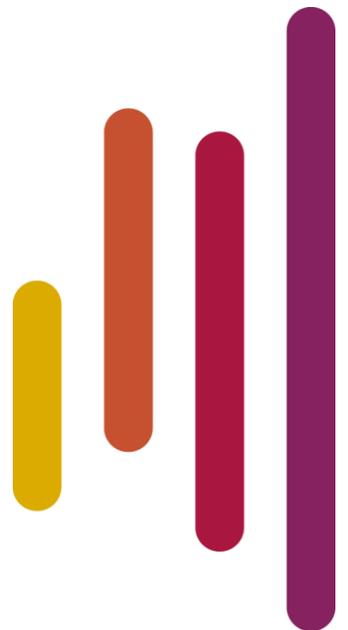




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# Prudential Quarterly Risk Profile Update Note

## Q3 2021



## Summary

Fund	Weighted average asset allocation <sup>^</sup>	Latest historical asset allocation <sup>*</sup>	Comparable DP volatility <sup>†</sup>	Assigned risk profile	Status
Risk Managed Active 1	- (4)	- (4)	- (3)	3	
Risk Managed Active 2	- (4)	- (4)	- (4)	4	
Risk Managed Active 3	- (5)	- (5)	- (4)	5	
Risk Managed Active 4	- (6)	- (6)	- (5)	5	
Risk Managed Active 5	- (6)	- (6)	- (6)	6	
PruFund Risk Managed 1	- (4)	- (4)	-	4	
PruFund Risk Managed 2	- (4)	- (5)	-	4	
PruFund Risk Managed 3	- (5)	- (5)	-	5	
PruFund Risk Managed 4	- (6)	- (6)	-	5	
PruFund Risk Managed 5	- (6)	- (7)	-	6	

( ) Analysis based on data to the end of March 2021 are shown in brackets.

<sup>^</sup> The weighted average approach incorporates the strategic asset allocation (if applicable) and the distribution of the historical asset allocations.

<sup>\*</sup> This column provides the position of the expected volatility based on the latest historical asset allocation (i.e. 30 June 2021). The figure in brackets illustrates the position of the volatility based on the previous quarter's allocation.

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

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

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

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

We have based our review on the approach that was agreed at the start of the risk profiling service and used the DT capital market assumptions for Q3 2021. There have been no changes to the risk profile boundaries this quarter.

## Comments and notes from previous reviews

### Q2 2021

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

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

( ) Analysis based on data to the end of March 2021 are shown in brackets.

<sup>^</sup> The weighted average approach incorporates the strategic asset allocation (if applicable) and the distribution of the historical asset allocations.

\* This column provides the position of the expected volatility based on the latest historical asset allocation (i.e. 30 June 2021). The figure in brackets illustrates the position of the volatility based on the previous quarter's allocation.

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

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

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

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

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

### Q1 2021

This quarter we have placed Active 4 on amber and maintained the statuses of the remaining solutions.

We note increases in the expected volatility of the profiled solutions this quarter. This was driven by an increase in equity exposure at the expense of fixed income and cash. There are also instances of decreases in both property and REITs as well as increases in absolute returns within the PruFunds. This change has pushed Active 4 beyond the upper threshold of risk profile 5 and as such the solution has been placed on amber. Passive 4 has increased to marginally below the border of risk profile 5 and 6 and is on the cusp of breaching this threshold. PruFund Cautious has also increased into an exceedingly dangerous position, in the highest decile of risk profile 4.

### Q4 2020

This quarter we have moved the profiles of PruFund Risk Managed 1 and 3, along with Risk Managed Active 3, Passive 1 and Passive 3 into the above profiles. We have also placed PruFund 5 and Active 1 amber; the remaining solutions have had their statuses maintained.

We have observed a further increase in the expected volatility of the Risk Managed Active and Passive solutions this quarter. Fixed Income exposure in general was reduced with both investment grade and high yield corporate bonds experienced generous reductions, emerging market debt was increased at their expense. Equity exposure was increased, with the majority of this increase focussed in the UK. This increase has pushed Active 1 further and safely into risk profile 4 and it has now been placed on amber.

Both PruFund Cautious and Growth exhibited a clear increase in emerging market debt as well which primarily came at the expense of cash. Both solutions have had their status maintained but Cautious is on the cusp of the upper threshold of risk profile 4. PruFunds 1-5 also increased the emerging market debt, although it was at the expense of investment grade corporate bonds. In addition to this, they reduced their equity and absolute return exposure in favour of cash. As a result, these funds had a small increase in expected volatility, however PruFund 5 has been placed on amber this quarter as it still remained positioned within risk profile 7, although only marginally.

### Q3 2020

This quarter we have placed PruFund Risk Managed 1 and 3, along with Risk Managed Active 3, Passive 1 and Passive 3 on red. We have also placed PruFund Growth and PruFund Risk Managed 2 and 4 on amber; the remaining solutions have had their statuses maintained. PruFund 5 has been included in the quarterly reporting for the first time and has been placed on green.

We note an increase in the expected volatility of the Risk Managed Active and Passive solutions this quarter. This change was driven by an increase in investment from cash; REITs, equities and both investment grade and high yield bonds were increased this quarter. From these solutions, those that were previously on amber have increased back above their assigned boundaries and have been placed on red, whereas Risk Managed Active 1 also increased above its assigned boundaries but has been maintained on green at this time.

We also observed increases in expected volatility in all of the PruFund solutions, driven by a considerable shift from investment grade fixed income into equity. PruFund Cautious was the only solution that remained below its assigned boundaries, although it was positioned in the highest quintile profile 4 as of June. PruFund 5 has

remained on green this quarter as this its first quarter being reviewed; the remaining solutions have had the statuses escalated.

## Q2 2020

We have placed PruFund Risk Managed 4 back on green and maintained the statuses of the remaining profiled solutions.

The expected volatility of the solutions has gone largely unchanged this quarter. Some funds did exhibit a reduction in expected volatility due to decreases in equity, this exposure was shifted into alternatives and fixed income. This change brought Risk Managed Active 3, Passive 1 and Passive 3 from slightly above/below the border a bit safer within their assigned boundaries; with this move we have decided to maintain the amber statuses this quarter, the changes are minor and currently short term.

Having observed small changes to the allocations of PruFund Risk Managed 4 over the past few quarters, we are currently comfortable with its recent positions and have placed the fund back on green.

## Q1 2020

This quarter we have maintained the statuses of PruFund Risk Managed range. Last quarter the Risk Managed Active and Passive ranges were placed on amber for insufficient data. Risk Managed Active 3, Passive 1 and Passive 3 have been maintained on amber this quarter, while the remaining funds have been placed back on green.

We have observed during this analysis that Risk Managed Active 3, Passive 1 and Passive 3 are positioned very close/above the upper boundary of their respective risk profile. This is due to the increases in equity allocations we have observed this quarter. This is not a position we are comfortable with in the long term and we have maintained the solutions on amber at this time.

## Q4 2019

This quarter we have completed analysis using underlying holdings for the first time. We require underlying holdings for all three months of each quarter for both the Risk Managed Active and Passive ranges, we have only received this data for September this quarter and as such these solutions have been placed on amber this quarter. In addition to this we have also placed Risk Managed 1,3 and 4 on amber; the allocations this quarter have breached the upper limit of their assigned boundaries.

We note that in the September data provision the allocations of Risk Managed Passive 1 and 3 as well as Active 3 have fallen back in line with their assigned risk profile with the provision of underlying holdings.

Whereas the expected volatility of Risk Managed 1-5, Cautious and Growth have increased considerably. Risk Managed 1, 3 and 5 have even increased above the upper threshold of their respective risk profiles and as such, have been placed on amber, as described above. There are higher allocations into equity, emerging market bonds and sovereign bonds at the expense of investment grade bonds.

## Q3 2019

This quarter we have placed the Risk Managed Passive 1 and 3 on amber status. The allocations of each of these solutions continue to be safely outside the assigned boundaries.

We note that the allocations of the Risk Managed Active 3 have been marginally above the assigned boundaries. At this time we have kept the solution on green status.

We have maintained the rest of the solutions on green status.

Our analysis suggests that the assigned profiles remain appropriate.

# Appendix

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## Status descriptions

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

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

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

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