



PRUDENTIAL



**Prudential Dynamic Growth Funds Quarterly Update
Quarter 3 2018**

This is for information only and is designed for Investment Professionals.

This is the quarterly update for the Prudential Dynamic Growth Funds. The information in this guide is correct as at 30 September 2018, unless another date is stated.

The Prudential Dynamic Growth Funds are a range of five multi-asset funds, with dynamic asset allocation and varying equity weights to help investors choose the level of risk they wish to take.

Each fund aims to deliver long-term growth by investing in a diversified range of assets, both in the UK and globally.

The value of your investment can go down as well as up, and may even fall below the amount you invested – what you get back is not guaranteed.

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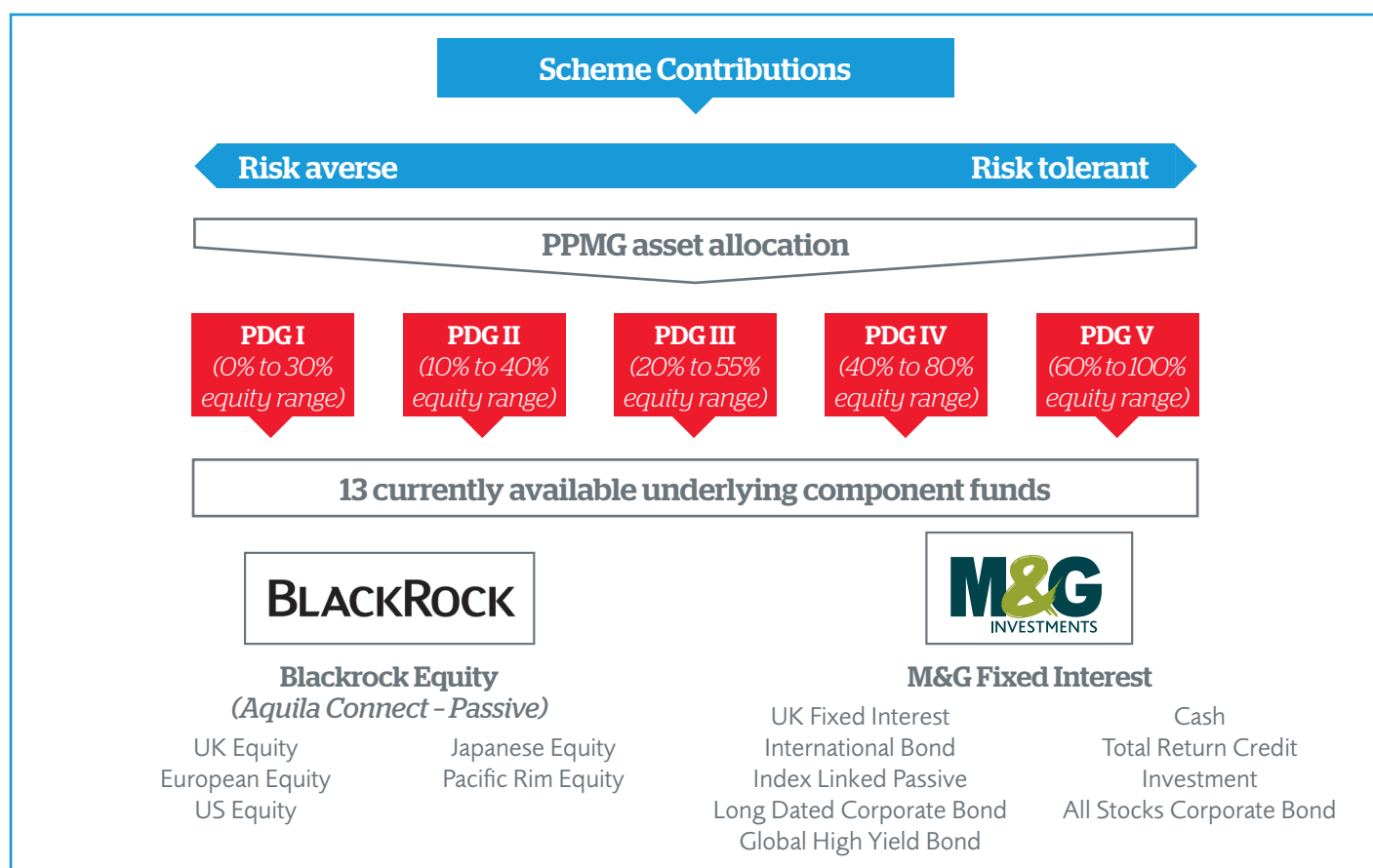
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An introduction to Prudential Dynamic Growth Funds

A choice of five funds offering:

- **Diversification** – a range of multi-asset Funds which offer diversification through active asset allocation in both UK and global bond and equity markets.
- **Quality** – built using Prudential Portfolio Management Limited's (PPMG) asset allocation expertise, M&G's active fixed interest investment capabilities and BlackRock equity trackers.
- **Expert management** – PPMG effectively manage the risk and the assets.
- **Value** – cost effective through use of both active fixed interest and passive regional equity strategies – priced to sit between active and passive investments.
- **Expert multi-asset and risk management** – PPMG manage each Dynamic Growth fund within each fund objective and parameters – through different market conditions to control risk and return opportunities.



Benefits for schemes and members

- **Simplicity** – members see one fund (either as part of the default or by self-selecting) which offers diversification and active asset allocation.
- **Choice** – to both schemes and members, through offering five different risk ratings for different risk appetites.
- **Flexibility** – the funds are components that can be selected for use in accumulation, to provide flexible lifestyle profiles and to provide Pensions Freedom investment solutions for partial withdrawals and drawdown.
- **Value** – uses funds for lifestyling therefore minimising transaction costs.
- **Compliance** – the pricing supports charge cap compliance and the funds have been designed with flexibility and choice in mind to facilitate Pensions Freedom.

Prudential Portfolio Management Group Ltd (PPMG) – market update

In this section PPMG give their thoughts on current market conditions and how this shapes their views to the portfolio asset allocations. This commentary reflects the general views of PPMG and should not be taken as recommendation or advice as how any specific market is likely to perform.

Economic view

An escalating trade war between the US and China was very much at the forefront of investors' minds during the third quarter of 2018. Despite the prospects of import duties being applied to a significant volume of products both from China into the US and vice versa, so far at least, economic growth in both countries remains resilient. On the other hand, the Eurozone disappointed and the economy within the single currency area expanded at a slower rate than in the first quarter of 2018. During the quarter, monetary policy was tightened in the US and UK (interest rates were raised by a quarter point in both countries). In contrast, central banks in Japan and the Eurozone remain committed to maintaining loose monetary policies for the time being.

Overall, most stockmarkets recorded strong gains over the quarter, with the US and Japan standing out. Corporate profitability remains resilient in both countries and quarterly results were well received by investors. However, performance in Europe was mixed. For example, the share prices of some car manufacturers fell on fears that an escalating trade war could impact the export of automobiles, while banking shares fell on worries over their exposure to the Turkish economy.

The economic picture is still broadly positive and we continue to believe that there are long-term opportunities available for the careful investor.

Average sector performance over the last quarter

	Percentage change over 3 months from the end of June 2018 to end of September 2018
ABI Flexible Investment	1.2
ABI Global Equities	3.2
ABI Mixed Investment 0%-35% Shares	-0.2
ABI Mixed Investment 20%-60% Shares	0.0
ABI Mixed Investment 40%-85% Shares	0.9
ABI Money Market	0.0
ABI Sterling Corporate Bond	-0.3
ABI UK All Companies	-0.9
ABI UK Direct Property	1.1
ABI UK Gilts	-1.7
ABI UK Smaller Companies	-0.7

Source: FE Analytics. ABI Pension sector averages. Past performance is not a reliable indicator of future performance.

Equities

It was a disappointing quarter for UK company shares, with the stockmarket one of the worst performers globally. The US stockmarket enjoyed a stellar quarter, with both the S&P 500 Index, which contains many of the country's largest companies, and the technology heavy NASDAQ composite reaching all-time highs.

The performance of European stockmarkets was disappointing in the third quarter of 2018, with company shares facing several headwinds. Japanese shares made solid gains, performing particularly well in September.

Stockmarkets in Asia Pacific ex Japan declined over the quarter as the fears of a global trade war hit investor risk appetite. Emerging market stocks were under pressure as a crisis in Turkey, fears of a global trade war and a rising US dollar dampened investor sentiment.

Our view remains that equities can offer opportunities over the long-term and where appropriate to the overall portfolio.

Fixed Interest

UK gilts declined over the third quarter of 2018 as higher-than-expected inflation readings and some robust economic data helped push 10-year yields above 1.6% for the first time since February 2018. The Bank of England raised interest rates from 0.5% to 0.75%. UK corporate bonds held up relatively well with Index-linked gilts outperformed conventional gilts.

Higher interest rates and strengthening inflation weighed on the performance of global bond markets during the quarter. The Federal Reserve raised interest rates to counter upward trends in inflation. Consequently, the bellwether 10-year US Treasury yield rose and closed above 3.0%. Other key factors also dampened sentiment in bond markets. In Europe, these included assessing the implications of an anti-establishment party holding a strong presence in Italy's newly formed coalition government.

Over the long term, we continue to favour corporate bonds over government bonds.

Overview

All 5 of the PPDG Funds continued to experience positive performance in Q3, meaning portfolios moved further into positive territory on a YTD basis. In Q3 global growth continued to be positive, and again was led by the USA, rather than the widespread picture that was in evidence last year. Global trade tensions between China and the USA continued as a theme with each side exchanging new tariffs during the period. China introduced several easing measures however, and its currency depreciated by around 10% during the quarter. A new focus for markets was the release of a relatively high deficit target, of 2.4%, by the Italian government which arguably has put it on a collision course with the EU further down the line. In the portfolios, the largest driver of returns in the quarter were equity holdings with all regions except the UK and Asia contributing to the positive performance.

With the continued strong growth backdrop in the USA, combined with strong corporate earnings releases, US equities performed well, and Treasury yields continued their upward path, rising above 3% once again in September while the Fed also increased short term rates by 25bps during the quarter. Closer to home, 10-year Gilt Yields also rose, as the Bank of England increased base rates by a further increment to 0.75%, while inflation and other macro data came in stronger. Meanwhile, monetary policy remained unchanged in Europe and Japan. With the backdrop of rising rates, fixed income holdings in aggregate were a small detractor for portfolio performance during the period.

While we maintain a positive stance on the global macro outlook, we are monitoring data releases carefully for change, as well as for signs that recent easing measures in China are bearing fruit. At the same time, we continue to monitor China / USA trade relations as well as the evolving situation in Italy (which, to date, has only materially affected Italian Asset prices). Given our broadly unchanged outlook, portfolio positioning was largely unaltered during the quarter.

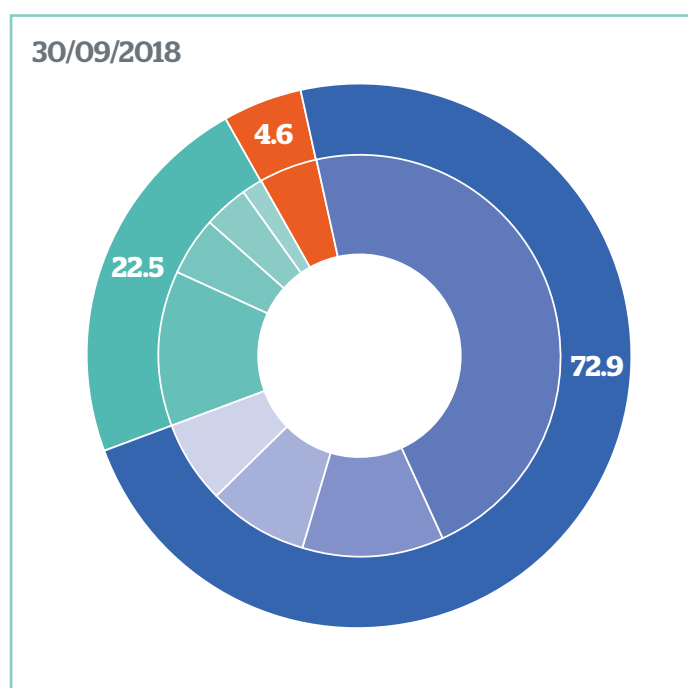


Prudential Dynamic Growth I

Fund Aims

The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest a maximum of 30% of its assets in equities. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.

Asset Allocation (%)



72.9	Fixed Interest
46.8	M&G PP All Stocks Corporate Bond
11.4	M&G PP Total Return Credit
8.2	M&G PP Long Dated Corporate Bond
6.5	M&G PP Global High Yield Bond
22.5	Equities
12.6	BlackRock Aquila Connect UK Equity
4.8	BlackRock Aquila Connect Pacific Rim Equity
3.5	BlackRock Aquila Connect European Equity
1.7	BlackRock Aquila HP Japanese Equity
4.6	Cash & Deposits

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

Performance Information

	30/09/17 to 30/09/18	30/09/16 to 30/09/17	30/09/15 to 30/09/16	30/09/14 to 30/09/15	30/09/13 to 30/09/14
PDG I Pension S3	2.4	5.4	17.8	N/A	N/A
Custom Benchmark PDG I	2.0	1.9	11.2	N/A	N/A

	Quarter 3 2018	3 Years to 30/09/18	5 Years to 30/09/18	10 Years to 30/09/18
PDG I Pension S3	0.6	8.3	N/A	N/A
Custom Benchmark PDG I	0.5	5.0	N/A	N/A

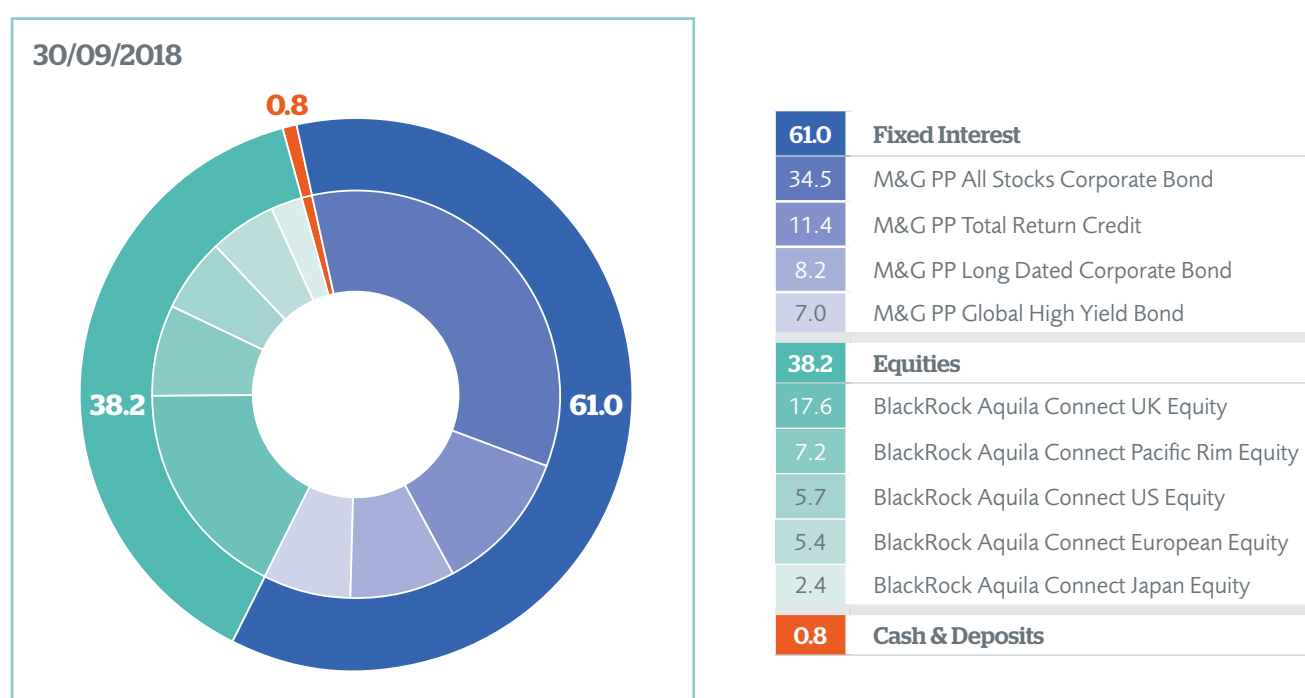
Source: FE Analytics. Based on percentage change in unit price on total return basis with gross income reinvested. The Prudential performance figures do not include charges. We can't predict the future. Past performance isn't a guide to future performance. The value of your investment can go down as well as up so you might get back less than you put in.

Prudential Dynamic Growth II

Fund Aims

The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 10% of its assets in equities but not more than 40%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.

Asset Allocation (%)



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

Performance Information

	30/09/17 to 30/09/18	30/09/16 to 30/09/17	30/09/15 to 30/09/16	30/09/14 to 30/09/15	30/09/13 to 30/09/14
PDG II Pension S3	3.0	7.7	19.9	N/A	N/A
Custom Benchmark PDG II	3.2	1.9	11.2	N/A	N/A

	Quarter 3 2018	3 Years to 30/09/18	5 Years to 30/09/18	10 Years to 30/09/18
PDG II Pension S3	0.8	10.0	N/A	N/A
Custom Benchmark PDG II	0.9	5.4	N/A	N/A

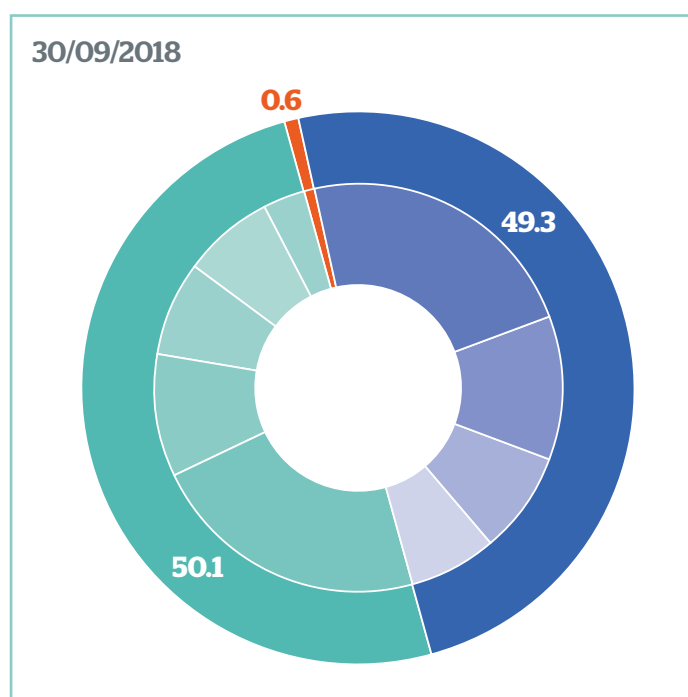
Source: FE Analytics. Based on percentage change in unit price on total return basis with gross income reinvested. The Prudential performance figures do not include charges. We can't predict the future. Past performance isn't a guide to future performance. The value of your investment can go down as well as up so you might get back less than you put in.

Prudential Dynamic Growth III

Fund Aims

The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 20% of its assets in equities but not more than 55%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.

Asset Allocation (%)



49.3	Fixed Interest
22.8	M&G PP All Stocks Corporate Bond
11.4	M&G PP Total Return Credit
8.2	M&G PP Long Dated Corporate Bond
6.9	M&G PP Global High Yield Bond
50.1	Equities
22.1	BlackRock Aquila Connect UK Equity
9.8	BlackRock Aquila Connect Pacific Rim Equity
7.6	BlackRock Aquila Connect US Equity
7.3	BlackRock Aquila Connect European Equity
3.3	BlackRock Aquila Connect Japan Equity
0.6	Cash & Deposits

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

Performance Information

	30/09/17 to 30/09/18	30/09/16 to 30/09/17	30/09/15 to 30/09/16	30/09/14 to 30/09/15	30/09/13 to 30/09/14
PDG III Pension S3	3.7	8.3	21.4	N/A	N/A
Custom Benchmark PDG III	3.6	5.1	12.5	N/A	N/A
	Quarter 3 2018	3 Years to 30/09/18	5 Years to 30/09/18	10 Years to 30/09/18	
PDG III Pension S3	1.2	10.9	N/A	N/A	
Custom Benchmark PDG III	1.2	7.0	N/A	N/A	

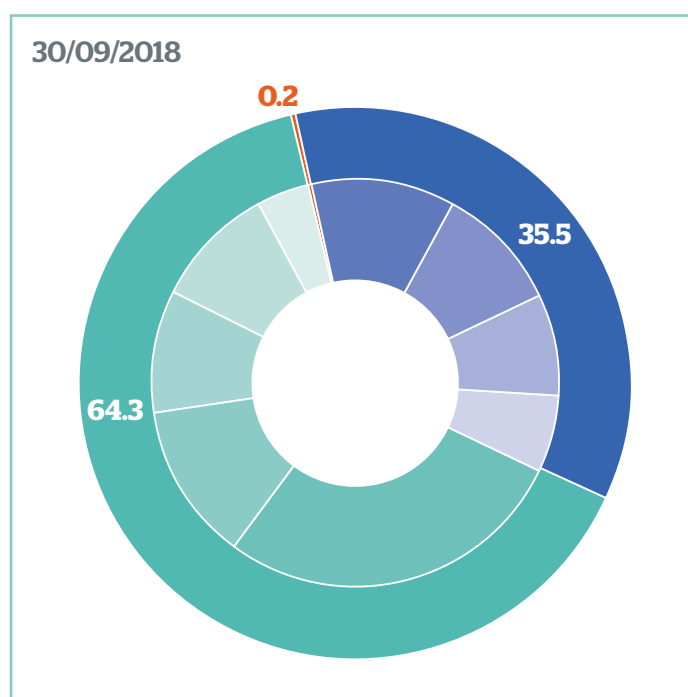
Source: FE Analytics. Based on percentage change in unit price on total return basis with gross income reinvested. The Prudential performance figures do not include charges. We can't predict the future. Past performance isn't a guide to future performance. The value of your investment can go down as well as up so you might get back less than you put in.

Prudential Dynamic Growth IV

Fund Aims

The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 40% of its assets in equities but not more than 80%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.

Asset Allocation (%)



35.5	Fixed Interest
11.6	M&G PP Total Return Credit
10.0	M&G PP All Stocks Corporate Bond
8.1	M&G PP Long Dated Corporate Bond
5.9	M&G PP Global High Yield Bond
64.3	Equities
28.2	BlackRock Aquila Connect UK Equity
12.5	BlackRock Aquila Connect Pacific Rim Equity
9.8	BlackRock Aquila Connect US Equity
9.5	BlackRock Aquila Connect European Equity
4.2	BlackRock Aquila Connect Japan Equity
0.2	Cash & Deposits

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

Performance Information

	30/09/17 to 30/09/18	30/09/16 to 30/09/17	30/09/15 to 30/09/16	30/09/14 to 30/09/15	30/09/13 to 30/09/14
PDG IV Pension S3	4.8	10.9	24.3	N/A	N/A
Custom Benchmark PDG IV	5.1	7.9	17.3	N/A	N/A
	Quarter 3 2018	3 Years to 30/09/18	5 Years to 30/09/18	10 Years to 30/09/18	
PDG IV Pension S3	1.5	13.0	N/A	N/A	
Custom Benchmark PDG IV	1.6	10.0	N/A	N/A	

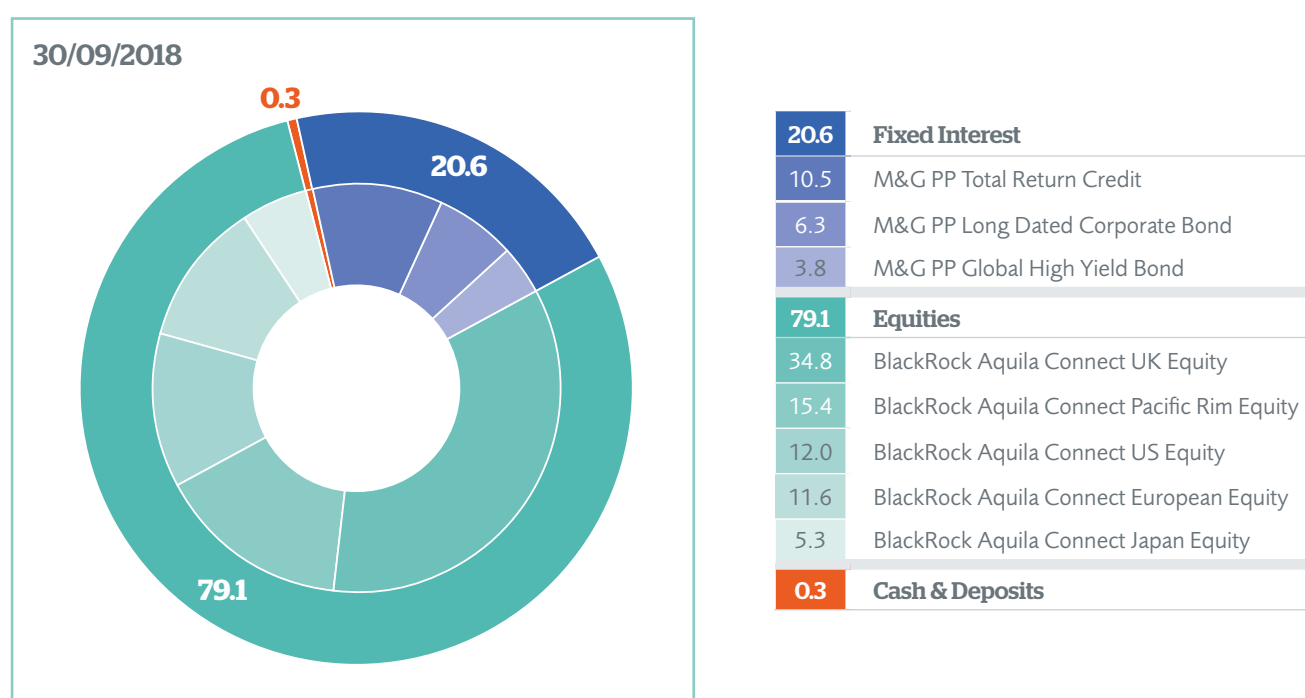
Source: FE Analytics. Based on percentage change in unit price on total return basis with gross income reinvested. The Prudential performance figures do not include charges. We can't predict the future. Past performance isn't a guide to future performance. The value of your investment can go down as well as up so you might get back less than you put in.

Prudential Dynamic Growth V

Fund Aims

The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest at least 60% of its assets in equities but may invest up to 100%. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.

Asset Allocation (%)



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

Performance Information

	30/09/17 to 30/09/18	30/09/16 to 30/09/17	30/09/15 to 30/09/16	30/09/14 to 30/09/15	30/09/13 to 30/09/14
PDG V Pension S3	5.4	12.4	25.7	N/A	N/A
Custom Benchmark PDG V	6.8	9.5	18.6	N/A	N/A

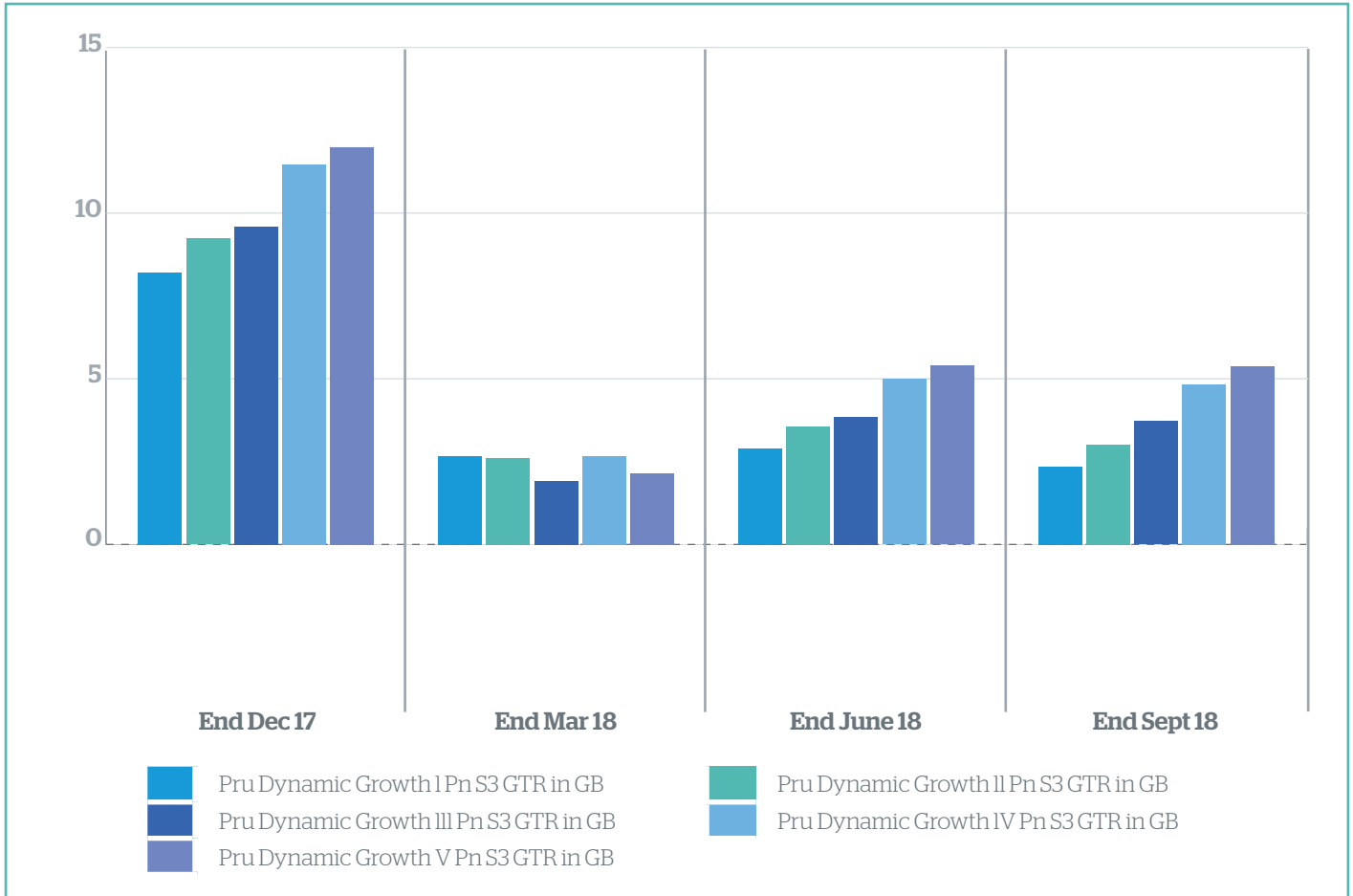
	Quarter 3 2018	3 Years to 30/09/18	5 Years to 30/09/18	10 Years to 30/09/18
PDG V Pension S3	1.6	14.2	N/A	N/A
Custom Benchmark PDG V	1.9	11.5	N/A	N/A

Source: FE Analytics. Based on percentage change in unit price on total return basis with gross income reinvested. The Prudential performance figures do not include charges. We can't predict the future. Past performance isn't a guide to future performance. The value of your investment can go down as well as up so you might get back less than you put in.

A family of five funds

Performance

One year performance on a quarterly basis.



Source: FE Analytics. Based on percentage change in unit price on total return basis with gross income reinvested. The Prudential performance figures do not include charges.

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Long-term risk and potential reward

Understanding and managing long-term investment risk is a core skill of PPMG.

For PPMG risk assessment is making an estimate of what may happen in future – however, being aware that no forecast will ever be "exactly right". As such, they don't believe that risk management should be undertaken as a purely mathematical exercise, but that it should involve the deliberation and judgements of skilled professionals.

For this reason they often describe investment risk management as "an art informed by science".

The science PPMG bring is through the use of mathematical models to better understand risk. These models require assumptions to be made, and depending on these assumptions the results of the analysis will be different. Therefore, rather than use one model to come up with a single point estimate to describe the risk characteristic, they look at multiple models to define a range within which they believe different portfolios will sit.

Some of the different models they use can be characterised by:

Basis 1. Ten Year Historic Risk

Based on actual historic risk – coupled with PPMG forward looking long-run return expectations

Basis 2. Long Run

Assumes PPMG forward looking long-run risk against forward looking long-run return expectations

Basis 3. Current Pricing

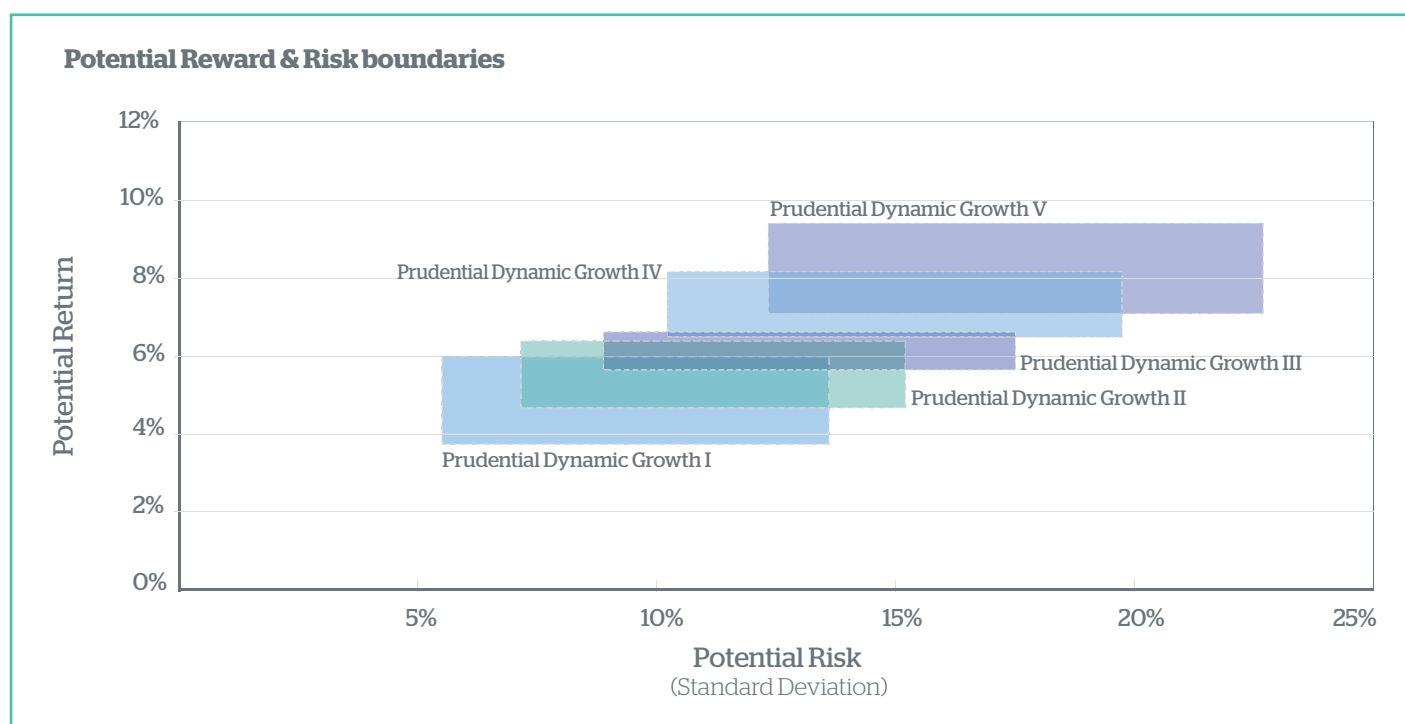
Uses PPMG forward looking long-run risk, against forward looking return – adjusted for current valuations

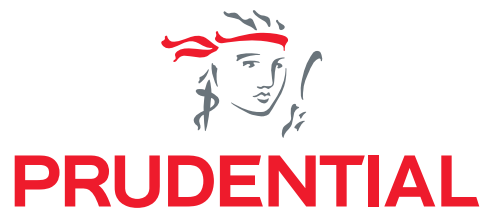
Basis 4. Stress Pricing

Forward looking risk versus forward looking return – but adjusted for a stressed "bad environment" scenario

Applying each basis to the Prudential Dynamic Growth Funds, coupled with the experience and judgement of PPMG, helps define the boundaries within which they believe each of the portfolios sit in terms of long-term potential risk and potential reward.

These boundaries are shown on the following chart – highlighting the risk graded nature of the suite of funds.





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