near cash, deposits, derivatives, and indirectly in property. Derivative instruments may be used for both investment purposes and efficient portfolio management. The Fund will invest no more than 60% of the portfolio in equities.

## Investment activities over the report period

During the 12 months under review, the Prudential Cautious Managed Growth Fund's total return (capital performance with net income reinvested) was 26.8%\*. This was well ahead of the average total return of 17.3%\* in the fund's peer group, the IMA Cautious Managed sector.

The fund achieved a healthy profit for investors, despite the extraordinary level of volatility over the past 12 months. The defensive characteristics of the portfolio helped it to outperform its peer group during the first half of the review period, while the re-emergence of investors' appetite for risk from March 2009 onwards was also beneficial. The weakness of the British pound against the US dollar and the euro over the review period also enhanced returns to sterling-based investors.

Financial markets were in disarray near the end of 2008, following the collapse of US investment bank Lehman Brothers in September. Equity valuations were under intense pressure as investors reacted with extreme risk aversion, opting for assets they considered more secure, such as government bonds.

It took a massive intervention by policymakers worldwide from March 2009 onwards to boost investors' hopes of a rapid end to the downturn. Record low interest rates in the UK, US and the eurozone and the implementation of quantitative easing (the purchase of government and corporate bonds to increase the availability of money and lower the cost of lending) helped to transform market conditions. Moreover, the spectre of inflation did not appear, belying concerns about the amount of money being pumped into the economy.

Against such a volatile backdrop, the majority of the fund's gains came from the portfolio of equity holdings. Although performance was initially disappointing, having a significant exposure to equities was beneficial during the rally from March onwards. A holding in the

Prudential European Trust, the second largest position in the fund, was beneficial, while in the UK, the M&G Recovery Fund did particularly well against its peer group, the IMA UK All Companies sector. Similarly, a small holding in Prudential Pacific Markets Trust rose in value, fuelled by the very strong performance of equities in the region.

The performance of the M&G European Corporate Bond Fund and the Prudential Corporate Bond Trust also provided excellent returns for the fund. By increasing the portfolio's exposure to investment grade corporate bonds throughout the review period, the fund manager was able to take advantage of a revival in investors' interest in company debt during the second half of the review period.

A small exposure to government bonds gave a modest positive return near the end of 2008, helped by investors' preference for lower-risk assets to shelter against stockmarket volatility. Indeed, conditions were ideal for government bonds at the time. Low interest rates and subsiding inflation on the back of slowing economic growth saw prices for government bonds increase and yields fall across all maturities. The scale of the rally was such that the fund manager temporarily closed the portfolio's holdings in the asset class at the start of 2009.

Overall, there was little that disappointed during the review period, although the remaining investment in UK commercial property had a negative effect. Nevertheless, the fund's holding in the M&G Property Portfolio was relatively modest, which reduced the impact of the decline. On a positive note, sentiment towards the asset class has improved in recent months and the fund manager is now seeking to increase the fund's exposure to this area of the market. Commercial property should play an important role in a balanced portfolio going forward.

While equity markets still offer value, they remain sensitive to sharp swings in investor confidence and further volatility is likely. To reflect this, the fund manager has reduced the fund's exposure to equities in recent months. The positions in the Prudential European Trust and the Prudential Pacific Markets Trust were cut back, while the exposure to UK equities was trimmed.

The proceeds raised from the sales were used to initiate a position in UK government bonds, as well as adding to existing holdings in the Prudential Corporate Bond Trust and the M&G Property Portfolio. The fund manager expects the holdings in corporate bonds and government bonds to provide some stability over the coming months.

Looking ahead, the fund manager will continue to focus on areas where he believes the best risk-adjusted opportunities lie, while preventing any over-exposure to any single asset class.

Investors have responded positively to government intervention and improving economic and corporate news. Nonetheless, confidence is fragile and it is important to remember that a sustained and stable recovery is likely to be a slow process.

\* Source: Morningstar, Inc.

Basis: Bid to bid with net income reinvested to 30 October 2009.

Please note that the views expressed in this report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a financial adviser.

# Prudential Cautious Managed Growth Fund

## Fund statistics

Sterling Class 'C' shares are not generally available to all investors.

### Distribution dates and fund facts

Distribution type	xd	payment
Final	01.11.10	31.12.10

  

	Final distribution		Total Expense Ratio <sup>[b]</sup>	
	Inc 31.12.09 <sup>[a]</sup>	Acc 02.11.09 <sup>[a]</sup>	31.10.09	31.10.08
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
<b>Class 'A'</b>	2.0040	2.0705	1.73	1.63
<b>Class 'C'</b>	2.9190	n/a	0.39	0.33

The Portfolio Turnover Rate (PTR) for the 12 months ending 31 October 2009 was 57.10% compared with 56.12% for the year ending 31 October 2008. <sup>[c]</sup>

<sup>[a]</sup> The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

<sup>[b]</sup> The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

<sup>[c]</sup> The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the fund over the course of a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the fund's units and is expressed as a percentage of the fund's average net asset value.

Income accrued from interest-bearing securities is distributed on an effective yield basis.

### Fund performance

Performance of share classes

	Net asset value per share as at 31.10.09		Net asset value per share as at 31.10.08		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
<b>Class 'A'</b>	94.18	99.38	75.70	78.21	+24.41	+27.07
<b>Class 'C'</b>	94.10	n/a	75.47	n/a	+24.69	n/a

### Prices

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
<b>Sterling</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
<b>Class 'A'</b>	2007 <sup>[a]</sup>	104.75	97.39	104.75	97.39
	2008	102.46	73.16	103.28	74.28
	2009 <sup>[b]</sup>	98.94	72.56	102.22	74.97
<b>Class 'C'</b>	2007 <sup>[a]</sup>	105.41	97.79	n/a	n/a
	2008	102.75	73.05	n/a	n/a
	2009 <sup>[b]</sup>	99.74	72.68	n/a	n/a

<sup>[a]</sup> From 16 February 2007 (the launch date of the fund) to 31 December 2007.

<sup>[b]</sup> Up to 2 November 2009.

### Income

#### Income per share

	Calendar year	Distributed	Reinvested
		p	p
<b>Sterling (net)</b>		<b>p</b>	<b>p</b>
<b>Class 'A'</b>	2007	0.8230	0.8230
	2008	1.9430	1.9585
	2009 <sup>[a]</sup>	2.0040	2.0705
<b>Class 'C'</b>	2007	1.5030	n/a
	2008	2.9650	n/a
	2009 <sup>[a]</sup>	2.9190	n/a

<sup>[a]</sup> Up to final: ex-distribution date 2 November 2009; payment date 31 December 2009.

Past performance is not a guide to future performance.

The price of shares and the income from them can go down as well as up, and you may get back less than you invested.

# Prudential Cautious Managed Growth Fund

## Net assets

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling Class 'A'	Oct 2007	p 102.65	p 103.47	125,000	1,274,500
	Oct 2008	75.70	78.21	1,138,000	5,314,500
	Oct 2009	94.18	99.38	2,005,000	7,311,500
Class 'C'	Oct 2007	102.66	n/a	31,295,000	n/a
	Oct 2008	75.47	n/a	36,304,800	n/a
	Oct 2009	94.10	n/a	36,691,800	n/a

## Total net asset value of sub-fund

Year ended	£
Oct 2007	33,574,000
Oct 2008	32,416,000
Oct 2009	43,684,000

## Portfolio

### Portfolio statement

as at 31 October 2009

Holding	Value £'000	31.10.09 %	31.10.08 %
<b>Equity portfolios</b>			
<b>Continental Europe</b>			
1,019,940		37.29	56.64
		12.10	18.42
		12.10	
<b>United Kingdom</b>			
		12.47	17.45
618,793	M&G Recovery Fund Sterling Class 'A' (Accumulation)	1,318	3.02
86,278	M&G UK Growth Fund Sterling Class 'A' (Accumulation)	2,042	4.67
1,426,415	Prudential Equity Income Trust Sterling Class 'C' (Income)	1,252	2.87
358,268	Prudential Small Companies Trust Sterling Class 'C' (Income)	836	1.91
<b>Far East</b>			
		4.15	9.77
849,789	Prudential Pacific Markets Trust Sterling Class 'C' (Income)	1,812	4.15
<b>Japan</b>			
		4.62	5.35
1,673,172	Prudential Japanese Trust Sterling Class 'C' (Income)	2,016	4.62
<b>United States</b>			
		3.95	5.65
619,013	Prudential North American Trust Sterling Class 'C' (Income)	1,726	3.95
<b>Equity investment instruments</b>			
		3.79	4.20
486,270	Alternative Investment Strategies	518	1.19
160,000	Dexion Absolute	213	0.49
840,000	International Public Partnerships (formerly Babcock & Brown Public Partnership)	921	2.11
<b>Non-equity investment instruments</b>			
		3.89	5.35
77,500	iShares MSCI Emerging Markets	1,698	3.89
<b>Property portfolios</b>			
		7.23	7.64
4,681,031	M&G Property Portfolio Sterling Class 'S' (Income)	3,160	7.23
<b>Bond portfolios</b>			
		37.99	24.34
5,787,720	M&G European Corporate Bond Fund Sterling Class 'A' (Accumulation)	4,758	10.89
19,868	M&G European Loan Fund Sterling Class 'A' (Income)	1,638	3.75
1,895,597	M&G High Yield Corporate Bond Fund Sterling Class 'X' (Accumulation)	1,581	3.62
15,276,052	Prudential Corporate Bond Trust Sterling Class 'C' (Income)	8,620	19.73
<b>Bonds</b>			
<b>'AAA' credit rated bonds</b>			
		4.67	3.60
£1,850,000	Treasury 5% 2025	2,041	4.67
<b>Forward currency contracts</b>			
		(0.19)	0.20
€(3,830,000)	Sold for £3,350,944 (expires 10.11.09)	(82)	(0.19)
<b>Portfolio of investments</b> (see notes 1b & 1d on page 13)		<b>41,355</b>	<b>94.67</b>
<b>Net other assets / (liabilities)</b>		<b>2,329</b>	<b>5.33</b>
<b>Net assets attributable to shareholders</b>		<b>43,684</b>	<b>100.00</b>
		<b>100.00</b>	<b>100.00</b>

# Prudential Cautious Managed Growth Fund

## Financial statements

for the year ended 31 October 2009.

### Statement of total return

Notes	2009		2008 <sup>[a]</sup>	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)	3	8,324		(10,887)
Revenue	4	1,611	1,446	
Expenses	5	(138)	(107)	
Net revenue before taxation		1,473	1,339	
Taxation	6	(239)	(243)	
Net income after taxation		1,234	1,096	
<b>Total return before distributions</b>		<b>9,558</b>	<b>(9,791)</b>	
Finance costs: Distributions	12	(1,232)	(1,096)	
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>8,326</b>	<b>(10,887)</b>	

[a] Restated (see note 1a opposite).

### Statement of change in shareholders' net assets

	2009		2008	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>32,416</b>		<b>33,574</b>
Amounts received on issue of shares	4,931		10,350	
Amounts paid on cancellation of shares	(2,128)		(717)	
Stamp Duty Reserve Tax (SDRT)		2,803		9,633
Change in net assets attributable to shareholders from investment activities (see above)		8,326		(10,887)
Retained distributions on Accumulation shares		151		104
<b>Closing net assets attributable to shareholders</b>		<b>43,684</b>		<b>32,416</b>

### Balance sheet

	as at 31 October 2009		as at 31 October 2008	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		41,437		33,053
<b>Debtors</b>				
Amounts receivable on issues	144		219	
Debt security interest receivable	14		40	
Distributions receivable	38		47	
Management fee rebates due	4		0	
Tax recoverable	165		119	
		365		425
Cash held as bank balances	152		239	
Cash held on deposit	3,227		0	
		<b>3,379</b>		<b>239</b>
<b>Total other assets</b>		<b>3,744</b>		<b>664</b>
<b>Total assets</b>		<b>45,181</b>		<b>33,717</b>
<b>Liabilities</b>				
Investment liabilities		(82)		0
<b>Creditors</b>				
Amounts payable on cancellations	(103)		0	
Corporation tax payable	(178)		(187)	
Deferred taxation	(4)		(6)	
Expenses payable	(15)		(9)	
Net distributions payable on Income shares	(1,111)		(1,099)	
SDRT payable	(4)		0	
<b>Total other liabilities</b>		<b>(1,415)</b>		<b>(1,301)</b>
<b>Total liabilities</b>		<b>(1,497)</b>		<b>(1,301)</b>
<b>Net assets attributable to shareholders</b>		<b>43,684</b>		<b>32,416</b>

### Notes to the financial statements

#### 1 Accounting policies

##### a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in November 2008 (the IMA SORP 2008).

During the year, the sub-fund has adopted the IMA SORP 2008. This has resulted in presentational changes to the statement of total return whereby currency gains and transaction charges are now classified as capital gains or losses. The effect of this is to remove £28,000 (2008: £15,000) from 'Currency gains' and to reduce 'Expenses' by £2,000 (2008: £4,000), with a corresponding change in 'Net capital gains / (losses)'.

# Prudential Cautious Managed Growth Fund

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 30 October 2009, being the last business day of the financial year. The fair value of equity and non-equity shares is bid price, excluding any accrued interest; the fair value of investments managed by the Authorised Corporate Director (ACD), or an associate, is their single price except in the case of the M&G Property Portfolio which is valued at cancellation price; and the fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

#### c) Investment gains and losses

Gains and losses, including exchange differences, on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date, including unrealised exchange differences, are treated as capital.

#### d) Exchange rates

Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling as at 12 noon on 30 October 2009, being the last business day of the financial year.

#### e) Derivative financial instruments

Gains and losses on derivative contracts are accounted for in accordance with the fund manager's intention on entering into the contracts. Where the intention is to protect or enhance capital return, gains or losses are recognised in net capital gains / (losses); where the intention is to generate or protect revenue, the costs or income are recognised in net revenue before taxation.

#### f) Dividend and interest income

Distributions from collective investment schemes, and dividends from quoted equity and non-equity shares are recognised net of attributable tax credits when the security is quoted ex-dividend. Dividends are recognised as either revenue or capital depending upon the nature and circumstances of the dividend receivable.

Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment and is treated as revenue. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life based on estimated future cashflows. Any adjustments resulting from changes in cashflow estimates are treated as capital.

Bank interest, deposit interest and other income are recognised on an accruals basis and treated as revenue.

#### g) Equalisation

Income received from investments in authorised collective investment schemes, which are purchased during the financial year, will include an element of equalisation which represents the average amount of income included in the price paid for shares / units. The equalisation is treated as a return of capital for taxation purposes and is not included in the distributable income.

#### h) Management fee rebates

These are recognised on an accruals basis as either revenue or capital in accordance with the treatment of the management fee charged in the underlying collective investment schemes.

#### i) Expenses

For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

#### j) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

#### k) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

#### l) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

#### m) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

# Prudential Cautious Managed Growth Fund

## Notes to the financial statements (continued)

### 2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk, currency risk and interest rate risk in relation to the investment portfolio.

The capital and income value of the sub-fund's investments, whether held directly or through collective investment schemes, can be significantly affected by exchange rate fluctuations. During the period, it has been the policy to hedge some of the investment portfolio against currency movements through the use of forward currency contracts.

Short-term foreign currency exposures are generally covered by short dated currency contracts. Income arising in foreign currencies is generally converted into sterling shortly after receipt and is not hedged in advance of receipt.

The sub-fund also invests in interest-bearing securities through direct holdings and holdings in collective investment schemes. Any change to prevailing interest rates or in the expectations of future rates may result in an increase or decrease in the value of securities held. In general, if interest rates rise the capital value of the security or underlying fund is likely to fall and vice versa. The sub-fund may invest in other funds where a significant part of their portfolio is invested in below investment grade securities. The value of such funds may be more volatile than normal.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

Liquidity risk relates to the capacity to meet liabilities. The primary source of this risk to the sub-fund is the liability to shareholders for any redemption of shares. The risk is minimised by holding cash and readily realisable securities and via access to overdraft facilities. As noted on page 25, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (31.10.08: same).

### 3 Net capital gains / (losses)

	2009 £'000	2008 <sup>[a]</sup> £'000
Non-derivative securities	8,914	(10,041)
Forward currency contracts	(616)	(857)
Currency gains	28	15
Transaction charges	(2)	(4)
<b>Net capital gains / (losses)</b>	<b>8,324</b>	<b>(10,887)</b>

<sup>[a]</sup> Restated (see note 1a on page 12).

### 4 Revenue

	2009 £'000	2008 £'000
Annual payments	545	504
Bank interest	1	6
Deposit interest	9	111
Interest distributions	532	314
Interest on debt securities	43	152
Management fee rebates	105	86
Overseas dividends	207	147
UK dividends	169	126
<b>Total revenue</b>	<b>1,611</b>	<b>1,446</b>

### 5 Expenses

	2009 £'000	2008 <sup>[a]</sup> £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge <sup>[b]</sup>	84	49
Administration fee	41	42
	<b>125</b>	<b>91</b>
<b>Payable to the Depository or associate</b>		
Depository's fee (including VAT)	4	3
<b>Other expenses</b>		
Audit fee (including VAT)	9	9
Audit fee (including VAT): under-accrual for prior year	0	2
Legal fees	0	2
	9	13
<b>Total expenses</b>	<b>138</b>	<b>107</b>

<sup>[a]</sup> Restated (see note 1a on page 12).

<sup>[b]</sup> This charge excludes management fee rebates received from Prudential Unit Trusts Limited, or an associate, in relation to the annual management charge of the underlying collective investment schemes for which Prudential Unit Trusts Limited, or an associate, acts as Authorised Corporate Director / Manager. These rebates have been recognised as revenue in note 4 and amount to £105,000 (2008: £86,000).

### 6 Taxation

	2009 £'000	2008 <sup>[a]</sup> £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	240	242
Tax on annual payments	63	56
Double taxation relief	(62)	(55)
Current tax charge (note 6b)	241	243
Deferred tax (note 6c)	(2)	0
<b>Total taxation</b>	<b>239</b>	<b>243</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	1,473	1,339
Corporation tax at 20%	295	268
Effects of:		
UK dividends <sup>[b]</sup>	(34)	(25)
Overseas dividends not taxable <sup>[b]</sup>	(22)	0
Income taxable in different periods	1	(1)
Tax on annual payments	63	56
Double taxation relief	(62)	(55)
<b>Current tax charge (note 6a)</b>	<b>241</b>	<b>243</b>

<sup>[a]</sup> Restated (see note 1a on page 12).

<sup>[b]</sup> As a sub-fund of an Open-Ended Investment Company these items are not subject to corporation tax.

#### c) Provision for deferred taxation

Provision at the start of the year	6	6
Deferred tax in profit and loss account (note 6a)	(2)	0
<b>Provision at the end of the year</b>	<b>4</b>	<b>6</b>

The sub-fund does not have an unrecognised deferred tax asset at the year end (31.10.08: same).

### 7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (31.10.08: same).

# Prudential Cautious Managed Growth Fund

## Notes to the financial statements (continued)

### 8 Related parties

Prudential Unit Trusts Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where Prudential Unit Trusts Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in shareholders' net assets and note 12. Amounts due to / from Prudential Unit Trusts Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to Prudential Unit Trusts Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

During the year, there were transactions in shares in related parties of Prudential Unit Trusts Limited with a total value of £21,585,000 (2008: £21,785,000).

At the balance sheet date, the sub-fund held shares in related parties of Prudential Unit Trusts Limited with a value of £36,046,000 (31.10.08: £28,729,000).

At the balance sheet date, material shareholders from within Prudential plc, of which Prudential Unit Trusts Limited is a wholly owned subsidiary, have holdings totalling 79.75% (31.10.08: 84.91%) of the sub-fund's shares.

### 9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (31.10.08: same).

#### Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets / (liabilities)		Total	
	as at 31.10.09 £'000	as at 31.10.08 £'000	as at 31.10.09 £'000	as at 31.10.08 £'000	as at 31.10.09 £'000	as at 31.10.08 £'000
Euro	(3,433)	(1,852)	0	40	(3,433)	(1,812)
Japanese Yen	0	(1,504)	0	0	0	(1,504)
	(3,433)	(3,356)	0	40	(3,433)	(3,316)
Sterling	44,788	36,409	2,329	(677)	47,117	35,732
<b>Total</b>	<b>41,355</b>	<b>33,053</b>	<b>2,329</b>	<b>(637)</b>	<b>43,684</b>	<b>32,416</b>

There was also significant foreign currency exposure within the sub-fund's holdings of collective investment schemes since their assets are denominated in currencies other than sterling, with the effect that their balance sheets can be affected by exchange rate fluctuations.

### Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 31.10.09 £'000	as at 31.10.08 £'000	as at 31.10.09 £'000	as at 31.10.08 £'000	as at 31.10.09 £'000	as at 31.10.08 £'000
Euro	0	0	0	1,167	0	1,167
Sterling	16,749	8,141	5,268	0	22,017	8,141
<b>Total</b>	<b>16,749</b>	<b>8,141</b>	<b>5,268</b>	<b>1,167</b>	<b>22,017</b>	<b>9,308</b>

	Weighted average gross interest rate of fixed interest-bearing assets		Weighted average period for which interest rates are fixed <sup>[a]</sup>	
	as at 31.10.09 %	as at 31.10.08 %	as at 31.10.09 years	as at 31.10.08 years
Euro	n/a	4.39	n/a	28.20
Sterling	2.23	n/a	5.96	n/a

[a] Assuming the earliest maturity date for those assets with variable maturity dates.

Floating rate interest-bearing assets at the balance sheet date consist of bank balances, on which interest is calculated at a variable rate by reference to sterling bank deposit rates or the international equivalent; and the sub-fund's holdings in bond portfolios which are principally exposed to fixed and variable rate financial assets (31.10.08: same).

### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.10.08: same).

### 10 Portfolio transaction costs

	2009 £'000	2008 £'000
<b>a) Purchases</b>		
Purchases excluding transaction costs	14,157	20,913
Commissions	0	2
<b>Total purchases including transaction costs</b>	<b>14,157</b>	<b>20,915</b>
<b>b) Sales</b>		
Sales excluding transaction costs	14,620	10,891
Commissions	(1)	0
<b>Total sales net of transaction costs</b>	<b>14,619</b>	<b>10,891</b>

# Prudential Cautious Managed Growth Fund

## Notes to the financial statements (continued)

### 11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Income and Accumulation) shares and Sterling Class 'C' (Income) shares.

The charging structure for each share class, as at 31 October 2009, is set out in the following table (31.10.08: same):

	Class 'A' %	Class 'C' %
<b>Initial charge:</b>		
of amount invested	5.00	nil
<b>Redemption charge:</b>		
of amount redeemed <sup>[a]</sup>	nil	nil
<b>ACD's annual remuneration:</b>		
of allocated 'NAV'	1.35	nil

[a] The ACD may, at not less than 60 days notice to shareholders in writing, make a charge on the redemption of shares. At present no redemption charge is levied.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

	31.10.09		31.10.08	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
<b>Sterling</b>				
Class 'A'	1,888	7,267	861	4,157
Class 'C'	34,529	n/a	27,398	n/a

The net asset value per share and the number of shares are given in the comparative table on page 11. The distribution per share is given in the distribution table opposite. Each share class has the same rights on winding-up.

### 12 Finance costs

	2009 £'000	2008 <sup>[a]</sup> £'000
<b>Income shares (sterling)</b>		
Class 'A'- Final	40	22
Class 'C'- Final	1,071	1,077
<b>Accumulation shares (sterling)</b>		
Class 'A'- Final	151	104
Finance costs: Dividend distributions	1,262	1,203
Income deducted on cancellation of shares	48	13
Income received on issue of shares	(78)	(120)
<b>Finance costs: Distributions</b>	<b>1,232</b>	<b>1,096</b>
Net revenue per statement of total return	1,234	1,096
Undistributed income brought forward	1	1
Undistributed income carried forward	(3)	(1)
<b>Finance costs: Distributions</b>	<b>1,232</b>	<b>1,096</b>

[a] Restated (see note 1a on page 12).

## Distribution table

Dividend distributions on Income shares	Tax credit	Net income	Equal- isation	Distribution payable / paid	
	p	p	p	2009	2008
<b>Sterling</b>					
Class 'A' - Final					
Group 1:	0.2227	2.0040	-	2.0040	1.9430
Group 2:	0.0592	0.5328	1.4712	2.0040	1.9430
Class 'C' - Final					
Group 1:	0.3243	2.9190	-	2.9190	2.9650
Group 2:	0.1820	1.6376	1.2814	2.9190	2.9650

Dividend distribution on Accumulation shares	Tax credit	Net income	Equal- isation	Amount reinvested	
	p	p	p	2009	2008
<b>Sterling</b>					
Class 'A' - Final					
Group 1:	0.2301	2.0705	-	2.0705	1.9585
Group 2:	0.0612	0.5505	1.5200	2.0705	1.9585

Final period 01.11.08 - 31.10.09

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax but must be deducted from the cost of shares for Capital Gains Tax purposes.

# Prudential Managed Defensive Fund

## Authorised Corporate Director's report

### Investment objective of the Prudential Managed Defensive Fund

The Fund's objective is to deliver long term total return (the combination of income and growth of capital) with a bias towards income.

### Policy for achieving the objective of the Prudential Managed Defensive Fund

The Fund aims to achieve its objective through asset allocation unconstrained by any benchmark. The Fund may invest globally either directly or via other collective investment schemes in assets including transferable securities, debt instruments, money market instruments, cash, near cash, deposits, derivatives, and indirectly in property. Derivative instruments may be used for both investment purposes and efficient portfolio management. The Fund will invest no more than 35% of the portfolio in equities.

## Investment activities over the report period

During the 12-month review period, the Prudential Managed Defensive Fund's total return (capital performance with net income reinvested) was 20.2%.\* This was ahead of the average return of 17.3%\* in the fund's peer group, the IMA Cautious Managed sector.

The fund is run to have a defensive bias and the fund manager therefore considered it inappropriate to be heavily exposed to more volatile equity markets during the review period. While this helped the fund to outperform its peer group in the first half, it also meant that the fund lagged many of its competitors during the stockmarket rally from March 2009 onwards.

Financial markets were in disarray near the end of 2008, following the collapse of US investment bank Lehman Brothers in September. Equity valuations were under intense pressure as investors reacted with extreme risk aversion, opting for assets they considered more secure, such as government bonds.

It took a massive intervention by policymakers worldwide from March 2009 onwards to boost investors' hopes of a rapid end to the downturn. Record low interest rates in the UK, US and the eurozone and the implementation of quantitative easing (the purchase of government and corporate bonds to increase the availability of money and lower the cost of lending) helped to transform market conditions. Moreover, the spectre of inflation did not appear, belying concerns about the amount of money being pumped into the economy.

The fund's holdings in UK, European and US government bonds performed particularly well near the outset, benefiting from investors' preference for lower-risk assets to shelter against stockmarket volatility. Indeed, conditions were ideal for government bonds at the time. Low interest rates and subsiding inflation on the back of slowing economic growth saw prices for government bonds increase and yields fall across all maturities. The scale of the rally was such

that the fund manager cut the portfolio's targeted exposure to government bonds from 19% to 10% at the start of 2009. The fund's holdings in US and German government bonds and in the M&G Gilt & Fixed Interest Income Fund were sold at the time.

The proceeds raised from the sales were used to increase the fund's positions in the M&G European Corporate Bond Fund and the Prudential Corporate Bond Trust (the largest holding in the fund). The fund's large exposure to investment grade corporate bonds meant that the positions in the M&G European Corporate Bond Fund and the Prudential Corporate Bond Trust provided the majority of the fund's gains during the review period.

Elsewhere, the fund's equities holdings, through the Prudential UK Growth Trust, the Prudential European Trust and iShares MSCI Emerging Markets, provided a modest positive return. While initially weighing on performance during the stockmarket slump, the holdings rose sharply in value as investors' appetite for risk re-emerged from March 2009 onwards. During the rally the small positions in the Prudential European Trust and the Prudential UK Growth Trust were cut back, while the holding in the M&G UK Growth Fund was closed to limit the fund's exposure to risk. Some of the proceeds raised were reinvested into corporate bonds and commercial property.

Overall, there was little that disappointed during the review period, although the remaining investment in UK commercial property had a negative effect. Nevertheless, the fund's holding in the M&G Property Portfolio was very small, which reduced the impact of the decline. On a positive note, sentiment towards the asset class has improved in recent months and the fund manager is seeking to increase the fund's exposure to this area of the market.

Looking ahead, the fund manager will continue to adjust the portfolio to enhance returns in a cautious, risk-aware fashion, with a focus on protecting capital values, where possible. The extraordinary market conditions that prompted the fund manager to increase the fund's exposure to investment grade corporate bonds to over 60% of the portfolio have abated somewhat. While he expects corporate bonds to outperform both government bonds and cash over the coming months, the fund's exposure will be reduced to a more appropriate level when conditions are suitable.

Investors have responded positively to government intervention and improving economic and corporate news. Nonetheless, confidence is fragile and it is important to remember that recessionary conditions persist and a sustained and stable recovery is likely to be a slow process. In this situation, equity markets, while continuing to offer value, remain sensitive to sharp swings in investor confidence and further volatility is likely. In contrast, property markets, which have been particularly out of favour during the downturn, are coming back into vogue and should play an important role in a balanced portfolio going forward.

\* Source: Morningstar, Inc.

Basis: Bid to bid with net income reinvested to 30 October 2009.

Please note that the views expressed in this report should not be taken as a recommendation or advice as to how the fund or any holding mentioned in the report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a financial adviser.

# Prudential Managed Defensive Fund

## Fund statistics

Sterling Class 'C' shares are not generally available to all investors.

### Distribution dates and fund facts

Distribution type	xd	payment
Final	01.11.10	31.12.10

	Final distribution		Total Expense Ratio <sup>[b]</sup>	
	Inc 31.12.09 <sup>[a]</sup>	Acc 02.11.09 <sup>[a]</sup>	31.10.09	31.10.08
Sterling	p	p	%	%
Class 'A'	2.8796	2.9973	1.59	1.58
Class 'C'	3.9780	n/a	0.26	0.25

The Portfolio Turnover Rate (PTR) for the 12 months ending 31 October 2009 was 111.03% compared with 46.25% for the year ending 31 October 2008. <sup>[c]</sup>

<sup>[a]</sup> The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

<sup>[b]</sup> The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

<sup>[c]</sup> The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within the fund over the course of a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the fund's shares and is expressed as a percentage of the fund's average net asset value.

Income accrued from interest-bearing securities is distributed on an effective yield basis.

### Fund performance

Performance of share classes

	Net asset value per share as at 31.10.09		Net asset value per share as at 31.10.08		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	104.67	111.94	89.35	93.00	+17.15	+20.37
Class 'C'	104.69	n/a	89.23	n/a	+17.33	n/a

### Prices

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling		p	p	p	p
Class 'A'	2007 <sup>[a]</sup>	102.55	98.91	103.53	98.91
	2008	101.92	90.11	103.50	92.43
	2009 <sup>[b]</sup>	109.05	91.20	113.50	94.92
Class 'C'	2007 <sup>[a]</sup>	103.28	99.23	n/a	n/a
	2008	102.15	90.03	n/a	n/a
	2009 <sup>[b]</sup>	110.13	91.46	n/a	n/a

<sup>[a]</sup> From 16 February 2007 (the launch date of the fund) to 31 December 2007.

<sup>[b]</sup> Up to 2 November 2009.

### Income

Income per share

	Calendar year	Distributed	Reinvested
		p	p
Sterling (net)			
Class 'A'	2007	1.5532	1.5532
	2008	2.2424	2.2772
	2009 <sup>[a]</sup>	2.8796	2.9973
Class 'C'	2007	2.2580	n/a
	2008	3.3752	n/a
	2009 <sup>[a]</sup>	3.9780	n/a

<sup>[a]</sup> Up to final: ex-distribution date 2 November 2009; payment date 31 December 2009.

Past performance is not a guide to future performance.

The price of shares and the income from them can go down as well as up, and you may get back less than you invested.

# Prudential Managed Defensive Fund

## Net assets

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling Class 'A'	Oct 2007	p 100.06	p 101.61	40,000	135,000
	Oct 2008	89.35	93.00	130,000	477,500
	Oct 2009	104.67	111.94	304,000	2,040,500
Class 'C'	Oct 2007	100.07	n/a	34,564,144	n/a
	Oct 2008	89.23	n/a	150,042,643	n/a
	Oct 2009	104.69	n/a	149,910,643	n/a

## Total net asset value of sub-fund

Year ended	£
Oct 2007	34,765,000
Oct 2008	134,442,000
Oct 2009	159,548,000

## Portfolio

### Portfolio statement

as at 31 October 2009

Holding	Value £'000	31.10.09 %	31.10.08 %
<b>Equity portfolios</b>		<b>7.99</b>	<b>15.86</b>
<b>Continental Europe</b>		<b>4.91</b>	<b>7.55</b>
1,511,192 Prudential European Trust Sterling Class 'C' (Income)	7,834	4.91	
<b>United Kingdom</b>		<b>3.08</b>	<b>8.31</b>
2,712,938 Prudential UK Growth Trust Sterling Class 'C' (Income)	4,917	3.08	
<b>Far East</b>		<b>0.00</b>	<b>0.00</b>
476 Prudential Pacific Markets Trust Sterling Class 'C' (Income)	1	0.00	
<b>Equity investment instruments</b>		<b>3.00</b>	<b>2.84</b>
291,762 Alternative Investment Strategies	311	0.19	
1,110,000 Dexion Absolute	1,475	0.93	
2,730,000 International Public Partnerships (formerly Babcock & Brown Public Partnership)	2,992	1.88	
<b>Non-equity investment instruments</b>		<b>0.97</b>	<b>0.83</b>
70,500 iShares MSCI Emerging Markets	1,544	0.97	
<b>Property portfolios</b>		<b>7.26</b>	<b>8.67</b>
17,166,795 M&G Property Portfolio Sterling Class 'S' (Income)	11,589	7.26	
<b>Bond portfolios</b>		<b>71.26</b>	<b>53.77</b>
55,690,936 M&G European Corporate Bond Fund Sterling Class 'A' (Accumulation)	45,778	28.69	
10,571 M&G European High Yield Bond Fund Sterling Class 'X' (Accumulation)	8	0.01	
49,365 M&G European Loan Fund Sterling Class 'A' (Income)	4,070	2.55	
98,856,710 Prudential Corporate Bond Trust Sterling Class 'C' (Income)	55,785	34.96	
8,611,007 Prudential Maximum Income Trust Sterling Class 'A' (Income)	8,056	5.05	
<b>Bonds</b>			
<b>'AAA' credit rated bonds</b>		<b>9.96</b>	<b>20.32</b>
£14,400,000 Treasury 5% 2025	15,890	9.96	
<b>Forward currency contracts</b>		<b>(0.58)</b>	<b>0.28</b>
€(43,275,000) Sold for £37,862,163 (expires 10.11.09)	(929)	(0.58)	
<b>Portfolio of investments</b> (see notes 1b & 1d on page 21)	<b>159,321</b>	<b>99.86</b>	<b>102.57</b>
<b>Net other assets / (liabilities)</b>	<b>227</b>	<b>0.14</b>	<b>(2.57)</b>
<b>Net assets attributable to shareholders</b>	<b>159,548</b>	<b>100.00</b>	<b>100.00</b>

# Prudential Managed Defensive Fund

## Financial statements

for the year ended 31 October 2009.

Statement of total return				
Notes	2009		2008 <sup>[a]</sup>	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)	3	23,661		(17,346)
Revenue	4	7,799	6,497	
Expenses	5	(183)	(186)	
Finance costs: Interest	12	(9)	(8)	
Net revenue before taxation		7,607	6,303	
Taxation	6	(47)	(69)	
Net revenue after taxation		7,560	6,234	
<b>Total return before distributions</b>		<b>31,221</b>	<b>(11,112)</b>	
Finance costs: Distributions	12	(7,558)	(6,234)	
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>23,663</b>	<b>(17,346)</b>	

[a] Restated (see note 1a opposite).

Statement of change in shareholders' net assets				
	2009		2008	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>134,442</b>		<b>34,765</b>
Amounts received on issue of shares	4,090		8,933	
Value of securities transferred from in-specie issues	0		112,105	
Amounts paid on cancellation of shares	(2,668)		(4,012)	
		1,422		117,026
Stamp Duty Reserve Tax (SDRT)		(40)		(14)
Change in net assets attributable to shareholders from investment activities (see above)		23,663		(17,346)
Retained distributions on Accumulation shares		61		11
<b>Closing net assets attributable to shareholders</b>		<b>159,548</b>		<b>134,442</b>

## Balance sheet

	as at 31 October 2009		as at 31 October 2008	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		160,250		137,900
Debtors				
Amounts receivable on issues	17		60	
Bank interest receivable	0		1	
Debt security interest receivable	108		577	
Distributions receivable	111		120	
Management fee rebates due	17		0	
Prepaid expenses	0		1	
Tax recoverable	1,102		787	
		1,355		1,546
Cash held as bank balances	672		598	
Cash held on deposit	5,703		728	
		6,375		1,326
<b>Total other assets</b>		<b>7,730</b>		<b>2,872</b>
<b>Total assets</b>		<b>167,980</b>		<b>140,772</b>
<b>Liabilities</b>				
Investment liabilities		(929)		0
Creditors				
Expenses payable	(17)		(13)	
Income tax payable	(1,512)		(1,247)	
Net distributions payable on Income shares	(5,972)		(5,067)	
SDRT payable	(2)		(3)	
Total other liabilities		(7,503)		(6,330)
<b>Total liabilities</b>		<b>(8,432)</b>		<b>(6,330)</b>
<b>Net assets attributable to shareholders</b>		<b>159,548</b>		<b>134,442</b>

## Notes to the financial statements

### 1 Accounting policies

#### a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association (IMA) in November 2008 (the IMA SORP 2008).

During the year, the sub-fund has adopted the IMA SORP 2008. This has resulted in presentational changes to the statement of total return whereby currency gains / (losses) and transaction charges are now classified as capital gains or losses. The effect of this is to remove £214,000 (2008: loss of £38,000) from 'Currency gains / (losses)' and to reduce 'Expenses' by £2,000 (2008: £2,000), with a corresponding change in 'Net capital gains / (losses)'.

# Prudential Managed Defensive Fund

## Notes to the financial statements (continued)

### 1 Accounting policies (continued)

#### b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 30 October 2009, being the last business day of the financial year. The fair value of equity and non-equity shares is bid price, excluding any accrued interest; the fair value of investments managed by the Authorised Corporate Director (ACD), or an associate, is their single price except in the case of the M&G Property Portfolio which is valued at cancellation price; and the fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Unquoted investments are shown at the ACD's valuation.

#### c) Investment gains and losses

Gains and losses, including exchange differences, on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date, including unrealised exchange differences, are treated as capital.

#### d) Exchange rates

Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling as at 12 noon on 30 October 2009, being the last business day of the financial year.

#### e) Derivative financial instruments

Gains and losses on derivative contracts are accounted for in accordance with the fund manager's intention on entering into the contracts. Where the intention is to protect or enhance capital return, gains or losses are recognised in net capital gains / (losses); where the intention is to generate or protect revenue, the costs or income are recognised in net revenue before taxation.

#### f) Interest income

Distributions from collective investment schemes, and quoted equity and non-equity shares is recognised net of attributable tax credits when the security is quoted ex-dividend. Dividends are recognised as either revenue or capital depending upon the nature and circumstances of the dividend receivable.

Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment and is treated as revenue. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life based on estimated future cashflows. Any adjustments resulting from changes in cashflow estimates are treated as capital.

Bank interest, deposit interest and other income are recognised on an accruals basis and treated as revenue.

#### g) Equalisation

Income received from investments in authorised collective investment schemes, which are purchased during the financial year, will include an element of equalisation which represents the average amount of income included in the price paid for shares / units. The equalisation is treated as a return of capital for taxation purposes and is not included in the distributable income.

#### h) Management fee rebates

These are recognised on an accruals basis as either revenue or capital in accordance with the treatment of the management fee charged in the underlying collective investment schemes.

#### i) Expenses

For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

#### j) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

#### k) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

#### l) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

#### m) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

# Prudential Managed Defensive Fund

## Notes to the financial statements (continued)

### 2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk, currency risk and interest rate risk in relation to the investment portfolio.

The capital and income value of the sub-fund's investments, whether held directly or through collective investment schemes, can be significantly affected by exchange rate fluctuations. During the year, it has been the policy to hedge some of the investment portfolio against currency movements through the use of forward currency contracts.

Short-term foreign currency exposures are generally covered by short dated currency contracts. Income arising in foreign currencies is generally converted into sterling shortly after receipt and is not hedged in advance of receipt.

The sub-fund also invests in interest-bearing securities through direct holdings and holdings in collective investment schemes. Any change to prevailing interest rates or in the expectations of future rates may result in an increase or decrease in the value of securities held. In general, if interest rates rise the capital value of the security or underlying fund is likely to fall and vice versa. The sub-fund may invest in other funds where a significant part of their portfolio is invested in below investment grade securities. The value of such funds may be more volatile than normal.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

Liquidity risk relates to the capacity to meet liabilities. The primary source of this risk to the sub-fund is the liability to shareholders for any redemption of shares. The risk is minimised by holding cash and readily realisable securities and via access to overdraft facilities. As noted on page 25, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (31.10.08: same).

### 3 Net capital gains / (losses)

	2009 £'000	2008 <sup>[a]</sup> £'000
Non-derivative securities	27,517	(15,514)
Forward currency contracts	(4,068)	(1,792)
Currency gains / (losses)	214	(38)
Transaction charges	(2)	(2)
<b>Net capital gains / (losses)</b>	<b>23,661</b>	<b>(17,346)</b>

<sup>[a]</sup> Restated (see note 1a on page 20).

### 4 Revenue

	2009 £'000	2008 £'000
Annual payments	932	799
Bank interest	2	10
Deposit interest	26	156
HM Revenue & Customs interest	4	2
Interest distributions	5,043	3,320
Interest on debt securities	525	1,338
Management fee rebates	528	376
Overseas dividends	447	340
UK dividends	292	156
<b>Total revenue</b>	<b>7,799</b>	<b>6,497</b>

### 5 Expenses

	2009 £'000	2008 <sup>[a]</sup> £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge <sup>[b]</sup>	21	9
Administration fee	138	149
	<b>159</b>	<b>158</b>
<b>Payable to the Depository or associate</b>		
Depository's fee (including VAT)	13	12
<b>Other expenses</b>		
Audit fee (including VAT)	9	9
Audit fee (including VAT): under-accrual for prior year	0	2
Legal fees	0	2
Safe custody charge	2	3
	11	16
<b>Total expenses</b>	<b>183</b>	<b>186</b>

<sup>[a]</sup> Restated (see note 1a on page 20).

<sup>[b]</sup> This charge excludes management fee rebates received from Prudential Unit Trusts Limited, or an associate, in relation to the annual management charge of the underlying collective investment schemes for which Prudential Unit Trusts Limited, or an associate, acts as Authorised Corporate Director / Manager. These rebates have been recognised as income in note 4 and amount to £528,000 (2008: £376,000).

### 6 Taxation

	2009 £'000	2008 <sup>[a]</sup> £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Tax on annual payments	47	69
Current tax charge (note 6b)	47	69
Deferred tax (note 6c)	0	0
<b>Total taxation</b>	<b>47</b>	<b>69</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	7,607	6,303
Corporation tax at 20%	1,521	1,260
Effects of:		
UK dividends <sup>[b]</sup>	(58)	(31)
Overseas dividends not taxable <sup>[b]</sup>	(54)	0
Interest distributions	(1,512)	(1,247)
Current period expenses not utilised	101	36
Income taxable in different periods	2	(18)
Tax on annual payments	47	69
<b>Current tax charge (note 6a)</b>	<b>47</b>	<b>69</b>

<sup>[a]</sup> Restated (see note 1a on page 20).

<sup>[b]</sup> As a sub-fund of an Open-Ended Investment Company these items are not subject to corporation tax.

#### c) Provision for deferred taxation

Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The sub-fund has not recognised a deferred tax asset of £119,000 (31.10.08: £16,000) arising as a result of having unutilised management expenses. We do not expect this asset to be utilised in the foreseeable future.

Interest distributions have been made in respect of all distributions during the current and preceding years. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs where applicable.

# Prudential Managed Defensive Fund

## Notes to the financial statements (continued)

### 7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (31.10.08: same).

### 8 Related parties

Prudential Unit Trusts Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where Prudential Unit Trusts Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in shareholders' net assets and note 12. Amounts due to / from Prudential Unit Trusts Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to Prudential Unit Trusts Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

During the year, there were transactions in shares in related parties of Prudential Unit Trusts Limited with a total value of £95,051,000 (2008: £166,929,000).

At the balance sheet date, the sub-fund held shares in related parties of Prudential Unit Trusts Limited with a value of £138,038,000 (31.10.08: £105,255,000).

At the balance sheet date, material shareholders from within Prudential plc, of which Prudential Unit Trusts Limited is a wholly owned subsidiary, have holdings totalling 98.46% (31.10.08: 99.60%) of the sub-fund's shares.

### 9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (31.10.08: same).

#### Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets / (liabilities)		Total	
	as at 31.10.09 £'000	as at 31.10.08 £'000	as at 31.10.09 £'000	as at 31.10.08 £'000	as at 31.10.09 £'000	as at 31.10.08 £'000
Euro	(38,791)	(18,729)	0	428	(38,791)	(18,301)
US dollar	0	7,207	3	65	3	7,272
	(38,791)	(11,522)	3	493	(38,788)	(11,029)
Sterling	198,112	149,422	224	(3,951)	198,336	145,471
<b>Total</b>	<b>159,321</b>	<b>137,900</b>	<b>227</b>	<b>(3,458)</b>	<b>159,548</b>	<b>134,442</b>

There was also significant foreign currency exposure within the sub-fund's holdings of collective investment schemes since their assets are denominated in currencies other than sterling, with the effect that their balance sheets can be affected by exchange rate fluctuations (31.10.08: same).

### Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 31.10.09 £'000	as at 31.10.08 £'000	as at 31.10.09 £'000	as at 31.10.08 £'000	as at 31.10.09 £'000	as at 31.10.08 £'000
Euro	0	17	0	12,009	0	12,026
Sterling	113,731	72,853	21,593	8,847	135,324	81,700
US dollar	4	0	0	7,207	4	7,207
<b>Total</b>	<b>113,735</b>	<b>72,870</b>	<b>21,593</b>	<b>28,063</b>	<b>135,328</b>	<b>100,933</b>

	Weighted average gross interest rate of fixed interest-bearing assets		Weighted average period for which interest rates are fixed <sup>[a]</sup>	
	as at 31.10.09 %	as at 31.10.08 %	as at 31.10.09 years	as at 31.10.08 years
Euro	n/a	4.39	n/a	28.20
Sterling	3.25	4.30	11.31	10.44
US dollar	n/a	4.32	n/a	27.31

[a] Assuming the earliest maturity date for those assets with variable maturity dates.

Floating rate interest-bearing assets at the balance sheet date consist of bank balances, on which interest is calculated at a variable rate by reference to sterling bank deposit rates or the international equivalent; and the sub-fund's holdings in bond portfolios which are principally exposed to fixed and variable rate financial assets (31.10.08: same).

#### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.10.08: same).

### 10 Portfolio transaction costs

	2009 £'000	2008 £'000
<b>a) Purchases</b>		
Purchases excluding transaction costs	84,947	155,611
Commissions	0	7
<b>Total purchases including transaction costs</b>	<b>84,947</b>	<b>155,618</b>
<b>b) Sales</b>		
<b>Total sales excluding transaction costs</b>	<b>89,705</b>	<b>36,736</b>

There were no significant transaction costs during the year.

# Prudential Managed Defensive Fund

## Notes to the financial statements (continued)

### 11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Income and Accumulation) shares and Sterling Class 'C' (Income) shares.

The charging structure for each share class, as at 31 October 2009, is set out in the following table (31.10.08: same):

	Class 'A' %	Class 'C' %
<b>Initial charge:</b>		
of amount invested	5.00	nil
<b>Redemption charge:</b>		
of amount redeemed <sup>[a]</sup>	nil	nil
<b>ACD's annual remuneration:</b>		
of allocated 'NAV'	1.35	nil

[a] The ACD may, at not less than 60 days notice to shareholders in writing, make a charge on the redemption of shares. At present no redemption charge is levied.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

	31.10.09		31.10.08	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
<b>Sterling</b>				
Class 'A'	318	2,284	116	444
Class 'C'	156,946	n/a	133,882	n/a

The net asset value per share and the number of shares are given in the comparative table on page 19. The distribution per share is given in the distribution table opposite. Each share class has the same rights on winding-up.

### 12 Finance costs

	2009 £'000	2008 <sup>[a]</sup> £'000
<b>Income shares (sterling)</b>		
Class 'A'- Final	9	3
Class 'C'- Final	5,963	5,064
<b>Accumulation shares (sterling)</b>		
Class 'A'- Final	61	11
	6,033	5,078
Income tax deducted at source	1,512	1,247
Finance costs: Interest distributions	7,545	6,325
Income deducted on cancellation of shares	90	54
Income received on issue of shares	(77)	(145)
<b>Finance costs: Distributions</b>	<b>7,558</b>	<b>6,234</b>
Finance costs: Interest	9	8
<b>Total finance costs</b>	<b>7,567</b>	<b>6,242</b>
Net revenue per statement of total return	7,560	6,234
Undistributed income brought forward	1	1
Undistributed income carried forward	(3)	(1)
<b>Finance costs: Distributions</b>	<b>7,558</b>	<b>6,234</b>

[a] Restated (see note 1a on page 20).

## Distribution table

Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equal- isation	Distribution payable / paid	
	p	p	p	p	2009	2008
<b>Sterling Class 'A' - Final</b>						
Group 1:	3,5995	0,7199	2,8796	-	2,8796	2,2424
Group 2:	1,6968	0,3394	1,3574	1,5222	2,8796	2,2424
<b>Class 'C' - Final</b>						
Group 1:	4,9725	0,9945	3,9780	-	3,9780	3,3752
Group 2:	3,1476	0,6295	2,5181	1,4599	3,9780	3,3752

Interest distribution on Accumulation shares	Gross income	Income tax deducted	Net income	Equal- isation	Amount reinvested	
	p	p	p	p	2009	2008
<b>Sterling Class 'A' - Final</b>						
Group 1:	3,7466	0,7493	2,9973	-	2,9973	2,2772
Group 2:	1,7661	0,3532	1,4129	1,5844	2,9973	2,2772

Final period 01.11.08 - 31.10.09

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax but must be deducted from the cost of shares for Capital Gains Tax purposes.

## Further information

### Risk factor

#### **Risk affecting both sub-funds**

Within the Prudential Investment Funds (1) range, although each sub-fund will be treated as being responsible for meeting its own liabilities, the Authorised Corporate Director (ACD) may reallocate these liabilities in a manner which is fair to all Company investors if any sub-fund is unable to meet its liabilities. A shareholder is not, however, liable for the debts of the Company and will never be liable to make any further payment to the Company after paying the purchase price of the shares.

### Liquidity

The ACD's policy is that the sub-funds should normally be close to fully invested but this is subject to the need to retain liquidity for the purpose of effecting the redemption of shares, and the efficient management of the sub-funds in accordance with their objectives. There may, therefore, be occasions when there will be higher levels of liquidity, for example following the issue of shares or the realisation of investments. Higher liquidity levels may also arise when a sub-fund's asset allocation policy is changed.

### Dilution

The actual cost of purchasing or selling a sub-fund's investments may deviate from the mid-market price due to dealing costs and these costs can have an adverse effect on the value of the sub-fund, known as 'dilution'. The Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Services Authority, allows the cost of dilution to be recovered from investors on the purchase or redemption of shares by means of a dilution adjustment to the dealing price, and this is the policy which has been adopted by the ACD.

Further information on the ACD's dilution adjustment policy is in the Prospectus, which is available free of charge from the ACD, Prudential Unit Trusts Limited.

### The EU savings directive

The percentage of the following Prudential sub-funds held in interest-bearing assets (as defined by the UK rules for the EU savings directive 2003/48/EC) is as follows:

Prudential Cautious Managed Growth Fund	22.28%
Prudential Managed Defensive Fund	65.15%



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