

Your guide to  
The Risk Managed Active range



# A diversified option

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

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

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

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

The WS Prudential Risk Managed Active fund range might be right for you if;

- you’re looking to invest for the medium to long term (5-10 years or more)
- you’re looking for investment returns by investing in a mix of assets from around the world and have a risk appetite comparable to the risk profile of the fund you’re looking to invest in
- you’re comfortable with the short-term ups and downs of financial markets
- you understand that past performance is not a reliable indicator of future performance and that the value of your investment can go down as well as up and you might get back less than you put in

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# The market context

Keeping all your savings in a deposit account or cash investment can be secure and may be easy to access. However...

## Returns can be low

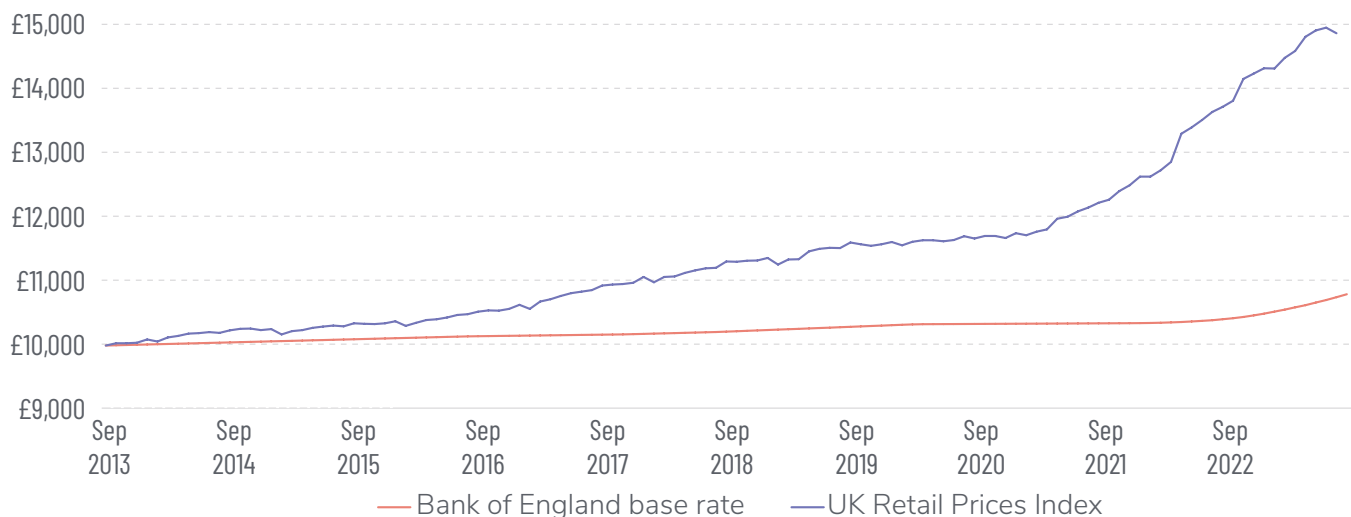
Of course a high interest deposit account or a Cash ISA is a sensible and secure home for what you might call your “ready” or “emergency” cash. For many, the offer of instant access, knowing your capital is secure, or the tax efficiencies of a Cash ISA has great appeal. And it's always a good idea to have a cash safety net to help with any unexpected emergencies. However, over and above this emergency cash, it may not be the most appropriate place for any additional money you may have. Returns, even in so-called high interest accounts, can be low.

## Inflation eats away at the buying power

As long as you have enough to cover any unexpected emergencies, it might be timely to look again at whether your money is in the best place. That's because if **inflation** is higher than your rate of return, it will eat away at the buying power of your money whether in cash-based savings such as deposit accounts or any other type of investment. The overall result is simply that at the end of the investment term, you can buy less with your money than you would have been able to at the beginning.

### An example of the effect of inflation on a bank account

Banks and Building Societies use the Bank of England base rate to help set the interest rates they offer customers on their savings accounts. The graph below shows the return on £10,000, using the Bank of England base rate to indicate what's happened to interest rates over time. It also compares interest rates to the effect of inflation (as represented by the UK Retail Prices Index (RPI)). The graph shows the buying power of your money would have been declining during this time.



Source: FE Fundinfo.

The graph shows the gross returns from 31 August 2013 to 31 August 2023.

Past performance is not a reliable indicator of future performance.

You'll find more information on any highlighted terms in 'Some terms explained' at the end of this guide.

# The volatility factor

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

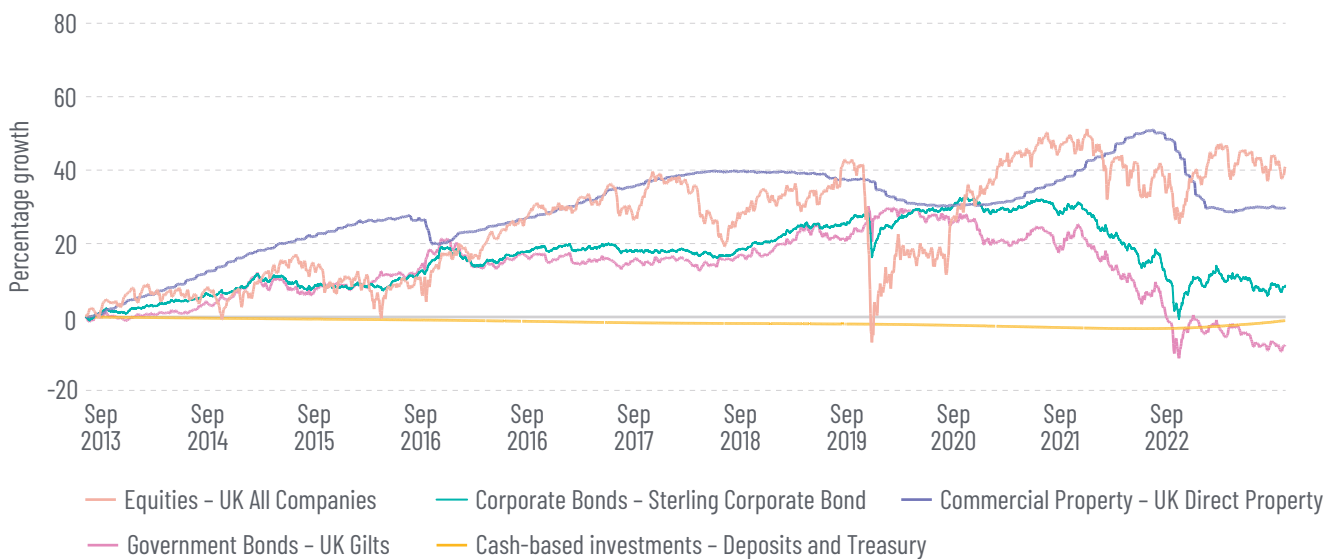
To help decide what's the 'best fit' type of investment for you, it's important to consider the behaviour and **volatility** of asset classes, over time. For example, if an asset class rises and falls rapidly over the short-term, it's considered to be more volatile.

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

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

## The volatility of individual asset classes

This graph shows an example of the volatile behaviours of different asset classes. Those with a higher allocation to shares such as the "ABI UK All Companies" have experienced more volatility.



**Important note.** The graph shows gross returns for the sector averages from August 2013 to 31 August 2023, from the Association of British Insurers (ABI) Pensions universe.

Please remember that past performance should not be considered a reliable indicator of future performance.

## Multi-Asset explained

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

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

# Where to invest

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

There are five broad categories of investment, or 'asset classes'.



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



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



**Alternatives** – includes exposure to various types of listed alternative assets such as infrastructure, hedge funds and private equity.

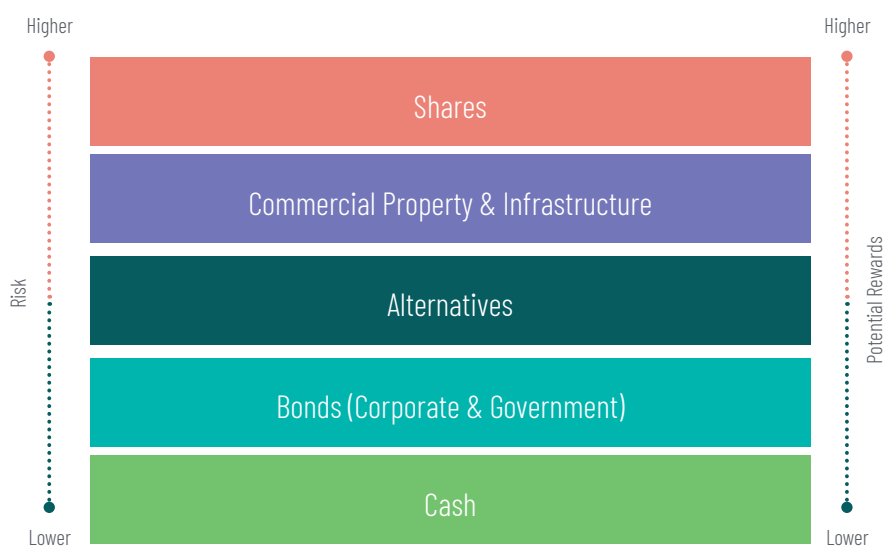


**Bonds** – also known as fixed-interest investments, can be purchased from corporate entities or governments. UK government bonds are referred to as Gilts.



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

## The risk and potential rewards of different asset classes



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

# Introducing our Risk Managed Active range

Our Risk Managed Active funds are actively-managed, multi-asset Open Ended Investment Company (OEIC) funds designed for medium to long-term investment (5-10 years or more).

Each Risk Managed Active fund – of which there are five funds to choose from – works by spreading your money across several different types of assets. Those could include, for example, company shares (equities), fixed interest bonds, alternatives, property and cash – both from the UK and abroad.

By investing in several different types of assets, the fund manager aims to balance the risk that's being taken. So, if one asset is falling in value then another may be increasing. Of course, there could be times when all the assets in the fund are either rising or falling in value depending on market conditions at that time.

## Balancing risk and reward

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

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

## Active management explained

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

## OEICs explained

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

An important point to remember is that the value of your investment can go down as well as up and you may not get back the amount you put in.



# Our risk profiles

Our Risk Managed Active range gives access to a choice of five risk-managed multi-asset funds, each with its own risk profile and which invest at least 70% in actively managed collective investments schemes, also known as 'collectives'.

These funds are invested in a mix of assets with the aim to limit volatility and can be matched to your own attitude to risk.



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

## Our investment approach

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

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

Each of our five Risk Managed Active funds is a 'fund of funds' which means they invest in a range of underlying funds. This makes it simpler for you when selecting funds – as within each sector there can potentially be hundreds of funds to choose from – and looking to diversify across different asset types.

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

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

### Collectives explained

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



# What our Risk Managed Active funds invest in

Our Risk Managed Active funds invest globally, in a broad mix of assets with the aim of limiting volatility and spreading the risk across a fully diverse fund offering.

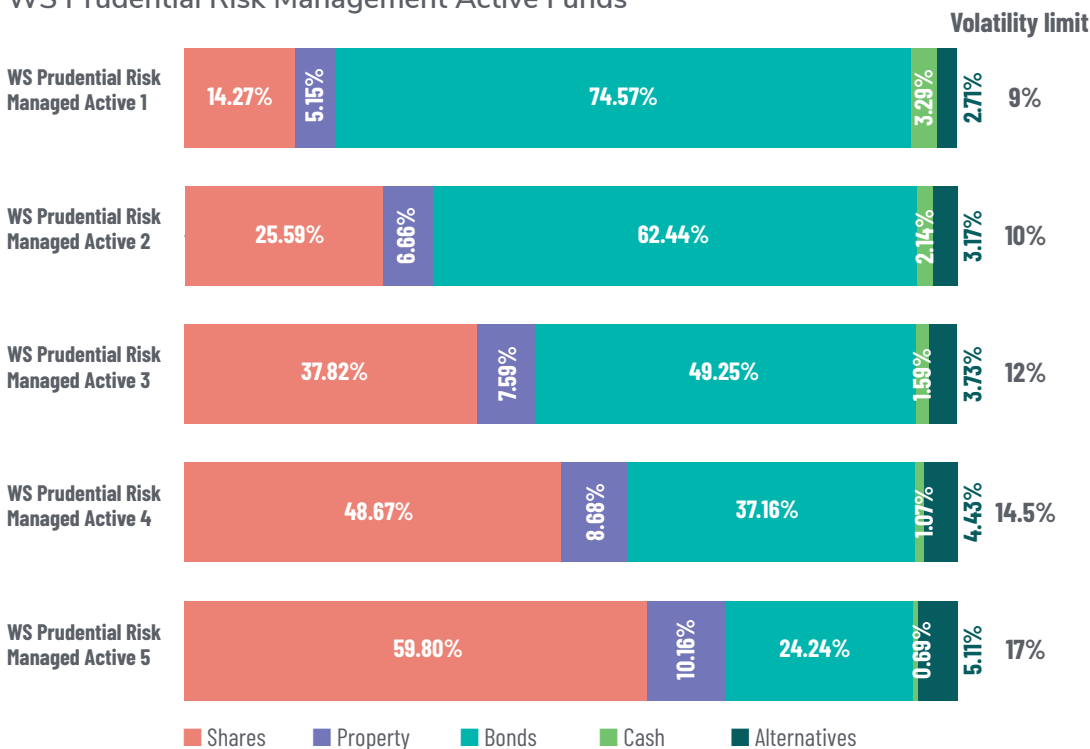
The types of funds used, and the asset allocation split of each Risk Managed Active fund will depend on the funds' objectives.

Each fund has a different range of investment in shares, with the rest being invested in various amounts in property, bonds, cash and alternative assets, as you can see in the graph below.

The WS Prudential Risk Active funds are numbers one to five, based on how volatile we expect each fund to be, for example:

- The WS Prudential Risk Managed Active 1 has the lowest volatility limit of 9% and therefore, the lowest amount invested in assets that may be more volatile, with just under 15%\* in shares
- The WS Prudential Risk Managed Active 5 in contrast, has the highest volatility limit of 17% and the highest amount in assets that may be more volatile, with nearly 60%\* in shares.

## WS Prudential Risk Management Active Funds



Each fund has a different range of investment in shares, with the rest being investing in various amounts in bonds, cash and other investment assets (such as alternatives).

Waystone Management (UK) Limited is the Authorised Corporate Director (ACD) of the WS Prudential Risk Managed Active OEIC funds. The term ACD is used to describe the party responsible for operating the OEIC in accordance with the regulations.

\*Source: T&IO, 31 March 2024.

The asset mixes for the active funds shown above are valid from 31 March 2024\*.

The asset allocations are regularly reviewed and may vary from time to time but will always be consistent with the fund objective.

You'll find explanations of any highlighted terms, in 'Some terms explained' at the end of this guide.

# How our Risk Managed Active funds are managed

The investment manager for our Risk Managed Active funds is M&G Investment Management Limited, part of M&G plc. As investment manager of the funds, they make the relevant adjustments to the portfolio based on recommendations from the **M&G Treasury & Investment Office (T&IO)**.



## T&IO – experts in diversified investment

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

As our in-house team and 'manager of managers' for Pru in the UK, T&IO are independent of the various underlying asset management businesses within M&G plc and are responsible for approximately £153bn\* assets under management across a range of multi-asset investment solutions and other Pru products. They are the team behind one of the UK's largest With-Profits funds and many other Pru funds.

T&IO has great strength in depth with a team that includes investment professionals with expertise in capital market research, investment strategy design, liability management, derivatives and portfolio management.

Each member of T&IO brings deep expertise from their area of specialism. Together, their complementary strengths make Pru a leader in multi-asset investment.

For more information on the M&G Treasury and Investment Office (T&IO) please speak to your financial adviser.

\* T&IO as at 31 December 2023

# Investing in Collectives

T&IO will select collective investment schemes to invest in from a focused range of funds and fund management groups. At least 70% of the Risk Managed Active funds will be invested in active collective investments.

The following table shows the underlying holdings of the WS Prudential Risk Managed Active range, as at 31 August 2023.

## Underlying fund selection

	Fund
UK Equity	FTSE 100 Index
	M&G (ACS) BlackRock UK Equity Fund
	M&G (ACS) BlackRock UK 200 Index Fund
	M&G (ACS) UK Listed Equity Fund
	M&G (ACS) UK Listed Mid Cap Equity Fund
Europe ex UK Equity	Euro Stoxx 50
	European Small Cap Equity Fund
	M&G (Lux) European Active Fund
	M&G (Lux) BlackRock European ex UK Fund
	M&G European Sustainable Paris Aligned Fund
US Equity	M&G (ACS) BlackRock US Equity Fund
	M&G (ACS) BlackRock RAFI Equity Fund
	M&G (ACS) Earnest Partners US Small Cap Value
	M&G (ACS) Granahan US Small Cap Growth
	M&G (ACS) Manulife US Equity Fund
	M&G (ACS) William Blair US Large Cap Equity Fund
	E-Mini S&P 500
Canada Equity	M&G (ACS) BlackRock Canada Equity Fund
China Equity	FTSE China A50
	M&G (ACS) China Equity Fund
	M&G (ACS) Value Partners China Equity Fund
	M&G (ACS) Matthews Asia China Equity Fund
India Equity	iShares MSCI India UCITS ETF
Asia excluding Japan Equity	M&G Fund Asia Pacific excluding Japan Equity Fund

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

Global Emerging Markets Equity	M&G Funds (GSAM) Global Emerging Market Equity Fund
	M&G Funds (Invesco) Global Emerging Markets Fund
	M&G Funds (Lazard) Global Emerging Markets Fund
	M&G Funds (MFS) Global Emerging Markets Fund
Japan Equity	M&G (ACS) Japan Equity Smaller Companies Fund
	M&G (ACS) Japan Equity Fund
	TOPIX Index
South Africa Equity	FTSE/JSE TOP 40
	M&G South Africa Equity Fund
UK Property	iShares UK Property Fund
	L&G UK Property Fund
	M&G Property Portfolio
Europe Property	iShares European Property Fund
	M&G European Property Fund
Asia Property	iShares Asia Property Fund
Alternatives	L&G Global Infrastructure Index
	Various listed vehicles
UK Investment Grade	M&G Credit Income Investment Trust
UK Government	Long Gilt exposure
Europe Investment Grade	M&G European Credit Investment Fund
US Investment Grade	Eastspring US Corporate Bond Fund
US Treasuries	US 10 Year Note
Asia Fixed Income	M&G (Lux) Asian Corporate Bond Fund
	M&G (Lux) Asian Local Community Bond Fund
Convertible Bonds	M&G Global Convertibles
Emerging Market Debt	M&G Emerging Market Bond Fund
Global High Yield	M&G Global High Yield Bond Fund
Cash	

Underlying fund selection as at 31 March 2024.

### IA/ABI Sectors

All 10 WS Prudential Risk Managed Active and Risk Managed Passive funds sit within the IA Volatility Managed Sector.

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

# Environmental, Social and Governance (ESG) Investing

Given their importance for the long-term sustainability of all businesses and society as a whole, our priorities for ESG investing are Climate Change, and Diversity and Inclusion.

T&IO's view is that the integration of ESG factors into the investment process can help manage risk and generate better sustainable long-term returns. T&IO look to the asset managers they select to:

- engage with companies as active owners that help foster a more sustainable economy,
- participate in voting on key issues such as Climate,
- manage assets in accordance with the ESG Investment Policy and,
- Ensure that ESG is integrated into their investment process.

T&IO's ongoing Investment Due Diligence on these selected managers ensures that they not only meet a high threshold from an investment perspective, but also in terms of these ESG requirements.

T&IO do this on behalf of Pru, implementing ESG considerations into the asset allocation process, and integrating ESG factors into manager selection and oversight.

## Risk Managed Active range

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

## External funds

For funds run by external managers, T&IO look to identify suitable investment managers which are able to manage the mandates in line with the T&IO ESG investment principles.

For existing managers, we look to monitor their alignment to the principles, on an ongoing basis. Where there are divergences, the T&IO Investment Management Oversight team looks to either re-engage with managers to encourage alignment with the principles over time, or to migrate the assets to a fund that aligns.

T&IO are always looking for ways to further achieve our ESG ambitions and continue to evolve both actively and passively managed solutions towards those with greater awareness of ESG criteria.

# Some terms explained

## Alternatives

An alternative asset is an investment that is not one of the conventional investment types, such as stocks, bonds and cash. The main categories of alternative investments we use include infrastructure, private equity, alternative credit and **hedge funds**.

## Bonds

Low to medium-risk loans to the government or companies that pay you a fixed rate of interest. UK government bonds are called gilts and those issued by the US government are called treasury bonds.

## Cash

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

## Corporate bond

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

## Diversified portfolio

A diversified portfolio, or 'diversification' – is a risk management strategy that mixes a wide variety of investments within a portfolio. A diversified portfolio contains a mix of distinct asset types and investment vehicles with the aim of limiting exposure to (or risk from) any single asset.

## Fixed Interest

A generic term used to describe investment in assets such as corporate bonds or government bonds, from here in the UK and around the world.

## Hedge funds

A hedge fund is a limited partnership of private investors whose money is managed by professional fund managers who use a wide range of strategies including leveraging or trading of non-traditional assets, to earn above-average investment returns.

## Inflation

Inflation is the increase in prices you pay for the same products over time, whether a tangible item like a loaf of bread, or a service, such as getting a haircut.

## Money market instruments

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

## Volatility

A measure of how much the returns of an investment move away, or deviate, from their average return, determines how volatile that particular fund is. The more volatile investments move further and more frequently from their average.

## Further information

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





[pru.co.uk](https://pru.co.uk)

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