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Quarterly Update

# Prudential Dynamic Growth Funds

Quarter 4 2023

This is the quarterly update for the Prudential Dynamic Growth Funds. The information in this guide is correct as at 31 December 2023, 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.

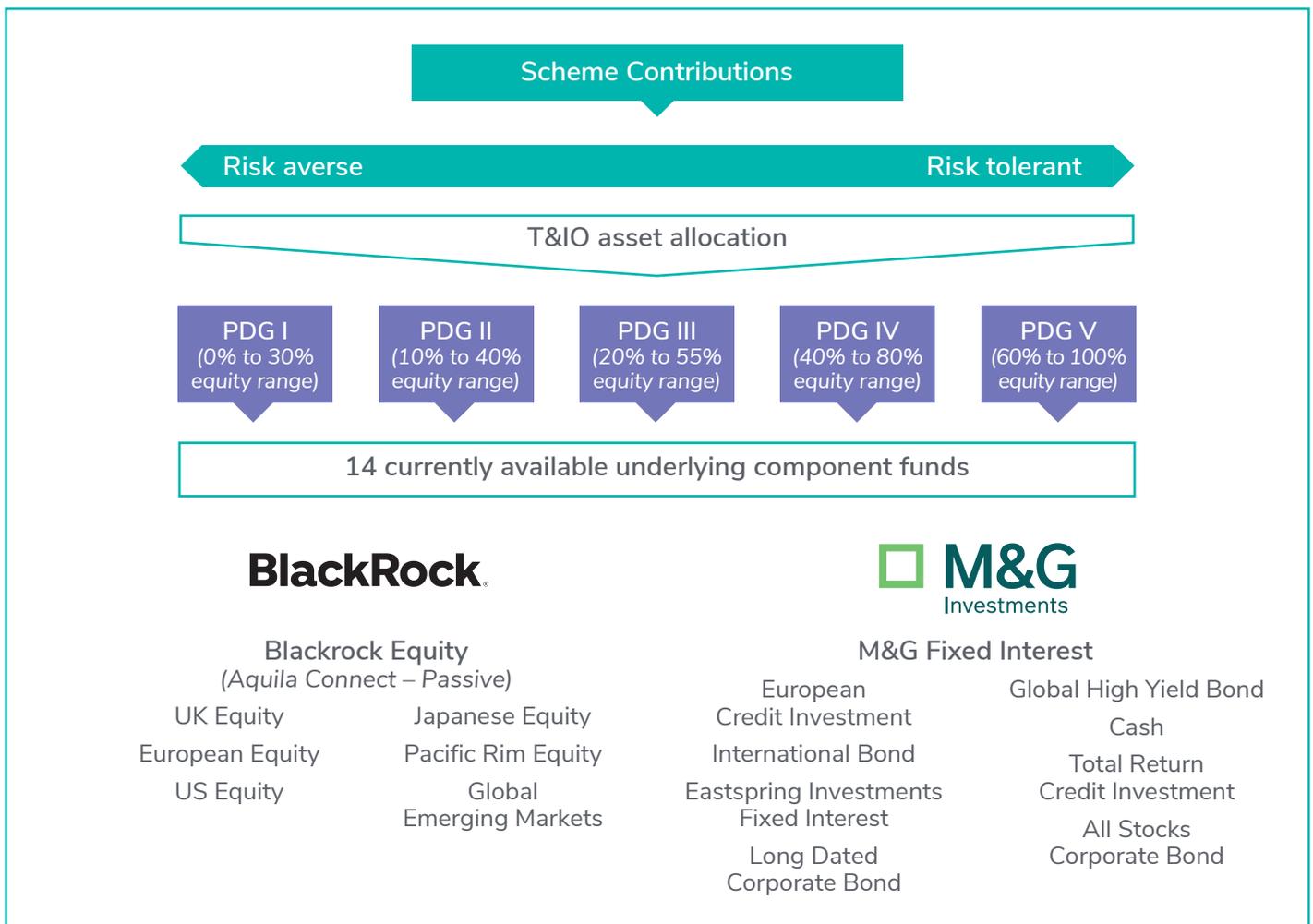
The value of any investment can go down as well as up so your customer might get back less than they put in.

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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 M&G Treasury & Investment Office (T&IO) asset allocation expertise, M&G’s active fixed interest investment capabilities and BlackRock equity trackers.
- **Expert management** – T&IO 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** – T&IO 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.

# M&G Treasury & Investment Office (T&IO) – market update

In this section T&IO 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 T&IO and should not be taken as recommendation or advice as how any specific market is likely to perform.

## Economic view

Inflation steadily declined in the fourth quarter, following a year dominated by tight monetary policy. In the UK, headline inflation slowed to a two-year low, falling to an annualised rate of 3.9% in November. In the US, the Consumer Price Index rose 3.1% on an annual basis in November. The eurozone also reported a drop in inflation, with annualised inflation reaching 2.4% in November.

Major central banks maintained a halt on rate hikes. The Federal Reserve kept rates unchanged at the current range of 5.25%-5.50%, while revealing that policymakers expected three rate cuts next year. The Bank of England held interest rates at 5.25%, while outlining a gradual decline to 4.25% by the end of 2026. The European Central Bank also preserved its key rate at 4%.

The trajectory of economies continued to diverge in the quarter. With a strong labour market supporting consumer spending, the US economy grew at its fastest pace in nearly two years between July and September. Over the same time period, however, both the eurozone and UK economies contracted by 0.1%, fuelling concerns over recession as consumer spending and manufacturing activity continue to stagnate. Meanwhile, Japan's economy shrank from the previous quarter, amid weak demand and high inflation. In emerging markets, China's economy expanded with exports growing for the first time in six months. Overall, global economic growth, despite demonstrating resilience this year, remains subdued and is expected to weaken in the year ahead, amid an environment of tight monetary policy, inflation and geopolitical tensions.

## Average sector performance over the last quarter

	Percentage change over 3 months from the end of September 2023 to end of December 2023
ABI Flexible Investment	4.5
ABI Global Equities	5.6
ABI Mixed Investment 0%-35% Shares	4.6
ABI Mixed Investment 20%-60% Shares	5.1
ABI Mixed Investment 40%-85% Shares	4.5
ABI Money Market	0.9
ABI Sterling Corporate Bond	7.5
ABI UK All Companies	4.0
ABI UK Direct Property	-1.0
ABI UK Gilts	6.9
ABI UK Smaller Companies	6.8

Source: FE Analytics. ABI Pension sector averages. We can't predict the future. Past performance isn't a guide to future performance.

## Equities

The UK stockmarket ended 2023 on a positive note. However, it was one of the weaker regions globally, trailing the US and Europe, over concerns about its subdued economy. Inflation fell to 3.9% in November and expectations that the Bank of England might cut interest rates in 2024 helped shares climb from late October. Real estate and utilities registered healthy gains. Industrials and information technology also rallied.

US equities ended the year with a powerful rally. After declines in October, share prices soared as investors become optimistic that the Federal Reserve had ended its interest rate hiking cycle. With annual inflation falling and the economy remaining resilient, the S&P 500 Index climbed towards all-time highs.

European equities rallied as hopes of interest rate cuts lifted sentiment. Europe was one of the best-performing regions globally and the gains helped European shares deliver an annual return of around 18% (in euro terms).

The Japanese stockmarket rallied strongly from late October but over the quarter, lagged other markets.

Our view remains that a broadly diversified portfolio of equities will benefit overall returns over the long-term but that much uncertainty exists in the short-term.

## Fixed Interest

UK government bonds (gilts) returned 8.1%, outperforming both US government bonds (Treasuries) and German government bonds (bunds). Gilts were supported by increased expectations of interest rate cuts by the Bank of England, as annual inflation eased to 3.9% in November; the market is pricing in six cuts for 2024.

Global bond markets avoided a third consecutive year of losses as the quarter saw a two-month rally in bond prices driven by increased expectations of interest rate cuts by major central banks in 2024. Bond yields fluctuated throughout – the US 10-year Treasury yield reached 5.0% in October, its highest level since 2007, before retreating on the back of falling inflation figures and the prospect of interest rate cuts.

UK corporate bonds also rose, returning 7.3% in the fourth quarter.

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

## Property

Declines in capital values of UK commercial property accelerated in the three months to November (the latest month for which data is available). According to property consultant CBRE, prices fell by 2.0%. Performance over the period was most challenging in the Office and Retail sectors. In the Retail sector, sizeable falls in capital values were seen across each of the sub-sectors – retail warehouses, standard shops and shopping centres. Capital values in the Industrial sector were broadly flat. Rental value growth was strongest in Industrials, although some growth was seen in Offices and Retail as well. UK government bond yields have fallen sharply (and prices risen) since the end of October, which may provide some support for commercial property values going forwards.

We continue to invest in property. The asset class offers solid income streams and a good degree of diversification.

## Overview

The PPDG range of funds had a good quarter both in absolute terms and versus the peer group. The range outperformed with robust single digit returns across most asset classes. During the quarter, we also implemented changes to the portfolio with the inclusion of new investments to the portfolio. These included Infrastructure, Private equity, European, Asian property, US and UK sovereign bond investments, which will help diversify the portfolio further.

The robust quarterly returns were in the main helped by the increasing speculation that the Federal Reserve had ended its' interest rate hiking cycle as inflation had seemingly peaked. Expectations for interest rate cuts led to both global government and corporate bonds performing well, in particular, UK gilts outperformed both US and German government bonds. However Chinese stock markets continued underperforming due to the underwhelming response by authorities to grapple with the economic slowdown, led by the property downturn. Tactically, performance detracted over the quarter slightly as our overweight to US equities wasn't enough to offset the underperformance of our underweight to fixed income and overweight to China.

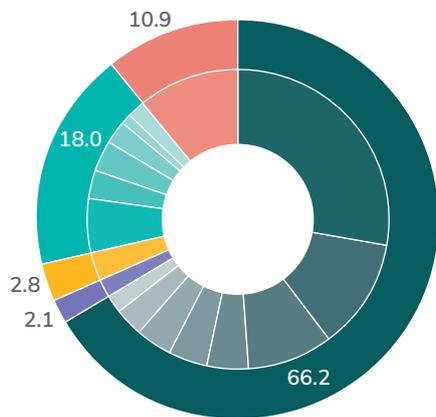
# Prudential Dynamic Growth I

## 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 (%)

As at 31/12/23



<b>66.2</b>	<b>Fixed Interest</b>
27.9	Prudential Corporate Bond All Stocks
12.1	Eastspring US Corporate Bond
9.2	Eastspring Investments Asian Bond
4.5	M&G High Yield Bond
4.2	M&G PP Long Dated Corporate Bond
3.9	M&G Total Return Credit
3.0	M&G European Credit Investment
1.5	M&G Emerging Markets Bond
<b>2.1</b>	<b>Property</b>
<b>2.8</b>	<b>Alternative assets</b>
<b>18.0</b>	<b>Equities</b>
6.0	BlackRock Aquila UK Equity
3.2	BlackRock Aquila Pacific Rim Equity
3.3	BlackRock Aquila US Equity
2.5	BlackRock Aquila European Equity
1.2	BlackRock Aquila Global Emerging Markets
1.7	BlackRock Aquila Japan Equity
<b>10.9</b>	<b>Cash &amp; Deposits</b>

Source: Prudential. Asset allocations are regularly reviewed and may vary from time to time, but will always be consistent with the fund objective. Please note that the data may not always add up to 100.0% due to rounding.

## Performance Information

	31/12/22 to 31/12/23	31/12/21 to 31/12/22	31/12/20 to 31/12/21	31/12/19 to 31/12/20	31/12/18 to 31/12/19
Pru Dynamic Growth I Pn S3	8.2	-11.3	1.0	7.9	12.8

	Quarter 4 2023	1 Year to 31/12/23 Annualised	3 Years to 31/12/23 Annualised	5 Years to 31/12/23 Annualised	10 Years to 31/12/23 Annualised
Pru Dynamic Growth I Pn S3	6.8	8.2	-1.0	3.4	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 any investment can go down as well as up so your customer might get back less than they put in.

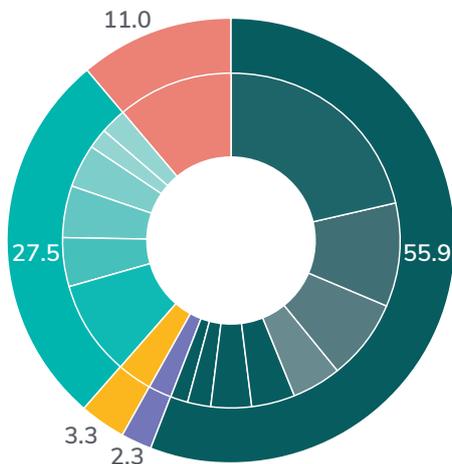
# Prudential Dynamic Growth II

## 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 (%)

As at 31/12/23



<b>55.9</b>	<b>Fixed Interest</b>
21.6	Prudential Corporate Bond All Stocks
9.9	Eastspring US Corporate Bond
7.8	Eastspring Investments Asian Bond
4.7	M&G High Yield Bond
4.1	M&G PP Long Dated Corporate Bond
3.8	M&G Total Return Credit
2.2	M&G European Credit Investment
1.7	M&G Emerging Markets Bond
<b>2.3</b>	<b>Property</b>
<b>3.3</b>	<b>Alternative assets</b>
<b>27.5</b>	<b>Equities</b>
9.2	BlackRock Aquila UK Equity
4.8	BlackRock Aquila Pacific Rim Equity
4.9	BlackRock Aquila US Equity
4.0	BlackRock Aquila European Equity
2.0	BlackRock Aquila Global Emerging Markets
2.5	BlackRock Aquila Japan Equity
<b>11.0</b>	<b>Cash &amp; Deposits</b>

Source: Prudential. Asset allocations are regularly reviewed and may vary from time to time, but will always be consistent with the fund objective. Please note that the data may not always add up to 100.0% due to rounding.

## Performance Information

	31/12/22 to 31/12/23	31/12/21 to 31/12/22	31/12/20 to 31/12/21	31/12/19 to 31/12/20	31/12/18 to 31/12/19
Pru Dynamic Growth II Pn S3	8.3	-10.0	3.2	7.4	14.1

	Quarter 4 2023	1 Year to 31/12/23 Annualised	3 Years to 31/12/23 Annualised	5 Years to 31/12/23 Annualised	10 Years to 31/12/23 Annualised
Pru Dynamic Growth II Pn S3	6.7	8.3	0.2	4.3	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 any investment can go down as well as up so your customer might get back less than they put in.

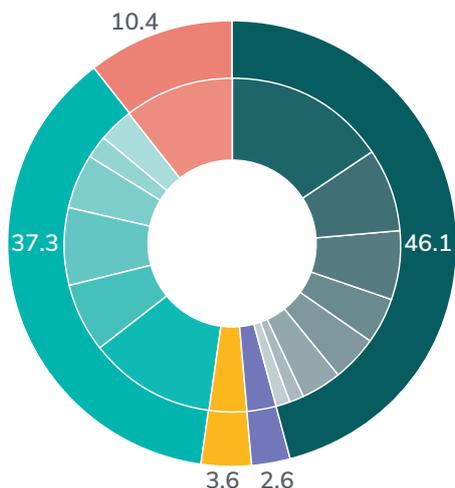
# Prudential Dynamic Growth III

## 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 (%)

As at 31/12/23



<b>46.1</b>	<b>Fixed Interest</b>
15.8	Prudential Corporate Bond All Stocks
8.0	Eastspring US Corporate Bond
6.6	Eastspring Investments Asian Bond
4.7	M&G High Yield Bond
4.2	M&G PP Long Dated Corporate Bond
3.9	M&G Total Return Credit
1.5	M&G European Credit Investment
1.7	M&G Emerging Markets Bond
<b>2.6</b>	<b>Property</b>
<b>3.6</b>	<b>Alternative assets</b>
<b>37.3</b>	<b>Equities</b>
12.3	BlackRock Aquila UK Equity
6.6	BlackRock Aquila Pacific Rim Equity
7.5	BlackRock Aquila US Equity
5.4	BlackRock Aquila European Equity
2.2	BlackRock Aquila Global Emerging Markets
3.3	BlackRock Aquila Japan Equity
<b>10.4</b>	<b>Cash &amp; Deposits</b>

Source: Prudential. Asset allocations are regularly reviewed and may vary from time to time, but will always be consistent with the fund objective. Please note that the data may not always add up to 100.0% due to rounding.

## Performance Information

	31/12/22 to 31/12/23	31/12/21 to 31/12/22	31/12/20 to 31/12/21	31/12/19 to 31/12/20	31/12/18 to 31/12/19
Pru Dynamic Growth III Pn S3	8.4	-8.8	5.0	6.9	15.1

	Quarter 4 2023	1 Year to 31/12/23 Annualised	3 Years to 31/12/23 Annualised	5 Years to 31/12/23 Annualised	10 Years to 31/12/23 Annualised
Pru Dynamic Growth III Pn S3	6.5	8.4	1.3	5.0	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 any investment can go down as well as up so your customer might get back less than they put in.

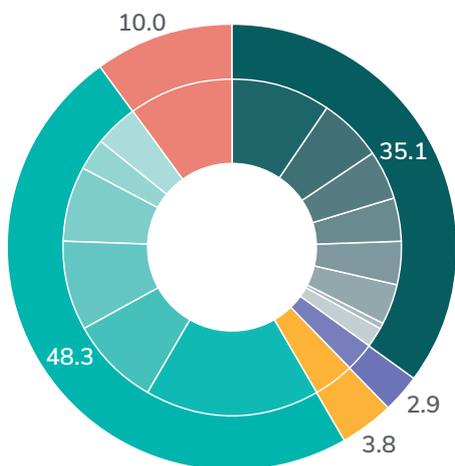
# Prudential Dynamic Growth IV

## 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 (%)

As at 31/12/23



<b>35.1</b>	<b>Fixed Interest</b>
9.7	Prudential Corporate Bond All Stocks
6.0	Eastspring US Corporate Bond
4.8	Eastspring Investments Asian Bond
4.0	M&G High Yield Bond
4.2	M&G PP Long Dated Corporate Bond
3.9	M&G Total Return Credit
0.7	M&G European Credit Investment
1.8	M&G Emerging Markets Bond
<b>2.9</b>	<b>Property</b>
<b>3.8</b>	<b>Alternative assets</b>
<b>48.3</b>	<b>Equities</b>
16.9	BlackRock Aquila UK Equity
8.5	BlackRock Aquila Pacific Rim Equity
8.6	BlackRock Aquila US Equity
7.3	BlackRock Aquila European Equity
3.0	BlackRock Aquila Global Emerging Markets
4.1	BlackRock Aquila Japan Equity
<b>10.0</b>	<b>Cash &amp; Deposits</b>

Source: Prudential. Asset allocations are regularly reviewed and may vary from time to time, but will always be consistent with the fund objective. Please note that the data may not always add up to 100.0% due to rounding.

## Performance Information

	31/12/22 to 31/12/23	31/12/21 to 31/12/22	31/12/20 to 31/12/21	31/12/19 to 31/12/20	31/12/18 to 31/12/19
Pru Dynamic Growth IV Pn S3	8.8	-7.8	7.4	5.9	16.3

	Quarter 4 2023	1 Year to 31/12/23 Annualised	3 Years to 31/12/23 Annualised	5 Years to 31/12/23 Annualised	10 Years to 31/12/23 Annualised
Pru Dynamic Growth IV Pn S3	6.4	8.8	2.5	5.8	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 any investment can go down as well as up so your customer might get back less than they put in.

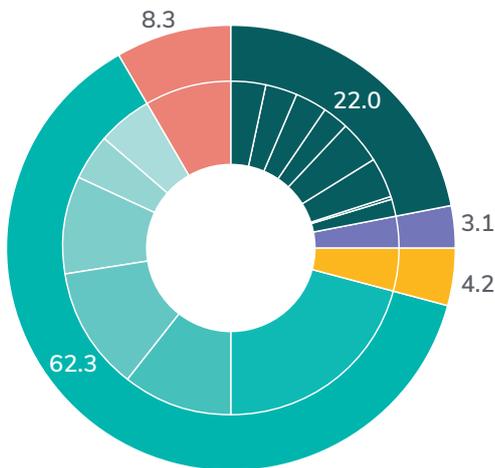
# Prudential Dynamic Growth V

## 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 (%)

As at 31/12/23



<b>22.0</b>	<b>Fixed Interest</b>
3.6	Prudential Corporate Bond All Stocks
2.9	Eastspring US Corporate Bond
3.0	Eastspring Investments Asian Bond
2.5	M&G High Yield Bond
4.2	M&G PP Long Dated Corporate Bond
3.9	M&G Total Return Credit
0.4	M&G European Credit Investment
1.5	M&G Emerging Markets Bond
<b>3.1</b>	<b>Property</b>
<b>4.2</b>	<b>Alternative assets</b>
<b>62.3</b>	<b>Equities</b>
20.7	BlackRock Aquila UK Equity
10.7	BlackRock Aquila Pacific Rim Equity
11.8	BlackRock Aquila US Equity
9.7	BlackRock Aquila European Equity
4.2	BlackRock Aquila Global Emerging Markets
5.3	BlackRock Aquila Japan Equity
<b>8.3</b>	<b>Cash &amp; Deposits</b>

Source: Prudential. Asset allocations are regularly reviewed and may vary from time to time, but will always be consistent with the fund objective. Please note that the data may not always add up to 100.0% due to rounding.

## Performance Information

	31/12/22 to 31/12/23	31/12/21 to 31/12/22	31/12/20 to 31/12/21	31/12/19 to 31/12/20	31/12/18 to 31/12/19
Pru Dynamic Growth V Pn S3	9.3	-6.6	9.6	5.3	17.9

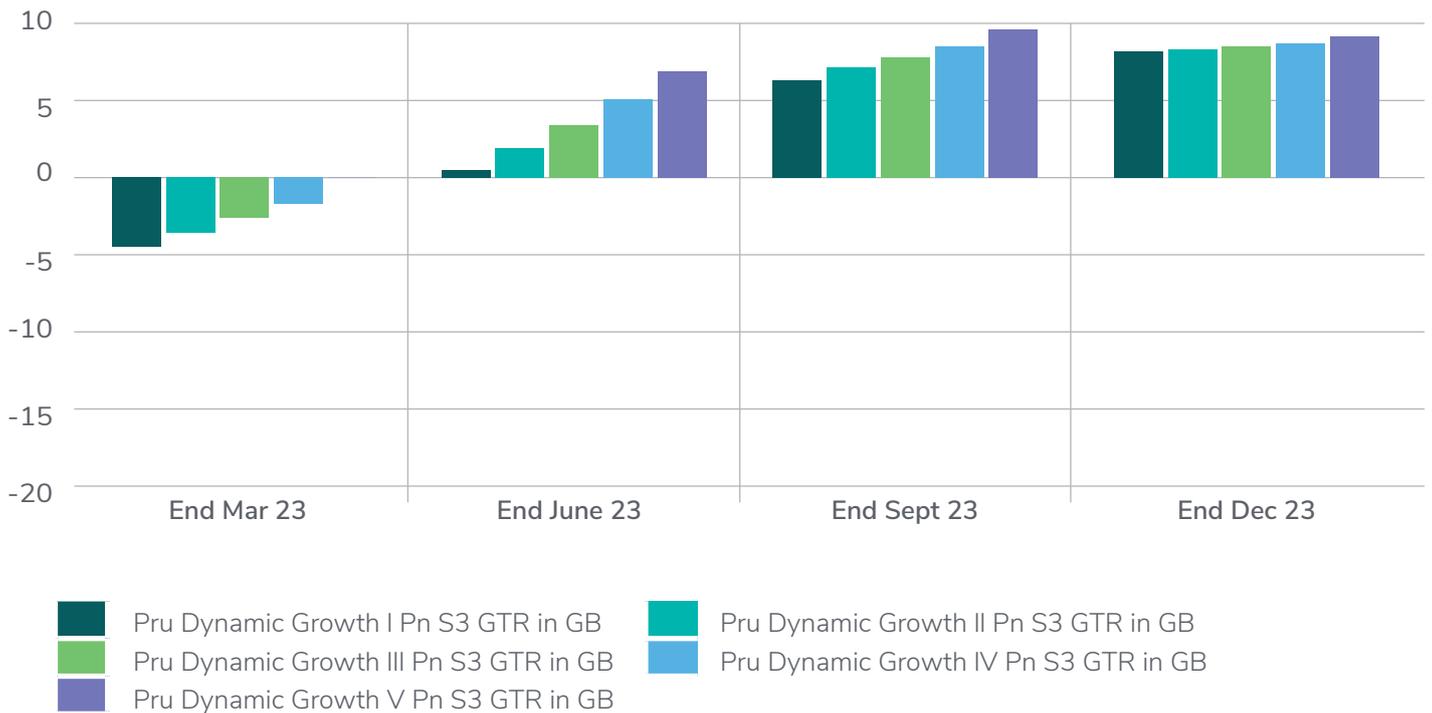
	Quarter 4 2023	1 Year to 31/12/23 Annualised	3 Years to 31/12/23 Annualised	5 Years to 31/12/23 Annualised	10 Years to 31/12/23 Annualised
Pru Dynamic Growth V Pn S3	6.4	9.3	3.8	6.8	N/A

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 any investment can go down as well as up so your customer might get back less than they put in.

# A family of five funds

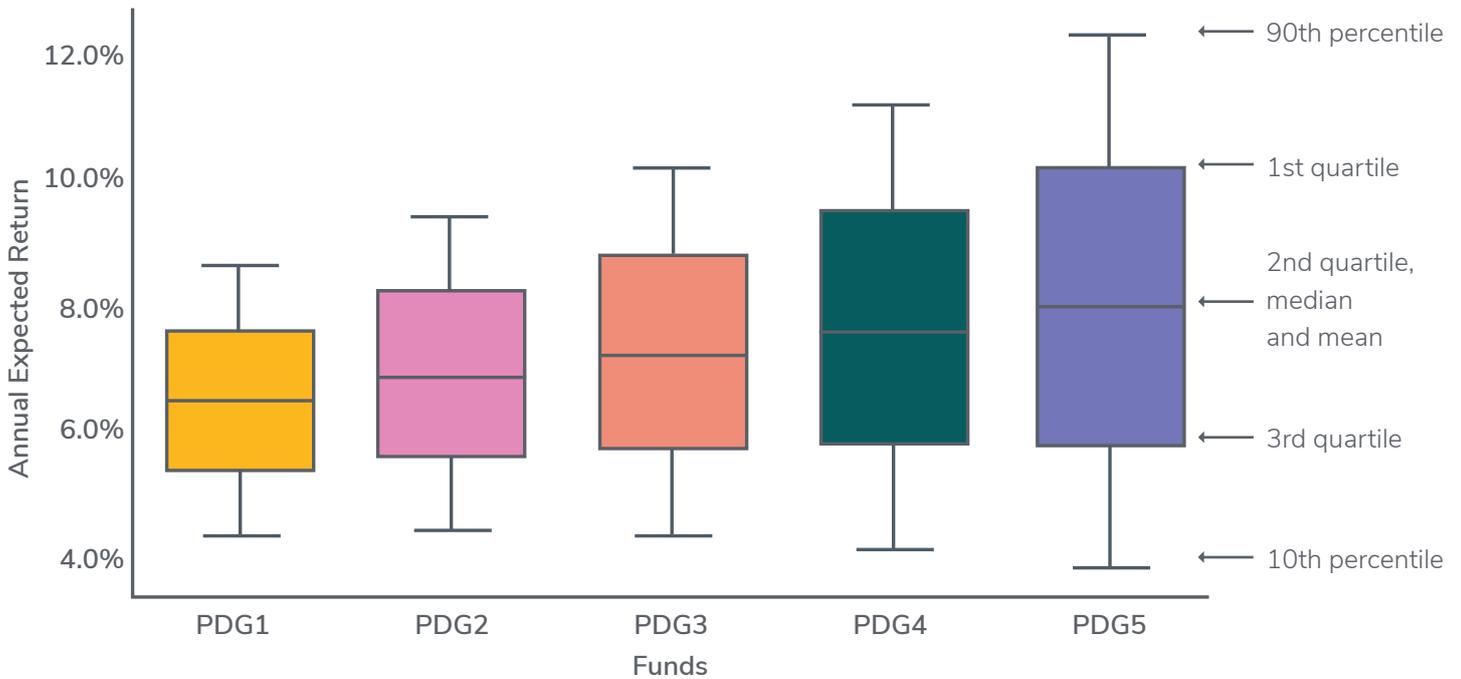
## Performance

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. We can't predict the future. Past performance isn't a guide to future performance. The value of any investment can go down as well as up so your customer might get back less than they put in.

# Potential PDG average annual returns over the long run



The expected portfolio returns in the plot above are based on a long-term capital markets assumptions framework (10 years), calibrated on the term structure of key risk factors (i.e. inflation, fixed income yields, equity risk premia). This is a well-established framework with a proven track record, used for all the funds run by T&IO based on an extensive research process of macro-economic factors, thematic trends, capital markets returns analysis and scenario modelling. This enables the derivation of robust asset returns estimates for a range of asset classes which form the basis of the risk managed portfolios catering to different customer risk profiles. The portfolios are return optimised and diversified across asset classes and geographies whilst subject to mandate specifications and constraints on risk budget, liquidity, capacities and costs.

The box-whisker plot illustrates the potential range of yearly returns outcomes for the PDG funds. The boxes show the starting points of the first three quartiles and the whiskers indicate the bottom 10 and top 90 percentiles, respectively.

The plot should be interpreted as an estimator of potential returns with the box and whisker lines indicating the probability thresholds of exceeding the corresponding returns level. For example, the third quartile line, (ie. the bottom of each box) indicates that 75% of the time, annual returns will be above it for each of the funds whilst 25% of the time, returns will be above the first quartile line. Similarly, with the 10th percentile line, 90% of the time, returns will be above it.

The plot shows how both the mean returns (and median / 2nd quartile line) and volatility increase with fund riskiness. This is in line with expectations as the higher allocation to equities and real assets improves the chances of higher returns whilst also increasing the variability of outcomes at the same time. It should also be noted that the upside potential (top two quartiles) is growing faster than the downside risk as we move from the lower to the higher risk funds.

Source: M&G treasury & Investment Office (Long Term Investment Strategy Team). Jan 2024. The value of an investment can go down as well as up and clients may not get back the original amount invested.

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