

LF Prudential Investment Funds (1)

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 OCTOBER 2020



LF Prudential Risk Managed Active 1

LF Prudential Risk Managed Active 2

LF Prudential Risk Managed Active 3

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LF Prudential Risk Managed Passive Fund 1

LF Prudential Risk Managed Passive Fund 2

LF Prudential Risk Managed Passive Fund 3

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LF Prudential Risk Managed Passive Fund 5

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A.J. Stenning
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ACD'S REPORT

for the year ended 31 October 2020

Authorised Status

LF Prudential Investment Funds (1) ('the Company') is an investment company with variable capital incorporated in England and Wales under registered number IC000508 and authorised by the Financial Conduct Authority with effect from 8 February 2007. The Company has an unlimited duration.

The Company is a Non-UCITS Retail Scheme and the base currency of the Company and each sub-fund is pounds sterling.

Shareholders are not liable for the debts of the Company. Shareholders are not liable to make any further payment to the Company after they have paid the price on purchase of the shares.

The AIFM is the legal person appointed on behalf of the Company and which (through this appointment) is responsible for managing the Company in accordance with the AIFM Directive and The Alternative Investment Fund Managers Regulations 2013. This role is performed by the ACD and references to the ACD in this Annual Report and Financial Statements include the AIFM as applicable.

ACD's Statement

COVID-19

The outbreak of COVID-19, declared by the World Health Organisation as a pandemic on 11 March 2020, caused significant disruption to business and economic activity which was reflected in the fluctuations seen in the global stock markets. In the period since its initial emergence and the global recognition of the seriousness of the pandemic, there were sharp declines in asset prices. As various national governments sought to provide financial support and stimulus to their economies and after the initial success of the global responses to constrain the spread of COVID-19, there followed a period of recovery. However, the fear of a second wave of COVID-19 meant this recovery was fragile and the now increasing global emergence of the second wave of COVID-19 and its ramifications on the global economy are being reassessed with the consequence that the initial recovery is now in retreat. This, when combined with the initial reaction seen in the markets, will further compound the most dramatic global recession seen in living memory. How this will translate into future asset pricing is dependent on the ability of governments, society and business to operate in the post COVID-19 world until such time that an effective global immunisation programme is implemented. Until such time all indicators are that the period of instability will exist well into 2021.

Important Information

With effect from 1 June 2020, amendments were made to the wording of the investment objective and policy for all of the Company's sub-funds, this change was communicated to shareholders in a letter dated 29 April 2020.

With effect from 1 June 2020, we will now be able to compulsorily convert a shareholder's shares from one share class to another, this change was communicated to shareholders in a letter dated 29 April 2020.

ACD'S REPORT *continued*

Cross Holdings

No sub-funds had holdings in any other sub-fund of the Company at the end of the year.

Remuneration Policy

Link Fund Solutions Limited ('LFSL') is committed to ensuring that its remuneration policies and practices are consistent with, and promote, sound and effective risk management. LFSL's remuneration policy is designed to ensure that excessive risk taking is not encouraged by or within LFSL including in respect of the risk profile of the Alternative Investment Funds ('AIFs') it operates, to manage the potential for conflicts of interest in relation to remuneration (having regard, inter alia, to its formal conflicts of interest policy) and to enable LFSL to achieve and maintain a sound capital base.

None of LFSL's staff receives remuneration based on the performance of any individual fund.

LFSL acts as the operator of both UCITS funds and AIFs.

LFSL delegates portfolio management for the AIFs to various investment management firms. The portfolio managers' fees and expense for providing investment management services are paid by the ACD out of its own remuneration under the ACD agreement. The investment management firms may make information on remuneration publicly available in accordance with the disclosure requirements of Pillar 3 of the Capital Requirements Directive. This disclosure is in respect of LFSL activities (including activities performed by its sister company Link Fund Administrators Limited (LFAL) or by employees of that entity), and excludes activities undertaken by third party investment management firms. LFSL staff do not perform duties in respect of particular AIFs, nor are they remunerated by reference to the performance of any individual AIF. Accordingly, the information below is for LFSL as a whole. No attempt has been made to attribute remuneration to the Company itself.

Information on LFSL's remuneration arrangements is collated annually, as part of its statutory accounts preparation processes. Accordingly, the information disclosed relates to the year ended 30 June 2020, being the most recent accounting period which accounts have been prepared for LFSL prior to the production of these accounts. As at 30 June 2020, LFSL operated 107 UCITS and 93 AIFs, whose respective assets under management ('AuM') were £41,011 million and £37,140 million. The Company was valued at £1,959 million as at that date and represented 2.51% of LFSL's total AuM and 5.27% of its AIF AuM.

ACD'S REPORT *continued*

Remuneration Policy *continued*

The disclosure below represents that required under FUND 3.3.5 R (5) and (6) for funds subject to AIFMD obligations.

2020	Number of beneficiaries	Fixed £'000	Variable £'000	Total £'000
Total amount of remuneration paid by LFSL for the financial year to 30 June 2020	165	6,573	635	7,208
Total amount of remuneration paid to members of staff whose activities have a material impact on the risk profile of the funds for the financial year to 30 June 2020				
Senior management (including all Board members)	6	609	215	824
Staff engaged in control functions	4	371	30	401
Risk takers and other identified staff	15	1,327	164	1,491
Any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers	–	–	–	–

LFSL's remuneration arrangement includes fixed salaries, contributory pension arrangements and certain other benefits, and the potential for discretionary bonuses. The amount available for payment of discretionary bonuses is dependent on satisfactory performance by LFSL, and the Link Group as a whole, rather than the performance of any individual fund. Bonuses may then be paid to staff to reflect their contribution to LFSL's success. The precise metrics used will vary by function, but consideration is given to both qualitative and quantitative measures.

Further details can be found at:

www.linkfundsolutions.co.uk/assets/media/LFS_Explanation_of_Compliance_with_Remuneration_Code.pdf.

Securities Financing Transactions

The Company has the ability to utilise Securities Financing Transactions (being transactions such as lending or borrowing of securities, repurchase or reverse repurchase transactions, buy-sell back or sell-buy back transactions, or margin lending transactions). No such transactions have been undertaken in the period covered by this report.

ACD'S REPORT *continued*

Value Assessment

In accordance with current Financial Conduct Authority rules, the ACD is required to carry out an annual assessment on whether the Company provides value to investors. The outcome of this assessment is published on the ACD's website.

LINK FUND SOLUTIONS LIMITED

ACD of LF Prudential Investment Funds (1)
26 February 2021

DIRECTOR'S STATEMENT

This report has been prepared in accordance with the requirements of the Collective Investment Schemes Sourcebook and the Investment Funds Sourcebook, as applicable, as issued and amended by the Financial Conduct Authority together with the relevant provisions of the Alternative Investment Fund Manager's Directive and modified by a direction given by the Financial Conduct Authority where the ACD has opted to provide a NURS KII Document, a Key Investor Information Document for Non-UCITS Retail Schemes.

N. BOYLING

LINK FUND SOLUTIONS LIMITED

ACD of LF Prudential Investment Funds (1)

26 February 2021

STATEMENT OF ACD'S RESPONSIBILITIES

The Collective Investment Schemes Sourcebook published by the Financial Conduct Authority ('the COLL Sourcebook') and the Investment Funds Sourcebook (the 'FUND Sourcebook'), as applicable, requires the ACD to prepare financial statements for each annual accounting year which give a true and fair view of the financial position of the Company, comprising each of its sub-funds and of the net revenue/expense and net capital gains/losses on the property of the Company's sub-funds for the year.

In preparing the financial statements the ACD is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- following UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*;
- complying with the disclosure requirements of the Statement of Recommended Practice for UK Authorised Funds issued by the Investment Association in May 2014;
- keeping proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements;
- assessing the Company and its sub-funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to liquidate the Company or its sub-funds or to cease operations, or have no realistic alternative but to do so;
- such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- taking reasonable steps for the prevention and detection of fraud and irregularities.

The ACD is responsible for the management of the Company in accordance with its Instrument of Incorporation, the Prospectus, the COLL and FUND Sourcebook.

STATEMENT OF DEPOSITARY'S RESPONSIBILITIES

The Depositary must ensure that the Company is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook and, from 22 July 2014, the Investment Funds Sourcebook, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228), as amended, the Financial Services and Markets Act 2000, as amended, (together 'the Regulations'), the Company's Instrument of Incorporation and Prospectus (together 'the Scheme documents') as summarised below.

The Depositary must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Company and its investors.

The Depositary is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Company in accordance with the Regulations.

The Depositary must ensure that:

- the Company's cash flows are properly monitored and that cash of the Company is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, redemption and cancellation of shares are carried out in accordance with the Regulations;
- the value of shares of the Company are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Company's assets is remitted to the Company within the usual time limits;
- the Company's income is applied in accordance with the Regulations; and
- the instructions of the Alternative Investment Fund Manager ('the AIFM'), are carried out (unless they conflict with the Regulations).

The Depositary also has a duty to take reasonable care to ensure that the Company is managed in accordance with the Scheme documents and Regulations in relation to the investment and borrowing powers applicable to the Company.

REPORT OF THE DEPOSITARY

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the AIFM:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with the Regulations and the Scheme documents of the Company; and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

NATWEST TRUSTEE AND DEPOSITARY SERVICES LIMITED

Depositary of LF Prudential Investment Funds (1)

26 February 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LF PRUDENTIAL INVESTMENT FUND (1)

Opinion

We have audited the financial statements of LF Prudential Investment Funds (1) ('the Company') for the year ended 31 October 2020 which comprise the Statement of Total Return and Statement of Change in Net Assets Attributable to Shareholders together with the Balance Sheet for each of the Company's sub-funds, the accounting policies of the Company, the related notes for each sub-fund and the Distribution Tables, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Company comprising each of its sub-funds as at 31 October 2020 and of the net revenue and the net capital gains/losses on the scheme property of the Company comprising each of its sub-funds for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions Relating to Going Concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the ACD's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the ACD has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LF PRUDENTIAL INVESTMENT FUND (1) *continued*

Other Information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The ACD is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on Other Matters Prescribed by the Rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority

In our opinion:

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority and the Instrument of Incorporation;
- the information given in the ACD's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with those records.

Matters on Which We Are Required to Report by Exception

We have nothing to report in respect of the following matter in relation to which the Collective Investment Schemes Sourcebook of the Financial Conduct Authority rules requires us to report to you if, in our opinion:

- we have not received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LF PRUDENTIAL INVESTMENT FUND (1) *continued*

Responsibilities of Authorised Corporate Director (ACD)

As explained more fully in the ACD's Responsibilities Statement set out on page 17, the ACD is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the ACD determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the ACD is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the ACD either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Use of Our Report

This report is made solely to the Company's members, as a body, pursuant to Paragraph 4.5.12 of the rules of the Collective Investment Schemes Sourcebook of the Financial Conduct Authority. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

ERNST & YOUNG LLP

Statutory Auditor

Edinburgh

26 February 2021

ACCOUNTING AND DISTRIBUTION POLICIES

for the year ended 31 October 2020

1. Accounting Policies

The principal accounting policies, which have been applied to the financial statements of the sub-funds in both the current and prior year, are set out below. These have been applied consistently across all sub-funds unless otherwise stated in the Notes to the Financial Statements of each sub-fund.

(A) BASIS OF ACCOUNTING

The financial statements of each sub-fund have been prepared under the historical cost basis, as modified by the revaluation of investments and in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. The financial statements have been prepared in accordance with the Statement of Recommended Practice ('SORP') for Financial Statements of UK Authorised Funds issued by the Investment Association ('IA') in May 2014, as amended.

The financial statements of each sub-fund are prepared on a going concern basis. The ACD has made an assessment of each of the sub-fund's ability to continue as a going concern, and is satisfied they have the resources to continue in business for the foreseeable future and is not aware of any material uncertainties that may cast significant doubt on this assessment. This assessment is made as at the date of issue of these financial statements and considers liquidity, declines in global capital markets, known redemption levels, expense projections, key service provider's operational resilience, and the impact of COVID-19. The ACD also considered each sub-fund's continued ability to meet ongoing costs, and is satisfied they have the resources to meet these costs and to continue in business.

(B) RECOGNITION OF REVENUE

Dividends on quoted equities and preference shares are recognised when the securities are quoted ex-dividend.

Distributions from collective investment schemes are recognised when the schemes are quoted ex-distribution. Equalisation returned with the distribution is deducted from the cost of the investment in the scheme and does not form part of the distributable revenue.

Reportable income from funds with 'reporting fund' status for UK tax purposes is recognised when the information is made available by the reporting fund.

Rebates of annual management charges (AMC rebates) from underlying investments are accounted for on an accruals basis and are recognised as revenue, or capital in line with the allocation of the annual management charge between capital and revenue of the underlying investments.

The treatment of the income on derivative contracts is dependent upon the nature of the transaction. To determine whether the returns should be treated as capital or revenue the motive and circumstances of the transaction are used. Where positions are undertaken to protect or enhance capital, the returns are recognised in net capital gains; similarly where positions are taken to generate or protect revenue, the returns are included within net revenue before taxation. Where positions generate total returns it will generally be appropriate to apportion such returns between capital and revenue to properly reflect the nature of the transaction.

ACCOUNTING AND DISTRIBUTION POLICIES *continued*

Interest on bank and other cash deposits is recognised on an accruals basis.

Revenue is recognised gross of any withholding taxes but excludes attributable tax credits.

(C) TREATMENT OF EXPENSES

All expenses, except for those relating to the purchase and sale of investments, are charged initially against revenue.

(D) ALLOCATION OF REVENUE AND EXPENSES TO MULTIPLE SHARE CLASSES AND SUB-FUNDS

Any revenue or expense not directly attributable to a particular share class or sub-fund will normally be allocated pro-rata to the net assets of the relevant share classes and sub-funds, unless a different allocation method is deemed more appropriate by the ACD.

All share classes are ranked *pari passu* and have no particular rights or terms attached, including rights on winding up.

(E) TAXATION

Corporation tax is provided at 20% on taxable revenue, after deduction of allowable expenses.

Offshore income gains, from funds without reporting status, are liable to corporation tax at 20% and any resulting charge is deducted from capital.

Where overseas tax has been deducted from overseas revenue that tax can, in some instances, be set off against the corporation tax payable by way of double tax relief and where this is the case the offset is reflected in the tax charge.

Deferred tax is provided using the liability method on all timing differences arising on the treatment of certain items for taxation and accounting purposes, calculated at the rate at which it is anticipated the timing differences will reverse. Deferred tax assets are recognised only when, on the basis of available evidence, it is more likely than not that there will be taxable profits in the future against which the deferred tax asset can be offset.

(F) BASIS OF VALUATION OF INVESTMENTS

All investments are valued at their fair value as at close of business on the last business day of the financial year.

Quoted investments are valued at fair value which generally is the bid price, excluding any accrued interest in the case of debt securities. Accrued interest on debt securities is included in revenue.

Collective investment schemes are valued at published bid prices for dual priced funds and at published prices for single priced funds.

Structured products for which a price can only be obtained from the issuer are valued at the fair value per the issuer and the value is confirmed by an independent price provider by reference to the terms as defined in the term sheet of the structured product.

ACCOUNTING AND DISTRIBUTION POLICIES *continued*

The market value of over the counter (OTC) derivatives is determined based on valuation pricing models which take into account relevant market inputs as well as the time values, liquidity and volatility factors underlying the positions.

Futures contracts are valued at the unrealised gain or loss between the cost of entering the contract and its value at the balance sheet date.

(G) EXCHANGE RATES

The base and functional currency of the sub-funds is pounds sterling. Transactions in foreign currencies are recorded in sterling at the rate ruling at the date of the transactions. Assets and liabilities expressed in foreign currencies at the end of the accounting period are translated into sterling at the exchange rate prevailing at close of business on the last business day of the financial year.

(H) DILUTION LEVY

The ACD may require a dilution levy on the purchase and redemption of shares if, in its opinion, the existing shareholders (for purchases) or remaining shareholders (for redemptions) might otherwise be adversely affected. For example, the dilution levy may be charged in the following circumstances: where the scheme property of a sub-fund is in continual decline; on a sub-fund experiencing large levels of net purchases relative to its size; on 'large deals' (typically being a purchase or redemption of shares to a size exceeding 5% of the Net Asset Value of the relevant sub-fund); in any case where the ACD is of the opinion that the interests of existing or remaining shareholders require the imposition of a dilution levy.

(I) PORTFOLIO TRANSACTION COSTS

Direct transaction costs may consist of fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Indirect transaction costs may be incurred on transactions in underlying schemes but these do not form part of the direct transaction costs disclosures. Direct transaction costs do not include any difference between the quoted bid and offer prices or internal administrative or holding costs. The average portfolio dealing spread disclosed is the difference between the bid and offer prices of investments at the balance sheet date, including the effect of foreign exchange, expressed as a percentage of the value determined by reference to the offer price.

2. Distribution Policies

Surplus revenue after expenses and taxation, as disclosed in the financial statements, after adjustment for items of a capital nature, is distributable to shareholders. Any deficit of revenue is deducted from capital.

Interim distributions may be made at the ACD's discretion. Final distributions are made in accordance with the COLL Sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

ACCOUNTING AND DISTRIBUTION POLICIES *continued*

The ordinary element of stock received in lieu of cash dividends is credited to capital in the first instance followed by a transfer to revenue of the cash equivalent being offered and this forms part of the distributable revenue of the Fund. In the case of an enhanced stock dividend, the value of the enhancement is treated as capital and does not form part of any distribution.

Special dividends are reviewed on a case by case basis in determining whether the dividend is to be treated as revenue or capital. Amounts recognised as revenue will form part of the distributable revenue. Amounts recognised as capital are deducted from the cost of the investment. The tax accounting treatment follows the treatment of the principal amount.

LF PRUDENTIAL RISK MANAGED ACTIVE 1 ACD'S REPORT

for the year ended 31 October 2020

Important Information

Refer to the 'Important Information' section on page 12.

Investment Objective and Policy

The LF Prudential Risk Managed Active 1 ('the Fund') aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 9%.

There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 9%. Capital invested is at risk.

The Fund aims to achieve its objective through investing at least 70% in actively managed collective investment schemes. The Fund has a flexible investment approach with the freedom to invest in different types of assets to meet its objective. The Portfolio Manager will use in-depth research to forecast the expected change in value and risk of the different types of assets over a forward-looking 15-year period. This analysis is then used to work out the mix of assets (the "target strategic asset allocation") to invest in to achieve the Fund's objective. The Portfolio Manager will review the target strategic asset allocation on an ongoing basis.

Based on the target strategic asset allocation, the Portfolio Manager constructs an actively managed portfolio to provide diversified, indirect exposure to global fixed income and variable rate assets, cash (including money market funds and near cash), equities and/or immovable property.

The Fund will have a high exposure to lower risk assets such as fixed income assets and cash. The Portfolio Manager will adjust the asset allocation on an ongoing basis to reflect changes in the target strategic asset allocation and to take advantage of tactical investment opportunities.

The Portfolio Manager will select collective investment schemes to invest in from a focused range of funds and fund management groups (which may include other funds managed by the ACD, Portfolio Manager and their associates).

The Fund may also invest directly in equities, equity related instruments (e.g. warrants), fixed income and cash or near cash. It may also invest in alternative investments (e.g. infrastructure, private equity, alternative credit and hedge funds). Derivative instruments may also be used for the purposes of efficient portfolio management.

Other Information: The Fund's objective to stay within its specified risk profile may restrict the types and proportions of the assets it holds and limit the potential gains and losses.

LF PRUDENTIAL RISK MANAGED ACTIVE 1

ACD'S REPORT *continued*

Benchmark

The Fund's comparator benchmark is the IA Mixed Investment 0-35% shares sector.

The Fund's performance may be compared against the IA Mixed Investment 0-35% shares sector. The ACD believes that this is an appropriate comparator for the Fund given the investment objective and policy of the Fund. Many funds sold in the UK are grouped into sectors by the Investment Association (the trade body that represents UK investment managers), to help investors to compare funds with broadly similar characteristics.

LINK FUND SOLUTIONS LIMITED

ACD of LF Prudential Risk Managed Active 1

26 February 2021

LF PRUDENTIAL RISK MANAGED ACTIVE 1

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2020

Between 1 November 2019 and 31 October 2020 (the period in review) share classes R (Acc) 1.49%¹, P (Acc) 1.75%¹ and A (Acc) 1.54%¹ produced returns ahead of the 0.35%¹ sector average for IA Mixed Investment 0-35% Shares Sector.

Market Overview

Early on in 2020 and before the gravity of the coronavirus situation became apparent, developed market equities were broadly flat, and Asia and emerging markets slightly down.

Towards the end of February, the reality hit that a potential human tragedy was unfolding which would dramatically affect economic activity. Sentiment plummeted across markets as investors rushed to sell financial assets. The speed of the sell-off was notable, albeit off the back of strong performance in 2019, which had been driven by the hope of economic activity improving.

Equity markets became highly sensitive to case news. In February alone, there were over 18 days where the S&P 500 Index was either up or down by more than 3%. Corporate bond markets were also volatile as secondary markets and liquidity evaporated. Spreads on 1-year investment grade bonds jumped nearly 300bps in US and around 200bps in the UK and Europe. The moves in high yield were amplified with 1-year US high yield bonds spiking over 700bps and in the UK and Europe between 560/600bps.

Major stock markets experienced a remarkable rebound during the second quarter following the steep declines seen during the onset of the pandemic. The FTSE World Index rose 19.9% over the period. An extraordinary level of central bank stimulus and government support in the world's major economies came to the aid of many consumers and businesses and was welcomed by investors.

Global investor sentiment stayed fairly positive during the third quarter despite a bleak (albeit recovering) global economic backdrop and a resurgence of virus cases in many developed countries. The majority of stock markets continued to rise following the rebound seen in the second quarter. Global economic activity data for the summer months improved as restrictions were eased and most economies could reopen.

Governments and central banks from across the world remained supportive towards the needs of businesses and consumers. However, despite positive news surrounding potential vaccines and better treatment outcomes, a resurgence of virus cases in the US and Europe scuppered any hope of a rapid return to normality for the global economy. This certainly impacted markets towards the end of the period in review.

Positioning

The portfolio management team implemented the 2020 strategic asset allocation review in June across all funds in the range.

¹ Source: FE Analytics.

LF PRUDENTIAL RISK MANAGED ACTIVE 1

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT *continued*

The key headlines were a small increase in overall equity exposure mainly weighted towards the UK due to attractive medium-term valuations. New allocations to Chinese and African equities were also made to capture the future growth potential of these regions.

There was a small overall reduction to fixed income, whilst adding a new allocation to Emerging Market Debt and increasing exposure to Asian Bonds.

Exposure to property and alternatives was maintained.

From a tactical asset allocation perspective, towards the end of the period in review the portfolio manager has added a small exposure to Asia ex-Japan and US equity, being of the view that markets would place more weight on stimulus introduced than on any worsening of COVID-19 cases. A small UK REITs position is held across all portfolios as long-term valuations look attractive.

Outlook

Markets will continue to be sensitive to COVID-19 related news, periods of uncertainty and investor nervousness will likely re-occur. As ever, trying to time markets and be precise on a timeframe for a return to normality is very difficult so it is important to try and balance portfolios to be robust in the short-term whilst still looking for long-term opportunities as capital markets evolve.

The portfolio managers remain fully focused on adhering to the long-standing investment philosophy and processes. The team has no greater insight into the future than anyone else but has concentrated on what can be controlled, which is how they invest both now and in the future.

M&G INVESTMENT MANAGEMENT LIMITED

Portfolio Manager

17 November 2020

LF PRUDENTIAL RISK MANAGED ACTIVE 1

ACD'S REPORT *continued*

FUND INFORMATION

Risk and Reward Profile



This indicator shows how much a fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a fund's past volatility the higher the number on the scale and the greater the risk that investors in that fund may have made losses as well as gains.

During the year the indicator has changed from 3 to 4. The Fund has been classed as 4 because its volatility has been measured as average.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of this Fund.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

The Fund targets a risk level of 1 which is a level of risk relative to the 4 other funds in the range. The risk and reward profile scale above is calculated differently. The two measures are not comparable. The lowest number on the scale does not mean that a fund is risk free.

Currency Risk: As the Fund can be exposed to different currencies, changes in exchange rates may decrease the value of your investment.

Changes in Interest Rate Risk: A rise in interest rates generally causes bond prices to fall.

Credit Risk: The value of a bond may be affected by its credit rating, the lower the rating the higher the risk of the issuer not paying interest or repaying the loan.

Property Fund Investment Risk: Property funds can become illiquid increasing the risk that a position cannot be sold in a timely manner or at a reasonable price.

Counterparty Risk: The failure of a firm involved in a transaction with the Fund or providing services to the Fund may expose the Fund to financial loss.

Derivatives Risk: A derivative may not perform as expected and may create losses greater than its cost.

For full details of the Fund's risks, please see the Prospectus which may be obtained upon application and can be found on the ACD's website, www.linkfundsolutions.co.uk.

LF PRUDENTIAL RISK MANAGED ACTIVE 1

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables

Where the Fund has significant investment in collective investment schemes, the operating charges take account of the ongoing charges incurred in the underlying schemes, calculated as the expense value of such holdings at the year end weighted against the net asset value of the share class at that date. Following regulatory changes, the Operating Charges Figure takes account of the ongoing charges incurred in closed-ended underlying schemes calculated as the expense value of such holdings at the period end weighted against the net asset value of the share class at that date.

'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	138.35	132.03	135.63
Return before operating charges*	2.76	10.31	0.59
Operating charges	(1.19)	(1.59)	(2.96)
Return after operating charges	1.57	8.72	(2.37)
Distributions	(1.40)	(2.40)	(1.23)
Closing net asset value per share	138.52	138.35	132.03
* after direct transaction costs of:	—	—	0.01

PERFORMANCE

Return after charges	1.14%	6.60%	(1.75)%
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OTHER INFORMATION

Closing net asset value (£'000)	580	599	557
Closing number of shares	418,595	433,162	421,765
Operating charges	0.86%	1.17%	2.18%
Direct transaction costs	—	—	—

PRICES

Highest share price	142.59	141.65	137.65
Lowest share price	123.02	129.09	132.79

LF PRUDENTIAL RISK MANAGED ACTIVE 1

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'A' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	157.09	147.36	149.98
Return before operating charges*	3.15	11.52	0.65
Operating charges	(1.35)	(1.79)	(3.27)
Return after operating charges	1.80	9.73	(2.62)
Distributions	(1.60)	(2.67)	(1.35)
Retained distributions on accumulation shares	1.60	2.67	1.35
Closing net asset value per share	158.89	157.09	147.36
* after direct transaction costs of:	—	0.01	0.01

PERFORMANCE

Return after charges	1.15%	6.60%	(1.75)%
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OTHER INFORMATION

Closing net asset value (£'000)	4,217	4,708	5,357
Closing number of shares	2,654,274	2,996,742	3,635,526
Operating charges	0.86%	1.18%	2.18%
Direct transaction costs	—	—	—

PRICES

Highest share price	161.77	158.02	152.16
Lowest share price	139.61	144.10	146.84

LF PRUDENTIAL RISK MANAGED ACTIVE 1

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'C' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	138.80	132.42	136.07
Return before operating charges*	2.79	10.40	0.57
Operating charges	(0.17)	(0.45)	(1.32)
Return after operating charges	2.62	9.95	(0.75)
Distributions	(2.44)	(3.57)	(2.90)
Closing net asset value per share	138.98	138.80	132.42
* after direct transaction costs of:	—	0.01	0.01

PERFORMANCE

Return after charges	1.89%	7.51%	(0.55)%
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OTHER INFORMATION

Closing net asset value (£'000)	21,117	20,861	22,613
Closing number of shares	15,194,052	15,030,250	17,076,579
Operating charges	0.12%	0.33%	0.96%
Direct transaction costs	—	—	—

PRICES

Highest share price	143.36	143.16	139.03
Lowest share price	123.77	129.71	134.76

LF PRUDENTIAL RISK MANAGED ACTIVE 1

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	117.18	111.81	114.88
Return before operating charges*	2.24	8.76	0.49
Operating charges	(0.70)	(0.94)	(1.65)
Return after operating charges	1.54	7.82	(1.16)
Distributions	(1.49)	(2.45)	(1.91)
Closing net asset value per share	117.23	117.18	111.81
* after direct transaction costs of:	—	—	0.01

PERFORMANCE

Return after charges	1.31%	6.99%	(1.01)%
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OTHER INFORMATION

Closing net asset value (£'000)	4,892	4,273	4,342
Closing number of shares	4,172,769	3,646,110	3,883,325
Operating charges	0.61%	0.81%	1.43%
Direct transaction costs	—	—	—

PRICES

Highest share price	120.94	120.44	117.04
Lowest share price	104.29	109.44	113.27

LF PRUDENTIAL RISK MANAGED ACTIVE 1

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	131.70	123.10	124.35
Return before operating charges*	2.63	9.63	0.53
Operating charges	(0.80)	(1.03)	(1.78)
Return after operating charges	1.83	8.60	(1.25)
Distributions	(1.67)	(2.69)	(2.06)
Retained distributions on accumulation shares	1.67	2.69	2.06
Closing net asset value per share	133.53	131.70	123.10
* after direct transaction costs of:	—	—	0.01

PERFORMANCE

Return after charges	1.39%	6.99%	(1.01)%
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OTHER INFORMATION

Closing net asset value (£'000)	77,209	64,107	51,216
Closing number of shares	57,820,728	48,676,790	41,606,447
Operating charges	0.61%	0.81%	1.43%
Direct transaction costs	—	—	—

PRICES

Highest share price	135.85	132.57	126.67
Lowest share price	117.19	120.52	122.61

LF PRUDENTIAL RISK MANAGED ACTIVE 1

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'R' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	143.52	134.48	136.19
Return before operating charges*	2.84	10.51	0.58
Operating charges	(1.23)	(1.47)	(2.29)
Return after operating charges	1.61	9.04	(1.71)
Distributions	(1.46)	(2.59)	(1.91)
Retained distributions on accumulation shares	1.46	2.59	1.91
Closing net asset value per share	145.13	143.52	134.48
* after direct transaction costs of:	—	0.01	0.01

PERFORMANCE

Return after charges	1.12%	6.72%	(1.26)%
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OTHER INFORMATION

Closing net asset value (£'000)	12,363	11,023	8,360
Closing number of shares	8,518,728	7,680,911	6,216,515
Operating charges	0.86%	1.06%	1.68%
Direct transaction costs	—	—	—

PRICES

Highest share price	147.88	144.45	138.40
Lowest share price	127.60	131.61	133.97

LF PRUDENTIAL RISK MANAGED ACTIVE 1

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Fund Performance to 31 October 2020 (%)

	1 year	3 years	5 years
LF Prudential Risk Managed Active 1	1.75	7.97	24.28

The performance of the Fund is based on the published price per 'P' Accumulation share which includes reinvested income.

The performance of the Fund disclosed in the above table may differ from the 'Return after charges' disclosed in the Comparative Table due to the above performance being calculated on the latest published price prior to the year end, rather than the year end return after operating charges.

Details of the distributions per share for the year are shown in the Distribution Table on pages 58 and 59.

RISK WARNING

An investment in an open-ended investment company should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

LF PRUDENTIAL RISK MANAGED ACTIVE 1

ACD'S REPORT *continued*

PORTFOLIO STATEMENT

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	EQUITY PORTFOLIOS – 14.78% (31.10.19 – 17.35%)		
	CONTINENTAL EUROPE – 1.85% (31.10.19 – 1.94%)		
129,547	LF Prudential European QIS ¹	1,140	0.95
60,048	M&G European Select ¹	1,089	0.90
	TOTAL CONTINENTAL EUROPE	2,229	1.85
	UNITED KINGDOM – 5.48% (31.10.19 – 6.34%)		
913,742	LF Prudential UK Growth QIS ¹	2,700	2.24
679,238	M&G Recovery ¹	1,537	1.28
145,640	M&G UK Select ¹	2,363	1.96
	TOTAL UNITED KINGDOM	6,600	5.48
	JAPAN – 0.85% (31.10.19 – 1.67%)		
136,076	Eastspring Japan Equity	1,023	0.85
	TOTAL JAPAN	1,023	0.85
	NORTH AMERICA – 2.00% (31.10.19 – 2.65%)		
106,770	LF Prudential North American QIS ¹	1,257	1.04
46,175	M&G North American Value ¹	1,151	0.96
	TOTAL NORTH AMERICA	2,408	2.00
	EMERGING MARKETS – 4.60% (31.10.19 – 4.75%)		
380,797	Eastspring Developed and Emerging Asia Equity	4,114	3.42
127,759	Eastspring Emerging Asia Equity	1,422	1.18
	TOTAL EMERGING MARKETS	5,536	4.60
	TOTAL EQUITY PORTFOLIOS	17,796	14.78
	EQUITY INVESTMENT INSTRUMENTS – 3.45% (31.10.19 – 3.84%)		
281,223	BBGI ²	487	0.40
460,356	BioPharma Credit ²	353	0.29
147,535	Blue Capital Alternative Income ^{2,3}	5	–
34,159	Boussard & Gavaudan ²	537	0.45

LF PRUDENTIAL RISK MANAGED ACTIVE 1

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
271,537	DP Aircraft I ²	8	0.01
64,476	HarbourVest Global Private Equity ²	1,104	0.92
160,461	HgCapital ²	474	0.39
127,453	NB Distressed Debt Investment ²	44	0.04
283,988	NextEnergy Solar ²	304	0.25
220,120	Renewables Infrastructure ²	298	0.25
519,847	SDCL Energy Efficiency Income ²	543	0.45
	TOTAL EQUITY INVESTMENT INSTRUMENTS	4,157	3.45
	PROPERTY PORTFOLIOS – 3.35% (31.10.19 – 3.13%)		
183,510	iShares UK Property	874	0.73
2,754,312	Legal & General UK Property	2,504	2.08
69,072	M&G Property Portfolio ¹	646	0.54
	TOTAL PROPERTY PORTFOLIOS	4,024	3.35
	BOND PORTFOLIOS – 69.59% (31.10.19 – 67.07%)		
184,665	Eastspring Asian Bond	2,147	1.78
640,980	Eastspring Asian Local Bond	6,143	5.10
1,464,006	Eastspring US Corporate Bond	17,593	14.62
2,342,603	M&G Emerging Markets Bond ¹	2,496	2.07
93,980	M&G European Credit Investment ¹	10,790	8.96
847,543	M&G Global Convertibles ¹	2,114	1.76
3,930,090	M&G Global High Yield Bond ¹	5,364	4.46
12,932,559	M&G Short Dated Corporate Bond ¹	3,351	2.78
13,145,922	M&G Strategic Corporate Bond ¹	16,835	13.99
15,643,740	Royal London Corporate Bond	16,942	14.07
	TOTAL BOND PORTFOLIOS	83,775	69.59
	FUTURES – (0.21)% (31.10.19 – 0.03%)		
35	EURO STOXX 50 Index Futures December 2020	(68)	(0.06)
29	FTSE 100 Index Futures December 2020	(84)	(0.07)
48	FTSE China A50 Index Futures November 2020	(2)	–
19	FTSE/JSE Top 40 Index Futures December 2020	(23)	(0.02)

LF PRUDENTIAL RISK MANAGED ACTIVE 1

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
8	S&P 500 E Mini Index Futures December 2020	(40)	(0.03)
5	TOPIX Index Futures December 2020	(27)	(0.02)
28	US Treasury Note 10 Year Futures December 2020	(18)	(0.01)
	TOTAL FUTURES	(262)	(0.21)
	Portfolio of investments ⁴	109,490	90.96
	Net other assets	10,888	9.04
	Net assets	120,378	100.00

The investments have been valued in accordance with note 1(F) of the Accounting Policies and are collective investment schemes unless stated otherwise.

¹ Related party holding (see note 12).

² Closed-ended fund.

³ Delisted security.

⁴ Includes investment liabilities.

LF PRUDENTIAL RISK MANAGED ACTIVE 1 **ACD'S REPORT** *continued* **SUMMARY OF MATERIAL PORTFOLIO CHANGES** for the year ended 31 October 2020

Total purchases for the year £'000 (note 16)	30,195	Total sales for the year £'000 (note 16)	17,763
	Cost £'000		Proceeds £'000
Major purchases		Major sales	
US Treasury Note 10 Year Futures December 2020	5,997	Eastspring US Corporate Bond	4,347
Royal London Corporate Bond	3,880	US Treasury Note 10 Year Futures June 2020	3,522
FTSE 100 Index Futures December 2020	3,663	US Treasury Note 10 Year Futures December 2020	3,026
M&G Global High Yield Bond	3,600	US Treasury Note 10 Year Futures March 2020	2,870
US Treasury Note 10 Year Futures June 2020	3,209	US Treasury Note 10 Year Futures September 2020	2,862
M&G European Credit Investment	3,131	US Treasury Note 10 Year Futures December 2019	2,718
Eastspring US Corporate Bond	3,091	M&G Global High Yield Bond	2,467
US Treasury Note 10 Year Futures September 2020	3,054	Royal London Corporate Bond	2,293
M&G Strategic Corporate Bond	2,940	M&G European Credit Investment	2,020
US Treasury Note 10 Year Futures June 2020	2,811	FTSE 100 Index Futures December 2020	1,952

In addition to the above, purchases totalling £2,426,859,000 and sales totalling £2,425,770,000 were made in short term investments during the year.

Purchases and sales of Futures have been included at the value of their exposure and are not included in the total purchases and sales figures above.

The summary of material portfolio changes represents the 10 largest purchases and sales during the year.

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS

STATEMENT OF TOTAL RETURN

for the year ended 31 October 2020

	Notes	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Income:					
Net capital gains	3		99		4,646
Revenue	4	2,041		2,508	
Expenses	5	(520)		(331)	
Interest payable and similar charges	6	(4)		(2)	
Net revenue before taxation		1,517		2,175	
Taxation	7	(17)		(74)	
Net revenue after taxation			1,500		2,101
Total return before distributions			1,599		6,747
Distributions	8		(1,500)		(2,139)
Change in net assets attributable to shareholders from investment activities			99		4,608

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2020

	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Opening net assets attributable to shareholders		105,571		92,445
Amounts receivable on issue of shares	25,133		20,562	
Amounts payable on redemption of shares	(11,555)		(13,633)	
		13,578		6,929
Change in net assets attributable to shareholders from investment activities		99		4,608
Retained distributions on Accumulation shares		1,130		1,588
Unclaimed distributions		—		1
Closing net assets attributable to shareholders		120,378		105,571

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS *continued*

BALANCE SHEET

as at 31 October 2020

	Notes	31.10.20 £'000	31.10.19 £'000
ASSETS			
Fixed assets			
Investments		109,752	96,513
Current assets			
Debtors	9	1,024	3,807
Cash and cash equivalents	10	10,530	8,872
Total assets		<u>121,306</u>	<u>109,192</u>
LIABILITIES			
Investment liabilities		(262)	(3)
Provisions for liabilities		(1)	(18)
Creditors			
Bank overdraft		–	(7)
Distribution payable	11	(439)	(636)
Other creditors	11	(226)	(2,957)
Total liabilities		<u>(928)</u>	<u>(3,621)</u>
Net assets attributable to shareholders		<u>120,378</u>	<u>105,571</u>

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2020

1. Accounting Policies

The accounting policies described on pages 22 to 24 have been applied to the financial statements of the Fund in the current and prior year. The additional accounting policy described below has also been applied to this Fund.

(A) TREATMENT OF EXPENSES

The Fund receives a rebate of the Annual Management Charge in relation to related party investments in the Fund. This is to eliminate double charging and, as such, is not a reduction in expenses suffered by shareholders.

2. Distribution Policies

The distribution policies described on pages 24 and 25 have been applied to the financial statements of the Fund in the current and prior year.

The Fund has satisfied the qualifying investments test of Section 493 of the Corporation Taxes Act 2009, through the year. All distributions payable by the Fund attracted tax at 20% and were accounted for on the shareholders' behalf to the HM Revenue & Customs.

3. Net Capital Gains

The net capital gains during the year comprise:

	31.10.20 £'000	31.10.19 £'000
Non-derivative securities	3	4,533
Derivative contracts	(15)	84
Transaction charges	(2)	(2)
AMC rebates from underlying investments	77	19
Currency gains	38	13
Broker's commission on futures	(2)	(1)
Net capital gains	99	4,646

The net capital gains figure includes realised gains of £687,000 and unrealised gains of £4,339,000 (31.10.19: includes realised gains of £7,220,000 and unrealised gains of £5,000,000). The realised gains on investments in the current year include amounts previously recognised as unrealised gains in the prior year.

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

4. Revenue

	31.10.20 £'000	31.10.19 £'000
Non-taxable dividends	349	401
Taxable dividends	2	87
UK property income distributions	86	187
Unfranked interest	1,277	1,554
AMC rebates from underlying investments	327	278
Bank interest	–	1
Total revenue	2,041	2,508

5. Expenses

	31.10.20 £'000	31.10.19 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	501	453
Administration fees	–	31
ACD reimbursement to revenue ¹	–	(171)
	501	313
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	10	9
Safe custody and other bank charges	1	1
	11	10

¹ This relates to a rebate paid by the ACD in order to maintain the individual sub-fund's Ongoing Charges Figure ('OCF') at a level considered appropriate by the ACD. Once the Extraordinary General Meeting in December 2018 approved the various changes to the Company effective from 21 January 2019, Prudential Distribution Limited ('PDL'), as sponsor, wanted to ensure that shareholders benefitted immediately from the resultant lower OCFs, rather than the OCF charge reduction coming through over the 6 month period where the Portfolio Manager transitioned the portfolios. Therefore, the ACD effectively introduced a cap on the OCF and the costs of applying this cap during the 6 month transition period were met by PDL as sponsor of the sub-funds in the Company.

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Other expenses:		
Audit fees	8	8
Total expenses	520	331

The Portfolio Manager's fees and expenses (plus VAT thereon) for providing portfolio management services are paid by the ACD out of its remuneration.

6. Interest Payable and Similar Charges

	31.10.20 £'000	31.10.19 £'000
Interest payable	2	2
Futures interest payable	2	–
Total interest payable and similar charges	4	2

7. Taxation

	31.10.20 £'000	31.10.19 £'000
a) Analysis of charge for the year		
Corporation tax	34	47
Adjustments in respect of prior periods	–	14
Irrecoverable overseas tax	–	1
Current tax charge	34	62
Deferred tax – origination and reversal of timing differences (note 7c)	(17)	12
Total taxation (note 7b)	17	74

b) Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK for an authorised fund (20%) (31.10.19: 20%). The difference is explained below:

	31.10.20 £'000	31.10.19 £'000
Net revenue before taxation	1,517	2,175
Corporation tax at 20%	303	435

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Effects of:		
Non-taxable dividends	(70)	(80)
Capital income subject to taxation	(16)	18
Rebated capital expenses deductible for tax purposes	16	4
Irrecoverable overseas tax	–	1
Corporation tax: adjustment in respect of prior years	–	14
Tax deductible interest distributions	(216)	(318)
Total tax charge (note 7a)	17	74
c) Deferred tax		
Provision at the start of the year	18	6
Deferred tax charge in the year (note 7a)	(17)	12
Provision at the end of the year	1	18

8. Distributions

The distributions take account of revenue received on the issue of shares and revenue deducted on redemptions of shares, and comprise:

	31.10.20 £'000	31.10.19 £'000
Final	1,569	2,224
	1,569	2,224
Add: Revenue deducted on redemption of shares	93	190
Deduct: Revenue received on issue of shares	(162)	(275)
Net distribution for the year	1,500	2,139

Details of the distributions per share are set out in the table on pages 58 and 59.

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Distributions represented by:		
Net revenue after taxation	1,500	2,101
Allocations to capital:		
Tax relief from capital	—	38
Net distribution for the year	1,500	2,139

9. Debtors

	31.10.20 £'000	31.10.19 £'000
Amounts receivable for issue of shares	661	429
Sales awaiting settlement	—	3,237
Accrued revenue:		
Non-taxable dividends	1	9
UK property income distributions	4	7
Unfranked interest	12	—
AMC rebates from underlying investments	333	107
	350	123
Taxation recoverable:		
Income tax	13	18
Total debtors	1,024	3,807

10. Cash and Cash Equivalents

	31.10.20 £'000	31.10.19 £'000
Bank balances	9,875	8,799
Margin account	655	73
Total cash and cash equivalents	10,530	8,872

LF PRUDENTIAL RISK MANAGED ACTIVE 1
FINANCIAL STATEMENTS *continued*
NOTES TO THE FINANCIAL STATEMENTS *continued*
for the year ended 31 October 2020

11. Creditors

	31.10.20 £'000	31.10.19 £'000
Distribution payable	439	636
Other Creditors		
Amounts payable for redemption of shares	140	132
Purchases awaiting settlement	–	2,902
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	43	39
ACD reimbursement to revenue	–	(171)
	43	(132)
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	1	1
Transaction charges	–	1
	1	2
Taxation payable:		
Corporation tax	34	45
Other expenses	8	8
Total other creditors	226	2,957

12. Related Party Transactions

The Annual Management Charge and administration fees payable to Link Fund Solutions Limited ('the ACD') are disclosed in note 5 and amounts due at the year end are disclosed in note 11.

The aggregate monies received by the ACD through the issue of shares and paid on redemption of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders on page 42 and amounts due at the year end are disclosed in notes 9 and 11.

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

Link Fund Solutions Limited and its associates (including other authorised investment funds managed by Link Fund Solutions or its associates) held 11,289 (31.10.19: 3,342) of the Fund's shares at the balance sheet date.

M&G Investment Management Limited and its associates (including other authorised investment funds managed by M&G Investment Management Limited) held 10,683,177 (31.10.19: 10,190,208) of the Fund's shares at the balance sheet date.

A shareholder may be able to exercise significant influence over the financial and operating policies of the Fund and as such is deemed to be a related party. At the balance sheet date no shareholder held in excess of 20% of the shares in issue of the Fund.

As part of the investment strategy, the Fund may from time to time hold shares in other collective investment schemes managed by the same Portfolio Manager or for which Link Fund Solutions Limited is also the ACD. At the balance sheet date the value of the holdings was as follows:

	31.10.20 £'000	31.10.19 £'000
Portfolio Manager in common	47,736	40,672
Portfolio Manager and ACD in common	5,097	5,264

13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.19: none).

14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.74%	0.74%	0.00%
Opening shares in issue	433,162	2,996,742	15,030,250
Issues	4,721	200,295	1,387,054
Redemptions	(19,288)	(542,763)	(1,223,252)
Closing shares in issue	418,595	2,654,274	15,194,052

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.49%	0.49%	0.74%
Opening shares in issue	3,646,110	48,676,790	7,680,911
Issues	1,233,245	14,412,643	1,866,443
Redemptions	(706,586)	(5,268,705)	(1,028,626)
Closing shares in issue	<u>4,172,769</u>	<u>57,820,728</u>	<u>8,518,728</u>

15. Risk Management Policies

In pursuing the investment objective a number of financial instruments are held which may comprise securities and other investments, cash balances and debtors and creditors that arise directly from operations. Derivatives, such as futures or forward currency contracts, may be utilised for Efficient Portfolio Management (including hedging) purposes.

The main risks from the Fund's holding of financial instruments, together with the ACD's policy for managing these risks, are set out below:

The ACD has in place a Risk Management Policy and Procedures Document ('RMPPD') that sets out the risks that may impact a fund and how the ACD seeks, where appropriate, to manage, monitor and mitigate those risks, and in particular those risks associated with the use of derivatives. The RMPPD sets out both the framework and the risk mitigations operated by the ACD in managing the identified risks of the Fund. The ACD requires that the appointed Portfolio Manager to the Fund has in place its own governance structure, policies and procedures that are commensurate with its regulatory obligations and the risks posed by the fund managed.

(A) CREDIT RISK

Credit risk is the risk that a counterparty may be unable or unwilling to make a payment or fulfil contractual obligations. This may be in terms of an actual default or by deterioration in a counterparty's credit quality.

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its obligations. As part of its due diligence process, the ACD undertakes a review of the controls operated over counterparties by the Portfolio Manager, including initial and ongoing due diligence and business volumes placed with each counterparty. In cases which are dependent on the counterparty settling at the transaction's maturity date, the ACD has policies in place which set out the minimum credit quality expected of a market counterparty or deposit taker at the outset of the transaction.

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

There were futures contracts held at the balance sheet date. Details of the individual contracts are disclosed separately in the Portfolio Statement and the total position by counterparty at the balance sheet date was as follows:

31.10.20 Counterparty	Futures £'000	Net cash collateral pledged £'000
JPMorgan	(2)	–
NatWest	(260)	–
31.10.19 Counterparty	Futures £'000	Net cash collateral pledged £'000
NatWest	29	–

(B) INTEREST RATE RISK

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes. The value of fixed interest securities may be affected by changes in interest rates, either globally or locally. Changes in the rate of return in one asset class may influence the valuation basis of other classes. The amount of revenue receivable from floating rate investments and bank balances or payable on bank overdrafts will be affected by fluctuations in interest rates. Investment in collective investment schemes exposes the Fund to indirect interest rate risk to the extent that they invest in interest bearing securities, the returns from which will be affected by fluctuations in interest rates.

The Fund invests in collective investment schemes and as such does not have any significant direct exposure to interest rate risk. The Fund is indirectly exposed to interest rate risk through its investment in collective investment schemes. As the Fund has no direct exposure to interest rate risk, no interest rate risk table or sensitivity analysis has been presented.

(C) FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the Sterling value of investments will fluctuate as a result of exchange rate movements. Assets denominated in currencies other than Sterling will provide direct exposure to currency risk as a consequence of the movement in foreign exchange rates when calculating the Sterling equivalent value. Investment in collective investment schemes may provide indirect exposure to currency risk as a consequence of the movement in foreign exchange rates.

Where the Fund invests in non-Sterling assets, the Portfolio Manager allows for the foreign currency risk when considering whether to invest and does not seek to hedge this risk.

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

The table below shows the foreign currency risk profile at the balance sheet date:

	31.10.20 Gross £'000	31.10.20 Hedged £'000	31.10.20 Net £'000
Currency:			
Euro currency	709	–	709
Japanese yen	55	–	55
South African rand	109	–	109
US dollars	13,267	–	13,267
Total foreign currency exposure	14,140	–	14,140
Pounds sterling	106,238	–	106,238
Total net assets	120,378	–	120,378

	31.10.19 Gross £'000	31.10.19 Hedged £'000	31.10.19 Net £'000
Currency:			
Euro currency	1,170	–	1,170
US dollars	10,601	–	10,601
Total foreign currency exposure	11,771	–	11,771
Pounds sterling	93,800	–	93,800
Total net assets	105,571	–	105,571

A 5% change in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £707,000 on the net assets of the Fund (31.10.19: £589,000).

(D) LEVERAGE

The ACD is required to calculate and monitor the level of leverage of the Fund, expressed as a ratio between the exposure of the Fund and its Net Asset Value, under both the gross and commitment methods (in accordance with articles 7 and 8 of The Alternative Investment Fund Managers Regulations 2013). For a fund with no borrowing or derivative usage the leverage ratio would be 1:1 under the commitment method. The gross method calculation excludes cash and cash equivalents which are highly liquid.

As at 31.10.20, leverage under the gross method was 0.91:1 and leverage under the commitment method was 1:1 (31.10.19: 0.91:1 and 1:1 respectively).

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

(E) LIQUIDITY RISK

The main liability of the Fund is the redemption of any shares that investors want to sell. Investments may have to be sold to fund such redemptions should insufficient cash be held at the bank to meet this obligation.

The ACD monitors the liquidity profile of the Fund on a daily basis. In assessing the liquidity profile of the Fund, the ACD assesses how much of the Fund can be realised in one and five days, under normal and stressed market conditions, and the impact this would have on the overall subsequent liquidity profile. In assessing the liquidity of a company's shares, the ACD utilises the lower of the 5 and 30 day average market volume of that company's shares. Where a risk is identified then a more in depth review is undertaken to establish its significance, by assessing the liquidity profile of the Fund against a 25% market participation of the average daily volume. Based on this analysis 81.60% of the portfolio can be liquidated within 5 days and 82.06% within 30 days. Given this and the ACD's understanding of the investor base, it is considered that the liquidity profile of the Fund is appropriate.

All financial liabilities are payable in one year or less, or on demand.

(F) MARKET PRICE RISK

Market price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds.

Market price risk represents the potential loss the Fund may suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to price fluctuations, which are monitored by the ACD in pursuance of the investment objective and policy. The risk is generally regarded as consisting of two elements – stock specific risk and market risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit stock specific risk. Subject to compliance with the investment objective, spreading exposure across a broad range of global stocks can mitigate market risk.

A 5% increase in the value of the Fund's portfolio would have the effect of increasing the return and net assets by £5,475,000 (31.10.19: £4,826,000). A 5% decrease would have an equal and opposite effect.

(G) DERIVATIVES

The economic exposure of futures derivative contracts is equal to the market value. The value of the exposure and the related counterparty are disclosed in the Portfolio of Investments.

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

16. Portfolio Transaction Costs

31.10.20	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	248	–	1	249
Collective investment schemes	29,944	1	1	29,946
Purchases total	30,192	1	2	30,195
<i>Transaction cost % of purchases total</i>		–	0.01%	
<i>Transaction cost % of average NAV</i>		–	–	
Ordinary shares	620	–	–	620
Collective investment schemes	17,143	–	–	17,143
Sales total	17,763	–	–	17,763
<i>Transaction cost % of sales total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	

Average portfolio dealing spread at 31.10.20 is 0.16% (31.10.19: 0.19%).

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

31.10.19	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	464	—	—	464
Collective investment schemes	69,472	—	2	69,474
Purchases total	69,936	—	2	69,938
<i>Transaction cost % of purchases total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	
Ordinary shares	1,369	(1)	—	1,368
Collective investment schemes	68,712	—	—	68,712
Sales total	70,081	(1)	—	70,080
<i>Transaction cost % of sales total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	

The collective investment schemes include closed-ended funds.

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

17. Fair Value Hierarchy

Investments are categorised into the following levels based on their fair value measurement:

Level 1: Unadjusted quoted price in an active market for an identical instrument;

Level 2: Valuation techniques using observable inputs other than quoted prices within Level 1;

Level 3: Valuation techniques using unobservable inputs (see note 1(F) of the Accounting Policies).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31.10.20				
Investment assets	5,026	104,721	5	109,752
Investment liabilities	(262)	—	—	(262)
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31.10.19				
Investment assets	4,062	92,431	20	96,513
Investment liabilities	(3)	—	—	(3)

18. Subsequent Events

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic. In the immediate aftermath, global markets experienced a period of significant volatility which negatively impacted the performance of the Fund at the balance sheet date. Subsequent to that date and whilst markets have remained relatively volatile there has, in the period until the account signing date, been a general recovery in the markets.

This means that since the balance sheet date the price of each of the Fund's share classes has moved as follows:

Share class	Balance sheet date	22.02.21	Movement
'A' Income	138.52	146.23	5.57%
'A' Accumulation	158.89	167.73	5.56%
'C' Income	138.98	147.06	5.81%
'P' Income	117.23	123.86	5.66%
'P' Accumulation	133.53	141.07	5.65%
'R' Accumulation	145.13	153.20	5.56%

LF PRUDENTIAL RISK MANAGED ACTIVE 1

FINANCIAL STATEMENTS *continued*

DISTRIBUTION TABLE

for the year ended 31 October 2020 – in pence per share

EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares – the applicable distribution periods for each distribution are shown below). It represents the accrued revenue included in the purchase price of the shares. After averaging it is returned with the distribution as a capital repayment. It is not liable to Income Tax but must be deducted from the cost of the shares for Capital Gains Tax purposes.

Group 2	Final
From	01.11.19
To	31.10.20

'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.4042	–	1.4042	2.3950
Group 2	0.6555	0.7487	1.4042	2.3950

'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.5964	–	1.5964	2.6745
Group 2	1.0151	0.5813	1.5964	2.6745

'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	2.4386	–	2.4386	3.5671
Group 2	1.3866	1.0520	2.4386	3.5671

'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.4866	–	1.4866	2.4504
Group 2	0.9140	0.5726	1.4866	2.4504

LF PRUDENTIAL RISK MANAGED ACTIVE 1
FINANCIAL STATEMENTS *continued*
DISTRIBUTION TABLE *continued*

'P' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.6672	–	1.6672	2.6894
Group 2	0.7425	0.9247	1.6672	2.6894

'R' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.4556	–	1.4556	2.5881
Group 2	0.7669	0.6887	1.4556	2.5881

LF PRUDENTIAL RISK MANAGED ACTIVE 2 ACD'S REPORT

for the year ended 31 October 2020

Important Information

Refer to the 'Important Information' section on page 12.

Investment Objective and Policy

The LF Prudential Risk Managed Active 2 ('the Fund') aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 10%.

There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 10%. Capital invested is at risk.

The Fund aims to achieve its objective through investing at least 70% in actively managed collective investment schemes. The Fund has a flexible investment approach with the freedom to invest in different types of assets to meet its objective. The Portfolio Manager will use in-depth research to forecast the expected change in value and risk of the different types of assets over a forward-looking 15-year period. This analysis is then used to work out the mix of assets (the "target strategic asset allocation") to invest in to achieve the Fund's objective. The Portfolio Manager will review the target strategic asset allocation on an ongoing basis.

Based on the target strategic asset allocation, the Portfolio Manager constructs an actively managed portfolio to provide diversified, indirect exposure to global fixed income and variable rate assets, cash (including money market funds and near cash), equities and/or immovable property.

The Fund will have a bias towards lower risk assets such as fixed income assets and cash but will always have some exposure to equities. The Portfolio Manager will adjust the asset allocation on an ongoing basis to reflect changes in the target strategic asset allocation and to take advantage of tactical investment opportunities.

The Portfolio Manager will select collective investment schemes to invest in from a focused range of funds and fund management groups (which may include other funds managed by the ACD, Portfolio Manager and their associates).

The Fund may also invest directly in equities, equity related instruments (e.g. warrants), fixed income and cash or near cash. It may also invest in alternative investments (e.g. infrastructure, private equity, alternative credit and hedge funds). Derivative instruments may also be used for the purposes of efficient portfolio management.

Other Information: The Fund's objective to stay within its specified risk profile may restrict the types and proportions of the assets it holds and limit the potential gains and losses.

LF PRUDENTIAL RISK MANAGED ACTIVE 2

ACD'S REPORT *continued*

Benchmark

The Fund's comparator benchmark is the IA Mixed Investment 20-60% shares sector.

The Fund's performance may be compared against the IA Mixed Investment 20-60% shares sector. The ACD believes that this is an appropriate comparator for the Fund given the investment objective and policy of the Fund. Many funds sold in the UK are grouped into sectors by the Investment Association (the trade body that represents UK investment managers), to help investors to compare funds with broadly similar characteristics.

LINK FUND SOLUTIONS LIMITED

ACD of LF Prudential Risk Managed Active 2

26 February 2021

LF PRUDENTIAL RISK MANAGED ACTIVE 2

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2020

Between 1 November 2019 and 31 October 2020 (the period in review) share classes R (Acc) -0.20%¹, P (Acc) 0.01%¹ and A (Acc) -0.20%¹ produced returns that were ahead of the -1.65%¹ sector average for the IA Mixed Investment 20-60% Shares Sector.

Market Overview

Early on in 2020 and before the gravity of the coronavirus situation became apparent, developed market equities were broadly flat, and Asia and emerging markets slightly down.

Towards the end of February, the reality hit that a potential human tragedy was unfolding which would dramatically affect economic activity. Sentiment plummeted across markets as investors rushed to sell financial assets. The speed of the sell-off was notable, albeit off the back of strong performance in 2019, which had been driven by the hope of economic activity improving.

Equity markets became highly sensitive to case news. In February alone, there were over 18 days where the S&P 500 Index was either up or down by more than 3%. Corporate bond markets were also volatile as secondary markets and liquidity evaporated. Spreads on 1-year investment grade bonds jumped nearly 300bps in US and around 200bps in the UK and Europe. The moves in high yield were amplified with 1-year US high yield bonds spiking over 700bps and in the UK and Europe between 560/600bps.

Major stock markets experienced a remarkable rebound during the second quarter following the steep declines seen during the onset of the pandemic. The FTSE World Index rose 19.9% over the period. An extraordinary level of central bank stimulus and government support in the world's major economies came to the aid of many consumers and businesses and was welcomed by investors.

Global investor sentiment stayed fairly positive during the third quarter despite a bleak (albeit recovering) global economic backdrop and a resurgence of virus cases in many developed countries. The majority of stock markets continued to rise following the rebound seen in the second quarter. Global economic activity data for the summer months improved as restrictions were eased and most economies could reopen.

Governments and central banks from across the world remained supportive towards the needs of businesses and consumers. However, despite positive news surrounding potential vaccines and better treatment outcomes, a resurgence of virus cases in the US and Europe scuppered any hope of a rapid return to normality for the global economy. This certainly impacted markets towards the end of the period in review.

Positioning

The portfolio management team implemented the 2020 strategic asset allocation review in June across all funds in the range.

¹ Source: FE Analytics.

LF PRUDENTIAL RISK MANAGED ACTIVE 2

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT *continued*

The key headlines were a small increase in overall equity exposure mainly weighted towards the UK due to attractive medium-term valuations. New allocations to Chinese and African equities were also made to capture the future growth potential of these regions.

There was a small overall reduction to fixed income, whilst adding a new allocation to Emerging Market Debt and increasing exposure to Asian Bonds.

Exposure to property and alternatives was maintained.

From a tactical asset allocation perspective, towards the end of the period in review the portfolio manager has added a small exposure to Asia ex-Japan and US equity, being of the view that markets would place more weight on stimulus introduced than on any worsening of COVID-19 cases. A small UK REITs position is held across all portfolios as long-term valuations look attractive.

Outlook

Markets will continue to be sensitive to COVID-19 related news, periods of uncertainty and investor nervousness will likely re-occur. As ever, trying to time markets and be precise on a timeframe for a return to normality is very difficult so it is important to try and balance portfolios to be robust in the short-term whilst still looking for long-term opportunities as capital markets evolve.

The portfolio managers remain fully focused on adhering to the long-standing investment philosophy and processes. The team has no greater insight into the future than anyone else but has concentrated on what can be controlled, which is how they invest both now and in the future.

M&G INVESTMENT MANAGEMENT LIMITED

Portfolio Manager

17 November 2020

LF PRUDENTIAL RISK MANAGED ACTIVE 2

ACD'S REPORT *continued*

FUND INFORMATION

Risk and Reward Profile



This indicator shows how much a fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a fund's past volatility the higher the number on the scale and the greater the risk that investors in that fund may have made losses as well as gains.

The Fund has been classed as 4 because its volatility has been measured as average.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of this Fund.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

The Fund targets a risk level of 2 which is a level of risk relative to the 4 other funds in the range. The risk and reward profile scale above is calculated differently. The two measures are not comparable. The lowest number on the scale does not mean that a fund is risk free.

Currency Risk: As the Fund can be exposed to different currencies, changes in the exchange rate may decrease the value of your investment.

Changes in Interest Rate Risk: A rise in interest rates generally causes bond prices to fall.

Credit Risk: The value of a bond may be affected by its credit rating, the lower the rating the higher the risk of the issuer not paying interest or repaying the loan.

Property Fund Investment Risk: Property funds can become illiquid increasing the risk that a position cannot be sold in a timely manner or at a reasonable price.

Counterparty Risk: The failure of a firm involved in a transaction with the Fund or providing services to the Fund may expose the Fund to financial loss.

Derivative Risk: A derivative may not perform as expected and may create losses greater than its cost.

For full details of the Fund's risks, please see the Prospectus which may be obtained upon application and can be found on the ACD's website, www.linkfundsolutions.co.uk.

LF PRUDENTIAL RISK MANAGED ACTIVE 2

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables

Where the Fund has significant investment in collective investment schemes, the operating charges take account of the ongoing charges incurred in the underlying schemes, calculated as the expense value of such holdings at the year end weighted against the net asset value of the share class at that date. Following regulatory changes, the Operating Charges Figure takes account of the ongoing charges incurred in closed-ended underlying schemes calculated as the expense value of such holdings at the period end weighted against the net asset value of the share class at that date.

'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	148.46	141.84	145.92
Return before operating charges*	0.58	10.63	0.34
Operating charges	(1.26)	(1.74)	(3.23)
Return after operating charges	(0.68)	8.89	(2.89)
Distributions	(1.42)	(2.27)	(1.19)
Closing net asset value per share	146.36	148.46	141.84
* after direct transaction costs of:	—	—	0.01

PERFORMANCE

Return after charges	(0.45)%	6.27%	(1.98)%
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OTHER INFORMATION

Closing net asset value (£'000)	1,235	1,375	1,594
Closing number of shares	844,034	926,273	1,123,463
Operating charges	0.86%	1.19%	2.22%
Direct transaction costs	—	—	—

PRICES

Highest share price	153.29	152.33	148.53
Lowest share price	128.87	137.88	142.24

LF PRUDENTIAL RISK MANAGED ACTIVE 2

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'A' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	166.17	156.38	159.53
Return before operating charges*	0.65	11.67	0.38
Operating charges	(1.40)	(1.88)	(3.53)
Return after operating charges	(0.75)	9.79	(3.15)
Distributions	(1.59)	(2.50)	(1.30)
Retained distributions on accumulation shares	1.59	2.50	1.30
Closing net asset value per share	165.42	166.17	156.38
* after direct transaction costs of:	—	0.01	0.01

PERFORMANCE

Return after charges	(0.45)%	6.26%	(1.97)%
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OTHER INFORMATION

Closing net asset value (£'000)	10,076	10,449	12,753
Closing number of shares	6,091,166	6,288,183	8,155,311
Operating charges	0.85%	1.17%	2.22%
Direct transaction costs	—	—	—

PRICES

Highest share price	171.55	167.91	162.36
Lowest share price	144.25	152.04	155.50

LF PRUDENTIAL RISK MANAGED ACTIVE 2

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'C' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	149.10	142.44	146.57
Return before operating charges*	0.38	10.39	(0.01)
Operating charges	(0.18)	(0.45)	(1.48)
Return after operating charges	0.20	9.94	(1.49)
Distributions	(2.30)	(3.28)	(2.64)
Closing net asset value per share	147.00	149.10	142.44
* after direct transaction costs of:	—	—	0.01

PERFORMANCE

Return after charges	0.13%	6.98%	(1.01)%
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OTHER INFORMATION

Closing net asset value (£'000)	67,694	72,063	47,382
Closing number of shares	46,050,671	48,331,331	33,265,271
Operating charges	0.12%	0.31%	1.00%
Direct transaction costs	—	—	—

PRICES

Highest share price	154.22	153.76	150.19
Lowest share price	129.73	138.66	144.25

LF PRUDENTIAL RISK MANAGED ACTIVE 2

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	120.79	115.40	118.75
Return before operating charges*	0.42	8.57	0.09
Operating charges	(0.72)	(0.99)	(1.75)
Return after operating charges	(0.30)	7.58	(1.66)
Distributions	(1.39)	(2.19)	(1.69)
Closing net asset value per share	119.10	120.79	115.40
* after direct transaction costs of:	—	—	0.01

PERFORMANCE

Return after charges	(0.25)%	6.57%	(1.40)%
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OTHER INFORMATION

Closing net asset value (£'000)	6,617	5,893	5,566
Closing number of shares	5,555,466	4,878,345	4,822,795
Operating charges	0.60%	0.83%	1.47%
Direct transaction costs	—	—	—

PRICES

Highest share price	124.91	124.34	121.45
Lowest share price	104.93	112.28	116.43

LF PRUDENTIAL RISK MANAGED ACTIVE 2

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	134.04	125.77	127.54
Return before operating charges*	0.46	9.33	0.11
Operating charges	(0.79)	(1.06)	(1.88)
Return after operating charges	(0.33)	8.27	(1.77)
Distributions	(1.55)	(2.39)	(1.82)
Retained distributions on accumulation shares	1.55	2.39	1.82
Closing net asset value per share	133.71	134.04	125.77
* after direct transaction costs of:	—	—	0.01

PERFORMANCE

Return after charges	(0.25)%	6.58%	(1.39)%
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OTHER INFORMATION

Closing net asset value (£'000)	158,641	115,411	95,727
Closing number of shares	118,649,636	86,102,231	76,115,053
Operating charges	0.60%	0.82%	1.47%
Direct transaction costs	—	—	—

PRICES

Highest share price	138.56	135.46	130.39
Lowest share price	116.44	122.40	125.06

LF PRUDENTIAL RISK MANAGED ACTIVE 2

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'R' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	149.44	140.50	142.76
Return before operating charges*	0.58	10.52	0.21
Operating charges	(1.25)	(1.58)	(2.47)
Return after operating charges	(0.67)	8.94	(2.26)
Distributions	(1.43)	(2.38)	(1.74)
Retained distributions on accumulation shares	1.43	2.38	1.74
Closing net asset value per share	148.77	149.44	140.50
* after direct transaction costs of:	—	—	0.01

PERFORMANCE

Return after charges	(0.45)%	6.36%	(1.58)%
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OTHER INFORMATION

Closing net asset value (£'000)	25,357	21,604	15,939
Closing number of shares	17,044,730	14,456,888	11,344,755
Operating charges	0.85%	1.09%	1.72%
Direct transaction costs	—	—	—

PRICES

Highest share price	154.31	151.03	145.65
Lowest share price	129.72	136.69	139.71

LF PRUDENTIAL RISK MANAGED ACTIVE 2

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Fund Performance to 31 October 2020 (%)

	1 year	3 years	5 years
LF Prudential Risk Managed Active 2	0.01	5.29	23.36

The performance of the Fund is based on the published price per 'P' Accumulation share which includes reinvested income.

The performance of the Fund disclosed in the above table may differ from the 'Return after charges' disclosed in the Comparative Table due to the above performance being calculated on the latest published price prior to the year end, rather than the year end return after operating charges.

Details of the distributions per share for the year are shown in the Distribution Table on pages 92 and 93.

RISK WARNING

An investment in an open-ended investment company should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

LF PRUDENTIAL RISK MANAGED ACTIVE 2

ACD'S REPORT *continued*

PORTFOLIO STATEMENT

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	EQUITY PORTFOLIOS – 23.52% (31.10.19 – 24.52%)		
	CONTINENTAL EUROPE – 3.35% (31.10.19 – 2.77%)		
510,945	LF Prudential European QIS ¹	4,497	1.67
249,856	M&G European Select ¹	4,531	1.68
	TOTAL CONTINENTAL EUROPE	9,028	3.35
	UNITED KINGDOM – 8.48% (31.10.19 – 8.61%)		
3,109,711	LF Prudential UK Growth QIS ¹	9,187	3.41
2,316,371	M&G Recovery ¹	5,241	1.94
519,412	M&G UK Select ¹	8,429	3.13
	TOTAL UNITED KINGDOM	22,857	8.48
	ASIA EX JAPAN – 5.10% (31.10.19 – 5.13%)		
1,273,203	Eastspring Developed and Emerging Asia Equity	13,754	5.10
	TOTAL ASIA EX JAPAN	13,754	5.10
	JAPAN – 1.58% (31.10.19 – 2.30%)		
568,674	Eastspring Japan Equity	4,276	1.58
	TOTAL JAPAN	4,276	1.58
	NORTH AMERICA – 3.18% (31.10.19 – 3.54%)		
373,763	LF Prudential North American QIS ¹	4,401	1.63
167,488	M&G North American Value ¹	4,176	1.55
	TOTAL NORTH AMERICA	8,577	3.18
	EMERGING MARKETS – 1.83% (31.10.19 – 2.17%)		
444,371	Eastspring Emerging Asia Equity	4,944	1.83
	TOTAL EMERGING MARKETS	4,944	1.83
	TOTAL EQUITY PORTFOLIOS	63,436	23.52

LF PRUDENTIAL RISK MANAGED ACTIVE 2

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	EQUITY INVESTMENT INSTRUMENTS – 4.26% (31.10.19 – 4.10%)		
774,984	BBGI ²	1,341	0.50
1,261,956	BioPharma Credit ²	968	0.36
474,050	Blue Capital Alternative Income ^{2,3}	15	0.01
95,239	Boussard & Gavaudan ²	1,498	0.55
629,385	DP Aircraft I ²	19	0.01
177,060	HarbourVest Global Private Equity ²	3,031	1.12
442,607	HgCapital ²	1,308	0.49
300,186	NB Distressed Debt Investment ²	104	0.04
797,362	NextEnergy Solar ²	855	0.32
608,491	Renewables Infrastructure ²	823	0.30
1,433,410	SDCL Energy Efficiency Income ²	1,498	0.56
	TOTAL EQUITY INVESTMENT INSTRUMENTS	11,460	4.26
	PROPERTY PORTFOLIOS – 4.07% (31.10.19 – 4.24%)		
413,349	iShares UK Property	1,970	0.73
6,582,799	Legal & General UK Property	5,984	2.22
321,725	M&G Property Portfolio ¹	3,010	1.12
	TOTAL PROPERTY PORTFOLIOS	10,964	4.07
	BOND PORTFOLIOS – 57.73% (31.10.19 – 55.32%)		
338,466	Eastspring Asian Bond	3,936	1.46
1,210,540	Eastspring Asian Local Bond	11,601	4.30
2,662,050	Eastspring US Corporate Bond	31,990	11.86
5,078,306	M&G Emerging Markets Bond ¹	5,410	2.01
169,421	M&G European Credit Investment ¹	19,451	7.21
1,533,553	M&G Global Convertibles ¹	3,825	1.42
9,933,235	M&G Global High Yield Bond ¹	13,559	5.03
17,143,574	M&G Short Dated Corporate Bond ¹	4,442	1.65
23,940,161	M&G Strategic Corporate Bond ¹	30,658	11.37
28,428,855	Royal London Corporate Bond	30,788	11.42
	TOTAL BOND PORTFOLIOS	155,660	57.73

LF PRUDENTIAL RISK MANAGED ACTIVE 2

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	FUTURES – (0.26)% (31.10.19 – 0.07%)		
79	EURO STOXX 50 Index Futures December 2020	(121)	(0.05)
110	FTSE 100 Index Futures December 2020	(308)	(0.11)
153	FTSE China A50 Futures November 2020	(8)	–
61	FTSE/JSE Top 40 Futures December 2020	(73)	(0.03)
23	S&P 500 E Mini Index Futures December 2020	(99)	(0.04)
11	TOPIX Index Futures December 2020	(58)	(0.02)
54	US Treasury Note 10 Year Futures December 2020	(34)	(0.01)
	TOTAL FUTURES	(701)	(0.26)
	Portfolio of investments ⁴	240,819	89.32
	Net other assets	28,801	10.68
	Net assets	269,620	100.00

The investments have been valued in accordance with note 1(F) of the Accounting Policies and are collective investment schemes unless stated otherwise.

¹ Related party holding (see note 12).

² Closed-ended fund.

³ Delisted security.

⁴ Includes investment liabilities.

LF PRUDENTIAL RISK MANAGED ACTIVE 2

ACD'S REPORT *continued*

SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2020

Total purchases for the year £'000 (note 16)	74,131	Total sales for the year £'000 (note 16)	31,233
	Cost £'000		Proceeds £'000
Major purchases		Major sales	
FTSE 100 Index Futures December 2020	12,858	Eastspring US Corporate Bond	7,737
US Treasury Note 10 Year Futures December 2020	11,571	US Treasury Note 10 Year Futures June 2020	6,454
M&G Global High Yield Bond	7,924	FTSE 100 Index Futures December 2020	6,390
Royal London Corporate Bond	7,500	US Treasury Note 10 Year Futures December 2020	5,836
Eastspring US Corporate Bond	6,591	US Treasury Note 10 Year Futures September 2020	5,523
M&G European Credit Investment	6,515	US Treasury Note 10 Year Futures March 2020	5,227
M&G Strategic Corporate Bond	5,909	M&G Global High Yield Bond	4,919
US Treasury Note 10 Year Futures June 2020	5,897	FTSE 100 Index Futures September 2020	4,836
US Treasury Note 10 Year Futures September 2020	5,877	US Treasury Note 10 Year Futures December 2019	4,832
M&G Emerging Markets Bond	5,504	FTSE 100 Index Futures December 2019	4,557

In addition to the above, purchases totalling £5,932,886,000 and sales totalling £5,926,684,000 were made in short term investments during the year.

Purchases and sales of Futures have been included at the value of their exposure and are not included in the total purchases and sales figures above.

The summary of material portfolio changes represents the 10 largest purchases and sales during the year.

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS

STATEMENT OF TOTAL RETURN

for the year ended 31 October 2020

	Notes	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Income:					
Net capital (losses)/gains	3		(3,290)		8,196
Revenue	4	4,528		4,620	
Expenses	5	(997)		(575)	
Interest payable and similar charges	6	(7)		(4)	
Net revenue before taxation		3,524		4,041	
Taxation	7	(457)		(649)	
Net revenue after taxation			3,067		3,392
Total return before distributions			(223)		11,588
Distributions	8		(3,052)		(3,453)
Change in net assets attributable to shareholders from investment activities			(3,275)		8,135

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2020

	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Opening net assets attributable to shareholders		226,795		178,961
Amounts receivable on issue of shares	59,661		61,353	
Amounts payable on redemption of shares	(15,740)		(24,219)	
		43,921		37,134
Change in net assets attributable to shareholders from investment activities		(3,275)		8,135
Retained distributions on Accumulation shares		2,179		2,563
Unclaimed distributions		—		2
Closing net assets attributable to shareholders		269,620		226,795

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS *continued*

BALANCE SHEET

as at 31 October 2020

	Notes	31.10.20 £'000	31.10.19 £'000
ASSETS			
Fixed assets			
Investments		241,520	200,142
Current assets			
Debtors	9	2,127	1,356
Cash and cash equivalents	10	28,434	28,471
Total assets		<u>272,081</u>	<u>229,969</u>
LIABILITIES			
Investment liabilities		(701)	(2)
Provisions for liabilities		(5)	(54)
Creditors			
Distribution payable	11	(1,149)	(1,712)
Other creditors	11	(606)	(1,406)
Total liabilities		<u>(2,461)</u>	<u>(3,174)</u>
Net assets attributable to shareholders		<u>269,620</u>	<u>226,795</u>

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2020

1. Accounting Policies

The accounting policies described on pages 22 to 24 have been applied to the financial statements of the Fund in the current and prior year. The additional accounting policy described below has also been applied to this Fund.

(A) TREATMENT OF EXPENSES

The Fund receives a rebate of the Annual Management Charge in relation to related party investments in the Fund. This is to eliminate double charging and, as such, is not a reduction in expenses suffered by shareholders.

2. Distribution Policies

The distribution policies described on pages 24 and 25 have been applied to the financial statements of the Fund in the current and prior year.

3. Net Capital (Losses)/Gains

The net capital (losses)/gains during the year comprise:

	31.10.20 £'000	31.10.19 £'000
Non-derivative securities	(3,336)	7,923
Derivative contracts	(154)	266
Transaction charges	(2)	(2)
AMC rebates from underlying investments	142	37
Currency gains/(losses)	65	(27)
Broker's commission on futures	(5)	(1)
Net capital (losses)/gains	(3,290)	8,196

The net capital (losses)/gains figure includes realised gains of £1,658,000 and unrealised gains of £2,794,000 (31.10.19: includes realised gains of £17,446,000 and unrealised gains of £7,877,000). The realised gains on investments in the current year include amounts previously recognised as unrealised gains in the prior year.

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

4. Revenue

	31.10.20 £'000	31.10.19 £'000
Non-taxable dividends	1,161	1,104
Taxable dividends	6	132
UK property income distributions	263	479
Unfranked interest	2,371	2,380
AMC rebates from underlying investments	726	523
Bank interest	–	2
Currency gain on cash at broker interest	1	–
Total revenue	4,528	4,620

5. Expenses

	31.10.20 £'000	31.10.19 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	968	826
Administration fees	–	59
ACD reimbursement to revenue ¹	–	(335)
	968	550

¹ This relates to a rebate paid by the ACD in order to maintain the individual sub-fund's Ongoing Charges Figure ('OCF') at a level considered appropriate by the ACD. Once the Extraordinary General Meeting in December 2018 approved the various changes to the Company effective from 21 January 2019, Prudential Distribution Limited ('PDL'), as sponsor, wanted to ensure that shareholders benefitted immediately from the resultant lower OCFs, rather than the OCF charge reduction coming through over the 6 month period where the Portfolio Manager transitioned the portfolios. Therefore, the ACD effectively introduced a cap on the OCF and the costs of applying this cap during the 6 month transition period were met by PDL as sponsor of the sub-funds in the Company.

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	19	16
Safe custody and other bank charges	2	1
	21	17
Other expenses:		
Audit fees	8	8
Total expenses	997	575

The Portfolio Manager's fees and expenses (plus VAT thereon) for providing portfolio management services are paid by the ACD out of its remuneration.

6. Interest Payable and Similar Charges

	31.10.20 £'000	31.10.19 £'000
Interest payable	2	4
Futures interest payable	5	–
Total interest payable and similar charges	7	4

7. Taxation

	31.10.20 £'000	31.10.19 £'000
a) Analysis of charge for the year		
Corporation tax	506	610
Irrecoverable overseas tax	–	3
Current tax charge	506	613
Deferred tax – origination and reversal of timing differences (note 7c)	(49)	36
Total taxation (note 7b)	457	649

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

b) Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK for an authorised fund (20%) (31.10.19: 20%). The difference is explained below:

	31.10.20 £'000	31.10.19 £'000
Net revenue before taxation	3,524	4,041
Corporation tax at 20%	705	808
Effects of:		
Non-taxable dividends	(232)	(220)
Capital income subject to taxation	(44)	51
Rebated capital expenses deductible for tax purposes	28	7
Irrecoverable overseas tax	—	3
Total tax charge (note 7a)	457	649
c) Deferred tax		
Provision at the start of the year	54	18
Deferred tax charge in the year (note 7a)	(49)	36
Provision at the end of the year	5	54

8. Distributions

The distributions take account of revenue received on the issue of shares and revenue deducted on redemptions of shares, and comprise:

	31.10.20 £'000	31.10.19 £'000
Final	3,328	4,275
	3,328	4,275
Add: Revenue deducted on redemption of shares	112	256
Deduct: Revenue received on issue of shares	(388)	(1,078)
Net distribution for the year	3,052	3,453

Details of the distributions per share are set out in the table on pages 92 and 93.

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Distributions represented by:		
Net revenue after taxation	3,067	3,392
Allocations to capital:		
Tax relief to/from capital	(15)	59
Equalisation on conversions ¹	—	2
Net distribution for the year	3,052	3,453

9. Debtors

	31.10.20 £'000	31.10.19 £'000
Amounts receivable for issue of shares	1,422	1,064
Sales awaiting settlement	—	57
Accrued revenue:		
Non-taxable dividends	6	20
UK property income distributions	21	17
Unfranked interest	16	—
AMC rebates from underlying investments	628	151
	671	188
Taxation recoverable:		
Income tax	34	47
Total debtors	2,127	1,356

¹ Where an investor converts to a class with a higher income yield, the investor will receive an equalisation as if they had held the new class throughout the period from the last distribution to the conversion date. The yield differential at the point of conversion is an equalisation which will be offset by capital erosion for the converted investor.

LF PRUDENTIAL RISK MANAGED ACTIVE 2
FINANCIAL STATEMENTS *continued*
NOTES TO THE FINANCIAL STATEMENTS *continued*
for the year ended 31 October 2020

10. Cash and Cash Equivalents

	31.10.20 £'000	31.10.19 £'000
Bank balances	26,485	28,138
Margin account	1,949	333
Total cash and cash equivalents	28,434	28,471

11. Creditors

	31.10.20 £'000	31.10.19 £'000
Distribution payable	1,149	1,712
Other Creditors		
Amounts payable for redemption of shares	238	374
Purchases awaiting settlement	–	1,025
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	88	70
ACD reimbursement to revenue	–	(335)
	88	(265)
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	2	1
Transaction charges	–	1
	2	2
Taxation payable:		
Corporation tax	270	262
Other expenses	8	8
Total other creditors	606	1,406

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

12. Related Party Transactions

The Annual Management Charge and administration fees payable to Link Fund Solutions Limited ('the ACD') are disclosed in note 5 and amounts due at the year end are disclosed in note 11.

The aggregate monies received by the ACD through the issue of shares and paid on redemption of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders on page 76 and amounts due at the year end are disclosed in notes 9 and 11.

Link Fund Solutions Limited and its associates (including other authorised investment funds managed by Link Fund Solutions or its associates) held 148,984 (31.10.19: 117,926) of the Fund's shares at the balance sheet date.

M&G Investment Management Limited and its associates (including other authorised investment funds managed by M&G Investment Management Limited) held 38,957,104 (31.10.19: 40,688,752) of the Fund's shares at the balance sheet date.

A shareholder may be able to exercise significant influence over the financial and operating policies of the Fund and as such is deemed to be a related party. At the balance sheet date the following shareholders held in excess of 20% of the shares in issue of the Fund:

Allfunds Nominee Limited	23.83% (31.10.19 13.28%)
Prudential plc and its associates	20.06% (31.10.19: 25.28%)

As part of the investment strategy, the Fund may from time to time hold shares in other collective investment schemes managed by the same Portfolio Manager or for which Link Fund Solutions Limited is also the ACD. At the balance sheet date the value of the holdings was as follows:

	31.10.20 £'000	31.10.19 £'000
Portfolio Manager in common	102,732	82,587
Portfolio Manager and ACD in common	18,085	14,672

13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.19: none).

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.74%	0.74%	0.00%
Opening shares in issue	926,273	6,288,183	48,331,331
Issues	7,095	475,365	3,628,935
Redemptions	(89,334)	(672,382)	(5,909,595)
Closing shares in issue	844,034	6,091,166	46,050,671

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.49%	0.49%	0.74%
Opening shares in issue	4,878,345	86,102,231	14,456,888
Issues	1,563,767	35,119,154	3,567,840
Redemptions	(886,646)	(2,571,749)	(979,998)
Closing shares in issue	5,555,466	118,649,636	17,044,730

15. Risk Management Policies

In pursuing the investment objective a number of financial instruments are held which may comprise securities and other investments, cash balances and debtors and creditors that arise directly from operations. Derivatives, such as futures or forward currency contracts, may be utilised for Efficient Portfolio Management (including hedging) purposes.

The main risks from the Fund's holding of financial instruments, together with the ACD's policy for managing these risks, are set out below:

The ACD has in place a Risk Management Policy and Procedures Document ('RMPPD') that sets out the risks that may impact a fund and how the ACD seeks, where appropriate, to manage, monitor and mitigate those risks, and in particular those risks associated with the use of derivatives. The RMPPD sets out both the framework and the risk mitigations operated by the ACD in managing the identified risks of the Fund. The ACD requires that the appointed Portfolio Manager to the Fund has in place its own governance structure, policies and procedures that are commensurate with its regulatory obligations and the risks posed by the fund managed.

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

(A) CREDIT RISK

Credit risk is the risk that a counterparty may be unable or unwilling to make a payment or fulfil contractual obligations. This may be in terms of an actual default or by deterioration in a counterparty's credit quality.

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its obligations. As part of its due diligence process, the ACD undertakes a review of the controls operated over counterparties by the Portfolio Manager, including initial and ongoing due diligence and business volumes placed with each counterparty. In cases which are dependent on the counterparty settling at the transaction's maturity date, the ACD has policies in place which set out the minimum credit quality expected of a market counterparty or deposit taker at the outset of the transaction.

There were futures contracts held at the balance sheet date. Details of the individual contracts are disclosed separately in the Portfolio Statement and the total position by counterparty at the balance sheet date was as follows:

31.10.20 Counterparty	Futures £'000	Net cash collateral pledged £'000
JPMorgan	(8)	–
NatWest	(693)	–
31.10.19 Counterparty	Futures £'000	Net cash collateral pledged £'000
NatWest	163	–

(B) INTEREST RATE RISK

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes. The value of fixed interest securities may be affected by changes in interest rates, either globally or locally. Changes in the rate of return in one asset class may influence the valuation basis of other classes. The amount of revenue receivable from floating rate investments and bank balances or payable on bank overdrafts will be affected by fluctuations in interest rates. Investment in collective investment schemes exposes the Fund to indirect interest rate risk to the extent that they invest in interest bearing securities, the returns from which will be affected by fluctuations in interest rates.

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

The Fund invests in collective investment schemes and as such does not have any significant direct exposure to interest rate risk. The Fund is indirectly exposed to interest rate risk through its investment in collective investment schemes. As the Fund has no direct exposure to interest rate risk, no interest rate risk table or sensitivity analysis has been presented.

(C) FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the Sterling value of investments will fluctuate as a result of exchange rate movements. Assets denominated in currencies other than Sterling will provide direct exposure to currency risk as a consequence of the movement in foreign exchange rates when calculating the Sterling equivalent value. Investment in collective investment schemes may provide indirect exposure to currency risk as a consequence of the movement in foreign exchange rates.

Where the Fund invests in non-Sterling assets, the Portfolio Manager allows for the foreign currency risk when considering whether to invest and does not seek to hedge this risk.

The table below shows the foreign currency risk profile at the balance sheet date:

	31.10.20 Gross £'000	31.10.20 Hedged £'000	31.10.20 Net £'000
Currency:			
Euro currency	1,756	—	1,756
Japanese yen	(71)	—	(71)
South African rand	323	—	323
US dollars	36,112	—	36,112
Total foreign currency exposure	38,120	—	38,120
Pounds sterling	231,500	—	231,500
Total net assets	269,620	—	269,620
	31.10.19 Gross £'000	31.10.19 Hedged £'000	31.10.19 Net £'000
Currency:			
Euro currency	2,558	—	2,558
US dollars	29,289	—	29,289
Total foreign currency exposure	31,847	—	31,847
Pounds sterling	194,948	—	194,948
Total net assets	226,795	—	226,795

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

A 5% change in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £1,906,000 on the net assets of the Fund (31.10.19: £1,592,000).

(D) LEVERAGE

The ACD is required to calculate and monitor the level of leverage of the Fund, expressed as a ratio between the exposure of the Fund and its Net Asset Value, under both the gross and commitment methods (in accordance with articles 7 and 8 of The Alternative Investment Fund Managers Regulations 2013). For a fund with no borrowing or derivative usage the leverage ratio would be 1:1 under the commitment method. The gross method calculation excludes cash and cash equivalents which are highly liquid.

As at 31.10.20, leverage under the gross method was 0.89:1 and leverage under the commitment method was 1:1 (31.10.19: 0.88:1 and 1:1 respectively).

(E) LIQUIDITY RISK

The main liability of the Fund is the redemption of any shares that investors want to sell. Investments may have to be sold to fund such redemptions should insufficient cash be held at the bank to meet this obligation.

The ACD monitors the liquidity profile of the Fund on a daily basis. In assessing the liquidity profile of the Fund, the ACD assesses how much of the Fund can be realised in one and five days, under normal and stressed market conditions, and the impact this would have on the overall subsequent liquidity profile. In assessing the liquidity of a company's shares, the ACD utilises the lower of the 5 and 30 day average market volume of that company's shares. Where a risk is identified then a more in depth review is undertaken to establish its significance, by assessing the liquidity profile of the Fund against a 25% market participation of the average daily volume. Based on this analysis 80.14% of the portfolio can be liquidated within 5 days and 80.15% within 30 days. Given this and the ACD's understanding of the investor base, it is considered that the liquidity profile of the Fund is appropriate.

All financial liabilities are payable in one year or less, or on demand.

(F) MARKET PRICE RISK

Market price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds.

Market price risk represents the potential loss the Fund may suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to price fluctuations, which are monitored by the ACD in pursuance of the investment objective and policy. The risk is generally regarded as consisting of two elements – stock specific risk and market risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit stock specific risk. Subject to compliance with the investment objective, spreading exposure across a broad range of global stocks can mitigate market risk.

A 5% increase in the value of the Fund's portfolio would have the effect of increasing the return and net assets by £12,041,000 (31.10.19: £10,007,000). A 5% decrease would have an equal and opposite effect.

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

(G) DERIVATIVES

The economic exposure of futures derivative contracts is equal to the market value. The value of the exposure and the related counterparty are disclosed in the Portfolio of Investments.

16. Portfolio Transaction Costs

31.10.20	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	810	—	2	812
Collective investment schemes	73,314	1	4	73,319
Purchases total	74,124	1	6	74,131
<i>Transaction cost % of purchases total</i>		—	0.01%	
<i>Transaction cost % of average NAV</i>		—	—	
Ordinary shares	1,193	—	—	1,193
Collective investment schemes	30,041	(1)	—	30,040
Sales total	31,234	(1)	—	31,233
<i>Transaction cost % of sales total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	

Average portfolio dealing spread at 31.10.20 is 0.18% (31.10.19: 0.21%).

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

31.10.19	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	1,000	–	–	1,000
Collective investment schemes	149,638	1	2	149,641
Purchases total	<u>150,638</u>	<u>1</u>	<u>2</u>	<u>150,641</u>
<i>Transaction cost % of purchases total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	
Ordinary shares	2,821	(1)	–	2,820
Collective investment schemes	135,436	(1)	–	135,435
Sales total	<u>138,257</u>	<u>(2)</u>	<u>–</u>	<u>138,255</u>
<i>Transaction cost % of sales total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	

The collective investment schemes include closed-ended funds.

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

17. Fair Value Hierarchy

Investments are categorised into the following levels based on their fair value measurement:

Level 1: Unadjusted quoted price in an active market for an identical instrument;

Level 2: Valuation techniques using observable inputs other than quoted prices within Level 1;

Level 3: Valuation techniques using unobservable inputs (see note 1(F) of the Accounting Policies).

31.10.20	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	13,415	228,090	15	241,520
Investment liabilities	(701)	—	—	(701)

31.10.19	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	9,391	190,686	65	200,142
Investment liabilities	(2)	—	—	(2)

18. Subsequent Events

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic. In the immediate aftermath, global markets experienced a period of significant volatility which negatively impacted the performance of the Fund at the balance sheet date. Subsequent to that date and whilst markets have remained relatively volatile there has, in the period until the account signing date, been a general recovery in the markets.

This means that since the balance sheet date the price of each of the Fund's share classes has moved as follows:

Share class	Balance sheet date	22.02.21	Movement
'A' Income	146.36	157.54	7.64%
'A' Accumulation	165.42	178.04	7.63%
'C' Income	147.00	158.52	7.84%
'P' Income	119.10	128.27	7.70%
'P' Accumulation	133.71	144.00	7.70%
'R' Accumulation	148.77	160.12	7.63%

LF PRUDENTIAL RISK MANAGED ACTIVE 2

FINANCIAL STATEMENTS *continued*

DISTRIBUTION TABLE

for the year ended 31 October 2020 – in pence per share

EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares – the applicable distribution periods for each distribution are shown below). It represents the accrued revenue included in the purchase price of the shares. After averaging it is returned with the distribution as a capital repayment. It is not liable to Income Tax but must be deducted from the cost of the shares for Capital Gains Tax purposes.

Group 2	Final
From	01.11.19
To	31.10.20

'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.4197	–	1.4197	2.2687
Group 2	1.0070	0.4127	1.4197	2.2687

'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.5874	–	1.5874	2.5048
Group 2	0.3223	1.2651	1.5874	2.5048

'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	2.3001	–	2.3001	3.2783
Group 2	0.8306	1.4695	2.3001	3.2783

'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.3938	–	1.3938	2.1914
Group 2	0.6588	0.7350	1.3938	2.1914

LF PRUDENTIAL RISK MANAGED ACTIVE 2
FINANCIAL STATEMENTS *continued*
DISTRIBUTION TABLE *continued*

'P' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.5493	–	1.5493	2.3935
Group 2	0.7103	0.8390	1.5493	2.3935

'R' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.4299	–	1.4299	2.3834
Group 2	0.7804	0.6495	1.4299	2.3834

LF PRUDENTIAL RISK MANAGED ACTIVE 3 ACD'S REPORT

for the year ended 31 October 2020

Important Information

Refer to the 'Important Information' section on page 12.

Investment Objective and Policy

The LF Prudential Risk Managed Active 3 ('the Fund') aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 12%.

There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 12%. Capital invested is at risk.

The Fund aims to achieve its objective through investing at least 70% in actively managed collective investment schemes. The Fund has a flexible investment approach with the freedom to invest in different types of assets to meet its objective. The Portfolio Manager will use in-depth research to forecast the expected change in value and risk of the different types of assets over a forward-looking 15-year period. This analysis is then used to work out the mix of assets (the "target strategic asset allocation") to invest in to achieve the Fund's objective. The Portfolio Manager will review the target strategic asset allocation on an ongoing basis.

Based on the target strategic asset allocation, the Portfolio Manager constructs an actively managed portfolio to provide diversified, indirect exposure to global fixed income and variable rate assets, cash (including money market funds and near cash), equities and/or immovable property.

The Fund will be balanced between lower risk assets, such as fixed income assets and cash, and higher risk assets, such as equities. From time to time, however, the Fund may have a higher exposure to either higher risk or lower risk assets with the aim of meeting the Fund's objective. The Portfolio Manager will adjust the asset allocation on an ongoing basis to reflect changes in the target strategic asset allocation and to take advantage of tactical investment opportunities.

The Portfolio Manager will select collective investment schemes to invest in from a focused range of funds and fund management groups (which may include other funds managed by the ACD, Portfolio Manager and their associates).

The Fund may also invest directly in equities, equity related instruments (e.g. warrants), fixed income and cash or near cash. It may also invest in alternative investments (e.g. infrastructure, private equity, alternative credit and hedge funds). Derivative instruments may also be used for the purposes of efficient portfolio management.

Other Information: The Fund's objective to stay within its specified risk profile may restrict the types and proportions of the assets it holds and limit the potential gains and losses.

LF PRUDENTIAL RISK MANAGED ACTIVE 3

ACD'S REPORT *continued*

Benchmark

The Fund's comparator benchmark is the IA Mixed Investment 20-60% shares sector.

The Fund's performance may be compared against the IA Mixed Investment 20-60% shares sector. The ACD believes that this is an appropriate comparator for the Fund given the investment objective and policy of the Fund. Many funds sold in the UK are grouped into sectors by the Investment Association (the trade body that represents UK investment managers), to help investors to compare funds with broadly similar characteristics.

LINK FUND SOLUTIONS LIMITED

ACD of LF Prudential Risk Managed Active 3

26 February 2021

LF PRUDENTIAL RISK MANAGED ACTIVE 3

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2020

Between 1 November 2019 and 31 October 2020 (the period in review) share classes R (Acc) -1.95%¹, A (Acc) -1.95%¹ and P (Acc) -1.75%¹ produced returns behind the -1.65%¹ sector average for IA Mixed Investment 20-60% Shares Sector.

Market Overview

Early on in 2020 and before the gravity of the coronavirus situation became apparent, developed market equities were broadly flat, and Asia and emerging markets slightly down.

Towards the end of February, the reality hit that a potential human tragedy was unfolding which would dramatically affect economic activity. Sentiment plummeted across markets as investors rushed to sell financial assets. The speed of the sell-off was notable, albeit off the back of strong performance in 2019, which had been driven by the hope of economic activity improving.

Equity markets became highly sensitive to case news. In February alone, there were over 18 days where the S&P 500 Index was either up or down by more than 3%. Corporate bond markets were also volatile as secondary markets and liquidity evaporated. Spreads on 1-year investment grade bonds jumped nearly 300bps in US and around 200bps in the UK and Europe. The moves in high yield were amplified with 1-year US high yield bonds spiking over 700bps and in the UK and Europe between 560/600bps.

Major stock markets experienced a remarkable rebound during the second quarter following the steep declines seen during the onset of the pandemic. The FTSE World Index rose 19.9% over the period. An extraordinary level of central bank stimulus and government support in the world's major economies came to the aid of many consumers and businesses and was welcomed by investors.

Global investor sentiment stayed fairly positive during the third quarter despite a bleak (albeit recovering) global economic backdrop and a resurgence of virus cases in many developed countries. The majority of stock markets continued to rise following the rebound seen in the second quarter. Global economic activity data for the summer months improved as restrictions were eased and most economies could reopen.

Governments and central banks from across the world remained supportive towards the needs of businesses and consumers. However, despite positive news surrounding potential vaccines and better treatment outcomes, a resurgence of virus cases in the US and Europe scuppered any hope of a rapid return to normality for the global economy. This certainly impacted markets towards the end of the period in review.

Positioning

The portfolio management team implemented the 2020 strategic asset allocation review in June across all funds in the range.

¹ Source: FE Analytics.

LF PRUDENTIAL RISK MANAGED ACTIVE 3

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT *continued*

The key headlines were a small increase in overall equity exposure mainly weighted towards the UK due to attractive medium-term valuations. New allocations to Chinese and African equities were also made to capture the future growth potential of these regions.

There was a small overall reduction to fixed income, whilst adding a new allocation to Emerging Market Debt and increasing exposure to Asian Bonds.

Exposure to property and alternatives was maintained.

From a tactical asset allocation perspective, towards the end of the period in review the portfolio manager has added a small exposure to Asia ex-Japan and US equity, being of the view that markets would place more weight on stimulus introduced than on any worsening of COVID-19 cases. A small UK REITs position is held across all portfolios as long-term valuations look attractive.

Outlook

Markets will continue to be sensitive to COVID-19 related news, periods of uncertainty and investor nervousness will likely re-occur. As ever, trying to time markets and be precise on a timeframe for a return to normality is very difficult so it is important to try and balance portfolios to be robust in the short-term whilst still looking for long-term opportunities as capital markets evolve.

The portfolio managers remain fully focused on adhering to the long-standing investment philosophy and processes. The team has no greater insight into the future than anyone else but has concentrated on what can be controlled, which is how they invest both now and in the future.

M&G INVESTMENT MANAGEMENT LIMITED

Portfolio Manager

17 November 2020

LF PRUDENTIAL RISK MANAGED ACTIVE 3

ACD'S REPORT *continued*

FUND INFORMATION

Risk and Reward Profile



This indicator shows how much a fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a fund's past volatility the higher the number on the scale and the greater the risk that investors in that fund may have made losses as well as gains.

The Fund has been classed as 4 because its volatility has been measured as average.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of this Fund.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

The Fund targets a risk level of 3 which is a level of risk relative to the 4 other funds in the range. The risk and reward profile scale above is calculated differently. The two measures are not comparable. The lowest number on the scale does not mean that a fund is risk free.

Currency Risk: As the Fund can be exposed to different currencies, changes in the exchange rate may decrease the value of your investment.

Changes in Interest Rate Risk: A rise in interest rates generally causes bond prices to fall.

Credit Risk: The value of a bond may be affected by its credit rating, the lower the rating the higher the risk of the issuer not paying interest or repaying the loan.

Property Fund Investment Risk: Property funds can become illiquid increasing the risk that a position cannot be sold in a timely manner or at a reasonable price.

Counterparty Risk: The failure of a firm involved in a transaction with the Fund or providing services to the Fund may expose the Fund to financial loss.

Derivative Risk: A derivative may not perform as expected and may create losses greater than its cost.

For full details of the Fund's risks, please see the Prospectus which may be obtained upon application and can be found on the ACD's website, www.linkfundsolutions.co.uk.

LF PRUDENTIAL RISK MANAGED ACTIVE 3

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables

Where the Fund has significant investment in collective investment schemes, the operating charges take account of the ongoing charges incurred in the underlying schemes, calculated as the expense value of such holdings at the year end weighted against the net asset value of the share class at that date. Following regulatory changes, the Operating Charges Figure takes account of the ongoing charges incurred in closed-ended underlying schemes calculated as the expense value of such holdings at the period end weighted against the net asset value of the share class at that date.

'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	158.05	151.15	155.47
Return before operating charges*	(2.03)	11.07	0.36
Operating charges	(1.33)	(1.90)	(3.57)
Return after operating charges	(3.36)	9.17	(3.21)
Distributions	(1.63)	(2.27)	(1.11)
Closing net asset value per share	153.06	158.05	151.15
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	(2.13)%	6.06%	(2.06)%
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OTHER INFORMATION

Closing net asset value (£'000)	1,337	1,543	1,831
Closing number of shares	873,634	976,520	1,211,022
Operating charges	0.86%	1.22%	2.28%
Direct transaction costs	0.01%	–	–

PRICES

Highest share price	164.21	163.10	159.40
Lowest share price	134.07	146.97	151.05

LF PRUDENTIAL RISK MANAGED ACTIVE 3

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'A' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	174.50	164.52	167.97
Return before operating charges*	(2.24)	12.05	0.40
Operating charges	(1.47)	(2.07)	(3.85)
Return after operating charges	(3.71)	9.98	(3.45)
Distributions	(1.80)	(2.47)	(1.21)
Retained distributions on accumulation shares	1.80	2.47	1.21
Closing net asset value per share	170.79	174.50	164.52
* after direct transaction costs of:	0.01	0.01	0.01

PERFORMANCE

Return after charges	(2.13)%	6.07%	(2.05)%
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OTHER INFORMATION

Closing net asset value (£'000)	10,299	10,992	12,119
Closing number of shares	6,030,148	6,299,239	7,366,825
Operating charges	0.86%	1.22%	2.28%
Direct transaction costs	0.01%	—	—

PRICES

Highest share price	181.23	177.45	172.16
Lowest share price	147.96	159.93	163.20

LF PRUDENTIAL RISK MANAGED ACTIVE 3

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'C' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	158.66	151.71	156.09
Return before operating charges*	(2.27)	10.89	(0.05)
Operating charges	(0.19)	(0.58)	(1.67)
Return after operating charges	(2.46)	10.31	(1.72)
Distributions	(2.56)	(3.36)	(2.66)
Closing net asset value per share	153.64	158.66	151.71
* after direct transaction costs of:	0.01	0.01	0.01

PERFORMANCE

Return after charges	(1.55)%	6.79%	(1.10)%
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OTHER INFORMATION

Closing net asset value (£'000)	87,171	94,549	74,027
Closing number of shares	56,736,598	59,593,138	48,794,905
Operating charges	0.12%	0.37%	1.06%
Direct transaction costs	0.01%	–	–

PRICES

Highest share price	165.05	164.55	161.32
Lowest share price	134.89	147.72	153.13

LF PRUDENTIAL RISK MANAGED ACTIVE 3

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	124.01	118.58	121.99
Return before operating charges*	(1.66)	8.62	0.09
Operating charges	(0.74)	(1.04)	(1.88)
Return after operating charges	(2.40)	7.58	(1.79)
Distributions	(1.52)	(2.15)	(1.62)
Closing net asset value per share	120.09	124.01	118.58
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	(1.94)%	6.39%	(1.47)%
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OTHER INFORMATION

Closing net asset value (£'000)	9,396	9,460	7,266
Closing number of shares	7,824,056	7,628,716	6,127,224
Operating charges	0.61%	0.85%	1.53%
Direct transaction costs	0.01%	–	–

PRICES

Highest share price	129.06	128.42	125.86
Lowest share price	105.43	115.49	119.24

LF PRUDENTIAL RISK MANAGED ACTIVE 3

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	136.42	128.23	130.14
Return before operating charges*	(1.81)	9.33	0.10
Operating charges	(0.81)	(1.14)	(2.01)
Return after operating charges	(2.62)	8.19	(1.91)
Distributions	(1.68)	(2.32)	(1.73)
Retained distributions on accumulation shares	1.68	2.32	1.73
Closing net asset value per share	133.80	136.42	128.23
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	(1.92)%	6.39%	(1.47)%
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OTHER INFORMATION

Closing net asset value (£'000)	201,851	165,983	121,388
Closing number of shares	150,862,344	121,667,901	94,664,765
Operating charges	0.61%	0.86%	1.53%
Direct transaction costs	0.01%	–	–

PRICES

Highest share price	141.93	138.83	134.22
Lowest share price	115.93	124.91	127.20

LF PRUDENTIAL RISK MANAGED ACTIVE 3

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'R' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	155.28	146.25	148.72
Return before operating charges*	(2.00)	10.69	0.19
Operating charges	(1.30)	(1.66)	(2.66)
Return after operating charges	(3.30)	9.03	(2.47)
Distributions	(1.61)	(2.35)	(1.67)
Retained distributions on accumulation shares	1.61	2.35	1.67
Closing net asset value per share	151.98	155.28	146.25
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	(2.13)%	6.17%	(1.66)%
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OTHER INFORMATION

Closing net asset value (£'000)	23,967	18,384	12,151
Closing number of shares	15,768,869	11,839,111	8,308,515
Operating charges	0.86%	1.10%	1.78%
Direct transaction costs	0.01%	–	–

PRICES

Highest share price	161.34	157.96	153.00
Lowest share price	131.73	142.32	145.08

LF PRUDENTIAL RISK MANAGED ACTIVE 3

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Fund Performance to 31 October 2020 (%)

	1 year	3 years	5 years
LF Prudential Risk Managed Active 3	(1.75)	2.90	22.94

The performance of the Fund is based on the published price per 'P' Accumulation share which includes reinvested income.

The performance of the Fund disclosed in the above table may differ from the 'Return after charges' disclosed in the Comparative Table due to the above performance being calculated on the latest published price prior to the year end, rather than the year end return after operating charges.

Details of the distributions per share for the year are shown in the Distribution Table on pages 126 and 127.

RISK WARNING

An investment in an open-ended investment company should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

LF PRUDENTIAL RISK MANAGED ACTIVE 3

ACD'S REPORT *continued*

PORTFOLIO STATEMENT

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	EQUITY PORTFOLIOS – 33.89% (31.10.19 – 36.95%)		
	CONTINENTAL EUROPE – 4.88% (31.10.19 – 5.10%)		
949,563	LF Prudential European QIS ¹	8,357	2.50
438,385	M&G European Select ¹	7,950	2.38
	TOTAL CONTINENTAL EUROPE	16,307	4.88
	UNITED KINGDOM – 12.20% (31.10.19 – 13.24%)		
5,810,221	LF Prudential UK Growth QIS ¹	17,165	5.14
4,109,796	M&G Recovery ¹	9,299	2.78
880,971	M&G UK Select ¹	14,296	4.28
	TOTAL UNITED KINGDOM	40,760	12.20
	ASIA EX JAPAN – 6.99% (31.10.19 – 7.12%)		
2,162,531	Eastspring Developed and Emerging Asia Equity	23,361	6.99
	TOTAL ASIA EX JAPAN	23,361	6.99
	JAPAN – 2.40% (31.10.19 – 3.14%)		
1,065,219	Eastspring Japan Equity	8,010	2.40
	TOTAL JAPAN	8,010	2.40
	NORTH AMERICA – 4.83% (31.10.19 – 5.37%)		
711,052	LF Prudential North American QIS ¹	8,373	2.51
311,645	M&G North American Value ¹	7,771	2.32
	TOTAL NORTH AMERICA	16,144	4.83
	EMERGING MARKETS – 2.59% (31.10.19 – 2.98%)		
777,652	Eastspring Emerging Asia Equity	8,653	2.59
	TOTAL EMERGING MARKETS	8,653	2.59
	TOTAL EQUITY PORTFOLIOS	113,235	33.89

LF PRUDENTIAL RISK MANAGED ACTIVE 3

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	EQUITY INVESTMENT INSTRUMENTS – 5.09% (31.10.19 – 5.16%)		
1,150,746	BBGI ²	1,991	0.60
1,853,697	BioPharma Credit ²	1,422	0.42
819,485	Blue Capital Alternative Income ^{2,3}	26	0.01
142,541	Boussard & Gavaudan ²	2,243	0.67
1,087,483	DP Aircraft I ²	34	0.01
262,834	HarbourVest Global Private Equity ²	4,500	1.35
657,457	HgCapital ²	1,943	0.58
450,602	NB Distressed Debt Investment ²	156	0.05
1,184,987	NextEnergy Solar ²	1,270	0.38
904,216	Renewables Infrastructure ²	1,222	0.36
2,098,719	SDCL Energy Efficiency Income ²	2,193	0.66
	TOTAL EQUITY INVESTMENT INSTRUMENTS	17,000	5.09
	PROPERTY PORTFOLIOS – 5.19% (31.10.19 – 5.25%)		
518,444	iShares UK Property	2,470	0.74
11,561,951	Legal & General UK Property	10,510	3.15
464,278	M&G Property Portfolio ¹	4,343	1.30
	TOTAL PROPERTY PORTFOLIOS	17,323	5.19
	BOND PORTFOLIOS – 46.23% (31.10.19 – 43.10%)		
343,577	Eastspring Asian Bond	3,995	1.20
1,215,680	Eastspring Asian Local Bond	11,650	3.49
2,543,944	Eastspring US Corporate Bond	30,571	9.15
6,247,660	M&G Emerging Markets Bond ¹	6,656	1.99
162,188	M&G European Credit Investment ¹	18,621	5.57
1,565,493	M&G Global Convertibles ¹	3,905	1.17
12,535,268	M&G Global High Yield Bond ¹	17,111	5.12
11,706,770	M&G Short Dated Corporate Bond ¹	3,033	0.91
22,710,690	M&G Strategic Corporate Bond ¹	29,083	8.71
27,503,551	Royal London Corporate Bond	29,786	8.92
	TOTAL BOND PORTFOLIOS	154,411	46.23

LF PRUDENTIAL RISK MANAGED ACTIVE 3

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	FUTURES – (0.28)% (31.10.19 – 0.04%)		
103	EURO STOXX 50 Index Futures December 2020	(145)	(0.04)
161	FTSE 100 Index Futures December 2020	(449)	(0.13)
255	FTSE China A50 Futures November 2020	(13)	(0.01)
107	FTSE/JSE Top 40 Futures December 2020	(129)	(0.04)
23	S&P 500 E Mini Index Futures December 2020	(99)	(0.03)
15	TOPIX Index Futures December 2020	(80)	(0.02)
55	US Treasury Note 10 Year Futures December 2020	(35)	(0.01)
	TOTAL FUTURES	(950)	(0.28)
	Portfolio of investments ⁴	301,019	90.12
	Net other assets	33,002	9.88
	Net assets	334,021	100.00

The investments have been valued in accordance with note 1(F) of the Accounting Policies and are collective investment schemes unless stated otherwise.

¹ Related party holding (see note 12).

² Closed-ended fund.

³ Delisted security.

⁴ Includes investment liabilities.

LF PRUDENTIAL RISK MANAGED ACTIVE 3

ACD'S REPORT *continued*

SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2020

Total purchases for the year £'000 (note 16)	81,611	Total sales for the year £'000 (note 16)	45,616
	Cost £'000		Proceeds £'000
Major purchases		Major sales	
FTSE 100 Index Futures December 2020	18,881	FTSE 100 Index Futures December 2020	9,409
US Treasury Note 10 Year Futures December 2020	11,785	Eastspring US Corporate Bond	9,372
M&G Global High Yield Bond	9,873	FTSE 100 Index Futures June 2020	7,910
FTSE 100 Index Futures March 2020	8,995	FTSE 100 Index Futures September 2020	7,559
FTSE 100 Index Futures September 2020	7,611	M&G Global High Yield Bond	6,917
Royal London Corporate Bond	7,361	US Treasury Note 10 Year Futures June 2020	6,779
M&G European Credit Investment	7,239	FTSE 100 Index Futures March 2020	6,596
FTSE 100 Index Futures June 2020	7,030	US Treasury Note 10 Year Futures December 2020	5,944
M&G Emerging Markets Bond	6,773	US Treasury Note 10 Year Futures September 2020	5,740
US Treasury Note 10 Year Futures June 2020	6,204	FTSE China A50 Futures October 2020	5,610

In addition to the above, purchases totalling £7,176,781,000 and sales totalling £7,176,834,000 were made in short term investments during the year.

Purchases and sales of Futures have been included at the value of their exposure and are not included in the total purchases and sales figures above.

The summary of material portfolio changes represents the 10 largest purchases and sales during the year.

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS

STATEMENT OF TOTAL RETURN

for the year ended 31 October 2020

	Notes	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Income:					
Net capital (losses)/gains	3		(10,232)		10,962
Revenue	4	6,040		5,801	
Expenses	5	(1,241)		(674)	
Interest payable and similar charges	6	(11)		(10)	
Net revenue before taxation		4,788		5,117	
Taxation	7	(482)		(774)	
Net revenue after taxation			4,306		4,343
Total return before distributions			(5,926)		15,305
Distributions	8		(4,250)		(4,447)
Change in net assets attributable to shareholders from investment activities			(10,176)		10,858

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2020

	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Opening net assets attributable to shareholders		300,911		228,782
Amounts receivable on issue of shares	59,303		78,877	
Amounts payable on redemption of shares	(18,913)		(20,864)	
		40,390		58,013
Change in net assets attributable to shareholders from investment activities		(10,176)		10,858
Retained distributions on Accumulation shares		2,896		3,256
Unclaimed distributions		—		2
Closing net assets attributable to shareholders		334,021		300,911

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS *continued*

BALANCE SHEET

as at 31 October 2020

	Notes	31.10.20 £'000	31.10.19 £'000
ASSETS			
Fixed assets			
Investments		301,969	272,319
Current assets			
Debtors	9	2,047	11,376
Cash and cash equivalents	10	33,128	50,158
Total assets		<u>337,144</u>	<u>333,853</u>
LIABILITIES			
Investment liabilities		(950)	(2)
Provisions for liabilities		(7)	(99)
Creditors			
Distribution payable	11	(1,586)	(2,187)
Other creditors	11	(580)	(30,654)
Total liabilities		<u>(3,123)</u>	<u>(32,942)</u>
Net assets attributable to shareholders		<u>334,021</u>	<u>300,911</u>

LF PRUDENTIAL RISK MANAGED ACTIVE 3 **FINANCIAL STATEMENTS** *continued* **NOTES TO THE FINANCIAL STATEMENTS** for the year ended 31 October 2020

1. Accounting Policies

The accounting policies described on pages 22 to 24 have been applied to the financial statements of the Fund in the current and prior year. The additional accounting policy described below has also been applied to this Fund.

(A) TREATMENT OF EXPENSES

The Fund receives a rebate of the Annual Management Charge in relation to related party investments in the Fund. This is to eliminate double charging and, as such, is not a reduction in expenses suffered by shareholders.

2. Distribution Policies

The distribution policies described on pages 24 and 25 have been applied to the financial statements of the Fund in the current and prior year.

3. Net Capital (Losses)/Gains

The net capital (losses)/gains during the year comprise:

	31.10.20 £'000	31.10.19 £'000
Non-derivative securities	(9,042)	10,671
Derivative contracts	(1,335)	264
Transaction charges	(2)	(2)
AMC rebates from underlying investments	147	52
Currency gains/(losses)	8	(21)
Broker's commission on futures	(8)	(2)
Net capital (losses)/gains	(10,232)	10,962

The net capital (losses)/gains figure includes realised gains of £420,000 and unrealised losses of £4,060,000 (31.10.19: includes realised gains of £28,270,000 and unrealised gains of £6,729,000). The realised gains on investments in the current year include amounts previously recognised as unrealised gains in the prior year.

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

4. Revenue

	31.10.20 £'000	31.10.19 £'000
Non-taxable dividends	2,098	1,778
Taxable dividends	13	120
UK property income distributions	426	765
Unfranked interest	2,539	2,422
AMC rebates from underlying investments	962	712
Bank interest	2	4
Total revenue	6,040	5,801

5. Expenses

	31.10.20 £'000	31.10.19 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	1,207	1,006
Administration fees	–	75
ACD reimbursement to revenue ¹	–	(436)
	1,207	645
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	24	19
Safe custody and other bank charges	2	2
	26	21

¹ This relates to a rebate paid by the ACD in order to maintain the individual sub-fund's Ongoing Charges Figure ('OCF') at a level considered appropriate by the ACD. Once the Extraordinary General Meeting in December 2018 approved the various changes to the Company effective from 21 January 2019, Prudential Distribution Limited ('PDL'), as sponsor, wanted to ensure that shareholders benefitted immediately from the resultant lower OCFs, rather than the OCF charge reduction coming through over the 6 month period where the Portfolio Manager transitioned the portfolios. Therefore, the ACD effectively introduced a cap on the OCF and the costs of applying this cap during the 6 month transition period were met by PDL as sponsor of the sub-funds in the Company.

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Other expenses:		
Audit fees	8	8
Total expenses	1,241	674

The Portfolio Manager's fees and expenses (plus VAT thereon) for providing portfolio management services are paid by the ACD out of its remuneration.

6. Interest Payable and Similar Charges

	31.10.20 £'000	31.10.19 £'000
Interest payable	4	9
Futures interest payable	7	1
Total interest payable and similar charges	11	10

7. Taxation

	31.10.20 £'000	31.10.19 £'000
a) Analysis of charge for the year		
Corporation tax	574	702
Irrecoverable overseas tax	–	3
Current tax charge	574	705
Deferred tax – origination and reversal of timing differences (note 7c)	(92)	69
Total taxation (note 7b)	482	774

b) Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK for an authorised fund (20%) (31.10.19: 20%). The difference is explained below:

	31.10.20 £'000	31.10.19 £'000
Net revenue before taxation	4,788	5,117
Corporation tax at 20%	958	1,023

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Effects of:		
Non-taxable dividends	(420)	(355)
Capital income subject to taxation	(85)	93
Rebated capital expenses deductible for tax purposes	29	10
Irrecoverable overseas tax	—	3
Total tax charge (note 7a)	482	774
c) Deferred tax		
Provision at the start of the year	99	30
Deferred tax charge in the year (note 7a)	(92)	69
Provision at the end of the year	7	99

8. Distributions

The distributions take account of revenue received on the issue of shares and revenue deducted on redemptions of shares, and comprise:

	31.10.20 £'000	31.10.19 £'000
Final	4,482	5,443
	4,482	5,443
Add: Revenue deducted on redemption of shares	156	225
Deduct: Revenue received on issue of shares	(388)	(1,221)
Net distribution for the year	4,250	4,447

Details of the distributions per share are set out in the table on pages 126 and 127.

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Distributions represented by:		
Net revenue after taxation	4,306	4,343
Allocations to capital:		
Tax relief to/from capital	(56)	103
Equalisation on conversions ¹	—	1
Net distribution for the year	<u>4,250</u>	<u>4,447</u>

9. Debtors

	31.10.20 £'000	31.10.19 £'000
Amounts receivable for issue of shares	1,104	1,031
Sales awaiting settlement	—	9,948
Accrued revenue:		
Non-taxable dividends	9	36
Taxable dividends	—	30
UK property income distributions	29	1
Unfranked interest	11	—
AMC rebates from underlying investments	835	254
	884	321
Taxation recoverable:		
Income tax	59	76
Total debtors	<u>2,047</u>	<u>11,376</u>

¹ Where an investor converts to a class with a higher income yield, the investor will receive an equalisation as if they had held the new class throughout the period from the last distribution to the conversion date. The yield differential at the point of conversion is an equalisation which will be offset by capital erosion for the converted investor.

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

10. Cash and Cash Equivalents

	31.10.20 £'000	31.10.19 £'000
Bank balances	30,539	49,876
Margin account	2,589	282
Total cash and cash equivalents	33,128	50,158

11. Creditors

	31.10.20 £'000	31.10.19 £'000
Distribution payable	1,586	2,187
Other Creditors		
Amounts payable for redemption of shares	160	340
Purchases awaiting settlement	–	30,331
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	108	91
ACD reimbursement to revenue	–	(436)
	108	(345)
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	2	2
Transaction charges	–	1
Safe custody and other bank charges	–	1
	2	4
Taxation payable:		
Corporation tax	302	316
Other expenses	8	8
Total other creditors	580	30,654

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

12. Related Party Transactions

The Annual Management Charge and administration fees payable to Link Fund Solutions Limited ('the ACD') are disclosed in note 5 and amounts due at the year end are disclosed in note 11.

The aggregate monies received by the ACD through the issue of shares and paid on redemption of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders on page 110 and amounts due at the year end are disclosed in notes 9 and 11.

Link Fund Solutions Limited and its associates (including other authorised investment funds managed by Link Fund Solutions or its associates) held 93,653 (31.10.19: 135,299) of the Fund's shares at the balance sheet date.

M&G Investment Management Limited and its associates (including other authorised investment funds managed by M&G Investment Management Limited) held 45,621,611 (31.10.19: 47,411,604) of the Fund's shares at the balance sheet date.

A shareholder may be able to exercise significant influence over the financial and operating policies of the Fund and as such is deemed to be a related party. At the balance sheet date the following shareholder held in excess of 20% of the shares in issue of the Fund:

Allfunds Nominee Limited 24.50% (31.10.19: 13.17%)

As part of the investment strategy, the Fund may from time to time hold shares in other collective investment schemes managed by the same Portfolio Manager or for which Link Fund Solutions Limited is also the ACD. At the balance sheet date the value of the holdings was as follows:

	31.10.20 £'000	31.10.19 £'000
Portfolio Manager in common	122,068	108,537
Portfolio Manager and ACD in common	33,895	30,441

13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.19: none).

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.74%	0.74%	0.00%
Opening shares in issue	976,520	6,299,239	59,593,138
Issues	40,635	470,525	3,679,553
Redemptions	(143,521)	(739,616)	(6,536,093)
Conversions	—	—	—
Closing shares in issue	<u>873,634</u>	<u>6,030,148</u>	<u>56,736,598</u>

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.49%	0.49%	0.74%
Opening shares in issue	7,628,716	121,667,901	11,839,111
Issues	1,168,935	32,478,106	5,070,172
Redemptions	(973,595)	(3,298,564)	(1,127,313)
Conversions	—	14,901	(13,101)
Closing shares in issue	<u>7,824,056</u>	<u>150,862,344</u>	<u>15,768,869</u>

15. Risk Management Policies

In pursuing the investment objective a number of financial instruments are held which may comprise securities and other investments, cash balances and debtors and creditors that arise directly from operations. Derivatives, such as futures or forward currency contracts, may be utilised for Efficient Portfolio Management (including hedging) purposes.

The main risks from the Fund's holding of financial instruments, together with the ACD's policy for managing these risks, are set out below:

The ACD has in place a Risk Management Policy and Procedures Document ('RMPPD') that sets out the risks that may impact a fund and how the ACD seeks, where appropriate, to manage, monitor and mitigate those risks, and in particular those risks associated with the use of derivatives. The RMPPD sets out both the framework and the risk mitigations operated by the ACD in managing the identified risks of the Fund. The ACD requires that the appointed Portfolio Manager to the Fund has in place its own governance structure, policies and procedures that are commensurate with its regulatory obligations and the risks posed by the fund managed.

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

(A) CREDIT RISK

Credit risk is the risk that a counterparty may be unable or unwilling to make a payment or fulfil contractual obligations. This may be in terms of an actual default or by deterioration in a counterparty's credit quality.

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its obligations. As part of its due diligence process, the ACD undertakes a review of the controls operated over counterparties by the Portfolio Manager, including initial and ongoing due diligence and business volumes placed with each counterparty. In cases which are dependent on the counterparty settling at the transaction's maturity date, the ACD has policies in place which set out the minimum credit quality expected of a market counterparty or deposit taker at the outset of the transaction.

There were futures contracts held at the balance sheet date. Details of the individual contracts are disclosed separately in the Portfolio Statement and the total position by counterparty at the balance sheet date was as follows:

31.10.20 Counterparty	Futures £'000	Net cash collateral pledged £'000
JPMorgan	(13)	–
NatWest	(937)	–
31.10.19 Counterparty	Futures £'000	Net cash collateral pledged £'000
NatWest	129	–

(B) INTEREST RATE RISK

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes. The value of fixed interest securities may be affected by changes in interest rates, either globally or locally. Changes in the rate of return in one asset class may influence the valuation basis of other classes. The amount of revenue receivable from floating rate investments and bank balances or payable on bank overdrafts will be affected by fluctuations in interest rates. Investment in collective investment schemes exposes the Fund to indirect interest rate risk to the extent that they invest in interest bearing securities, the returns from which will be affected by fluctuations in interest rates.

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

The Fund invests in collective investment schemes and as such does not have any significant direct exposure to interest rate risk. The Fund is indirectly exposed to interest rate risk through its investment in collective investment schemes. As the Fund has no direct exposure to interest rate risk, no interest rate risk table or sensitivity analysis has been presented.

(C) FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the Sterling value of investments will fluctuate as a result of exchange rate movements. Assets denominated in currencies other than Sterling will provide direct exposure to currency risk as a consequence of the movement in foreign exchange rates when calculating the Sterling equivalent value. Investment in collective investment schemes may provide indirect exposure to currency risk as a consequence of the movement in foreign exchange rates.

Where the Fund invests in non-Sterling assets, the Portfolio Manager allows for the foreign currency risk when considering whether to invest and does not seek to hedge this risk.

The table below shows the foreign currency risk profile at the balance sheet date:

	31.10.20 Gross £'000	31.10.20 Hedged £'000	31.10.20 Net £'000
Currency:			
Euro currency	2,496	—	2,496
Japanese yen	191	—	191
South African rand	316	—	316
US dollars	53,788	—	53,788
Total foreign currency exposure	56,791	—	56,791
Pounds sterling	277,230	—	277,230
Total net assets	334,021	—	334,021
	31.10.19 Gross £'000	31.10.19 Hedged £'000	31.10.19 Net £'000
Currency:			
Euro currency	3,708	—	3,708
US dollars	48,374	—	48,374
Total foreign currency exposure	52,082	—	52,082
Pounds sterling	248,829	—	248,829
Total net assets	300,911	—	300,911

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

A 5% change in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £2,840,000 on the net assets of the Fund (31.10.19: £2,604,000).

(D) LEVERAGE

The ACD is required to calculate and monitor the level of leverage of the Fund, expressed as a ratio between the exposure of the Fund and its Net Asset Value, under both the gross and commitment methods (in accordance with articles 7 and 8 of The Alternative Investment Fund Managers Regulations 2013). For a fund with no borrowing or derivative usage the leverage ratio would be 1:1 under the commitment method. The gross method calculation excludes cash and cash equivalents which are highly liquid.

As at 31.10.20, leverage under the gross method was 0.9:1 and leverage under the commitment method was 1:1 (31.10.19: 0.9:1 and 1:1 respectively).

(E) LIQUIDITY RISK

The main liability of the Fund is the redemption of any shares that investors want to sell. Investments may have to be sold to fund such redemptions should insufficient cash be held at the bank to meet this obligation.

The ACD monitors the liquidity profile of the Fund on a daily basis. In assessing the liquidity profile of the Fund, the ACD assesses how much of the Fund can be realised in one and five days, under normal and stressed market conditions, and the impact this would have on the overall subsequent liquidity profile. In assessing the liquidity of a company's shares, the ACD utilises the lower of the 5 and 30 day average market volume of that company's shares. Where a risk is identified then a more in depth review is undertaken to establish its significance, by assessing the liquidity profile of the Fund against a 25% market participation of the average daily volume. Based on this analysis 75.79% of the portfolio can be liquidated within 5 days and 77.13% within 30 days. Given this and the ACD's understanding of the investor base, it is considered that the liquidity profile of the Fund is appropriate.

All financial liabilities are payable in one year or less, or on demand.

(F) MARKET PRICE RISK

Market price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds.

Market price risk represents the potential loss the Fund may suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to price fluctuations, which are monitored by the ACD in pursuance of the investment objective and policy. The risk is generally regarded as consisting of two elements – stock specific risk and market risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit stock specific risk. Subject to compliance with the investment objective, spreading exposure across a broad range of global stocks can mitigate market risk.

A 5% increase in the value of the Fund's portfolio would have the effect of increasing the return and net assets by £15,051,000 (31.10.19: £13,616,000). A 5% decrease would have an equal and opposite effect.

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

(G) DERIVATIVES

The economic exposure of futures derivative contracts is equal to the market value. The value of the exposure and the related counterparty are disclosed in the Portfolio of Investments.

16. Portfolio Transaction Costs

31.10.20	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	972	—	2	974
Collective investment schemes	80,630	2	5	80,637
Purchases total	81,602	2	7	81,611
<i>Transaction cost % of purchases total</i>		—	0.01%	
<i>Transaction cost % of average NAV</i>		—	—	
Ordinary shares	1,768	(1)	—	1,767
Collective investment schemes	43,850	(1)	—	43,849
Sales total	45,618	(2)	—	45,616
<i>Transaction cost % of sales total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	

Average portfolio dealing spread at 31.10.20 is 0.24% (31.10.19: 0.27%).

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

31.10.19	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	1,696	–	–	1,696
Collective investment schemes	241,689	1	3	241,693
Purchases total	<u>243,385</u>	<u>1</u>	<u>3</u>	<u>243,389</u>
<i>Transaction cost % of purchases total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	
Ordinary shares	3,491	(2)	–	3,489
Collective investment schemes	209,744	(2)	–	209,742
Sales total	<u>213,235</u>	<u>(4)</u>	<u>–</u>	<u>213,231</u>
<i>Transaction cost % of sales total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	

The collective investment schemes include closed-ended funds.

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

17. Fair Value Hierarchy

Investments are categorised into the following levels based on their fair value measurement:

Level 1: Unadjusted quoted price in an active market for an identical instrument;

Level 2: Valuation techniques using observable inputs other than quoted prices within Level 1;

Level 3: Valuation techniques using unobservable inputs (see note 1(F) of the Accounting Policies).

31.10.20	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	19,444	282,499	26	301,969
Investment liabilities	(950)	—	—	(950)

31.10.19	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	15,522	256,684	113	272,319
Investment liabilities	(2)	—	—	(2)

18. Subsequent Events

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic. In the immediate aftermath, global markets experienced a period of significant volatility which negatively impacted the performance of the Fund at the balance sheet date. Subsequent to that date and whilst markets have remained relatively volatile there has, in the period until the account signing date, been a general recovery in the markets.

This means that since the balance sheet date the price of each of the Fund's share classes has moved as follows:

Share class	Balance sheet date	22.02.21	Movement
'A' Income	153.06	168.21	9.90%
'A' Accumulation	170.79	187.69	9.90%
'C' Income	153.64	169.16	10.10%
'P' Income	120.09	132.07	9.98%
'P' Accumulation	133.80	147.14	9.97%
'R' Accumulation	151.98	167.02	9.90%

LF PRUDENTIAL RISK MANAGED ACTIVE 3

FINANCIAL STATEMENTS *continued*

DISTRIBUTION TABLE

for the year ended 31 October 2020 – in pence per share

EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares – the applicable distribution periods for each distribution are shown below). It represents the accrued revenue included in the purchase price of the shares. After averaging it is returned with the distribution as a capital repayment. It is not liable to Income Tax but must be deducted from the cost of the shares for Capital Gains Tax purposes.

Group 2	Final
From	01.11.19
To	31.10.20

'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.6255	–	1.6255	2.2655
Group 2	1.0250	0.6005	1.6255	2.2655

'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.7995	–	1.7995	2.4707
Group 2	0.9948	0.8047	1.7995	2.4707

'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	2.5608	–	2.5608	3.3580
Group 2	1.1254	1.4354	2.5608	3.3580

'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.5240	–	1.5240	2.1464
Group 2	0.7561	0.7679	1.5240	2.1464

LF PRUDENTIAL RISK MANAGED ACTIVE 3
FINANCIAL STATEMENTS *continued*
DISTRIBUTION TABLE *continued*

'P' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.6796	–	1.6796	2.3202
Group 2	0.7816	0.8980	1.6796	2.3202

'R' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.6052	–	1.6052	2.3455
Group 2	0.7762	0.8290	1.6052	2.3455

LF PRUDENTIAL RISK MANAGED ACTIVE 4 ACD'S REPORT

for the year ended 31 October 2020

Important Information

Refer to the 'Important Information' section on page 12.

Investment Objective and Policy

The LF Prudential Risk Managed Active 4 ('the Fund') aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 14.5%.

There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 14.5%. Capital invested is at risk.

The Fund aims to achieve its objective through investing at least 70% in actively managed collective investment schemes. The Fund has a flexible investment approach with the freedom to invest in different types of assets to meet its objective. The Portfolio Manager will use in-depth research to forecast the expected change in value and risk of the different types of assets over a forward-looking 15-year period. This analysis is then used to work out the mix of assets (the "target strategic asset allocation") to invest in to achieve the Fund's objective. The Portfolio Manager will review the target strategic asset allocation on an ongoing basis.

Based on the target strategic asset allocation, the Portfolio Manager constructs an actively managed portfolio to provide diversified, indirect exposure to global fixed income and variable rate assets, cash (including money market funds and near cash), equities and/or immovable property.

The Fund will have a bias towards higher risk assets, such as equities. The Portfolio Manager will adjust the asset allocation on an ongoing basis to reflect changes in the target strategic asset allocation and to take advantage of tactical investment opportunities.

The Portfolio Manager will select collective investment schemes to invest in from a focused range of funds and fund management groups (which may include other funds managed by the ACD, Portfolio Manager and their associates).

The Fund may also invest directly in equities, equity related instruments (e.g. warrants), fixed income and cash or near cash. It may also invest in alternative investments (e.g. infrastructure, private equity, alternative credit and hedge funds). Derivative instruments may also be used for the purposes of efficient portfolio management.

Other Information: The Fund's objective to stay within its specified risk profile may restrict the types and proportions of the assets it holds and limit the potential gains and losses.

LF PRUDENTIAL RISK MANAGED ACTIVE 4

ACD'S REPORT *continued*

Benchmark

The Fund's comparator benchmark is the IA Mixed Investment 40-85% shares sector.

The Fund's performance may be compared against the IA Mixed Investment 40-85% shares sector. The ACD believes that this is an appropriate comparator for the Fund given the investment objective and policy of the Fund. Many funds sold in the UK are grouped into sectors by the Investment Association (the trade body that represents UK investment managers), to help investors to compare funds with broadly similar characteristics.

LINK FUND SOLUTIONS LIMITED

ACD of LF Prudential Risk Managed Active 4

26 February 2021

LF PRUDENTIAL RISK MANAGED ACTIVE 4

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2020

Between 1 November 2019 and 31 October 2020 (the period in review) share classes R (Acc) -3.77%¹, P (Acc) -3.58%¹ and A (Acc) -3.78%¹ produced returns behind the -0.82%¹ sector average for IA Mixed Investment 40-85% Shares Sector.

Market Overview

Early on in 2020 and before the gravity of the coronavirus situation became apparent, developed market equities were broadly flat, and Asia and emerging markets slightly down.

Towards the end of February, the reality hit that a potential human tragedy was unfolding which would dramatically affect economic activity. Sentiment plummeted across markets as investors rushed to sell financial assets. The speed of the sell-off was notable, albeit off the back of strong performance in 2019, which had been driven by the hope of economic activity improving.

Equity markets became highly sensitive to case news. In February alone, there were over 18 days where the S&P 500 Index was either up or down by more than 3%. Corporate bond markets were also volatile as secondary markets and liquidity evaporated. Spreads on 1-year investment grade bonds jumped nearly 300bps in US and around 200bps in the UK and Europe. The moves in high yield were amplified with 1-year US high yield bonds spiking over 700bps and in the UK and Europe between 560/600bps.

Major stock markets experienced a remarkable rebound during the second quarter following the steep declines seen during the onset of the pandemic. The FTSE World Index rose 19.9% over the period. An extraordinary level of central bank stimulus and government support in the world's major economies came to the aid of many consumers and businesses and was welcomed by investors.

Global investor sentiment stayed fairly positive during the third quarter despite a bleak (albeit recovering) global economic backdrop and a resurgence of virus cases in many developed countries. The majority of stock markets continued to rise following the rebound seen in the second quarter. Global economic activity data for the summer months improved as restrictions were eased and most economies could reopen.

Governments and central banks from across the world remained supportive towards the needs of businesses and consumers. However, despite positive news surrounding potential vaccines and better treatment outcomes, a resurgence of virus cases in the US and Europe scuppered any hope of a rapid return to normality for the global economy. This certainly impacted markets towards the end of the period in review.

Positioning

The portfolio management team implemented the 2020 strategic asset allocation review in June across all funds in the range.

¹ Source: FE Analytics.

LF PRUDENTIAL RISK MANAGED ACTIVE 4

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT *continued*

The key headlines were a small increase in overall equity exposure mainly weighted towards the UK due to attractive medium-term valuations. New allocations to Chinese and African equities were also made to capture the future growth potential of these regions.

There was a small overall reduction to fixed income, whilst adding a new allocation to Emerging Market Debt and increasing exposure to Asian Bonds.

Exposure to property and alternatives was maintained.

From a tactical asset allocation perspective, towards the end of the period in review the portfolio manager has added a small exposure to Asia ex-Japan and US equity, being of the view that markets would place more weight on stimulus introduced than on any worsening of COVID-19 cases. A small UK REITs position is held across all portfolios as long-term valuations look attractive.

Outlook

Markets will continue to be sensitive to COVID-19 related news, periods of uncertainty and investor nervousness will likely re-occur. As ever, trying to time markets and be precise on a timeframe for a return to normality is very difficult so it is important to try and balance portfolios to be robust in the short-term whilst still looking for long-term opportunities as capital markets evolve.

The portfolio managers remain fully focused on adhering to the long-standing investment philosophy and processes. The team has no greater insight into the future than anyone else but has concentrated on what can be controlled, which is how they invest both now and in the future.

M&G INVESTMENT MANAGEMENT LIMITED

Portfolio Manager
17 November 2020

LF PRUDENTIAL RISK MANAGED ACTIVE 4

ACD'S REPORT *continued*

FUND INFORMATION

Risk and Reward Profile

'A' Income, 'A' Accumulation and 'C' Income



'P' Income, 'P' Accumulation and 'R' Accumulation



This indicator shows how much a fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a fund's past volatility the higher the number on the scale and the greater the risk that investors in that fund may have made losses as well as gains.

'A' Income, 'A' Accumulation and 'C' Income share classes have been classed as 4 because their volatility has been measured as average.

During the year the indicators for the 'P' Income, 'P' Accumulation and 'R' Accumulation changed from 4 to 5. 'P' Income, 'P' Accumulation and 'R' Accumulation have been classed as 5 because their volatility has been measured as above average.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of this Fund.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

The Fund targets a risk level of 4 which is a level of risk relative to the 4 other funds in the range. The risk and reward profile scale above is calculated differently. The two measures are not comparable. The lowest number on the scale does not mean that a fund is risk free.

Currency Risk: As the Fund can be exposed to different currencies, changes in the exchange rate may decrease the value of your investment.

Changes in Interest Rate Risk: A rise in interest rates generally causes bond prices to fall.

Credit Risk: The value of a bond may be affected by its credit rating, the lower the rating the higher the risk of the issuer not paying interest or repaying the loan.

Property Fund Investment Risk: Property funds can become illiquid increasing the risk that a position cannot be sold in a timely manner or at a reasonable price.

Counterparty Risk: The failure of a firm involved in a transaction with the Fund or providing services to the Fund may expose the Fund to financial loss.

Derivative Risk: A derivative may not perform as expected and may create losses greater than its cost.

For full details of the Fund's risks, please see the Prospectus which may be obtained upon application and can be found on the ACD's website, www.linkfundsolutions.co.uk.

LF PRUDENTIAL RISK MANAGED ACTIVE 4

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables

Where the Fund has significant investment in collective investment schemes, the operating charges take account of the ongoing charges incurred in the underlying schemes, calculated as the expense value of such holdings at the year end weighted against the net asset value of the share class at that date. Following regulatory changes, the Operating Charges Figure takes account of the ongoing charges incurred in closed-ended underlying schemes calculated as the expense value of such holdings at the period end weighted against the net asset value of the share class at that date.

'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	170.37	163.16	168.05
Return before operating charges*	(5.26)	11.53	0.11
Operating charges	(1.41)	(2.05)	(3.87)
Return after operating charges	(6.67)	9.48	(3.76)
Distributions	(1.99)	(2.27)	(1.13)
Closing net asset value per share	161.71	170.37	163.16
* after direct transaction costs of:	0.01	0.01	0.01

PERFORMANCE

Return after charges	(3.92)%	5.81%	(2.24)%
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OTHER INFORMATION

Closing net asset value (£'000)	850	1,100	1,156
Closing number of shares	525,502	645,831	708,803
Operating charges	0.86%	1.22%	2.29%
Direct transaction costs	—	—	0.01%

PRICES

Highest share price	178.28	176.88	174.00
Lowest share price	140.36	157.31	162.50

LF PRUDENTIAL RISK MANAGED ACTIVE 4

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'A' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	183.56	173.48	177.44
Return before operating charges*	(5.66)	12.28	0.14
Operating charges	(1.54)	(2.20)	(4.10)
Return after operating charges	(7.20)	10.08	(3.96)
Distributions	(2.14)	(2.41)	(1.19)
Retained distributions on accumulation shares	2.14	2.41	1.19
Closing net asset value per share	176.36	183.56	173.48
* after direct transaction costs of:	0.01	0.01	0.01

PERFORMANCE

Return after charges	(3.92)%	5.81%	(2.23)%
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OTHER INFORMATION

Closing net asset value (£'000)	12,535	15,451	18,585
Closing number of shares	7,107,962	8,417,774	10,713,213
Operating charges	0.86%	1.23%	2.29%
Direct transaction costs	—	—	0.01%

PRICES

Highest share price	192.02	188.02	183.67
Lowest share price	151.23	167.29	171.58

LF PRUDENTIAL RISK MANAGED ACTIVE 4

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'C' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	170.98	163.72	168.69
Return before operating charges*	(5.52)	11.32	(0.34)
Operating charges	(0.20)	(0.63)	(1.83)
Return after operating charges	(5.72)	10.69	(2.17)
Distributions	(2.98)	(3.43)	(2.80)
Closing net asset value per share	162.28	170.98	163.72
* after direct transaction costs of:	0.01	0.01	0.01

PERFORMANCE

Return after charges	(3.35)%	6.53%	(1.29)%
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OTHER INFORMATION

Closing net asset value (£'000)	99,286	81,228	83,337
Closing number of shares	61,180,581	47,506,878	50,903,425
Operating charges	0.12%	0.37%	1.07%
Direct transaction costs	—	—	0.01%

PRICES

Highest share price	179.15	178.42	175.97
Lowest share price	141.18	158.09	164.70

LF PRUDENTIAL RISK MANAGED ACTIVE 4

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	129.34	123.84	127.59
Return before operating charges*	(4.84)	8.70	(0.13)
Operating charges	(0.04)	(1.10)	(1.99)
Return after operating charges	(4.88)	7.60	(2.12)
Distributions	(1.76)	(2.10)	(1.63)
Closing net asset value per share	122.70	129.34	123.84
* after direct transaction costs of:	—	—	0.01

PERFORMANCE

Return after charges	(3.77)%	6.14%	(1.66)%
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OTHER INFORMATION

Closing net asset value (£'000)	6,374	7,291	6,133
Closing number of shares	5,194,665	5,636,978	4,952,105
Operating charges	0.61%	0.86%	1.54%
Direct transaction costs	—	—	0.01%

PRICES

Highest share price	135.59	134.78	132.91
Lowest share price	106.62	119.52	124.11

LF PRUDENTIAL RISK MANAGED ACTIVE 4

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	140.60	132.46	134.70
Return before operating charges*	11.39	9.32	(0.14)
Operating charges	(16.62)	(1.18)	(2.10)
Return after operating charges	(5.23)	8.14	(2.24)
Distributions	(1.92)	(2.24)	(1.72)
Retained distributions on accumulation shares	1.92	2.24	1.72
Closing net asset value per share	135.37	140.60	132.46
* after direct transaction costs of:	0.09	—	0.01

PERFORMANCE

Return after charges	(3.72)%	6.15%	(1.66)%
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OTHER INFORMATION

Closing net asset value (£'000)	147,404	142,604	129,978
Closing number of shares	108,890,354	101,426,763	98,125,280
Operating charges	0.61%	0.86%	1.54%
Direct transaction costs	—	—	0.01%

PRICES

Highest share price	147.35	144.13	140.28
Lowest share price	115.91	127.88	131.03

LF PRUDENTIAL RISK MANAGED ACTIVE 4

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'R' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	163.45	154.31	157.23
Return before operating charges*	(5.03)	10.91	(0.08)
Operating charges	(1.36)	(1.77)	(2.84)
Return after operating charges	(6.39)	9.14	(2.92)
Distributions	(1.91)	(2.29)	(1.69)
Retained distributions on accumulation shares	1.91	2.29	1.69
Closing net asset value per share	157.06	163.45	154.31
* after direct transaction costs of:	0.01	-	0.01

PERFORMANCE

Return after charges	(3.91)%	5.92%	(1.86)%
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OTHER INFORMATION

Closing net asset value (£'000)	15,098	15,060	13,380
Closing number of shares	9,612,724	9,213,445	8,670,674
Operating charges	0.86%	1.11%	1.79%
Direct transaction costs	-	-	0.01%

PRICES

Highest share price	171.08	167.51	163.34
Lowest share price	134.66	148.92	152.64

LF PRUDENTIAL RISK MANAGED ACTIVE 4

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Fund Performance to 31 October 2020 (%)

	1 year	3 years	5 years
LF Prudential Risk Managed Active 4	(3.59)	0.30	22.63

The performance of the Fund is based on the published price per 'P' Accumulation share which includes reinvested income.

The performance of the Fund disclosed in the above table may differ from the 'Return after charges' disclosed in the Comparative Table due to the above performance being calculated on the latest published price prior to the year end, rather than the year end return after operating charges.

Details of the distributions per share for the year are shown in the Distribution Table on pages 160 and 161.

RISK WARNING

An investment in an open-ended investment company should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

LF PRUDENTIAL RISK MANAGED ACTIVE 4

ACD'S REPORT *continued*

PORTFOLIO STATEMENT

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	EQUITY PORTFOLIOS – 44.20% (31.10.19 – 50.86%)		
	CONTINENTAL EUROPE – 6.19% (31.10.19 – 7.43%)		
987,185	LF Prudential European QIS ¹	8,688	3.09
481,143	M&G European Select ¹	8,726	3.10
	TOTAL CONTINENTAL EUROPE	17,414	6.19
	UNITED KINGDOM – 16.05% (31.10.19 – 18.46%)		
6,214,805	LF Prudential UK Growth QIS ¹	18,360	6.52
4,566,000	M&G Recovery ¹	10,331	3.67
1,016,586	M&G UK Select ¹	16,497	5.86
	TOTAL UNITED KINGDOM	45,188	16.05
	ASIA EX JAPAN – 9.15% (31.10.19 – 9.49%)		
2,385,485	Eastspring Developed and Emerging Asia Equity	25,769	9.15
	TOTAL ASIA EX JAPAN	25,769	9.15
	JAPAN – 3.38% (31.10.19 – 4.02%)		
1,266,964	Eastspring Japan Equity	9,528	3.38
	TOTAL JAPAN	9,528	3.38
	NORTH AMERICA – 6.14% (31.10.19 – 7.53%)		
721,867	LF Prudential North American QIS ¹	8,500	3.02
352,118	M&G North American Value ¹	8,780	3.12
	TOTAL NORTH AMERICA	17,280	6.14
	EMERGING MARKETS – 3.29% (31.10.19 – 3.93%)		
833,114	Eastspring Emerging Asia Equity	9,270	3.29
	TOTAL EMERGING MARKETS	9,270	3.29
	TOTAL EQUITY PORTFOLIOS	124,449	44.20

LF PRUDENTIAL RISK MANAGED ACTIVE 4

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	EQUITY INVESTMENT INSTRUMENTS – 5.64% (31.10.19 – 6.00%)		
1,087,408	BBGI ²	1,881	0.67
1,605,820	BioPharma Credit ²	1,232	0.44
1,093,355	Blue Capital Alternative Income ^{2,3}	35	0.01
123,763	Boussard & Gavaudan ²	1,947	0.69
1,064,459	DP Aircraft I ²	33	0.01
246,033	HarbourVest Global Private Equity ²	4,212	1.50
621,897	HgCapital ²	1,838	0.65
537,548	NB Distressed Debt Investment Fund ²	186	0.07
1,135,711	NextEnergy Solar ²	1,218	0.43
851,333	Renewables Infrastructure ²	1,151	0.41
2,042,019	SDCL Energy Efficiency Income ²	2,134	0.76
	TOTAL EQUITY INVESTMENT INSTRUMENTS	15,867	5.64
	PROPERTY PORTFOLIOS – 5.87% (31.10.19 – 5.76%)		
449,111	iShares UK Property	2,140	0.76
12,319,313	Legal & General UK Property	11,198	3.98
339,635	M&G Property Portfolio ¹	3,177	1.13
	TOTAL PROPERTY PORTFOLIOS	16,515	5.87
	BOND PORTFOLIOS – 33.92% (31.10.19 – 30.89%)		
230,009	Eastspring Asian Bond	2,675	0.95
776,564	Eastspring Asian Local Bond	7,442	2.64
1,517,060	Eastspring US Corporate Bond	18,231	6.48
5,108,263	M&G Emerging Markets Bond Fund ¹	5,442	1.93
94,489	M&G European Credit Investment ¹	10,848	3.85
1,031,212	M&G Global Convertibles ¹	2,572	0.91
9,633,395	M&G Global High Yield Bond ¹	13,149	4.67
13,693,151	M&G Strategic Corporate Bond ¹	17,535	6.23
16,281,485	Royal London Corporate Bond	17,633	6.26
	TOTAL BOND PORTFOLIOS	95,527	33.92

LF PRUDENTIAL RISK MANAGED ACTIVE 4

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	FUTURES – (0.41)% (31.10.19 – 0.04%)		
142	EURO STOXX 50 Index Futures December 2020	(250)	(0.09)
179	FTSE 100 Index Futures December 2020	(531)	(0.19)
279	FTSE China A50 Index Futures November 2020	(15)	(0.01)
125	FTSE/JSE Top 40 Index Futures December 2020	(150)	(0.05)
28	S&P 500 E Mini Index Futures December 2020	(117)	(0.04)
12	TOPIX Index Futures December 2020	(64)	(0.02)
36	US Treasury Note 10 Year Futures December 2020	(23)	(0.01)
	TOTAL FUTURES	(1,150)	(0.41)
	Portfolio of investment ⁴	251,208	89.22
	Net other assets	30,339	10.78
	Net assets	281,547	100.00

The investments have been valued in accordance with note 1(F) of the Accounting Policies and are collective investment schemes unless stated otherwise.

¹ Related party holding (see note 12).

² Closed-ended funds.

³ Delisted security.

⁴ Includes investment liabilities.

LF PRUDENTIAL RISK MANAGED ACTIVE 4

ACD'S REPORT *continued*

SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2020

Total purchases for the year £'000 (note 16)	67,333	Total sales for the year £'000 (note 16)	50,058
	Cost £'000		Proceeds £'000
Major purchases		Major sales	
FTSE 100 Index Futures December 2020	23,046	FTSE 100 Index Futures December 2020	12,474
M&G Global High Yield Bond	8,627	Eastspring US Corporate Bond	7,734
US Treasury Note 10 Year Futures December 2020	7,722	M&G Global High Yield Bond	6,363
Eastspring Developed and Emerging Asia Equity	7,034	FTSE China A50 Index Futures October 2020	6,341
EURO STOXX 50 Index Futures December 2020	6,725	FTSE 100 Index Futures September 2020	6,225
S&P 500 E Mini Index Futures December 2020	6,406	Eastspring Developed and Emerging Asia Equity	5,588
FTSE 100 Index Futures September 2020	6,280	FTSE 100 Index Futures June 2020	5,354
FTSE China A50 Index Futures October 2020	6,277	Royal London Corporate Bond	4,283
FTSE/JSE Top 40 Index Futures December 2020	5,989	US Treasury Note 10 Year Futures June 2020	4,069
M&G European Credit Investment	5,790	M&G European Credit Investment	4,045

In addition to the above, purchases totalling £5,110,442,000 and sales totalling £5,083,648,000 were made in short term investments during the year.

Purchases and sales of Futures have been included at the value of their exposure and are not included in the total purchases and sales figures above.

The summary of material portfolio changes represents the 10 largest purchases and sales during the year.

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS

STATEMENT OF TOTAL RETURN

for the year ended 31 October 2020

	Notes	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Income:					
Net capital (losses)/gains	3		(14,721)		11,053
Revenue	4	5,336		5,701	
Expenses	5	(1,012)		(686)	
Interest payable and similar charges	6	(7)		(5)	
Net revenue before taxation		4,317		5,010	
Taxation	7	(297)		(673)	
Net revenue after taxation			4,020		4,337
Total return before distributions			(10,701)		15,390
Distributions	8		(3,944)		(4,464)
Change in net assets attributable to shareholders from investment activities			(14,645)		10,926

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2020

	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Opening net assets attributable to shareholders		262,734		252,569
Amounts receivable on issue of shares	55,028		27,568	
Amounts payable on redemption of shares	(23,993)		(31,021)	
		31,035		(3,453)
Change in net assets attributable to shareholders from investment activities		(14,645)		10,926
Retained distributions on Accumulation shares		2,422		2,690
Unclaimed distributions		1		2
Closing net assets attributable to shareholders		281,547		262,734

LF PRUDENTIAL RISK MANAGED ACTIVE 4
FINANCIAL STATEMENTS *continued*
BALANCE SHEET
as at 31 October 2020

	Notes	31.10.20 £'000	31.10.19 £'000
ASSETS			
Fixed assets			
Investments		252,358	245,779
Current assets			
Debtors	9	1,019	3,118
Cash and cash equivalents	10	32,051	17,474
Total assets		<u>285,428</u>	<u>266,371</u>
LIABILITIES			
Investment liabilities		(1,150)	(1)
Provisions for liabilities		(6)	(113)
Creditors			
Bank overdraft		–	(43)
Distribution payable	11	(1,925)	(1,760)
Other creditors	11	(800)	(1,720)
Total liabilities		<u>(3,881)</u>	<u>(3,637)</u>
Net assets attributable to shareholders		<u>281,547</u>	<u>262,734</u>

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2020

1. Accounting Policies

The accounting policies described on pages 22 to 24 have been applied to the financial statements of the Fund in the current and prior year. The additional accounting policy described below has also been applied to this Fund.

(A) TREATMENT OF EXPENSES

The Fund receives a rebate of the Annual Management Charge in relation to related party investments in the Fund. This is to eliminate double charging and, as such, is not a reduction in expenses suffered by shareholders.

2. Distribution Policies

The distribution policies described on pages 24 and 25 have been applied to the financial statements of the Fund in the current and prior year.

3. Net Capital (Losses)/Gains

The net capital (losses)/gains during the year comprise:

	31.10.20 £'000	31.10.19 £'000
Non-derivative securities	(13,445)	10,571
Derivative contracts	(1,372)	403
Transaction charges	(2)	(2)
AMC rebates from underlying investments	76	52
Currency gains	29	31
Broker's commission on futures	(7)	(2)
Net capital (losses)/gains	(14,721)	11,053

The net capital (losses)/gains figure includes realised gains of £244,000 and unrealised losses of £8,480,000 (31.10.19: includes realised gains of £36,550,000 and unrealised gains of £6,552,000). The realised gains on investments in the current year include amounts previously recognised as unrealised gains in the prior year.

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

4. Revenue

	31.10.20 £'000	31.10.19 £'000
Non-taxable dividends	2,453	2,274
Taxable dividends	17	78
UK property income distributions	399	914
Unfranked interest	1,632	1,647
AMC rebates from underlying investments	834	784
Bank interest	1	4
Total revenue	5,336	5,701

5. Expenses

	31.10.20 £'000	31.10.19 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	982	1,048
Administration fees	—	83
ACD reimbursement to revenue ¹	—	(475)
	982	656
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	20	20
Safe custody and other bank charges	2	2
	22	22

¹ This relates to a rebate paid by the ACD in order to maintain the individual sub-fund's Ongoing Charges Figure ('OCF') at a level considered appropriate by the ACD. Once the Extraordinary General Meeting in December 2018 approved the various changes to the Company effective from 21 January 2019, Prudential Distribution Limited ('PDL'), as sponsor, wanted to ensure that shareholders benefitted immediately from the resultant lower OCFs, rather than the OCF charge reduction coming through over the 6 month period where the Portfolio Manager transitioned the portfolios. Therefore, the ACD effectively introduced a cap on the OCF and the costs of applying this cap during the 6 month transition period were met by PDL as sponsor of the sub-funds in the Company

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Other expenses:		
Audit fees	8	8
Total expenses	1,012	686

The Portfolio Manager's fees and expenses (plus VAT thereon) for providing portfolio management services are paid by the ACD out of its remuneration.

6. Interest Payable and Similar Charges

	31.10.20 £'000	31.10.19 £'000
Interest payable	2	4
Futures interest payable	5	1
Total interest payable and similar charges	7	5

7. Taxation

	31.10.20 £'000	31.10.19 £'000
a) Analysis of charge for the year		
Corporation tax	404	595
Irrecoverable overseas tax	–	4
Current tax charge	404	599
Deferred tax – origination and reversal of timing differences (note 7c)	(107)	74
Total taxation (note 7b)	297	673

b) Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK for an authorised fund (20%) (31.10.19: 20%). The difference is explained below:

	31.10.20 £'000	31.10.19 £'000
Net revenue before taxation	4,317	5,010
Corporation tax at 20%	863	1,002

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Effects of:		
Non-taxable dividends	(490)	(455)
Capital income subject to taxation	(91)	–
Rebated capital expenses deductible for tax purposes	15	10
Irrecoverable overseas tax	–	4
Offshore capital gains subject to taxation	–	112
Total tax charge (note 7a)	297	673
c) Deferred tax		
Provision at the start of the year	113	39
Deferred tax charge in the year (note 7a)	(107)	74
Provision at the end of the year	6	113

8. Distributions

The distributions take account of revenue received on the issue of shares and revenue deducted on redemptions of shares, and comprise:

	31.10.20 £'000	31.10.19 £'000
Final	4,347	4,450
	4,347	4,450
Add: Revenue deducted on redemption of shares	248	341
Deduct: Revenue received on issue of shares	(651)	(327)
Net distribution for the year	3,944	4,464

Details of the distributions per share are set out in the table on pages 160 and 161.

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Distributions represented by:		
Net revenue after taxation	4,020	4,337
Allocations to capital:		
Tax relief to/from capital	(77)	122
Equalisation on conversions ¹	1	5
Net distribution for the year	<u>3,944</u>	<u>4,464</u>

9. Debtors

	31.10.20 £'000	31.10.19 £'000
Amounts receivable for issue of shares	197	599
Sales awaiting settlement	–	2,119
Accrued revenue:		
Non-taxable dividends	6	36
UK property income distributions	22	32
Unfranked interest	–	1
AMC rebates from underlying investments	732	246
	<u>760</u>	<u>315</u>
Income tax	62	85
Total debtors	<u>1,019</u>	<u>3,118</u>

¹ Where an investor converts to a class with a higher income yield, the investor will receive an equalisation as if they had held the new class throughout the period from the last distribution to the conversion date. The yield differential at the point of conversion is an equalisation which will be offset by capital erosion for the converted investor.

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

10. Cash and Cash Equivalents

	31.10.20 £'000	31.10.19 £'000
Bank balances	28,722	17,336
Margin account	3,329	138
Total cash and cash equivalents	32,051	17,474

11. Creditors

	31.10.20 £'000	31.10.19 £'000
Distribution payable	1,925	1,760
Other Creditors		
Amounts payable for redemption of shares	496	822
Purchases awaiting settlement	–	1,000
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	81	82
ACD reimbursement to revenue	–	(476)
	81	(394)
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	2	2
Transaction charges	–	1
Safe custody and other bank charges	–	1
	2	4
Taxation payable:		
Corporation tax	213	280
Other expenses	8	8
Total other creditors	800	1,720

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

12. Related Party Transactions

The Annual Management Charge and administration fees payable to Link Fund Solutions Limited ('the ACD') are disclosed in note 5 and amounts due at the year end are disclosed in note 11.

The aggregate monies received by the ACD through the issue of shares and paid on redemption of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders on page 144 and amounts due at the year end are disclosed in notes 9 and 11.

Link Fund Solutions Limited and its associates (including other authorised investment funds managed by Link Fund Solutions or its associates) held 28,218 (31.10.19: 59,898) of the Fund's shares at the balance sheet date.

M&G Investment Management Limited and its associates (including other authorised investment funds managed by M&G Investment Management Limited) held 43,200,962 (31.10.19: 28,079,624) of the Fund's shares at the balance sheet date.

A shareholder may be able to exercise significant influence over the financial and operating policies of the Fund and as such is deemed to be a related party. At the balance sheet date the following shareholder held in excess of 20% of the shares in issue of the Fund:

Prudential plc and its associates	22.44% (31.10.19: 0.00%)
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As part of the investment strategy, the Fund may from time to time hold shares in other collective investment schemes managed by the same Portfolio Manager or for which Link Fund Solutions Limited is also the ACD. At the balance sheet date the value of the holdings was as follows:

	31.10.20 £'000	31.10.19 £'000
Portfolio Manager in common	97,057	92,402
Portfolio Manager and ACD in common	35,548	37,595

13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.19: none).

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.74%	0.74%	0.00%
Opening shares in issue	645,831	8,417,774	47,506,878
Issues	8,531	360,788	18,896,675
Redemptions	(128,860)	(1,049,320)	(5,222,972)
Conversions	–	(621,280)	–
Closing shares in issue	<u>525,502</u>	<u>7,107,962</u>	<u>61,180,581</u>

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.49%	0.49%	0.74%
Opening shares in issue	5,636,978	101,426,763	9,213,445
Issues	462,495	13,661,973	2,158,740
Redemptions	(904,808)	(7,319,024)	(1,491,731)
Conversions	–	1,120,642	(267,730)
Closing shares in issue	<u>5,194,665</u>	<u>108,890,354</u>	<u>9,612,724</u>

15. Risk Management Policies

In pursuing the investment objective a number of financial instruments are held which may comprise securities and other investments, cash balances and debtors and creditors that arise directly from operations. Derivatives, such as futures or forward currency contracts, may be utilised for Efficient Portfolio Management (including hedging) purposes.

The main risks from the Fund's holding of financial instruments, together with the ACD's policy for managing these risks, are set out below:

The ACD has in place a Risk Management Policy and Procedures Document ('RMPPD') that sets out the risks that may impact a fund and how the ACD seeks, where appropriate, to manage, monitor and mitigate those risks, and in particular those risks associated with the use of derivatives. The RMPPD sets out both the framework and the risk mitigations operated by the ACD in managing the identified risks of the Fund. The ACD requires that the appointed Portfolio Manager to the Fund has in place its own governance structure, policies and procedures that are commensurate with its regulatory obligations and the risks posed by the fund managed.

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

(A) CREDIT RISK

Credit risk is the risk that a counterparty may be unable or unwilling to make a payment or fulfil contractual obligations. This may be in terms of an actual default or by deterioration in a counterparty's credit quality.

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its obligations. As part of its due diligence process, the ACD undertakes a review of the controls operated over counterparties by the Portfolio Manager, including initial and ongoing due diligence and business volumes placed with each counterparty. In cases which are dependent on the counterparty settling at the transaction's maturity date, the ACD has policies in place which set out the minimum credit quality expected of a market counterparty or deposit taker at the outset of the transaction.

There were futures contracts held at the balance sheet date. Details of the individual contracts are disclosed separately in the Portfolio Statement and the total position by counterparty at the balance sheet date was as follows:

31.10.20 Counterparty	Futures £'000	Net cash collateral pledged £'000
JPMorgan	(15)	–
NatWest	(1,135)	–
31.10.19 Counterparty	Futures £'000	Net cash collateral pledged £'000
NatWest	84	–

(B) INTEREST RATE RISK

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes. The value of fixed interest securities may be affected by changes in interest rates, either globally or locally. Changes in the rate of return in one asset class may influence the valuation basis of other classes. The amount of revenue receivable from floating rate investments and bank balances or payable on bank overdrafts will be affected by fluctuations in interest rates. Investment in collective investment schemes exposes the Fund to indirect interest rate risk to the extent that they invest in interest bearing securities, the returns from which will be affected by fluctuations in interest rates.

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

The Fund invests in collective investment schemes and as such does not have any significant direct exposure to interest rate risk. The Fund is indirectly exposed to interest rate risk through its investment in collective investment schemes. As the Fund has no direct exposure to interest rate risk, no interest rate risk table or sensitivity analysis has been presented.

(C) FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the Sterling value of investments will fluctuate as a result of exchange rate movements. Assets denominated in currencies other than Sterling will provide direct exposure to currency risk as a consequence of the movement in foreign exchange rates when calculating the Sterling equivalent value. Investment in collective investment schemes may provide indirect exposure to currency risk as a consequence of the movement in foreign exchange rates.

Where the Fund invests in non-Sterling assets, the Portfolio Manager allows for the foreign currency risk when considering whether to invest and does not seek to hedge this risk.

The table below shows the foreign currency risk profile at the balance sheet date:

	31.10.20 Gross £'000	31.10.20 Hedged £'000	31.10.20 Net £'000
Currency:			
Euro currency	2,424	—	2,424
Japanese yen	180	—	180
South African rand	370	—	370
US dollars	54,533	—	54,533
Total foreign currency exposure	57,507	—	57,507
Pounds sterling	224,040	—	224,040
Total net assets	281,547	—	281,547
	31.10.19 Gross £'000	31.10.19 Hedged £'000	31.10.19 Net £'000
Currency:			
Euro currency	3,728	—	3,728
US dollars	52,346	—	52,346
Total foreign currency exposure	56,074	—	56,074
Pounds sterling	206,660	—	206,660
Total net assets	262,734	—	262,734

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

A 5% change in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £2,875,000 on the net assets of the Fund (31.10.19: £2,804,000).

(D) LEVERAGE

The ACD is required to calculate and monitor the level of leverage of the Fund, expressed as a ratio between the exposure of the Fund and its Net Asset Value, under both the gross and commitment methods (in accordance with articles 7 and 8 of The Alternative Investment Fund Managers Regulations 2013). For a fund with no borrowing or derivative usage the leverage ratio would be 1:1 under the commitment method. The gross method calculation excludes cash and cash equivalents which are highly liquid.

As at 31.10.20, leverage under the gross method was 0.89:1 and leverage under the commitment method was 1:1 (31.10.19: 0.94:1 and 1:1 respectively).

(E) LIQUIDITY RISK

The main liability of the Fund is the redemption of any shares that investors want to sell. Investments may have to be sold to fund such redemptions should insufficient cash be held at the bank to meet this obligation.

The ACD monitors the liquidity profile of the Fund on a daily basis. In assessing the liquidity profile of the Fund, the ACD assesses how much of the Fund can be realised in one and five days, under normal and stressed market conditions, and the impact this would have on the overall subsequent liquidity profile. In assessing the liquidity of a company's shares, the ACD utilises the lower of the 5 and 30 day average market volume of that company's shares. Where a risk is identified then a more in depth review is undertaken to establish its significance, by assessing the liquidity profile of the Fund against a 25% market participation of the average daily volume. Based on this analysis 76.01% of the portfolio can be liquidated within 5 days and 76.01% within 30 days. Given this and the ACD's understanding of the investor base, it is considered that the liquidity profile of the Fund is appropriate.

All financial liabilities are payable in one year or less, or on demand.

(F) MARKET PRICE RISK

Market price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds.

Market price risk represents the potential loss the Fund may suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to price fluctuations, which are monitored by the ACD in pursuance of the investment objective and policy. The risk is generally regarded as consisting of two elements – stock specific risk and market risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit stock specific risk. Subject to compliance with the investment objective, spreading exposure across a broad range of global stocks can mitigate market risk.

A 5% increase in the value of the Fund's portfolio would have the effect of increasing the return and net assets by £12,560,000 (31.10.19: £12,289,000). A 5% decrease would have an equal and opposite effect.

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

(G) DERIVATIVES

The economic exposure of futures derivative contracts is equal to the market value. The value of the exposure and the related counterparty are disclosed in the Portfolio of Investments.

16. Portfolio Transaction Costs

31.10.20	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	875	—	2	877
Collective investment schemes	66,451	1	4	66,456
Purchases total	67,326	1	6	67,333
<i>Transaction cost % of purchases total</i>		—	0.01%	
<i>Transaction cost % of average NAV</i>		—	—	
Ordinary shares	1,607	(1)	—	1,606
Collective investment schemes	48,453	(1)	—	48,452
Sales total	50,060	(2)	—	50,058
<i>Transaction cost % of sales total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	

Average portfolio dealing spread at 31.10.20 is 0.30% (31.10.19: 0.32%).

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

31.10.19	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	1,585	–	–	1,585
Collective investment schemes	210,149	–	2	210,151
Derivatives	–	–	1	1
Purchases total	<u>211,734</u>	<u>–</u>	<u>3</u>	<u>211,737</u>
<i>Transaction cost % of purchases total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	
Ordinary shares	4,042	(2)	–	4,040
Collective investment schemes	<u>227,315</u>	<u>(2)</u>	<u>–</u>	<u>227,313</u>
Sales total	<u>231,357</u>	<u>(4)</u>	<u>–</u>	<u>231,353</u>
<i>Transaction cost % of sales total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	

The collective investment schemes include closed-ended funds.

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

17. Fair Value Hierarchy

Investments are categorised into the following levels based on their fair value measurement:

Level 1: Unadjusted quoted price in an active market for an identical instrument;

Level 2: Valuation techniques using observable inputs other than quoted prices within Level 1;

Level 3: Valuation techniques using unobservable inputs (see note 1(F) of the Accounting Policies).

31.10.20	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	17,972	234,351	35	252,358
Investment liabilities	(1,150)	—	—	(1,150)

31.10.19	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	15,707	229,921	151	245,779
Investment liabilities	(1)	—	—	(1)

18. Subsequent Events

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic. In the immediate aftermath, global markets experienced a period of significant volatility which negatively impacted the performance of the Fund at the balance sheet date. Subsequent to that date and whilst markets have remained relatively volatile there has, in the period until the account signing date, been a general recovery in the markets.

This means that since the balance sheet date the price of each of the Fund's share classes has moved as follows:

Share class	Balance sheet date	22.02.21	Movement
'A' Income	161.71	181.89	12.48%
'A' Accumulation	176.36	198.36	12.47%
'C' Income	162.28	182.88	12.69%
'P' Income	122.70	138.11	12.56%
'P' Accumulation	135.37	152.37	12.56%
'R' Accumulation	157.06	176.66	12.48%

LF PRUDENTIAL RISK MANAGED ACTIVE 4

FINANCIAL STATEMENTS *continued*

DISTRIBUTION TABLE

for the year ended 31 October 2020 – in pence per share

EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares – the applicable distribution periods for each distribution are shown below). It represents the accrued revenue included in the purchase price of the shares. After averaging it is returned with the distribution as a capital repayment. It is not liable to Income Tax but must be deducted from the cost of the shares for Capital Gains Tax purposes.

Group 2	Final
From	01.11.19
To	31.10.20

'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.9856	–	1.9856	2.2727
Group 2	1.4742	0.5114	1.9856	2.2727

'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	2.1393	–	2.1393	2.4050
Group 2	1.4222	0.7171	2.1393	2.4050

'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	2.9805	–	2.9805	3.4250
Group 2	0.1692	2.8113	2.9805	3.4250

'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.7611	–	1.7611	2.1027
Group 2	0.9807	0.7804	1.7611	2.1027

LF PRUDENTIAL RISK MANAGED ACTIVE 4
FINANCIAL STATEMENTS *continued*
DISTRIBUTION TABLE *continued*

'P' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.9164	–	1.9164	2.2439
Group 2	1.0589	0.8575	1.9164	2.2439

'R' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.9064	–	1.9064	2.2901
Group 2	0.9334	0.9730	1.9064	2.2901

LF PRUDENTIAL RISK MANAGED ACTIVE 5 ACD'S REPORT

for the year ended 31 October 2020

Important Information

Refer to the 'Important Information' section on page 12.

Investment Objective and Policy

The LF Prudential Risk Managed Active 5 ('the Fund') aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 17%.

There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 17%. Capital invested is at risk.

The Fund aims to achieve its objective through investing at least 70% in actively managed collective investment schemes. The Fund has a flexible investment approach with the freedom to invest in different types of assets to meet its objective. The Portfolio Manager will use in-depth research to forecast the expected change in value and risk of the different types of assets over a forward-looking 15-year period. This analysis is then used to work out the mix of assets (the "target strategic asset allocation") to invest in to achieve the Fund's objective. The Portfolio Manager will review the target strategic asset allocation on an ongoing basis.

Based on the target strategic asset allocation, the Portfolio Manager constructs an actively managed portfolio to provide diversified, indirect exposure to global fixed income and variable rate assets, cash (including money market funds and near cash), equities and/or immovable property.

The Fund will have a high exposure towards higher risk assets, such as equities. The Portfolio Manager will adjust the asset allocation on an ongoing basis to reflect changes in the target strategic asset allocation and to take advantage of tactical investment opportunities.

The Portfolio Manager will select collective investment schemes to invest in from a focused range of funds and fund management groups (which may include other funds managed by the ACD, Portfolio Manager and their associates).

The Fund may also invest directly in equities, equity related instruments (e.g. warrants), fixed income and cash or near cash. It may also invest in alternative investments (e.g. infrastructure, private equity, alternative credit and hedge funds). Derivative instruments may also be used for the purposes of efficient portfolio management.

Other Information: The Fund's objective to stay within its specified risk profile may restrict the types and proportions of the assets it holds and limit the potential gains and losses.

LF PRUDENTIAL RISK MANAGED ACTIVE 5

ACD'S REPORT *continued*

Benchmark

The Fund's comparator benchmark is the IA Flexible Investment shares sector.

The Fund's performance may be compared against the IA Flexible Investment shares sector. The ACD believes that this is an appropriate comparator for the Fund given the investment objective and policy of the Fund. Many funds sold in the UK are grouped into sectors by the Investment Association (the trade body that represents UK investment managers), to help investors to compare funds with broadly similar characteristics.

LINK FUND SOLUTIONS LIMITED

ACD of LF Prudential Risk Managed Active 5

26 February 2021

LF PRUDENTIAL RISK MANAGED ACTIVE 5

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2020

Between 1 November 2019 and 31 October 2020 (the period in review) share classes R (Acc) -5.92%¹, P (Acc) -5.83%¹ and A (Acc) -5.89%¹ produced returns behind the 0.63%¹ sector average for IA Flexible Investment Shares Sector.

Market Overview

Early on in 2020 and before the gravity of the coronavirus situation became apparent, developed market equities were broadly flat, and Asia and emerging markets slightly down.

Towards the end of February, the reality hit that a potential human tragedy was unfolding which would dramatically affect economic activity. Sentiment plummeted across markets as investors rushed to sell financial assets. The speed of the sell-off was notable, albeit off the back of strong performance in 2019, which had been driven by the hope of economic activity improving.

Equity markets became highly sensitive to case news. In February alone, there were over 18 days where the S&P 500 Index was either up or down by more than 3%. Corporate bond markets were also volatile as secondary markets and liquidity evaporated. Spreads on 1-year investment grade bonds jumped nearly 300bps in US and around 200bps in the UK and Europe. The moves in high yield were amplified with 1-year US high yield bonds spiking over 700bps and in the UK and Europe between 560/600bps.

Major stock markets experienced a remarkable rebound during the second quarter following the steep declines seen during the onset of the pandemic. The FTSE World Index rose 19.9% over the period. An extraordinary level of central bank stimulus and government support in the world's major economies came to the aid of many consumers and businesses and was welcomed by investors.

Global investor sentiment stayed fairly positive during the third quarter despite a bleak (albeit recovering) global economic backdrop and a resurgence of virus cases in many developed countries. The majority of stock markets continued to rise following the rebound seen in the second quarter. Global economic activity data for the summer months improved as restrictions were eased and most economies could reopen.

Governments and central banks from across the world remained supportive towards the needs of businesses and consumers. However, despite positive news surrounding potential vaccines and better treatment outcomes, a resurgence of virus cases in the US and Europe scuppered any hope of a rapid return to normality for the global economy. This certainly impacted markets towards the end of the period in review.

Positioning

The portfolio management team implemented the 2020 strategic asset allocation review in June across all funds in the range.

¹ Source: FE Analytics.

LF PRUDENTIAL RISK MANAGED ACTIVE 5

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT *continued*

The key headlines were a small increase in overall equity exposure mainly weighted towards the UK due to attractive medium-term valuations. New allocations to Chinese and African equities were also made to capture the future growth potential of these regions.

There was a small overall reduction to fixed income, whilst adding a new allocation to Emerging Market Debt and increasing exposure to Asian Bonds.

Exposure to property and alternatives was maintained.

From a tactical asset allocation perspective, towards the end of the period in review the portfolio manager has added a small exposure to Asia ex-Japan and US equity, being of the view that markets would place more weight on stimulus introduced than on any worsening of COVID-19 cases. A small UK REITs position is held across all portfolios as long-term valuations look attractive.

Outlook

Markets will continue to be sensitive to COVID-19 related news, periods of uncertainty and investor nervousness will likely re-occur. As ever, trying to time markets and be precise on a timeframe for a return to normality is very difficult so it is important to try and balance portfolios to be robust in the short-term whilst still looking for long-term opportunities as capital markets evolve.

The portfolio managers remain fully focused on adhering to the long-standing investment philosophy and processes. The team has no greater insight into the future than anyone else but has concentrated on what can be controlled, which is how they invest both now and in the future.

M&G INVESTMENT MANAGEMENT LIMITED

Portfolio Manager

17 November 2020

LF PRUDENTIAL RISK MANAGED ACTIVE 5

ACD'S REPORT *continued*

FUND INFORMATION

Risk and Reward Profile



This indicator shows how much a fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a fund's past volatility the higher the number on the scale and the greater the risk that investors in that fund may have made losses as well as gains.

During the year the indicator changed from 4 to 5. The Fund has been classed as 5 because its volatility has been measured as above average.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of this Fund.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

The Fund targets a risk level of 5 which is a level of risk relative to the 4 other funds in the range. The risk and reward profile scale above is calculated differently. The two measures are not comparable. The lowest number on the scale does not mean that a fund is risk free.

Currency Risk: As the Fund can be exposed to different currencies, changes in the exchange rate may decrease the value of your investment.

Changes in Interest Rate Risk: A rise in interest rates generally causes bond prices to fall.

Credit Risk: The value of a bond may be affected by its credit rating, the lower the rating the higher the risk of the issuer not paying interest or repaying the loan.

Property Fund Investment Risk: Property funds can become illiquid increasing the risk that a position cannot be sold in a timely manner or at a reasonable price.

Counterparty Risk: The failure of a firm involved in a transaction with the Fund or providing services to the Fund may expose the Fund to financial loss.

Derivative Risk: A derivative may not perform as expected and may create losses greater than its cost.

For full details of the Fund's risks, please see the Prospectus which may be obtained upon application and can be found on the ACD's website, www.linkfundsolutions.co.uk.

LF PRUDENTIAL RISK MANAGED ACTIVE 5

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables

Where the Fund has significant investment in collective investment schemes, the operating charges take account of the ongoing charges incurred in the underlying schemes, calculated as the expense value of such holdings at the year end weighted against the net asset value of the share class at that date. Following regulatory changes, the Operating Charges Figure takes account of the ongoing charges incurred in closed-ended underlying schemes calculated as the expense value of such holdings at the period end weighted against the net asset value of the share class at that date.

'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	185.37	177.55	183.43
Return before operating charges*	(9.05)	12.33	(0.54)
Operating charges	(1.55)	(2.29)	(4.32)
Return after operating charges	(10.60)	10.04	(4.86)
Distributions	(2.24)	(2.22)	(1.02)
Closing net asset value per share	172.53	185.37	177.55
* after direct transaction costs of:	0.01	–	0.02

PERFORMANCE

Return after charges	(5.72)%	5.66%	(2.65)%
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OTHER INFORMATION

Closing net asset value (£'000)	178	188	209
Closing number of shares	103,508	101,626	117,996
Operating charges	0.87%	1.25%	2.33%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	195.26	193.13	191.08
Lowest share price	148.14	170.32	176.53

LF PRUDENTIAL RISK MANAGED ACTIVE 5

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'A' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	194.90	184.46	189.47
Return before operating charges*	(9.50)	12.78	(0.56)
Operating charges	(1.63)	(2.34)	(4.45)
Return after operating charges	(11.13)	10.44	(5.01)
Distributions	(2.37)	(2.31)	(1.05)
Retained distributions on accumulation shares	2.37	2.31	1.05
Closing net asset value per share	183.77	194.90	184.46
* after direct transaction costs of:	0.01	–	0.02

PERFORMANCE

Return after charges	(5.71)%	5.66%	(2.64)%
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OTHER INFORMATION

Closing net asset value (£'000)	5,749	7,089	7,253
Closing number of shares	3,128,586	3,637,237	3,931,963
Operating charges	0.87%	1.23%	2.33%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	205.32	200.66	197.41
Lowest share price	155.76	177.00	182.35

LF PRUDENTIAL RISK MANAGED ACTIVE 5

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'C' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	186.17	178.30	184.27
Return before operating charges*	(9.37)	12.05	(1.05)
Operating charges	(0.23)	(0.70)	(2.07)
Return after operating charges	(9.60)	11.35	(3.12)
Distributions	(3.33)	(3.48)	(2.85)
Closing net asset value per share	173.24	186.17	178.30
* after direct transaction costs of:	0.01	–	0.02

PERFORMANCE

Return after charges	(5.16)%	6.36%	(1.69)%
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OTHER INFORMATION

Closing net asset value (£'000)	36,459	31,754	31,578
Closing number of shares	21,044,828	17,056,931	17,710,403
Operating charges	0.13%	0.38%	1.11%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	196.37	194.96	193.42
Lowest share price	149.13	117.29	178.75

LF PRUDENTIAL RISK MANAGED ACTIVE 5

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	133.61	127.96	132.23
Return before operating charges*	(6.59)	8.78	(0.61)
Operating charges	(0.80)	(1.15)	(2.12)
Return after operating charges	(7.39)	7.63	(2.73)
Distributions	(1.88)	(1.98)	(1.54)
Closing net asset value per share	124.34	133.61	127.96
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	(5.53)%	5.96%	(2.06)%
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OTHER INFORMATION

Closing net asset value (£'000)	1,664	1,882	1,686
Closing number of shares	1,338,103	1,408,274	1,317,815
Operating charges	0.62%	0.87%	1.58%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	141.06	139.56	138.65
Lowest share price	106.83	122.86	128.01

LF PRUDENTIAL RISK MANAGED ACTIVE 5

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	143.53	135.43	138.29
Return before operating charges*	(7.09)	9.32	(0.65)
Operating charges	(0.86)	(1.22)	(2.21)
Return after operating charges	(7.95)	8.10	(2.86)
Distributions	(2.02)	(2.10)	(1.61)
Retained distributions on accumulation shares	2.02	2.10	1.61
Closing net asset value per share	135.58	143.53	135.43
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	(5.54)%	5.98%	(2.07)%
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OTHER INFORMATION

Closing net asset value (£'000)	65,565	67,590	58,162
Closing number of shares	48,357,761	47,091,908	42,945,145
Operating charges	0.62%	0.87%	1.58%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	151.46	147.69	144.94
Lowest share price	114.78	130.08	133.87

LF PRUDENTIAL RISK MANAGED ACTIVE 5

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'R' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	171.67	162.31	166.06
Return before operating charges*	(8.37)	11.24	(0.68)
Operating charges	(1.44)	(1.88)	(3.07)
Return after operating charges	(9.81)	9.36	(3.75)
Distributions	(2.07)	(2.18)	(1.60)
Retained distributions on accumulation shares	2.07	2.18	1.60
Closing net asset value per share	161.86	171.67	162.31
* after direct transaction costs of:	0.01	–	0.02

PERFORMANCE

Return after charges	(5.71)%	5.77%	(2.26)%
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OTHER INFORMATION

Closing net asset value (£'000)	7,915	7,573	6,395
Closing number of shares	4,890,339	4,411,780	3,940,183
Operating charges	0.87%	1.12%	1.83%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	180.90	176.73	173.60
Lowest share price	137.19	155.85	160.45

LF PRUDENTIAL RISK MANAGED ACTIVE 5

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Fund Performance to 31 October 2020 (%)

	1 year	3 years	5 years
LF Prudential Risk Managed Active 5	(5.85)	(1.76)	23.70

The performance of the Fund is based on the published price per 'P' Accumulation share which includes reinvested income.

The performance of the Fund disclosed in the above table may differ from the 'Return after charges' disclosed in the Comparative Table due to the above performance being calculated on the latest published price prior to the year end, rather than the year end return after operating charges.

Details of the distributions per share for the year are shown in the Distribution Table on pages 194 and 195.

RISK WARNING

An investment in an open-ended investment company should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

LF PRUDENTIAL RISK MANAGED ACTIVE 5

ACD'S REPORT *continued*

PORTFOLIO STATEMENT

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	EQUITY PORTFOLIOS – 56.88% (31.10.19 – 63.20%)		
	CONTINENTAL EUROPE – 8.36% (31.10.19 – 9.61%)		
561,055	LF Prudential European QIS ¹	4,938	4.20
269,559	M&G European Select ¹	4,888	4.16
	TOTAL CONTINENTAL EUROPE	9,826	8.36
	UNITED KINGDOM – 20.20% (31.10.19 – 22.73%)		
3,115,931	LF Prudential UK Growth QIS ¹	9,205	7.83
2,626,316	M&G Recovery ¹	5,942	5.06
529,559	M&G UK Select ¹	8,594	7.31
	TOTAL UNITED KINGDOM	23,741	20.20
	ASIA EX JAPAN – 11.35% (31.10.19 – 11.57%)		
1,234,765	Eastspring Developed and Emerging Asia Equity	13,339	11.35
	TOTAL ASIA EX JAPAN	13,339	11.35
	JAPAN – 4.36% (31.10.19 – 5.07%)		
681,211	Eastspring Japan Equity	5,123	4.36
	TOTAL JAPAN	5,123	4.36
	NORTH AMERICA – 8.49% (31.10.19 – 9.47%)		
443,765	LF Prudential North American QIS ¹	5,225	4.44
190,744	M&G North American Value ¹	4,756	4.05
	TOTAL NORTH AMERICA	9,981	8.49
	EMERGING MARKETS – 4.12% (31.10.19 – 4.75%)		
435,173	Eastspring Emerging Asia Equity	4,842	4.12
	TOTAL EMERGING MARKETS	4,842	4.12
	TOTAL EQUITY PORTFOLIOS	66,852	56.88

LF PRUDENTIAL RISK MANAGED ACTIVE 5

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	EQUITY INVESTMENT INSTRUMENTS – 6.29% (31.10.19 – 6.49%)		
500,008	BBGI ²	865	0.74
774,550	BioPharma Credit ²	594	0.51
512,705	Blue Capital Alternative Income ^{2,3}	17	0.01
61,097	Boussard & Gavaudan ²	961	0.82
539,890	DP Aircraft I ²	17	0.01
113,161	HarbourVest Global Private Equity ²	1,937	1.65
285,616	HgCapital ²	844	0.72
247,094	NB Distressed Debt Investment Fund ²	86	0.07
521,558	NextEnergy Solar ²	559	0.48
392,212	Renewables Infrastructure ²	530	0.45
937,021	SDCL Energy Efficiency Income ²	979	0.83
	TOTAL EQUITY INVESTMENT INSTRUMENTS	7,389	6.29
	PROPERTY PORTFOLIOS – 6.73% (31.10.19 – 6.36%)		
189,405	iShares UK Property	903	0.77
5,956,235	Legal & General UK Property	5,414	4.61
169,911	M&G Property Portfolio ¹	1,589	1.35
	TOTAL PROPERTY PORTFOLIOS	7,906	6.73
	BOND PORTFOLIOS – 21.23% (31.10.19 – 18.39%)		
57,031	Eastspring Asian Bond	663	0.56
208,973	Eastspring Asian Local Bond	2,003	1.71
374,025	Eastspring US Corporate Bond	4,495	3.82
1,677,302	M&G Emerging Markets Bond ¹	1,787	1.52
22,445	M&G European Credit Investment ¹	2,577	2.19
260,474	M&G Global Convertibles ¹	650	0.55
2,961,497	M&G Global High Yield Bond ¹	4,042	3.44
3,456,679	M&G Strategic Corporate Bond ¹	4,427	3.77
3,983,783	Royal London Corporate Bond	4,314	3.67
	TOTAL BOND PORTFOLIOS	24,958	21.23

LF PRUDENTIAL RISK MANAGED ACTIVE 5

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	FUTURES – (0.40)% (31.10.19 – 0.02%)		
44	EURO STOXX 50 Index Futures December 2020	(64)	(0.05)
89	FTSE 100 Index Futures December 2020	(263)	(0.22)
143	FTSE China A50 Index Futures November 2020	(7)	(0.01)
66	FTSE/JSE Top 40 Index Futures December 2020	(79)	(0.07)
5	S&P 500 E Mini Index Futures December 2020	(28)	(0.02)
5	TOPIX Index Futures December 2020	(27)	(0.01)
10	US Treasury Note 10 Year Futures December 2020	(6)	–
	TOTAL FUTURES	(474)	(0.40)
	Portfolio of investments ⁴	106,631	90.73
	Net other assets	10,899	9.27
	Net assets	117,530	100.00

The investments have been valued in accordance with note 1(F) of the Accounting Policies and are collective investment schemes unless stated otherwise.

¹ Related party holding (see note 12).

² Closed-ended funds.

³ Delisted security.

⁴ Includes investment liabilities.

LF PRUDENTIAL RISK MANAGED ACTIVE 5

ACD'S REPORT *continued*

SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2020

Total purchases for the year £'000 (note 16)	24,662	Total sales for the year £'000 (note 16)	20,593
	Cost £'000		Proceeds £'000
Major purchases		Major sales	
FTSE 100 Index Futures December 2020	10,772	FTSE 100 Index Futures December 2020	5,500
FTSE 100 Index Futures September 2020	4,038	FTSE 100 Index Futures September 2020	3,994
M&G Global High Yield Bond	3,429	FTSE China 50 Index Futures October 2020	3,314
Eastspring Developed and Emerging Asia Equity	3,393	Eastspring Developed and Emerging Asia Equity	3,141
FTSE China 50 Index Futures October 2020	3,279	M&G Global High Yield Bond	2,675
FTSE/JSE Top 40 Index Futures December 2020	3,162	FTSE 100 Index Futures June 2020	2,661
FTSE 100 Index Futures June 2020	2,392	Eastspring US Corporate Bond	2,637
FTSE 100 Index Futures March 2020	2,256	Royal London Corporate Bond	1,697
US Treasury Note 10 Year Futures December 2020	2,145	FTSE 100 Index Futures March 2020	1,635
LF Prudential UK Growth QIS	1,970	Nasdaq 100 E Mini Index Futures September 2020	1,609

In addition to the above, purchases totalling £1,840,630,000 and sales totalling £1,830,796,000 were made in short term investments during the year.

Purchases and sales of Futures have been included at the value of their exposure and are not included in the total purchases and sales figures above.

The summary of material portfolio changes represents the 10 largest purchases and sales during the year.

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS

STATEMENT OF TOTAL RETURN

for the year ended 31 October 2020

	Notes	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Income:					
Net capital (losses)/gains	3		(8,537)		4,790
Revenue	4	2,373		2,207	
Expenses	5	(466)		(315)	
Interest payable and similar charges	6	(3)		(3)	
Net revenue before taxation		1,904		1,889	
Taxation	7	(73)		(219)	
Net revenue after taxation			1,831		1,670
Total return before distributions			(6,706)		6,460
Distributions	8		(1,787)		(1,736)
Change in net assets attributable to shareholders from investment activities			(8,493)		4,724

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2020

	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Opening net assets attributable to shareholders		116,076		105,283
Amounts receivable on issue of shares	20,971		18,195	
Amounts payable on redemption of shares	(12,178)		(13,297)	
		8,793		4,898
Change in net assets attributable to shareholders from investment activities		(8,493)		4,724
Retained distributions on Accumulation shares		1,154		1,170
Unclaimed distributions		—		1
Closing net assets attributable to shareholders		117,530		116,076

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS *continued*

BALANCE SHEET

as at 31 October 2020

	Notes	31.10.20 £'000	31.10.19 £'000
ASSETS			
Fixed assets			
Investments		107,105	109,648
Current assets			
Debtors	9	515	849
Cash and cash equivalents	10	11,793	6,364
Total assets		<u>119,413</u>	<u>116,861</u>
LIABILITIES			
Investment liabilities		(474)	–
Provisions for liabilities		(3)	(61)
Creditors			
Bank overdrafts		–	(20)
Distribution payable	11	(729)	(623)
Other creditors	11	(677)	(81)
Total liabilities		<u>(1,883)</u>	<u>(785)</u>
Net assets attributable to shareholders		<u>117,530</u>	<u>116,076</u>

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2020

1. Accounting Policies

The accounting policies described on pages 22 to 24 have been applied to the financial statements of the Fund in the current and prior year. The additional accounting policy described below has also been applied to this Fund.

(A) TREATMENT OF EXPENSES

The Fund receives a rebate of the Annual Management Charge in relation to related party investments in the Fund. This is to eliminate double charging and, as such, is not a reduction in expenses suffered by shareholders.

2. Distribution Policies

The distribution policies described on pages 24 and 25 have been applied to the financial statements of the Fund in the current and prior year.

3. Net Capital (Losses)/Gains

The net capital (losses)/gains during the year comprise:

	31.10.20 £'000	31.10.19 £'000
Non-derivative securities	(7,904)	4,710
Derivative contracts	(631)	67
Transaction charges	(2)	(2)
AMC rebates from underlying investments	24	20
Currency losses	(24)	(5)
Net capital (losses)/gains	(8,537)	4,790

The net capital (losses)/gains figure includes realised losses of £369,000 and unrealised losses of £5,669,000 (31.10.19: includes realised gains of £17,234,000 and unrealised gains of £2,521,000). The realised losses on investments in the current year include amounts previously recognised as unrealised losses in the prior year.

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

4. Revenue

	31.10.20 £'000	31.10.19 £'000
Non-taxable dividends	1,319	1,136
Taxable dividends	9	16
UK property income distributions	196	410
Unfranked interest	484	290
AMC rebates from underlying investments	365	354
Bank interest	–	1
Total revenue	2,373	2,207

5. Expenses

	31.10.20 £'000	31.10.19 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	446	471
Administration fees	–	34
ACD reimbursement to revenue ¹	–	(209)
	446	296
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	10	10
Safe custody and other bank charges	2	1
	12	11

¹ This relates to a rebate paid by the ACD in order to maintain the individual sub-fund's Ongoing Charges Figure ('OCF') at a level considered appropriate by the ACD. Once the Extraordinary General Meeting in December 2018 approved the various changes to the Company effective from 21 January 2019, Prudential Distribution Limited ('PDL'), as sponsor, wanted to ensure that shareholders benefitted immediately from the resultant lower OCFs, rather than the OCF charge reduction coming through over the 6 month period where the Portfolio Manager transitioned the portfolios. Therefore, the ACD effectively introduced a cap on the OCF and the costs of applying this cap during the 6 month transition period were met by PDL as sponsor of the sub-funds in the Company.

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Other expenses		
Audit fees	8	8
Total expenses	466	315

The Portfolio Manager's fees and expenses (plus VAT thereon) for providing portfolio management services are paid by the ACD out of its remuneration.

6. Interest Payable and Similar Charges

	31.10.20 £'000	31.10.19 £'000
Interest payable	1	3
Futures interest payable	2	–
Total interest payable and similar charges	3	3

7. Taxation

	31.10.20 £'000	31.10.19 £'000
a) Analysis of charge for the year		
Corporation tax	131	173
Irrecoverable income tax	–	2
Current tax charge	131	175
Deferred tax – origination and reversal of timing differences (note 7c)	(58)	44
Total taxation (note 7b)	73	219

b) Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK for an authorised fund (20%) (31.10.19: 20%). The difference is explained below:

	31.10.20 £'000	31.10.19 £'000
Net revenue before taxation	1,904	1,889
Corporation tax at 20%	381	378

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Effects of:		
Non-taxable dividends	(264)	(227)
Capital income subject to taxation	(49)	62
Rebated capital expenses deductible for tax purposes	5	4
Irrecoverable overseas tax	—	2
Total tax charge (note 7a)	73	219
c) Deferred tax		
Provision at the start of the year	61	17
Deferred tax charge in the year (note 7a)	(58)	44
Provision at the end of the year	3	61

8. Distributions

The distributions take account of revenue received on the issue of shares and revenue deducted on redemptions of shares, and comprise:

	31.10.20 £'000	31.10.19 £'000
Final	1,883	1,793
	1,883	1,793
Add: Revenue deducted on redemption of shares	121	127
Deduct: Revenue received on issue of shares	(217)	(184)
Net distribution for the year	1,787	1,736

Details of the distributions per share are set out in the table on pages 194 and 195.

	31.10.20 £'000	31.10.19 £'000
Distributions represented by:		
Net revenue after taxation	1,831	1,670
Allocations to capital:		
Tax relief to/from capital	(44)	66
Net distribution for the year	1,787	1,736

LF PRUDENTIAL RISK MANAGED ACTIVE 5
FINANCIAL STATEMENTS *continued*
NOTES TO THE FINANCIAL STATEMENTS *continued*
for the year ended 31 October 2020

9. Debtors

	31.10.20 £'000	31.10.19 £'000
Amounts receivable for issue of shares	148	193
Sales awaiting settlement	–	480
Accrued revenue:		
Non-taxable dividends	3	18
UK property income distributions	11	15
AMC rebates from underlying investments	323	106
	337	139
Taxation recoverable:		
Income tax	30	37
Total debtors	515	849

10. Cash and Cash Equivalents

	31.10.20 £'000	31.10.19 £'000
Bank balances	10,453	6,316
Margin account	1,340	48
Total cash and cash equivalents	11,793	6,364
Bank overdrafts	–	20
Total bank overdrafts	–	20

11. Creditors

	31.10.20 £'000	31.10.19 £'000
Distribution payable	729	623
Other Creditors		
Amounts payable for redemption of shares	558	69

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	37	38
ACD reimbursement to revenue	—	(209)
	37	(171)
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	1	1
Transaction charges	—	1
	1	2
Taxation payable:		
Corporation tax	73	173
Other expenses	8	8
Total other creditors	677	81

12. Related Party Transactions

The Annual Management Charge and administration fees payable to Link Fund Solutions Limited ('the ACD') are disclosed in note 5 and amounts due at the year end are disclosed in note 11.

The aggregate monies received by the ACD through the issue of shares and paid on redemption of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders on page 178 and amounts due at the year end are disclosed in notes 9 and 11.

Link Fund Solutions Limited and its associates (including other authorised investment funds managed by Link Fund Solutions or its associates) held 296,044 (31.10.19: 224,813) of the Fund's shares at the balance sheet date.

M&G Investment Management Limited and its associates (including other authorised investment funds managed by M&G Investment Management Limited) held 12,805,378 (31.10.19: 8,661,324) of the Fund's shares at the balance sheet date.

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

A shareholder may be able to exercise significant influence over the financial and operating policies of the Fund and as such is deemed to be a related party. At the balance sheet date the following shareholder held in excess of 20% of the shares in issue of the Fund:

Allfunds Nominee Limited 22.79% (31.10.19: 21.74%)

As part of the investment strategy, the Fund may from time to time hold shares in other collective investment schemes managed by the same Portfolio Manager or for which Link Fund Solutions Limited is also the ACD. At the balance sheet date the value of the holdings was as follows:

	31.10.20 £'000	31.10.19 £'000
Portfolio Manager in common	39,252	39,778
Portfolio Manager and ACD in common	19,368	20,562

13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.19: none).

14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.74%	0.74%	0.00%
Opening shares in issue	101,626	3,637,237	17,056,931
Issues	11,301	263,786	5,759,827
Redemptions	(9,419)	(772,437)	(1,771,930)
Conversions	—	—	—
Closing shares in issue	103,508	3,128,586	21,044,828

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.49%	0.49%	0.74%
Opening shares in issue	1,408,274	47,091,908	4,411,780
Issues	211,579	5,948,376	1,022,819
Redemptions	(321,545)	(4,645,460)	(544,260)
Conversions	39,795	(37,063)	–
Closing shares in issue	<u>1,338,103</u>	<u>48,357,761</u>	<u>4,890,339</u>

15. Risk Management Policies

In pursuing the investment objective a number of financial instruments are held which may comprise securities and other investments, cash balances and debtors and creditors that arise directly from operations. Derivatives, such as futures or forward currency contracts, may be utilised for Efficient Portfolio Management (including hedging) purposes.

The main risks from the Fund's holding of financial instruments, together with the ACD's policy for managing these risks, are set out below:

The ACD has in place a Risk Management Policy and Procedures Document ('RMPPD') that sets out the risks that may impact a fund and how the ACD seeks, where appropriate, to manage, monitor and mitigate those risks, and in particular those risks associated with the use of derivatives. The RMPPD sets out both the framework and the risk mitigations operated by the ACD in managing the identified risks of the Fund. The ACD requires that the appointed Portfolio Manager to the Fund has in place its own governance structure, policies and procedures that are commensurate with its regulatory obligations and the risks posed by the fund managed.

(A) CREDIT RISK

Credit risk is the risk that a counterparty may be unable or unwilling to make a payment or fulfil contractual obligations. This may be in terms of an actual default or by deterioration in a counterparty's credit quality.

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its obligations. As part of its due diligence process, the ACD undertakes a review of the controls operated over counterparties by the Portfolio Manager, including initial and ongoing due diligence and business volumes placed with each counterparty. In cases which are dependent on the counterparty settling at the transaction's maturity date, the ACD has policies in place which set out the minimum credit quality expected of a market counterparty or deposit taker at the outset of the transaction.

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

There were futures contracts held at the balance sheet date. Details of the individual contracts are disclosed separately in the Portfolio Statement and the total position by counterparty at the balance sheet date was as follows:

31.10.20 Counterparty	Futures £'000	Net cash collateral pledged £'000
JPMorgan	(7)	–
NatWest	(467)	–

31.10.19 Counterparty	Futures £'000	Net cash collateral pledged £'000
NatWest	26	–

(B) INTEREST RATE RISK

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes. The value of fixed interest securities may be affected by changes in interest rates, either globally or locally. Changes in the rate of return in one asset class may influence the valuation basis of other classes. The amount of revenue receivable from floating rate investments and bank balances or payable on bank overdrafts will be affected by fluctuations in interest rates. Investment in collective investment schemes exposes the Fund to indirect interest rate risk to the extent that they invest in interest bearing securities, the returns from which will be affected by fluctuations in interest rates.

The Fund invests in collective investment schemes and as such does not have any significant direct exposure to interest rate risk. The Fund is indirectly exposed to interest rate risk through its investment in collective investment schemes. As the Fund has no direct exposure to interest rate risk, no interest rate risk table or sensitivity analysis has been presented.

(C) FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the Sterling value of investments will fluctuate as a result of exchange rate movements. Assets denominated in currencies other than Sterling will provide direct exposure to currency risk as a consequence of the movement in foreign exchange rates when calculating the Sterling equivalent value. Investment in collective investment schemes may provide indirect exposure to currency risk as a consequence of the movement in foreign exchange rates.

Where the Fund invests in non-Sterling assets, the Portfolio Manager allows for the foreign currency risk when considering whether to invest and does not seek to hedge this risk.

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

The table below shows the foreign currency risk profile at the balance sheet date:

	31.10.20 Gross £'000	31.10.20 Hedged £'000	31.10.20 Net £'000
Currency:			
Euro currency	1,088	—	1,088
Japanese yen	56	—	56
South African rand	195	—	195
US dollars	26,453	—	26,453
Total foreign currency exposure	27,792	—	27,792
Pounds sterling	89,738	—	89,738
Total net assets	117,530	—	117,530

	31.10.19 Gross £'000	31.10.19 Hedged £'000	31.10.19 Net £'000
Currency:			
Euro currency	1,706	—	1,706
Swiss francs	1	—	1
US dollars	27,347	—	27,347
Total foreign currency exposure	29,054	—	29,054
Pounds sterling	87,022	—	87,022
Total net assets	116,076	—	116,076

A 5% change in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £1,390,000 on the net assets of the Fund (31.10.19: £1,453,000).

(D) LEVERAGE

The ACD is required to calculate and monitor the level of leverage of the Fund, expressed as a ratio between the exposure of the Fund and its Net Asset Value, under both the gross and commitment methods (in accordance with articles 7 and 8 of The Alternative Investment Fund Managers Regulations 2013). For a fund with no borrowing or derivative usage the leverage ratio would be 1:1 under the commitment method. The gross method calculation excludes cash and cash equivalents which are highly liquid.

As at 31.10.20, leverage under the gross method was 0.91:1 and leverage under the commitment method was 1:1 (31.10.19: 0.94:1 and 1:1 respectively).

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

(E) LIQUIDITY RISK

The main liability of the Fund is the redemption of any shares that investors want to sell. Investments may have to be sold to fund such redemptions should insufficient cash be held at the bank to meet this obligation.

The ACD monitors the liquidity profile of the Fund on a daily basis. In assessing the liquidity profile of the Fund, the ACD assesses how much of the Fund can be realised in one and five days, under normal and stressed market conditions, and the impact this would have on the overall subsequent liquidity profile. In assessing the liquidity of a company's shares, the ACD utilises the lower of the 5 and 30 day average market volume of that company's shares. Where a risk is identified then a more in depth review is undertaken to establish its significance, by assessing the liquidity profile of the Fund against a 25% market participation of the average daily volume. Based on this analysis 73.31% of the portfolio can be liquidated within 5 days and 74.15% within 30 days. Given this and the ACD's understanding of the investor base, it is considered that the liquidity profile of the Fund is appropriate.

All financial liabilities are payable in one year or less, or on demand.

(F) MARKET PRICE RISK

Market price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds.

Market price risk represents the potential loss the Fund may suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to price fluctuations, which are monitored by the ACD in pursuance of the investment objective and policy. The risk is generally regarded as consisting of two elements – stock specific risk and market risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit stock specific risk. Subject to compliance with the investment objective, spreading exposure across a broad range of global stocks can mitigate market risk.

A 5% increase in the value of the Fund's portfolio would have the effect of increasing the return and net assets by £5,332,000 (31.10.19: £5,482,000). A 5% decrease would have an equal and opposite effect.

(G) DERIVATIVES

The economic exposure of futures derivative contracts is equal to the market value. The value of the exposure and the related counterparty are disclosed in the Portfolio of Investments.

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

16. Portfolio Transaction Costs

31.10.20	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	367	–	1	368
Collective investment schemes	24,292	–	2	24,294
Purchases total	24,659	–	3	24,662
<i>Transaction cost % of purchases total</i>		–	0.01%	
<i>Transaction cost % of average NAV</i>		–	–	
Ordinary shares	713	–	–	713
Collective investment schemes	19,881	(1)	–	19,880
Sales total	20,594	(1)	–	20,593
<i>Transaction cost % of sales total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	

Average portfolio dealing spread at 31.10.20 is 0.34% (31.10.19: 0.35%).

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

31.10.19	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	769	—	—	769
Collective investment schemes	91,419	—	—	91,419
Purchases total	92,188	—	—	92,188
<i>Transaction cost % of purchases total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	
Ordinary shares	1,688	(1)	—	1,687
Collective investment schemes	91,786	(1)	—	91,785
Sales total	93,474	(2)	—	93,472
<i>Transaction cost % of sales total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	

The collective investment schemes include closed-ended funds.

17. Fair Value Hierarchy

Investments are categorised into the following levels based on their fair value measurement:

Level 1: Unadjusted quoted price in an active market for an identical instrument;

Level 2: Valuation techniques using observable inputs other than quoted prices within Level 1;

Level 3: Valuation techniques using unobservable inputs (see note 1(F) of the Accounting Policies).

31.10.20	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	8,275	98,813	17	107,105
Investment liabilities	(474)	—	—	(474)

31.10.19	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	7,493	102,084	71	109,648

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

18. Subsequent Events

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic. In the immediate aftermath, global markets experienced a period of significant volatility which negatively impacted the performance of the Fund at the balance sheet date. Subsequent to that date and whilst markets have remained relatively volatile there has, in the period until the account signing date, been a general recovery in the markets.

This means that since the balance sheet date the price of each of the Fund's share classes has moved as follows:

Share class	Balance sheet date	22.02.21	Movement
'A' Income	172.53	198.28	14.92%
'A' Accumulation	183.77	211.19	14.92%
'C' Income	173.24	199.48	15.15%
'P' Income	124.34	143.01	15.02%
'P' Accumulation	135.58	155.93	15.01%
'R' Accumulation	161.86	186.02	14.93%

LF PRUDENTIAL RISK MANAGED ACTIVE 5

FINANCIAL STATEMENTS *continued*

DISTRIBUTION TABLE

for the year ended 31 October 2020 – in pence per share

EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares – the applicable distribution periods for each distribution are shown below). It represents the accrued revenue included in the purchase price of the shares. After averaging it is returned with the distribution as a capital repayment. It is not liable to Income Tax but must be deducted from the cost of the shares for Capital Gains Tax purposes.

Group 2	Final
From	01.11.19
To	31.10.20

'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	2.2386	–	2.2386	2.2235
Group 2	1.3253	0.9133	2.2386	2.2235

'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	2.3678	–	2.3678	2.3075
Group 2	1.8766	0.4912	2.3678	2.3075

'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	3.3312	–	3.3312	3.4782
Group 2	0.8061	2.5251	3.3312	3.4782

'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.8833	–	1.8833	1.9819
Group 2	0.9021	0.9812	1.8833	1.9819

LF PRUDENTIAL RISK MANAGED ACTIVE 5
FINANCIAL STATEMENTS *continued*
DISTRIBUTION TABLE *continued*

'P' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	2.0239	–	2.0239	2.1012
Group 2	1.0898	0.9341	2.0239	2.1012

'R' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	2.0722	–	2.0722	2.1822
Group 2	0.8706	1.2016	2.0722	2.1822

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1 ACD'S REPORT

for the year ended 31 October 2020

Important Information

Refer to the 'Important Information' section on page 12.

Investment Objective and Policy

The LF Prudential Risk Managed Passive Fund 1 ('the Fund') aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 9%.

There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 9%. Capital invested is at risk.

The Fund aims to achieve its objective through investing at least 70% in passive collective investment schemes (e.g. funds which track an index). The Fund has a flexible investment approach with the freedom to invest in different types of assets to meet its objective. The Portfolio Manager will use in-depth research to forecast the expected change in value and risk of the different types of assets over a forward-looking 15-year period. This analysis is then used to work out the mix of assets (the "target strategic asset allocation") to invest in to achieve the Fund's objective. The Portfolio Manager will review the target strategic asset allocation on an ongoing basis.

Based on the target strategic asset allocation, the Portfolio Manager constructs an actively managed portfolio to provide diversified, indirect exposure to global fixed income and variable rate assets, cash (including money market funds and near cash), equities and/or immovable property.

The Fund will have a high exposure to lower risk assets such as fixed income assets and cash. The Portfolio Manager will adjust the asset allocation on an ongoing basis to reflect changes in the target strategic asset allocation and to take advantage of tactical investment opportunities.

The Portfolio Manager will select collective investment schemes to invest in from a focused range of funds and fund management groups (which may include other funds managed by the ACD, Portfolio Manager and their associates).

The Fund may also invest directly in equities, equity related instruments (e.g. warrants), fixed income and cash or near cash. It may also invest in alternative investments (e.g. infrastructure, private equity, alternative credit and hedge funds). Derivative instruments may also be used for the purposes of efficient portfolio management.

Other Information: The Fund's objective to stay within its specified risk profile may restrict the types and proportions of the assets it holds and limit the potential gains and losses.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

ACD'S REPORT *continued*

Benchmark

The Fund's comparator benchmark is the IA Mixed Investment 0-35% shares sector.

The Fund's performance may be compared against the IA Mixed Investment 0-35% shares sector. The ACD believes that this is an appropriate comparator for the Fund given the investment objective and policy of the Fund. Many funds sold in the UK are grouped into sectors by the Investment Association (the trade body that represents UK investment managers), to help investors to compare funds with broadly similar characteristics.

LINK FUND SOLUTIONS LIMITED

ACD of LF Prudential Risk Managed Passive Fund 1

26 February 2021

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2020

Between 1 November 2019 and 31 October 2020 (the period in review) share classes R (Acc) 2.56%¹, A (Acc) 2.67%¹ and P (Acc) 2.78%¹ produced returns ahead of the sector average return of 0.35%¹ for IA Mixed Investment 0-35% Shares Sector.

Market Overview

Early on in 2020 and before the gravity of the coronavirus situation became apparent, developed market equities were broadly flat, and Asia and emerging markets slightly down.

Towards the end of February, the reality hit that a potential human tragedy was unfolding which would dramatically affect economic activity. Sentiment plummeted across markets as investors rushed to sell financial assets. The speed of the sell-off was notable, albeit off the back of strong performance in 2019, which had been driven by the hope of economic activity improving.

Equity markets became highly sensitive to case news. In February alone, there were over 18 days where the S&P 500 Index was either up or down by more than 3%. Corporate bond markets were also volatile as secondary markets and liquidity evaporated. Spreads on 1-year investment grade bonds jumped nearly 300bps in US and around 200bps in the UK and Europe. The moves in high yield were amplified with 1-year US high yield bonds spiking over 700bps and in the UK and Europe between 560/600bps.

Major stock markets experienced a remarkable rebound during the second quarter following the steep declines seen during the onset of the pandemic. The FTSE World Index rose 19.9% over the period. An extraordinary level of central bank stimulus and government support in the world's major economies came to the aid of many consumers and businesses and was welcomed by investors.

Global investor sentiment stayed fairly positive during the third quarter despite a bleak (albeit recovering) global economic backdrop and a resurgence of virus cases in many developed countries. The majority of stock markets continued to rise following the rebound seen in the second quarter. Global economic activity data for the summer months improved as restrictions were eased and most economies could reopen.

Governments and central banks from across the world remained supportive towards the needs of businesses and consumers. However, despite positive news surrounding potential vaccines and better treatment outcomes, a resurgence of virus cases in the US and Europe scuppered any hope of a rapid return to normality for the global economy. This certainly impacted markets towards the end of the period in review.

Positioning

The portfolio management team implemented the 2020 strategic asset allocation review in June across all funds in the range.

¹ Source: FE Analytics.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT *continued*

The key headlines were a small increase in overall equity exposure mainly weighted towards the UK due to attractive medium-term valuations. New allocations to Chinese and African equities were also made to capture the future growth potential of these regions.

There was a small overall reduction to fixed income, whilst adding a new allocation to Emerging Market Debt.

Exposure to alternatives was not altered.

From a tactical asset allocation perspective, towards the end of the period in review the portfolio manager has added a small exposure to Asia ex-Japan and US equity, being of the view that markets would place more weight on stimulus introduced than on any worsening of COVID-19 cases. A small UK REITs position is held across all portfolios as long-term valuations look attractive.

Outlook

Markets will continue to be sensitive to COVID-19 related news, periods of uncertainty and investor nervousness will likely re-occur. As ever, trying to time markets and be precise on a timeframe for a return to normality is very difficult so it is important to try and balance portfolios to be robust in the short-term whilst still looking for long-term opportunities as capital markets evolve.

The portfolio managers remain fully focused on adhering to the long-standing investment philosophy and processes. The team has no greater insight into the future than anyone else but has concentrated on what can be controlled, which is how they invest both now and in the future.

M&G INVESTMENT MANAGEMENT LIMITED

Portfolio Manager

18 November 2020

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

ACD'S REPORT *continued*

FUND INFORMATION

Risk and Reward Profile



This indicator shows how much a fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a fund's past volatility the higher the number on the scale and the greater the risk that investors in that fund may have made losses as well as gains.

During the year the indicator changed from 3 to 4. The Fund has been classed as 4 because its volatility has been measured as average.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of this Fund.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

The Fund targets a risk level of 1 which is a level of risk relative to the 4 other funds in the range. The risk and reward profile scale above is calculated differently. The two measures are not comparable. The lowest number on the scale does not mean that a fund is risk free.

Currency Risk: As the Fund can be exposed to different currencies, changes in exchange rates may decrease the value of your investment.

Changes in Interest Rate Risk: A rise in interest rates generally causes bond prices to fall.

Credit Risk: The value of a bond may be affected by its credit rating, the lower the rating the higher the risk of the issuer not paying interest or repaying the loan.

Property Fund Investment Risk: Property funds can become illiquid increasing the risk that a position cannot be sold in a timely manner or at a reasonable price.

Counterparty Risk: The failure of a firm involved in a transaction with the Fund or providing services to the Fund may expose the Fund to financial loss.

Derivatives Risk: A derivative may not perform as expected and may create losses greater than its cost.

For full details of the Fund's risks, please see the Prospectus which may be obtained upon application and can be found on the ACD's website, www.linkfundsolutions.co.uk.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables

Where the Fund has significant investment in collective investment schemes, the operating charges take account of the ongoing charges incurred in the underlying schemes, calculated as the expense value of such holdings at the year end weighted against the net asset value of the share class at that date. Following regulatory changes, the Operating Charges Figure takes account of the ongoing charges incurred in closed-ended underlying schemes calculated as the expense value of such holdings at the period end weighted against the net asset value of the share class at that date.

'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	140.42	135.22	139.33
Return before operating charges*	4.37	8.84	0.37
Operating charges	(0.79)	(1.07)	(2.23)
Return after operating charges	3.58	7.77	(1.86)
Distributions	(1.67)	(2.57)	(2.25)
Closing net asset value per share	142.33	140.42	135.22
* after direct transaction costs of:	—	—	0.01

PERFORMANCE

Return after charges	2.55%	5.75%	(1.33)%
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OTHER INFORMATION

Closing net asset value (£'000)	190	185	303
Closing number of shares	133,580	131,409	224,141
Operating charges	0.56%	0.77%	1.60%
Direct transaction costs	—	—	—

PRICES

Highest share price	147.59	146.49	141.28
Lowest share price	125.95	132.18	136.83

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'A' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	178.90	169.24	171.53
Return before operating charges*	5.54	10.98	0.46
Operating charges	(1.01)	(1.32)	(2.75)
Return after operating charges	4.53	9.66	(2.29)
Distributions	(2.12)	(3.19)	(2.78)
Retained distributions on accumulation shares	2.12	3.19	2.78
Closing net asset value per share	183.43	178.90	169.24
* after direct transaction costs of:	—	—	0.01

PERFORMANCE

Return after charges	2.53%	5.71%	(1.34)%
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OTHER INFORMATION

Closing net asset value (£'000)	8,072	7,638	7,838
Closing number of shares	4,400,650	4,269,527	4,631,026
Operating charges	0.56%	0.76%	1.60%
Direct transaction costs	—	—	—

PRICES

Highest share price	187.96	183.26	173.83
Lowest share price	160.48	165.73	168.45

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'C' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	140.57	135.37	139.53
Return before operating charges*	4.39	8.81	0.36
Operating charges	(0.11)	(0.11)	(0.35)
Return after operating charges	4.28	8.70	0.01
Distributions	(2.36)	(3.50)	(4.17)
Closing net asset value per share	142.49	140.57	135.37
* after direct transaction costs of:	—	—	0.01

PERFORMANCE

Return after charges	3.05%	6.43%	0.01%
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OTHER INFORMATION

Closing net asset value (£'000)	146,566	150,260	156,867
Closing number of shares	102,860,648	106,894,445	115,880,365
Operating charges	0.08%	0.08%	0.25%
Direct transaction costs	—	—	—

PRICES

Highest share price	148.37	147.47	142.89
Lowest share price	126.35	132.60	137.93

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	113.99	109.78	113.13
Return before operating charges*	3.57	8.79	0.30
Operating charges	(0.36)	(0.88)	(0.96)
Return after operating charges	3.21	6.69	(0.66)
Distributions	(1.64)	(2.48)	(2.69)
Closing net asset value per share	115.56	113.99	109.78
* after direct transaction costs of:	—	—	—

PERFORMANCE

Return after charges	2.82%	6.10%	(0.59)%
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OTHER INFORMATION

Closing net asset value (£'000)	7,584	6,937	6,393
Closing number of shares	6,563,274	6,085,800	5,824,023
Operating charges	0.31%	0.39%	0.85%
Direct transaction costs	—	—	—

PRICES

Highest share price	120.21	119.42	115.35
Lowest share price	102.36	107.43	111.57

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	130.77	123.25	123.99
Return before operating charges*	4.08	8.02	0.31
Operating charges	(0.41)	0.50	(1.05)
Return after operating charges	3.67	7.52	(0.74)
Distributions	(1.87)	(2.79)	(2.94)
Retained distributions on accumulation shares	1.87	2.79	2.94
Closing net asset value per share	134.44	130.77	123.25
* after direct transaction costs of:	—	—	0.01

PERFORMANCE

Return after charges	2.81%	6.10%	(0.60)%
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OTHER INFORMATION

Closing net asset value (£'000)	127,914	102,315	111,821
Closing number of shares	95,148,111	78,241,121	90,726,089
Operating charges	0.31%	0.39%	0.85%
Direct transaction costs	—	—	—

PRICES

Highest share price	137.85	134.02	126.40
Lowest share price	117.42	120.85	122.28

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'R' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	143.45	135.54	136.68
Return before operating charges*	4.46	8.79	0.37
Operating charges	(0.81)	(0.88)	(1.51)
Return after operating charges	3.65	7.91	(1.14)
Distributions	(1.71)	(2.72)	(2.90)
Retained distributions on accumulation shares	1.71	2.72	2.90
Closing net asset value per share	147.10	143.45	135.54
* after direct transaction costs of:	—	—	0.01

PERFORMANCE

Return after charges	2.54%	5.84%	(0.83)%
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OTHER INFORMATION

Closing net asset value (£'000)	20,997	20,852	18,831
Closing number of shares	14,273,782	14,536,443	13,893,193
Operating charges	0.56%	0.63%	1.10%
Direct transaction costs	—	—	—

PRICES

Highest share price	150.81	147.04	139.06
Lowest share price	128.69	132.83	134.67

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Fund Performance to 31 October 2020 (%)

	1 year	3 years	5 years
LF Prudential Risk Managed Passive Fund 1	2.78	8.56	30.12

The performance of the Fund is based on the published price per 'P' Accumulation share which includes reinvested income.

The performance of the Fund disclosed in the above table may differ from the 'Return after charges' disclosed in the Comparative Table due to the above performance being calculated on the latest published price prior to the year end, rather than the year end return after operating charges.

Details of the distributions per share for the year are shown in the Distribution Table on pages 227 and 228.

RISK WARNING

An investment in an open-ended investment company should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

ACD'S REPORT *continued*

PORTFOLIO STATEMENT

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	EQUITY PORTFOLIOS – 20.31% (31.10.19 – 22.71%)		
	CONTINENTAL EUROPE – 2.71% (31.10.19 – 2.65%)		
3,142,340	Legal & General European Index	8,450	2.71
	TOTAL CONTINENTAL EUROPE	8,450	2.71
	UNITED KINGDOM – 7.49% (31.10.19 – 8.15%)		
7,800,138	iShares UK Equity Index	11,505	3.70
9,432,473	Legal & General UK Index	11,800	3.79
	TOTAL UNITED KINGDOM	23,305	7.49
	ASIA EX JAPAN – 4.24% (31.10.19 – 4.33%)		
7,064,485	iShares Pacific ex Japan Equity Index	13,189	4.24
	TOTAL ASIA EX JAPAN	13,189	4.24
	JAPAN – 1.59% (31.10.19 – 2.11%)		
2,236,236	iShares Japan Equity Index	4,953	1.59
	TOTAL JAPAN	4,953	1.59
	NORTH AMERICA – 2.81% (31.10.19 – 3.53%)		
2,629,098	iShares US Equity Index	8,737	2.81
	TOTAL NORTH AMERICA	8,737	2.81
	EMERGING MARKETS – 1.47% (31.10.19 – 1.94%)		
2,734,765	iShares Emerging Markets Equity Index	4,583	1.47
	TOTAL EMERGING MARKETS	4,583	1.47
	TOTAL EQUITY PORTFOLIOS	63,217	20.31
	EQUITY INVESTMENT INSTRUMENTS – 2.44% (31.10.19 – 2.91%)		
515,589	BBGI ¹	892	0.29
821,960	BioPharma Credit ¹	631	0.20
460,040	Blue Capital Alternative Income ^{1,2}	15	–
63,307	Boussard & Gavaudan ¹	996	0.32

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
506,848	DP Aircraft I ¹	16	0.01
117,109	HarbourVest Global Private Equity ¹	2,005	0.64
291,452	HgCapital ¹	861	0.28
266,337	NB Distressed Debt Investment ¹	92	0.03
520,574	NextEnergy Solar ¹	558	0.18
403,538	Renewables Infrastructure ¹	546	0.18
938,200	SDCL Energy Efficiency Income ¹	980	0.31
	TOTAL EQUITY INVESTMENT INSTRUMENTS	7,592	2.44
	PROPERTY PORTFOLIOS – 0.49% (31.10.19 – 0.00%)		
321,447	iShares UK Property	1,532	0.49
	TOTAL PROPERTY PORTFOLIOS	1,532	0.49
	BOND PORTFOLIOS – 69.93% (31.10.19 – 66.63%)		
48,835,576	iShares Corporate Bond Index	78,186	25.11
2,359,123	iShares Euro Investment Grade Corporate Bond Index	27,132	8.72
5,483,883	iShares US Corporate Bond Index	54,791	17.60
1,517,290	iShares USD Treasury Bond	7,970	2.56
6,025,528	M&G Emerging Markets Bond Fund ³	6,419	2.06
5,934,654	M&G European Corporate Bond ³	7,078	2.27
6,957,073	M&G Global High Yield Bond ³	9,496	3.05
20,801,121	M&G Strategic Corporate Bond ³	26,638	8.56
	TOTAL BOND PORTFOLIOS	217,710	69.93
	FUTURES – (0.18)% (31.10.19 – 0.02%)		
82	EURO STOXX 50 Index Futures December 2020	(142)	(0.05)
68	FTSE 100 Index Futures December 2020	(215)	(0.07)
151	FTSE China A50 Index Futures November 2020	(8)	–
59	FTSE/JSE Top 40 Index Futures December 2020	(71)	(0.02)
18	S&P 500 E Mini Index Futures December 2020	(88)	(0.03)
4	TOPIX Index Futures December 2020	(21)	(0.01)
	TOTAL FUTURES	(545)	(0.18)

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	Portfolio of investments ⁴	289,506	92.99
	Net other assets	21,817	7.01
	Net assets	311,323	100.00

The investments have been valued in accordance with note 1(F) of the Accounting Policies and are collective investment schemes unless stated otherwise.

¹ Closed-ended funds.

² Delisted security.

³ Related party holding (see note 12).

⁴ Includes investment liabilities.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

ACD'S REPORT *continued*

SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2020

Total purchases for the year £'000 (note 16)	71,698	Total sales for the year £'000 (note 16)	54,373
	Cost		Proceeds
Major purchases	£'000	Major sales	£'000
iShares Corporate Bond Index	11,312	iShares US Corporate Bond Index	12,271
iShares Euro Investment Grade Corporate Bond Index	9,248	M&G European Corporate Bond	7,871
iShares UK Equity Index	8,825	M&G Strategic Corporate Bond	6,761
M&G Global High Yield Bond	8,403	FTSE 100 Index Futures June 2020	5,693
FTSE 100 Index Futures December 2020	7,965	FTSE 100 Index Futures September 2020	5,482
iShares US Corporate Bond Index	7,320	iShares Corporate Bond Index	4,965
M&G Emerging Markets Bond Fund	6,533	M&G Global High Yield Bond	4,776
FTSE 100 Index Futures September 2020	5,468	NASDAQ 100 E Mini September 2020	4,019
FTSE 100 Index Futures June 2020	4,986	FTSE 100 Index Futures March 2020	3,963
FTSE 100 Index Futures March 2020	4,901	FTSE 100 Index Futures December 2020	3,962

In addition to the above, purchases totalling £5,803,098,000 and sales totalling £5,803,134,000 were made in short term investments during the year.

Purchases and sales of Futures have been included at the value of their exposure and are not included in the total purchases and sales figures above.

The summary of material portfolio changes represents the 10 largest purchases and sales during the year.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS

STATEMENT OF TOTAL RETURN

for the year ended 31 October 2020

	Notes	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Income:					
Net capital gains	3		3,371		11,602
Revenue	4	4,974		7,685	
Expenses	5	(441)		(597)	
Interest payable and similar charges	6	(13)		(5)	
Net revenue before taxation		4,520		7,083	
Taxation	7	—		(262)	
Net revenue after taxation			4,520		6,821
Total return before distributions			7,891		18,423
Distributions	8		(4,520)		(6,996)
Change in net assets attributable to shareholders from investment activities			3,371		11,427

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2020

	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Opening net assets attributable to shareholders		288,187		302,053
Amounts receivable on issue of shares	43,627		37,749	
Amounts payable on redemption of shares	(25,982)		(65,755)	
		17,645		(28,006)
Change in net assets attributable to shareholders from investment activities		3,371		11,427
Retained distributions on Accumulation shares		2,120		2,713
Closing net assets attributable to shareholders		311,323		288,187

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

BALANCE SHEET

as at 31 October 2020

	Notes	31.10.20 £'000	31.10.19 £'000
ASSETS			
Fixed assets			
Investments		290,051	265,911
Current assets			
Debtors	9	524	2,379
Cash and cash equivalents	10	23,999	24,569
Total assets		<u>314,574</u>	<u>292,859</u>
LIABILITIES			
Investment liabilities		(545)	–
Creditors			
Bank overdrafts		–	(30)
Distribution payable	11	(2,539)	(3,897)
Other creditors	11	(167)	(745)
Total liabilities		<u>(3,251)</u>	<u>(4,672)</u>
Net assets attributable to shareholders		<u>311,323</u>	<u>288,187</u>

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2020

1. Accounting Policies

The accounting policies described on pages 22 to 24 have been applied to the financial statements of the Fund in the current and prior year. The additional accounting policy described below has also been applied to this Fund.

(A) TREATMENT OF EXPENSES

The Fund receives a rebate of the Annual Management Charge in relation to related party investments in the Fund. This is to eliminate double charging and, as such, is not a reduction in expenses suffered by shareholders.

2. Distribution Policies

The distribution policies described on pages 24 and 25 have been applied to the financial statements of the Fund in the current and prior year.

The Fund has satisfied the qualifying investments test of Section 493 of the Corporation Taxes Act 2009, through the year. All distributions payable by the Fund attracted tax at 20% and were accounted for on the shareholders' behalf to the HM Revenue & Customs.

3. Net Capital Gains

The net capital gains during the year comprise:

	31.10.20 £'000	31.10.19 £'000
Non-derivative securities	3,541	11,213
Derivative contracts	(95)	248
Transaction charges	(2)	(2)
AMC rebates from underlying investments	(53)	344
Currency losses	(16)	(200)
Broker's commission on futures	(4)	(1)
Net capital gains	3,371	11,602

The net capital gains figure includes realised gains of £2,689,000 and unrealised gains of £12,874,000 (31.10.19: includes realised gains of £18,159,000 and unrealised gains of £12,133,000). The realised gains on investments in the current year include amounts previously recognised as unrealised gains in the prior year.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

4. Revenue

	31.10.20 £'000	31.10.19 £'000
Non-taxable dividends	1,672	2,404
Taxable dividends	121	130
UK property income distributions	–	409
Unfranked interest	2,597	3,654
AMC rebates from underlying investments	582	1,086
Bank interest	2	2
Total revenue	4,974	7,685

5. Expenses

	31.10.20 £'000	31.10.19 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	409	522
Administration fees	–	98
ACD reimbursement to revenue ¹	–	(55)
	409	565
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	22	22
Safe custody and other bank charges	2	2
	24	24

¹ This relates to a rebate paid by the ACD in order to maintain the individual sub-fund's Ongoing Charges Figure ('OCF') at a level considered appropriate by the ACD. Once the Extraordinary General Meeting in December 2018 approved the various changes to the Company effective from 21 January 2019, Prudential Distribution Limited ('PDL'), as sponsor, wanted to ensure that shareholders benefitted immediately from the resultant lower OCFs, rather than the OCF charge reduction coming through over the 6 month period where the Portfolio Manager transitioned the portfolios. Therefore, the ACD effectively introduced a cap on the OCF and the costs of applying this cap during the 6 month transition period were met by PDL as sponsor of the sub-funds in the Company.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Other expenses:		
Audit fees	8	8
Total expenses	441	597

The Portfolio Manager's fees and expenses (plus VAT thereon) for providing portfolio management services are paid by the ACD out of its remuneration.

6. Interest Payable and Similar Charges

	31.10.20 £'000	31.10.19 £'000
Interest payable	7	4
Futures interest payable	6	1
Total interest payable and similar charges	13	5

7. Taxation

	31.10.20 £'000	31.10.19 £'000
a) Analysis of charge for the year		
Corporation tax	—	186
Irrecoverable income tax	—	5
Adjustments in respect of prior periods	—	107
Current tax charge	—	298
Deferred tax – origination and reversal of timing differences (note 7c)	—	(36)
Total taxation (note 7b)	—	262

b) Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK for an authorised fund (20%) (31.10.19: 20%). The difference is explained below:

	31.10.20 £'000	31.10.19 £'000
Net revenue before taxation	4,520	7,083
Corporation tax at 20%	904	1,417

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Effects of:		
Non-taxable dividends	(334)	(482)
Rebated capital expenses deductible for tax purposes	(11)	69
Irrecoverable overseas tax	–	5
Corporation tax: adjustment in respect of prior years	–	107
Tax deductible interest distributions	(559)	(854)
Total tax charge (note 7a)	–	262
Deferred tax		
Provision at the start of the year	–	36
Deferred tax charge in the year (note 7a)	–	(36)
Provision at the end of the year	–	–

8. Distributions

The distributions take account of revenue received on the issue of shares and revenue deducted on redemptions of shares, and comprise:

	31.10.20 £'000	31.10.19 £'000
Final	4,659	6,610
	4,659	6,610
Add: Revenue deducted on redemption of shares	158	796
Deduct: Revenue received on issue of shares	(297)	(410)
Net distribution for the year	4,520	6,996

Details of the distributions per share are set out in the table on pages 227 and 228.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Distributions represented by:		
Net revenue after taxation	4,520	6,821
Allocations to capital:		
Tax relief from capital	—	175
Net distribution for the year	4,520	6,996

9. Debtors

	31.10.20 £'000	31.10.19 £'000
Amounts receivable for issue of shares	259	1,755
Sales awaiting settlement	—	86
Accrued revenue:		
Non-taxable dividends	200	474
AMC rebates from underlying investments	61	63
	261	537
Taxation recoverable:		
Income tax	4	1
Total debtors	524	2,379

10. Cash and Cash Equivalents

	31.10.20 £'000	31.10.19 £'000
Bank balances	22,394	24,426
Margin account	1,605	143
Total cash and cash equivalents	23,999	24,569

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

11. Creditors

	31.10.20 £'000	31.10.19 £'000
Distribution payable	2,539	3,897
Other Creditors		
Amounts payable for redemption of shares	166	168
Purchases awaiting settlement	–	408
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	37	33
ACD reimbursement to revenue	–	(55)
	37	(22)
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	2	2
Transaction charges	–	1
	2	3
Taxation payable:		
Corporation tax	(46)	180
Other expenses	8	8
Total other creditors	167	745

12. Related Party Transactions

The Annual Management Charge and administration fees payable to Link Fund Solutions Limited ('the ACD') are disclosed in note 5 and amounts due at the year end are disclosed in note 11.

The aggregate monies received by the ACD through the issue of shares and paid on redemption of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders on page 212 and amounts due at the year end are disclosed in notes 9 and 11.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

Link Fund Solutions Limited and its associates (including other authorised investment funds managed by Link Fund Solutions or its associates) held 147,176 (31.10.19: 189,978) of the Fund's shares at the balance sheet date.

M&G Investment Management Limited and its associates (including other authorised investment funds managed by M&G Investment Management Limited) held 102,860,399 (31.10.19: 106,894,195) of the Fund's shares at the balance sheet date.

A shareholder may be able to exercise significant influence over the financial and operating policies of the Fund and as such is deemed to be a related party. At the balance sheet date the following shareholder held in excess of 20% of the shares in issue of the Fund:

Prudential plc and its associates 46.05% (31.10.19: 50.86%)

As part of the investment strategy, the Fund may from time to time hold shares in other collective investment schemes managed by the same Portfolio Manager or for which Link Fund Solutions Limited is also the ACD. At the balance sheet date the value of the holdings was as follows:

	31.10.20 £'000	31.10.19 £'000
Portfolio Manager in common	49,631	45,990

13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.19: none).

14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.48%	0.48%	0.00%
Opening shares in issue	131,409	4,269,527	106,894,445
Issues	7,470	600,857	5,803,189
Redemptions	(5,299)	(413,245)	(9,836,986)
Conversions	—	(56,489)	—
Closing shares in issue	133,580	4,400,650	102,860,648

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.23%	0.23%	0.48%
Opening shares in issue	6,085,800	78,241,121	14,536,443
Issues	1,376,240	22,937,070	1,537,452
Redemptions	(898,766)	(6,030,080)	(1,870,556)
Conversions	—	—	70,443
Closing shares in issue	<u>6,563,274</u>	<u>95,148,111</u>	<u>14,273,782</u>

15. Risk Management Policies

In pursuing the investment objective a number of financial instruments are held which may comprise securities and other investments, cash balances and debtors and creditors that arise directly from operations. Derivatives, such as futures or forward currency contracts, may be utilised for Efficient Portfolio Management (including hedging) purposes.

The main risks from the Fund's holding of financial instruments, together with the ACD's policy for managing these risks, are set out below:

The ACD has in place a Risk Management Policy and Procedures Document ('RMPPD') that sets out the risks that may impact a fund and how the ACD seeks, where appropriate, to manage, monitor and mitigate those risks, and in particular those risks associated with the use of derivatives. The RMPPD sets out both the framework and the risk mitigations operated by the ACD in managing the identified risks of the Fund. The ACD requires that the appointed Portfolio Manager to the Fund has in place its own governance structure, policies and procedures that are commensurate with its regulatory obligations and the risks posed by the fund managed.

(A) CREDIT RISK

Credit risk is the risk that a counterparty may be unable or unwilling to make a payment or fulfil contractual obligations. This may be in terms of an actual default or by deterioration in a counterparty's credit quality.

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its obligations. As part of its due diligence process, the ACD undertakes a review of the controls operated over counterparties by the Portfolio Manager, including initial and ongoing due diligence and business volumes placed with each counterparty. In cases which are dependent on the counterparty settling at the transaction's maturity date, the ACD has policies in place which set out the minimum credit quality expected of a market counterparty or deposit taker at the outset of the transaction.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

There were futures contracts held at the balance sheet date. Details of the individual contracts are disclosed separately in the Portfolio Statement and the total position by counterparty at the balance sheet date was as follows:

31.10.20 Counterparty	Futures £'000	Net cash collateral pledged £'000
JPMorgan	(8)	–
NatWest	(537)	–

31.10.19 Counterparty	Futures £'000	Net cash collateral pledged £'000
NatWest	73	–

(B) INTEREST RATE RISK

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes. The value of fixed interest securities may be affected by changes in interest rates, either globally or locally. Changes in the rate of return in one asset class may influence the valuation basis of other classes. The amount of revenue receivable from floating rate investments and bank balances or payable on bank overdrafts will be affected by fluctuations in interest rates. Investment in collective investment schemes exposes the Fund to indirect interest rate risk to the extent that they invest in interest bearing securities, the returns from which will be affected by fluctuations in interest rates.

The Fund invests in collective investment schemes and as such does not have any significant direct exposure to interest rate risk. The Fund is indirectly exposed to interest rate risk through its investment in collective investment schemes. As the Fund has no direct exposure to interest rate risk, no interest rate risk table or sensitivity analysis has been presented.

(C) FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the Sterling value of investments will fluctuate as a result of exchange rate movements. Assets denominated in currencies other than Sterling will provide direct exposure to currency risk as a consequence of the movement in foreign exchange rates when calculating the Sterling equivalent value. Investment in collective investment schemes may provide indirect exposure to currency risk as a consequence of the movement in foreign exchange rates.

Where the Fund invests in non-Sterling assets, the Portfolio Manager allows for the foreign currency risk when considering whether to invest and does not seek to hedge this risk.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

The table below shows the foreign currency risk profile at the balance sheet date:

	31.10.20 Gross £'000	31.10.20 Hedged £'000	31.10.20 Net £'000
Currency:			
Euro currency	83,165	–	83,165
Japanese yen	165	–	165
South African rand	338	–	338
US dollars	1,148	–	1,148
Total foreign currency exposure	84,816	–	84,816
Pounds sterling	226,507	–	226,507
Total net assets	311,323	–	311,323
	31.10.19 Gross £'000	31.10.19 Hedged £'000	31.10.19 Net £'000
Currency:			
Euro currency	74,287	–	74,287
US dollars	1,316	–	1,316
Total foreign currency exposure	75,603	–	75,603
Pounds sterling	212,584	–	212,584
Total net assets	288,187	–	288,187

A 5% change in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £4,241,000 on the net assets of the Fund (31.10.19: £3,780,000).

(D) LEVERAGE

The ACD is required to calculate and monitor the level of leverage of the Fund, expressed as a ratio between the exposure of the Fund and its Net Asset Value, under both the gross and commitment methods (in accordance with articles 7 and 8 of The Alternative Investment Fund Managers Regulations 2013). For a fund with no borrowing or derivative usage the leverage ratio would be 1:1 under the commitment method. The gross method calculation excludes cash and cash equivalents which are highly liquid.

As at 31.10.20, leverage under the gross method was 0.93:1 and leverage under the commitment method was 1:1 (31.10.19: 0.92:1 and 1:1 respectively).

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

(E) LIQUIDITY RISK

The main liability of the Fund is the redemption of any shares that investors want to sell. Investments may have to be sold to fund such redemptions should insufficient cash be held at the bank to meet this obligation.

The ACD monitors the liquidity profile of the Fund on a daily basis. In assessing the liquidity profile of the Fund, the ACD assesses how much of the Fund can be realised in one and five days, under normal and stressed market conditions, and the impact this would have on the overall subsequent liquidity profile. In assessing the liquidity of a company's shares, the ACD utilises the lower of the 5 and 30 day average market volume of that company's shares. Where a risk is identified then a more in depth review is undertaken to establish its significance, by assessing the liquidity profile of the Fund against a 25% market participation of the average daily volume. Based on this analysis 78.82% of the portfolio can be liquidated within 5 days and 79.14% within 30 days. Given this and the ACD's understanding of the investor base, it is considered that the liquidity profile of the Fund is appropriate.

All financial liabilities are payable in one year or less, or on demand.

(F) MARKET PRICE RISK

Market price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds.

Market price risk represents the potential loss the Fund may suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to price fluctuations, which are monitored by the ACD in pursuance of the investment objective and policy. The risk is generally regarded as consisting of two elements – stock specific risk and market risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit stock specific risk. Subject to compliance with the investment objective, spreading exposure across a broad range of global stocks can mitigate market risk.

A 5% increase in the value of the Fund's portfolio would have the effect of increasing the return and net assets by £14,475,000 (31.10.19: £13,296,000). A 5% decrease would have an equal and opposite effect.

(G) DERIVATIVES

The economic exposure of futures derivative contracts is equal to the market value. The value of the exposure and the related counterparty are disclosed in the Portfolio of Investments.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

16. Portfolio Transaction Costs

31.10.20	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	310	–	1	311
Collective investment schemes	71,383	2	2	71,387
Purchases total	71,693	2	3	71,698
<i>Transaction cost % of purchases total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	
Ordinary shares	1,595	(1)	–	1,594
Collective investment schemes	52,780	(1)	–	52,779
Sales total	54,375	(2)	–	54,373
<i>Transaction cost % of sales total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	

Average portfolio dealing spread at 31.10.20 is 0.30% (31.10.19: 0.28%).

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

31.10.19	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	797	–	–	797
Collective investment schemes	201,043	2	2	201,047
Purchases total	201,840	2	2	201,844
<i>Transaction cost % of purchases total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	
Ordinary shares	4,791	(2)	–	4,789
Collective investment schemes	247,984	(1)	–	247,983
Sales total	252,775	(3)	–	252,772
<i>Transaction cost % of sales total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	

The collective investment schemes include closed-ended funds.

17. Fair Value Hierarchy

Investments are categorised into the following levels based on their fair value measurement:

Level 1: Unadjusted quoted price in an active market for an identical instrument;

Level 2: Valuation techniques using observable inputs other than quoted prices within Level 1;

Level 3: Valuation techniques using unobservable inputs (see note 1(F) of the Accounting Policies).

31.10.20	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	17,079	272,957	15	290,051
Investment liabilities	(545)	–	–	(545)
31.10.19	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	14,096	251,752	63	265,911

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

DISTRIBUTION TABLE

for the year ended 31 October 2020 – in pence per share

EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares – the applicable distribution periods for each distribution are shown below). It represents the accrued revenue included in the purchase price of the shares. After averaging it is returned with the distribution as a capital repayment. It is not liable to Income Tax but must be deducted from the cost of the shares for Capital Gains Tax purposes.

Group 2	Final
From	01.11.19
To	31.10.20

'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.6707	–	1.6707	2.5695
Group 2	0.7685	0.9022	1.6707	2.5695

'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	2.1231	–	2.1231	3.1876
Group 2	1.1872	0.9359	2.1231	3.1876

'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	2.3615	–	2.3615	3.5015
Group 2	1.5501	0.8114	2.3615	3.5015

'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.6424	–	1.6424	2.4823
Group 2	0.7468	0.8956	1.6424	2.4823

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

FINANCIAL STATEMENTS *continued*

DISTRIBUTION TABLE *continued*

'P' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.8739	–	1.8739	2.7897
Group 2	0.9896	0.8843	1.8739	2.7897

'R' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.7072	–	1.7072	2.7150
Group 2	1.0738	0.6334	1.7072	2.7150

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2 ACD'S REPORT

for the year ended 31 October 2020

Important Information

Refer to the 'Important Information' section on page 12.

Investment Objective and Policy

The LF Prudential Risk Managed Passive Fund 2 ('the Fund') aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 10%.

There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 10%. Capital invested is at risk.

The Fund aims to achieve its objective through investing at least 70% in passive collective investment schemes (e.g. funds which track an index). The Fund has a flexible investment approach with the freedom to invest in different types of assets to meet its objective. The Portfolio Manager will use in-depth research to forecast the expected change in value and risk of the different types of assets over a forward-looking 15-year period. This analysis is then used to work out the mix of assets (the "target strategic asset allocation") to invest in to achieve the Fund's objective. The Portfolio Manager will review the target strategic asset allocation on an ongoing basis.

Based on the target strategic asset allocation, the Portfolio Manager constructs an actively managed portfolio to provide diversified, indirect exposure to global fixed income and variable rate assets, cash (including money market funds and near cash), equities and/or immovable property.

The Fund will have a bias towards lower risk assets such as fixed income assets and cash but will always have some exposure to equities. The Portfolio Manager will adjust the asset allocation on an ongoing basis to reflect changes in the target strategic asset allocation and to take advantage of tactical investment opportunities.

The Portfolio Manager will select collective investment schemes to invest in from a focused range of funds and fund management groups (which may include other funds managed by the ACD, Portfolio Manager and their associates).

The Fund may also invest directly in equities, equity related instruments (e.g. warrants), fixed income and cash or near cash. It may also invest in alternative investments (e.g. infrastructure, private equity, alternative credit and hedge funds). Derivative instruments may also be used for the purposes of efficient portfolio management.

Other Information: The Fund's objective to stay within its specified risk profile may restrict the types and proportions of the assets it holds and limit the potential gains and losses.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

ACD'S REPORT *continued*

Benchmark

The Fund's comparator benchmark is the IA Mixed Investment 20-60% shares sector.

The Fund's performance may be compared against the IA Mixed Investment 20-60% shares sector. The ACD believes that this is an appropriate comparator for the Fund given the investment objective and policy of the Fund. Many funds sold in the UK are grouped into sectors by the Investment Association (the trade body that represents UK investment managers), to help investors to compare funds with broadly similar characteristics.

LINK FUND SOLUTIONS LIMITED

ACD of LF Prudential Risk Managed Passive Fund 2

26 February 2021

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2020

Between 1 November 2019 and 31 October 2020 (the period in review) share classes R (Acc) 1.74%¹, P (Acc) 1.94%¹ and A (Acc) 1.74%¹ produced returns that were ahead of the -1.65%¹ sector average for the IA Mixed Investment 20-60% Shares Sector.

Market Overview

Early on in 2020 and before the gravity of the coronavirus situation became apparent, developed market equities were broadly flat, and Asia and emerging markets slightly down.

Towards the end of February, the reality hit that a potential human tragedy was unfolding which would dramatically affect economic activity. Sentiment plummeted across markets as investors rushed to sell financial assets. The speed of the sell-off was notable, albeit off the back of strong performance in 2019, which had been driven by the hope of economic activity improving.

Equity markets became highly sensitive to case news. In February alone, there were over 18 days where the S&P 500 Index was either up or down by more than 3%. Corporate bond markets were also volatile as secondary markets and liquidity evaporated. Spreads on 1-year investment grade bonds jumped nearly 300bps in US and around 200bps in the UK and Europe. The moves in high yield were amplified with 1-year US high yield bonds spiking over 700bps and in the UK and Europe between 560/600bps.

Major stock markets experienced a remarkable rebound during the second quarter following the steep declines seen during the onset of the pandemic. The FTSE World Index rose 19.9% over the period. An extraordinary level of central bank stimulus and government support in the world's major economies came to the aid of many consumers and businesses and was welcomed by investors.

Global investor sentiment stayed fairly positive during the third quarter despite a bleak (albeit recovering) global economic backdrop and a resurgence of virus cases in many developed countries. The majority of stock markets continued to rise following the rebound seen in the second quarter. Global economic activity data for the summer months improved as restrictions were eased and most economies could reopen.

Governments and central banks from across the world remained supportive towards the needs of businesses and consumers. However, despite positive news surrounding potential vaccines and better treatment outcomes, a resurgence of virus cases in the US and Europe scuppered any hope of a rapid return to normality for the global economy. This certainly impacted markets towards the end of the period in review.

Positioning

The portfolio management team implemented the 2020 strategic asset allocation review in June across all funds in the range.

¹ Source: FE Analytics.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT *continued*

The key headlines were a small increase in overall equity exposure mainly weighted towards the UK due to attractive medium-term valuations. New allocations to Chinese and African equities were also made to capture the future growth potential of these regions.

There was a small overall reduction to fixed income, whilst adding a new allocation to Emerging Market Debt.

Exposure to alternatives was not altered.

From a tactical asset allocation perspective, towards the end of the period in review the portfolio manager has added a small exposure to Asia ex-Japan and US equity, being of the view that markets would place more weight on stimulus introduced than on any worsening of COVID-19 cases. A small UK REITs position is held across all portfolios as long-term valuations look attractive.

Outlook

Markets will continue to be sensitive to COVID-19 related news, periods of uncertainty and investor nervousness will likely re-occur. As ever, trying to time markets and be precise on a timeframe for a return to normality is very difficult so it is important to try and balance portfolios to be robust in the short-term whilst still looking for long-term opportunities as capital markets evolve.

The portfolio managers remain fully focused on adhering to the long-standing investment philosophy and processes. The team has no greater insight into the future than anyone else but has concentrated on what can be controlled, which is how they invest both now and in the future.

M&G INVESTMENT MANAGEMENT LIMITED

Portfolio Manager

18 November 2020

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

ACD'S REPORT *continued*

FUND INFORMATION

Risk and Reward Profile



This indicator shows how much a fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a fund's past volatility the higher the number on the scale and the greater the risk that investors in that fund may have made losses as well as gains.

The Fund has been classed as 4 because its volatility has been measured as average.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of this Fund.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

The Fund targets a risk level of 2 which is a level of risk relative to the 4 other funds in the range. The risk and reward profile scale above is calculated differently. The two measures are not comparable. The lowest number on the scale does not mean that a fund is risk free.

Currency Risk: As the Fund can be exposed to different currencies, changes in exchange rates may decrease the value of your investment.

Changes in Interest Rate Risk: A rise in interest rates generally causes bond prices to fall.

Credit Risk: The value of a bond may be affected by its credit rating, the lower the rating the higher the risk of the issuer not paying interest or repaying the loan.

Property Fund Investment Risk: Property funds can become illiquid increasing the risk that a position cannot be sold in a timely manner or at a reasonable price.

Counterparty Risk: The failure of a firm involved in a transaction with the Fund or providing services to the Fund may expose the Fund to financial loss.

Derivatives Risk: A derivative may not perform as expected and may create losses greater than its cost.

For full details of the Fund's risks, please see the Prospectus which may be obtained upon application and can be found on the ACD's website, www.linkfundsolutions.co.uk.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables

Where the Fund has significant investment in collective investment schemes, the operating charges take account of the ongoing charges incurred in the underlying schemes, calculated as the expense value of such holdings at the year end weighted against the net asset value of the share class at that date. Following regulatory changes, the Operating Charges Figure takes account of the ongoing charges incurred in closed-ended underlying schemes calculated as the expense value of such holdings at the period end weighted against the net asset value of the share class at that date.

'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	117.23	112.15	115.31
Return before operating charges*	2.70	7.71	0.86
Operating charges	(0.65)	(0.81)	(1.89)
Return after operating charges	2.05	6.90	(1.03)
Distributions	(1.54)	(1.82)	(2.13)
Closing net asset value per share	117.74	117.23	112.15
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	1.75%	6.16%	(0.89)%
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OTHER INFORMATION

Closing net asset value (£'000)	–	–	–
Closing number of shares	250	250	250
Operating charges	0.55%	0.69%	1.63%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	123.06	122.20	118.06
Lowest share price	103.92	109.17	113.07

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'A' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	125.45	118.02	119.57
Return before operating charges*	2.57	8.28	0.42
Operating charges	(0.68)	(0.85)	(1.97)
Return after operating charges	1.89	7.43	(1.55)
Distributions	(1.29)	(2.00)	(1.66)
Retained distributions on accumulation shares	1.29	2.00	1.66
Closing net asset value per share	127.34	125.45	118.02
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	1.51%	6.29%	(1.30)%
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OTHER INFORMATION

Closing net asset value (£'000)	128	21	5
Closing number of shares	100,053	17,023	4,361
Operating charges	0.55%	0.69%	1.63%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	131.06	128.57	121.98
Lowest share price	110.83	115.05	117.04

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'C' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 ¹ pence per share
Opening net asset value per share	103.93	99.27	100.00
Return before operating charges*	2.07	7.03	0.82
Operating charges	(0.07)	(0.14)	(0.15)
Return after operating charges	2.00	6.89	0.67
Distributions	(1.48)	(2.23)	(1.40)
Closing net asset value per share	104.45	103.93	99.27
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	1.92%	6.94%	0.67%
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OTHER INFORMATION

Closing net asset value (£'000)	3,801	1,022	10
Closing number of shares	3,639,546	983,376	10,071
Operating charges	0.07%	0.14%	0.28% ²
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	108.81	108.56	103.71
Lowest share price	91.84	96.84	100.00

¹ From 17 April 2018.

² Annualised figure due to share class being launched less than 1 year.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	117.64	112.38	115.50
Return before operating charges*	2.34	8.03	0.20
Operating charges	(0.35)	(0.53)	(1.02)
Return after operating charges	1.99	7.50	(0.82)
Distributions	(1.46)	(2.24)	(2.30)
Closing net asset value per share	118.17	117.64	112.38
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	1.69%	6.67%	(0.71)%
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OTHER INFORMATION

Closing net asset value (£'000)	6,644	3,139	6,684
Closing number of shares	5,622,387	2,668,501	5,947,803
Operating charges	0.30%	0.45%	0.88%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	123.10	122.78	118.29
Lowest share price	103.99	109.54	113.31

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	127.96	119.95	120.79
Return before operating charges*	2.57	8.53	0.22
Operating charges	(0.38)	(0.52)	(1.06)
Return after operating charges	2.19	8.01	(0.84)
Distributions	(1.59)	(2.39)	(2.41)
Retained distributions on accumulation shares	1.59	2.39	2.41
Closing net asset value per share	130.15	127.96	119.95
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	1.71%	6.68%	(0.70)%
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OTHER INFORMATION

Closing net asset value (£'000)	107,773	47,275	14,200
Closing number of shares	82,807,685	36,944,580	11,838,124
Operating charges	0.30%	0.42%	0.88%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	133.89	131.05	123.72
Lowest share price	113.11	117.04	118.51

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'R' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	126.86	119.16	120.24
Return before operating charges*	2.62	8.55	0.28
Operating charges	(0.70)	(0.85)	(1.36)
Return after operating charges	1.92	7.70	(1.08)
Distributions	(1.33)	(2.12)	(2.15)
Retained distributions on accumulation shares	1.33	2.12	2.15
Closing net asset value per share	128.78	126.86	119.16
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	1.51%	6.46%	(0.90)%
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OTHER INFORMATION

Closing net asset value (£'000)	23,477	19,020	16,530
Closing number of shares	18,229,520	14,993,715	13,872,374
Operating charges	0.55%	0.70%	1.13%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	132.52	130.00	122.96
Lowest share price	112.06	116.23	117.87

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Fund Performance to 31 October 2020 (%)

	1 year	3 years	5 years
LF Prudential Risk Managed Passive Fund 2	1.74	7.11	27.23

The performance of the Fund is based on the published price per 'A' Accumulation share which includes reinvested income.

The performance of the Fund disclosed in the above table may differ from the 'Return after charges' disclosed in the Comparative Table due to the above performance being calculated on the latest published price prior to the year end, rather than the year end return after operating charges.

Details of the distributions per share for the year are shown in the Distribution Table on pages 261 and 262.

RISK WARNING

An investment in an open-ended investment company should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

ACD'S REPORT *continued*

PORTFOLIO STATEMENT

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	EQUITY PORTFOLIOS – 27.15% (31.10.19 – 30.15%)		
	CONTINENTAL EUROPE – 3.36% (31.10.19 – 4.12%)		
1,770,495	Legal & General European Index	4,761	3.36
	TOTAL CONTINENTAL EUROPE	4,761	3.36
	UNITED KINGDOM – 10.13% (31.10.19 – 10.59%)		
7,359,564	iShares UK Equity Index	10,855	7.66
2,803,701	Legal & General UK Index	3,507	2.47
	TOTAL UNITED KINGDOM	14,362	10.13
	ASIA EX JAPAN – 5.80% (31.10.19 – 5.88%)		
4,406,785	iShares Pacific ex Japan Equity Index	8,228	5.80
	TOTAL ASIA EX JAPAN	8,228	5.80
	JAPAN – 2.15% (31.10.19 – 2.59%)		
1,376,577	iShares Japan Equity Index	3,049	2.15
	TOTAL JAPAN	3,049	2.15
	NORTH AMERICA – 3.64% (31.10.19 – 4.40%)		
1,553,613	iShares US Equity Index	5,163	3.64
	TOTAL NORTH AMERICA	5,163	3.64
	EMERGING MARKETS – 2.07% (31.10.19 – 2.57%)		
1,754,064	iShares Emerging Markets Equity Index	2,940	2.07
	TOTAL EMERGING MARKETS	2,940	2.07
	TOTAL EQUITY PORTFOLIOS	38,503	27.15
	EQUITY INVESTMENT INSTRUMENTS – 2.81% (31.10.19 – 3.32%)		
278,589	BBGI ¹	482	0.34
422,012	BioPharma Credit ¹	324	0.23
58,845	Blue Capital Alternative Income ^{1,2}	2	–
32,100	Boussard & Gavaudan ¹	505	0.36

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
154,902	DP Aircraft I ¹	5	–
64,152	HarbourVest Global Private Equity ¹	1,098	0.77
152,660	HgCapital ¹	451	0.32
47,034	NB Distressed Debt Investment ¹	16	0.01
269,237	NextEnergy Solar ¹	289	0.20
217,441	Renewables Infrastructure ¹	294	0.21
503,140	SDCL Energy Efficiency Income ¹	526	0.37
	TOTAL EQUITY INVESTMENT INSTRUMENTS	3,992	2.81
	PROPERTY PORTFOLIOS – 0.44% (31.10.19 – 0.00%)		
131,147	iShares UK Property	625	0.44
	TOTAL PROPERTY PORTFOLIOS	625	0.44
	BOND PORTFOLIOS – 60.11% (31.10.19 – 56.23%)		
19,009,434	iShares Corporate Bond Index	30,434	21.46
907,777	iShares Euro Investment Grade Corporate Bond Index	10,440	7.36
2,115,082	iShares US Corporate Bond Index	21,133	14.90
585,268	iShares USD Treasury Bond	3,074	2.17
2,769,000	M&G Emerging Markets Bond ³	2,950	2.08
2,289,517	M&G European Corporate Bond ³	2,730	1.93
3,391,126	M&G Global High Yield Bond ³	4,629	3.26
7,700,962	M&G Strategic Corporate Bond ³	9,862	6.95
	TOTAL BOND PORTFOLIOS	85,252	60.11
	FUTURES – (0.29)% (31.10.19 – 0.02%)		
75	EURO STOXX 50 Index Futures December 2020	(136)	(0.10)
52	FTSE 100 Index Futures December 2020	(145)	(0.10)
89	FTSE China A50 Futures November 2020	(5)	–
40	FTSE/JSE Top 40 Futures December 2020	(51)	(0.04)
13	S&P 500 E Mini Index Futures December 2020	(62)	(0.04)
3	TOPIX Index Futures December 2020	(16)	(0.01)
	TOTAL FUTURES	(415)	(0.29)

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	Portfolio of investments ⁴	127,957	90.22
	Net other assets	13,866	9.78
	Net assets	141,823	100.00

The investments have been valued in accordance with note 1(F) of the Accounting Policies and are collective investment schemes unless stated otherwise.

¹ Closed-ended fund.

² Delisted security.

³ Related party holding (see note 12).

⁴ Includes investment liabilities.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

ACD'S REPORT *continued*

SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2020

Total purchases for the year £'000 (note 16)	72,704	Total sales for the year £'000 (note 16)	9,449
	Cost £'000		Proceeds £'000
Major purchases		Major sales	
iShares Corporate Bond Index	16,180	FTSE 100 Index Futures June 2020	3,349
iShares US Corporate Bond Index	11,149	FTSE 100 Index Futures September 2020	3,338
iShares UK Equity Index	9,524	FTSE 100 Index Futures December 2020	3,316
iShares Euro Investment Grade Corporate Bond Index	6,543	iShares US Corporate Bond Index	2,856
FTSE 100 Index Futures December 2020	6,349	FTSE 100 Index Futures March 2020	2,838
M&G Global High Yield Bond	4,262	iShares USD Treasury Bond	1,992
iShares Pacific ex Japan Equity Index	3,951	FTSE China A50 Futures October 2020	1,886
iShares USD Treasury Bond	3,856	EURO STOXX 50 Index Futures September 2020	1,678
FTSE 100 Index Futures March 2020	3,525	S&P 500 E Mini Index Futures June 2020	1,657
EURO STOXX 50 Index Futures December 2020	3,449	EURO STOXX 50 Index Futures June 2020	1,524

In addition to the above, purchases totalling £2,224,646,000 and sales totalling £2,219,554,000 were made in short term investments during the year.

Purchases and sales of Futures have been included at the value of their exposure and are not included in the total purchases and sales figures above.

The summary of material portfolio changes represents the 10 largest purchases and sales during the year.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS

STATEMENT OF TOTAL RETURN

for the year ended 31 October 2020

	Notes	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Income:					
Net capital gains	3		225		1,955
Revenue	4	1,755		1,234	
Expenses	5	(297)		(198)	
Interest payable and similar charges	6	(5)		(2)	
Net revenue before taxation		1,453		1,034	
Taxation	7	(135)		(101)	
Net revenue after taxation			1,318		933
Total return before distributions			1,543		2,888
Distributions	8		(1,317)		(940)
Change in net assets attributable to shareholders from investment activities			226		1,948

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2020

	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Opening net assets attributable to shareholders		70,477		37,429
Amounts receivable on issue of shares	73,551		39,478	
Amounts payable on redemption of shares	(3,990)		(9,580)	
		69,561		29,898
Change in net assets attributable to shareholders from investment activities		226		1,948
Retained distributions on Accumulation shares		1,559		1,202
Closing net assets attributable to shareholders		141,823		70,477

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

BALANCE SHEET

as at 31 October 2020

	Notes	31.10.20 £'000	31.10.19 £'000
ASSETS			
Fixed assets			
Investments		128,372	63,238
Current assets			
Debtors	9	2,288	7,600
Cash and cash equivalents	10	12,845	6,363
Total assets		<u>143,505</u>	<u>77,201</u>
LIABILITIES			
Investment liabilities		(415)	(4)
Creditors			
Distribution payable	11	(136)	(82)
Other creditors	11	(1,131)	(6,638)
Total liabilities		<u>(1,682)</u>	<u>(6,724)</u>
Net assets attributable to shareholders		<u>141,823</u>	<u>70,477</u>

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2020

1. Accounting Policies

The accounting policies described on pages 22 to 24 have been applied to the financial statements of the Fund in the current and prior year. The additional accounting policy described below has also been applied to this Fund.

(A) TREATMENT OF EXPENSES

The Fund receives a rebate of the Annual Management Charge in relation to related party investments in the Fund. This is to eliminate double charging and, as such, is not a reduction in expenses suffered by shareholders.

2. Distribution Policies

The distribution policies described on pages 24 and 25 have been applied to the financial statements of the Fund in the current and prior year.

3. Net Capital Gains

The net capital gains during the year comprise:

	31.10.20 £'000	31.10.19 £'000
Non-derivative securities	683	1,849
Derivative contracts	(461)	99
Transaction charges	(2)	(2)
AMC rebates from underlying investments	(5)	35
Currency gains/(losses)	12	(26)
Broker's commission on futures	(2)	–
Net capital gains	225	1,955

The net capital gains figure includes realised gains of £176,000 and unrealised gains of £1,668,000 (31.10.19: includes realised gains of £1,053,000 and unrealised gains of £1,610,000). The realised gains on investments in the current year include amounts previously recognised as unrealised gains in the prior year.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

4. Revenue

	31.10.20 £'000	31.10.19 £'000
Non-taxable dividends	774	568
Taxable dividends	39	13
UK property income distributions	–	72
Unfranked interest	770	431
AMC rebates from underlying investments	171	149
Bank interest	1	1
Total revenue	1,755	1,234

5. Expenses

	31.10.20 £'000	31.10.19 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	286	189
Administration fees	–	13
ACD reimbursement to revenue ¹	–	(9)
	286	193

¹ This relates to a rebate paid by the ACD in order to maintain the individual sub-fund's Ongoing Charges Figure ('OCF') at a level considered appropriate by the ACD. Once the Extraordinary General Meeting in December 2018 approved the various changes to the Company effective from 21 January 2019, Prudential Distribution Limited ('PDL'), as sponsor, wanted to ensure that shareholders benefitted immediately from the resultant lower OCFs, rather than the OCF charge reduction coming through over the 6 month period where the Portfolio Manager transitioned the portfolios. Therefore, the ACD effectively introduced a cap on the OCF and the costs of applying this cap during the 6 month transition period were met by PDL as sponsor of the sub-funds in the Company.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	9	4
Safe custody and other bank charges	2	1
	11	5
Total expenses	297	198

The Portfolio Manager's fees and expenses (plus VAT thereon) for providing portfolio management services are paid by the ACD out of its remuneration.

The audit fees of £7,750 are borne by the ACD (31.10.19: £7,800).

6. Interest Payable and Similar Charges

	31.10.20 £'000	31.10.19 £'000
Interest payable	2	2
Futures interest payable	3	–
Total interest payable and similar charges	5	2

7. Taxation

	31.10.20 £'000	31.10.19 £'000
a) Analysis of charge for the year		
Corporation tax	135	106
Irrecoverable income tax	–	1
Current tax charge	135	107
Deferred tax - origination and reversal of timing differences (note 7c)	–	(6)
Total taxation (note 7b)	135	101

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

b) Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK for an authorised fund (20%) (31.10.19: 20%). The difference is explained below:

	31.10.20 £'000	31.10.19 £'000
Net revenue before taxation	1,453	1,034
Corporation tax at 20%	291	207
Effects of:		
Non-taxable dividends	(155)	(114)
Rebated capital expenses deductible for tax purposes	(1)	7
Irrecoverable overseas tax	–	1
Total tax charge (note 7a)	135	101
c) Deferred tax		
Provision at the start of the year	–	6
Deferred tax charge in the year (note 7a)	–	(6)
Provision at the end of the year	–	–

8. Distributions

The distributions take account of revenue received on the issue of shares and revenue deducted on redemptions of shares, and comprise:

	31.10.20 £'000	31.10.19 £'000
Final	1,695	1,284
	1,695	1,284
Add: Revenue deducted on redemption of shares	23	137
Deduct: Revenue received on issue of shares	(401)	(481)
Net distribution for the year	1,317	940

Details of the distributions per share are set out in the table on pages 261 and 262.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Distributions represented by:		
Net revenue after taxation	1,318	933
Allocations to capital:		
Tax relief to/from capital	(1)	7
Net distribution for the year	1,317	940

9. Debtors

	31.10.20 £'000	31.10.19 £'000
Amounts receivable for issue of shares	2,208	1,408
Sales awaiting settlement	—	6,040
Accrued revenue:		
Non-taxable dividends	58	120
AMC rebates from underlying investments	20	12
	78	132
Taxation recoverable:		
Income tax	2	20
Total debtors	2,288	7,600

10. Cash and Cash Equivalents

	31.10.20 £'000	31.10.19 £'000
Bank balances	11,741	6,304
Margin account	1,104	59
Total cash and cash equivalents	12,845	6,363

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

11. Creditors

	31.10.20 £'000	31.10.19 £'000
Distribution payable	136	82
Other Creditors		
Amounts payable for redemption of shares	21	13
Purchases awaiting settlement	943	6,510
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	31	17
ACD reimbursement to revenue	—	(10)
	31	7
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	1	1
Transaction charges	—	1
	1	2
Taxation payable:		
Corporation tax	135	106
Total other creditors	1,131	6,638

12. Related Party Transactions

The Annual Management Charge and administration fees payable to Link Fund Solutions Limited ('the ACD') are disclosed in note 5 and amounts due at the year end are disclosed in note 11.

The aggregate monies received by the ACD through the issue of shares and paid on redemption of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders on page 245 and amounts due at the year end are disclosed in notes 9 and 11.

Link Fund Solutions Limited and its associates (including other authorised investment funds managed by Link Fund Solutions or its associates) held 151,066 (31.10.19: 145,915) of the Fund's shares at the balance sheet date.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

M&G Investment Management Limited and its associates (including other authorised investment funds managed by M&G Investment Management Limited) held 3,639,296 (31.10.19: 983,126) of the Fund's shares at the balance sheet date.

A shareholder may be able to exercise significant influence over the financial and operating policies of the Fund and as such is deemed to be a related party. At the balance sheet date the following shareholder held in excess of 20% of the shares in issue of the Fund:

Allfunds Nominee Limited 46.61% (31.10.19: 34.24%)

As part of the investment strategy, the Fund may from time to time hold shares in other collective investment schemes managed by the same Portfolio Manager or for which Link Fund Solutions Limited is also the ACD. At the balance sheet date the value of the holdings was as follows:

	31.10.20 £'000	31.10.19 £'000
Portfolio Manager in common	20,171	9,975

13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.19: none).

14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.48%	0.48%	0.00%
Opening shares in issue	250	17,023	983,376
Issues	–	83,030	2,768,210
Redemptions	–	–	(112,040)
Closing shares in issue	250	100,053	3,639,546

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.23%	0.23%	0.48%
Opening shares in issue	2,668,501	36,944,580	14,993,715
Issues	3,200,240	46,797,558	5,153,265
Redemptions	(246,354)	(934,453)	(1,917,460)
Closing shares in issue	<u>5,622,387</u>	<u>82,807,685</u>	<u>18,229,520</u>

15. Risk Management Policies

In pursuing the investment objective a number of financial instruments are held which may comprise securities and other investments, cash balances and debtors and creditors that arise directly from operations. Derivatives, such as futures or forward currency contracts, may be utilised for Efficient Portfolio Management (including hedging) purposes.

The main risks from the Fund's holding of financial instruments, together with the ACD's policy for managing these risks, are set out below:

The ACD has in place a Risk Management Policy and Procedures Document ('RMPPD') that sets out the risks that may impact a fund and how the ACD seeks, where appropriate, to manage, monitor and mitigate those risks, and in particular those risks associated with the use of derivatives. The RMPPD sets out both the framework and the risk mitigations operated by the ACD in managing the identified risks of the Fund. The ACD requires that the appointed Portfolio Manager to the Fund has in place its own governance structure, policies and procedures that are commensurate with its regulatory obligations and the risks posed by the fund managed.

(A) CREDIT RISK

Credit risk is the risk that a counterparty may be unable or unwilling to make a payment or fulfil contractual obligations. This may be in terms of an actual default or by deterioration in a counterparty's credit quality.

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its obligations. As part of its due diligence process, the ACD undertakes a review of the controls operated over counterparties by the Portfolio Manager, including initial and ongoing due diligence and business volumes placed with each counterparty. In cases which are dependent on the counterparty settling at the transaction's maturity date, the ACD has policies in place which set out the minimum credit quality expected of a market counterparty or deposit taker at the outset of the transaction.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

There were futures contracts held at the balance sheet date. Details of the individual contracts are disclosed separately in the Portfolio Statement and the total position by counterparty at the balance sheet date was as follows:

31.10.20 Counterparty	Futures £'000	Net cash collateral pledged £'000
JPMorgan	(5)	–
NatWest	(410)	–

31.10.19 Counterparty	Futures £'000	Net cash collateral pledged £'000
NatWest	15	–

(B) INTEREST RATE RISK

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes. The value of fixed interest securities may be affected by changes in interest rates, either globally or locally. Changes in the rate of return in one asset class may influence the valuation basis of other classes. The amount of revenue receivable from floating rate investments and bank balances or payable on bank overdrafts will be affected by fluctuations in interest rates. Investment in collective investment schemes exposes the Fund to indirect interest rate risk to the extent that they invest in interest bearing securities, the returns from which will be affected by fluctuations in interest rates.

The Fund invests in collective investment schemes and as such does not have any significant direct exposure to interest rate risk. The Fund is indirectly exposed to interest rate risk through its investment in collective investment schemes. As the Fund has no direct exposure to interest rate risk, no interest rate risk table or sensitivity analysis has been presented.

(C) FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the Sterling value of investments will fluctuate as a result of exchange rate movements. Assets denominated in currencies other than Sterling will provide direct exposure to currency risk as a consequence of the movement in foreign exchange rates when calculating the sterling equivalent value. Investment in collective investment schemes may provide indirect exposure to currency risk as a consequence of the movement in foreign exchange rates.

Where the Fund invests in non-Sterling assets, the Portfolio Manager allows for the foreign currency risk when considering whether to invest and does not seek to hedge this risk.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

The table below shows the foreign currency risk profile at the balance sheet date:

	31.10.20 Gross £'000	31.10.20 Hedged £'000	31.10.20 Net £'000
Currency:			
Euro currency	32,215	–	32,215
Japanese yen	71	–	71
South African rand	178	–	178
US dollars	553	–	553
Total foreign currency exposure	33,017	–	33,017
Pounds sterling	108,806	–	108,806
Total net assets	141,823	–	141,823
	31.10.19 Gross £'000	31.10.19 Hedged £'000	31.10.19 Net £'000
Currency:			
Euro currency	15,462	–	15,462
US dollars	362	–	362
Total foreign currency exposure	15,824	–	15,824
Pounds sterling	54,653	–	54,653
Total net assets	70,477	–	70,477

A 5% change in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £1,651,000 on the net assets of the Fund (31.10.19: £791,000).

(D) LEVERAGE

The ACD is required to calculate and monitor the level of leverage of the Fund, expressed as a ratio between the exposure of the Fund and its Net Asset Value, under both the gross and commitment methods (in accordance with articles 7 and 8 of The Alternative Investment Fund Managers Regulations 2013). For a fund with no borrowing or derivative usage the leverage ratio would be 1:1 under the commitment method. The gross method calculation excludes cash and cash equivalents which are highly liquid.

As at 31.10.20, leverage under the gross method was 0.9:1 and leverage under the commitment method was 1:1 (31.10.19: 0.9:1 and 1:1 respectively).

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

(E) LIQUIDITY RISK

The main liability of the Fund is the redemption of any shares that investors want to sell. Investments may have to be sold to fund such redemptions should insufficient cash be held at the bank to meet this obligation.

The ACD monitors the liquidity profile of the Fund on a daily basis. In assessing the liquidity profile of the Fund, the ACD assesses how much of the Fund can be realised in one and five days, under normal and stressed market conditions, and the impact this would have on the overall subsequent liquidity profile. In assessing the liquidity of a company's shares, the ACD utilises the lower of the 5 and 30 day average market volume of that company's shares. Where a risk is identified then a more in depth review is undertaken to establish its significance, by assessing the liquidity profile of the Fund against a 25% market participation of the average daily volume. Based on this analysis 80.43% of the portfolio can be liquidated within 5 days and 80.80% within 30 days. Given this and the ACD's understanding of the investor base, it is considered that the liquidity profile of the Fund is appropriate.

All financial liabilities are payable in one year or less, or on demand.

(F) MARKET PRICE RISK

Market price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds.

Market price risk represents the potential loss the Fund may suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to price fluctuations, which are monitored by the ACD in pursuance of the investment objective and policy. The risk is generally regarded as consisting of two elements – stock specific risk and market risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit stock specific risk. Subject to compliance with the investment objective, spreading exposure across a broad range of global stocks can mitigate market risk.

A 5% increase in the value of the Fund's portfolio would have the effect of increasing the return and net assets by £6,398,000 (31.10.19: £3,162,000). A 5% decrease would have an equal and opposite effect.

(G) DERIVATIVES

The economic exposure of futures derivative contracts is equal to the market value. The value of the exposure and the related counterparty are disclosed in the Portfolio of Investments.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

16. Portfolio Transaction Costs

31.10.20	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	336	—	1	337
Collective investment schemes	72,364	1	2	72,367
Purchases total	72,700	1	3	72,704
<i>Transaction cost % of purchases total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	
Ordinary shares	374	—	—	374
Collective investment schemes	9,075	—	—	9,075
Sales total	9,449	—	—	9,449
<i>Transaction cost % of sales total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	

Average portfolio dealing spread at 31.10.20 is 0.32% (31.10.19: 0.29%).

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

31.10.19	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	306	—	—	306
Collective investment schemes	47,342	—	—	47,342
Purchases total	47,648	—	—	47,648
<i>Transaction cost % of purchases total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	
Ordinary shares	464	—	—	464
Collective investment schemes	23,026	—	—	23,026
Sales total	23,490	—	—	23,490
<i>Transaction cost % of sales total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	

The collective investment schemes include closed-ended funds.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

17. Fair Value Hierarchy

Investments are categorised into the following levels based on their fair value measurement:

Level 1: Unadjusted quoted price in an active market for an identical instrument;

Level 2: Valuation techniques using observable inputs other than quoted prices within Level 1;

Level 3: Valuation techniques using unobservable inputs (see note 1(F) of the Accounting Policies).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31.10.20				
Investment assets	7,689	120,681	2	128,372
Investment liabilities	(415)	—	—	(415)
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31.10.19				
Investment assets	3,481	59,749	8	63,238
Investment liabilities	(4)	—	—	(4)

18. Subsequent Events

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic. In the immediate aftermath, global markets experienced a period of significant volatility which negatively impacted the performance of the Fund at the balance sheet date. Subsequent to that date and whilst markets have remained relatively volatile there has, in the period until the account signing date, been a general recovery in the markets.

This means that since the balance sheet date the price of each of the Fund's share classes has moved as follows:

Share class	Balance sheet date	22.02.21	Movement
'A' Income	117.74	124.88	6.06%
'A' Accumulation	127.34	134.99	6.01%
'C' Income	104.45	110.82	6.10%
'P' Income	118.17	125.35	6.08%
'P' Accumulation	130.15	138.05	6.07%
'R' Accumulation	128.78	136.52	6.01%

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

DISTRIBUTION TABLE

for the year ended 31 October 2020 – in pence per share

EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares – the applicable distribution periods for each distribution are shown below). It represents the accrued revenue included in the purchase price of the shares. After averaging it is returned with the distribution as a capital repayment. It is not liable to Income Tax but must be deducted from the cost of the shares for Capital Gains Tax purposes.

Group 2	Final
From	01.11.19
To	31.10.20

'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.5440	–	1.5440	1.8240
Group 2	1.5440	0.0000	1.5440	1.8240

'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.2892	–	1.2892	1.9954
Group 2	0.7471	0.5421	1.2892	1.9954

'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.4784	–	1.4784	2.2280
Group 2	1.0380	0.4404	1.4784	2.2280

'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.4606	–	1.4606	2.2412
Group 2	0.6402	0.8204	1.4606	2.2412

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

FINANCIAL STATEMENTS *continued*

DISTRIBUTION TABLE *continued*

'P' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.5886	–	1.5886	2.3910
Group 2	0.8515	0.7371	1.5886	2.3910

'R' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.3287	–	1.3287	2.1245
Group 2	0.8461	0.4826	1.3287	2.1245

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3 ACD'S REPORT

for the year ended 31 October 2020

Important Information

Refer to the 'Important Information' section on page 12.

Investment Objective and Policy

The LF Prudential Risk Managed Passive Fund 3 ('the Fund') aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 12%.

There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 12%. Capital invested is at risk.

The Fund aims to achieve its objective through investing at least 70% in passive collective investment schemes (e.g. funds which track an index). The Fund has a flexible investment approach with the freedom to invest in different types of assets to meet its objective. The Portfolio Manager will use in-depth research to forecast the expected change in value and risk of the different types of assets over a forward-looking 15-year period. This analysis is then used to work out the mix of assets (the "target strategic asset allocation") to invest in to achieve the Fund's objective. The Portfolio Manager will review the target strategic asset allocation on an ongoing basis.

Based on the target strategic asset allocation, the Portfolio Manager constructs an actively managed portfolio to provide diversified, indirect exposure to global fixed income and variable rate assets, cash (including money market funds and near cash), equities and/or immovable property.

The Fund will be balanced between lower risk assets, such as fixed income assets and cash, and higher risk assets, such as equities. From time to time, however, the Fund may have a higher exposure to either higher risk or lower risk assets with the aim of meeting the Fund's objective. The Portfolio Manager will adjust the asset allocation on an ongoing basis to reflect changes in the target strategic asset allocation and to take advantage of tactical investment opportunities.

The Portfolio Manager will select collective investment schemes to invest in from a focused range of funds and fund management groups (which may include other funds managed by the ACD, Portfolio Manager and their associates).

The Fund may also invest directly in equities, equity related instruments (e.g. warrants), fixed income and cash or near cash. It may also invest in alternative investments (e.g. infrastructure, private equity, alternative credit and hedge funds). Derivative instruments may also be used for the purposes of efficient portfolio management.

Other Information: The Fund's objective to stay within its specified risk profile may restrict the types and proportions of the assets it holds and limit the potential gains and losses.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

ACD'S REPORT *continued*

Benchmark

The Fund's comparator benchmark is the IA Mixed Investment 20-60% shares sector.

The Fund's performance may be compared against the IA Mixed Investment 20-60% shares sector. The ACD believes that this is an appropriate comparator for the Fund given the investment objective and policy of the Fund. Many funds sold in the UK are grouped into sectors by the Investment Association (the trade body that represents UK investment managers), to help investors to compare funds with broadly similar characteristics.

LINK FUND SOLUTIONS LIMITED

ACD of LF Prudential Risk Managed Passive Fund 3

26 February 2021

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2020

Between 1 November 2019 and 31 October 2020 (the period in review) share classes R (Acc) 0.48%¹, P (Acc) 0.67%¹ and A (Acc) 0.48%¹ produced returns ahead of the -1.65%¹ sector average for IA Mixed Investment 20-60% Shares Sector.

Market Overview

Early on in 2020 and before the gravity of the coronavirus situation became apparent, developed market equities were broadly flat, and Asia and emerging markets slightly down.

Towards the end of February, the reality hit that a potential human tragedy was unfolding which would dramatically affect economic activity. Sentiment plummeted across markets as investors rushed to sell financial assets. The speed of the sell-off was notable, albeit off the back of strong performance in 2019, which had been driven by the hope of economic activity improving.

Equity markets became highly sensitive to case news. In February alone, there were over 18 days where the S&P 500 Index was either up or down by more than 3%. Corporate bond markets were also volatile as secondary markets and liquidity evaporated. Spreads on 1-year investment grade bonds jumped nearly 300bps in US and around 200bps in the UK and Europe. The moves in high yield were amplified with 1-year US high yield bonds spiking over 700bps and in the UK and Europe between 560/600bps.

Major stock markets experienced a remarkable rebound during the second quarter following the steep declines seen during the onset of the pandemic. The FTSE World Index rose 19.9% over the period. An extraordinary level of central bank stimulus and government support in the world's major economies came to the aid of many consumers and businesses and was welcomed by investors.

Global investor sentiment stayed fairly positive during the third quarter despite a bleak (albeit recovering) global economic backdrop and a resurgence of virus cases in many developed countries. The majority of stock markets continued to rise following the rebound seen in the second quarter. Global economic activity data for the summer months improved as restrictions were eased and most economies could reopen.

Governments and central banks from across the world remained supportive towards the needs of businesses and consumers. However, despite positive news surrounding potential vaccines and better treatment outcomes, a resurgence of virus cases in the US and Europe scuppered any hope of a rapid return to normality for the global economy. This certainly impacted markets towards the end of the period in review.

Positioning

The portfolio management team implemented the 2020 strategic asset allocation review in June across all funds in the range.

¹ Source: FE Analytics.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT *continued*

The key headlines were a small increase in overall equity exposure mainly weighted towards the UK due to attractive medium-term valuations. New allocations to Chinese and African equities were also made to capture the future growth potential of these regions.

There was a small overall reduction to fixed income, whilst adding a new allocation to Emerging Market Debt.

Exposure to alternatives was not altered.

From a tactical asset allocation perspective, towards the end of the period in review the portfolio manager has added a small exposure to Asia ex-Japan and US equity, being of the view that markets would place more weight on stimulus introduced than on any worsening of COVID-19 cases. A small UK REITs position is held across all portfolios as long-term valuations look attractive.

Outlook

Markets will continue to be sensitive to COVID-19 related news, periods of uncertainty and investor nervousness will likely re-occur. As ever, trying to time markets and be precise on a timeframe for a return to normality is very difficult so it is important to try and balance portfolios to be robust in the short-term whilst still looking for long-term opportunities as capital markets evolve.

The portfolio managers remain fully focused on adhering to the long-standing investment philosophy and processes. The team has no greater insight into the future than anyone else but has concentrated on what can be controlled, which is how they invest both now and in the future.

M&G INVESTMENT MANAGEMENT LIMITED

Portfolio Manager

18 November 2020

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

ACD'S REPORT *continued*

FUND INFORMATION

Risk and Reward Profile



This indicator shows how much a fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a fund's past volatility the higher the number on the scale and the greater the risk that investors in that fund may have made losses as well as gains.

The Fund has been classed as 4 because its volatility has been measured as average.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of this Fund.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

The Fund targets a risk level of 3 which is a level of risk relative to the 4 other funds in the range. The risk and reward profile scale above is calculated differently. The two measures are not comparable. The lowest number on the scale does not mean that a fund is risk free.

Currency Risk: As the Fund can be exposed to different currencies, changes in the exchange rate may decrease the value of your investment.

Changes in Interest Rate Risk: A rise in interest rates generally causes bond prices to fall.

Credit Risk: The value of a bond may be affected by its credit rating, the lower the rating the higher the risk of the issuer not paying interest or repaying the loan.

Property Fund Investment Risk: Property funds can become illiquid increasing the risk that a position cannot be sold in a timely manner or at a reasonable price.

Counterparty Risk: The failure of a firm involved in a transaction with the Fund or providing services to the Fund may expose the Fund to financial loss.

Derivative Risk: A derivative may not perform as expected and may create losses greater than its cost.

For full details of the Fund's risks, please see the Prospectus which may be obtained upon application and can be found on the ACD's website, www.linkfundsolutions.co.uk.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables

Where the Fund has significant investment in collective investment schemes, the operating charges take account of the ongoing charges incurred in the underlying schemes, calculated as the expense value of such holdings at the year end weighted against the net asset value of the share class at that date. Following regulatory changes, the Operating Charges Figure takes account of the ongoing charges incurred in closed-ended underlying schemes calculated as the expense value of such holdings at the period end weighted against the net asset value of the share class at that date.

'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	143.53	137.36	141.31
Return before operating charges*	1.39	9.97	0.68
Operating charges	(0.83)	(1.16)	(2.32)
Return after operating charges	0.56	8.81	(1.64)
Distributions	(1.81)	(2.64)	(2.31)
Closing net asset value per share	142.28	143.53	137.36
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	0.39%	6.42%	(1.16)%
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OTHER INFORMATION

Closing net asset value (£'000)	278	204	272
Closing number of shares	195,301	142,571	198,000
Operating charges	0.58%	0.82%	1.63%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	149.37	150.37	145.36
Lowest share price	123.87	133.37	137.67

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'A' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	179.39	168.56	170.67
Return before operating charges*	1.74	12.19	0.68
Operating charges	(1.04)	(1.36)	(2.79)
Return after operating charges	0.70	10.83	(2.11)
Distributions	(2.27)	(3.24)	(2.66)
Retained distributions on accumulation shares	2.27	3.24	2.66
Closing net asset value per share	180.09	179.39	168.56
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	0.39%	6.43%	(1.24)%
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OTHER INFORMATION

Closing net asset value (£'000)	8,849	10,185	9,892
Closing number of shares	4,913,893	5,677,611	5,868,494
Operating charges	0.58%	0.78%	1.63%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	186.56	184.41	175.43
Lowest share price	154.69	163.69	166.27

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'C' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	143.16	137.00	140.98
Return before operating charges*	1.26	9.72	0.17
Operating charges	(0.14)	(0.16)	(0.40)
Return after operating charges	1.12	9.56	(0.23)
Distributions	(2.36)	(3.40)	(3.75)
Closing net asset value per share	141.92	143.16	137.00
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	0.78%	6.98%	(0.16)%
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OTHER INFORMATION

Closing net asset value (£'000)	74,400	69,291	66,770
Closing number of shares	52,423,828	48,399,611	48,737,926
Operating charges	0.10%	0.11%	0.28%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	149.18	150.67	146.28
Lowest share price	123.78	133.28	137.94

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	121.08	115.88	119.23
Return before operating charges*	1.13	8.27	0.30
Operating charges	(0.40)	(0.49)	(1.06)
Return after operating charges	0.72	7.78	(0.76)
Distributions	(1.77)	(2.58)	(2.59)
Closing net asset value per share	120.04	121.08	115.88
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	0.60%	6.71%	(0.64)%
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OTHER INFORMATION

Closing net asset value (£'000)	11,985	8,296	5,362
Closing number of shares	9,984,309	6,851,594	4,627,027
Operating charges	0.33%	0.41%	0.88%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	126.20	127.28	123.35
Lowest share price	104.70	112.74	116.44

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	138.66	129.90	130.73
Return before operating charges*	1.28	9.31	0.33
Operating charges	(0.46)	(0.55)	(1.16)
Return after operating charges	0.82	8.76	(0.83)
Distributions	(2.02)	(2.89)	(2.84)
Retained distributions on accumulation shares	2.02	2.89	2.84
Closing net asset value per share	139.48	138.66	129.90
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	0.59%	6.74%	(0.63)%
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OTHER INFORMATION

Closing net asset value (£'000)	208,599	139,149	74,306
Closing number of shares	149,558,267	100,354,859	57,202,108
Operating charges	0.33%	0.41%	0.88%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	144.42	142.62	135.17
Lowest share price	119.81	126.42	127.68

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'R' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	159.80	150.01	151.28
Return before operating charges*	1.54	10.83	0.45
Operating charges	(0.92)	(1.04)	(1.72)
Return after operating charges	0.62	9.79	(1.27)
Distributions	(2.02)	(3.02)	(2.97)
Retained distributions on accumulation shares	2.02	3.02	2.97
Closing net asset value per share	160.42	159.80	150.01
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	0.39%	6.53%	(0.84)%
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OTHER INFORMATION

Closing net asset value (£'000)	33,689	27,543	24,266
Closing number of shares	21,000,329	17,236,484	16,175,576
Operating charges	0.58%	0.67%	1.13%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	166.25	164.33	156.06
Lowest share price	137.86	145.84	147.62

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Fund Performance to 31 October 2020 (%)

	1 year	3 years	5 years
LF Prudential Risk Managed Passive Fund 3	0.67	7.05	32.42

The performance of the Fund is based on the published price per 'P' Accumulation share which includes reinvested income.

The performance of the Fund disclosed in the above table may differ from the 'Return after charges' disclosed in the Comparative Table due to the above performance being calculated on the latest published price prior to the year end, rather than the year end return after operating charges.

Details of the distributions per share for the year are shown in the Distribution Table on pages 295 and 296.

RISK WARNING

An investment in an open-ended investment company should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

ACD'S REPORT *continued*

PORTFOLIO STATEMENT

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	EQUITY PORTFOLIOS – 38.33% (31.10.19 – 41.55%)		
	CONTINENTAL EUROPE – 5.46% (31.10.19 – 5.89%)		
6,855,454	Legal & General European Index	18,434	5.46
	TOTAL CONTINENTAL EUROPE	18,434	5.46
	UNITED KINGDOM – 14.10% (31.10.19 – 14.55%)		
17,378,005	iShares UK Equity Index	25,633	7.59
17,575,757	Legal & General UK Index	21,987	6.51
	TOTAL UNITED KINGDOM	47,620	14.10
	ASIA EX JAPAN – 7.65% (31.10.19 – 7.92%)		
13,844,307	iShares Pacific ex Japan Equity Index	25,847	7.65
	TOTAL ASIA EX JAPAN	25,847	7.65
	JAPAN – 2.96% (31.10.19 – 3.54%)		
4,514,735	iShares Japan Equity Index	10,000	2.96
	TOTAL JAPAN	10,000	2.96
	NORTH AMERICA – 5.36% (31.10.19 – 6.24%)		
5,449,972	iShares US Equity Index	18,110	5.36
	TOTAL NORTH AMERICA	18,110	5.36
	EMERGING MARKETS – 2.80% (31.10.19 – 3.41%)		
5,645,168	iShares Emerging Markets Equity Index	9,461	2.80
	TOTAL EMERGING MARKETS	9,461	2.80
	TOTAL EQUITY PORTFOLIOS	129,472	38.33
	EQUITY INVESTMENT INSTRUMENTS – 3.51% (31.10.19 – 3.78%)		
807,338	BBGI ¹	1,397	0.41
1,282,599	BioPharma Credit ¹	984	0.29
546,860	Blue Capital Alternative Income ^{1,2}	18	0.01
98,628	Boussard & Gavaudan ¹	1,552	0.46

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
652,954	DP Aircraft I ¹	20	0.01
184,849	HarbourVest Global Private Equity ¹	3,165	0.94
458,380	HgCapital ¹	1,355	0.40
261,440	NB Distressed Debt Investment ¹	91	0.03
809,544	NextEnergy Solar ¹	868	0.26
627,486	Renewables Infrastructure ¹	848	0.25
1,452,860	SDCL Energy Efficiency Income ¹	1,518	0.45
	TOTAL EQUITY INVESTMENT INSTRUMENTS	11,816	3.51
	PROPERTY PORTFOLIOS – 0.48% (31.10.19 – 0.00%)		
341,485	iShares UK Property	1,627	0.48
	TOTAL PROPERTY PORTFOLIOS	1,627	0.48
	BOND PORTFOLIOS – 50.05% (31.10.19 – 46.50%)		
37,401,343	iShares Corporate Bond Index	59,880	17.73
1,755,948	iShares Euro Investment Grade Corporate Bond Index	20,195	5.98
4,089,098	iShares US Corporate Bond Index	40,856	12.08
1,202,046	iShares USD Treasury Bond	6,314	1.87
6,627,293	M&G Emerging Markets Bond ³	7,060	2.09
4,433,454	M&G European Corporate Bond ³	5,287	1.56
8,147,564	M&G Global High Yield Bond ³	11,121	3.29
14,368,217	M&G Strategic Corporate Bond ³	18,400	5.45
	TOTAL BOND PORTFOLIOS	169,113	50.05
	FUTURES – (0.29)% (31.10.19 – (0.04)%)		
121	EURO STOXX 50 Index Futures December 2020	(178)	(0.05)
143	FTSE 100 Index Futures December 2020	(429)	(0.13)
287	FTSE China A50 Futures November 2020	(15)	–
127	FTSE/JSE Top 40 Futures December 2020	(156)	(0.05)
25	S&P 500 E Mini Index Futures December 2020	(134)	(0.04)
10	TOPIX Index Futures December 2020	(53)	(0.02)
	TOTAL FUTURES	(965)	(0.29)

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	Portfolio of investments ⁴	311,063	92.08
	Net other assets	26,737	7.92
	Net assets	337,800	100.00

The investments have been valued in accordance with note 1(F) of the Accounting Policies and are collective investment schemes unless stated otherwise.

¹ Closed-ended fund.

² Delisted security.

³ Related party holding (see note 12).

⁴ Includes investment liabilities.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

ACD'S REPORT *continued*

SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2020

Total purchases for the year £'000 (note 16)	117,540	Total sales for the year £'000 (note 16)	41,055
	Cost £'000		Proceeds £'000
Major purchases		Major sales	
iShares UK Equity Index	21,174	iShares US Corporate Bond Index	11,221
iShares Corporate Bond Index	20,663	FTSE 100 Index Futures June 2020	10,390
FTSE 100 Index Futures December 2020	15,332	FTSE 100 Index Futures March 2020	9,577
iShares US Corporate Bond Index	14,509	FTSE 100 Index Futures September 2020	8,865
FTSE 100 Index Futures March 2020	12,006	FTSE 100 Index Futures December 2020	6,920
iShares Euro Investment Grade Corporate Bond Index	10,375	FTSE China A50 Index Futures October 2020	6,402
M&G Global High Yield Bond	9,681	M&G European Corporate Bond	5,326
FTSE 100 Index Futures June 2020	9,428	S&P 500 E Mini Index Futures June 2020	4,736
FTSE 100 Index Futures September 2020	8,957	M&G Strategic Corporate Bond	4,726
iShares Pacific ex Japan Equity Index	7,593	EURO STOXX 50 Index Futures December 2019	4,622

In addition to the above, purchases totalling £5,660,425,000 and sales totalling £5,660,452,000 were made in short term investments during the year.

Purchases and sales of Futures have been included at the value of their exposure and are not included in the total purchases and sales figures above.

The summary of material portfolio changes represents the 10 largest purchases and sales during the year.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS

STATEMENT OF TOTAL RETURN

for the year ended 31 October 2020

	Notes	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Income:					
Net capital (losses)/gains	3		(3,291)		8,318
Revenue	4	5,664		5,545	
Expenses	5	(660)		(550)	
Interest payable and similar charges	6	(14)		(7)	
Net revenue before taxation		4,990		4,988	
Taxation	7	(369)		(401)	
Net revenue after taxation			4,621		4,587
Total return before distributions			1,330		12,905
Distributions	8		(4,617)		(4,618)
Change in net assets attributable to shareholders from investment activities			(3,287)		8,287

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2020

	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Opening net assets attributable to shareholders		254,668		180,868
Amounts receivable on issue of shares	100,419		80,900	
Amounts payable on redemption of shares	(17,560)		(18,996)	
		82,859		61,904
Change in net assets attributable to shareholders from investment activities		(3,287)		8,287
Retained distributions on Accumulation shares		3,560		3,609
Closing net assets attributable to shareholders		337,800		254,668

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

BALANCE SHEET

as at 31 October 2020

	Notes	31.10.20 £'000	31.10.19 £'000
ASSETS			
Fixed assets			
Investments		312,028	233,867
Current assets			
Debtors	9	1,358	2,446
Cash and cash equivalents	10	27,606	21,879
Total assets		<u>340,992</u>	<u>258,192</u>
LIABILITIES			
Investment liabilities		(965)	(113)
Creditors			
Distribution payable	11	(1,418)	(1,827)
Other creditors	11	(809)	(1,584)
Total liabilities		<u>(3,192)</u>	<u>(3,524)</u>
Net assets attributable to shareholders		<u>337,800</u>	<u>254,668</u>

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2020

1. Accounting Policies

The accounting policies described on pages 22 to 24 have been applied to the financial statements of the Fund in the current and prior year. The additional accounting policy described below has also been applied to this Fund.

(A) TREATMENT OF EXPENSES

The Fund receives a rebate of the Annual Management Charge in relation to related party investments in the Fund. This is to eliminate double charging and, as such, is not a reduction in expenses suffered by shareholders.

2. Distribution Policies

The distribution policies described on pages 24 and 25 have been applied to the financial statements of the Fund in the current and prior year.

3. Net Capital (Losses)/Gains

The net capital (losses)/gains during the year comprise:

	31.10.20 £'000	31.10.19 £'000
Non-derivative securities	(1,860)	8,038
Derivative contracts	(1,351)	206
Transaction charges	(3)	(2)
AMC rebates from underlying investments	(22)	154
Currency losses	(48)	(77)
Broker's commission on futures	(7)	(1)
Net capital (losses)/gains	(3,291)	8,318

The net capital (losses)/gains figure includes realised gains of £986,000 and unrealised gains of £6,257,000 (31.10.19: includes realised gains of £11,432,000 and unrealised gains of £10,502,000). The realised gains on investments in the current year include amounts previously recognised as unrealised gains in the prior year.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

4. Revenue

	31.10.20 £'000	31.10.19 £'000
Non-taxable dividends	3,124	3,150
Taxable dividends	108	46
UK property income distributions	–	417
Unfranked interest	1,986	1,389
AMC rebates from underlying investments	442	542
Bank interest	4	1
Total revenue	5,664	5,545

5. Expenses

	31.10.20 £'000	31.10.19 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	628	514
Administration fees	–	60
ACD reimbursement to revenue ¹	–	(51)
	628	523
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	22	17
Safe custody and other bank charges	2	2
	24	19

¹ This relates to a rebate paid by the ACD in order to maintain the individual sub-fund's Ongoing Charges Figure ('OCF') at a level considered appropriate by the ACD. Once the Extraordinary General Meeting in December 2018 approved the various changes to the Company effective from 21 January 2019, Prudential Distribution Limited ('PDL'), as sponsor, wanted to ensure that shareholders benefitted immediately from the resultant lower OCFs, rather than the OCF charge reduction coming through over the 6 month period where the Portfolio Manager transitioned the portfolios. Therefore, the ACD effectively introduced a cap on the OCF and the costs of applying this cap during the 6 month transition period were met by PDL as sponsor of the sub-funds in the Company.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Other expenses:		
Audit fees	8	8
Total expenses	660	550

The Portfolio Manager's fees and expenses (plus VAT thereon) for providing portfolio management services are paid by the ACD out of its remuneration.

6. Interest Payable and Similar Charges

	31.10.20 £'000	31.10.19 £'000
Interest payable	5	6
Futures interest payable	9	1
Total interest payable and similar charges	14	7

7. Taxation

	31.10.20 £'000	31.10.19 £'000
a) Analysis of charge for the year		
Corporation tax	369	434
Irrecoverable overseas tax	–	3
Current tax charge	369	437
Deferred tax – origination and reversal of timing differences (note 7c)	–	(36)
Total taxation (note 7b)	369	401

b) Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK for an authorised fund (20%) (31.10.19: 20%). The difference is explained below:

	31.10.20 £'000	31.10.19 £'000
Net revenue before taxation	4,990	4,988
Corporation tax at 20%	998	998

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Effects of:		
Non-taxable dividends	(625)	(630)
Rebated capital expenses deductible for tax purposes	(4)	30
Irrecoverable overseas tax	—	3
Total tax charge (note 7a)	369	401
c) Deferred tax		
Provision at the start of the year	—	36
Deferred tax charge in the year (note 7a)	—	(36)
Provision at the end of the year	—	—

8. Distributions

The distributions take account of revenue received on the issue of shares and revenue deducted on redemptions of shares, and comprise:

	31.10.20 £'000	31.10.19 £'000
Final	4,978	5,436
	4,978	5,436
Add: Revenue deducted on redemption of shares	124	167
Deduct: Revenue received on issue of shares	(485)	(985)
Net distribution for the year	4,617	4,618

Details of the distributions per share are set out in the table on pages 295 and 296.

	31.10.20 £'000	31.10.19 £'000
Distributions represented by:		
Net revenue after taxation	4,621	4,587
Allocations to capital:		
Tax relief to/from capital	(4)	31
Net distribution for the year	4,617	4,618

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

9. Debtors

	31.10.20 £'000	31.10.19 £'000
Amounts receivable for issue of shares	942	1,565
Sales awaiting settlement	–	103
Accrued revenue:		
Non-taxable dividends	363	735
AMC rebates from underlying investments	46	41
	409	776
Taxation recoverable:		
Income tax	7	2
Total debtors	1,358	2,446

10. Cash and Cash Equivalents

	31.10.20 £'000	31.10.19 £'000
Bank balances	24,636	21,700
Margin account	2,970	179
Total cash and cash equivalents	27,606	21,879

11. Creditors

	31.10.20 £'000	31.10.19 £'000
Distribution payable	1,418	1,827
Other Creditors		
Amounts payable for redemption of shares	531	173
Purchases awaiting settlement	–	1,223

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	60	43
ACD reimbursement to revenue	—	(51)
	60	(8)
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	2	2
Transaction charges	—	1
Safe custody and other bank charges	—	1
	2	4
Taxation payable:		
Corporation tax	208	184
Other expenses	8	8
Total other creditors	809	1,584

12. Related Party Transactions

The Annual Management Charge and administration fees payable to Link Fund Solutions Limited ('the ACD') are disclosed in note 5 and amounts due at the year end are disclosed in note 11.

The aggregate monies received by the ACD through the issue of shares and paid on redemption of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders on page 279 and amounts due at the year end are disclosed in notes 9 and 11.

Link Fund Solutions Limited and its associates (including other authorised investment funds managed by Link Fund Solutions or its associates) held 537,504 (31.10.19: 480,688) of the Fund's shares at the balance sheet date.

M&G Investment Management Limited and its associates (including other authorised investment funds managed by M&G Investment Management Limited) held 52,423,578 (31.10.19: 48,399,361) of the Fund's shares at the balance sheet date.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

A shareholder may be able to exercise significant influence over the financial and operating policies of the Fund and as such is deemed to be a related party. At the balance sheet date the following shareholders held in excess of 20% of the shares in issue of the Fund:

Allfunds Nominee Limited	29.05% (31.10.19: 17.38%)
Prudential plc and its associates	22.02% (31.10.19: 27.09%)

As part of the investment strategy, the Fund may from time to time hold shares in other collective investment schemes managed by the same Portfolio Manager or for which Link Fund Solutions Limited is also the ACD. At the balance sheet date the value of the holdings was as follows:

	31.10.20 £'000	31.10.19 £'000
Portfolio Manager in common	41,868	31,942

13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.19: none).

14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.48%	0.48%	0.00%
Opening shares in issue	142,571	5,677,611	48,399,611
Issues	42,992	655,314	8,926,971
Redemptions	(51,511)	(1,369,988)	(4,902,754)
Conversions	61,249	(49,044)	–
Closing shares in issue	195,301	4,913,893	52,423,828

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.23%	0.23%	0.48%
Opening shares in issue	6,851,594	100,354,859	17,236,484
Issues	4,121,283	53,158,641	4,759,868
Redemptions	(945,899)	(3,992,520)	(996,023)
Conversions	(42,669)	37,287	–
Closing shares in issue	<u>9,984,309</u>	<u>149,558,267</u>	<u>21,000,329</u>

15. Risk Management Policies

In pursuing the investment objective a number of financial instruments are held which may comprise securities and other investments, cash balances and debtors and creditors that arise directly from operations. Derivatives, such as futures or forward currency contracts, may be utilised for Efficient Portfolio Management (including hedging) purposes.

The main risks from the Fund's holding of financial instruments, together with the ACD's policy for managing these risks, are set out below:

The ACD has in place a Risk Management Policy and Procedures Document ('RMPPD') that sets out the risks that may impact a fund and how the ACD seeks, where appropriate, to manage, monitor and mitigate those risks, and in particular those risks associated with the use of derivatives. The RMPPD sets out both the framework and the risk mitigations operated by the ACD in managing the identified risks of the Fund. The ACD requires that the appointed Portfolio Manager to the Fund has in place its own governance structure, policies and procedures that are commensurate with its regulatory obligations and the risks posed by the fund managed.

(A) CREDIT RISK

Credit risk is the risk that a counterparty may be unable or unwilling to make a payment or fulfil contractual obligations. This may be in terms of an actual default or by deterioration in a counterparty's credit quality.

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its obligations. As part of its due diligence process, the ACD undertakes a review of the controls operated over counterparties by the Portfolio Manager, including initial and ongoing due diligence and business volumes placed with each counterparty. In cases which are dependent on the counterparty settling at the transaction's maturity date, the ACD has policies in place which set out the minimum credit quality expected of a market counterparty or deposit taker at the outset of the transaction.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

There were futures contracts held at the balance sheet date. Details of the individual contracts are disclosed separately in the Portfolio Statement and the total position by counterparty at the balance sheet date was as follows:

31.10.20 Counterparty	Futures £'000	Net cash collateral pledged £'000
JPMorgan	(15)	–
NatWest	(950)	–

31.10.19 Counterparty	Futures £'000	Net cash collateral pledged £'000
NatWest	(113)	–

(B) INTEREST RATE RISK

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes. The value of fixed interest securities may be affected by changes in interest rates, either globally or locally. Changes in the rate of return in one asset class may influence the valuation basis of other classes. The amount of revenue receivable from floating rate investments and bank balances or payable on bank overdrafts will be affected by fluctuations in interest rates. Investment in collective investment schemes exposes the Fund to indirect interest rate risk to the extent that they invest in interest bearing securities, the returns from which will be affected by fluctuations in interest rates.

The Fund invests in collective investment schemes and as such does not have any significant direct exposure to interest rate risk. The Fund is indirectly exposed to interest rate risk through its investment in collective investment schemes. As the Fund has no direct exposure to interest rate risk, no interest rate risk table or sensitivity analysis has been presented.

(C) FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the Sterling value of investments will fluctuate as a result of exchange rate movements. Assets denominated in currencies other than Sterling will provide direct exposure to currency risk as a consequence of the movement in foreign exchange rates when calculating the Sterling equivalent value. Investment in collective investment schemes may provide indirect exposure to currency risk as a consequence of the movement in foreign exchange rates.

Where the Fund invests in non-Sterling assets, the Portfolio Manager allows for the foreign currency risk when considering whether to invest and does not seek to hedge this risk.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

The table below shows the foreign currency risk profile at the balance sheet date:

	31.10.20 Gross £'000	31.10.20 Hedged £'000	31.10.20 Net £'000
Currency:			
Euro currency	62,901	–	62,901
Japanese yen	230	–	230
South African rand	330	–	330
US dollars	2,240	–	2,240
Total foreign currency exposure	65,701	–	65,701
Pounds sterling	272,099	–	272,099
Total net assets	337,800	–	337,800

	31.10.19 Gross £'000	31.10.19 Hedged £'000	31.10.19 Net £'000
Currency:			
Euro currency	46,445	–	46,445
US dollars	1,169	–	1,169
Total foreign currency exposure	47,614	–	47,614
Pounds sterling	207,054	–	207,054
Total net assets	254,668	–	254,668

A 5% change in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £3,285,000 on the net assets of the Fund (31.10.19: £2,381,000).

(D) LEVERAGE

The ACD is required to calculate and monitor the level of leverage of the Fund, expressed as a ratio between the exposure of the Fund and its Net Asset Value, under both the gross and commitment methods (in accordance with articles 7 and 8 of The Alternative Investment Fund Managers Regulations 2013). For a fund with no borrowing or derivative usage the leverage ratio would be 1:1 under the commitment method. The gross method calculation excludes cash and cash equivalents which are highly liquid.

As at 31.10.20, leverage under the gross method was 0.92:1 and leverage under the commitment method was 1:1 (31.10.19: 0.92:1 and 1:1 respectively).

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

(E) LIQUIDITY RISK

The main liability of the Fund is the redemption of any shares that investors want to sell. Investments may have to be sold to fund such redemptions should insufficient cash be held at the bank to meet this obligation.

The ACD monitors the liquidity profile of the Fund on a daily basis. In assessing the liquidity profile of the Fund, the ACD assesses how much of the Fund can be realised in one and five days, under normal and stressed market conditions, and the impact this would have on the overall subsequent liquidity profile. In assessing the liquidity of a company's shares, the ACD utilises the lower of the 5 and 30 day average market volume of that company's shares. Where a risk is identified then a more in depth review is undertaken to establish its significance, by assessing the liquidity profile of the Fund against a 25% market participation of the average daily volume. Based on this analysis 82.46% of the portfolio can be liquidated within 5 days and 82.47% within 30 days. Given this and the ACD's understanding of the investor base, it is considered that the liquidity profile of the Fund is appropriate.

All financial liabilities are payable in one year or less, or on demand.

(F) MARKET PRICE RISK

Market price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds.

Market price risk represents the potential loss the Fund may suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to price fluctuations, which are monitored by the ACD in pursuance of the investment objective and policy. The risk is generally regarded as consisting of two elements – stock specific risk and market risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit stock specific risk. Subject to compliance with the investment objective, spreading exposure across a broad range of global stocks can mitigate market risk.

A 5% increase in the value of the Fund's portfolio would have the effect of increasing the return and net assets by £15,553,000 (31.10.19: £11,688,000). A 5% decrease would have an equal and opposite effect.

(G) DERIVATIVES

The economic exposure of futures derivative contracts is equal to the market value. The value of the exposure and the related counterparty are disclosed in the Portfolio of Investments.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

16. Portfolio Transaction Costs

31.10.20	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	730	–	2	732
Collective investment schemes	116,802	2	4	116,808
Purchases total	117,532	2	6	117,540
<i>Transaction cost % of purchases total</i>		–	0.01%	
<i>Transaction cost % of average NAV</i>		–	–	
Ordinary shares	1,402	(1)	–	1,401
Collective investment schemes	39,655	(1)	–	39,654
Sales total	41,057	(2)	–	41,055
<i>Transaction cost % of sales total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	

Average portfolio dealing spread at 31.10.20 is 0.33% (31.10.19: 0.32%).

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

31.10.19	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	958	—	—	958
Collective investment schemes	153,759	1	1	153,761
Purchases total	<u>154,717</u>	<u>1</u>	<u>1</u>	<u>154,719</u>
<i>Transaction cost % of purchases total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	
Ordinary shares	2,525	(1)	—	2,524
Collective investment schemes	106,565	(1)	—	106,564
Sales total	<u>109,090</u>	<u>(2)</u>	<u>—</u>	<u>109,088</u>
<i>Transaction cost % of sales total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	

The collective investment schemes include closed-ended funds.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

17. Fair Value Hierarchy

Investments are categorised into the following levels based on their fair value measurement:

Level 1: Unadjusted quoted price in an active market for an identical instrument;

Level 2: Valuation techniques using observable inputs other than quoted prices within Level 1;

Level 3: Valuation techniques using unobservable inputs (see note 1(F) of the Accounting Policies).

31.10.20	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	19,739	292,271	18	312,028
Investment liabilities	(965)	—	—	(965)

31.10.19	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	12,821	220,971	75	233,867
Investment liabilities	(113)	—	—	(113)

18. Subsequent Events

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic. In the immediate aftermath, global markets experienced a period of significant volatility which negatively impacted the performance of the Fund at the balance sheet date. Subsequent to that date and whilst markets have remained relatively volatile there has, in the period until the account signing date, been a general recovery in the markets.

This means that since the balance sheet date the price of each of the Fund's share classes has moved as follows:

Share class	Balance sheet date	22.02.21	Movement
'A' Income	142.28	154.11	8.31%
'A' Accumulation	180.09	195.06	8.31%
'C' Income	141.92	153.92	8.46%
'P' Income	120.04	130.11	8.39%
'P' Accumulation	139.48	151.17	8.38%
'R' Accumulation	160.42	173.76	8.32%

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

DISTRIBUTION TABLE

for the year ended 31 October 2020 – in pence per share

EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares – the applicable distribution periods for each distribution are shown below). It represents the accrued revenue included in the purchase price of the shares. After averaging it is returned with the distribution as a capital repayment. It is not liable to Income Tax but must be deducted from the cost of the shares for Capital Gains Tax purposes.

Group 2	Final
From	01.11.19
To	31.10.20

'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.8096	–	1.8096	2.6446
Group 2	1.6661	0.1435	1.8096	2.6446

'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	2.2747	–	2.2747	3.2447
Group 2	1.5892	0.6855	2.2747	3.2447

'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	2.3620	–	2.3620	3.4028
Group 2	1.4310	0.9310	2.3620	3.4028

'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.7679	–	1.7679	2.5799
Group 2	1.2557	0.5122	1.7679	2.5799

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

FINANCIAL STATEMENTS *continued*

DISTRIBUTION TABLE *continued*

'P' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	2.0224	–	2.0224	2.8932
Group 2	1.2780	0.7444	2.0224	2.8932

'R' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	2.0157	–	2.0157	3.0240
Group 2	1.3363	0.6794	2.0157	3.0240

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4 ACD'S REPORT

for the year ended 31 October 2020

Important Information

Refer to the 'Important Information' section on page 12.

Investment Objective and Policy

The LF Prudential Risk Managed Passive Fund 4 ('the Fund') aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 14.5%.

There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 14.5%. Capital invested is at risk.

The Fund aims to achieve its objective through investing at least 70% in passive collective investment schemes (e.g. funds which track an index). The Fund has a flexible investment approach with the freedom to invest in different types of assets to meet its objective. The Portfolio Manager will use in-depth research to forecast the expected change in value and risk of the different types of assets over a forward-looking 15-year period. This analysis is then used to work out the mix of assets (the "target strategic asset allocation") to invest in to achieve the Fund's objective. The Portfolio Manager will review the target strategic asset allocation on an ongoing basis.

Based on the target strategic asset allocation, the Portfolio Manager constructs an actively managed portfolio to provide diversified, indirect exposure to global fixed income and variable rate assets, cash (including money market funds and near cash), equities and/or immovable property.

The Fund will have a bias towards higher risk assets, such as equities. The Portfolio Manager will adjust the asset allocation on an ongoing basis to reflect changes in the target strategic asset allocation and to take advantage of tactical investment opportunities.

The Portfolio Manager will select collective investment schemes to invest in from a focused range of funds and fund management groups (which may include other funds managed by the ACD, Portfolio Manager and their associates).

The Fund may also invest directly in equities, equity related instruments (e.g. warrants), fixed income and cash or near cash. It may also invest in alternative investments (e.g. infrastructure, private equity, alternative credit and hedge funds). Derivative instruments may also be used for the purposes of efficient portfolio management.

Other Information: The Fund's objective to stay within its specified risk profile may restrict the types and proportions of the assets it holds and limit the potential gains and losses.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

ACD'S REPORT *continued*

Benchmark

The Fund's comparator benchmark is the IA Mixed Investment 40-85% shares sector.

The Fund's performance may be compared against the IA Mixed Investment 40-85% shares sector. The ACD believes that this is an appropriate comparator for the Fund given the investment objective and policy of the Fund. Many funds sold in the UK are grouped into sectors by the Investment Association (the trade body that represents UK investment managers), to help investors to compare funds with broadly similar characteristics.

LINK FUND SOLUTIONS LIMITED

ACD of LF Prudential Risk Managed Passive Fund 4

26 February 2021

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2020

Between 1 November 2019 and 31 October 2020 (the period in review) share classes R (Acc) -1.11%¹, P (Acc) -0.92%¹ and A (Acc) -1.11%¹ produced returns behind the -0.82%¹ sector average for IA Mixed Investment 40-85% Shares Sector.

Market Overview

Early on in 2020 and before the gravity of the Coronavirus situation became apparent, developed market equities were broadly flat, and Asia and emerging markets slightly down.

Towards the end of February, the reality hit that a potential human tragedy was unfolding which would dramatically affect economic activity. Sentiment plummeted across markets as investors rushed to sell financial assets. The speed of the sell-off was notable, albeit off the back of strong performance in 2019, which had been driven by the hope of economic activity improving.

Equity markets became highly sensitive to case news. In February alone, there were over 18 days where the S&P 500 Index was either up or down by more than 3%. Corporate bond markets were also volatile as secondary markets and liquidity evaporated. Spreads on 1-year investment grade bonds jumped nearly 300bps in US and around 200bps in the UK and Europe. The moves in high yield were amplified with 1-year US high yield bonds spiking over 700bps and in the UK and Europe between 560/600bps.

Major stock markets experienced a remarkable rebound during the second quarter following the steep declines seen during the onset of the pandemic. The FTSE World Index rose 19.9% over the period. An extraordinary level of central bank stimulus and government support in the world's major economies came to the aid of many consumers and businesses and was welcomed by investors.

Global investor sentiment stayed fairly positive during the third quarter despite a bleak (albeit recovering) global economic backdrop and a resurgence of virus cases in many developed countries. The majority of stock markets continued to rise following the rebound seen in the second quarter. Global economic activity data for the summer months improved as restrictions were eased and most economies could reopen.

Governments and central banks from across the world remained supportive towards the needs of businesses and consumers. However, despite positive news surrounding potential vaccines and better treatment outcomes, a resurgence of virus cases in the US and Europe scuppered any hope of a rapid return to normality for the global economy. This certainly impacted markets towards the end of the period in review.

Positioning

The portfolio management team implemented the 2020 strategic asset allocation review in June across all funds in the range.

¹ Source: FE Analytics.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT *continued*

The key headlines were a small increase in overall equity exposure mainly weighted towards the UK due to attractive medium-term valuations. New allocations to Chinese and African equities were also made to capture the future growth potential of these regions.

There was a small overall reduction to fixed income, whilst adding a new allocation to Emerging Market Debt.

Exposure to alternatives was not altered.

From a tactical asset allocation perspective, towards the end of the period in review the portfolio manager has added a small exposure to Asia ex-Japan and US equity, being of the view that markets would place more weight on stimulus introduced than on any worsening of COVID-19 cases. A small UK REITs position is held across all portfolios as long-term valuations look attractive.

Outlook

Markets will continue to be sensitive to COVID-19 related news, periods of uncertainty and investor nervousness will likely re-occur. As ever, trying to time markets and be precise on a timeframe for a return to normality is very difficult so it is important to try and balance portfolios to be robust in the short-term whilst still looking for long-term opportunities as capital markets evolve.

The portfolio managers remain fully focused on adhering to the long-standing investment philosophy and processes. The team has no greater insight into the future than anyone else but has concentrated on what can be controlled, which is how they invest both now and in the future.

M&G INVESTMENT MANAGEMENT LIMITED

Portfolio Manager

18 November 2020

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

ACD'S REPORT *continued*

FUND INFORMATION

Risk and Reward Profile



This indicator shows how much a fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a fund's past volatility the higher the number on the scale and the greater the risk that investors in that fund may have made losses as well as gains.

The Fund has been classed as 4 because its volatility has been measured as average.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of this Fund.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

The Fund targets a risk level of 4 which is a level of risk relative to the 4 other funds in the range. The risk and reward profile scale above is calculated differently. The two measures are not comparable. The lowest number on the scale does not mean that a fund is risk free.

Currency Risk: As the Fund can be exposed to different currencies, changes in exchange rates may decrease the value of your investment.

Changes in Interest Rate Risk: A rise in interest rates generally causes bond prices to fall.

Credit Risk: The value of a bond may be affected by its credit rating, the lower the rating the higher the risk of the issuer not paying interest or repaying the loan.

Property Fund Investment Risk: Property funds can become illiquid increasing the risk that a position cannot be sold in a timely manner or at a reasonable price.

Counterparty Risk: The failure of a firm involved in a transaction with the Fund or providing services to the Fund may expose the Fund to financial loss.

Derivatives Risk: A derivative may not perform as expected and may create losses greater than its cost.

For full details of the Fund's risks, please see the Prospectus which may be obtained upon application and can be found on the ACD's website, www.linkfundsolutions.co.uk.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables

Where the Fund has significant investment in collective investment schemes, the operating charges take account of the ongoing charges incurred in the underlying schemes, calculated as the expense value of such holdings at the year end weighted against the net asset value of the share class at that date. Following regulatory changes, the Operating Charges Figure takes account of the ongoing charges incurred in closed-ended underlying schemes calculated as the expense value of such holdings at the period end weighted against the net asset value of the share class at that date.

'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	123.81	117.40	120.41
Return before operating charges*	(0.55)	9.45	0.71
Operating charges	(0.70)	(0.93)	(1.98)
Return after operating charges	(1.25)	8.52	(1.27)
Distributions	(2.05)	(2.11)	(1.74)
Closing net asset value per share	120.51	123.81	117.40
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	(1.01)%	7.26%	(1.06)%
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OTHER INFORMATION

Closing net asset value (£'000)	–	1	5
Closing number of shares	250	250	3,656
Operating charges	0.57%	0.76%	1.64%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	129.78	129.87	125.08
Lowest share price	104.16	113.66	117.09

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'A' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	132.23	123.26	124.58
Return before operating charges*	(0.88)	9.94	0.72
Operating charges	(0.73)	(0.97)	(2.04)
Return after operating charges	(1.61)	8.97	(1.32)
Distributions	(1.75)	(2.29)	(1.83)
Retained distributions on accumulation shares	1.75	2.29	1.83
Closing net asset value per share	130.62	132.23	123.26
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	(1.22)%	7.28%	(1.06)%
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OTHER INFORMATION

Closing net asset value (£'000)	175	52	22
Closing number of shares	133,758	39,319	18,044
Operating charges	0.57%	0.76%	1.64%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	138.59	136.31	129.38
Lowest share price	111.20	119.40	121.10

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'C' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 ¹ pence per share
Opening net asset value per share	105.20	99.79	100.00
Return before operating charges*	(0.78)	7.95	1.58
Operating charges	(0.09)	(0.14)	(0.16)
Return after operating charges	(0.87)	7.81	1.42
Distributions	(1.83)	(2.40)	(1.63)
Closing net asset value per share	102.50	105.20	99.79
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	(0.83)%	7.83%	1.42%
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OTHER INFORMATION

Closing net asset value (£'000)	2,354	1,763	10
Closing number of shares	2,296,850	1,675,970	9,917
Operating charges	0.09%	0.13%	0.29% ²
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	110.14	110.60	105.96
Lowest share price	88.40	96.54	100.00

¹ From 17 April 2018.

² Annualised figure due to share class being launched less than 1 year.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	123.94	117.58	120.62
Return before operating charges*	(0.84)	9.44	0.52
Operating charges	(0.39)	(0.54)	(1.08)
Return after operating charges	(1.23)	8.90	(0.56)
Distributions	(1.95)	(2.54)	(2.48)
Closing net asset value per share	120.76	123.94	117.58
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	(0.99)%	7.57%	(0.47)%
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OTHER INFORMATION

Closing net asset value (£'000)	2,281	3,498	6,620
Closing number of shares	1,888,575	2,822,255	5,630,948
Operating charges	0.32%	0.44%	0.89%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	129.96	130.32	125.84
Lowest share price	104.31	113.91	117.54

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	135.26	125.72	126.31
Return before operating charges*	(0.94)	10.09	0.54
Operating charges	(0.43)	(0.55)	(1.13)
Return after operating charges	(1.37)	9.54	(0.59)
Distributions	(2.11)	(2.72)	(2.60)
Retained distributions on accumulation shares	2.11	2.72	2.60
Closing net asset value per share	133.89	135.26	125.72
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	(1.01)%	7.59%	(0.47)%
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OTHER INFORMATION

Closing net asset value (£'000)	71,962	48,039	22,534
Closing number of shares	53,746,630	35,515,269	17,923,911
Operating charges	0.32%	0.42%	0.89%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	141.79	139.32	131.74
Lowest share price	113.80	121.86	123.05

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'R' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	134.10	124.89	125.73
Return before operating charges*	(0.87)	10.09	0.60
Operating charges	(0.75)	(0.88)	(1.44)
Return after operating charges	(1.62)	9.21	(0.84)
Distributions	(1.83)	(2.44)	(2.33)
Retained distributions on accumulation shares	1.83	2.44	2.33
Closing net asset value per share	132.48	134.10	124.89
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	(1.21)%	7.37%	(0.67)%
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OTHER INFORMATION

Closing net asset value (£'000)	11,736	10,100	7,750
Closing number of shares	8,858,767	7,532,741	6,205,444
Operating charges	0.57%	0.68%	1.14%
Direct transaction costs	0.01%	–	0.01%

PRICES

Highest share price	140.53	138.22	130.95
Lowest share price	112.75	121.04	122.40

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Fund Performance to 31 October 2020 (%)

	1 year	3 years	5 years
LF Prudential Risk Managed Passive Fund 4	(1.11)	5.20	29.68

The performance of the Fund is based on the published price per 'A' Accumulation share which includes reinvested income.

The performance of the Fund disclosed in the above table may differ from the 'Return after charges' disclosed in the Comparative Table due to the above performance being calculated on the latest published price prior to the year end, rather than the year end return after operating charges.

Details of the distributions per share for the year are shown in the Distribution Table on pages 329 and 330.

RISK WARNING

An investment in an open-ended investment company should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

ACD'S REPORT *continued*

PORTFOLIO STATEMENT

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	EQUITY PORTFOLIOS – 47.87% (31.10.19 – 54.23%)		
	CONTINENTAL EUROPE – 6.74% (31.10.19 – 8.03%)		
2,217,469	Legal & General European Index	5,963	6.74
	TOTAL CONTINENTAL EUROPE	5,963	6.74
	UNITED KINGDOM – 17.35% (31.10.19 – 19.50%)		
6,174,066	iShares UK Equity Index	9,107	10.29
4,994,877	Legal & General UK Index	6,248	7.06
	TOTAL UNITED KINGDOM	15,355	17.35
	ASIA EX JAPAN – 9.66% (31.10.19 – 10.14%)		
4,580,192	iShares Pacific ex Japan Equity Index	8,551	9.66
	TOTAL ASIA EX JAPAN	8,551	9.66
	JAPAN – 3.82% (31.10.19 – 4.31%)		
1,525,069	iShares Japan Equity Index	3,378	3.82
	TOTAL JAPAN	3,378	3.82
	NORTH AMERICA – 6.81% (31.10.19 – 8.02%)		
1,815,655	iShares US Equity Index	6,033	6.81
	TOTAL NORTH AMERICA	6,033	6.81
	EMERGING MARKETS – 3.49% (31.10.19 – 4.22%)		
1,840,559	iShares Emerging Markets Equity Index	3,085	3.49
	TOTAL EMERGING MARKETS	3,085	3.49
	TOTAL EQUITY PORTFOLIOS	42,365	47.87
	EQUITY INVESTMENT INSTRUMENTS – 3.67% (31.10.19 – 4.22%)		
221,703	BBGI ¹	384	0.43
356,482	BioPharma Credit ¹	273	0.31
84,660	Blue Capital Alternative Income ^{1,2}	3	–
27,100	Boussard & Gavaudan ¹	426	0.48

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
182,515	DP Aircraft I ¹	6	0.01
50,749	HarbourVest Global Private Equity ¹	869	0.98
126,033	HgCapital ¹	372	0.42
65,944	NB Distressed Debt Investment ¹	23	0.03
226,317	NextEnergy Solar ¹	243	0.28
172,682	Renewables Infrastructure ¹	233	0.26
399,256	SDCL Energy Efficiency Income ¹	417	0.47
	TOTAL EQUITY INVESTMENT INSTRUMENTS	3,249	3.67
	 PROPERTY PORTFOLIOS – 0.48% (31.10.19 – 0.00%)		
88,702	iShares UK Property	423	0.48
	TOTAL PROPERTY PORTFOLIOS	423	0.48
	 BOND PORTFOLIOS – 38.38% (31.10.19 – 35.22%)		
7,527,964	iShares Corporate Bond Index	12,052	13.62
348,873	iShares Euro Investment Grade Corporate Bond Index	4,012	4.53
794,602	iShares US Corporate Bond Index	7,939	8.97
244,166	iShares USD Treasury Bond	1,283	1.45
816,853	M&G European Corporate Bond ³	974	1.10
1,891,819	M&G Global High Yield Bond ³	2,582	2.92
1,707,107	M&G Emerging Markets Bond ³	1,819	2.06
2,579,836	M&G Strategic Corporate Bond ³	3,304	3.73
	TOTAL BOND PORTFOLIOS	33,965	38.38
	 FUTURES – (0.40)% (31.10.19 – 0.04%)		
45	EURO STOXX 50 Index Futures December 2020	(73)	(0.08)
54	FTSE 100 Index Futures December 2020	(163)	(0.19)
91	FTSE China A50 Index Futures November 2020	(5)	(0.01)
42	FTSE/JSE Top 40 Index Futures December 2020	(51)	(0.06)
7	S&P 500 E Mini Index Futures December 2020	(39)	(0.04)
3	TOPIX Index Futures December 2020	(15)	(0.02)
	TOTAL FUTURES	(346)	(0.40)

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	Portfolio of investments ⁴	79,656	90.00
	Net other assets	8,852	10.00
	Net assets	88,508	100.00

The investments have been valued in accordance with note 1(F) of the Accounting Policies and are collective investment schemes unless stated otherwise.

¹ Closed-ended fund.

² Delisted security.

³ Related party holding (see note 12).

⁴ Includes investment liabilities.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

ACD'S REPORT *continued*

SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2020

Total purchases for the year £'000 (note 16)	32,173	Total sales for the year £'000 (note 16)	11,081
	Cost		Proceeds
Major purchases	£'000	Major sales	£'000
iShares UK Equity Index	6,586	FTSE 100 Index Futures September 2020	3,015
FTSE 100 Index Futures December 2020	5,368	FTSE 100 Index Futures June 2020	2,705
iShares Corporate Bond Index	4,874	iShares US Corporate Bond Index	2,604
iShares US Corporate Bond Index	3,274	FTSE 100 Index Futures March 2020	2,272
FTSE 100 Index Futures September 2020	3,044	FTSE 100 Index Futures December 2020	2,189
FTSE 100 Index Futures March 2020	2,804	FTSE 100 Index Futures October 2020	2,054
iShares Pacific ex Japan Equity Index	2,563	M&G Strategic Corporate Bond	1,524
FTSE 100 Index Futures June 2020	2,463	Euro Stoxx 50 Index Futures June 2020	1,514
M&G Global High Yield Bond	2,428	S&P 500 E Mini Futures June 2020	1,511
iShares Euro Investment Grade Corporate Bond Index	2,315	M&G European Corporate Bond	1,252

In addition to the above, purchases totalling £1,250,946,000 and sales totalling £1,244,339,000 were made in short term investments during the year.

Purchases and sales of Futures have been included at the value of their exposure and are not included in the total purchases and sales figures above.

The summary of material portfolio changes represents the 10 largest purchases and sales during the year.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS

STATEMENT OF TOTAL RETURN

for the year ended 31 October 2020

	Notes	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Income:					
Net capital (losses)/gains	3		(2,028)		2,503
Revenue	4	1,512		1,329	
Expenses	5	(208)		(176)	
Interest payable and similar charges	6	(3)		(2)	
Net revenue before taxation		1,301		1,151	
Taxation	7	(60)		(59)	
Net revenue after taxation			1,241		1,092
Total return before distributions			(787)		3,595
Distributions	8		(1,240)		(1,099)
Change in net assets attributable to shareholders from investment activities			(2,027)		2,496

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2020

	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Opening net assets attributable to shareholders		63,453		36,941
Amounts receivable on issue of shares	33,596		32,908	
Amounts payable on redemption of shares	(7,811)		(10,041)	
		25,785		22,867
Change in net assets attributable to shareholders from investment activities		(2,027)		2,496
Retained distributions on Accumulation shares		1,297		1,149
Closing net assets attributable to shareholders		88,508		63,453

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

BALANCE SHEET

as at 31 October 2020

	Notes	31.10.20 £'000	31.10.19 £'000
ASSETS			
Fixed assets			
Investments		80,002	59,461
Current assets			
Debtors	9	7,809	721
Cash and cash equivalents	10	8,114	4,128
Total assets		<u>95,925</u>	<u>64,310</u>
LIABILITIES			
Investment liabilities		(346)	–
Creditors			
Bank overdraft		–	(4)
Distribution payable	11	(79)	(112)
Other creditors	11	(6,992)	(741)
Total liabilities		<u>(7,417)</u>	<u>(857)</u>
Net assets attributable to shareholders		<u>88,508</u>	<u>63,453</u>

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2020

1. Accounting Policies

The accounting policies described on pages 22 to 24 have been applied to the financial statements of the Fund in the current and prior year. The additional accounting policy described below has also been applied to this Fund.

(A) TREATMENT OF EXPENSES

The Fund receives a rebate of the Annual Management Charge in relation to related party investments in the Fund. This is to eliminate double charging and, as such, is not a reduction in expenses suffered by shareholders.

2. Distribution Policies

The distribution policies described on pages 24 and 25 have been applied to the financial statements of the Fund in the current and prior year.

3. Net Capital (Losses)/Gains

The net capital (losses)/gains during the year comprise:

	31.10.20 £'000	31.10.19 £'000
Non-derivative securities	(1,476)	2,360
Derivative contracts	(538)	119
Transaction charges	(2)	(2)
AMC rebates from underlying investments	(5)	36
Currency losses	(5)	(10)
Broker's commission on futures	(2)	–
Net capital (losses)/gains	(2,028)	2,503

The net capital (losses)/gains figure includes realised gains of £141,000 and unrealised losses of £31,000 (31.10.19: includes realised gains of £1,192,000 and unrealised gains of £2,129,000). The realised gains on investments in the current year include amounts previously recognised as unrealised gains in the prior year.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

4. Revenue

	31.10.20 £'000	31.10.19 £'000
Non-taxable dividends	998	898
Taxable dividends	25	6
UK property income distributions	–	105
Unfranked interest	398	235
AMC rebates from underlying investments	91	83
Bank interest	–	2
Total revenue	1,512	1,329

5. Expenses

	31.10.20 £'000	31.10.19 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	199	170
Administration fees	–	13
ACD reimbursement to revenue ¹	–	(13)
	199	170

¹ This relates to a rebate paid by the ACD in order to maintain the individual sub-fund's Ongoing Charges Figure ('OCF') at a level considered appropriate by the ACD. Once the Extraordinary General Meeting in December 2018 approved the various changes to the Company effective from 21 January 2019, Prudential Distribution Limited ('PDL'), as sponsor, wanted to ensure that shareholders benefitted immediately from the resultant lower OCFs, rather than the OCF charge reduction coming through over the 6 month period where the Portfolio Manager transitioned the portfolios. Therefore, the ACD effectively introduced a cap on the OCF and the costs of applying this cap during the 6 month transition period were met by PDL as sponsor of the sub-funds in the Company.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	7	5
Safe custody and other bank charges	2	1
	9	6
Total expenses	208	176

The Portfolio Manager's fees and expenses (plus VAT thereon) for providing portfolio management services are paid by the ACD out of its remuneration.

The audit fees of £7,750 are borne by the ACD (31.10.19: £7,800).

6. Interest Payable and Similar Charges

	31.10.20 £'000	31.10.19 £'000
Interest payable	1	2
Futures interest payable	2	–
Total interest payable and similar charges	3	2

7. Taxation

	31.10.20 £'000	31.10.19 £'000
a) Analysis of charge for the year		
Corporation tax	60	66
Irrecoverable income tax	–	1
Current tax charge	60	67
Deferred tax – origination and reversal of timing differences (note 7c)	–	(8)
Total taxation (note 7b)	60	59

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

b) Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK for an authorised fund (20%) (31.10.19: 20%). The difference is explained below:

	31.10.20 £'000	31.10.19 £'000
Net revenue before taxation	1,301	1,151
Corporation tax at 20%	260	230
Effects of:		
Non-taxable dividends	(199)	(179)
Rebated capital expenses deductible for tax purposes	(1)	7
Irrecoverable overseas tax	–	1
Total tax charge (note 7a)	60	59
c) Deferred tax		
Provision at the start of the year	–	8
Deferred tax charge in the year (note 7a)	–	(8)
Provision at the end of the year	–	–

8. Distributions

The distributions take account of revenue received on the issue of shares and revenue deducted on redemptions of shares, and comprise:

	31.10.20 £'000	31.10.19 £'000
Final	1,376	1,261
	1,376	1,261
Add: Revenue deducted on redemption of shares	39	133
Deduct: Revenue received on issue of shares	(175)	(295)
Net distribution for the year	1,240	1,099

Details of the distributions per share are set out in the table on pages 329 and 330.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Distributions represented by:		
Net revenue after taxation	1,241	1,092
Allocations to capital:		
Tax relief to/from capital	(1)	7
Net distribution for the year	1,240	1,099

9. Debtors

	31.10.20 £'000	31.10.19 £'000
Amounts receivable for issue of shares	1,085	434
Sales awaiting settlement	6,607	37
Accrued revenue:		
Non-taxable dividends	106	212
AMC rebates from underlying investments	9	8
	115	220
Taxation recoverable:		
Income tax	2	30
Total debtors	7,809	721

10. Cash and Cash Equivalents

	31.10.20 £'000	31.10.19 £'000
Bank balances	7,092	4,095
Margin account	1,022	33
Total cash and cash equivalents	8,114	4,128

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

11. Creditors

	31.10.20 £'000	31.10.19 £'000
Distribution payable	79	112
Other Creditors		
Amounts payable for redemption of shares	81	673
Purchases awaiting settlement	6,831	–
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	19	14
ACD reimbursement to revenue	–	(13)
	19	1
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	1	–
Transaction charges	–	1
	1	1
Taxation payable:		
Corporation tax	60	66
Total other creditors	6,992	741

12. Related Party Transactions

The Annual Management Charge and administration fees payable to Link Fund Solutions Limited ('the ACD') are disclosed in note 5 and amounts due at the year end are disclosed in note 11.

The aggregate monies received by the ACD through the issue of shares and paid on redemption of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders on page 313 and amounts due at the year end are disclosed in notes 9 and 11.

Link Fund Solutions Limited and its associates (including other authorised investment funds managed by Link Fund Solutions or its associates) held 363,783 (31.10.19: 242,784) of the Fund's shares at the balance sheet date.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

M&G Investment Management Limited and its associates (including other authorised investment funds managed by M&G Investment Management Limited) held 2,296,600 (31.10.19: 5,020,460) of the Fund's shares at the balance sheet date.

A shareholder may be able to exercise significant influence over the financial and operating policies of the Fund and as such is deemed to be a related party. At the balance sheet date the following shareholders held in excess of 20% of the shares in issue of the Fund:

Allfunds Nominee Limited	38.38% (31.10.19: 33.35%)
FNZ (UK) Nominees Limited	20.57% (31.10.19: 23.49%)

As part of the investment strategy, the Fund may from time to time hold shares in other collective investment schemes managed by the same Portfolio Manager or for which Link Fund Solutions Limited is also the ACD. At the balance sheet date the value of the holdings was as follows:

	31.10.20 £'000	31.10.19 £'000
Portfolio Manager in common	8,679	5,940

13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.19: none).

14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.48%	0.48%	0.00%
Opening shares in issue	250	39,319	1,675,970
Issues	–	110,410	1,624,552
Redemptions	–	(15,971)	(1,003,672)
Closing shares in issue	250	133,758	2,296,850

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.23%	0.23%	0.48%
Opening shares in issue	2,822,255	35,515,269	7,532,741
Issues	809,240	20,639,543	2,462,343
Redemptions	(1,742,920)	(2,408,182)	(1,136,317)
Closing shares in issue	<u>1,888,575</u>	<u>53,746,630</u>	<u>8,858,767</u>

15. Risk Management Policies

In pursuing the investment objective a number of financial instruments are held which may comprise securities and other investments, cash balances and debtors and creditors that arise directly from operations. Derivatives, such as futures or forward currency contracts, may be utilised for Efficient Portfolio Management (including hedging) purposes.

The main risks from the Fund's holding of financial instruments, together with the ACD's policy for managing these risks, are set out below:

The ACD has in place a Risk Management Policy and Procedures Document ('RMPPD') that sets out the risks that may impact a fund and how the ACD seeks, where appropriate, to manage, monitor and mitigate those risks, and in particular those risks associated with the use of derivatives. The RMPPD sets out both the framework and the risk mitigations operated by the ACD in managing the identified risks of the Fund. The ACD requires that the appointed Portfolio Manager to the Fund has in place its own governance structure, policies and procedures that are commensurate with its regulatory obligations and the risks posed by the fund managed.

(A) CREDIT RISK

Credit risk is the risk that a counterparty may be unable or unwilling to make a payment or fulfil contractual obligations. This may be in terms of an actual default or by deterioration in a counterparty's credit quality.

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its obligations. As part of its due diligence process, the ACD undertakes a review of the controls operated over counterparties by the Portfolio Manager, including initial and ongoing due diligence and business volumes placed with each counterparty. In cases which are dependent on the counterparty settling at the transaction's maturity date, the ACD has policies in place which set out the minimum credit quality expected of a market counterparty or deposit taker at the outset of the transaction.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

There were futures contracts held at the balance sheet date. Details of the individual contracts are disclosed separately in the Portfolio Statement and the total position by counterparty at the balance sheet date was as follows:

31.10.20 Counterparty	Futures £'000	Net cash collateral pledged £'000
JPMorgan	(5)	–
NatWest	(341)	–

31.10.19 Counterparty	Futures £'000	Net cash collateral pledged £'000
NatWest	20	–

(B) INTEREST RATE RISK

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes. The value of fixed interest securities may be affected by changes in interest rates, either globally or locally. Changes in the rate of return in one asset class may influence the valuation basis of other classes. The amount of revenue receivable from floating rate investments and bank balances or payable on bank overdrafts will be affected by fluctuations in interest rates. Investment in collective investment schemes exposes the Fund to indirect interest rate risk to the extent that they invest in interest bearing securities, the returns from which will be affected by fluctuations in interest rates.

The Fund invests in collective investment schemes and as such does not have any significant direct exposure to interest rate risk. The Fund is indirectly exposed to interest rate risk through its investment in collective investment schemes. As the Fund has no direct exposure to interest rate risk, no interest rate risk table or sensitivity analysis has been presented.

(C) FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the Sterling value of investments will fluctuate as a result of exchange rate movements. Assets denominated in currencies other than Sterling will provide direct exposure to currency risk as a consequence of the movement in foreign exchange rates when calculating the Sterling equivalent value. Investment in collective investment schemes may provide indirect exposure to currency risk as a consequence of the movement in foreign exchange rates.

Where the Fund invests in non-Sterling assets, the Portfolio Manager allows for the foreign currency risk when considering whether to invest and does not seek to hedge this risk.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

The table below shows the foreign currency risk profile at the balance sheet date:

	31.10.20 Gross £'000	31.10.20 Hedged £'000	31.10.20 Net £'000
Currency:			
Euro currency	12,560	–	12,560
Japanese yen	49	–	49
South African rand	112	–	112
US dollars	583	–	583
Total foreign currency exposure	13,304	–	13,304
Pounds sterling	75,204	–	75,204
Total net assets	88,508	–	88,508
	31.10.19 Gross £'000	31.10.19 Hedged £'000	31.10.19 Net £'000
Currency:			
Euro currency	9,021	–	9,021
US dollars	397	–	397
Total foreign currency exposure	9,418	–	9,418
Pounds sterling	54,036	–	54,036
Total net assets	63,454	–	63,454

A 5% change in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £665,000 on the net assets of the Fund (31.10.19: £471,000).

(D) LEVERAGE

The ACD is required to calculate and monitor the level of leverage of the Fund, expressed as a ratio between the exposure of the Fund and its Net Asset Value, under both the gross and commitment methods (in accordance with articles 7 and 8 of The Alternative Investment Fund Managers Regulations 2013). For a fund with no borrowing or derivative usage the leverage ratio would be 1:1 under the commitment method. The gross method calculation excludes cash and cash equivalents which are highly liquid.

As at 31.10.20, leverage under the gross method was 0.92:1 and leverage under the commitment method was 1:1 (31.10.19: 0.94:1 and 1:1 respectively).

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

(E) LIQUIDITY RISK

The main liability of the Fund is the redemption of any shares that investors want to sell. Investments may have to be sold to fund such redemptions should insufficient cash be held at the bank to meet this obligation.

The ACD monitors the liquidity profile of the Fund on a daily basis. In assessing the liquidity profile of the Fund, the ACD assesses how much of the Fund can be realised in one and five days, under normal and stressed market conditions, and the impact this would have on the overall subsequent liquidity profile. In assessing the liquidity of a company's shares, the ACD utilises the lower of the 5 and 30 day average market volume of that company's shares. Where a risk is identified then a more in depth review is undertaken to establish its significance, by assessing the liquidity profile of the Fund against a 25% market participation of the average daily volume. Based on this analysis 84.80% of the portfolio can be liquidated within 5 days and 85.30% within 30 days. Given this and the ACD's understanding of the investor base, it is considered that the liquidity profile of the Fund is appropriate.

All financial liabilities are payable in one year or less, or on demand.

(F) MARKET PRICE RISK

Market price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds.

Market price risk represents the potential loss the Fund may suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to price fluctuations, which are monitored by the ACD in pursuance of the investment objective and policy. The risk is generally regarded as consisting of two elements – stock specific risk and market risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit stock specific risk. Subject to compliance with the investment objective, spreading exposure across a broad range of global stocks can mitigate market risk.

A 5% increase in the value of the Fund's portfolio would have the effect of increasing the return and net assets by £3,983,000 (31.10.19: £2,973,000). A 5% decrease would have an equal and opposite effect.

(G) DERIVATIVES

The economic exposure of futures derivative contracts is equal to the market value. The value of the exposure and the related counterparty are disclosed in the Portfolio of Investments.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

16. Portfolio Transaction Costs

31.10.20	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	196	—	1	197
Collective investment schemes	31,974	1	1	31,976
Purchases total	32,170	1	2	32,173
<i>Transaction cost % of purchases total</i>		—	0.01%	
<i>Transaction cost % of average NAV</i>		—	—	
Ordinary shares	357	—	—	357
Collective investment schemes	10,724	—	—	10,724
Sales total	11,081	—	—	11,081
<i>Transaction cost % of sales total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	

Average portfolio dealing spread at 31.10.20 is 0.35% (31.10.19: 0.35%).

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

31.10.19	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	335	—	—	335
Collective investment schemes	43,547	—	—	43,547
Purchases total	43,882	—	—	43,882
<i>Transaction cost % of purchases total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	
Ordinary shares	508	—	—	508
Collective investment schemes	23,338	—	—	23,338
Sales total	23,846	—	—	23,846
<i>Transaction cost % of sales total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	

The collective investment schemes include closed-ended funds.

17. Fair Value Hierarchy

Investments are categorised into the following levels based on their fair value measurement:

Level 1: Unadjusted quoted price in an active market for an identical instrument;

Level 2: Valuation techniques using observable inputs other than quoted prices within Level 1;

Level 3: Valuation techniques using unobservable inputs (see note 1(F) of the Accounting Policies).

31.10.20	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	4,952	75,047	3	80,002
Investment liabilities	(346)	—	—	(346)
31.10.19	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	3,256	56,193	12	59,461

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

18. Subsequent Events

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic. In the immediate aftermath, global markets experienced a period of significant volatility which negatively impacted the performance of the Fund at the balance sheet date. Subsequent to that date and whilst markets have remained relatively volatile there has, in the period until the account signing date, been a general recovery in the markets.

This means that since the balance sheet date the price of each of the Fund's share classes has moved as follows:

Share class	Balance sheet date	22.02.21	Movement
'A' Income	120.51	133.59	10.85%
'A' Accumulation	130.62	144.61	10.71%
'C' Income	102.50	113.61	10.84%
'P' Income	120.76	133.77	10.77%
'P' Accumulation	133.89	148.31	10.77%
'R' Accumulation	132.48	146.66	10.70%

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

FINANCIAL STATEMENTS *continued*

DISTRIBUTION TABLE

for the year ended 31 October 2020 – in pence per share

EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares – the applicable distribution periods for each distribution are shown below). It represents the accrued revenue included in the purchase price of the shares. After averaging it is returned with the distribution as a capital repayment. It is not liable to Income Tax but must be deducted from the cost of the shares for Capital Gains Tax purposes.

Group 2	Final
From	01.11.19
To	31.10.20

'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	2.0520	–	2.0520	2.1080
Group 2	2.0520	0.0000	2.0520	2.1080

'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.7504	–	1.7504	2.2936
Group 2	1.1038	0.6466	1.7504	2.2936

'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.8329	–	1.8329	2.4031
Group 2	1.2253	0.6076	1.8329	2.4031

'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.9452	–	1.9452	2.5357
Group 2	1.2794	0.6658	1.9452	2.5357

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4
FINANCIAL STATEMENTS *continued*
DISTRIBUTION TABLE *continued*

'P' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	2.1070	–	2.1070	2.7153
Group 2	1.4052	0.7018	2.1070	2.7153

'R' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	1.8290	–	1.8290	2.4352
Group 2	1.3426	0.4864	1.8290	2.4352

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5 ACD'S REPORT

for the year ended 31 October 2020

Important Information

Refer to the 'Important Information' section on page 12.

Investment Objective and Policy

The LF Prudential Risk Managed Passive Fund 5 ('the Fund') aims to achieve long-term (in excess of 5 years) total return (the combination of income and growth of capital) by investing in a mix of assets from around the world and aims to limit the average volatility per annum over rolling 5 year periods to 17%.

There is no guarantee the objective will be achieved over any time period and the actual volatility, at any time, may be higher or lower than 17%. Capital invested is at risk.

The Fund aims to achieve its objective through investing at least 70% in passive collective investment schemes (e.g. funds which track an index). The Fund has a flexible investment approach with the freedom to invest in different types of assets to meet its objective. The Portfolio Manager will use in-depth research to forecast the expected change in value and risk of the different types of assets over a forward-looking 15-year period. This analysis is then used to work out the mix of assets (the "target strategic asset allocation") to invest in to achieve the Fund's objective. The Portfolio Manager will review the target strategic asset allocation on an ongoing basis.

Based on the target strategic asset allocation, the Portfolio Manager constructs an actively managed portfolio to provide diversified, indirect exposure to global fixed income and variable rate assets, cash (including money market funds and near cash), equities and/or immovable property.

The Fund will have a high exposure towards higher risk assets, such as equities. The Portfolio Manager will adjust the asset allocation on an ongoing basis to reflect changes in the target strategic asset allocation and to take advantage of tactical investment opportunities.

The Portfolio Manager will select collective investment schemes to invest in from a focused range of funds and fund management groups (which may include other funds managed by the ACD, Portfolio Manager and their associates).

The Fund may also invest directly in equities, equity related instruments (e.g. warrants), fixed income and cash or near cash. It may also invest in alternative investments (e.g. infrastructure, private equity, alternative credit and hedge funds). Derivative instruments may also be used for the purposes of efficient portfolio management.

Other Information: The Fund's objective to stay within its specified risk profile may restrict the types and proportions of the assets it holds and limit the potential gains and losses.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

ACD'S REPORT *continued*

Benchmark

The Fund's comparator benchmark is the IA Flexible Investment shares sector.

The Fund's performance may be compared against the IA Flexible Investment shares sector. The ACD believes that this is an appropriate comparator for the Fund given the investment objective and policy of the Fund. Many funds sold in the UK are grouped into sectors by the Investment Association (the trade body that represents UK investment managers), to help investors to compare funds with broadly similar characteristics.

LINK FUND SOLUTIONS LIMITED

ACD of LF Prudential Risk Managed Passive Fund 5

26 February 2021

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2020

Between 1 November 2019 and 31 October 2020 (the period in review) share classes R (Acc) -2.29%¹, A (Acc) -2.30%¹ and P (Acc) -2.10%¹ produced returns behind the 0.63%¹ sector average for IA Flexible Investment Shares Sector.

Market Overview

Early on in 2020 and before the gravity of the coronavirus situation became apparent, developed market equities were broadly flat, and Asia and emerging markets slightly down.

Towards the end of February, the reality hit that a potential human tragedy was unfolding which would dramatically affect economic activity. Sentiment plummeted across markets as investors rushed to sell financial assets. The speed of the sell-off was notable, albeit off the back of strong performance in 2019, which had been driven by the hope of economic activity improving.

Equity markets became highly sensitive to case news. In February alone, there were over 18 days where the S&P 500 Index was either up or down by more than 3%. Corporate bond markets were also volatile as secondary markets and liquidity evaporated. Spreads on 1-year investment grade bonds jumped nearly 300bps in US and around 200bps in the UK and Europe. The moves in high yield were amplified with 1-year US high yield bonds spiking over 700bps and in the UK and Europe between 560/600bps.

Major stock markets experienced a remarkable rebound during the second quarter following the steep declines seen during the onset of the pandemic. The FTSE World Index rose 19.9% over the period. An extraordinary level of central bank stimulus and government support in the world's major economies came to the aid of many consumers and businesses and was welcomed by investors.

Global investor sentiment stayed fairly positive during the third quarter despite a bleak (albeit recovering) global economic backdrop and a resurgence of virus cases in many developed countries. The majority of stock markets continued to rise following the rebound seen in the second quarter. Global economic activity data for the summer months improved as restrictions were eased and most economies could reopen.

Governments and central banks from across the world remained supportive towards the needs of businesses and consumers. However, despite positive news surrounding potential vaccines and better treatment outcomes, a resurgence of virus cases in the US and Europe scuppered any hope of a rapid return to normality for the global economy. This certainly impacted markets towards the end of the period in review.

Positioning

The portfolio management team implemented the 2020 strategic asset allocation review in June across all funds in the range.

¹ Source: FE Analytics.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

ACD'S REPORT *continued*

PORTFOLIO MANAGER'S REPORT *continued*

The key headlines were a small increase in overall equity exposure mainly weighted towards the UK due to attractive medium-term valuations. New allocations to Chinese and African equities were also made to capture the future growth potential of these regions.

There was a small overall reduction to fixed income, whilst adding a new allocation to Emerging Market Debt.

Exposure to alternatives was not altered.

From a tactical asset allocation perspective, towards the end of the period in review the portfolio manager has added a small exposure to Asia ex-Japan and US equity, being of the view that markets would place more weight on stimulus introduced than on any worsening of COVID-19 cases. A small UK REITs position is held across all portfolios as long-term valuations look attractive.

Outlook

Markets will continue to be sensitive to COVID-19 related news, periods of uncertainty and investor nervousness will likely re-occur. As ever, trying to time markets and be precise on a timeframe for a return to normality is very difficult so it is important to try and balance portfolios to be robust in the short-term whilst still looking for long-term opportunities as capital markets evolve.

The portfolio managers remain fully focused on adhering to the long-standing investment philosophy and processes. The team has no greater insight into the future than anyone else but has concentrated on what can be controlled, which is how they invest both now and in the future.

M&G INVESTMENT MANAGEMENT LIMITED

Portfolio Manager

18 November 2020

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

ACD'S REPORT *continued*

FUND INFORMATION

Risk and Reward Profile



This indicator shows how much a fund has risen and fallen in the past, and therefore how much a fund's returns have varied. It is a measure of a fund's volatility. The higher a fund's past volatility the higher the number on the scale and the greater the risk that investors in that fund may have made losses as well as gains.

During the year the indicator has changed from 4 to 5. The Fund has been classed as 5 because its volatility has been measured as above average.

This indicator is based on historical data and may not be a reliable indication of the future risk profile of this Fund.

As this Fund has less than 5 years' price history, this calculation incorporates the volatility of an appropriate benchmark index.

The risk and reward profile shown is not guaranteed to remain the same and may shift over time.

The Fund targets a risk level of 5 which is a level of risk relative to the 4 other funds in the range. The risk and reward profile scale above is calculated differently. The two measures are not comparable. The lowest number on the scale does not mean that a fund is risk free.

Currency Risk: As the Fund can be exposed to different currencies, changes in exchange rates may decrease the value of your investment.

Changes in Interest Rate Risk: A rise in interest rates generally causes bond prices to fall.

Credit Risk: The value of a bond may be affected by its credit rating, the lower the rating the higher the risk of the issuer not paying interest or repaying the loan.

Property Fund Investment Risk: Property funds can become illiquid increasing the risk that a position cannot be sold in a timely manner or at a reasonable price.

Counterparty Risk: The failure of a firm involved in a transaction with the Fund or providing services to the Fund may expose the Fund to financial loss.

Derivatives Risk: A derivative may not perform as expected and may create losses greater than its cost.

For full details of the Fund's risks, please see the Prospectus which may be obtained upon application and can be found on the ACD's website, www.linkfundsolutions.co.uk.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables

Where the Fund has significant investment in collective investment schemes, the operating charges take account of the ongoing charges incurred in the underlying schemes, calculated as the expense value of such holdings at the year end weighted against the net asset value of the share class at that date. Following regulatory changes, the Operating Charges Figure takes account of the ongoing charges incurred in closed-ended underlying schemes calculated as the expense value of such holdings at the period end weighted against the net asset value of the share class at that date.

'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	128.34	121.63	124.60
Return before operating charges*	(2.29)	10.00	0.98
Operating charges	(0.72)	(0.91)	(2.02)
Return after operating charges	(3.01)	9.09	(1.04)
Distributions	(1.90)	(2.38)	(1.93)
Closing net asset value per share	123.43	128.34	121.63
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	(2.35)%	7.48%	(0.84)%
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OTHER INFORMATION

Closing net asset value (£'000)	215	6	3
Closing number of shares	174,348	4,809	2,431
Operating charges	0.58%	0.72%	1.62%
Direct transaction costs	–	–	0.01%

PRICES

Highest share price	135.60	135.23	130.74
Lowest share price	105.06	117.14	120.69

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'A' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	137.21	127.64	128.72
Return before operating charges*	(2.44)	10.57	1.02
Operating charges	(0.77)	(1.00)	(2.10)
Return after operating charges	(3.21)	9.57	(1.08)
Distributions	(2.02)	(2.48)	(1.89)
Retained distributions on accumulation shares	2.02	2.48	1.89
Closing net asset value per share	134.00	137.21	127.64
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	(2.34)%	7.50%	(0.84)%
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OTHER INFORMATION

Closing net asset value (£'000)	161	6	4
Closing number of shares	120,306	4,494	3,136
Operating charges	0.58%	0.75%	1.62%
Direct transaction costs	–	–	0.01%

PRICES

Highest share price	145.07	142.03	135.15
Lowest share price	112.34	123.08	124.74

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'C' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 ¹ pence per share
Opening net asset value per share	105.73	100.18	100.00
Return before operating charges*	(1.99)	8.17	2.06
Operating charges	(0.10)	(0.11)	(0.16)
Return after operating charges	(2.09)	8.06	1.90
Distributions	(1.97)	(2.51)	(1.72)
Closing net asset value per share	101.67	105.73	100.18
* after direct transaction costs of:	—	—	0.01

PERFORMANCE

Return after charges	(1.98)%	8.05%	1.90%
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OTHER INFORMATION

Closing net asset value (£'000)	3,205	1,891	10
Closing number of shares	3,152,183	1,787,944	9,829
Operating charges	0.10%	0.11%	0.28% ²
Direct transaction costs	—	—	0.01%

PRICES

Highest share price	111.54	111.60	107.30
Lowest share price	86.70	96.43	99.98

¹ From 17 April 2018.

² Annualised figure due to share class being launched less than 1 year.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	128.69	121.93	124.80
Return before operating charges*	(2.31)	10.01	0.80
Operating charges	(0.42)	(0.52)	(1.13)
Return after operating charges	(2.73)	9.49	(0.33)
Distributions	(2.16)	(2.73)	(2.54)
Closing net asset value per share	123.80	128.69	121.93
* after direct transaction costs of:	0.01	–	0.01

PERFORMANCE

Return after charges	(2.12)%	7.78%	(0.27)%
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OTHER INFORMATION

Closing net asset value (£'000)	1,466	5,533	6,765
Closing number of shares	1,184,345	4,299,529	5,548,399
Operating charges	0.33%	0.41%	0.89%
Direct transaction costs	–	–	0.01%

PRICES

Highest share price	136.06	135.92	131.55
Lowest share price	105.42	117.59	121.18

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'P' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	140.47	130.30	130.65
Return before operating charges*	(2.59)	10.71	0.82
Operating charges	(0.45)	(0.54)	(1.17)
Return after operating charges	(3.04)	10.17	(0.35)
Distributions	(2.37)	(2.92)	(2.66)
Retained distributions on accumulation shares	2.37	2.92	2.66
Closing net asset value per share	137.43	140.47	130.30
* after direct transaction costs of:	0.01	—	0.01

PERFORMANCE

Return after charges	(2.16)%	7.81%	(0.27)%
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OTHER INFORMATION

Closing net asset value (£'000)	52,886	32,770	18,676
Closing number of shares	38,481,321	23,329,609	14,333,726
Operating charges	0.33%	0.40%	0.89%
Direct transaction costs	—	—	0.01%

PRICES

Highest share price	148.45	145.21	137.66
Lowest share price	115.10	125.72	126.81

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Comparative Tables *continued*

'R' ACCUMULATION SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.20 pence per share	31.10.19 pence per share	31.10.18 pence per share
Opening net asset value per share	139.15	129.33	129.94
Return before operating charges*	(2.47)	10.71	0.88
Operating charges	(0.79)	(0.89)	(1.49)
Return after operating charges	(3.26)	9.82	(0.61)
Distributions	(2.07)	(2.63)	(2.40)
Retained distributions on accumulation shares	2.07	2.63	2.40
Closing net asset value per share	135.89	139.15	129.33
* after direct transaction costs of:	0.01	—	0.01

PERFORMANCE

Return after charges	(2.34)%	7.59%	(0.47)%
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OTHER INFORMATION

Closing net asset value (£'000)	6,590	6,251	4,650
Closing number of shares	4,849,805	4,491,835	3,595,186
Operating charges	0.58%	0.66%	1.14%
Direct transaction costs	—	—	0.01%

PRICES

Highest share price	147.01	143.94	136.72
Lowest share price	113.93	124.76	126.03

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

ACD'S REPORT *continued*

FUND INFORMATION *continued*

Fund Performance to 31 October 2020 (%)

	1 year	3 years	5 years
LF Prudential Risk Managed Passive Fund 5	(2.30)	4.40	33.86

The performance of the Fund is based on the published price per 'A' Accumulation share which includes reinvested income.

The performance of the Fund disclosed in the above table may differ from the 'Return after charges' disclosed in the Comparative Table due to the above performance being calculated on the latest published price prior to the year end, rather than the year end return after operating charges.

Details of the distributions per share for the year are shown in the Distribution Table on pages 363 and 364.

RISK WARNING

An investment in an open-ended investment company should be regarded as a medium to long term investment. Investors should be aware that the price of shares and the income from them can fall as well as rise and investors may not receive back the full amount invested. Past performance is not a guide to future performance. Investments denominated in currencies other than the base currency are subject to fluctuation in exchange rates, which can be favourable or unfavourable.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

ACD'S REPORT *continued*

PORTFOLIO STATEMENT

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	EQUITY PORTFOLIOS – 59.66% (31.10.19 – 65.46%)		
	CONTINENTAL EUROPE – 8.56% (31.10.19 – 9.67%)		
2,053,200	Legal & General European Index	5,521	8.56
	TOTAL CONTINENTAL EUROPE	5,521	8.56
	UNITED KINGDOM – 21.86% (31.10.19 – 23.20%)		
5,177,225	iShares UK Equity Index	7,636	11.82
5,178,367	Legal & General UK Index	6,478	10.04
	TOTAL UNITED KINGDOM	14,114	21.86
	ASIA EX JAPAN – 11.74% (31.10.19 – 12.38%)		
4,056,092	iShares Pacific ex Japan Equity Index	7,573	11.74
	TOTAL ASIA EX JAPAN	7,573	11.74
	JAPAN – 4.72% (31.10.19 – 5.27%)		
1,374,051	iShares Japan Equity Index	3,044	4.72
	TOTAL JAPAN	3,044	4.72
	NORTH AMERICA – 8.46% (31.10.19 – 9.79%)		
1,642,865	iShares US Equity Index	5,459	8.46
	TOTAL NORTH AMERICA	5,459	8.46
	EMERGING MARKETS – 4.31% (31.10.19 – 5.15%)		
1,657,657	iShares Emerging Markets Equity Index	2,778	4.31
	TOTAL EMERGING MARKETS	2,778	4.31
	TOTAL EQUITY PORTFOLIOS	38,490	59.66
	EQUITY INVESTMENT INSTRUMENTS – 4.03% (31.10.19 – 4.38%)		
177,205	BBGI ¹	307	0.48
282,041	BioPharma Credit ¹	216	0.33
80,465	Blue Capital Alternative Income ^{1,2}	3	–
21,700	Boussard & Gavaudan ¹	341	0.53

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
140,205	DP Aircraft I ¹	4	0.01
40,662	HarbourVest Global Private Equity ¹	696	1.08
100,089	HgCapital ¹	296	0.46
57,081	NB Distressed Debt Investment ¹	20	0.03
178,945	NextEnergy Solar ¹	192	0.30
139,455	Renewables Infrastructure ¹	188	0.29
319,217	SDCL Energy Efficiency Income ¹	334	0.52
	TOTAL EQUITY INVESTMENT INSTRUMENTS	2,597	4.03
	PROPERTY PORTFOLIOS – 0.48% (31.10.19 – 0.00%)		
65,147	iShares UK Property	310	0.48
	TOTAL PROPERTY PORTFOLIOS	310	0.48
	BOND PORTFOLIOS – 26.35% (31.10.19 – 23.77%)		
3,697,068	iShares Corporate Bond Index	5,919	9.17
153,867	iShares Euro Investment Grade Corporate Bond Index	1,770	2.74
392,008	iShares US Corporate Bond Index	3,917	6.07
130,773	iShares USD Treasury Bond	687	1.07
1,102,138	M&G Emerging Markets Bond ³	1,174	1.82
400,824	M&G European Corporate Bond ³	478	0.74
1,112,226	M&G Global High Yield Bond ³	1,518	2.35
1,203,672	M&G Strategic Corporate Bond ³	1,541	2.39
	TOTAL BOND PORTFOLIOS	17,004	26.35
	FUTURES – (0.43)% (31.10.19 – 0.04%)		
34	EURO STOXX 50 Index Futures December 2020	(53)	(0.08)
42	FTSE 100 Index Futures December 2020	(133)	(0.21)
82	FTSE China A50 Index Futures November 2020	(4)	(0.01)
38	FTSE/JSE Top 40 Index Futures December 2020	(46)	(0.07)
6	S&P 500 E Mini Index Futures December 2020	(28)	(0.04)
3	TOPIX Index Futures December 2020	(15)	(0.02)
	TOTAL FUTURES	(279)	(0.43)

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

ACD'S REPORT *continued*

PORTFOLIO STATEMENT *continued*

as at 31 October 2020

Holding	Portfolio of Investments	Value £'000	31.10.20 %
	Portfolio of investments ⁴	58,121	90.08
	Net other assets	6,402	9.92
	Net assets	64,523	100.00

The investments have been valued in accordance with note 1(F) of the Accounting Policies and are collective investment schemes unless stated otherwise.

¹ Closed-ended fund.

² Delisted security.

³ Related party holding (see note 12).

⁴ Includes investment liabilities.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

ACD'S REPORT *continued*

SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2020

Total purchases for the year £'000 (note 16)	24,148	Total sales for the year £'000 (note 16)	8,180
	Cost £'000		Proceeds £'000
Major purchases		Major sales	
iShares UK Equity Index	6,533	FTSE 100 Index Futures September 2020	2,718
FTSE 100 Index Futures December 2020	4,315	FTSE 100 Index Futures March 2020	2,077
FTSE 100 Index Futures September 2020	2,743	FTSE China A50 Index Futures October 2020	1,850
iShares Pacific ex Japan Equity Index	2,476	FTSE 100 Index Futures December 2020	1,834
FTSE 100 Index Futures March 2020	2,323	FTSE 100 Index Futures June 2020	1,788
iShares Corporate Bond Index	1,864	iShares US Corporate Bond Index	1,637
FTSE China A50 Index Futures October 2020	1,831	M&G Strategic Corporate Bond	1,357
iShares US Corporate Bond Index	1,799	EURO STOXX 50 Index Futures June 2020	1,263
M&G Global High Yield Bond	1,782	S&P 500 E Mini Index Futures June 2020	1,171
FTSE/JSE Top 40 Index Futures December 2020	1,773	M&G Global High Yield Bond	934

In addition to the above, purchases totalling £795,152,000 and sales totalling £792,802,000 were made in short term investments during the year.

Purchases and sales of Futures have been included at the value of their exposure and are not included in the total purchases and sales figures above.

The summary of material portfolio changes represents the 10 largest purchases and sales during the year.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS

STATEMENT OF TOTAL RETURN

for the year ended 31 October 2020

	Notes	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Income:					
Net capital (losses)/gains	3		(1,970)		1,977
Revenue	4	1,165		1,021	
Expenses	5	(147)		(131)	
Interest payable and similar charges	6	(3)		(3)	
Net revenue before taxation		1,015		887	
Taxation	7	(24)		(24)	
Net revenue after taxation			991		863
Total return before distributions			(979)		2,840
Distributions	8		(990)		(869)
Change in net assets attributable to shareholders from investment activities			(1,969)		1,971

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2020

	£'000	31.10.20 £'000	£'000	31.10.19 £'000
Opening net assets attributable to shareholders		46,457		30,108
Amounts receivable on issue of shares	27,330		18,112	
Amounts payable on redemption of shares	(8,308)		(4,534)	
		19,022		13,578
Change in net assets attributable to shareholders from investment activities		(1,969)		1,971
Retained distributions on Accumulation shares		1,013		800
Closing net assets attributable to shareholders		64,523		46,457

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

BALANCE SHEET

as at 31 October 2020

	Notes	31.10.20 £'000	31.10.19 £'000
ASSETS			
Fixed assets			
Investments		58,400	43,508
Current assets			
Debtors	9	5,305	3,443
Cash and cash equivalents	10	6,310	3,266
Total assets		<u>70,015</u>	<u>50,217</u>
LIABILITIES			
Investment liabilities		(279)	–
Creditors			
Distribution payable	11	(91)	(162)
Other creditors	11	(5,122)	(3,598)
Total liabilities		<u>(5,492)</u>	<u>(3,760)</u>
Net assets attributable to shareholders		<u>64,523</u>	<u>46,457</u>

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2020

1. Accounting Policies

The accounting policies described on pages 22 to 24 have been applied to the financial statements of the Fund in the current and prior year. The additional accounting policy described below has also been applied to this Fund.

(A) TREATMENT OF EXPENSES

The Fund receives a rebate of the Annual Management Charge in relation to related party investments in the Fund. This is to eliminate double charging and, as such, is not a reduction in expenses suffered by shareholders.

2. Distribution Policies

The distribution policies described on pages 24 and 25 have been applied to the financial statements of the Fund in the current and prior year.

3. Net Capital (Losses)/Gains

The net capital (losses)/gains during the year comprise:

	31.10.20 £'000	31.10.19 £'000
Non-derivative securities	(1,728)	1,872
Derivative contracts	(242)	78
Transaction charges	(2)	(2)
AMC rebates from underlying investments	(3)	31
Currency gains/(losses)	7	(2)
Broker's commission on futures	(2)	–
Net capital (losses)/gains	(1,970)	1,977

The net capital (losses)/gains figure includes realised gains of £334,000 and unrealised losses of £717,000 (31.10.19: includes realised gains of £949,000 and unrealised gains of £1,580,000). The realised gains on investments in the current year include amounts previously recognised as unrealised gains in the prior year.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

4. Revenue

	31.10.20 £'000	31.10.19 £'000
Non-taxable dividends	889	800
Taxable dividends	17	2
UK property income distributions	–	86
Unfranked interest	208	97
AMC rebates from underlying investments	51	34
Bank interest	–	2
Total revenue	1,165	1,021

5. Expenses

	31.10.20 £'000	31.10.19 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	140	127
Administration fees	–	11
ACD reimbursement to revenue ¹	–	(11)
	140	127

¹ This relates to a rebate paid by the ACD in order to maintain the individual sub-fund's Ongoing Charges Figure ('OCF') at a level considered appropriate by the ACD. Once the Extraordinary General Meeting in December 2018 approved the various changes to the Company effective from 21 January 2019, Prudential Distribution Limited ('PDL'), as sponsor, wanted to ensure that shareholders benefitted immediately from the resultant lower OCFs, rather than the OCF charge reduction coming through over the 6 month period where the Portfolio Manager transitioned the portfolios. Therefore, the ACD effectively introduced a cap on the OCF and the costs of applying this cap during the 6 month transition period were met by PDL as sponsor of the sub-funds in the Company.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	5	3
Safe custody and other bank charges	2	1
	7	4
Total expenses	147	131

The Portfolio Manager's fees and expenses (plus VAT thereon) for providing portfolio management services are paid by the ACD out of its remuneration.

The audit fees of £7,750 are borne by the ACD (31.10.19: £7,800).

6. Interest Payable and Similar Charges

	31.10.20 £'000	31.10.19 £'000
Interest payable	1	3
Futures interest payable	2	–
Total interest payable and similar charges	3	3

7. Taxation

	31.10.20 £'000	31.10.19 £'000
a) Analysis of charge for the year		
Corporation tax	24	30
Current tax charge	24	30
Deferred tax – origination and reversal of timing differences (note 7c)	–	(6)
Total taxation (note 7b)	24	24

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

b) Factors affecting the tax charge for the year

The tax assessed for the year differs from the standard rate of corporation tax in the UK for an authorised fund (20%) (31.10.19: 20%). The difference is explained below:

	31.10.20 £'000	31.10.19 £'000
Net revenue before taxation	1,015	887
Corporation tax at 20%	203	177
Effects of:		
Non-taxable dividends	(178)	(159)
Rebated capital expenses deductible for tax purposes	(1)	6
Total tax charge (note 7a)	24	24
c) Deferred tax		
Provision at the start of the year	–	6
Deferred tax charge in the year (note 7a)	–	(6)
Provision at the end of the year	–	–

8. Distributions

The distributions take account of revenue received on the issue of shares and revenue deducted on redemptions of shares, and comprise:

	31.10.20 £'000	31.10.19 £'000
Final	1,104	962
	1,104	962
Add: Revenue deducted on redemption of shares	25	69
Deduct: Revenue received on issue of shares	(139)	(162)
Net distribution for the year	990	869

Details of the distributions per share are set out in the table on pages 363 and 364.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	31.10.20 £'000	31.10.19 £'000
Distributions represented by:		
Net revenue after taxation	991	863
Allocations to capital:		
Tax relief to/from capital	(1)	6
Net distribution for the year	990	869

9. Debtors

	31.10.20 £'000	31.10.19 £'000
Amounts receivable for issue of shares	137	474
Sales awaiting settlement	5,054	2,728
Accrued revenue:		
Non-taxable dividends	107	213
AMC rebates from underlying investments	5	4
	112	217
Taxation recoverable:		
Income tax	2	24
Total debtors	5,305	3,443

10. Cash and Cash Equivalents

	31.10.20 £'000	31.10.19 £'000
Bank balances	5,512	3,231
Margin account	798	35
Total cash and cash equivalents	6,310	3,266

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

11. Creditors

	31.10.20 £'000	31.10.19 £'000
Distribution payable	91	162
Other Creditors		
Amounts payable for redemption of shares	30	864
Purchases awaiting settlement	5,054	2,704
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	13	10
ACD reimbursement to revenue	–	(11)
	13	(1)
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	1	–
Transaction charges	–	1
	1	1
Taxation payable:		
Corporation tax	24	30
Total other creditors	5,122	3,598

12. Related Party Transactions

The Annual Management Charge and administration fees payable to Link Fund Solutions Limited ('the ACD') are disclosed in note 5 and amounts due at the year end are disclosed in note 11.

The aggregate monies received by the ACD through the issue of shares and paid on redemption of shares are disclosed in the Statement of Change in Net Assets Attributable to Shareholders on page 347 and amounts due at the year end are disclosed in notes 9 and 11.

Link Fund Solutions Limited and its associates (including other authorised investment funds managed by Link Fund Solutions or its associates) held 72,531 (31.10.19: 51,031) of the Fund's shares at the balance sheet date.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

M&G Investment Management Limited and its associates (including other authorised investment funds managed by M&G Investment Management Limited) held 3,151,933 (31.10.19: 5,058,398) of the Fund's shares at the balance sheet date.

A shareholder may be able to exercise significant influence over the financial and operating policies of the Fund and as such is deemed to be a related party. At the balance sheet date the following shareholder held in excess of 20% of the shares in issue of the Fund:

Allfunds Nominee Limited 44.00% (31.10.19: 50.65%)

As part of the investment strategy, the Fund may from time to time hold shares in other collective investment schemes managed by the same Portfolio Manager or for which Link Fund Solutions Limited is also the ACD. At the balance sheet date the value of the holdings was as follows:

	31.10.20 £'000	31.10.19 £'000
Portfolio Manager in common	4,711	2,828

13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.19: none).

14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.48%	0.48%	–
Opening shares in issue	4,809	4,494	1,787,944
Issues	169,539	118,174	1,821,641
Redemptions	–	(2,362)	(457,402)
Closing shares in issue	174,348	120,306	3,152,183

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.23%	0.23%	0.48%
Opening shares in issue	4,299,529	23,329,609	4,491,835
Issues	455,353	16,398,448	1,423,041
Redemptions	(3,570,537)	(1,246,736)	(1,065,071)
Closing shares in issue	<u>1,184,345</u>	<u>38,481,321</u>	<u>4,849,805</u>

15. Risk Management Policies

In pursuing the investment objective a number of financial instruments are held which may comprise securities and other investments, cash balances and debtors and creditors that arise directly from operations. Derivatives, such as futures or forward currency contracts, may be utilised for Efficient Portfolio Management (including hedging) purposes.

The main risks from the Fund's holding of financial instruments, together with the ACD's policy for managing these risks, are set out below:

The ACD has in place a Risk Management Policy and Procedures Document ('RMPPD') that sets out the risks that may impact a fund and how the ACD seeks, where appropriate, to manage, monitor and mitigate those risks, and in particular those risks associated with the use of derivatives. The RMPPD sets out both the framework and the risk mitigations operated by the ACD in managing the identified risks of the Fund. The ACD requires that the appointed Portfolio Manager to the Fund has in place its own governance structure, policies and procedures that are commensurate with its regulatory obligations and the risks posed by the fund managed.

(A) CREDIT RISK

Credit risk is the risk that a counterparty may be unable or unwilling to make a payment or fulfil contractual obligations. This may be in terms of an actual default or by deterioration in a counterparty's credit quality.

Certain transactions in securities that the Fund enters into expose it to the risk that the counterparty will not deliver the investment for a purchase, or cash for a sale after the Fund has fulfilled its obligations. As part of its due diligence process, the ACD undertakes a review of the controls operated over counterparties by the Portfolio Manager, including initial and ongoing due diligence and business volumes placed with each counterparty. In cases which are dependent on the counterparty settling at the transaction's maturity date, the ACD has policies in place which set out the minimum credit quality expected of a market counterparty or deposit taker at the outset of the transaction.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

There were futures contracts held at the balance sheet date. Details of the individual contracts are disclosed separately in the Portfolio Statement and the total position by counterparty at the balance sheet date was as follows:

31.10.20 Counterparty	Futures £'000	Net cash collateral pledged £'000
JPMorgan	(4)	–
NatWest	(275)	–

31.10.19 Counterparty	Futures £'000	Net cash collateral pledged £'000
NatWest	22	–

(B) INTEREST RATE RISK

Interest rate risk is the risk that the value of the Fund's investments will fluctuate as a result of interest rate changes. The value of fixed interest securities may be affected by changes in interest rates, either globally or locally. Changes in the rate of return in one asset class may influence the valuation basis of other classes. The amount of revenue receivable from floating rate investments and bank balances or payable on bank overdrafts will be affected by fluctuations in interest rates. Investment in collective investment schemes exposes the Fund to indirect interest rate risk to the extent that they invest in interest bearing securities, the returns from which will be affected by fluctuations in interest rates.

The Fund invests mainly in collective investment schemes and as such does not have any significant direct exposure to interest rate risk. The Fund is indirectly exposed to interest rate risk through its investment in collective investment schemes. As the Fund has no direct exposure to interest rate risk, no interest rate risk table or sensitivity analysis has been presented.

(C) FOREIGN CURRENCY RISK

Foreign currency risk is the risk that the Sterling value of investments will fluctuate as a result of exchange rate movements. Assets denominated in currencies other than Sterling will provide direct exposure to currency risk as a consequence of the movement in foreign exchange rates when calculating the Sterling equivalent value. Investment in collective investment schemes may provide indirect exposure to currency risk as a consequence of the movement in foreign exchange rates.

Where the Fund invests in non-Sterling assets, the Portfolio Manager allows for the foreign currency risk when considering whether to invest and does not seek to hedge this risk.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

The table below shows the foreign currency risk profile at the balance sheet date:

	31.10.20 Gross £'000	31.10.20 Hedged £'000	31.10.20 Net £'000
Currency:			
Euro currency	6,231	–	6,231
Japanese yen	49	–	49
South African rand	104	–	104
US dollars	396	–	396
Total foreign currency exposure	6,780	–	6,780
Pounds sterling	57,743	–	57,743
Total net assets	64,523	–	64,523

	31.10.19 Gross £'000	31.10.19 Hedged £'000	31.10.19 Net £'000
Currency:			
Euro currency	4,703	–	4,703
US dollars	346	–	346
Total foreign currency exposure	5,049	–	5,049
Pounds sterling	41,408	–	41,408
Total net assets	46,457	–	46,457

A 5% change in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £339,000 on the net assets of the Fund (31.10.19: £252,000).

(D) LEVERAGE

The ACD is required to calculate and monitor the level of leverage of the Fund, expressed as a ratio between the exposure of the Fund and its Net Asset Value, under both the gross and commitment methods (in accordance with articles 7 and 8 of The Alternative Investment Fund Managers Regulations 2013). For a fund with no borrowing or derivative usage the leverage ratio would be 1:1 under the commitment method. The gross method calculation excludes cash and cash equivalents which are highly liquid.

As at 31.10.20, leverage under the gross method was 0.9:1 and leverage under the commitment method was 1:1 (31.10.19: 0.94:1 and 1:1 respectively).

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

(E) LIQUIDITY RISK

The main liability of the Fund is the redemption of any shares that investors want to sell. Investments may have to be sold to fund such redemptions should insufficient cash be held at the bank to meet this obligation.

The ACD monitors the liquidity profile of the Fund on a daily basis. In assessing the liquidity profile of the Fund, the ACD assesses how much of the Fund can be realised in one and five days, under normal and stressed market conditions, and the impact this would have on the overall subsequent liquidity profile. In assessing the liquidity of a company's shares, the ACD utilises the lower of the 5 and 30 day average market volume of that company's shares. Where a risk is identified then a more in depth review is undertaken to establish its significance, by assessing the liquidity profile of the Fund against a 25% market participation of the average daily volume. Based on this analysis 87.08% of the portfolio can be liquidated within 5 days and 87.62% within 30 days. Given this and the ACD's understanding of the investor base, it is considered that the liquidity profile of the Fund is appropriate.

All financial liabilities are payable in one year or less, or on demand.

(F) MARKET PRICE RISK

Market price risk is the risk that the value of the Fund's financial instruments will fluctuate as a result of changes in market prices caused by factors other than interest rate or foreign currency movement. Market price risk arises primarily from uncertainty about the future prices of financial instruments that the Fund holds.

Market price risk represents the potential loss the Fund may suffer through holding market positions in the face of price movements. The Fund's investment portfolio is exposed to price fluctuations, which are monitored by the ACD in pursuance of the investment objective and policy. The risk is generally regarded as consisting of two elements – stock specific risk and market risk. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer can limit stock specific risk. Subject to compliance with the investment objective, spreading exposure across a broad range of global stocks can mitigate market risk.

A 5% increase in the value of the Fund's portfolio would have the effect of increasing the return and net assets by £2,906,000 (31.10.19: £2,175,000). A 5% decrease would have an equal and opposite effect.

(G) DERIVATIVES

The economic exposure of futures derivative contracts is equal to the market value. The value of the exposure and the related counterparty are disclosed in the Portfolio of Investments.

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

16. Portfolio Transaction Costs

31.10.20	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	179	—	—	179
Collective investment schemes	23,967	1	1	23,969
Purchases total	24,146	1	1	24,148
<i>Transaction cost % of purchases total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	
Ordinary shares	280	—	—	280
Collective investment schemes	7,900	—	—	7,900
Sales total	8,180	—	—	8,180
<i>Transaction cost % of sales total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	

Average portfolio dealing spread at 31.10.20 is 0.38% (31.10.19: 0.38%).

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

31.10.19	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	268	—	—	268
Collective investment schemes	30,429	—	—	30,429
Purchases total	30,697	—	—	30,697
<i>Transaction cost % of purchases total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	
Ordinary shares	431	—	—	431
Collective investment schemes	18,624	—	—	18,624
Sales total	19,055	—	—	19,055
<i>Transaction cost % of sales total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	

The collective investment schemes include closed-ended funds.

17. Fair Value Hierarchy

Investments are categorised into the following levels based on their fair value measurement:

Level 1: Unadjusted quoted price in an active market for an identical instrument;

Level 2: Valuation techniques using observable inputs other than quoted prices within Level 1;

Level 3: Valuation techniques using unobservable inputs (see note 1(F) of the Accounting Policies).

31.10.20	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	3,591	54,806	3	58,400
Investment liabilities	(279)	—	—	(279)
31.10.19	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	2,277	41,220	11	43,508

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2020

18. Subsequent Events

On 11 March 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic. In the immediate aftermath, global markets experienced a period of significant volatility which negatively impacted the performance of the Fund at the balance sheet date. Subsequent to that date and whilst markets have remained relatively volatile there has, in the period until the account signing date, been a general recovery in the markets.

This means that since the balance sheet date the price of each of the Fund's share classes has moved as follows:

Share class	Balance sheet date	22.02.21	Movement
'A' Income	123.43	139.86	13.31%
'A' Accumulation	134.00	151.83	13.31%
'C' Income	101.67	115.34	13.45%
'P' Income	123.80	140.39	13.40%
'P' Accumulation	137.43	155.83	13.39%
'R' Accumulation	135.89	153.94	13.28%

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

DISTRIBUTION TABLE

for the year ended 31 October 2020 – in pence per share

EQUALISATION

Equalisation applies only to shares purchased during the distribution period (Group 2 shares – the applicable distribution periods for each distribution are shown below). It represents the accrued revenue included in the purchase price of the shares. After averaging it is returned with the distribution as a capital repayment. It is not liable to Income Tax but must be deducted from the cost of the shares for Capital Gains Tax purposes.

Group 2	Final
From	01.11.19
To	31.10.20

'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.8956	–	1.8956	2.3835
Group 2	1.1529	0.7427	1.8956	2.3835

'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	2.0200	–	2.0200	2.4809
Group 2	1.2302	0.7898	2.0200	2.4809

'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	1.9678	–	1.9678	2.5098
Group 2	1.0741	0.8937	1.9678	2.5098

'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.20	Paid 31.12.19
Group 1	2.1554	–	2.1554	2.7292
Group 2	1.6930	0.4624	2.1554	2.7292

LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

FINANCIAL STATEMENTS *continued*

DISTRIBUTION TABLE *continued*

'P' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	2.3654	–	2.3654	2.9201
Group 2	1.6698	0.6956	2.3654	2.9201

'R' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.20	Allocated 31.12.19
Group 1	2.0727	–	2.0727	2.6280
Group 2	1.4820	0.5907	2.0727	2.6280

GENERAL INFORMATION

Share Capital

The minimum share capital of the Company is £100 and the maximum is £250,000,000,000.

Structure of the Company

The Company is structured as an umbrella company, in that different sub-funds may be established from time to time by the ACD with the approval of the Financial Conduct Authority and the agreement of the Depositary. On the introduction of any new sub-fund or class, a revised Prospectus will be prepared setting out the relevant details of each sub-fund or class.

The assets of each sub-fund will be treated as separate from those of every other sub-fund and will be invested in accordance with the investment objective and investment policy applicable to that sub-fund. The sub-funds which are currently available are:

- LF Prudential Risk Managed Active 1
- LF Prudential Risk Managed Active 2
- LF Prudential Risk Managed Active 3
- LF Prudential Risk Managed Active 4
- LF Prudential Risk Managed Active 5
- LF Prudential Risk Managed Passive Fund 1
- LF Prudential Risk Managed Passive Fund 2
- LF Prudential Risk Managed Passive Fund 3
- LF Prudential Risk Managed Passive Fund 4
- LF Prudential Risk Managed Passive Fund 5

In the future there may be other sub-funds of the Company.

Valuation Point

The current valuation point of the Company is 12.00 noon (London time) on each business day. Valuations may be made at other times under the terms contained within the Prospectus.

Buying and Selling Shares

The ACD will accept orders to deal in the shares on normal business days between 8.30am and 5.30pm (London time) and transactions will be effected at prices determined by the following valuation. Instructions to buy or sell shares may be either in writing to: PO Box 384, Darlington DL1 9RZ or by telephone on 0344 335 8936.

Prices

The prices of all shares are published on every dealing day on the website of the ACD: www.linkfundsolutions.co.uk. The prices of shares may also be obtained by calling 0344 335 8936 during the ACD's normal business hours.

GENERAL INFORMATION *continued*

Other Information

The Instrument of Incorporation, Prospectus, Key Investor Information Document and the most recent interim and annual reports may be inspected at the office of the ACD which is also the Head Office. Copies of these may be obtained upon application and, excepting the Instrument of Incorporation, can be found on the ACD's website, www.linkfundsolutions.co.uk.

Shareholders who have any complaints about the operation of the Company should contact the ACD or the Depositary in the first instance. In the event that a shareholder finds the response unsatisfactory they may make their complaint direct to the Financial Ombudsman Service at Exchange Tower, London E14 9SR.

Data Protection Act

Shareholders' names will be added to a mailing list which may be used by the ACD, its associates or third parties to inform investors of other products by sending details of such products. Shareholders who do not want to receive such details should write to the ACD requesting their removal from any such mailing list.



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