

Prudential Quarterly Risk Profile Update Note

Q4 2023



Summary

Fund	Weighted average asset allocation [^]	Latest historical asset allocation [*]	Comparable DP volatility [†]	Assigned risk profile	Status
Risk Managed Active 1	4 (4)	4 (4)	3 (3)	4	
Risk Managed Active 2	4 (4)	4 (4)	4 (4)	4	
Risk Managed Active 3	5 (5)	5 (5)	4 (4)	5	
Risk Managed Active 4	5 (5)	5 (5)	5 (5)	5	
Risk Managed Active 5	6 (6)	6 (6)	6 (6)	6	
PruFund Risk Managed 1	4 (4)	4 (4)	-	4	
PruFund Risk Managed 2	4 (4)	5 (5)	-	4	
PruFund Risk Managed 3	5 (5)	5 (5)	-	5	
PruFund Risk Managed 4	6 (6)	6 (6)	-	6	
PruFund Risk Managed 5	6 (6)	6 (6)	-	6	

() Analysis based on data to the end of June 2023 are shown in brackets.

[^] The weighted average approach incorporates the strategic asset allocation (if applicable) and the distribution of the historical asset allocations.

^{*} This column provides the position of the expected volatility based on the latest historical asset allocation (i.e. 30 September 2023). The figure in brackets illustrates the position of the volatility based on the previous quarter's allocation.

[†] DP has a set of asset allocation models which are managed to operate within each profile's boundaries. This column compares the annualised rolling volatility of each solution to the DP models and shows which model has been closest since inception. The rolling volatility period in each instance is assessed based on the performance data provided.

Please see Appendix for the Red, Amber & Green status descriptions.

Fund	Weighted average asset allocation [^]	Latest historical asset allocation [*]	Comparable DP volatility [†]	Assigned risk profile	Status
PruFund Cautious	4 (4)	5 (5)	-	4	
PruFund Growth	6 (6)	6 (6)	-	5	
Risk Managed Passive 1	4 (4)	4 (4)	4 (4)	4	
Risk Managed Passive 2	4 (4)	4 (4)	4 (4)	4	
Risk Managed Passive 3	5 (5)	5 (5)	5 (4)	5	
Risk Managed Passive 4	5 (5)	5 (6)	5 (5)	5	
Risk Managed Passive 5	6 (6)	6 (6)	6 (6)	6	






() Analysis based on data to the end of June 2023 are shown in brackets.

[^] The weighted average approach incorporates the strategic asset allocation (if applicable) and the distribution of the historical asset allocations.

^{*} This column provides the position of the expected volatility based on the latest historical asset allocation (i.e. 30 September 2023). The figure in brackets illustrates the position of the volatility based on the previous quarter's allocation.

[†] DP has a set of asset allocation models which are managed to operate within each profile's boundaries. This column compares the annualised rolling volatility of each solution to the DP models and shows which model has been closest since inception. The rolling volatility period in each instance is assessed based on the performance data provided.

Please see Appendix for the Red, Amber & Green status descriptions.

Fund	Weighted average asset allocation [^]	Latest historical asset allocation [*]	Comparable DP volatility [†]	Assigned risk profile	Status
Planet Funds 1	4 (4)	4 (4)	2	4	
Planet Funds 2	4 (4)	4 (4)	2	4	
Planet Funds 3	5 (5)	5 (5)	2	5	
Planet Funds 4	5 (5)	5 (5)	2	6	
Planet Funds 5	6 (6)	6 (6)	2	7	

This quarter we have placed PruFund Growth on amber status and placed Planet Funds 4 on red status.

PruFund Risk Managed 2, PruFund Cautious Fund and Prufund Growth has each maintained a position above their respective assigned profiles. The position above profile for PruFund Risk Managed 2 and PruFund Cautious Fund is modest, so we have maintained their green status pending further review. The position above profile for Prufund Growth is more significant hence it has been placed on amber status.

The expected volatility for Planet Funds 4 has further declined. Given the duration where it has been positioned below profile, it has been placed on red status.

The expected volatility for Planet Funds 5 has also further declined. We will request a call with the client to discuss the appropriateness of the currently assigned profile, pending which the solution is maintained on red status.

We have based our review on the approach that was agreed at the start of the risk profiling service and used the DP capital market assumptions for Q4 2023. There have been no changes to the risk profile boundaries this quarter.

Comments and notes from previous reviews

Q3 2023

The higher risk Planet funds are materially below the expected volatility for their respective risk profiles.

Q2 2023

The Risk Managed (incl Active and Passive) sit between RP5 & RP6. We currently see them all sitting slightly more towards RP6 territory

PruFund Growth has been above profile for a number of months but the rotation of equities into cash towards the end of Q1 has left it borderline RP5/6.

Planet 5 has been at risk levels below what we would expect for RP7 for some time. We believe it may be time consider the appropriateness of the allocated profile.

Q1 2023

We are working through some data queries. The solutions have all been maintained on their respective statuses from the prior quarter.

Q4 2022

PruFund Growth is now borderline RP5/6. We are maintaining its Amber status and will monitor going forward.

Planet 5 solution is still materially below risk profile and has now been Amber for 3 quarters. If this is still below profile in Q1 we will place on Red status.

Q3 2022

The *PruFund Growth* solution has lowered its equity exposure, particularly within Emerging Markets and the UK. However, the fund still exhibits risk marginally above that of its assigned risk profile. Its status remains on Amber.

While on Green, it is worth noting that the *PruFund Risk Managed Active 4* solution spent the previous quarter within RP6, however it has spent this quarter within the top two percentile of RP5.

Due to *PruFund Risk Managed 4* failing to reduce its risk enough to bring it back within the levels attributed to RP5, in line with our policies, we have changed the risk profile from a 5 to a 6. This change will not be processed and changed in Dynamic Planner until there has been communications with the fund manager.

Risk Managed Passive 4 has ended the quarter marginally within a RP6. This is due to the slight increase in exposure to the bond market. If risk fails to fall during the next quarter, we will look to change this to an Amber status.

This quarter, the risk for the *PruFund Planet 5* solution has remained similar to that of last quarter. Therefore, it has retained its Amber status, however, we will continue to monitor this.

Each of the remaining solutions continue to lie safely within the assigned boundaries.

Q2 2022

PruFund

Growth continues to have high risk relative to its risk profile. We are keeping the solution on Amber status.

Risk Managed Active Range

As intimated in the prior quarter, Active 1 has been well above RP3 upper boundary for over 12 months and was on Red status. We are now changing to RP4.

Risk Managed Passive Range

This quarter all the solutions in this range are on Green.

PruFund Risk Managed Range

We have placed 1-3 and 5 on Green as they are all within their ranges. 4 was previously on Red, which normally would indicate a profile change this quarter. We observe the solution risk level has been drifting down towards the upper boundary of its profile, so have opted to maintain Red status again. We will monitor next quarter to determine the best course of action.

Planet Range

As advised last quarter, Planet 5 risk level is below its assigned risk profile. We have now placed the solution on Amber status.

Q1 2022

PruFund

We have placed Cautious on Green status, having had a track record of being within the risk boundary. The Growth fund added equity exposure in H2 2021, which pushed volatility higher than the boundary set for risk profile 5. We will monitor the fund going forward.

Risk Managed Active Range

Active 1 has been materially above the risk profile upper boundary for > 4 quarters. We believe it is appropriate to place the fund on Red status, pending review.

Risk Managed Passive Range

This quarter all the solutions in this range are on Green.

PruFund Risk Managed Range

We have received data for the fund range as at the end of 2021, albeit with a gap from Q1 in the position history. What we do observe is 1-3 within their ranges, and 4-5 above their boundaries. Due to the issues with history we have maintained the former on Amber, and the latter on Red pending discussions and review.

Planet Range

These are newly added funds. We are comfortable that the risk profiles are still appropriate but will monitor Planet 5 which is slightly low volatility for RP7.

Q4 2021

Risk Managed Active Range

Last quarter this range was on Amber due to late provision of data. This quarter we have received the data and have analysed the solutions. The Risk Managed Active 1 solution is sitting comfortably within the higher profile, due a large proportion of equity risk. The remaining solutions of the range retain their Green status.

Risk Managed Passive Range

This quarter all the solutions in this range are on Green, apart from the Risk Managed Passive 5. The Risk Managed Passive 4, was previously on Amber, has been placed on Green this quarter. The Risk Managed Passive 5, also shows an increase in equity risk allocations, resulting it being put on Amber.

PruFund Risk Managed Range

This quarter we have not received the data of this range. This is the second quarter for which we have not received the data. Thus, we will need to have a call with the client to have a discussion as to data, pending which we will need to remove the profiles.

Q3 2021

This quarter we have unfortunately not been able to complete our review of the Prudential solutions due to time constraints. As such, the statuses have been placed on Amber, or maintained on Red.

Q2 2021

This quarter we have placed PruFund Growth and Managed 4 on Red status, Passive 4 on Amber status and maintained the statuses of the remaining solutions.

Across the ranges, but most notable at the higher risk end and in the Active range, there was an increase in overall equity and REITs, drawn from a combination of bonds and cash. At the lower end of the risk ranges and in Managed and Passive, this was a smaller change that made little difference to the expected volatility. However, with Passive 4 having previously maintained its position marginally below the upper limits this small change pushed March to breach into RP 6.

Based on a conversation with Prudential, we have been provided with detail of hedging being done at the portfolio level for the PruFund solutions.

All other solutions that were on Amber have either maintained a similar position or pushed further above the assigned boundaries, hence either being maintained on Amber or moving up to Red status. Even with the addition of portfolio hedging, the expected volatility for PruFund Growth and Managed 4 remain above the assigned boundaries. However, the expected volatility for PruFund Managed 2 has come back from above the assigned boundaries, to marginally below for March, as such the Amber status has been maintained.

Also, the new position for February and March for Active 2 are very close to the upper profile limit, the solution remain on Green currently but is not far from the possibility of Amber.

Appendix

Status descriptions



A **red** status indicates that the solution's current risk profile is no longer appropriate to the DP scale and that it will be changed at next quarter's review unless action is taken by the asset management team.



An **amber** status indicates that one or more of the measures considered may indicate the possibility of an alternative risk profile. This could be due to short-term tactical positioning within the solution or other market considerations and does not imply that the long-term risk profile should necessarily change.



A **green** status indicates that the solution is in line with the assigned risk profile and no action is needed.

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Publication date

31/12/2023

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