

# Prudential Managed Defensive Fund

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 Managed Defensive Fund

The Fund's objective is to deliver long term total return (the combination of income and growth of capital) with a bias towards income.

## Policy for achieving the objective of the Prudential Managed Defensive Fund

The Fund aims to achieve its objective through asset allocation unconstrained by any benchmark. The Fund may invest globally either directly or via other collective investment schemes in assets including transferable securities, debt instruments, money market instruments, cash, near cash, deposits, derivatives, and indirectly in property. Derivative instruments may be used for both investment purposes and efficient portfolio management. The Fund will invest no more than 35% of the portfolio in equities.

## 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 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 Managed Defensive Fund's total return (capital performance with net income reinvested) was 6.1%\*. 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, included holdings in the iShares MSCI Emerging Markets Index Fund and the Prudential Pacific Markets Trust. The M&G Pan European Fund and the Prudential UK Growth QIS Fund also generated modestly positive returns over the period under review.

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, he thinks they are vulnerable to short-term weakness. Consequently, he adjusted the presence in equities with the aim of managing volatility in the fund. This entailed cutting back holdings in the European equity portion of the fund by reducing the holding in the M&G Pan European Fund. At the same time, he increased the holdings in the Prudential UK Growth QIS Fund and the Prudential Pacific Markets Trust.

The fund manager is currently aiming for an equity position of just over 20%, targeting around 8% each in the UK and Europe, 3% in Asia and 2% in emerging markets. In addition, he is targeting a 1% position in core private equity through the HGC Capital Trust and Conversus Capital.

The portfolio also has exposure to corporate bonds, which are interest-bearing loans issued by companies. These assets generated a reasonably good return over the six-month period. The fund manager increased the positions in the M&G Corporate Bond Fund, the M&G Short Dated Corporate Bond Fund and the M&G High Yield Corporate Bond Fund. He is targeting a 53% presence in

corporate bonds, aiming for 43% in investment grade corporate bonds, which sit at the higher rated end of the market, and 10% in high yield. These refer to interest-bearing loans issued by lower quality companies, which typically pay a greater level of income than their higher quality counterparts.

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 approximately 9%, is achieved through the M&G Property Portfolio. The fund manager invested in this position in order to maintain its target weighting.

In other transactions, the fund manager started a new position in the Blue Capital Global Reinsurance Fund, which provides investors with access to the global catastrophe reinsurance market. He also reduced the presence in hedge funds via Alternative Investment Strategies.

Although most assets generated favourable returns over the six months, the portfolio's investment in private equity via Conversus Capital was weak, which held back the fund's performance.

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 balance government finances 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 <sup>[a]</sup> |                     |
|-----------|---------------------------------------|---------------------|
|           | 30.04.13                              | 31.10.12            |
| Sterling  | %                                     | %                   |
| Class 'A' | 1.66                                  | 1.64                |
| Class 'C' | 0.31                                  | 0.29                |
| Class 'R' | 1.16                                  | 1.18 <sup>[b]</sup> |

[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 Managed Defensive Fund 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' | 123.55                                   | 139.94 | 115.98                                   | 131.36 | +6.53                    | +6.53 |
| Class 'C' | 124.30                                   | n/a    | 116.06                                   | n/a    | +7.10                    | n/a   |
| Class 'R' | n/a                                      | 109.40 | n/a                                      | 102.51 | n/a                      | +6.72 |

# Fund summary

## Prices

|                       | Calendar year       | Income shares |        | Accumulation shares |        |
|-----------------------|---------------------|---------------|--------|---------------------|--------|
|                       |                     | Highest       | Lowest | Highest             | Lowest |
| Sterling<br>Class 'A' |                     | p             | p      | p                   | p      |
|                       | 2008                | 101.92        | 90.11  | 103.50              | 92.43  |
|                       | 2009                | 109.05        | 91.20  | 113.88              | 94.92  |
|                       | 2010                | 113.61        | 106.14 | 121.57              | 113.51 |
|                       | 2011                | 114.87        | 107.13 | 125.16              | 117.77 |
|                       | 2012                | 119.15        | 110.13 | 134.72              | 122.68 |
| Class 'C'             | 2013 <sup>[a]</sup> | 124.71        | 118.83 | 141.24              | 134.58 |
|                       | 2008                | 102.15        | 90.03  | n/a                 | n/a    |
|                       | 2009                | 110.13        | 91.46  | n/a                 | n/a    |
|                       | 2010                | 114.91        | 106.38 | n/a                 | n/a    |
|                       | 2011                | 115.79        | 107.27 | n/a                 | n/a    |
|                       | 2012                | 120.49        | 110.41 | n/a                 | n/a    |
| Class 'R'             | 2013 <sup>[a]</sup> | 125.28        | 119.13 | n/a                 | n/a    |
|                       | 2012 <sup>[b]</sup> | n/a           | n/a    | 105.23              | 100.00 |
|                       | 2013 <sup>[a]</sup> | n/a           | n/a    | 110.37              | 105.10 |

<sup>[a]</sup> Up to 1 May 2013.

<sup>[b]</sup> 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 |                     | Distributed | Reinvested |
|---------------------------|---------------------|-------------|------------|
|                           | Calendar year       |             |            |
| Sterling (net)            |                     | p           | p          |
| Class 'A'                 | 2008                | 2.2424      | 2.2772     |
|                           | 2009                | 2.8796      | 2.9973     |
|                           | 2010                | 2.1208      | 2.2681     |
|                           | 2011                | 2.2980      | 2.4860     |
|                           | 2012                | 2.0948      | 2.3376     |
|                           | 2013 <sup>[a]</sup> | -           | -          |
| Class 'C'                 | 2008                | 3.3752      | n/a        |
|                           | 2009                | 3.9780      | n/a        |
|                           | 2010                | 3.3232      | n/a        |
|                           | 2011                | 3.4952      | n/a        |
|                           | 2012                | 3.3576      | n/a        |
|                           | 2013 <sup>[a]</sup> | -           | n/a        |
| Class 'R'                 | 2012                | n/a         | 0.5440     |
|                           | 2013 <sup>[a]</sup> | n/a         | -          |

<sup>[a]</sup> The Prudential Managed Defensive Fund distributes annually, therefore there is no interim distribution.

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# Fund summary

## Major holdings

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

|   | % of sub-fund as at<br>30.04.13 |  | % of sub-fund as at<br>31.10.12 |
|---|---------------------------------|--|---------------------------------|
| M&G Corporate Bond Fund Sterling Class 'I' (Income)   | 22.31                           | M&G European Corporate Bond Fund Sterling Class 'A'          | 23.55                           |
| M&G European Corporate Bond Fund Sterling Class 'A'   | 22.20                           | M&G Corporate Bond Fund Sterling Class 'I' (Income)          | 23.05                           |
| M&G Short Dated Corporate Bond Fund (formerly M&G High Interest Fund) Sterling Class 'A' (Income) | 10.58                           | M&G High Interest Fund Sterling Class 'A' (Income)           | 10.82                           |
| M&G Property Portfolio Sterling Class 'I' (Income)  | 8.78                            | M&G Pan European Fund Sterling Class 'A' (Income)            | 8.91                            |
| Prudential UK Growth QIS Sterling Class 'C'   | 8.08                            | M&G Property Portfolio Sterling Class 'S' (Income)           | 8.57                            |
| M&G Pan European Fund Sterling Class 'A' (Income)   | 7.92                            | Prudential UK Growth QIS Sterling Class 'C' (Income)         | 8.10                            |
| M&G High Yield Corporate Bond Fund Sterling Class 'X'   | 7.48                            | M&G High Yield Corporate Bond Fund Sterling Class 'X'        | 7.69                            |
| Prudential Pacific Markets Trust Sterling Class 'C' (Income)                                      | 3.20                            | Prudential Pacific Markets Trust Sterling Class 'C' (Income) | 2.87                            |
| M&G European Loan Fund Sterling Class 'A' (Income)  | 2.65                            | M&G European Loan Fund Sterling Class 'A' (Income)           | 2.34                            |
| International Public Partnerships   | 1.54                            | International Public Partnerships                            | 1.74                            |

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

# Fund summary

## Classification of investments

The table below shows the percentage holding per sector.

|                               | % of sub-fund as at |                         |
|-------------------------------|---------------------|-------------------------|
|                               | 30.04.13            | 31.10.12 <sup>[a]</sup> |
| Equity portfolios             |                     |                         |
| Continental Europe            | 7.92                | 8.91                    |
| United Kingdom                | 8.08                | 8.10                    |
| Far East                      | 3.20                | 2.87                    |
| Emerging markets              | 1.38                | 1.52                    |
| Equity investment instruments | 3.18                | 3.43                    |
| Property portfolios           | 8.78                | 8.57                    |
| Bond portfolios               | 65.22               | 67.45                   |

<sup>[a]</sup> The comparable sector weightings have been re-analysed to reflect changes to the sector classifications.

## **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 Managed Defensive Fund, 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 Managed Defensive Fund 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](http://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)**

Prudential Unit Trusts Limited, Laurence Pountney Hill,  
London EC4R 0HH Telephone: 0845 783 5500  
(Authorised and regulated by the Financial Conduct Authority)

## **Investment manager**

M&G Investment Management Limited,  
Laurence Pountney Hill, London EC4R 0HH  
(Authorised and regulated by the Financial Conduct Authority)

## **Registrar**

International Financial Data Services (UK) Limited,  
IFDS House, St. Nicholas Lane, Basildon, Essex SS15 5FS  
(Authorised and regulated by the Financial Conduct Authority)

## **Depository**

National Westminster Bank Plc, Trustee & Depository Services,  
Younger Building, First floor, 3 Redheughs Avenue, Edinburgh EH12 9RH  
(Authorised and regulated by the Financial Conduct Authority)

## **Independent auditors**

PricewaterhouseCoopers LLP,  
7 More London Riverside, London SE1 2RT

## **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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