

Investment update

PruFund Cautious

February 2024

A monthly investment update with the latest information on the PruFund Cautious Fund.

This report is for client use, for further information on PruFund please visit pru.co.uk or speak with your financial adviser.

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Market update from M&G Treasury and Investment Office (T&IO)

As at 23 February 2024



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Strong guidance from Nvidia boosted technology stocks and pushed the S&P500 index to a new record high this week. Nvidia reported a dramatic +265% increase in sales compared to a year earlier and reported \$22.1bn of revenue in Q4. It has now become the third most valuable US-listed company and contributed more than a quarter of the S&P500's year-to-date growth. Investors' enthusiasm about the potential of artificial intelligence helped broader market risk-on sentiment. Nikkei surpassed its all-time high, exceeding the record level reached during the country's late-1980 asset bubble, and recorded an almost +17% gain over 2024 so far. German DAX index and French CAC40 index both also closed at all-time high, with tech stocks the largest drivers of market gains.

In the US, policy makers saw no urgency to cut interest rates after the strong January employment report and the overshoots to the Consumer Price Index (CPI) and Producer Price Inflation (PPI). The Fed's January meeting minutes reflect that the Committee "remained highly attentive to inflation risk", and the Fed needs to see more data pointing to declining inflation toward the 2% target. Investors dialled back their expectations for rate cuts at the Fed's March meeting as a result. In the Eurozone, the European Central Bank (ECB) wage tracker slowed in 4Q to 4.46% from 4.69%, and 2024 growth forecasts for some countries, such as France and Germany, continued to be revised down. Slowing wages and economic growth increase the possibility of a dovish tweak in the ECB March meeting. The Bank of England Governor Andrew Bailey highlighted that market expectations of rate cuts are "not unreasonable" and that inflation does not need to fall to target before rates can be cut.

Outlook

While central banks continue to keep monetary policy tight enough to drive inflation back towards the 2% target there is growing evidence of a continued softening in prices. This has led focus to turn to the potential for central banks to ease policy rates to prevent further restriction to the economy and the prospect of a global economic 'soft landing'. While recent central bank meetings have suggested the next move in interest rates will be downwards, officials have been cautious to confirm when these cuts will be implemented, with a careful eye on data to ensure a sustainable route back to the inflation target.

Expected Growth Rate

The expected growth rate (EGR) is central to how we manage the fund. Reviewed quarterly, the EGR sets out the annualised rate we think the portfolio will grow at.

PruFund Cautious January 2024

Investment Summary



Commentary reflects the general views of individual fund managers and should not be taken as a recommendation or advice as to how any specific market is likely to perform.

The key talking points this month.

Outlook for Chinese Real Estate in 2024

This month we wanted to talk about China, the world's second largest economy with major influence over global markets.

The ongoing weakness in consumer sentiment and the housing sector has cast a shadow on China's near-term growth outlook. However, it should be noted that the Chinese economy expanded by 5.2% in 2023 and expectations from the International Monetary Fund (IMF) are for further 4.6% expansion in 2024.

Consumer confidence in China is currently at a multi-year low, but policy support from the People's Bank of China (PBoC) remains steadfast.

The real estate sector has been a significant yet vulnerable part of the Chinese economy, with a unique feature of China's property that 80%-90% of new housing sales are 'advanced sell' meaning that close to the full price is paid in advance.

Targeted support for the real estate sector

To rein in the country's debt-ridden property market, recent policy support has been introduced targeted at developers allowing them to restructure debt and expand the use of bank loans backed by commercial properties to repay other loans and debts.

The PBoC has also resumed a supplementary lending facility providing financial institutions with longer-term and low-cost financing. Cities are exploring use of these to purchase commercial homes from developers and convert them into affordable housing.

Whilst government and central bank policy support in China has been slow and 'drip-fed' following the country's re-opening from the pandemic, we are starting to see willingness to take greater measures to help deliver a consumption-led recovery.

We remain cautiously optimistic on the prospects for China, although the timing of change in market sentiment is difficult to predict and will likely require large scale stimulus or changes to government policy for real estate to become less of a drag on the economy going forwards.

Real estate could yet take some time to fully recover. We're constantly monitoring the economic data for China and regularly speak to our underlying managers to identify the potential risks but also opportunities for our multi-asset portfolios.

Monthly Developments

Economic Activity

The UK's final Composite Purchasing Managers Index (PMI) reading in January rose to 52.5, after services PMI's climbed to 53.8 from 53.4 last month, marking the strongest rate of expansion in service sector activity since May 2023. Manufacturing PMI's final reading of 47.3 rose from December's seven-month high of 46.2 however remains in contraction following continued cost pressures in input costs and lower new export business.

The US economy grew by 3.3% in Q4, vs 2.0% expected by economists. Higher wages from a tight labour market drove strong consumer spending. The final Composite number for January **surged to 52.3 from 51.0 last month,** with services PMIs at 52.9 stronger than December's 51.4 reading. Manufacturing PMIs revised higher at 50.3 compared to 50.9 in December. US nonfarm payroll employment data this month far exceeded expectations of a 180,000 increase, coming in nearly twice as high adding 353,000 jobs. Unemployment rates held at 3.7% again this month.

In Europe final Composite PMI numbers edged up from 47.6 to 47.9. Final manufacturing PMI's rose to 46.6 despite a continued reduction in factory employment levels. Services fell to 48.4 from 48.8 as both service input costs and selling prices rose.

In China Caixin Manufacturing PMIs rose to 50.8 from 50.7, as foreign sales grew for the first time in seven months. Factory activity levels also grew for the third consecutive month. The services PMI decreased to 52.7 in January from 52.9. China's economy is expected to slow from circa 5% in 2023 to 4.2-4.6% in 2024 given the continued challenges in the country's real estate sector.

Monetary policy

The Bank of England (BoE) held rates at their highest level in 16 years at 5.25%. The Monetary Policy Committee (MPC) split 6/3 in favour of holding rates at current levels. Investors have lowered expectations for cuts until Mays BoE meeting after news that UK inflation was unchanged in January. The UK economy grew by 0.3% in December, although persistent inflation remains a concern with the MPC closely monitoring wage growth and services inflation.

The US Federal Reserve opted to hold interest rates at current levels for the fourth successive time in January and in line with market expectations at 5.25%-5.50%. The Federal Reserve stating there was still 'a way to go' before victory over inflation could be declared. Potential rate cuts are not expected to start until mid-way through 2024.

The **ECB opted to keep interest rates on hold too**, leaving the deposit rate **at its record high of 4%** and refinancing rate at 4.5% and noted that while inflation has dropped in recent months, it is likely to pick up again temporarily in the near term and will not approach its 2% target until 2025.

Inflation

Inflation figures slowed this month, there are still signs inflation remains sticky, given tight labour market conditions and continued geopolitical tensions.

UK inflation was unchanged in January at 4.0%, less than the 4.2% rise forecast by economists. Core CPI which strips out volatile food and energy prices, was 5.1% unchanged from December. Falling gas and electricity, transport, furniture, and household good prices all contributed but were offset partially by increases to

miscellaneous goods and services. Market speculation is that the BoE will begin cutting interest rates in June 2024 provided inflation continues to fall. UK Gross Domestic Product (GDP) fell 0.3% in Q4 2023 as the UK economy slipped into recession.

In the US, inflation slowed to 3.1% in January, from 3.4% in December, above an expected 2.9% rise. Core CPI inflation year on year remained at 3.9% and at its lowest reading since September 2021. Headline CPI stayed at +0.3% month on month (m/m) and in annual terms at 3.1% as energy prices fell at a slower pace and food, shelter and used car and truck costs softened.

In Europe, **Eurozone inflation fell to 2.8% from 2.9%** in December as energy prices declined while services inflation remained steady. France and Germany reported lower inflation rates falling to 3.1% from 3.7% in France and to 2.9% from 3.7% in Germany. Many economists are predicting rate cuts by the ECB in the second quarter of 2024.

China's move back into inflationary territory remained subdued this month. CPI dropped by – 0.8% in annual terms in January, higher than the predicted – 0.5%. It marks the fourth straight month of declines and the longest streak of falls since October 2009, as food price decreased at a record pace. Non-food price inflation edged lower to 0.4% from 0.5% in December with inflation projected to pick up gradually. There are expectations for more government policy support in 2024 following continued deflation.

Equity markets

Equity markets had another positive month in January following growing expectation that interest rates have peaked.

At a regional level, most equity markets ended the month up across developed markets. Emerging market equities were down – 4.5% over lingering concerns on the Chinese economy. Gains were broad-based at a sector level, industrials outperformed, and the tech sector made further gains, while the strongest pullbacks came in commodities amid weakness in energy and utility prices.

Key movers in equities

US equities scaled record highs in January. The S&P 500 was up 1.6% and Nasdaq gained 1.0%. Five of eleven sectors in the S&P 500 notched positive returns led by gains in Communication services and Financials. Real Estate stocks were the biggest laggard, alongside materials and consumer discretionary.

UK equities were lower in January, despite disappointing GDP releases. During the month, technology, healthcare, and consumer discretionary sectors led the gains but at an overall level, UK equities lagged global peers such as the US and Europe. The unanticipated inflation data in January added to uncertainty over the UK's economic prospects in 2024.

Japanese equities were up in January. The Nikkei 225 reaching 35,000 for the first time in 34 years and increasing 4.3% over the month. This has been led by better corporate financial performances, a weak yen – drawing in overseas investors and a flurry of stock buy backs. China's struggling performance has enticed investors looking for Asian exposure. The 2024 outlook for Japanese equities looks positive, with potential corporate governance improvements and the shift from deflation to inflation.

Fixed Income

UK government bond prices fell in January with the UK 10-year gilt yield closing at 3.84%, up from 3.68% at the start of the month.

US 10-year treasury yields were up to 3.99% from 3.95% over January, as investors continue to grapple with assessing the fair value of bonds. Strong labour market data and the dovish monetary policy outlook from the Fed provided a boost for bond markets over the month.

January saw investment grade credit spreads subdued. Movements in corporate bond spreads over the month tightened, with spreads on high value corporate bonds reaching their lowest levels since 2022.

Property

We continue to see headwinds in markets given continued uncertainty around interest rates, inflation and a continuation of the geopolitical events seen in Israel and Gaza.

Global real estate markets have experienced volatility since mid-2022 due to sharp rises in global interest rates. The UK has experienced significant valuation falls ahead of other markets, but recently we have seen signs of recovery as policy rates have been kept on hold and inflation pressures ease.

As challenges to the real estate sector are worked through in the coming quarters, both winners and losers will likely emerge. Some investors may suffer – notably those who have been overleveraged and now face refinancing risks, or those who have been overly exposed to weaker/ riskier property. However, others should be able to take advantage of opportunities to acquire mispriced assets.

We continue to see value in real estate to help mitigate some inflation risk over the longer term.

UK

Recent UK direct real estate data show continued declines in capital values reflecting the impact of higher interest rates. Industrial and residential sectors have remained resilient in recent months, with the bulk of erosion in capital values now likely to have been recorded. The office sector remains under pressure and is still experiencing capital value declines. Most sales remain in new builds as existing homeowners remain locked into lower interest rate mortgages.

Our real estate teams remain cautiously optimistic that the market is at an inflexion point although further macro shocks cannot be ruled out which could result in further downward pressure on valuations.

North America

The North American market has fallen significantly in recent months and there is potentially further to go before it gets to fair value. A lot of the noise is related to the office sector where vacancy rates have risen as post-Covid occupancy levels remain stubbornly lower than in other developed regions. Residential sales have continued to struggle amid rising house prices. Meanwhile, retail has showed surprising strength recently amidst solid retail sales and retailer expansion, though broader economic headwinds remain a clear threat to the sector.

Europe

European real estate has also been declining over recent months, albeit by less than the UK. Property valuations have continued to feel the downward pressure, though the pace of these has slowed and strong rental growth has continued to limit value falls. The office sectors high quality assets are generally performing well, and residential rents are continuing to rise ahead of trend.

Asia

The outlook for Asia appears more positive given the region's better growth prospects. The spread between direct and listed real estate is far narrower than the other regions discussed, which effectively means investor sentiment is better. Looking ahead, subdued economic conditions, weak global exports and rising cost of living could impact near-term occupier demand and the rental outlook, although prime sustainable assets in core locations will likely remain resilient.

New investment into Cross-Border Impact Ventures (CBIV) Women's and Children's Health Technology Fund within the M&G Catalyst Mandate

The M&G Catalyst Mandate has made a recent \$90 million commitment into CBIV.

CBIV invests in health technology companies with global growth, high return, and impact potential. Its primary focus is on medical device, Diagnostic, and digital health companies based in North America and Europe that are globally relevant, including in emerging markets.

Target investments include healthcare software companies with \$1m-\$10m in revenue, as well as companies developing technologies that require regulatory approval and have at least one product Food and Drug Administration (FDA) approved.

The fund uses a gender lens to invest and will work with portfolio companies to improve their diversity and ensure products reach a broader audience.

What is the M&G Catalyst strategy?

The M&G Catalyst strategy is investing £5 billion into innovative privately-owned businesses, working to create a more sustainable world.

Fund Performance (Retirement Account)

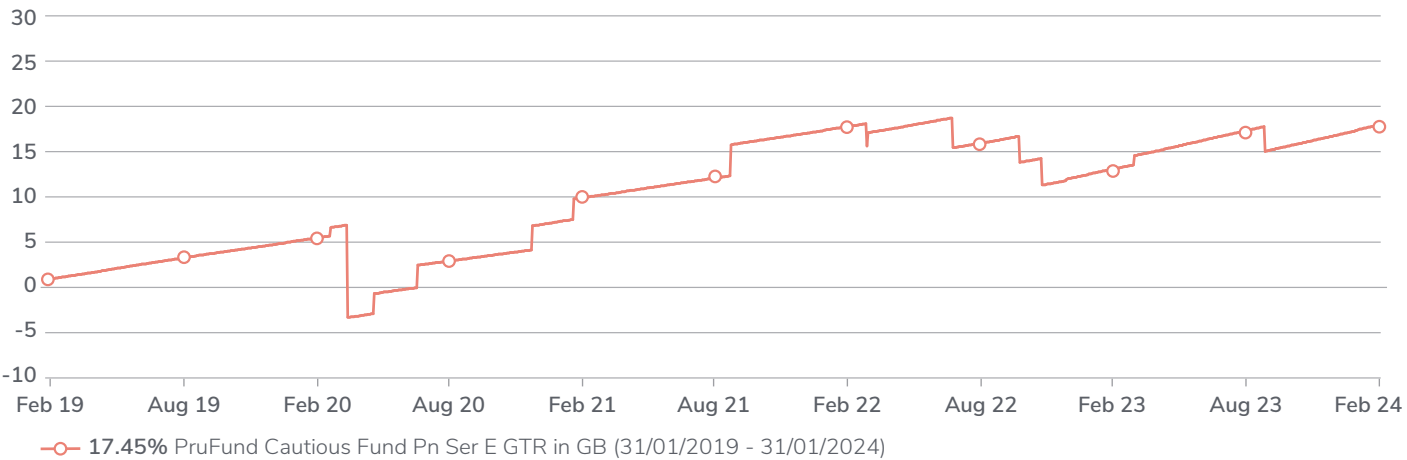
Performance

	31/01/2019 to 31/01/2020	31/01/2020 to 31/01/2021	31/01/2021 to 31/01/2022	31/01/2022 to 31/01/2023	31/01/2023 to 31/01/2024
Fund	4.64%	4.33%	7.38%	-4.06%	4.43%

Annualised performance

	1 Year to 31/01/2024	3 Years to 31/01/2024	5 Years to 31/01/2024
Fund	4.43%	2.47%	3.27%

Performance since 31 January 2019 (as at 31 January 2024)



Source of performance data: FE fundinfo.



To find out more on the funds objectives, risk profile and performance, **view the PruFund fund factsheets for our range of pension funds.**

We can't predict the future, past performance isn't a guide to future performance. The figures shown are intended only to demonstrate performance history of the fund, after allowing for the impact of fund charges and further costs, but take no account of product charges. Charges and further costs may vary in the future and may be higher than they are now. Fund performance is based upon the movement of the daily price and is shown as total return in GBP with gross income reinvested.

The value of your investment can go down as well as up so you might get back less than you put in. For the PruFund range of funds, what you receive will depend on the value of the underlying investments, the Expected Growth Rates as set by the Prudential Directors, our charges and the smoothing process.

Fund Performance (Prudential ISA)

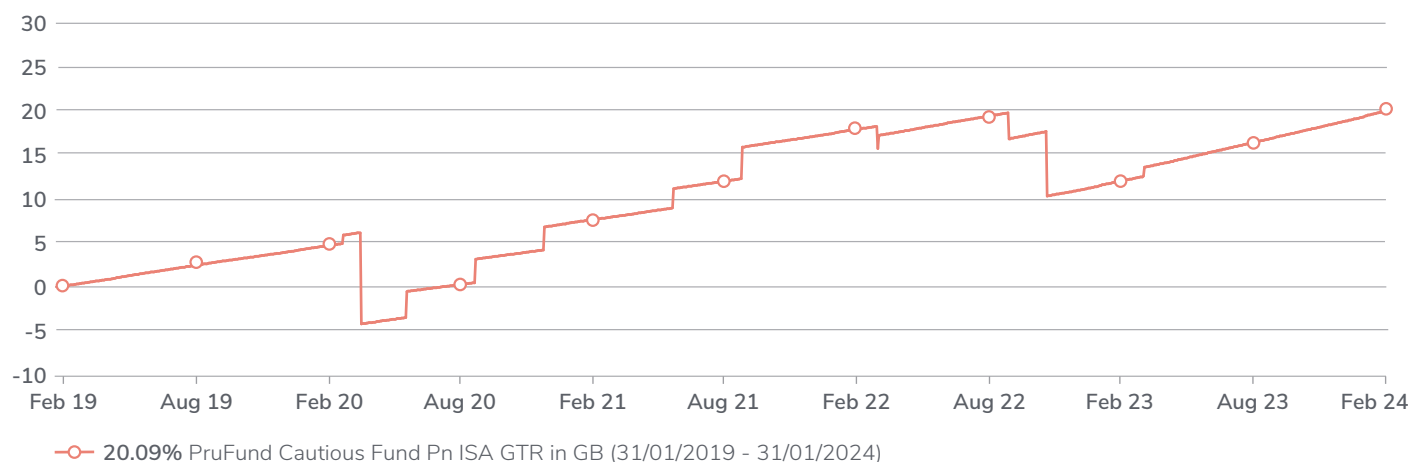
Performance

	31/01/2019 to 31/01/2020	31/01/2020 to 31/01/2021	31/01/2021 to 31/01/2022	31/01/2022 to 31/01/2023	31/01/2023 to 31/01/2024
Fund	4.63%	2.80%	9.64%	-4.95%	7.14%

Annualised performance

	1 Year to 31/01/2024	3 Years to 31/01/2024	5 Years to 31/01/2024
Fund	7.14%	3.74%	3.73%

Performance since 31 January 2019 (as at 31 January 2024)



Source of performance data: FE fundinfo.



To find out more on the funds objectives, risk profile and performance, **view the PruFund fund factsheets for our range of ISA funds.**

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Fund Performance (Prudential Investment Plan)

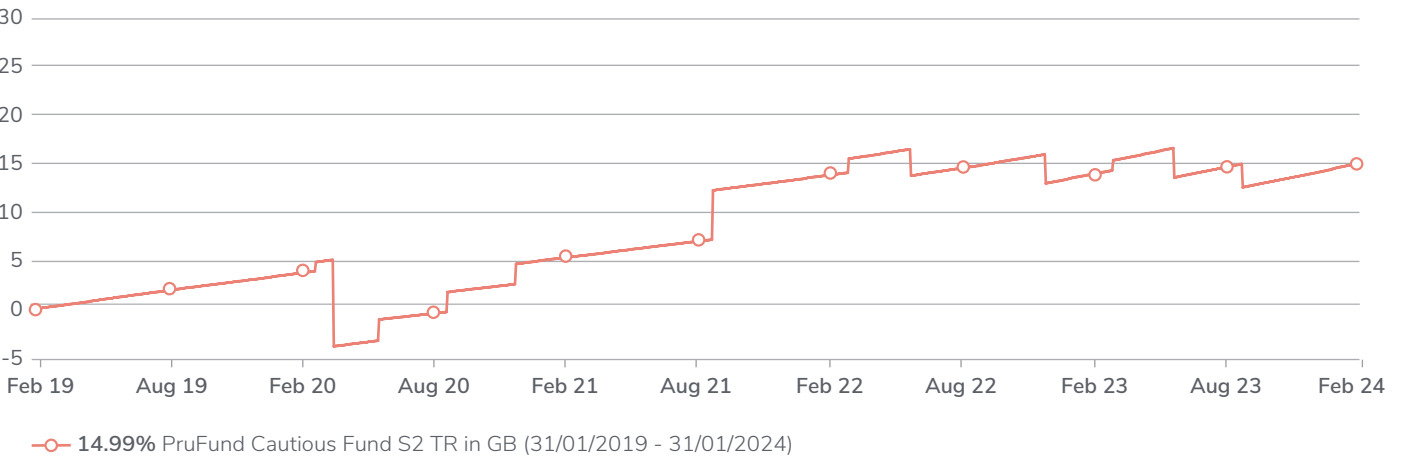
Performance

	31/01/2019 to 31/01/2020	31/01/2020 to 31/01/2021	31/01/2021 to 31/01/2022	31/01/2022 to 31/01/2023	31/01/2023 to 31/01/2024
Fund	3.69%	1.54%	8.09%	0.10%	0.95%

Annualised performance

	1 Year to 31/01/2024	3 Years to 31/01/2024	5 Years to 31/01/2024
Fund	0.95%	2.98%	2.83%

Performance since January 2019 (as at 31 January 2024)



Source of performance data: FE fundinfo.



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Fund Performance (Trustee Investment Plan)

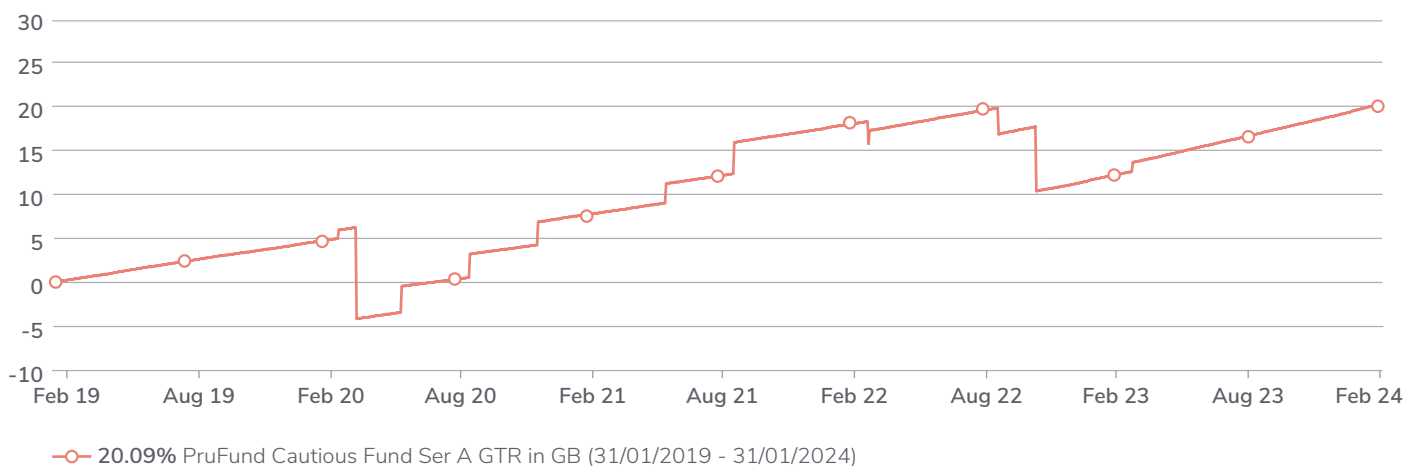
Performance

	31/01/2019 to 31/01/2020	31/01/2020 to 31/01/2021	31/01/2021 to 31/01/2022	31/01/2022 to 31/01/2023	31/01/2023 to 31/01/2024
Fund	4.63%	2.80%	9.64%	-4.95%	7.14%

Annualised performance

	1 Year to 31/01/2024	3 Years to 31/01/2024	5 Years to 31/01/2024
Fund	7.14%	3.74%	3.73%

Performance since 31 January 2019 (as at 31 January 2024)



Source of performance data: FE fundinfo.



To find out more on the funds objectives, risk profile and performance, **view the PruFund fund factsheets for our range of pension funds.**

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Fund Performance (International Portfolio Bond)

Performance

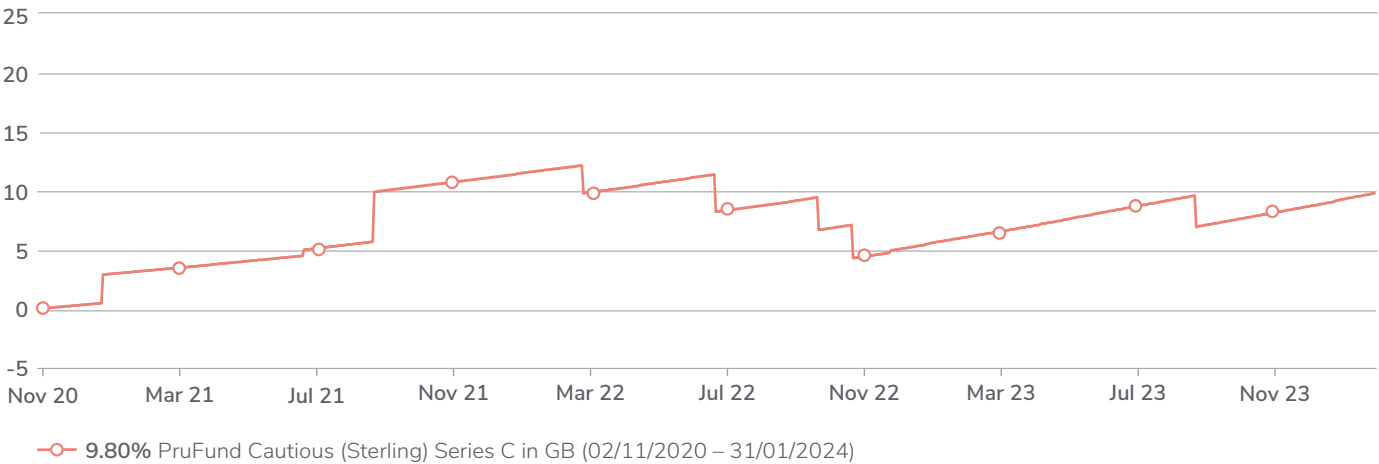
	31/01/2019 to 31/01/2020	31/01/2020 to 31/01/2021	31/01/2021 to 31/01/2022	31/01/2022 to 31/01/2023	31/01/2023 to 31/01/2024
Fund	N/A	N/A	8.44%	-5.21%	3.56%

Annualised performance

	1 Year to 31/01/2024	3 Years to 31/01/2024	5 Years to 31/01/2024
Fund	3.56%	2.10%	N/A

Performance not available for the period 31.01.2019 – 31.01.2021 because the PruFund Growth (Sterling) Series C fund did not launch until 02.11.2020.

Performance since 02 November 2020 (as at 31 January 2024)



Source of performance data: FE fundinfo.



To find out more on the funds objectives, risk profile and performance, **view the PruFund fund factsheets for our range of international funds.**

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Underlying Asset Class Performance

The bar graph below is designed to give some insight in to how PruFund Cautious assets have performed.

There are clear constraints around providing detailed 'unsmoothed' performance but we hope the graphic below at least gives some insight in to the drivers and detractors of absolute returns for the period in review.

Year to date returns per asset class as at 31 December 2023



Asset allocations are regularly reviewed and may vary from time to time, but will always be consistent with the fund objective. We can't predict the future, past performance isn't a guide to future performance. Returns in GBP and do not reflect any currency hedging within overseas Fixed Income.

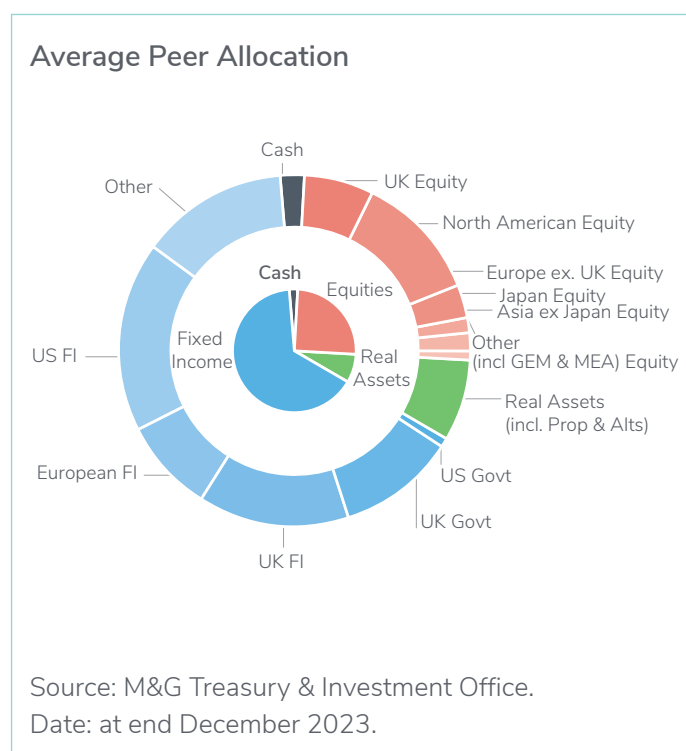
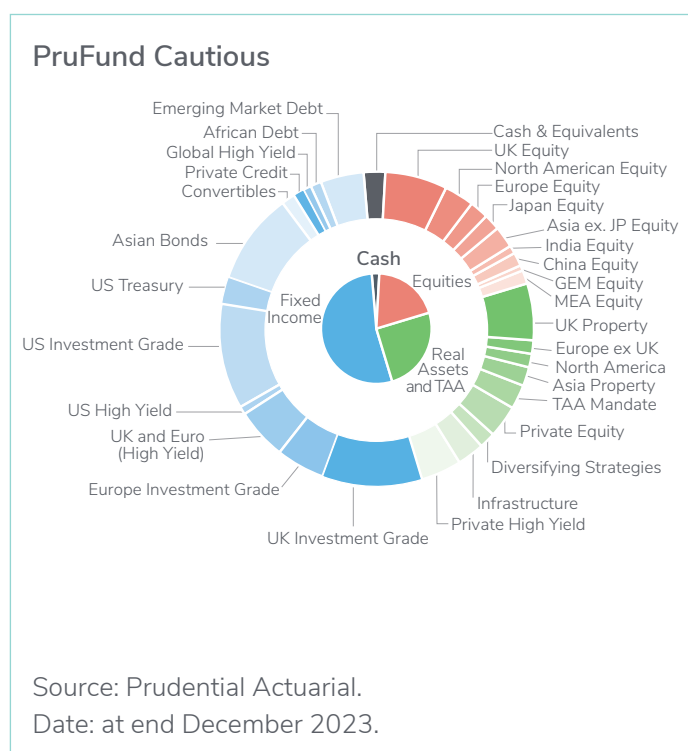
Key points:

- Most major equity and bond markets positive but a mixed year as disappointing data from China has dampened the initial enthusiasm around the re-opening after the pandemic
- Specialist investments and real assets seeing lower valuations feeding through, particularly in UK property

Source of performance data: M&G Performance teams.

PruFund Cautious Asset Allocation and Peer Comparison

We have produced the pie charts below to provide an insight into the current asset class exposures for PruFund Cautious. At the same time we thought it would be helpful to give some context to this by showing the aggregate asset allocation of the 20 largest funds in the IA mixed-0-35 sector. Specific percentage exposures are shown on the following page.



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

Key points:

- **Equities:** similar weight to peers but higher diversification. Lower exposure to US but higher exposure to Asian equities
- **Fixed income:** lower weight and more emphasis on high real yield regions and private credit
- **Real assets:** diversified across asset classes and regions. Property remains a key diversifying asset

Source: M&G Treasury & Investment Office peer asset allocation data from Financial Express. Data not available for two of the peers. Allocation data sourced from Financial Express data and individual fund factsheets where latest data available. Granularity of the data varies significantly between different funds and where relevant, proxies used to estimate the allocation between different geographies. Peers are made up of the top 20 funds by Assets Under Management (AUM) from the IA Mixed 0-35% shares sector.

PruFund Cautious Holdings

The data shown provides a representation of the top ten holdings in the main With Profits pool of assets and hence is broadly reflective of what a client investing in PruFund Cautious holds. Holdings are regularly reviewed by the M&G Treasury and Investment Office (T&IO) and may vary from time to time, but will always be consistent with the fund's objective.

Main asset class exposures

Asset	Strategic Asset Allocation
UK Equity	6.40%
North American Equity	3.10%
European Equity	2.10%
Japan Equity	1.70%
Asia ex. Japan Equity	2.10%
India Equity	0.90%
China Equity	1.20%
Global Emerging Markets Equity	0.80%
Middle East and Africa Equity	1.20%
Total Equity	19.50%
UK Property	6.00%
Europe ex. UK Property	1.30%
North America Property	1.30%
Asia Property	2.10%
Total Property	10.70%
Cash	2.20%
TAA Mandate	2.50%
Private Equity	3.30%

Asset	Strategic Asset Allocation
Diversifying Strategies	1.50%
Infrastructure	2.80%
Private High Yield	4.40%
Total Real Assets and Alternatives	12.00%
UK (Investment Grade)	10.20%
Europe (Investment Grade)	4.90%
UK and Euro (High Yield)	5.30%
US High Yield	1.00%
US (Investment Grade and High Yield)	10.80%
US Treasury	2.60%
Asian Bonds	9.60%
Convertibles	1.20%
Private Credit	1.20%
Global High Yield	0.80%
African Debt	1.30%
Emerging Market Debt	4.20%
Total Fixed Income	53.10%

Source: Prudential Actuarial December 2023.

PruFund Cautious Holdings continued

The tables below show the total percentage of each particular asset class's top 10 holdings in order of largest holding.

Equities

Source: M&G Treasury and Investment Office.

Date: at 31 January 2024.

UK Equity	1.52%
AstraZeneca plc	
HSBC Holdings plc	
Unilever plc	
BP plc	
Diageo plc	
BAE Systems plc	
RELX plc	
Compass Group plc	
National Grid plc	
Aviva plc	

North American (inc Canada) Equity	0.78%
Microsoft Corporation	
Apple Inc.	
Alphabet Inc.	
Amazon.com Inc.	
Nvidia Corporation	
Meta Platforms Inc.	
JPMorgan Chase & Co	
Salesforce Inc.	
Johnson and Johnson	
Royal Bank of Canada	

European Equity excluding UK	0.86%
M&G European Sustained Paris Aligned Fund	
Shell plc	
TotalEnergies SE	
Siemens AG	
Novo Nordisk A/S	
Mondi plc	
UBS Group AG	
SAP SE	
Novartis AG	
Allianz SE	

Asia & GEM Equity ex. Japan, China & India	1.00%
Taiwan Semiconductor Manufacturing Company Ltd.	
Samsung Electronics Co Ltd.	
Rio Tinto plc	
AIA Group Ltd.	
BHP Group Ltd.	
DBS Group Holdings Ltd.	
KB Financial Group Inc.	
Sun Hung Kai Properties Ltd.	
Genting Singapore Ltd.	
Prudential plc	

Japan Equity	0.44%
Toyota Motor Corporation	
Hitachi Ltd.	
Mitsui & Co Ltd.	
Nippon Telegraph and Telephone Corporation	
Sony Group Corp	
Seven & I Holdings Co Ltd.	
Honda Motor Co Ltd.	
Orix Corporation	
Mitsubishi UFJ Financial Group Inc.	
Credit Saison Co Ltd.	

Africa Equity	0.64%
Delta Corporation Ltd. (Zimbabwe)	
Anglo American plc	
Naspers Ltd.	
Firststrand Ltd.	
Standard Bank Group Ltd.	
Gold Fields Ltd.	
MTN Group Ltd.	
Capitec Bank Holdings Ltd.	
Bid Corporation	
Nedbank Group Ltd.	

China Equity	0.53%
Tencent Holdings Ltd.	
Alibaba Group Holding Ltd.	
JD.COM Inc.	
China Merchants Bank Co Ltd.	
Yangzijiang Shipbuilding Holdings Ltd.	
China Construction Bank Corp	
Weichai Power Co Ltd.	
Kweichow Moutai Co Ltd.	
Boc Hong Kong Holdings Ltd.	
H World Group Ltd.	

India Equity	0.56%
Housing Development Finance Corporation Ltd.	
Reliance Industries Ltd.	
Infosys Ltd.	
Axis Bank Ltd.	
Tata Consultancy Services Ltd.	
ICICI Bank Ltd.	
Larsen and Toubro Ltd.	
Trustroot Internet Private Limited	
Sun Pharmaceutical Industries Ltd.	
Ultratech Cement Ltd.	

Fixed Income

Source: M&G Treasury and Investment Office.

Date: at 31 January 2024.

US Fixed Income	6.94%
United States Treasury	
US High Yield	
Bank of America Corp	
Goldman Sachs Group Inc.	
JPMorgan Chase & Co	
Wells Fargo and Company	
Morgan Stanley	
Citigroup Inc.	
Verizon Communications Inc.	
Comcast Corporation	

European including UK Fixed Income	4.46%
M&G European Loan Fund	
United Kingdom of Great Britain and Northern Ireland	
UK Conventional Gilts	
KFW	
HSBC Holdings plc	
Lloyds Bank plc	
Electricite De France SA	
Banque Federative Du Credit Mutuel SA	
Nationwide Building Society	
Shelbourne Bidco Limited	

Asian Fixed Income	5.87%
Korea (Republic of)	
Indonesia (Republic of)	
Malaysia (Government)	
India (Republic of)	
Philippines (Republic of)	
Thailand Kingdom of (Government)	
Singapore (Republic of)	
China Peoples Republic of (Government)	
Philippine Government Bond	
CP ALL PCL	

Property

Source: M&G Treasury and Investment Office.

Date: at 30 September 2023.

PruFund Cautious invests in a variety of core collective global vehicles of which have exposure to a variety of underlying properties as shown within the building blocks table. The largest holding is held within the Prudential Real Estate Limited Partnership (PRELP) vehicle which gains PruFund Cautious' exposure to UK property. The PRELP top ten holdings are as per the below with the % in reference to the weighting within PRELP.

Property (Global)	48.00%
232/347 Tottenham Court Road – Office	
The Arena Mollison Avenue – Industrial	
Selly Oak Shopping Park – Supermarket	
36 Queen Street – Office	
Riverside Retail Park – Retail Warehouse	
Lockton House Clarendon Road – Office	
The Garage – Residential	
Lake View House – Distribution Warehouse	
Chaco – Residential	
Brackmills Central Units 1-32 – Industrial	

Underlying building blocks

Equity building blocks

Equity portfolios continue to evolve and are globally diversified across all the major developed and emerging markets, with Indian, African and Chinese equities added in recent years as direct country allocations as we see them as important emerging/frontier economies. The broad exposure to Asia is a differentiator and represent the 2nd largest equity position.

Holdings are predominantly large cap stocks although specific smaller cap exposure has been added to regions like the US, Europe and Japan. Active management is favoured but will use passive when appropriate.

A balanced approach is taken regarding investment styles (growth, value, etc) to try and benefit from different market conditions.

A large percentage is held in bespoke/customised pools of assets or internal funds where T&IO work with the fund managers to set guidelines, objectives and risk parameters and can also ensure that each fund manager's ESG beliefs and policies align with our own.

Asset	Fund Name	Investment Style	Internally or Externally managed
UK Equity	M&G UK Absolute Return Fund	Active	Internal
	M&G (ACS) UK Listed Mid Cap Equity Fund	Active	Internal
	M&G (ACS) BlackRock UK All Share Index Fund	Index Enhanced	External
	M&G (ACS) BlackRock UK 200 Index Fund	Index Enhanced/ evenly weighted	External
Europe excluding UK Equity	M&G (Lux) European ex UK Equity Fund	Active	Internal
	M&G (Lux) Pan-European Smaller Companies Fund	Active	Internal
	M&G (Lux) BlackRock Europe ex UK Equity Fund	Index Enhanced	External
	M&G European Sustainable Paris Aligned Fund	Active	Internal
US Equity	M&G (ACS) BlackRock US Equity Fund	Index Enhanced	External
	M&G (ACS) Granahan US Small Cap Growth Fund	Active	External
	M&G (ACS) Earnest Partners US Small Cap Value Fund	Active	External
	M&G (ACS) Manulife US Equity Fund	Active	External
	M&G (ACS) BlackRock Canada Index Fund	Index Enhanced	External
	M&G (ACS) William Blair US Large Cap Equity Fund	Active	External
	M&G (ACS) MFS US Large Cap Equity Fund	Active	External
Japan Equity	M&G (ACS) Japan Equity Fund	Active	Internal
	M&G (ACS) Japan Smaller Companies Fund	Active	Internal
Asia ex. Japan Equity	M&G APAC ex Japan Equity Mandate	Active	Internal
China Equity	M&G (ACS) China Equity Fund	Active	Internal
	M&G (ACS) Value Partners China Equity Fund	Active	External
	M&G (ACS) Matthews Asia China Equity Fund	Active	External
Global Emerging Markets Equity	M&G Funds (1) GSAM Global Emerging Market Equity Fund	Active	External
	M&G Funds (1) MFS Global Emerging Markets Equity Fund	Active	External
	M&G Funds (1) Lazard Global Emerging Markets Equity Fund	Active	External
Indian Equity	M&G India Equity Mandate	Active	Internal
Middle East and Africa Equity	M&G South Africa Equity Fund	Active	Internal
	M&G Africa Equity Fund	Active	Internal

Fixed income building blocks

Fixed income portfolios are diversified by region and across public and private markets. New asset classes have been added as markets have evolved. Developed market corporate bonds have reduced over time as positions in higher yielding Asian and Emerging Market bonds have increased and investment in Private Credit has slowly grown, leveraging the strength of specialist teams in M&G. This will continue to grow through new and future investments via M&G Catalyst.

As with areas like property and equities, a large percentage of assets are held in segregated mandates and internal vehicles although some pooled vehicles are used, Eastspring Asian Bonds and M&G Emerging Market Debt for example. The use of internal mandates and vehicles is advantageous as underlying fund managers work solely with T&IO, there are no other retail or institutional investors, and T&IO can work with the managers to set investment objectives and appropriate risk controls like stock and sector limits.

Asset	Fund Name	Investment Style	Internally or Externally managed
UK (Investment Grade)	M&G UK Investment Grade Mandate	Active	Internal
Europe (Investment Grade)	M&G European Investment Grade Mandate	Active	Internal
UK & Euro (High Yield)	M&G Collateral Fixed Income Mandate	Active	Internal
European Leveraged Loans	M&G European/UK High Yield Mandate	Active	Internal
	M&G European Leveraged Loans Mandate	Active	Internal
US (IG & HY)	M&G US Total Return Fixed Income Mandate	Active	Internal
US Treasury	M&G US Short Dated Fixed Income Mandate	Active	Internal
	M&G US Treasuries Mandate	Active	Internal
Asian Fixed Income	M&G (Lux) Asian Corporate Bond Fund	Active	Internal
	M&G (Lux) Asian Local Bond Fund	Active	External
	ESI China Bond Fund	Active	External
	M&G Manulife China Bond Fund	Active	External
Convertibles	M&G Global Convertibles Fund	Active	Internal
Lower Risk Private Credit	M&G Catalyst – Credit Fund	Active	Internal
	Selection of M&G Private Credit Funds	Active	Internal
	Global Micro and SME Finance Fund (responsAbility)	Active	Internal
Global High Yield	M&G Global High Yield Fund	Active	Internal
African Debt	M&G Pan-African Bond Fund	Active	Internal
Emerging Market Debt	M&G Emerging Market Debt Fund	Active	Internal
UK Government	M&G Gilt Mandate	Active	Internal

Property building blocks

The key differentiators and strengths of the property portfolios include the resource and expertise within M&G Real Estate, the global exposure to high quality assets, the use of segregated pools of assets or large-scale institutional funds to best capture opportunities, active management, the ability to invest in development projects and the ongoing work to enhance the 'environmental' credentials of portfolios.

Asset	Fund Name	Investment Style	Internally or Externally managed
UK Property	Prudential Real Estate Limited Partnership (PRELP)	Active	Internal
Europe Property	M&G European Property Fund (Core-Balanced Collective)	Active	Internal
North America Property	Morgan Stanley Prime (Core-Balanced Collective) Directly held Assets	Active Active	External Internal
Asia Property	M&G Asia Property Fund (Core-Balanced Collective) Sector Specialist Collectives within Prudential Australian Property Trust	Active	Internal

Alternatives building blocks

The alternatives market is vast and complex, straddling private equity, hedge funds, infrastructure and private high yield, but the M&G teams can capture opportunities wherever they arise, leveraging a network of contacts and expertise across the globe.

Investments are typically in the private markets, which are less liquid than the public equity markets, but often offer enhanced returns. Each opportunity is assessed in terms of risk and reward and would expect to pick up an illiquidity premium.

Some asset classes bring enhanced returns over traditional markets, for example private equity is expected to deliver 2-3% per annum over listed equity markets. Diversifying strategies like music royalties, offer returns not linked to broader markets. Infrastructure investments are attractive due to the stable long-term income streams that are often inflation-linked. This stable return profile can also be lowly correlated to public markets.

All new managers are ESG assessed pre-investment and continually monitored, and investments will often be held for many years making them ideal for the PruFund range of funds.

Asset	Fund Name	Investment Style	Internally or Externally managed
Private Equity	M&G Alternatives Mandate M&G Crossover Mandate	Active	Internal
Diversifying Strategies	M&G Alternatives Mandate	Active	Internal
Infrastructure	M&G Alternatives Mandate Future of Foods Asia II (responsAbility) Sustainable Food LATAM I (responsAbility) Infracapital Capital Fund IV	Active	Internal
Private High Yield	M&G Catalyst – Capital Fund Selection of M&G Private High Yield Funds	Active Active	Internal Internal

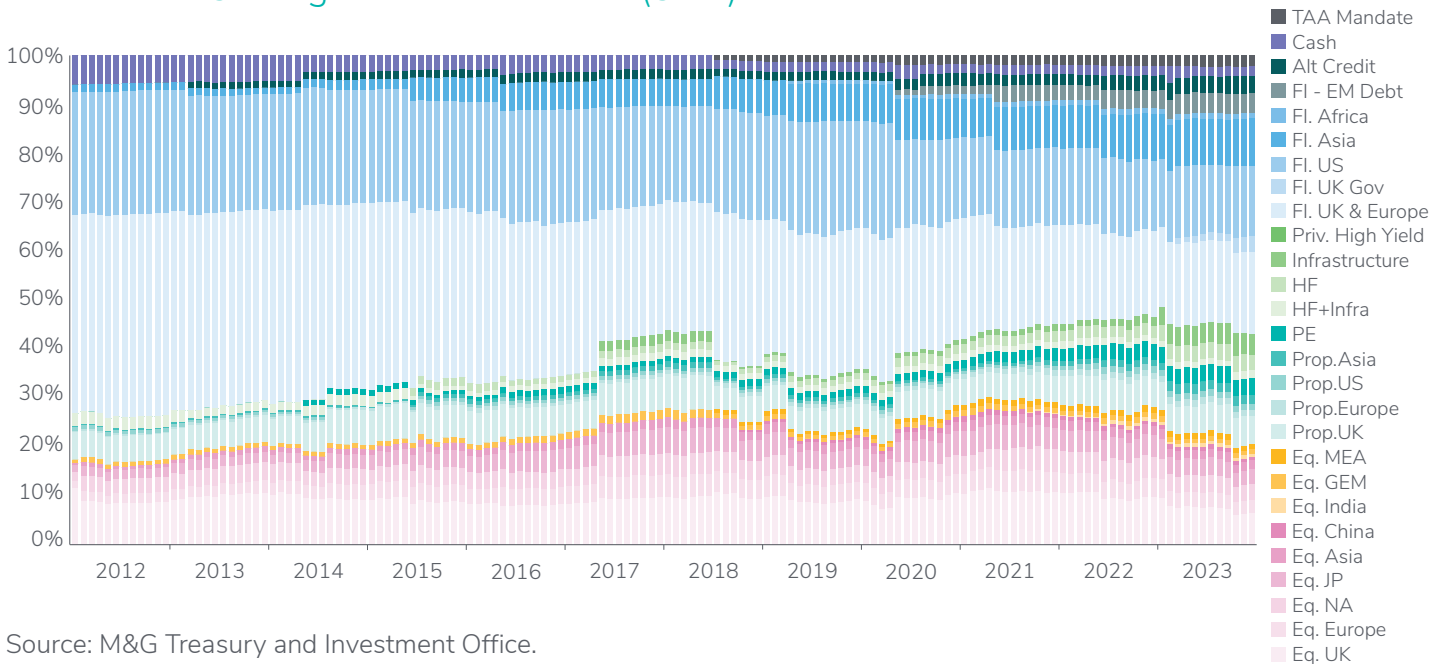
Cash and TAA Mandate building blocks

Asset	Fund Name	Investment Style	Internally or Externally managed
Cash	M&G Cash Fund	Active	Internal
TAA Mandate	M&G Episode Strategies	Active	Internal

Source of underlying holdings data: M&G Treasury and Investment Office as at 31 December 2023.

Long Term Investment Strategy

Evolution of Strategic Asset Allocation (SAA)



PruFund Cautious case studies

Below is a snapshot of some of the investments held in the PruFund Cautious fund and which mandate they sit in, giving you a bit more insight into how your money is invested. These won't change every month unless there's a significant update to give you, but we will review every 3 to 4 months to highlight more examples.

Fund/mandate	Investment/company description
M&G Catalyst	Boston Metal , a company that aims to scale and commercialise its green steel technology in the US, has developed a steel-making process less carbon intensive and more energy efficient than traditional methods. They also make high value metals from materials previously considered to be waste.
M&G Catalyst	NoTraffic is a road traffic management platform used by city and town transport authorities to reduce congestion, CO2 emissions and accidents. Using AI assisted proprietary software and smart sensors placed on existing traffic signals, responds to traffic flows and mobility in any given area, instantaneously.
M&G Catalyst	Biobest is a leader in the fast-growing sector of biological pesticides, which decompose naturally into the soil. Their products allow crop farmers to avoid damage to biodiversity, soil, water supply and public health from chemical pesticides and fertilisers and help address the problem of increased pest resistance to chemicals.
M&G Catalyst	SkyCell AG are a Swiss-based technology firm seeking to change the face of global pharmaceutical supply chains by developing more sustainable ways of transporting medicines, whilst also reducing waste and minimising CO2 emissions.
Future of Food Asia II	A ResponsAbility fund that invests in fast growing companies in agriculture value chains, promoting sustainable practices and healthy food in Asia to deliver attractive financial returns and high impact.
Sustainable Food LATAM I	A ResponsAbility fund that provides financing to medium-sized companies operating in the value chains of fresh fruits and vegetables within Latin America. The strategy will provide financing to companies with proven earnings and attractive business models that can also be leaders from a sustainable perspective.
Infracapital Greenfield Partners II	Zenobe Energy is a leading owner and operator of battery storage in the UK. Provides battery storage plants for the electricity grid and provides batteries and infrastructure solutions to bus fleets and industrial customers.
M&G Asian Property Fund	Acquired the Minato Mirai Center (MMC) Building in Yokohama, Japan for more than Y100 billion/ US\$700 million. A 21-storey prime-grade office, benefitting from direct underground access to the subway station providing convenient access to the Tokyo Central Business District. The MMC holds a 5-star CASBEE (Comprehensive Assessment System for Built Environment Efficiency) rating – the highest recognition of ESG performance available.
Direct UK property portfolio	Acquired the 40 Leadenhall building with a total commitment of c£900m. Located in prime Central London location, the building is expected to be 30% more environmentally efficient than current regulatory standards.
Ridgewood Water and Strategic Infrastructure Fund II	First investment is the development of a new water treatment facility in Florida for a municipality that is suffering from sewage spills during storms and general underinvestment in their infrastructure. Once built, investors benefit from a 30-year contract with the local government.

Glossary

Alternatives – investments which don't fall into the conventional asset categories of public equity, fixed income, property and cash. These may include private equity, hedge funds and direct investment in infrastructure.

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

Diversification – spreading your investments to help reduce the risk within your portfolio.

Equities – another name for shares in a company. The Prudential With-Profits Fund holds public equities, which are listed on a stock market, and private equity, which are shares in unlisted private companies.

Fixed Income – assets which pay a set level of interest to investors. These include bonds issued by companies and governments.

Mandate – A mandate is a discrete legal agreement between two parties: the fund manager and the financial institution (client). The agreement outlines how the client's funds will be managed. This includes the investment strategy, investment guidelines, risk controls, management fees etc.

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

PruFund Cautious – an investment product within our With-Profits Fund that aims for steady and consistent growth over the medium to long-term over 5-10 years or more.

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

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

Strategic Asset Allocation (SAA) – strategic asset allocation is a long term asset allocation approach, commensurate to the investor's risk profile and financial goals.

Treasury and Investment Office – part of the Prudential Assurance Company which looks after the investments of the With-Profits Fund.

Tactical Asset Allocation (TAA) – an investment style in which the three primary asset classes (stocks, bonds and cash) are actively balanced and adjusted, to maximize portfolio returns while keeping market risk to a minimum.

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

Further information

If you're looking for more information then please speak to your Financial Adviser. You can refer to the relevant Key Features Document and Funds Guides for more details on our range of funds available from your Financial Adviser.

If you would like to find out more information on the PruFund range of funds, please see:
mandg.com/pru/customer/en-gb/funds/investment-fund-range/prufund

pru.co.uk

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'M&G Treasury & Investment Office (T&IO)' includes the team formerly known as Prudential Portfolio Management Group (PPMG). Prudential Portfolio Management Group Limited, is registered in England and Wales, registered number 2448335.