

Prudential Defensive Portfolio

A sub-fund of Prudential Investment Funds (1)

Interim short report for the six months ended 30 April 2013

Authorised Corporate Director's report

Investment objective of the Prudential Defensive Portfolio

The Fund aims to achieve long-term total return (the combination of income and growth of capital) by investing mainly in collective investment schemes. No more than 30% of the Fund will be invested in schemes whose predominant exposure is to equities.

Policy for achieving the objective of the Prudential Defensive Portfolio

The Fund is an actively managed portfolio investing mainly in collective investment schemes in order to provide a well diversified exposure to global fixed income and variable rate assets, cash, near cash, equities and / or immovable property. Typically the Fund will have a high exposure to lower risk assets such as fixed income assets, cash and near cash. Scheme selection is made on the basis of in depth initial and ongoing qualitative assessment of the fund managers and quantitative analysis of the collective investment schemes.

The Fund may also invest directly in other assets including transferable securities, other collective investment schemes, cash and near cash, deposits, warrants and money market instruments. Derivative instruments may be held directly for the purposes of efficient portfolio management only.

Risk and reward profile*



- › The above risk number is based on the rate at which the value of the Fund has moved up and down in the past.
- › This risk number is based on simulated historical data and may not be a reliable indicator of the future risk profile of the Fund.
- › The risk number shown is not guaranteed and may change over time.
- › The lowest risk number does not mean risk free.

The Fund has the above risk number because of the effect of the following risks:

- The value of stockmarket investments, and the income from them, will fluctuate. This will cause the Fund price to fall as well as rise and you may not get back the original amount you invested.
- Any investment in international companies means that currency exchange rate fluctuations will have an impact on the Fund.
- **Derivatives** - The Fund may use derivatives for the purposes of meeting the Fund's objective, and protecting the capital value from risk. We anticipate that the use of derivatives will not materially alter the risk profile of the Fund or increase price fluctuations.
- Some derivative transactions may be entered into directly with an eligible person or institution (a 'counterparty'). There is a risk that the counterparty may not meet its obligations or becomes insolvent which could cause the Fund to incur a loss.
- **Fixed income securities** - Changes in the interest rate will affect the value and the interest earned from the fixed income securities held by the Fund. When interest rates rise, the capital value of the Fund is likely to fall and vice versa.
- The value of the Fund will fall if the issuer of a fixed income security held is unable to pay income payments or repay its debt (known as a default). A default, expected default, or downgrading will make a fixed income security harder to sell as its value and income are likely to fall. Fixed income securities that pay a higher level of income usually have a lower credit rating because of the increased risk of default. The higher the rating the less likely it is that the issuer will default, but ratings are subject to change.
- **Property** - Property investments can be harder to buy and sell when compared to investments in fixed income securities and shares.
- There is a risk that a property held in the Fund's portfolio could default on its rental payments.
- Property valuations are provided by an independent valuer and are therefore subjective.
- There is a risk that one or more countries will exit the Euro and re-establish their own currencies. In light of this uncertainty or in the event that this does occur, there is an increased risk of asset prices fluctuating or losing value. It may also be difficult to buy and sell securities and issuers may be unable to repay the debt. In addition, there is a risk that disruption in Eurozone markets could give rise to difficulties in valuing the assets of the Fund. In the event that it is not possible to carry out an accurate valuation of the Fund, dealing may be temporarily suspended.

* Please note that this 'Risk and reward profile' section is based on Sterling Class 'A' shares, the nominated share class.

Investment activities over the report period

During the six month review period ended 30 April 2013, the Prudential Defensive Portfolio's total return (capital performance with net income reinvested) was 5.9%*. This compares with the average total return of 6.2%* in the fund's peer group, the IMA Mixed Investment 0-35% Shares Sector. Past performance is no guide to potential returns in the future.

Investor sentiment continued to be affected by political developments, a series of policy moves and mixed economic data releases around the world. Concern over the eurozone's ongoing debt problems, especially in Greece and more recently Cyprus, also remained a significant factor over the period under review. Taken as a whole, however, investors' appetite for risk was fairly strong over the six months, albeit with periods of risk aversion.

The fund has a significant emphasis on risk management and for this reason the fund manager ensures that the portfolio contains a broad range of different asset classes. He is mindful that investment risks exist and, in his opinion, diversification is the best way of minimising the effects of unexpected disappointments in any one area. In the fund manager's view, the fund has delivered favourable returns, while adhering to an appropriate level of risk, as set out in the fund's mandate.

Contributors to the fund's performance came from the portfolio of equities, or company shares, held indirectly through collective investment schemes. Within the UK and European portions of the portfolio, good returns were delivered by the AXA Framlington UK Select Opportunities Fund and the Henderson European Selected Opportunities Fund. Contributors from Asia and emerging markets came from the Fidelity South East Asia Fund, the First State Asia Pacific Leaders Fund and the Aberdeen Emerging Markets Fund.

The fund manager continues to believe that equities are underpinned by solid valuations, despite the strong rally they have experienced in recent months. Although he feels they are likely to deliver positive returns over the longer term, in his opinion, they are vulnerable to short-term weakness. Nevertheless, he left the equity portion of the portfolio largely unchanged in order to avoid over-concentration in other asset classes within the fund. The fund manager is maintaining an overall equity target of 21%, with around 8% each in UK and European equities, a targeted allocation of 3% in Asia and 2% in emerging markets.

The portfolio also has exposure to fixed income assets, predominantly corporate bonds, which are interest-bearing loans issued by companies. The fund manager left the composition of the fixed income portion of the portfolio broadly the same, with an overall target level of 55%, although he did make some adjustments within the separate categories.

The fund manager has a target allocation of 45% in investment grade corporate bonds, which refer to the higher rated end of the market. Here, he sold the holding in the Investec Strategic Bond Fund and started a new position in the Royal London Corporate Bond Fund. Other assets in this section of the portfolio include the Invesco Perpetual Corporate Bond Fund, the Kames Investment Grade Bond Fund and the Fidelity MoneyBuilder Income Fund, which all generated modestly positive returns.

Meanwhile, the high yield corporate bond section involves interest-bearing loans issued by lower quality companies, which typically pay a greater level of income than their higher quality counterparts. The fund manager is targeting a 10% presence in this area. He reduced the presence in the Baillie Gifford High Yield Bond Fund, while adding to the holding in the M&G High Yield Corporate Bond Fund. This section of the portfolio also holds the Kames High Yield Bond Fund and all three high yield funds added modest value over the period under review.

The portfolio has a target of 14% for short-dated credit and the fund manager increased the position in the M&G Short Dated Corporate Bond Fund, which typically invests in low-risk debt instruments such as variable rate securities and corporate bonds with a short time until their maturity date.

For the present, the fund manager is comfortable not holding government bonds, or interest-bearing loans issued by governments, as he feels they offer insufficient rates of return.

Meanwhile, activity in commercial property was muted over the six months under review. The fund's presence in this asset class, with a target level of 9%, is achieved through the Aviva Property Fund and the M&G Property Portfolio.

Despite increasingly positive economic data from the US, significant challenges continue to trouble the global economy, with growth either slowing or lacklustre in many developed countries. Furthermore, the pressing need to recapitalise banks and financial systems remains an issue in a number of key economies. Some progress appears to have been made in the eurozone, with measures taken by the European Central Bank to support the single currency and rules for supervising the region's banks, although plenty of difficulties still have to be overcome. Moreover, after a period of

broadly stable consumer prices, commentators are increasingly raising the topic of higher inflation over the medium term, in view of the extended period of money printing from the central banks.

Given these uncertainties, the fund manager believes that investors will be particularly mindful of risk management and markets may well be unpredictable in the short term. Nevertheless, he believes that many asset classes continue to represent favourable value and longer term prospects for performance are more encouraging.

* Source: Morningstar, Inc. Basis: Bid to bid, capital performance with net income reinvested between 31 October 2012 and 30 April 2013.

Please note that the views expressed in this report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a financial adviser.

Fund summary

Sterling Class 'C' shares are not generally available to all investors.

Distribution dates and fund facts

Distribution type	xd	payment
Final	01.11.13	31.12.13
	Ongoing Charges Figure ^[a]	
	30.04.13	31.10.12
Sterling	%	%
Class 'A'	2.17	2.25
Class 'C'	0.95	1.04
Class 'R'	1.65	1.84 ^[b]

[a] The Ongoing Charges Figure is the ratio of the relevant annualised total disclosable costs of each share class from the most recent reporting period to the average net asset value for that share class over the same period.

[b] The comparative Ongoing Charges Figure is an estimate of the charges, as the share class has not been in existence for a full financial year.

The Prudential Defensive Portfolio distributes annually, therefore there is no interim distribution.

Fund performance

Performance of share classes

	Net asset value per share as at 30.04.13		Net asset value per share as at 31.10.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	118.01	121.99	111.50	115.27	+5.84	+5.83
Class 'C'	118.74	n/a	111.66	n/a	+6.34	n/a
Class 'R'	n/a	108.70	n/a	102.50	n/a	+6.05

Fund summary

Prices					
Calendar year		Income shares Highest	Income shares Lowest	Accumulation shares Highest	Accumulation shares Lowest
Sterling Class 'A'	2010 ^[a]	p 107.57	p 98.97	p 107.57	p 98.97
	2011	109.39	102.28	109.90	103.21
	2012	114.18	104.98	117.78	106.82
	2013 ^[b]	118.99	113.98	123.01	117.81
Class 'C'	2010 ^[a]	108.44	99.04	n/a	n/a
	2011	110.11	102.39	n/a	n/a
	2012	115.31	105.20	n/a	n/a
	2013 ^[b]	119.74	114.34	n/a	n/a
Class 'R'	2012 ^[c]	n/a	n/a	104.83	100.00
	2013 ^[b]	n/a	n/a	109.61	104.86

^[a] From 22 January 2010 (the launch date of the sub-fund).

^[b] To 1 May 2013.

^[c] From 3 August 2012 (the launch date of the share class).

Past performance is not a guide to future performance.

The price of shares and the income from them can go down as well as up, and you may get back less than you invested.

Fund summary

Income

Interest income per share

	Calendar year	Distributed	Reinvested
Sterling (net)		p	p
Class 'A'	2010	0.4920	0.4920
	2011	1.3476	1.3532
	2012	1.7796	1.7500
	2013 ^[a]	-	-
Class 'C'	2010	1.3232	n/a
	2011	2.4020	n/a
	2012	2.7972	n/a
	2013 ^[a]	-	n/a
Class 'R'	2012	n/a	0.2108
	2013 ^[a]	n/a	-

^[a] The Prudential Defensive Portfolio distributes annually, therefore there is no interim distribution.

Fund summary

Major holdings

The top ten holdings at the end of this period and the previous year end are shown below. ^[a]

	% of sub-fund as at 30.04.13		% of sub-fund as at 31.10.12
M&G Short Dated Corporate Bond Fund (formerly M&G High Interest Fund) Sterling Class 'A' (Income)	13.58	M&G High Interest Fund Sterling Class 'A' (Income)	14.06
Invesco Perpetual Corporate Bond Fund	9.10	M&G Strategic Corporate Bond Fund Sterling Class 'A'	9.15
M&G Strategic Corporate Bond Fund Sterling Class 'A'	9.08	Kames Investment Grade Bond Fund Sterling Class 'A'	9.14
Fidelity MoneyBuilder Income Fund Sterling Class 'A'	9.06	Fidelity MoneyBuilder Income Fund Sterling Class 'A'	9.05
Royal London Corporate Bond Fund Sterling Class 'Z' (Income)	8.98	Investec Strategic Bond Fund Sterling Class 'A'	8.97
Kames Investment Grade Bond Fund Sterling Class 'A'	8.63	Invesco Perpetual Corporate Bond Fund	8.76
Henderson European Selected Opportunities Fund Sterling Class 'A'	7.90	Henderson European Selected Opportunities Fund Sterling Class 'A'	8.36
M&G Property Portfolio Sterling Class 'I' (Income)	4.53	Aviva Investors Property Trust Sterling Class 'I'	4.68
Aviva Investors Property Trust Sterling Class 'I'	4.27	M&G Property Portfolio Sterling Class 'S' (Income)	4.27
M&G High Yield Corporate Bond Fund Sterling Class 'X'	4.00	Kames High Yield Bond Fund Sterling Class 'A'	4.07

^[a] All holdings are in Accumulation shares / units unless otherwise stated.

Classification of investments

The table below shows the percentage holding per sector.

	% of sub-fund as at 30.04.13	% of sub-fund as at 31.10.12
Equity portfolios		
Continental Europe	7.90	8.36
United Kingdom	7.59	7.86
Far East	3.00	2.96
Emerging markets	1.89	2.00
Property portfolios	8.80	8.95
Bond portfolios	68.42	68.88

Short reports

This Short Report is issued in accordance with the requirements of the Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Conduct Authority. This Short Report does not contain the Financial Statements of the Prudential Defensive Portfolio, and it is unaudited.

Report and accounts

A copy of the Authorised Corporate Director's (ACD) Interim Report (which incorporates the unaudited financial statements) for the Prudential Defensive Portfolio are available free of charge on request from the ACD. Copies of the ACD's Annual Report (which incorporates the audited financial statements) for the Prudential Investment Fund (1) are also available free of charge on request from the ACD. Alternatively please visit our website at www.pru.co.uk/managersreports or by calling Customer Relations on 0845 783 5500. All literature provided will be in English.

Other information

The information in this report is designed to enable shareholders to make an informed judgement on the activities of the fund during the period it covers and the results of those activities at the end of the period. For more information about the activities and performance of the fund during this and the previous period, please contact the Authorised Corporate Director.

Authorised Corporate Director (ACD)

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General information

If you would like further details about any aspects of your investment please contact Customer Relations, PO Box 10866, Chelmsford, Essex CM99 2BX. Please remember to quote your name, customer number and sign any written communication to Prudential. Failure to provide this may affect your ability to transact with us. Alternatively, you can telephone us on 0845 783 5500. For security purposes and to improve the quality of our service, we may record and monitor telephone calls. You will require your customer number. Failure to provide this will affect your ability to transact with us.

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