

# LF Prudential Investment Funds (1)

ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2019



**LF Prudential Risk Managed Active 1**  
(Formerly LF Prudential Dynamic 0-30 Portfolio)

**LF Prudential Risk Managed Active 2**  
(Formerly LF Prudential Dynamic 10-40 Portfolio)

**LF Prudential Risk Managed Active 3**  
(Formerly LF Prudential Dynamic 20-55 Portfolio)

**LF Prudential Risk Managed Active 4**  
(Formerly LF Prudential Dynamic 40-80 Portfolio)

**LF Prudential Risk Managed Active 5**  
(Formerly LF Prudential Dynamic 60-100 Portfolio)

**LF Prudential Risk Managed Passive Fund 1**  
(Formerly LF Prudential Dynamic Focused 0-30 Portfolio)

**LF Prudential Risk Managed Passive Fund 2**  
(Formerly LF Prudential Dynamic Focused 10-40 Portfolio)

**LF Prudential Risk Managed Passive Fund 3**  
(Formerly LF Prudential Dynamic Focused 20-55 Portfolio)

**LF Prudential Risk Managed Passive Fund 4**  
(Formerly LF Prudential Dynamic Focused 40-80 Portfolio)

**LF Prudential Risk Managed Passive Fund 5**  
(Formerly LF Prudential Dynamic Focused 60-100 Portfolio)

## AUTHORISED CORPORATE DIRECTOR ('ACD') AND ALTERNATIVE INVESTMENT FUND MANAGER (AIFM)

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### LINK FUND SOLUTIONS LIMITED

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(Authorised and regulated by  
the Financial Conduct Authority)

## DIRECTORS OF THE ACD

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C. Addenbrooke  
N. Boyling  
B. Hammond  
P. Hugh-Smith (resigned 30 June 2019)  
K.J. Midl  
A.J. Stenning (appointed 17 October 2019)  
A.J. Stuart

## PORTFOLIO MANAGER

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### M&G INVESTMENT MANAGEMENT LIMITED

Laurence Pountney Hill  
London EC4R 0HH  
(Authorised and regulated by  
the Financial Conduct Authority)

## DEPOSITARY

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### NATWEST TRUSTEE AND DEPOSITARY SERVICES LIMITED

250 Bishopsgate  
London EC2M 4AA  
(Authorised by the Prudential Regulation Authority  
and regulated by the Financial Conduct Authority  
and Prudential Regulation Authority)

## CUSTODIAN AND FUND ACCOUNTANT

---

### STATE STREET BANK AND TRUST COMPANY

20 Churchill Place  
Canary Wharf  
London E14 5HJ  
(Authorised by the Prudential Regulation Authority  
and regulated by the Financial Conduct Authority  
and Prudential Regulation Authority)

## REGISTRAR

---

### LINK FUND ADMINISTRATORS LIMITED

Customer Service Centre:  
Central Square  
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Leeds LS1 4DL  
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## INDEPENDENT AUDITOR

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### ERNST & YOUNG LLP

Atria One  
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## ACD'S REPORT

for the year ended 31 October 2019

### Authorised Status

LF Prudential Investment Funds (1) ('the Company') is an investment company with variable capital incorporated in England and Wales under registered number IC508 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.

### Important Information

Following a meeting of shareholders, with effect from 21 January 2019 the following changes were made to the funds:

- The investment objective and policy of the sub-funds was changed. The sub-funds were managed on the basis that they invest in a specified range of equities (company shares). These limits have been removed and the sub-funds are now managed with the aim of limiting the level of volatility (i.e. the amount by which the sub-fund's value goes up or down) over the long term (i.e. at least 5 years);
- The names of the sub-funds were changed to reflect the change in the Investment Objectives of the sub-funds;
- The 'Dynamic' sub-funds previously invested in a wide range of active funds managed by different fund management companies. The sub-funds now invest in a more focused range of lower cost funds, including funds available from within the Prudential group;
- The 'Dynamic Focused' sub-funds previously invested in a mix of active or passively managed funds. To reduce costs the sub-funds now invest at least 70% in passive sub-funds; and
- The annual management charge was reduced.

Full details can be found in the latest Prospectus.

### Cross Holdings

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

## ACD'S REPORT *continued*

### 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.

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 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 2019, being the most recent accounting period which accounts have been prepared for LFSL prior to the production of these accounts. As at 30 June 2019, LFSL operated 98 UCITS and 81 AIFs, whose respective assets under management ('AuM') were £38,284 million and £34,426 million. The Company was valued at £1,604 million as at that date and represented 2.21% of LFSL's total AuM and 4.66% 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.

2019	Number of beneficiaries	Fixed £'000	Variable £'000	Total £'000
Total amount of remuneration paid by LFSL for the financial year to 30 June 2019	163	7,503	682	8,185
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 2019				
Senior management (including all Board members)	6	740	310	1,050
Staff engaged in control functions	4	411	35	446
Risk takers and other identified staff	16	1,378	122	1,500
Any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers	–	–	–	–

LFSL's remuneration arrangement include 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 as a whole, rather than the performance of any individual fund. Subject to satisfactory LFSL performance, 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.

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

Further details can be found at:

[www.linkfundsolutions.co.uk/assets/media/LFS\\_Explanation\\_of\\_Compliance\\_with\\_Remuneration\\_Code.pdf](http://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 will be published on the ACD's website no later than 4 months from record date of 31 December 2019.

### LINK FUND SOLUTIONS LIMITED

ACD of LF Prudential Investment Funds (1)  
27 February 2020

## 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)

*27 February 2020*

## 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)

27 February 2020

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

### Opinion

We have audited the financial statements of LF Prudential Investment Funds (1) ('the Company') for the year ended 31 October 2019 which comprise the Statement of Total Return and Statement of Changes 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 Table(s), 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 2019 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 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 FUNDS (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 FUNDS (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

27 February 2020



## ACCOUNTING AND DISTRIBUTION POLICIES

for the year ended 31 October 2019

### 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.

#### (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.

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.

## ACCOUNTING AND DISTRIBUTION POLICIES *continued*

### (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.

### (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.

## ACCOUNTING AND DISTRIBUTION POLICIES *continued*

### (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.

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 2019

### 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 volatility over rolling 5 year periods to 9%.

There is no guarantee that the volatility target will be met and at any time the actual volatility may be higher or lower than the long term target.

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. 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

27 February 2020

## LF PRUDENTIAL RISK MANAGED ACTIVE 1

### ACD'S REPORT *continued*

### PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2019

Between 1 November 2018 and 31 October 2019 (the period in review) share classes R (Acc) 6.68%<sup>1</sup>, P (Acc) 6.94%<sup>1</sup> and A (Acc) 6.53%<sup>1</sup> produced returns ahead of the 6.11%<sup>1</sup> sector average for IA Mixed Investment 0-35% Shares.

#### Market Overview

There was a broad sell-off in stock markets in the final quarter of 2018, as investors became increasingly alarmed over weaker-than-expected economic data out of the US, European Union and Japan, an ongoing trade war between the US and China and generally less supportive monetary policy from the world's central banks. As a result, several stock markets hit, or nearly hit, bear market territory – that is, they fell by 20% or more from their peak.

However global stock markets rebounded strongly in early 2019. A combination of relief that company earnings for the final quarter of 2018 were better than expected and dovish comments by many central banks that interest rates would remain on hold drove sentiment. Many central banks including the US Federal Reserve have subsequently reversed monetary policy which has been very supportive of markets.

Stock market performance was mixed towards the end of the period in review, with emerging market stocks, in general, underperforming developed market stocks. Fears about the global economy led to a setback for stock markets in August, whilst government bonds in many countries rallied strongly. The yields on UK gilts, US Treasuries and German bunds fell to record lows, but have risen somewhat since.

#### Positioning

The portfolio management team implemented the 2019 strategic asset allocation review in September across all funds in the range.

Overall, equity allocations have been reduced by 3% in this Fund via small reductions to the benchmark positions for UK, US, European, Japanese and Asian equities. Conversely the allocation to fixed income has been increased by 3%. The main change this year is the addition of US treasuries that provide more favourable yields than other developed market government bonds and are still seen as a 'haven' in the event of a market downturn.

From a shorter-term tactical perspective, the portfolio manager currently has a small overweight position across global equities and a moderate underweight in global high yield and UK and European investment grade bonds. This mainly reflects the current low yield environment. The portfolio is also slightly overweight cash which will be allocated when an appropriate opportunity arises.

The team have reduced the Italian banks position to reflect a lower conviction as the fundamentals of the trade now have an extended payback period.

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<sup>1</sup> Source: FE Analytics.

## **LF PRUDENTIAL RISK MANAGED ACTIVE 1**

### **ACD'S REPORT** *continued*

### **PORTFOLIO MANAGER'S REPORT** *continued*

#### **Investment Activity**

Further to communications around the changes being made to LF Prudential Risk Managed Active funds, the transition to the new underlying fund holdings was completed in late July 2019. This activity would have entailed some re-allocation across equity and fixed income from property and alternatives holdings. Full details are in this report.

#### **Outlook**

The portfolio managers view of markets remains largely unchanged over recent months. Macro data continues to be weak, and we wait to see whether looser financial conditions/central bank easing will help produce stronger macro data in the near future (with its typical lagged effect). Markets have had a very strong year so far in 2019, fuelled by the global central bank easing theme that began at the end of 2018.

We believe another driver of markets has been the US/China trade discussions. Our sense is that market expectations of a positive outcome have built to a high level and have supported the current price levels of risky assets. There is obviously a risk that high expectations are dashed, sentiment is dented, and that market prices fall. We think it is difficult to have an insight on this particular outcome.

#### **M&G INVESTMENT MANAGEMENT LIMITED**

Portfolio Manager

19 November 2019

## 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. The lowest number on the scale does not mean that a fund is risk free.

The Fund has been classed as 3 because its volatility has been measured as medium to 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.

**Currency Risk:** As the Fund invests indirectly in overseas securities, exchange rates movements may, when not hedged, cause the value of your investment to increase or decrease.

Bonds are affected by trends in interest rates and inflation. If interest rates go up the value of capital may fall and vice versa. Inflation will also decrease the real value of capital. The value of a bond is also affected by its credit rating. Bonds with a higher average yield tend to be less liquid and have a lower credit rating. Investment in bonds with a higher yield also generally brings an increased risk of default on repayment by the issuer which could affect the income and capital of the Fund.

The Fund may invest indirectly in property. Property investments may be harder to buy and sell than other asset types.

**Non-UCITS Retail Scheme (NURS):** The Fund can be less diversified than UCITS schemes as it has higher investment limits for certain types of assets. It can also invest in assets which are not available to UCITS schemes. This can increase the potential rewards but can also increase risk.

The value of investments, and the income from them, will fluctuate. This will cause the Fund price to fall as well as rise and you may not get back what you originally invested.

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](http://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.

#### 'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	132.03	135.63	130.33
Return before operating charges*	10.31	0.59	10.13
Operating charges	(1.59)	(2.96)	(2.85)
Return after operating charges	8.72	(2.37)	7.28
Distributions	(2.40)	(1.23)	(1.98)
Closing net asset value per share	138.35	132.03	135.63
* after direct transaction costs of:	—	0.01	—

#### PERFORMANCE

Return after charges	6.60%	(1.75)%	5.59%
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#### OTHER INFORMATION

Closing net asset value (£'000)	599	557	660
Closing number of shares	433,162	421,765	486,875
Operating charges	1.17% <sup>1</sup>	2.18%	2.12%
Direct transaction costs	—	—	—

#### PRICES

Highest share price	141.65	137.65	138.15
Lowest share price	129.09	132.79	128.19

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	147.36	149.98	142.05
Return before operating charges*	11.52	0.65	11.02
Operating charges	(1.79)	(3.27)	(3.09)
Return after operating charges	9.73	(2.62)	7.93
Distributions	(2.67)	(1.35)	(2.16)
Retained distributions on accumulation shares	2.67	1.35	2.16
Closing net asset value per share	157.09	147.36	149.98
* after direct transaction costs of:	0.01	0.01	–

##### PERFORMANCE

Return after charges	6.60%	(1.75)%	5.58%
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##### OTHER INFORMATION

Closing net asset value (£'000)	4,708	5,357	6,088
Closing number of shares	2,996,742	3,635,526	4,059,087
Operating charges	1.18% <sup>1</sup>	2.18%	2.12%
Direct transaction costs	–	–	–

##### PRICES

Highest share price	158.02	152.16	150.53
Lowest share price	144.10	146.84	139.70

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	132.42	136.07	130.72
Return before operating charges*	10.40	0.57	10.20
Operating charges	(0.45)	(1.32)	(1.22)
Return after operating charges	9.95	(0.75)	8.98
Distributions	(3.57)	(2.90)	(3.63)
Closing net asset value per share	138.80	132.42	136.07
* after direct transaction costs of:	0.01	0.01	–

##### PERFORMANCE

Return after charges	7.51%	(0.55)%	6.87%
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##### OTHER INFORMATION

Closing net asset value (£'000)	20,861	22,613	25,236
Closing number of shares	15,030,250	17,076,579	18,546,597
Operating charges	0.33% <sup>1</sup>	0.96%	0.90%
Direct transaction costs	–	–	–

##### PRICES

Highest share price	143.16	139.03	139.93
Lowest share price	129.71	134.76	128.70

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	111.81	114.88	110.37
Return before operating charges*	8.76	0.49	8.60
Operating charges	(0.94)	(1.65)	(1.56)
Return after operating charges	7.82	(1.16)	7.04
Distributions	(2.45)	(1.91)	(2.53)
Closing net asset value per share	117.18	111.81	114.88
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	6.99%	(1.01)%	6.38%
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##### OTHER INFORMATION

Closing net asset value (£'000)	4,273	4,342	4,295
Closing number of shares	3,646,110	3,883,325	3,738,665
Operating charges	0.81% <sup>1</sup>	1.43%	1.37%
Direct transaction costs	—	—	—

##### PRICES

Highest share price	120.44	117.04	117.78
Lowest share price	109.44	113.27	108.62

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	123.10	124.35	116.91
Return before operating charges*	9.63	0.53	9.10
Operating charges	(1.03)	(1.78)	(1.66)
Return after operating charges	8.60	(1.25)	7.44
Distributions	(2.69)	(2.06)	(2.68)
Retained distributions on accumulation shares	2.69	2.06	2.68
Closing net asset value per share	131.70	123.10	124.35
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	6.99%	(1.01)%	6.36%
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##### OTHER INFORMATION

Closing net asset value (£'000)	64,107	51,216	47,247
Closing number of shares	48,676,790	41,606,447	37,993,906
Operating charges	0.81% <sup>1</sup>	1.43%	1.37%
Direct transaction costs	—	—	—

##### PRICES

Highest share price	132.57	126.67	124.73
Lowest share price	120.52	122.61	115.08

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	134.48	136.19	128.36
Return before operating charges*	10.51	0.58	9.98
Operating charges	(1.47)	(2.29)	(2.15)
Return after operating charges	9.04	(1.71)	7.83
Distributions	(2.59)	(1.91)	(2.60)
Retained distributions on accumulation shares	2.59	1.91	2.60
Closing net asset value per share	143.52	134.48	136.19
* after direct transaction costs of:	0.01	0.01	–

##### PERFORMANCE

Return after charges	6.72%	(1.26)%	6.10%
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##### OTHER INFORMATION

Closing net asset value (£'000)	11,023	8,360	6,995
Closing number of shares	7,680,911	6,216,515	5,136,127
Operating charges	1.06% <sup>1</sup>	1.68%	1.62%
Direct transaction costs	–	–	–

##### PRICES

Highest share price	144.45	138.40	136.60
Lowest share price	131.61	133.97	126.29

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

**LF PRUDENTIAL RISK MANAGED ACTIVE 1**

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Fund Performance to 31 October 2019 (%)**

	1 year	3 years	5 years
LF Prudential Risk Managed Active 1	6.94	12.03	26.11

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 55 and 56.

**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 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	EQUITY PORTFOLIOS – 17.35% (31.10.18 – 18.97%)		
	CONTINENTAL EUROPE – 1.94% (31.10.18 – 2.99%)		
159,586	LF Prudential European QIS <sup>1</sup>	1,553	1.47
24,707	M&G European Select <sup>1</sup>	498	0.47
	TOTAL CONTINENTAL EUROPE	2,051	1.94
	UNITED KINGDOM – 6.34% (31.10.18 – 7.56%)		
610,633	LF Prudential UK Growth QIS <sup>1</sup>	2,231	2.11
728,550	M&G Recovery <sup>1</sup>	2,219	2.10
130,629	M&G UK Select <sup>1</sup>	2,244	2.13
	TOTAL UNITED KINGDOM	6,694	6.34
	ASIA EX JAPAN – 0.00% (31.10.18 – 2.83%)	–	–
	JAPAN – 1.67% (31.10.18 – 1.44%)		
200,461	Eastspring Japan Equity	1,762	1.67
	TOTAL JAPAN	1,762	1.67
	NORTH AMERICA – 2.65% (31.10.18 – 3.24%)		
134,291	LF Prudential North American QIS <sup>1</sup>	1,480	1.40
47,772	M&G North American Value <sup>1</sup>	1,319	1.25
	TOTAL NORTH AMERICA	2,799	2.65
	EMERGING MARKETS – 4.75% (31.10.18 – 0.91%)		
310,569	Eastspring Developed and Emerging Asia Equity	3,447	3.27
138,122	Eastspring Global Emerging Markets Customized Equity	1,564	1.48
	TOTAL EMERGING MARKETS	5,011	4.75
	TOTAL EQUITY PORTFOLIOS	18,317	17.35



# **LF PRUDENTIAL RISK MANAGED ACTIVE 1**

## **ACD'S REPORT** *continued*

## **PORTFOLIO STATEMENT** *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	EQUITY INVESTMENT INSTRUMENTS – 3.84% (31.10.18 – 4.57%)		
321,846	BBGI	520	0.49
261,956	BioPharma Credit	203	0.19
147,535	Blue Capital Alternative Income <sup>2</sup>	20	0.02
33,000	Boussard & Gavaudan	488	0.46
271,537	DP Aircraft I	157	0.15
51,676	HarbourVest Global Private Equity	858	0.81
149,721	HgCapital	360	0.34
134,130	Intesa Sanpaolo <sup>3</sup>	260	0.25
190,856	NB Distressed Debt Investment	111	0.11
178,709	NextEnergy Solar	214	0.20
191,951	Renewables Infrastructure	251	0.24
341,000	SDCL Energy Efficiency Income	358	0.34
25,547	UniCredit <sup>3</sup>	250	0.24
	TOTAL EQUITY INVESTMENT INSTRUMENTS	4,050	3.84
	PROPERTY PORTFOLIOS – 3.13% (31.10.18 – 8.52%)		
2,754,312	Legal & General UK Property	2,558	2.42
69,072	M&G Property Portfolio <sup>1</sup>	752	0.71
	TOTAL PROPERTY PORTFOLIOS	3,310	3.13
	BOND PORTFOLIOS – 67.07% (31.10.18 – 66.14%)		
99,587	Eastspring Asian Bond	1,113	1.05
365,597	Eastspring Asian Local Bond	3,285	3.11
1,562,636	Eastspring US Corporate Bond	17,500	16.58
83,784	M&G European Credit Investment <sup>1</sup>	9,136	8.66
798,558	M&G Global Convertibles <sup>1</sup>	1,769	1.68
3,031,561	M&G Global High Yield Bond <sup>1</sup>	4,202	3.98
12,932,559	M&G Short Dated Corporate Bond <sup>1</sup>	3,325	3.15
12,244,096	M&G Strategic Corporate Bond <sup>1</sup>	15,208	14.41
14,187,495	Royal London Corporate Bond	15,266	14.47
	TOTAL BOND PORTFOLIOS	70,804	67.07

## LF PRUDENTIAL RISK MANAGED ACTIVE 1

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	FUTURES – 0.03% (31.10.18 – 0.00%)		
25	EURO STOXX 50 Index Futures December 2019	25	0.02
2	FTSE 100 Index Futures December 2019	4	0.01
1	S&P 500 E Mini Index Futures December 2019	3	–
21	US Treasury Note 10 Year Futures December 2019	(3)	–
	TOTAL FUTURES	29	0.03
	Portfolio of investments <sup>4</sup>	96,510	91.42
	Net other assets	9,061	8.58
	Net assets	105,571	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.

<sup>1</sup> Related party holding (see note 12).

<sup>2</sup> Delisted security.

<sup>3</sup> Ordinary shares.

<sup>4</sup> Includes investment liabilities.

## LF PRUDENTIAL RISK MANAGED ACTIVE 1

### ACD'S REPORT *continued*

### SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2019

Total purchases for the year £'000 (note 16)	69,938	Total sales for the year £'000 (note 16)	70,080
	Cost		Proceeds
Major purchases	£'000	Major sales	£'000
Eastspring US Corporate Bond	17,178	Invesco Perpetual Corporate Bond	8,922
M&G European Credit Investment	9,404	Kames Investment Grade Bond	8,776
US Treasury Note 10 Year Futures March 2019	8,414	Fidelity MoneyBuilder Income	8,769
Royal London Corporate Bond	6,110	US Treasury Note 10 Year Futures March 2019	8,536
M&G Strategic Corporate Bond	5,746	BlackRock Euro Corporate Bond	8,262
Eastspring Developed and Emerging Asia Equity	4,298	M&G Property Portfolio	4,508
Eastspring Asian Local Bond	3,181	Investec UK Alpha	3,929
M&G UK Select	2,601	Fidelity Asia	3,205
LF Prudential UK Growth QIS	2,421	Threadneedle American	3,158
M&G Global High Yield Bond	2,369	Janus Henderson European Selected Opportunities	2,757

In addition to above, purchases totalling £1,091,622,000 and sales totalling £1,091,622,000 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 2019

	Notes	£'000	31.10.19 £'000	£'000	31.10.18 £'000
Income:					
Net capital gains/(losses)	3		4,646		(2,500)
Revenue	4	2,508		2,308	
Expenses	5	(331)		(703)	
Interest payable and similar charges	6	(2)		–	
Net revenue before taxation		2,175		1,605	
Taxation	7	(74)		(47)	
Net revenue after taxation			2,101		1,558
<b>Total return before distributions</b>			6,747		(942)
Distributions	8		(2,139)		(1,558)
<b>Change in net assets attributable to shareholders from investment activities</b>			4,608		(2,500)

### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2019

	£'000	31.10.19 £'000	£'000	31.10.18 £'000
<b>Opening net assets attributable to shareholders</b>		92,445		90,521
Amounts receivable on issue of shares	20,562		15,243	
Amounts payable on redemption of shares	(13,633)		(11,845)	
		6,929		3,398
Change in net assets attributable to shareholders from investment activities		4,608		(2,500)
Retained distributions on Accumulation shares		1,588		1,026
Unclaimed distributions		1		–
<b>Closing net assets attributable to shareholders</b>		105,571		92,445

## LF PRUDENTIAL RISK MANAGED ACTIVE 1

### FINANCIAL STATEMENTS *continued*

#### BALANCE SHEET

as at 31 October 2019

	Notes	31.10.19 £'000	31.10.18 £'000
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investments		96,513	90,782
<b>Current assets</b>			
Debtors	9	3,807	633
Cash and bank balances	10	8,872	4,583
<b>Total assets</b>		<u>109,192</u>	<u>95,998</u>
<b>LIABILITIES</b>			
Investment liabilities		(3)	–
Provisions for liabilities		(18)	(7)
<b>Creditors</b>			
Bank overdrafts		(7)	–
Distribution payable	11	(636)	(575)
Other creditors	11	(2,957)	(2,971)
<b>Total liabilities</b>		<u>(3,621)</u>	<u>(3,553)</u>
<b>Net assets attributable to shareholders</b>		<u>105,571</u>	<u>92,445</u>

# LF PRUDENTIAL RISK MANAGED ACTIVE 1

## FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2019

#### 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 page 24 have been applied to the financial statements of the Fund in the current and prior year.

The Fund has satisfied the qualifying investment 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/(Losses)

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

	31.10.19 £'000	31.10.18 £'000
Non-derivative securities	4,533	(2,670)
Derivative contracts	84	133
Transaction charges	(2)	–
AMC rebates from underlying investments	19	33
Currency gains	13	4
Broker's commission on futures	(1)	–
Net capital gains/(losses)	4,646	(2,500)

The net capital gains/(losses) figure includes realised gains of £7,220,000 and unrealised gains of £5,000,000 (31.10.18: includes realised gains of £770,000 and unrealised gains of £7,590,000). 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 2019

### 4. Revenue

	31.10.19 £'000	31.10.18 £'000
Non-taxable dividends	401	267
Taxable dividends	87	–
UK property income distributions	187	219
Unfranked interest	1,554	1,513
AMC rebates from underlying investments	278	308
Bank interest	1	1
Total revenue	2,508	2,308

### 5. Expenses

	31.10.19 £'000	31.10.18 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	453	551
Administration fees	31	138
ACD reimbursement to revenue <sup>1</sup>	(171)	–
	313	689
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	9	8
Safe custody and other bank charges	1	–
	10	8
Other expenses:		
Audit fees	8	6
Total expenses	331	703

<sup>1</sup> 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 Investment 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 2019

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

	31.10.19 £'000	31.10.18 £'000
Interest payable	2	–
Total interest payable and similar charges	2	–

#### 7. Taxation

	31.10.19 £'000	31.10.18 £'000
a) Analysis of charge for the year		
Corporation tax	47	44
Adjustments in respect of prior periods	14	–
Irrecoverable overseas tax	1	–
Current tax charge	62	44
Deferred tax – origination and reversal of timing differences (note 7c)	12	3
Total taxation (note 7b)	74	47

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%) (31.10.18: 20%). The difference is explained below:

	31.10.19 £'000	31.10.18 £'000
Net revenue before taxation	2,175	1,605
Corporation tax at 20%	435	321



# **LF PRUDENTIAL RISK MANAGED ACTIVE 1**

## **FINANCIAL STATEMENTS** *continued*

### **NOTES TO THE FINANCIAL STATEMENTS** *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Effects of:		
Non-taxable dividends	(80)	(54)
Capital income subject to taxation	18	–
Rebated capital expenses deductible for tax purposes	4	7
Irrecoverable overseas tax	1	–
Corporation tax: adjustment in respect of prior years	14	–
Tax deductible interest distributions	(318)	(227)
Total tax charge (note 7a)	74	47
c) Deferred tax		
Provision at the start of the year	6	3
Deferred tax charge in the year (note 7a)	12	3
Provision at the end of the year	18	6

## **8. Distributions**

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

	31.10.19 £'000	31.10.18 £'000
Final	2,224	1,601
	2,224	1,601
Add: Revenue deducted on redemption of shares	190	116
Deduct: Revenue received on issue of shares	(275)	(159)
Net distribution for the year	2,139	1,558

Details of the distributions per share are set out in the table on pages 55 and 56.

# LF PRUDENTIAL RISK MANAGED ACTIVE 1

## FINANCIAL STATEMENTS *continued*

## NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Distributions represented by:		
Net revenue after taxation	2,101	1,558
Allocations to capital:		
Tax relief from capital	38	–
Net distribution for the year	2,139	1,558

### 9. Debtors

	31.10.19 £'000	31.10.18 £'000
Amounts receivable for issue of shares	429	494
Sales awaiting settlement	3,237	–
Accrued revenue:		
Non-taxable dividends	9	19
UK property income distributions	7	26
Unfranked interest	–	1
AMC rebates from underlying investments	107	70
	123	116
Taxation recoverable:		
Income tax	18	23
Total debtors	3,807	633

### 10. Cash and Bank Balances

	31.10.19 £'000	31.10.18 £'000
Bank balances	8,799	4,583
Margin account	73	–
Total cash and bank balances	8,872	4,583

## LF PRUDENTIAL RISK MANAGED ACTIVE 1

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 11. Creditors

	31.10.19 £'000	31.10.18 £'000
Distribution payable	636	575
<b>Other Creditors</b>		
Amounts payable for redemption of shares	132	107
Purchases awaiting settlement	2,902	2,753
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	39	47
Administration fees	–	12
ACD reimbursement to revenue	(171)	–
	(132)	59
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	1	1
Transaction charges	1	–
	2	1
Taxation payable:		
Corporation tax	45	44
Other expenses	8	7
Total other creditors	2,957	2,971

#### 12. Related Party Transactions

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 41 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 2019

Link Fund Solutions Limited and its associates (including other authorised investment funds managed by Link Fund Solutions or its associates) held 3,342 (31.10.18: 3,046) 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 10,190,208 (31.10.18: 11,268,629) 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:

	31.10.19 £'000	31.10.18 £'000
Portfolio Manager in common	40,672	21,569
Portfolio Manager and ACD in common	5,264	–

### 13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.18: none).

### 14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.74%	0.74%	0.00%
Opening shares in issue	421,765	3,635,526	17,076,579
Issues	14,559	300,710	1,321,425
Redemptions	(3,162)	(897,540)	(3,367,754)
Conversions	–	(41,954)	–
Closing shares in issue	433,162	2,996,742	15,030,250

## LF PRUDENTIAL RISK MANAGED ACTIVE 1

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.49%	0.49%	0.74%
Opening shares in issue	3,883,325	41,606,447	6,216,515
Issues	737,294	10,990,555	2,665,420
Redemptions	(968,973)	(3,938,624)	(1,234,660)
Conversions	(5,536)	18,412	33,636
Closing shares in issue	<u>3,646,110</u>	<u>48,676,790</u>	<u>7,680,911</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 2019

#### (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 may indirectly be 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:

	31.10.19 £'000	31.10.18 £'000
Currency:		
Euro currency	1,170	1,692
US dollars	10,601	473
Total foreign currency exposure	11,771	2,165
Pounds sterling	93,800	90,280
Total net assets	105,571	92,445

A 5% increase/decrease in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £560,532 decrease and £619,535 increase respectively on the net assets of the Fund.

## LF PRUDENTIAL RISK MANAGED ACTIVE 1

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### (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 31.10.19, leverage under the gross method was 0.91:1 and leverage under the commitment method was 1:1 (31.10.18: 0.98:1 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.

To reduce liquidity risk the Portfolio Manager will ensure that a substantial portion of the Fund's assets consist of cash and readily realisable investments.

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 £4,826,000 (31.10.18: £4,539,000). A 5% decrease would have an equal and opposite effect.

#### (G) DERIVATIVES

The derivatives held by the Fund during the current and prior year were for Efficient Portfolio Management (EPM) purposes and were not of a material nature.

## LF PRUDENTIAL RISK MANAGED ACTIVE 1

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 16. Portfolio Transaction Costs

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>		—	—	

Average portfolio dealing spread at 31.10.19 is 0.19% (31.10.18: 0.21%).



# LF PRUDENTIAL RISK MANAGED ACTIVE 1

## FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
<b>31.10.18</b>				
Ordinary shares	2,244	1	2	2,247
Collective investment schemes	7,164	–	–	7,164
Purchases total	9,408	1	2	9,411
<i>Transaction cost % of purchases total</i>		0.01%	0.02%	
<i>Transaction cost % of average NAV</i>		–	–	
Collective investment schemes	8,187	–	–	8,187
Sales total	8,187	–	–	8,187
<i>Transaction cost % of sales total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	

## 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
<b>31.10.19</b>				
Investment assets	4,062	92,431	20	96,513
Investment liabilities	(3)	–	–	(3)
<b>31.10.18</b>				
Investment assets	16,820	73,884	78	90,782

## LF PRUDENTIAL RISK MANAGED ACTIVE 1

### FINANCIAL STATEMENTS *continued*

#### DISTRIBUTION TABLE

for the year ended 31 October 2019 – 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	01.11.18
To	31.10.19

#### 'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.3950	–	2.3950	1.2309
Group 2	0.3034	2.0916	2.3950	1.2309

#### 'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.6745	–	2.6745	1.3542
Group 2	1.3310	1.3435	2.6745	1.3542

#### 'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	3.5671	–	3.5671	2.9008
Group 2	3.5671	0.0000	3.5671	2.9008

#### 'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.4504	–	2.4504	1.9075
Group 2	1.3791	1.0713	2.4504	1.9075

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

**'P' ACCUMULATION SHARES**

<b>Final</b>	<b>Net Revenue</b>	<b>Equalisation</b>	<b>Allocation 31.12.19</b>	<b>Allocated 31.12.18</b>
Group 1	2.6894	–	2.6894	2.0615
Group 2	0.9151	1.7743	2.6894	2.0615

**'R' ACCUMULATION SHARES**

<b>Final</b>	<b>Net Revenue</b>	<b>Equalisation</b>	<b>Allocation 31.12.19</b>	<b>Allocated 31.12.18</b>
Group 1	2.5881	–	2.5881	1.9124
Group 2	0.8433	1.7448	2.5881	1.9124

## LF PRUDENTIAL RISK MANAGED ACTIVE 2 ACD'S REPORT

for the year ended 31 October 2019

### 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 volatility over rolling 5 year periods to 10%.

There is no guarantee that the volatility target will be met and at any time the actual volatility may be higher or lower than the long term target.

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. 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

27 February 2020

## LF PRUDENTIAL RISK MANAGED ACTIVE 2

### ACD'S REPORT *continued*

### PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2019

Between 1 November 2018 and 31 October 2019 (the period in review) share classes R (Acc) 6.85%<sup>1</sup>, P (Acc) 7.11%<sup>1</sup> and A (Acc) 6.72%<sup>1</sup> produced returns that were ahead of the 6.42%<sup>1</sup> sector average for the IA Mixed Investment 20-60% Shares.

#### Market Overview

There was a broad sell-off in stock markets in the final quarter of 2018, as investors became increasingly alarmed over weaker-than-expected economic data out of the US, European Union and Japan, an ongoing trade war between the US and China and generally less supportive monetary policy from the world's central banks. As a result, several stock markets hit, or nearly hit, bear market territory – that is, they fell by 20% or more from their peak.

However global stock markets rebounded strongly in early 2019. A combination of relief that company earnings for the final quarter of 2018 were better than expected and dovish comments by many central banks that interest rates would remain on hold drove sentiment. Many central banks including the US Federal Reserve have subsequently reversed monetary policy which has been very supportive of markets.

Stock market performance was mixed towards the end of the period in review, with emerging market stocks, in general, underperforming developed market stocks. Fears about the global economy led to a setback for stock markets in August, whilst government bonds in many countries rallied strongly. The yields on UK gilts, US Treasuries and German bunds fell to record lows, but have risen somewhat since.

#### Positioning

The portfolio management team implemented the 2019 strategic asset allocation review in September across all funds in the range.

Overall, equity allocations have been reduced by 3.5% in this Fund via small reductions to the benchmark positions for UK, US, European, Japanese and Asian equities. There was a very small increased allocation to Emerging Markets reflecting the teams' belief that long-term structural factors, like favourable demographics, remain more positive.

Conversely the allocation to fixed income has been increased by 3.5%. The main change this year is the addition of US treasuries that provide more favourable yields than other developed market government bonds and are still seen as a 'haven' in the event of a market downturn.

From a shorter-term tactical perspective, the portfolio manager currently has a small overweight position across global equities and a moderate underweight in global high yield and UK and European investment grade bonds. This mainly reflects the current low yield environment. The portfolio is also slightly overweight cash which will be allocated when an appropriate opportunity arises.

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<sup>1</sup> Source: FE Analytics.

## **LF PRUDENTIAL RISK MANAGED ACTIVE 2**

### **ACD'S REPORT** *continued*

### **PORTFOLIO MANAGER'S REPORT** *continued*

The team have reduced the Italian banks position to reflect a lower conviction as the fundamentals of the trade now have an extended payback period.

#### **Investment Activity**

Further to communications around the changes being made to LF Prudential Risk Managed Active funds, the transition to the new underlying fund holdings was completed in late July 2019. This activity would have entailed some re-allocation across equity and fixed income from property and alternatives holdings. Full details are in this report.

#### **Outlook**

The portfolio managers view of markets remains largely unchanged over recent months. Macro data continues to be weak, and we wait to see whether looser financial conditions/central bank easing will help produce stronger macro data in the near future (with its typical lagged effect). Markets have had a very strong year so far in 2019, fuelled by the global central bank easing theme that began at the end of 2018.

We believe another driver of markets has been the US/China trade discussions. Our sense is that market expectations of a positive outcome have built to a high level and have supported the current price levels of risky assets. There is obviously a risk that high expectations are dashed, sentiment is dented, and that market prices fall. We think it is difficult to have an insight on this particular outcome.

#### **M&G INVESTMENT MANAGEMENT LIMITED**

Portfolio Manager  
19 November 2019

## 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 lowest number on the scale does not mean that a fund is risk free.

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 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.

**Currency Risk:** As the Fund invests indirectly in overseas securities, exchange rates movements may, when not hedged, cause the value of your investment to increase or decrease.

Bonds are affected by trends in interest rates and inflation. If interest rates go up the value of capital may fall and vice versa. Inflation will also decrease the real value of capital. The value of a bond is also affected by its credit rating. Bonds with a higher average yield tend to be less liquid and have a lower credit rating. Investment in bonds with a higher yield also generally brings an increased risk of default on repayment by the issuer which could affect the income and capital of the Fund.

The Fund may invest indirectly in property. Property investments may be harder to buy and sell than other asset types.

**Non-UCITS Retail Scheme (NURS):** The Fund can be less diversified than UCITS schemes as it has higher investment limits for certain types of assets. It can also invest in assets which are not available to UCITS schemes. This can increase the potential rewards but can also increase risk.

The value of investments, and the income from them, will fluctuate. This will cause the Fund price to fall as well as rise and you may not get back what you originally invested.

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](http://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.

#### 'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	141.84	145.92	138.53
Return before operating charges*	10.63	0.34	12.15
Operating charges	(1.74)	(3.23)	(3.10)
Return after operating charges	8.89	(2.89)	9.05
Distributions	(2.27)	(1.19)	(1.66)
Closing net asset value per share	148.46	141.84	145.92
* after direct transaction costs of:	—	0.01	—

#### PERFORMANCE

Return after charges	6.27%	(1.98)%	6.53%
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#### OTHER INFORMATION

Closing net asset value (£'000)	1,375	1,594	1,800
Closing number of shares	926,273	1,123,463	1,233,396
Operating charges	1.19% <sup>1</sup>	2.22%	2.16%
Direct transaction costs	—	—	—

#### PRICES

Highest share price	152.33	148.53	147.94
Lowest share price	137.88	142.24	135.81

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	156.38	159.53	149.76
Return before operating charges*	11.67	0.38	13.12
Operating charges	(1.88)	(3.53)	(3.35)
Return after operating charges	9.79	(3.15)	9.77
Distributions	(2.50)	(1.30)	(1.79)
Retained distributions on accumulation shares	2.50	1.30	1.79
Closing net asset value per share	166.17	156.38	159.53
* after direct transaction costs of:	0.01	0.01	–

##### PERFORMANCE

Return after charges	6.26%	(1.97)%	6.52%
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##### OTHER INFORMATION

Closing net asset value (£'000)	10,449	12,753	14,129
Closing number of shares	6,288,183	8,155,311	8,856,794
Operating charges	1.17% <sup>1</sup>	2.22%	2.16%
Direct transaction costs	–	–	–

##### PRICES

Highest share price	167.91	162.36	159.90
Lowest share price	152.04	155.50	146.81

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	142.44	146.57	139.11
Return before operating charges*	10.39	(0.01)	11.86
Operating charges	(0.45)	(1.48)	(1.36)
Return after operating charges	9.94	(1.49)	10.50
Distributions	(3.28)	(2.64)	(3.04)
Closing net asset value per share	149.10	142.44	146.57
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	6.98%	(1.01)%	7.55%
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##### OTHER INFORMATION

Closing net asset value (£'000)	72,063	47,382	53,899
Closing number of shares	48,331,331	33,265,271	36,772,617
Operating charges	0.31% <sup>1</sup>	1.00%	0.94%
Direct transaction costs	—	—	—

##### PRICES

Highest share price	153.76	150.19	149.95
Lowest share price	138.66	144.25	136.51

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	115.40	118.75	112.71
Return before operating charges*	8.57	0.09	9.72
Operating charges	(0.99)	(1.75)	(1.65)
Return after operating charges	7.58	(1.66)	8.07
Distributions	(2.19)	(1.69)	(2.03)
Closing net asset value per share	120.79	115.40	118.75
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	6.57%	(1.40)%	7.16%
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##### OTHER INFORMATION

Closing net asset value (£'000)	5,893	5,566	5,555
Closing number of shares	4,878,345	4,822,795	4,678,096
Operating charges	0.83% <sup>1</sup>	1.47%	1.41%
Direct transaction costs	—	—	—

##### PRICES

Highest share price	124.34	121.45	121.18
Lowest share price	112.28	116.43	110.56

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	125.77	127.54	119.02
Return before operating charges*	9.33	0.11	10.26
Operating charges	(1.06)	(1.88)	(1.74)
Return after operating charges	8.27	(1.77)	8.52
Distributions	(2.39)	(1.82)	(2.15)
Retained distributions on accumulation shares	2.39	1.82	2.15
Closing net asset value per share	134.04	125.77	127.54
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	6.58%	(1.39)%	7.16%
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##### OTHER INFORMATION

Closing net asset value (£'000)	115,411	95,727	96,346
Closing number of shares	86,102,231	76,115,053	75,541,300
Operating charges	0.82% <sup>1</sup>	1.47%	1.41%
Direct transaction costs	—	—	—

##### PRICES

Highest share price	135.46	130.39	127.92
Lowest share price	122.40	125.06	116.75

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	140.50	142.76	133.49
Return before operating charges*	10.52	0.21	11.57
Operating charges	(1.58)	(2.47)	(2.30)
Return after operating charges	8.94	(2.26)	9.27
Distributions	(2.38)	(1.74)	(2.14)
Retained distributions on accumulation shares	2.38	1.74	2.14
Closing net asset value per share	149.44	140.50	142.76
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	6.36%	(1.58)%	6.94%
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##### OTHER INFORMATION

Closing net asset value (£'000)	21,604	15,939	15,619
Closing number of shares	14,456,888	11,344,755	10,940,272
Operating charges	1.09% <sup>1</sup>	1.72%	1.66%
Direct transaction costs	—	—	—

##### PRICES

Highest share price	151.03	145.65	143.12
Lowest share price	136.69	139.71	130.92

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

**LF PRUDENTIAL RISK MANAGED ACTIVE 2**

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Fund Performance to 31 October 2019 (%)**

	1 year	3 years	5 years
LF Prudential Risk Managed Active 2	7.11	12.61	27.77

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 87 and 88.

**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 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	EQUITY PORTFOLIOS – 24.52% (31.10.18 – 29.10%)		
	CONTINENTAL EUROPE – 2.77% (31.10.18 – 4.60%)		
412,028	LF Prudential European QIS <sup>1</sup>	4,009	1.77
112,602	M&G European Select <sup>1</sup>	2,270	1.00
	TOTAL CONTINENTAL EUROPE	6,279	2.77
	UNITED KINGDOM – 8.61% (31.10.18 – 11.64%)		
1,790,151	LF Prudential UK Growth QIS <sup>1</sup>	6,541	2.88
2,092,248	M&G Recovery <sup>1</sup>	6,374	2.81
384,726	M&G UK Select <sup>1</sup>	6,610	2.92
	TOTAL UNITED KINGDOM	19,525	8.61
	ASIA EX JAPAN – 5.13% (31.10.18 – 4.54%)		
1,047,998	Eastspring Developed and Emerging Asia Equity	11,631	5.13
	TOTAL ASIA EX JAPAN	11,631	5.13
	JAPAN – 2.30% (31.10.18 – 2.08%)		
593,772	Eastspring Japan Equity	5,218	2.30
	TOTAL JAPAN	5,218	2.30
	NORTH AMERICA – 3.54% (31.10.18 – 4.89%)		
374,078	LF Prudential North American QIS <sup>1</sup>	4,122	1.82
141,103	M&G North American Value <sup>1</sup>	3,896	1.72
	TOTAL NORTH AMERICA	8,018	3.54
	EMERGING MARKETS – 2.17% (31.10.18 – 1.35%)		
435,205	Eastspring Global Emerging Markets Customized Equity	4,928	2.17
	TOTAL EMERGING MARKETS	4,928	2.17
	TOTAL EQUITY PORTFOLIOS	55,599	24.52



## LF PRUDENTIAL RISK MANAGED ACTIVE 2

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	EQUITY INVESTMENT INSTRUMENTS – 4.10% (31.10.18 – 6.10%)		
798,754	BBGI	1,290	0.57
616,956	BioPharma Credit	478	0.21
474,050	Blue Capital Alternative Income <sup>2</sup>	65	0.03
75,600	Boussard & Gavaudan	1,119	0.49
622,185	DP Aircraft I	360	0.16
117,260	HarbourVest Global Private Equity	1,947	0.86
389,187	HgCapital	936	0.41
249,390	Intesa Sanpaolo <sup>3</sup>	483	0.21
449,519	NB Distressed Debt Investment	260	0.12
404,296	NextEnergy Solar	485	0.21
435,889	Renewables Infrastructure	570	0.25
793,300	SDCL Energy Efficiency Income	833	0.37
47,501	UniCredit <sup>3</sup>	465	0.21
	TOTAL EQUITY INVESTMENT INSTRUMENTS	9,291	4.10
	PROPERTY PORTFOLIOS – 4.24% (31.10.18 – 12.26%)		
6,582,799	Legal & General UK Property	6,112	2.69
321,725	M&G Property Portfolio <sup>1</sup>	3,504	1.55
	TOTAL PROPERTY PORTFOLIOS	9,616	4.24
	BOND PORTFOLIOS – 55.32% (31.10.18 – 51.63%)		
180,211	Eastspring Asian Bond	2,014	0.89
669,941	Eastspring Asian Local Bond	6,020	2.66
2,745,203	Eastspring US Corporate Bond	30,743	13.56
142,303	M&G European Credit Investment <sup>1</sup>	15,517	6.84
1,435,567	M&G Global Convertibles <sup>1</sup>	3,179	1.40
7,566,480	M&G Global High Yield Bond <sup>1</sup>	10,489	4.63
17,143,574	M&G Short Dated Corporate Bond <sup>1</sup>	4,408	1.94
21,206,474	M&G Strategic Corporate Bond <sup>1</sup>	26,340	11.62
24,870,403	Royal London Corporate Bond	26,761	11.80
	TOTAL BOND PORTFOLIOS	125,471	55.32

## LF PRUDENTIAL RISK MANAGED ACTIVE 2

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	FUTURES – 0.07% (31.10.18 – 0.00%)		
119	EURO STOXX 50 Index Futures December 2019	86	0.04
48	FTSE 100 Index Futures December 2019	47	0.02
17	S&P 500 E Mini Index Futures December 2019	32	0.01
36	US Treasury Note 10 Year Futures December 2019	(2)	–
	TOTAL FUTURES	163	0.07
	Portfolio of investments <sup>4</sup>	200,140	88.25
	Net other assets	26,655	11.75
	Net assets	226,795	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.

<sup>1</sup> Related party holding (see note 12).

<sup>2</sup> Delisted security.

<sup>3</sup> Ordinary shares.

<sup>4</sup> Includes investment liabilities.

## LF PRUDENTIAL RISK MANAGED ACTIVE 2

### ACD'S REPORT *continued*

### SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2019

Total purchases for the year £'000 (note 16)	150,641	Total sales for the year £'000 (note 16)	138,255
	Cost £'000		Proceeds £'000
<b>Major purchases</b>		<b>Major sales</b>	
Eastspring US Corporate Bond	29,766	Fidelity MoneyBuilder Income	13,470
M&G European Credit Investment	15,792	Invesco Perpetual Corporate Bond	13,252
Eastspring Developed and Emerging Asia		Kames Investment Grade Bond	12,484
Equity	13,384	BlackRock Euro Corporate Bond	12,332
Royal London Corporate Bond	12,918	US Treasury Note 10 Year Futures March	
M&G Strategic Corporate Bond	12,165	2019	11,761
US Treasury Note 10 Year Futures March 2019	11,593	M&G Property Portfolio	11,063
LF Prudential UK Growth QIS	6,942	Investec UK Alpha	9,530
M&G UK Select	6,730	Threadneedle American	6,972
M&G Recovery	6,457	AXA Framlington UK Select Opportunities	6,253
Eastspring Asian Local Bond	5,892	Kames High Yield Bond	5,168

In addition to the above, purchases totalling £1,630,249,000 and sales totalling £1,613,560,000 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 2019

	Notes	£'000	31.10.19 £'000	£'000	31.10.18 £'000
Income:					
Net capital gains/(losses)	3		8,196		(5,259)
Revenue	4	4,620		4,595	
Expenses	5	(575)		(1,412)	
Interest payable and similar charges	6	(4)		(1)	
Net revenue before taxation		4,041		3,182	
Taxation	7	(649)		(437)	
Net revenue after taxation			3,392		2,745
<b>Total return before distributions</b>			11,588		(2,514)
Distributions	8		(3,453)		(2,706)
<b>Change in net assets attributable to shareholders from investment activities</b>			8,135		(5,220)

### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2019

	£'000	31.10.19 £'000	£'000	31.10.18 £'000
<b>Opening net assets attributable to shareholders</b>		178,961		187,348
Amounts receivable on issue of shares	61,353		17,826	
Amounts payable on redemption of shares	(24,219)		(22,679)	
		37,134		(4,853)
Change in net assets attributable to shareholders from investment activities		8,135		(5,220)
Retained distributions on Accumulation shares		2,563		1,686
Unclaimed distributions		2		—
<b>Closing net assets attributable to shareholders</b>		226,795		178,961

## LF PRUDENTIAL RISK MANAGED ACTIVE 2

### FINANCIAL STATEMENTS *continued*

#### BALANCE SHEET

as at 31 October 2019

	Notes	31.10.19 £'000	31.10.18 £'000
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investments		200,142	177,348
<b>Current assets</b>			
Debtors	9	1,356	357
Cash and bank balances	10	28,471	7,207
<b>Total assets</b>		<u>229,969</u>	<u>184,912</u>
<b>LIABILITIES</b>			
Investment liabilities		(2)	–
Provisions for liabilities		(54)	(18)
<b>Creditors</b>			
Distribution payable	11	(1,712)	(974)
Other creditors	11	(1,406)	(4,959)
<b>Total liabilities</b>		<u>(3,174)</u>	<u>(5,951)</u>
<b>Net assets attributable to shareholders</b>		<u>226,795</u>	<u>178,961</u>

## LF PRUDENTIAL RISK MANAGED ACTIVE 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2019

#### 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 page 24 have been applied to the financial statements of the Fund in the current and prior year.

#### 3. Net Capital Gains/(Losses)

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

	31.10.19 £'000	31.10.18 £'000
Non-derivative securities	7,923	(5,609)
Derivative contracts	266	275
Transaction charges	(2)	–
AMC rebates from underlying investments	37	66
Currency (losses)/gains	(27)	9
Broker's commission on futures	(1)	–
Net capital gains/(losses)	8,196	(5,259)

The net capital gains/(losses) figure includes realised gains of £17,446,000 and unrealised gains of £7,877,000 (31.10.18: includes realised gains of £1,841,000 and unrealised gains of £17,158,000). 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 2019

#### 4. Revenue

	31.10.19 £'000	31.10.18 £'000
Non-taxable dividends	1,104	805
Taxable dividends	132	–
UK property income distributions	479	642
Unfranked interest	2,380	2,497
AMC rebates from underlying investments	523	650
Bank interest	2	1
Total revenue	4,620	4,595

#### 5. Expenses

	31.10.19 £'000	31.10.18 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	826	1,112
Administration fees	59	278
ACD reimbursement to revenue <sup>1</sup>	(335)	–
	550	1,390
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	16	16
Safe custody and other bank charges	1	–
	17	16
Other expenses:		
Audit fees	8	6
Total expenses	575	1,412

<sup>1</sup> 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 Investment 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 2019

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

	31.10.19 £'000	31.10.18 £'000
Interest payable	4	1
Total interest payable and similar charges	4	1

#### 7. Taxation

	31.10.19 £'000	31.10.18 £'000
a) Analysis of charge for the year		
Corporation tax	610	483
Irrecoverable overseas tax	3	–
Adjustments in respect of prior periods	–	1
Current tax charge	613	484
Deferred tax – origination and reversal of timing differences (note 7c)	36	(47)
Total taxation (note 7b)	649	437

#### 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%) (31.10.18: 20%). The difference is explained below:

	31.10.19 £'000	31.10.18 £'000
Net revenue before taxation	4,041	3,182
Corporation tax at 20%	808	636



## LF PRUDENTIAL RISK MANAGED ACTIVE 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Effects of:		
Non-taxable dividends	(220)	(161)
Capital income subject to taxation	51	(52)
Rebated capital expenses deductible for tax purposes	7	13
Irrecoverable overseas tax	3	–
Corporation tax: adjustment in respect of prior years	–	1
Total tax charge (note 7a)	<u>649</u>	<u>437</u>
c) Deferred tax		
Provision at the start of the year	18	65
Deferred tax charge in the year (note 7a)	<u>36</u>	<u>(47)</u>
Provision at the end of the year	<u>54</u>	<u>18</u>

## 8. Distributions

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

	31.10.19 £'000	31.10.18 £'000
Final	<u>4,275</u>	<u>2,660</u>
	4,275	2,660
Add: Revenue deducted on redemption of shares	256	189
Deduct: Revenue received on issue of shares	<u>(1,078)</u>	<u>(143)</u>
Net distribution for the year	<u>3,453</u>	<u>2,706</u>

Details of the distributions per share are set out in the table on pages 87 and 88.

## LF PRUDENTIAL RISK MANAGED ACTIVE 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Distributions represented by:		
Net revenue after taxation	3,392	2,745
Allocations to capital:		
Tax relief from/to capital	59	(39)
Equalisation on conversions <sup>1</sup>	2	–
Net distribution for the year	3,453	2,706

## 9. Debtors

	31.10.19 £'000	31.10.18 £'000
Amounts receivable for issue of shares	1,064	19
Sales awaiting settlement	57	–
Accrued revenue:		
Non-taxable dividends	20	52
UK property income distributions	17	74
Unfranked interest	–	3
AMC rebates from underlying investments	151	147
	188	276
Taxation recoverable:		
Income tax	47	62
Total debtors	1,356	357

<sup>1</sup> 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 2019

## 10. Cash and Bank Balances

	31.10.19 £'000	31.10.18 £'000
Bank balances	28,138	7,207
Margin account	333	–
Total cash and bank balances	28,471	7,207

## 11. Creditors

	31.10.19 £'000	31.10.18 £'000
Distribution payable	1,712	974
<b>Other Creditors</b>		
Amounts payable for redemption of shares	374	402
Purchases awaiting settlement	1,025	4,209
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	70	93
Administration fees	–	23
ACD reimbursement to revenue	(335)	–
	(265)	116
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	1	1
Transaction charges	1	–
	2	1
Taxation payable:		
Corporation tax	262	223
Other expenses	8	8
Total other creditors	1,406	4,959

## LF PRUDENTIAL RISK MANAGED ACTIVE 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 12. Related Party Transactions

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 73 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 117,926 (31.10.18: 95,754) 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 40,688,752 (31.10.18: 24,962,510) 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	25.28% (31.10.18: 18.51%)
-----------------------------------	---------------------------

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:

	31.10.19 £'000	31.10.18 £'000
Portfolio Manager in common	82,587	40,309
Portfolio Manager and ACD in common	14,672	–

#### 13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.18: none).

## LF PRUDENTIAL RISK MANAGED ACTIVE 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.74%	0.74%	0.00%
Opening shares in issue	1,123,463	8,155,311	33,265,271
Issues	28,235	174,119	20,581,366
Redemptions	(225,425)	(960,772)	(5,515,306)
Conversions	–	(1,080,475)	–
Closing shares in issue	<u>926,273</u>	<u>6,288,183</u>	<u>48,331,331</u>

  

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.49%	0.49%	0.74%
Opening shares in issue	4,822,795	76,115,053	11,344,755
Issues	1,039,460	17,877,990	4,151,526
Redemptions	(983,910)	(8,170,729)	(1,989,723)
Conversions	–	279,917	950,330
Closing shares in issue	<u>4,878,345</u>	<u>86,102,231</u>	<u>14,456,888</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 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### (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.

#### (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 may indirectly be 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 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

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

	31.10.19 £'000	31.10.18 £'000
Currency:		
Euro currency	2,558	3,661
US dollars	29,289	1,441
Total foreign currency exposure	31,847	5,102
Pounds sterling	194,948	173,859
Total net assets	226,795	178,961

A 5% increase/decrease in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £1,516,512 decrease and £1,676,145 increase respectively on the net assets of the Fund.

#### (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 31.10.19, leverage under the gross method was 0.88:1 and leverage under the commitment method was 1:1 (31.10.18: 0.99:1 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.

To reduce liquidity risk the Portfolio Manager will ensure that a substantial portion of the Fund's assets consist of cash and readily realisable investments.

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.

## LF PRUDENTIAL RISK MANAGED ACTIVE 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

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 £10,007,000 (31.10.18: £8,867,000). A 5% decrease would have an equal and opposite effect.

#### (G) DERIVATIVES

The derivatives held by the Fund during the current and prior year were for Efficient Portfolio Management (EPM) purposes and were not of a material nature.

#### 16. Portfolio Transaction Costs

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

Average portfolio dealing spread at 31.10.19 is 0.21% (31.10.18: 0.30%).



## LF PRUDENTIAL RISK MANAGED ACTIVE 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
<b>31.10.18</b>				
Ordinary shares	4,498	2	4	4,504
Collective investment schemes	8,607	1	–	8,608
Purchases total	13,105	3	4	13,112
<i>Transaction cost % of purchases total</i>		0.02%	0.03%	
<i>Transaction cost % of average NAV</i>		–	–	
Ordinary shares	19,960	(1)	–	19,959
Sales total	19,960	(1)	–	19,959
<i>Transaction cost % of sales total</i>		0.01%	–	
<i>Transaction cost % of average NAV</i>		–	–	

## 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
<b>31.10.19</b>				
Investment assets	9,391	190,686	65	200,142
Investment liabilities	(2)	–	–	(2)
<b>31.10.18</b>				
Investment assets	33,643	143,455	250	177,348

## LF PRUDENTIAL RISK MANAGED ACTIVE 2

### FINANCIAL STATEMENTS *continued*

#### DISTRIBUTION TABLE

for the year ended 31 October 2019 – 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	01.11.18
To	31.10.19

#### 'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.2687	–	2.2687	1.1933
Group 2	0.8291	1.4396	2.2687	1.1933

#### 'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.5048	–	2.5048	1.3045
Group 2	0.7402	1.7646	2.5048	1.3045

#### 'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	3.2783	–	3.2783	2.6425
Group 2	0.1462	3.1321	3.2783	2.6425

#### 'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.1914	–	2.1914	1.6904
Group 2	0.6304	1.5610	2.1914	1.6904

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

**'P' ACCUMULATION SHARES**

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.3935	–	2.3935	1.8151
Group 2	0.5075	1.8860	2.3935	1.8151

**'R' ACCUMULATION SHARES**

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.3834	–	2.3834	1.7429
Group 2	0.6673	1.7161	2.3834	1.7429

## LF PRUDENTIAL RISK MANAGED ACTIVE 3 ACD'S REPORT

for the year ended 31 October 2019

### 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 volatility over rolling 5 year periods to 12%.

There is no guarantee that the volatility target will be met and at any time the actual volatility may be higher or lower than the long term target.

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. 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

27 February 2020

## LF PRUDENTIAL RISK MANAGED ACTIVE 3

### ACD'S REPORT *continued*

### PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2019

Between 1 November 2018 and 31 October 2019 (the period in review) share classes R (Acc) 6.94%<sup>1</sup>, A (Acc) 6.78%<sup>1</sup> and P (Acc) 7.25%<sup>1</sup> produced returns ahead of the 6.42%<sup>1</sup> sector average for IA Mixed Investment 20-60% Shares.

#### Market Overview

There was a broad sell-off in stock markets in the final quarter of 2018, as investors became increasingly alarmed over weaker-than-expected economic data out of the US, European Union and Japan, an ongoing trade war between the US and China and generally less supportive monetary policy from the world's central banks. As a result, several stock markets hit, or nearly hit, bear market territory – that is, they fell by 20% or more from their peak.

However global stock markets rebounded strongly in early 2019. A combination of relief that company earnings for the final quarter of 2018 were better than expected and dovish comments by many central banks that interest rates would remain on hold drove sentiment. Many central banks including the US Federal Reserve have subsequently reversed monetary policy which has been very supportive of markets.

Stock market performance was mixed towards the end of the period in review, with emerging market stocks, in general, underperforming developed market stocks. Fears about the global economy led to a setback for stock markets in August, whilst government bonds in many countries rallied strongly. The yields on UK gilts, US Treasuries and German bunds fell to record lows, but have risen somewhat since.

#### Positioning

The portfolio management team implemented the 2019 strategic asset allocation review in September across all funds in the range.

Overall, equity allocations have been reduced by 4% in this Fund via reductions to the benchmark positions for UK, US, European, Japanese and Asian equities. There was a very small increased allocation to Emerging Markets reflecting the teams' belief that long-term structural factors, like favourable demographics, remain more positive.

Conversely the allocation to fixed income has been increased by 4%. The main change this year is the addition of US treasuries that provide more favourable yields than other developed market government bonds and are still seen as a 'haven' in the event of a market downturn.

From a shorter-term tactical perspective, the portfolio manager currently has a small overweight position across global equities and a moderate underweight in global high yield and UK and European investment grade bonds. This mainly reflects the current low yield environment. The portfolio is also slightly overweight cash which will be allocated when an appropriate opportunity arises.

The team have reduced the Italian banks position to reflect a lower conviction as the fundamentals of the trade now have an extended payback period.

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<sup>1</sup> Source: FE Analytics.

## **LF PRUDENTIAL RISK MANAGED ACTIVE 3**

### **ACD'S REPORT** *continued*

### **PORTFOLIO MANAGER'S REPORT** *continued*

#### **Investment Activity**

Further to communications around the changes being made to LF Prudential Risk Managed Active funds, the transition to the new underlying fund holdings was completed in late July 2019. This activity would have entailed some re-allocation across equity and fixed income from property and alternatives holdings. Full details are in this report.

#### **Outlook**

The portfolio managers view of markets remains largely unchanged over recent months. Macro data continues to be weak, and we wait to see whether looser financial conditions/central bank easing will help produce stronger macro data in the near future (with its typical lagged effect). Markets have had a very strong year so far in 2019, fuelled by the global central bank easing theme that began at the end of 2018.

We believe another driver of markets has been the US/China trade discussions. Our sense is that market expectations of a positive outcome have built to a high level and have supported the current price levels of risky assets. There is obviously a risk that high expectations are dashed, sentiment is dented, and that market prices fall. We think it is difficult to have an insight on this particular outcome.

#### **M&G INVESTMENT MANAGEMENT LIMITED**

Portfolio Manager

19 November 2019

## 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 lowest number on the scale does not mean that a fund is risk free.

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.

**Currency Risk:** As the Fund invests indirectly in overseas securities, exchange rates movements may, when not hedged, cause the value of your investment to increase or decrease.

Bonds are affected by trends in interest rates and inflation. If interest rates go up the value of capital may fall and vice versa. Inflation will also decrease the real value of capital. The value of a bond is also affected by its credit rating. Bonds with a higher average yield tend to be less liquid and have a lower credit rating. Investment in bonds with a higher yield also generally brings an increased risk of default on repayment by the issuer which could affect the income and capital of the Fund.

The Fund may invest indirectly in property. Property investments may be harder to buy and sell than other asset types.

**Non-UCITS Retail Scheme (NURS):** The Fund can be less diversified than UCITS schemes as it has higher investment limits for certain types of assets. It can also invest in assets which are not available to UCITS schemes. This can increase the potential rewards but can also increase risk.

The value of investments, and the income from them, will fluctuate. This will cause the Fund price to fall as well as rise and you may not get back what you originally invested.

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](http://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.

#### 'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	151.15	155.47	145.57
Return before operating charges*	11.07	0.36	14.73
Operating charges	(1.90)	(3.57)	(3.42)
Return after operating charges	9.17	(3.21)	11.31
Distributions	(2.27)	(1.11)	(1.41)
Closing net asset value per share	158.05	151.15	155.47
* after direct transaction costs of:	—	0.01	0.04

#### PERFORMANCE

Return after charges	6.06%	(2.06)%	7.77%
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#### OTHER INFORMATION

Closing net asset value (£'000)	1,543	1,831	3,568
Closing number of shares	976,520	1,211,022	2,294,898
Operating charges	1.22% <sup>1</sup>	2.28%	2.26%
Direct transaction costs	—	—	0.03%

#### PRICES

Highest share price	163.10	159.40	157.26
Lowest share price	146.97	151.05	142.42

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	164.52	167.97	155.87
Return before operating charges*	12.05	0.40	15.77
Operating charges	(2.07)	(3.85)	(3.67)
Return after operating charges	9.98	(3.45)	12.10
Distributions	(2.47)	(1.21)	(1.51)
Retained distributions on accumulation shares	2.47	1.21	1.51
Closing net asset value per share	174.50	164.52	167.97
* after direct transaction costs of:	0.01	0.01	0.04

##### PERFORMANCE

Return after charges	6.07%	(2.05)%	7.76%
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##### OTHER INFORMATION

Closing net asset value (£'000)	10,992	12,119	15,226
Closing number of shares	6,299,239	7,366,825	9,064,829
Operating charges	1.22% <sup>1</sup>	2.28%	2.26%
Direct transaction costs	—	—	0.03%

##### PRICES

Highest share price	177.45	172.16	168.33
Lowest share price	159.93	163.20	152.50

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	151.71	156.09	146.10
Return before operating charges*	10.89	(0.05)	14.49
Operating charges	(0.58)	(1.67)	(1.59)
Return after operating charges	10.31	(1.72)	12.90
Distributions	(3.36)	(2.66)	(2.91)
Closing net asset value per share	158.66	151.71	156.09
* after direct transaction costs of:	0.01	0.01	0.04

##### PERFORMANCE

Return after charges	6.79%	(1.10)%	8.83%
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##### OTHER INFORMATION

Closing net asset value (£'000)	94,549	74,027	83,905
Closing number of shares	59,593,138	48,794,905	53,755,204
Operating charges	0.37% <sup>1</sup>	1.06%	1.04%
Direct transaction costs	—	—	0.03%

##### PRICES

Highest share price	164.55	161.32	159.37
Lowest share price	147.72	153.13	143.08

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	118.58	121.99	114.20
Return before operating charges*	8.62	0.09	11.41
Operating charges	(1.04)	(1.88)	(1.80)
Return after operating charges	7.58	(1.79)	9.61
Distributions	(2.15)	(1.62)	(1.82)
Closing net asset value per share	124.01	118.58	121.99
* after direct transaction costs of:	—	0.01	0.03

##### PERFORMANCE

Return after charges	6.39%	(1.47)%	8.42%
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##### OTHER INFORMATION

Closing net asset value (£'000)	9,460	7,266	7,521
Closing number of shares	7,628,716	6,127,224	6,165,273
Operating charges	0.85% <sup>1</sup>	1.53%	1.51%
Direct transaction costs	—	—	0.03%

##### PRICES

Highest share price	128.42	125.86	124.27
Lowest share price	115.49	119.24	111.79

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	128.23	130.14	120.03
Return before operating charges*	9.33	0.10	12.00
Operating charges	(1.14)	(2.01)	(1.89)
Return after operating charges	8.19	(1.91)	10.11
Distributions	(2.32)	(1.73)	(1.92)
Retained distributions on accumulation shares	2.32	1.73	1.92
Closing net asset value per share	136.42	128.23	130.14
* after direct transaction costs of:	—	0.01	0.03

##### PERFORMANCE

Return after charges	6.39%	(1.47)%	8.42%
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##### OTHER INFORMATION

Closing net asset value (£'000)	165,983	121,388	124,066
Closing number of shares	121,667,901	94,664,765	95,333,063
Operating charges	0.86% <sup>1</sup>	1.53%	1.51%
Direct transaction costs	—	—	0.03%

##### PRICES

Highest share price	138.83	134.22	130.58
Lowest share price	124.91	127.20	117.50

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	146.25	148.72	137.45
Return before operating charges*	10.69	0.19	13.79
Operating charges	(1.66)	(2.66)	(2.52)
Return after operating charges	9.03	(2.47)	11.27
Distributions	(2.35)	(1.67)	(1.90)
Retained distributions on accumulation shares	2.35	1.67	1.90
Closing net asset value per share	155.28	146.25	148.72
* after direct transaction costs of:	—	0.01	0.04

##### PERFORMANCE

Return after charges	6.17%	(1.66)%	8.20%
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##### OTHER INFORMATION

Closing net asset value (£'000)	18,384	12,151	11,318
Closing number of shares	11,839,111	8,308,515	7,609,979
Operating charges	1.10% <sup>1</sup>	1.78%	1.76%
Direct transaction costs	—	—	0.03%

##### PRICES

Highest share price	157.96	153.00	149.09
Lowest share price	142.32	145.08	134.52

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

**LF PRUDENTIAL RISK MANAGED ACTIVE 3**

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Fund Performance to 31 October 2019 (%)**

	1 year	3 years	5 years
LF Prudential Risk Managed Active 3	7.25	13.77	31.74

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 119 and 120.

**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 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	EQUITY PORTFOLIOS – 36.95% (31.10.18 – 40.13%)		
	CONTINENTAL EUROPE – 5.10% (31.10.18 – 6.28%)		
903,084	LF Prudential European QIS <sup>1</sup>	8,786	2.92
325,822	M&G European Select <sup>1</sup>	6,569	2.18
	TOTAL CONTINENTAL EUROPE	15,355	5.10
	UNITED KINGDOM – 13.24% (31.10.18 – 16.03%)		
3,652,969	LF Prudential UK Growth QIS <sup>1</sup>	13,347	4.44
4,306,342	M&G Recovery <sup>1</sup>	13,119	4.36
777,732	M&G UK Select <sup>1</sup>	13,364	4.44
	TOTAL UNITED KINGDOM	39,830	13.24
	ASIA EX JAPAN – 7.12% (31.10.18 – 6.27%)		
1,930,666	Eastspring Developed and Emerging Asia Equity	21,427	7.12
	TOTAL ASIA EX JAPAN	21,427	7.12
	JAPAN – 3.14% (31.10.18 – 2.90%)		
1,075,954	Eastspring Japan Equity	9,456	3.14
	TOTAL JAPAN	9,456	3.14
	NORTH AMERICA – 5.37% (31.10.18 – 6.70%)		
754,024	LF Prudential North American QIS <sup>1</sup>	8,308	2.76
284,707	M&G North American Value <sup>1</sup>	7,862	2.61
	TOTAL NORTH AMERICA	16,170	5.37
	EMERGING MARKETS – 2.98% (31.10.18 – 1.95%)		
792,776	Eastspring Global Emerging Markets Customized Equity	8,977	2.98
	TOTAL EMERGING MARKETS	8,977	2.98
	TOTAL EQUITY PORTFOLIOS	111,215	36.95



## LF PRUDENTIAL RISK MANAGED ACTIVE 3

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	EQUITY INVESTMENT INSTRUMENTS – 5.16% (31.10.18 – 7.51%)		
1,301,317	BBGI	2,102	0.70
1,036,997	BioPharma Credit	804	0.27
819,485	Blue Capital Alternative Income <sup>2</sup>	113	0.04
131,900	Boussard & Gavaudan	1,952	0.65
1,085,583	DP Aircraft I	628	0.21
199,634	HarbourVest Global Private Equity	3,314	1.10
622,414	HgCapital	1,497	0.50
366,573	Intesa Sanpaolo <sup>3</sup>	709	0.23
674,763	NB Distressed Debt Investment	390	0.13
695,277	NextEnergy Solar	834	0.27
794,233	Renewables Infrastructure	1,039	0.35
1,370,100	SDCL Energy Efficient Income	1,439	0.48
69,820	UniCredit <sup>3</sup>	683	0.23
	TOTAL EQUITY INVESTMENT INSTRUMENTS	15,504	5.16
	PROPERTY PORTFOLIOS – 5.25% (31.10.18 – 15.08%)		
11,561,951	Legal & General UK Property	10,735	3.57
464,278	M&G Property Portfolio <sup>1</sup>	5,056	1.68
	TOTAL PROPERTY PORTFOLIOS	15,791	5.25
	BOND PORTFOLIOS – 43.10% (31.10.18 – 37.05%)		
186,750	Eastspring Asian Bond	2,087	0.69
686,786	Eastspring Asian Local Bond	6,171	2.05
2,844,173	Eastspring US Corporate Bond	31,852	10.59
138,279	M&G European Credit Investment <sup>1</sup>	15,078	5.01
1,485,616	M&G Global Convertibles <sup>1</sup>	3,290	1.09
10,150,960	M&G Global High Yield Bond <sup>1</sup>	14,071	4.68
11,706,770	M&G Short Dated Corporate Bond <sup>1</sup>	3,010	1.00
21,831,938	M&G Strategic Corporate Bond <sup>1</sup>	27,118	9.01
25,093,914	Royal London Corporate Bond	27,001	8.97
	TOTAL BOND PORTFOLIOS	129,678	43.10

## LF PRUDENTIAL RISK MANAGED ACTIVE 3

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	DERIVATIVES – 0.04% (31.10.18 – 0.00%)		
101	EURO STOXX 50 Index Futures December 2019	75	0.02
33	FTSE 100 Index Futures December 2019	19	0.01
16	S&P 500 E Mini Index Futures December 2019	37	0.01
36	US Treasury Note 10 Year Futures December 2019	(2)	–
	TOTAL DERIVATIVES	129	0.04
	Portfolio of investments <sup>4</sup>	272,317	90.50
	Net other assets	28,594	9.50
	Net assets	300,911	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.

<sup>1</sup> Related party holding (see note 12).

<sup>2</sup> Delisted security.

<sup>3</sup> Ordinary shares.

<sup>4</sup> Includes investment liabilities.

## LF PRUDENTIAL RISK MANAGED ACTIVE 3

### ACD'S REPORT *continued*

### SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2019

Total purchases for the year £'000 (note 16)	243,389	Total sales for the year £'000 (note 16)	213,231
	Cost		Proceeds
Major purchases	£'000	Major sales	£'000
Eastspring US Corporate Bond	30,081	Fidelity MoneyBuilder Income	19,727
M&G Strategic Corporate Bond	26,731	Invesco Perpetual Corporate Bond	19,151
Royal London Corporate Bond	26,108	Kames Investment Grade Bond	19,007
Eastspring Developed and Emerging Asia Equity	23,691	US Treasury Note 10 Year Futures March 2019	17,547
US Treasury Note 10 Year Futures March 2019	17,296	M&G Property Portfolio	17,126
M&G European Credit Investment	15,188	Investec UK Alpha	16,604
M&G UK Select	13,673	AXA Framlington UK Select Opportunities	13,166
M&G Global High Yield Bond	13,484	Threadneedle American	11,748
M&G Recovery	13,377	Kames High Yield Bond	11,473
LF Prudential UK Growth QIS	13,284	BlackRock Euro Corporate Bond	11,172

In addition to the above, purchases totalling £2,289,362,000 and sales totalling £2,289,394,000 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 2019

	Notes	£'000	31.10.19 £'000	£'000	31.10.18 £'000
Income:					
Net capital gains/(losses)	3		10,962		(6,719)
Revenue	4	5,800		5,595	
Expenses	5	(674)		(1,716)	
Interest payable and similar charges	6	(9)		(1)	
Net revenue before taxation		5,117		3,878	
Taxation	7	(774)		(450)	
Net revenue after taxation			4,343		3,428
<b>Total return before distributions</b>			15,305		(3,291)
Distributions	8		(4,447)		(3,368)
<b>Change in net assets attributable to shareholders from investment activities</b>			10,858		(6,659)

### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2019

	£'000	31.10.19 £'000	£'000	31.10.18 £'000
<b>Opening net assets attributable to shareholders</b>		228,782		245,604
Amounts receivable on issue of shares	78,877		20,161	
Amounts payable on redemption of shares	(20,864)		(32,186)	
		58,013		(12,025)
Change in net assets attributable to shareholders from investment activities		10,858		(6,659)
Retained distributions on Accumulation shares		3,256		1,862
Unclaimed distributions		2		–
<b>Closing net assets attributable to shareholders</b>		300,911		228,782

## LF PRUDENTIAL RISK MANAGED ACTIVE 3

### FINANCIAL STATEMENTS *continued*

#### BALANCE SHEET

as at 31 October 2019

	Notes	31.10.19 £'000	31.10.18 £'000
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investments		272,319	228,253
<b>Current assets</b>			
Debtors	9	11,376	707
Cash and bank balances	10	50,158	6,157
<b>Total assets</b>		<u>333,853</u>	<u>235,117</u>
<b>LIABILITIES</b>			
Investment liabilities		(2)	–
Provisions for liabilities		(99)	(30)
<b>Creditors</b>			
Distribution payable	11	(2,187)	(1,413)
Other creditors	11	(30,654)	(4,892)
<b>Total liabilities</b>		<u>(32,942)</u>	<u>(6,335)</u>
<b>Net assets attributable to shareholders</b>		<u>300,911</u>	<u>228,782</u>

# **LF PRUDENTIAL RISK MANAGED ACTIVE 3** **FINANCIAL STATEMENTS** *continued* **NOTES TO THE FINANCIAL STATEMENTS** for the year ended 31 October 2019

## **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 page 24 have been applied to the financial statements of the Fund in the current and prior year.

## **3. Net Capital Gains/(Losses)**

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

	31.10.19 £'000	31.10.18 £'000
Non-derivative securities	10,671	(7,201)
Derivative contracts	264	359
Transaction charges	(2)	(1)
AMC rebates from underlying investments	52	108
Currency (losses)/gains	(21)	16
Broker's commission on futures	(2)	–
Net capital gains/(losses)	10,962	(6,719)

The net capital gains/(losses) figure includes realised gains of £28,270,000 and unrealised gains of £6,729,000 (31.10.18: includes realised gains of £3,490,000 and unrealised gains of £24,086,000). 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 2019

#### 4. Revenue

	31.10.19 £'000	31.10.18 £'000
Non-taxable dividends	1,778	1,336
Taxable dividends	120	–
UK property income distributions	765	1,037
Unfranked interest	2,422	2,359
AMC rebates from underlying investments	712	862
Bank interest	4	1
Futures interest	(1)	–
Total revenue	5,800	5,595

#### 5. Expenses

	31.10.19 £'000	31.10.18 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	1,006	1,330
Administration fees	75	361
ACD reimbursement to revenue <sup>1</sup>	(436)	–
	645	1,691
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	19	19
Safe custody and other bank charges	2	–
	21	19
Other expenses:		
Audit fees	8	6
Total expenses	674	1,716

<sup>1</sup> 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 Investment 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 2019

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

	31.10.19 £'000	31.10.18 £'000
Interest payable	9	1
Total interest payable and similar charges	9	1

#### 7. Taxation

	31.10.19 £'000	31.10.18 £'000
a) Analysis of charge for the year		
Corporation tax	702	524
Adjustments in respect of prior periods	–	1
Irrecoverable overseas tax	3	–
Current tax charge	705	525
Deferred tax – origination and reversal of timing differences (note 7c)	69	(75)
Total taxation (note 7b)	774	450

#### 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%) (31.10.18: 20%). The difference is explained below:

	31.10.19 £'000	31.10.18 £'000
Net revenue before taxation	5,117	3,878
Corporation tax at 20%	1,023	776



## LF PRUDENTIAL RISK MANAGED ACTIVE 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Effects of:		
Non-taxable dividends	(355)	(267)
Capital income subject to taxation	93	(81)
Rebated capital expenses deductible for tax purposes	10	21
Irrecoverable overseas tax	3	–
Corporation tax: adjustment in respect of prior years	–	1
Total tax charge (note 7a)	<u>774</u>	<u>450</u>
c) Deferred tax		
Provision at the start of the year	30	105
Deferred tax charge in the year (note 7a)	<u>69</u>	<u>(75)</u>
Provision at the end of the year	<u>99</u>	<u>30</u>

## 8. Distributions

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

	31.10.19 £'000	31.10.18 £'000
Final	<u>5,443</u>	<u>3,275</u>
	5,443	3,275
Add: Revenue deducted on redemption of shares	225	223
Deduct: Revenue received on issue of shares	<u>(1,221)</u>	<u>(130)</u>
Net distribution for the year	<u>4,447</u>	<u>3,368</u>

Details of the distributions per share are set out in the table on pages 119 and 120.

## LF PRUDENTIAL RISK MANAGED ACTIVE 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Distributions represented by:		
Net revenue after taxation	4,343	3,428
Allocations to capital:		
Tax relief from/to capital	103	(60)
Equalisation on conversions <sup>1</sup>	1	–
Net distribution for the year	<u>4,447</u>	<u>3,368</u>

## 9. Debtors

	31.10.19 £'000	31.10.18 £'000
Amounts receivable for issue of shares	1,031	205
Sales awaiting settlement	9,948	–
Accrued revenue:		
Non-taxable dividends	36	85
UK property income distributions	30	118
Unfranked interest	1	4
AMC rebates from underlying investments	254	200
	<u>321</u>	<u>407</u>
Taxation recoverable:		
Income tax	76	95
Total debtors	<u>11,376</u>	<u>707</u>

<sup>1</sup> 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 2019

#### 10. Cash and Bank Balances

	31.10.19 £'000	31.10.18 £'000
Bank balances	49,876	6,157
Margin account	282	–
Total cash and bank balances	50,158	6,157

#### 11. Creditors

	31.10.19 £'000	31.10.18 £'000
Distribution payable	2,187	1,413
<b>Other Creditors</b>		
Amounts payable for redemption of shares	340	474
Purchases awaiting settlement	30,331	4,033
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	91	109
Administration fees	–	30
ACD reimbursement to revenue	(436)	–
	(345)	139
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	2	1
Transaction charges	1	–
Safe custody and other bank charges	1	–
	4	1
Taxation payable:		
Corporation tax	316	237

## LF PRUDENTIAL RISK MANAGED ACTIVE 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Other expenses	8	8
Total other creditors	30,654	4,892

## 12. Related Party Transactions

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 105 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 135,299 (31.10.18: 97,150) 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 47,411,604 (31.10.18: 34,847,842) 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 22.79% (31.10.18: 20.93%)

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:

	31.10.19 £'000	31.10.18 £'000
Portfolio Manager in common	108,537	31,014
Portfolio Manager and ACD in common	30,441	–

## 13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.18: none).

## LF PRUDENTIAL RISK MANAGED ACTIVE 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.74%	0.74%	0.00%
Opening shares in issue	1,211,022	7,366,825	48,794,905
Issues	3,231	324,893	17,421,027
Redemptions	(237,733)	(1,264,613)	(6,622,794)
Conversions	–	(127,866)	–
Closing shares in issue	<u>976,520</u>	<u>6,299,239</u>	<u>59,593,138</u>

  

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.49%	0.49%	0.74%
Opening shares in issue	6,127,224	94,664,765	8,308,515
Issues	2,408,093	31,349,681	4,651,919
Redemptions	(947,719)	(4,666,824)	(950,174)
Conversions	41,118	320,279	(171,149)
Closing shares in issue	<u>7,628,716</u>	<u>121,667,901</u>	<u>11,839,111</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 2019

#### (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.

#### (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 may indirectly be 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 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

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

	31.10.19 £'000	31.10.18 £'000
Currency:		
Euro currency	3,708	5,054
US dollars	48,374	2,507
Total foreign currency exposure	52,082	7,561
Pounds sterling	248,829	221,221
Total net assets	300,911	228,782

A 5% increase/decrease in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £2,480,090 decrease and £2,741,152 increase respectively on the net assets of the Fund.

#### (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 31.10.19, leverage under the gross method was 0.91:1 and leverage under the commitment method was 1:1 (31.10.18: 1:1 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.

To reduce liquidity risk the Portfolio Manager will ensure that a substantial portion of the Fund's assets consist of cash and readily realisable investments.

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.

## LF PRUDENTIAL RISK MANAGED ACTIVE 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

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 £13,616,000 (31.10.18: £11,413,000). A 5% decrease would have an equal and opposite effect.

#### (G) DERIVATIVES

The derivatives held by the Fund during the current and prior year were for Efficient Portfolio Management (EPM) purposes and were not of a material nature.

### 16. Portfolio Transaction Costs

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

Average portfolio dealing spread at 31.10.19 is 0.27% (31.10.18: 0.36%).



## LF PRUDENTIAL RISK MANAGED ACTIVE 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
<b>31.10.18</b>				
Ordinary shares	5,791	3	6	5,800
Collective investment schemes	11,320	1	–	11,321
Purchases total	17,111	4	6	17,121
<i>Transaction cost % of purchases total</i>		0.02%	0.04%	
<i>Transaction cost % of average NAV</i>		–	–	
Collective investment schemes	29,544	(1)	–	29,543
Sales total	29,544	(1)	–	29,543
<i>Transaction cost % of sales total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	

## 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
<b>31.10.19</b>				
Investment assets	15,522	256,684	113	272,319
Investment liabilities	(2)	–	–	(2)
<b>31.10.18</b>				
Investment assets	52,821	174,999	433	228,253

## LF PRUDENTIAL RISK MANAGED ACTIVE 3

### FINANCIAL STATEMENTS *continued*

#### DISTRIBUTION TABLE

for the year ended 31 October 2019 – 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	01.11.18
To	31.10.19

#### 'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.2655	–	2.2655	1.1142
Group 2	1.1720	1.0935	2.2655	1.1142

#### 'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.4707	–	2.4707	1.2077
Group 2	0.8701	1.6006	2.4707	1.2077

#### 'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	3.3580	–	3.3580	2.6646
Group 2	0.4864	2.8716	3.3580	2.6646

#### 'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.1464	–	2.1464	1.6187
Group 2	0.6785	1.4679	2.1464	1.6187

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

**'P' ACCUMULATION SHARES**

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.3202	–	2.3202	1.7266
Group 2	0.4483	1.8719	2.3202	1.7266

**'R' ACCUMULATION SHARES**

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.3455	–	2.3455	1.6717
Group 2	0.5873	1.7582	2.3455	1.6717

## LF PRUDENTIAL RISK MANAGED ACTIVE 4 ACD'S REPORT

for the year ended 31 October 2019

### 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 volatility over rolling 5 year periods to 14.5%.

There is no guarantee that the volatility target will be met and at any time the actual volatility may be higher or lower than the long term target.

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. 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

27 February 2020

## LF PRUDENTIAL RISK MANAGED ACTIVE 4

### ACD'S REPORT *continued*

### PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2019

Between 1 November 2018 and 31 October 2019 (the period in review) share classes R (Acc) 6.78%<sup>1</sup>, P (Acc) 6.99%<sup>1</sup> and A (Acc) 6.67%<sup>1</sup> produced returns behind the 8.24%<sup>1</sup> sector average for IA Mixed Investment 40-85% Shares.

#### Market Overview

There was a broad sell-off in stock markets in the final quarter of 2018, as investors became increasingly alarmed over weaker-than-expected economic data out of the US, European Union and Japan, an ongoing trade war between the US and China and generally less supportive monetary policy from the world's central banks. As a result, several stock markets hit, or nearly hit, bear market territory – that is, they fell by 20% or more from their peak.

However global stock markets rebounded strongly in early 2019. A combination of relief that company earnings for the final quarter of 2018 were better than expected and dovish comments by many central banks that interest rates would remain on hold drove sentiment. Many central banks including the US Federal Reserve have subsequently reversed monetary policy which has been very supportive of markets.

Stock market performance was mixed towards the end of the period in review, with emerging market stocks, in general, underperforming developed market stocks. Fears about the global economy led to a setback for stock markets in August, whilst government bonds in many countries rallied strongly. The yields on UK gilts, US Treasuries and German bunds fell to record lows, but have risen somewhat since.

#### Positioning

The portfolio management team implemented the 2019 strategic asset allocation review in September across all funds in the range.

Overall, equity allocations have been reduced by 4.5% in this Fund via reductions to the benchmark positions for UK, US, European, Japanese and Asian equities. There was a small increased allocation to Emerging Markets reflecting the teams' belief that long-term structural factors, like favourable demographics, remain more positive.

Conversely the allocation to fixed income has been increased by 4.5%. The main change this year is the addition of US treasuries that provide more favourable yields than other developed market government bonds and are still seen as a 'haven' in the event of a market downturn.

From a shorter-term tactical perspective, the portfolio manager currently has a small overweight position across global equities and a moderate underweight in global high yield and UK and European investment grade bonds. This mainly reflects the current low yield environment. The portfolio is also slightly overweight cash which will be allocated when an appropriate opportunity arises.

The team have reduced the Italian banks position to reflect a lower conviction as the fundamentals of the trade now have an extended payback period.

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<sup>1</sup> Source: FE Analytics.

## **LF PRUDENTIAL RISK MANAGED ACTIVE 4**

### **ACD'S REPORT** *continued*

### **PORTFOLIO MANAGER'S REPORT** *continued*

#### **Investment Activity**

Further to communications around the changes being made to LF Prudential Risk Managed Active funds, the transition to the new underlying fund holdings was completed in late July 2019. This activity would have entailed some re-allocation across equity and fixed income from property and alternatives holdings. Full details are in this report.

#### **Outlook**

The portfolio managers view of markets remains largely unchanged over recent months. Macro data continues to be weak, and we wait to see whether looser financial conditions/central bank easing will help produce stronger macro data in the near future (with its typical lagged effect). Markets have had a very strong year so far in 2019, fuelled by the global central bank easing theme that began at the end of 2018.

We believe another driver of markets has been the US/China trade discussions. Our sense is that market expectations of a positive outcome have built to a high level and have supported the current price levels of risky assets. There is obviously a risk that high expectations are dashed, sentiment is dented, and that market prices fall. We think it is difficult to have an insight on this particular outcome.

#### **M&G INVESTMENT MANAGEMENT LIMITED**

Portfolio Manager

19 November 2019

## LF PRUDENTIAL RISK MANAGED ACTIVE 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 lowest number on the scale does not mean that a fund is risk free.

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.

**Currency Risk:** As the Fund invests indirectly in overseas securities, exchange rates movements may, when not hedged, cause the value of your investment to increase or decrease.

Bonds are affected by trends in interest rates and inflation. If interest rates go up the value of capital may fall and vice versa. Inflation will also decrease the real value of capital. The value of a bond is also affected by its credit rating. Bonds with a higher average yield tend to be less liquid and have a lower credit rating. Investment in bonds with a higher yield also generally brings an increased risk of default on repayment by the issuer which could affect the income and capital of the Fund.

The Fund may invest indirectly in property. Property investments may be harder to buy and sell than other asset types.

**Non-UCITS Retail Scheme (NURS):** The Fund can be less diversified than UCITS schemes as it has higher investment limits for certain types of assets. It can also invest in assets which are not available to UCITS schemes. This can increase the potential rewards but can also increase risk.

The value of investments, and the income from them, will fluctuate. This will cause the Fund price to fall as well as rise and you may not get back what you originally invested.

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](http://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.

#### 'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	163.16	168.05	155.54
Return before operating charges*	11.53	0.11	17.54
Operating charges	(2.05)	(3.87)	(3.73)
Return after operating charges	9.48	(3.76)	13.81
Distributions	(2.27)	(1.13)	(1.30)
Closing net asset value per share	170.37	163.16	168.05
* after direct transaction costs of:	0.01	0.01	–

#### PERFORMANCE

Return after charges	5.81%	(2.24)%	8.88%
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#### OTHER INFORMATION

Closing net asset value (£'000)	1,100	1,156	1,053
Closing number of shares	645,831	708,803	626,738
Operating charges	1.22% <sup>1</sup>	2.29%	2.30%
Direct transaction costs	–	0.01%	–

#### PRICES

Highest share price	176.88	174.00	170.18
Lowest share price	157.31	162.50	151.66

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	173.48	177.44	162.97
Return before operating charges*	12.28	0.14	18.39
Operating charges	(2.20)	(4.10)	(3.92)
Return after operating charges	10.08	(3.96)	14.47
Distributions	(2.41)	(1.19)	(1.36)
Retained distributions on accumulation shares	2.41	1.19	1.36
Closing net asset value per share	183.56	173.48	177.44
* after direct transaction costs of:	0.01	0.01	–

##### PERFORMANCE

Return after charges	5.81%	(2.23)%	8.88%
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##### OTHER INFORMATION

Closing net asset value (£'000)	15,451	18,585	22,222
Closing number of shares	8,417,774	10,713,213	12,523,549
Operating charges	1.23% <sup>1</sup>	2.29%	2.30%
Direct transaction costs	–	0.01%	–

##### PRICES

Highest share price	188.02	183.67	178.27
Lowest share price	167.29	171.58	158.90

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	163.72	168.69	156.06
Return before operating charges*	11.32	(0.34)	17.31
Operating charges	(0.63)	(1.83)	(1.77)
Return after operating charges	10.69	(2.17)	15.54
Distributions	(3.43)	(2.80)	(2.91)
Closing net asset value per share	170.98	163.72	168.69
* after direct transaction costs of:	0.01	0.01	–

##### PERFORMANCE

Return after charges	6.53%	(1.29)%	9.96%
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##### OTHER INFORMATION

Closing net asset value (£'000)	81,228	83,337	92,352
Closing number of shares	47,506,878	50,903,425	54,746,557
Operating charges	0.37% <sup>1</sup>	1.07%	1.08%
Direct transaction costs	–	0.01%	–

##### PRICES

Highest share price	178.42	175.97	172.35
Lowest share price	158.09	164.70	152.32

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	123.84	127.59	118.05
Return before operating charges*	8.70	(0.13)	13.19
Operating charges	(1.10)	(1.99)	(1.92)
Return after operating charges	7.60	(2.12)	11.27
Distributions	(2.10)	(1.63)	(1.73)
Closing net asset value per share	129.34	123.84	127.59
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	6.14%	(1.66)%	9.55%
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##### OTHER INFORMATION

Closing net asset value (£'000)	7,291	6,133	6,567
Closing number of shares	5,636,978	4,952,105	5,146,294
Operating charges	0.86% <sup>1</sup>	1.54%	1.55%
Direct transaction costs	—	0.01%	—

##### PRICES

Highest share price	134.78	132.91	130.11
Lowest share price	119.52	124.11	115.18

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	132.46	134.70	122.97
Return before operating charges*	9.32	(0.14)	13.73
Operating charges	(1.18)	(2.10)	(2.00)
Return after operating charges	8.14	(2.24)	11.73
Distributions	(2.24)	(1.72)	(1.81)
Retained distributions on accumulation shares	2.24	1.72	1.81
Closing net asset value per share	140.60	132.46	134.70
* after direct transaction costs of:	–	0.01	–

##### PERFORMANCE

Return after charges	6.15%	(1.66)%	9.54%
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##### OTHER INFORMATION

Closing net asset value (£'000)	142,604	129,978	122,155
Closing number of shares	101,426,763	98,125,280	90,684,203
Operating charges	0.86% <sup>1</sup>	1.54%	1.55%
Direct transaction costs	–	0.01%	–

##### PRICES

Highest share price	144.13	140.28	135.49
Lowest share price	127.88	131.03	119.97

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	154.31	157.23	143.83
Return before operating charges*	10.91	(0.08)	16.12
Operating charges	(1.77)	(2.84)	(2.72)
Return after operating charges	9.14	(2.92)	13.40
Distributions	(2.29)	(1.69)	(1.81)
Retained distributions on accumulation shares	2.29	1.69	1.81
Closing net asset value per share	163.45	154.31	157.23
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	5.92%	(1.86)%	9.32%
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##### OTHER INFORMATION

Closing net asset value (£'000)	15,060	13,380	13,257
Closing number of shares	9,213,445	8,670,674	8,431,010
Operating charges	1.11% <sup>1</sup>	1.79%	1.80%
Direct transaction costs	—	0.01%	—

##### PRICES

Highest share price	167.51	163.34	158.02
Lowest share price	148.92	152.64	140.29

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

**LF PRUDENTIAL RISK MANAGED ACTIVE 4**

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Fund Performance to 31 October 2019 (%)**

	1 year	3 years	5 years
LF Prudential Risk Managed Active 4	6.99	14.23	35.05

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 151 and 152.

**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 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	EQUITY PORTFOLIOS – 50.86% (31.10.18 – 51.77%)		
	CONTINENTAL EUROPE – 7.43% (31.10.18 – 8.17%)		
1,149,256	LF Prudential European QIS <sup>1</sup>	11,181	4.26
412,615	M&G European Select <sup>1</sup>	8,319	3.17
	TOTAL CONTINENTAL EUROPE	19,500	7.43
	UNITED KINGDOM – 18.46% (31.10.18 – 20.66%)		
4,471,440	LF Prudential UK Growth QIS <sup>1</sup>	16,338	6.22
5,169,229	M&G Recovery <sup>1</sup>	15,747	5.99
955,908	M&G UK Select <sup>1</sup>	16,425	6.25
	TOTAL UNITED KINGDOM	48,510	18.46
	ASIA EX JAPAN – 9.49% (31.10.18 – 8.13%)		
2,246,426	Eastspring Developed and Emerging Asia Equity	24,932	9.49
	TOTAL ASIA EX JAPAN	24,932	9.49
	JAPAN – 4.02% (31.10.18 – 3.68%)		
1,202,243	Eastspring Japan Equity	10,565	4.02
	TOTAL JAPAN	10,565	4.02
	NORTH AMERICA – 7.53% (31.10.18 – 8.58%)		
914,444	LF Prudential North American QIS <sup>1</sup>	10,076	3.83
352,118	M&G North American Value <sup>1</sup>	9,723	3.70
	TOTAL NORTH AMERICA	19,799	7.53
	EMERGING MARKETS – 3.93% (31.10.18 – 2.55%)		
910,717	Eastspring Global Emerging Markets Customized Equity	10,313	3.93
	TOTAL EMERGING MARKETS	10,313	3.93
	TOTAL EQUITY PORTFOLIOS	133,619	50.86



## LF PRUDENTIAL RISK MANAGED ACTIVE 4

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	EQUITY INVESTMENT INSTRUMENTS – 6.00% (31.10.18 – 8.75%)		
1,297,012	BBGI	2,095	0.80
1,105,320	BioPharma Credit	857	0.33
1,093,355	Blue Capital Alternative Income <sup>2</sup>	151	0.06
133,600	Boussard & Gavaudan	1,977	0.75
1,064,459	DP Aircraft I	616	0.23
211,333	HarbourVest Global Private Equity	3,508	1.33
599,188	HgCapital	1,441	0.55
344,288	Intesa Sanpaolo <sup>3</sup>	666	0.25
804,964	NB Distressed Debt Investment	466	0.18
743,383	NextEnergy Solar	892	0.34
785,811	Renewables Infrastructure	1,028	0.39
1,366,100	SDCL Energy Efficiency Income	1,434	0.55
65,576	UniCredit <sup>3</sup>	642	0.24
	TOTAL EQUITY INVESTMENT INSTRUMENTS	15,773	6.00
	PROPERTY PORTFOLIOS – 5.76% (31.10.18 – 16.90%)		
12,319,313	Legal & General UK Property	11,438	4.35
339,635	M&G Property Portfolio <sup>1</sup>	3,699	1.41
	TOTAL PROPERTY PORTFOLIOS	15,137	5.76
	BOND PORTFOLIOS – 30.89% (31.10.18 – 22.34%)		
125,298	Eastspring Asian Bond	1,401	0.53
456,326	Eastspring Asian Local Bond	4,100	1.56
1,821,309	Eastspring US Corporate Bond	20,397	7.76
78,933	M&G European Credit Investment <sup>1</sup>	8,607	3.28
1,032,820	M&G Global Convertibles <sup>1</sup>	2,287	0.87
7,814,101	M&G Global High Yield Bond <sup>1</sup>	10,832	4.12
13,495,970	M&G Strategic Corporate Bond <sup>1</sup>	16,763	6.38
15,593,154	Royal London Corporate Bond	16,778	6.39
	TOTAL BOND PORTFOLIOS	81,165	30.89

## LF PRUDENTIAL RISK MANAGED ACTIVE 4

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	FUTURES – 0.04% (31.10.18 – 0.00%)		
66	EURO STOXX 50 Index Futures December 2019	67	0.03
4	S&P 500 E Mini Index Futures December 2019	18	0.01
20	US Treasury Note 10 Year Futures December 2019	(1)	–
	TOTAL FUTURES	84	0.04
	Portfolio of investments <sup>4</sup>	245,778	93.55
	Net other assets	16,956	6.45
	Net assets	262,734	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.

<sup>1</sup> Related party holding (see note 12).

<sup>2</sup> Delisted security.

<sup>3</sup> Ordinary shares.

<sup>4</sup> Includes investment liabilities.

## LF PRUDENTIAL RISK MANAGED ACTIVE 4

### ACD'S REPORT *continued*

### SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2019

Total purchases for the year £'000 (note 16)	211,737	Total sales for the year £'000 (note 16)	231,353
	Cost £'000		Proceeds £'000
<b>Major purchases</b>		<b>Major sales</b>	
Eastspring Developed and Emerging Asia Equity	27,911	M&G Property Portfolio	24,192
Eastspring US Corporate Bond	18,902	Investec UK Alpha	18,925
LF Prudential UK Growth QIS	17,250	Threadneedle American	17,111
M&G UK Select	17,023	AXA Framlington UK Select Opportunities	13,720
M&G Strategic Corporate Bond	16,871	US Treasury Note 10 Year Futures March 2019	12,520
Royal London Corporate Bond	16,183	Henderson European Selected Opportunities	12,372
US Treasury Note 10 Year Futures March 2019	12,341	Kames Investment Grade Bond	12,338
M&G North American Value	11,951	Invesco Perpetual Corporate Bond	12,235
LF Prudential European QIS	10,900	Fidelity MoneyBuilder Income	12,168
Eastspring Global Emerging Markets Customized Equity	10,899	Fidelity Asia	11,970

In addition to above, purchases totalling £2,092,323,000 and sales totalling £2,091,333,000 were made in short term investments during the year.

Sales of Futures have been included at the value of their exposure.

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 2019

	Notes	£'000	31.10.19 £'000	£'000	31.10.18 £'000
Income:					
Net capital gains/(losses)	3		11,053		(7,873)
Revenue	4	5,700		5,763	
Expenses	5	(686)		(1,864)	
Interest payable and similar charges	6	(4)		(4)	
Net revenue before taxation		5,010		3,895	
Taxation	7	(673)		(333)	
Net revenue after taxation			4,337		3,562
<b>Total return before distributions</b>			15,390		(4,311)
Distributions	8		(4,464)		(3,469)
<b>Change in net assets attributable to shareholders from investment activities</b>			10,926		(7,780)

### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2019

	£'000	31.10.19 £'000	£'000	31.10.18 £'000
<b>Opening net assets attributable to shareholders</b>		252,569		257,606
Amounts receivable on issue of shares	27,568		25,838	
Amounts payable on redemption of shares	(31,021)		(25,060)	
		(3,453)		778
Change in net assets attributable to shareholders from investment activities		10,926		(7,780)
Retained distributions on Accumulation shares		2,690		1,965
Unclaimed distributions		2		—
<b>Closing net assets attributable to shareholders</b>		262,734		252,569

**LF PRUDENTIAL RISK MANAGED ACTIVE 4**  
**FINANCIAL STATEMENTS** *continued*  
**BALANCE SHEET**  
as at 31 October 2019

	Notes	31.10.19 £'000	31.10.18 £'000
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investments		245,779	251,964
<b>Current assets</b>			
Debtors	9	3,118	708
Cash and bank balances	10	17,474	6,871
<b>Total assets</b>		<u>266,371</u>	<u>259,543</u>
<b>LIABILITIES</b>			
Investment liabilities		(1)	–
Provisions for liabilities		(113)	(39)
<b>Creditors</b>			
Bank overdrafts		(43)	–
Distribution payable	11	(1,760)	(1,514)
Other creditors	11	(1,720)	(5,421)
<b>Total liabilities</b>		<u>(3,637)</u>	<u>(6,974)</u>
<b>Net assets attributable to shareholders</b>		<u>262,734</u>	<u>252,569</u>

## LF PRUDENTIAL RISK MANAGED ACTIVE 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2019

#### 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 page 24 have been applied to the financial statements of the Fund in the current and prior year.

#### 3. Net Capital Gains/(Losses)

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

	31.10.19 £'000	31.10.18 £'000
Non-derivative securities	10,571	(8,362)
Derivative contracts	403	378
Transaction charges	(2)	(1)
AMC rebates from underlying investments	52	93
Currency gains	31	19
Broker's commission on futures	(2)	–
Net capital gains/(losses)	11,053	(7,873)

The net capital gains/(losses) figure includes realised gains of £36,550,000 and unrealised gains of £6,552,000 (31.10.18: includes realised gains of £4,297,000 and unrealised gains of £32,096,000). 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 2019

#### 4. Revenue

	31.10.19 £'000	31.10.18 £'000
Non-taxable dividends	2,274	1,775
Taxable dividends	78	–
UK property income distributions	914	791
Unfranked interest	1,647	2,095
AMC rebates from underlying investments	784	1,095
Bank interest	4	7
Futures interest	(1)	–
Total revenue	5,700	5,763

#### 5. Expenses

	31.10.19 £'000	31.10.18 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	1,048	1,449
Administration fees	83	388
ACD reimbursement to revenue <sup>1</sup>	(475)	–
	656	1,837
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	1
	22	21
Other expenses:		
Audit fees	8	6
Total expenses	686	1,864

<sup>1</sup> 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 Investment 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 2019

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

	31.10.19 £'000	31.10.18 £'000
Interest payable	4	4
Total interest payable and similar charges	4	4

#### 7. Taxation

	31.10.19 £'000	31.10.18 £'000
a) Analysis of charge for the year		
Corporation tax	595	435
Adjustments in respect of prior periods	–	2
Irrecoverable overseas tax	4	–
Current tax charge	599	437
Deferred tax – origination and reversal of timing differences (note 7c)	74	(104)
Total taxation (note 7b)	673	333

#### 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%) (31.10.18: 20%). The difference is explained below:

	31.10.19 £'000	31.10.18 £'000
Net revenue before taxation	5,010	3,895
Corporation tax at 20%	1,002	779



## LF PRUDENTIAL RISK MANAGED ACTIVE 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Effects of:		
Non-taxable dividends	(455)	(355)
Rebated capital expenses deductible for tax purposes	10	19
Irrecoverable overseas tax	4	–
Income tax: adjustment in respect of prior years	–	2
Offshore capital gains subject to taxation	112	(112)
Total tax charge (note 7a)	<u>673</u>	<u>333</u>
c) Deferred tax		
Provision at the start of the year	39	143
Deferred tax charge in the year (note 7a)	<u>74</u>	<u>(104)</u>
Provision at the end of the year	<u>113</u>	<u>39</u>

## 8. Distributions

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

	31.10.19 £'000	31.10.18 £'000
Final	<u>4,450</u>	<u>3,479</u>
	4,450	3,479
Add: Revenue deducted on redemption of shares	341	156
Deduct: Revenue received on issue of shares	<u>(327)</u>	<u>(166)</u>
Net distribution for the year	<u>4,464</u>	<u>3,469</u>

Details of the distributions per share are set out in the table on pages 151 and 152.

## LF PRUDENTIAL RISK MANAGED ACTIVE 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Distributions represented by:		
Net revenue after taxation	4,337	3,562
Allocations to capital:		
Tax relief from/to capital	122	(93)
Equalisation on conversions <sup>1</sup>	5	–
Net distribution for the year	<u>4,464</u>	<u>3,469</u>

## 9. Debtors

	31.10.19 £'000	31.10.18 £'000
Amounts receivable for issue of shares	599	72
Sales awaiting settlement	2,119	–
Accrued revenue:		
Non-taxable dividends	36	112
UK property income distributions	32	156
Unfranked interest	1	6
AMC rebates from underlying investments	246	252
	<u>315</u>	<u>526</u>
Taxation recoverable:		
Income tax	85	110
Total debtors	<u>3,118</u>	<u>708</u>

<sup>1</sup> 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 2019

## 10. Cash and Bank Balances

	31.10.19 £'000	31.10.18 £'000
Bank balances	17,336	6,871
Margin account	138	–
Total cash and bank balances	17,474	6,871

## 11. Creditors

	31.10.19 £'000	31.10.18 £'000
Distribution payable	1,760	1,514
<b>Other Creditors</b>		
Amounts payable for redemption of shares	822	444
Purchases awaiting settlement	1,000	4,599
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	82	123
Administration fees	–	33
ACD reimbursement to revenue	(476)	–
	(394)	156
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	–
	4	2
Taxation payable:		
Corporation tax	280	212

## LF PRUDENTIAL RISK MANAGED ACTIVE 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Other expenses	8	8
Total other creditors	1,720	5,421

## 12. Related Party Transactions

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 137 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 59,898 (31.10.18: 60,672) 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 28,079,624 (31.10.18: 29,227,664) 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:

	31.10.19 £'000	31.10.18 £'000
Portfolio Manager in common	92,402	44,409
Portfolio Manager and ACD in common	37,595	–

## 13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.18: none).

## LF PRUDENTIAL RISK MANAGED ACTIVE 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.74%	0.74%	0.00%
Opening shares in issue	708,803	10,713,213	50,903,425
Issues	5,623	210,981	2,597,580
Redemptions	(68,595)	(1,445,766)	(5,994,127)
Conversions	–	(1,060,654)	–
Closing shares in issue	<u>645,831</u>	<u>8,417,774</u>	<u>47,506,878</u>

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.49%	0.49%	0.74%
Opening shares in issue	4,952,105	98,125,280	8,670,674
Issues	1,730,671	12,590,927	2,127,521
Redemptions	(1,045,798)	(11,194,942)	(1,137,448)
Conversions	–	1,905,498	(447,302)
Closing shares in issue	<u>5,636,978</u>	<u>101,426,763</u>	<u>9,213,445</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 2019

#### (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.

#### (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 may indirectly be 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 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

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

	31.10.19 £'000	31.10.18 £'000
Currency:		
Euro currency	3,728	5,869
US dollars	52,346	3,279
Total foreign currency exposure	56,074	9,148
Pounds sterling	206,660	243,421
Total net assets	262,734	252,569

A 5% increase/decrease in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £2,670,196 decrease and £2,951,269 increase respectively on the net assets of the Fund.

#### (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 31.10.19, leverage under the gross method was 0.94:1 and leverage under the commitment method was 1:1 (31.10.18: 1:1 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.

To reduce liquidity risk the Portfolio Manager will ensure that a substantial portion of the Fund's assets consist of cash and readily realisable investments.

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.

## LF PRUDENTIAL RISK MANAGED ACTIVE 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

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 £12,289,000 (31.10.18: £12,598,000). A 5% decrease would have an equal and opposite effect.

#### (G) DERIVATIVES

The derivatives held by the Fund during the current and prior year were for Efficient Portfolio Management (EPM) purposes and were not of a material nature.

#### 16. Portfolio Transaction Costs

	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
<b>31.10.19</b>				
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>		–	–	

Average portfolio dealing spread at 31.10.19 is 0.32% (31.10.18: 0.39%).



## LF PRUDENTIAL RISK MANAGED ACTIVE 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

31.10.18	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	6,367	4	6	6,377
Collective investment schemes	24,415	9	–	24,424
Purchases total	30,782	13	6	30,801
<i>Transaction cost % of purchases total</i>		0.04%	0.02%	
<i>Transaction cost % of average NAV</i>		0.01%	–	
Collective investment schemes	31,479	(1)	–	31,478
Sales total	31,479	(1)	–	31,478
<i>Transaction cost % of sales total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	

## 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).

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

  

31.10.18	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	57,756	193,631	577	251,964

## LF PRUDENTIAL RISK MANAGED ACTIVE 4

### FINANCIAL STATEMENTS *continued*

#### DISTRIBUTION TABLE

for the year ended 31 October 2019 – 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	01.11.18
To	31.10.19

#### 'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.2727	–	2.2727	1.1282
Group 2	0.8589	1.4138	2.2727	1.1282

#### 'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.4050	–	2.4050	1.1881
Group 2	1.0399	1.3651	2.4050	1.1881

#### 'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	3.4250	–	3.4250	2.8004
Group 2	3.0940	0.3310	3.4250	2.8004

#### 'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.1027	–	2.1027	1.6323
Group 2	0.6777	1.4250	2.1027	1.6323

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

**'P' ACCUMULATION SHARES**

<b>Final</b>	<b>Net Revenue</b>	<b>Equalisation</b>	<b>Allocation 31.12.19</b>	<b>Allocated 31.12.18</b>
Group 1	2.2439	–	2.2439	1.7229
Group 2	0.5331	1.7108	2.2439	1.7229

**'R' ACCUMULATION SHARES**

<b>Final</b>	<b>Net Revenue</b>	<b>Equalisation</b>	<b>Allocation 31.12.19</b>	<b>Allocated 31.12.18</b>
Group 1	2.2901	–	2.2901	1.6909
Group 2	0.8779	1.4122	2.2901	1.6909

## LF PRUDENTIAL RISK MANAGED ACTIVE 5 ACD'S REPORT

for the year ended 31 October 2019

### 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 volatility over rolling 5 year periods to 17%.

There is no guarantee that the volatility target will be met and at any time the actual volatility may be higher or lower than the long term target.

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. 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

27 February 2020

## LF PRUDENTIAL RISK MANAGED ACTIVE 5

### ACD'S REPORT *continued*

### PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2019

Between 1 November 2018 and 31 October 2019 (the period in review) share classes R (Acc) 6.85%<sup>1</sup>, P (Acc) 7.06%<sup>1</sup> and A (Acc) 6.74%<sup>1</sup> produced returns behind the 7.24%<sup>1</sup> sector average for IA Flexible Investment.

#### Market Overview

There was a broad sell-off in stock markets in the final quarter of 2018, as investors became increasingly alarmed over weaker-than-expected economic data out of the US, European Union and Japan, an ongoing trade war between the US and China and generally less supportive monetary policy from the world's central banks. As a result, several stock markets hit, or nearly hit, bear market territory – that is, they fell by 20% or more from their peak.

However global stock markets rebounded strongly in early 2019. A combination of relief that company earnings for the final quarter of 2018 were better than expected and dovish comments by many central banks that interest rates would remain on hold drove sentiment. Many central banks including the US Federal Reserve have subsequently reversed monetary policy which has been very supportive of markets.

Stock market performance was mixed towards the end of the period in review, with emerging market stocks, in general, underperforming developed market stocks. Fears about the global economy led to a setback for stock markets in August, whilst government bonds in many countries rallied strongly. The yields on UK gilts, US Treasuries and German bunds fell to record lows, but have risen somewhat since.

#### Positioning

The portfolio management team implemented the 2019 strategic asset allocation review in September across all funds in the range.

Overall, equity allocations have been reduced by 5% in this Fund via reductions to the benchmark positions for UK, US, European, Japanese and Asian equities. There was a small increased allocation to Emerging Markets reflecting the teams' belief that long-term structural factors, like favourable demographics, remain more positive.

Conversely the allocation to fixed income has been increased by 5%. The main change this year is the addition of US treasuries that provide more favourable yields than other developed market government bonds and are still seen as a 'haven' in the event of a market downturn.

From a shorter-term tactical perspective, the portfolio manager currently has a small overweight position across global equities and a moderate underweight in global high yield and UK and European investment grade bonds. This mainly reflects the current low yield environment. The portfolio is also slightly overweight cash which will be allocated when an appropriate opportunity arises.

The team have reduced the Italian banks position to reflect a lower conviction as the fundamentals of the trade now have an extended payback period.

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<sup>1</sup> Source: FE Analytics.

## **LF PRUDENTIAL RISK MANAGED ACTIVE 5**

### **ACD'S REPORT** *continued*

### **PORTFOLIO MANAGER'S REPORT** *continued*

#### **Investment Activity**

Further to communications around the changes being made to LF Prudential Risk Managed Active funds, the transition to the new underlying fund holdings was completed in late July 2019. This activity would have entailed some re-allocation across equity and fixed income from property and alternatives holdings. Full details are in this report.

#### **Outlook**

The portfolio managers view of markets remains largely unchanged over recent months. Macro data continues to be weak, and we wait to see whether looser financial conditions/central bank easing will help produce stronger macro data in the near future (with its typical lagged effect). Markets have had a very strong year so far in 2019, fuelled by the global central bank easing theme that began at the end of 2018.

We believe another driver of markets has been the US/China trade discussions. Our sense is that market expectations of a positive outcome have built to a high level and have supported the current price levels of risky assets. There is obviously a risk that high expectations are dashed, sentiment is dented, and that market prices fall. We think it is difficult to have an insight on this particular outcome.

#### **M&G INVESTMENT MANAGEMENT LIMITED**

Portfolio Manager

19 November 2019

## 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. The lowest number on the scale does not mean that a fund is risk free.

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 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.

**Currency Risk:** As the Fund invests indirectly in overseas securities, exchange rates movements may, when not hedged, cause the value of your investment to increase or decrease.

Bonds are affected by trends in interest rates and inflation. If interest rates go up the value of capital may fall and vice versa. Inflation will also decrease the real value of capital. The value of a bond is also affected by its credit rating. Bonds with a higher average yield tend to be less liquid and have a lower credit rating. Investment in bonds with a higher yield also generally brings an increased risk of default on repayment by the issuer which could affect the income and capital of the Fund.

The Fund may invest indirectly in property. Property investments may be harder to buy and sell than other asset types.

**Non-UCITS Retail Scheme (NURS):** The Fund can be less diversified than UCITS schemes as it has higher investment limits for certain types of assets. It can also invest in assets which are not available to UCITS schemes. This can increase the potential rewards but can also increase risk.

The value of investments, and the income from them, will fluctuate. This will cause the Fund price to fall as well as rise and you may not get back what you originally invested.

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](http://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.

#### 'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	177.55	183.43	167.14
Return before operating charges*	12.33	(0.54)	21.68
Operating charges	(2.29)	(4.32)	(4.14)
Return after operating charges	10.04	(4.86)	17.54
Distributions	(2.22)	(1.02)	(1.25)
Closing net asset value per share	185.37	177.55	183.43
* after direct transaction costs of:	—	0.02	—

#### PERFORMANCE

Return after charges	5.66%	(2.65)%	10.49%
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#### OTHER INFORMATION

Closing net asset value (£'000)	188	209	276
Closing number of shares	101,626	117,996	150,778
Operating charges	1.25% <sup>1</sup>	2.33%	2.36%
Direct transaction costs	—	0.01%	—

#### PRICES

Highest share price	193.13	191.08	185.41
Lowest share price	170.32	176.53	162.51

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	184.46	189.47	171.48
Return before operating charges*	12.78	(0.56)	22.25
Operating charges	(2.34)	(4.45)	(4.26)
Return after operating charges	10.44	(5.01)	17.99
Distributions	(2.31)	(1.05)	(1.28)
Retained distributions on accumulation shares	2.31	1.05	1.28
Closing net asset value per share	194.90	184.46	189.47
* after direct transaction costs of:	–	0.02	–

##### PERFORMANCE

Return after charges	5.66%	(2.64)%	10.49%
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##### OTHER INFORMATION

Closing net asset value (£'000)	7,089	7,253	8,218
Closing number of shares	3,637,237	3,931,963	4,337,284
Operating charges	1.23% <sup>1</sup>	2.33%	2.36%
Direct transaction costs	–	0.01%	–

##### PRICES

Highest share price	200.66	197.41	190.26
Lowest share price	177.00	182.35	166.73

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	178.30	184.27	167.83
Return before operating charges*	12.05	(1.05)	21.45
Operating charges	(0.70)	(2.07)	(2.03)
Return after operating charges	11.35	(3.12)	19.42
Distributions	(3.48)	(2.85)	(2.98)
Closing net asset value per share	186.17	178.30	184.27
* after direct transaction costs of:	—	0.02	—

##### PERFORMANCE

Return after charges	6.36%	(1.69)%	11.57%
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##### OTHER INFORMATION

Closing net asset value (£'000)	31,754	31,578	36,443
Closing number of shares	17,056,931	17,710,403	19,776,735
Operating charges	0.38% <sup>1</sup>	1.11%	1.14%
Direct transaction costs	—	0.01%	—

##### PRICES

Highest share price	194.96	193.42	188.00
Lowest share price	171.29	178.75	163.34

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	127.96	132.23	120.44
Return before operating charges*	8.78	(0.61)	15.50
Operating charges	(1.15)	(2.12)	(2.05)
Return after operating charges	7.63	(2.73)	13.45
Distributions	(1.98)	(1.54)	(1.66)
Closing net asset value per share	133.61	127.96	132.23
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	5.96%	(2.06)%	11.17%
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##### OTHER INFORMATION

Closing net asset value (£'000)	1,882	1,686	2,022
Closing number of shares	1,408,274	1,317,815	1,529,334
Operating charges	0.87% <sup>1</sup>	1.58%	1.61%
Direct transaction costs	—	0.01%	—

##### PRICES

Highest share price	139.56	138.65	134.68
Lowest share price	122.86	128.01	117.18

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	135.43	138.29	124.40
Return before operating charges*	9.32	(0.65)	16.01
Operating charges	(1.22)	(2.21)	(2.12)
Return after operating charges	8.10	(2.86)	13.89
Distributions	(2.10)	(1.61)	(1.72)
Retained distributions on accumulation shares	2.10	1.61	1.72
Closing net asset value per share	143.53	135.43	138.29
* after direct transaction costs of:	–	0.01	–

##### PERFORMANCE

Return after charges	5.98%	(2.07)%	11.17%
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##### OTHER INFORMATION

Closing net asset value (£'000)	67,590	58,162	51,915
Closing number of shares	47,091,908	42,945,145	37,541,468
Operating charges	0.87% <sup>1</sup>	1.58%	1.61%
Direct transaction costs	–	0.01%	–

##### PRICES

Highest share price	147.69	144.94	139.05
Lowest share price	130.08	133.87	121.02

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	162.31	166.06	149.69
Return before operating charges*	11.24	(0.68)	19.31
Operating charges	(1.88)	(3.07)	(2.94)
Return after operating charges	9.36	(3.75)	16.37
Distributions	(2.18)	(1.60)	(1.75)
Retained distributions on accumulation shares	2.18	1.60	1.75
Closing net asset value per share	171.67	162.31	166.06
* after direct transaction costs of:	—	0.02	—

##### PERFORMANCE

Return after charges	5.77%	(2.26)%	10.94%
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##### OTHER INFORMATION

Closing net asset value (£'000)	7,573	6,395	6,164
Closing number of shares	4,411,780	3,940,183	3,711,896
Operating charges	1.12% <sup>1</sup>	1.83%	1.86%
Direct transaction costs	—	0.01%	—

##### PRICES

Highest share price	176.73	173.60	166.80
Lowest share price	155.85	160.45	145.61

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

**LF PRUDENTIAL RISK MANAGED ACTIVE 5**

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Fund Performance to 31 October 2019 (%)**

	1 year	3 years	5 years
LF Prudential Risk Managed Active 5	7.06	15.80	40.06

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 183 and 184.

**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 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	EQUITY PORTFOLIOS – 63.20% (31.10.18 – 64.17%)		
	CONTINENTAL EUROPE – 9.61% (31.10.18 – 10.12%)		
616,214	LF Prudential European QIS <sup>1</sup>	5,995	5.16
255,978	M&G European Select <sup>1</sup>	5,161	4.45
	TOTAL CONTINENTAL EUROPE	11,156	9.61
	UNITED KINGDOM – 22.73% (31.10.18 – 25.57%)		
2,421,402	LF Prudential UK Growth QIS <sup>1</sup>	8,847	7.62
2,882,246	M&G Recovery <sup>1</sup>	8,780	7.56
509,919	M&G UK Select <sup>1</sup>	8,762	7.55
	TOTAL UNITED KINGDOM	26,389	22.73
	ASIA EX JAPAN – 11.57% (31.10.18 – 10.23%)		
1,209,972	Eastspring Developed and Emerging Asia Equity	13,429	11.57
	TOTAL ASIA EX JAPAN	13,429	11.57
	JAPAN – 5.07% (31.10.18 – 4.66%)		
669,294	Eastspring Japan Equity	5,882	5.07
	TOTAL JAPAN	5,882	5.07
	NORTH AMERICA – 9.47% (31.10.18 – 10.47%)		
519,147	LF Prudential North American QIS <sup>1</sup>	5,720	4.93
190,744	M&G North American Value <sup>1</sup>	5,267	4.54
	TOTAL NORTH AMERICA	10,987	9.47
	EMERGING MARKETS – 4.75% (31.10.18 – 3.12%)		
486,560	Eastspring Global Emerging Markets Customized Equity	5,510	4.75
	TOTAL EMERGING MARKETS	5,510	4.75
	TOTAL EQUITY PORTFOLIOS	73,353	63.20



## LF PRUDENTIAL RISK MANAGED ACTIVE 5

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	EQUITY INVESTMENT INSTRUMENTS – 6.49% (31.10.18 – 10.07%)		
630,349	BBGI	1,018	0.88
508,350	BioPharma Credit	394	0.34
512,705	Blue Capital Alternative Income <sup>2</sup>	71	0.06
65,300	Boussard & Gavaudan	966	0.83
539,890	DP Aircraft I	312	0.27
100,561	HarbourVest Global Private Equity	1,669	1.44
292,218	HgCapital	703	0.61
150,523	Intesa Sanpaolo <sup>3</sup>	291	0.25
370,015	NB Distressed Debt Investment	214	0.18
359,676	NextEnergy Solar	432	0.37
374,766	Renewables Infrastructure	490	0.42
663,900	SDCL Energy Efficiency Income	697	0.60
28,670	UniCredit <sup>3</sup>	281	0.24
	TOTAL EQUITY INVESTMENT INSTRUMENTS	7,538	6.49
	PROPERTY PORTFOLIOS – 6.36% (31.10.18 – 17.87%)		
5,956,235	Legal & General UK Property	5,530	4.76
169,911	M&G Property Portfolio <sup>1</sup>	1,851	1.60
	TOTAL PROPERTY PORTFOLIOS	7,381	6.36
	BOND PORTFOLIOS – 18.39% (31.10.18 – 7.89%)		
34,627	Eastspring Asian Bond	387	0.33
130,747	Eastspring Asian Local Bond	1,175	1.01
494,149	Eastspring US Corporate Bond	5,534	4.77
16,211	M&G European Credit Investment <sup>1</sup>	1,768	1.52
296,570	M&G Global Convertibles <sup>1</sup>	657	0.57
2,336,320	M&G Global High Yield Bond <sup>1</sup>	3,239	2.79
3,456,572	M&G Strategic Corporate Bond <sup>1</sup>	4,293	3.70
3,993,968	Royal London Corporate Bond	4,297	3.70
	TOTAL BOND PORTFOLIOS	21,350	18.39

## LF PRUDENTIAL RISK MANAGED ACTIVE 5

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	FUTURES – 0.02% (31.10.18 – 0.00%)		
190	Euro Stoxx 50 Index Futures December 2019	22	0.02
100	S&P 500 E Mini Futures December 2019	3	–
4,000	US 10 Year T-Note Futures December 2019	1	–
	TOTAL FUTURES	26	0.02
	Portfolio of investments	109,648	94.46
	Net other assets	6,428	5.54
	Net assets	116,076	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.

<sup>1</sup> Related party holding (see note 12).

<sup>2</sup> Delisted security.

<sup>3</sup> Ordinary shares.

## LF PRUDENTIAL RISK MANAGED ACTIVE 5

### ACD'S REPORT *continued*

### SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2019

Total purchases for the year £'000 (note 16)	92,188	Total sales for the year £'000 (note 16)	93,472
	Cost		Proceeds
Major purchases	£'000	Major sales	£'000
Eastspring Developed and Emerging Asia Equity	15,269	M&G Property Portfolio	10,807
M&G UK Select	9,217	Threadneedle American	8,632
LF Prudential UK Growth QIS	8,909	Investec UK Alpha	8,533
M&G North American Value	6,570	AXA Framlington UK Select Opportunities	6,539
LF Prudential European QIS	5,954	Investec Asian Equity	6,291
Eastspring Japan Equity	5,837	Fidelity Asia	6,215
Eastspring Global Emerging Markets		Henderson European Selected Opportunities	5,610
Customized Equity	5,804	Artemis Income	5,064
LF Prudential North American QIS	5,501	Invesco Perpetual Corporate Bond	4,382
Eastspring US Corporate Bond	5,215	FTSE 100 Index Futures June 2019	3,530
M&G European Select	4,938		

In addition to the above, purchases totalling £598,149,000 and sales totalling £598,151,000 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 2019

	Notes	£'000	31.10.19 £'000	£'000	31.10.18 £'000
Income:					
Net capital gains/(losses)	3		4,790		(3,555)
Revenue	4	2,207		2,208	
Expenses	5	(315)		(785)	
Interest payable and similar charges	6	(3)		(2)	
Net revenue before taxation		1,889		1,421	
Taxation	7	(219)		(59)	
Net revenue after taxation			1,670		1,362
<b>Total return before distributions</b>			6,460		(2,193)
Distributions	8		(1,736)		(1,312)
<b>Change in net assets attributable to shareholders from investment activities</b>			4,724		(3,505)

#### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2019

	£'000	31.10.19 £'000	£'000	31.10.18 £'000
<b>Opening net assets attributable to shareholders</b>		105,283		105,038
Amounts receivable on issue of shares	18,195		17,357	
Amounts payable on redemption of shares	(13,297)		(14,404)	
		4,898		2,953
Change in net assets attributable to shareholders from investment activities		4,724		(3,505)
Retained distributions on Accumulation shares		1,170		797
Unclaimed distributions		1		—
<b>Closing net assets attributable to shareholders</b>		116,076		105,283

## LF PRUDENTIAL RISK MANAGED ACTIVE 5

### FINANCIAL STATEMENTS *continued*

#### BALANCE SHEET

as at 31 October 2019

	Notes	31.10.19 £'000	31.10.18 £'000
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investments		109,648	105,281
<b>Current assets</b>			
Debtors	9	849	865
Cash and bank balances	10	6,364	1,320
<b>Total assets</b>		<u>116,861</u>	<u>107,466</u>
<b>LIABILITIES</b>			
Provisions for liabilities		(61)	(18)
<b>Creditors</b>			
Bank overdrafts		(20)	–
Distribution payable	11	(623)	(527)
Other creditors	11	(81)	(1,638)
<b>Total liabilities</b>		<u>(785)</u>	<u>(2,183)</u>
<b>Net assets attributable to shareholders</b>		<u>116,076</u>	<u>105,283</u>

## LF PRUDENTIAL RISK MANAGED ACTIVE 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2019

#### 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 page 24 have been applied to the financial statements of the Fund in the current and prior year.

#### 3. Net Capital Gains/(Losses)

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

	31.10.19 £'000	31.10.18 £'000
Non-derivative securities	4,710	(3,734)
Derivative contracts	67	153
Transaction charges	(2)	(1)
AMC rebates from underlying investments	20	23
Currency (losses)/gains	(5)	4
Net capital gains/(losses)	4,790	(3,555)

The net capital gains/(losses) figure includes realised gains of £17,234,000 and unrealised gains of £2,521,000 (31.10.18: includes realised gains of £1,591,000 and unrealised gains of £14,982,000). 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 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 4. Revenue

	31.10.19 £'000	31.10.18 £'000
Non-taxable dividends	1,136	875
Taxable dividends	16	–
UK property income distributions	410	550
Unfranked interest	290	290
AMC rebates from underlying investments	354	493
Bank interest	1	–
Total revenue	2,207	2,208

#### 5. Expenses

	31.10.19 £'000	31.10.18 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	471	608
Administration fees	34	161
ACD reimbursement to revenue <sup>1</sup>	(209)	–
	296	769
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	1	–
	11	10
Other expenses:		
Audit fees	8	6
Total expenses	315	785

<sup>1</sup> 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 Investment 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 2019

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

	31.10.19 £'000	31.10.18 £'000
Interest payable	3	2
Total interest payable and similar charges	3	2

#### 7. Taxation

	31.10.19 £'000	31.10.18 £'000
a) Analysis of charge for the year		
Corporation tax	173	109
Irrecoverable overseas tax	2	–
Adjustments in respect of prior periods	–	1
Current tax charge	175	110
Deferred tax – origination and reversal of timing differences (note 7c)	44	(51)
Total taxation (note 7b)	219	59

#### 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%) (31.10.18: 20%). The difference is explained below:

	31.10.19 £'000	31.10.18 £'000
Net revenue before taxation	1,889	1,421
Corporation tax at 20%	378	284



## LF PRUDENTIAL RISK MANAGED ACTIVE 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Effects of:		
Non-taxable dividends	(227)	(176)
Capital income subject to taxation	62	(55)
Rebated capital expenses deductible for tax purposes	4	5
Irrecoverable overseas tax	2	–
Corporation tax: adjustment in respect of prior years	–	1
Total tax charge (note 7a)	<u>219</u>	<u>59</u>
c) Deferred tax		
Provision at the start of the year	17	68
Deferred tax charge in the year (note 7a)	<u>44</u>	<u>(51)</u>
Provision at the end of the year	<u>61</u>	<u>17</u>

## 8. Distributions

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

	31.10.19 £'000	31.10.18 £'000
Final	<u>1,793</u>	<u>1,324</u>
	1,793	1,324
Add: Revenue deducted on redemption of shares	127	80
Deduct: Revenue received on issue of shares	<u>(184)</u>	<u>(92)</u>
Net distribution for the year	<u>1,736</u>	<u>1,312</u>

Details of the distributions per share are set out in the table on pages 183 and 184.

## LF PRUDENTIAL RISK MANAGED ACTIVE 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Distributions represented by:		
Net revenue after taxation	1,670	1,362
Allocations to capital:		
Tax relief from/to capital	66	(50)
Net distribution for the year	1,736	1,312

#### 9. Debtors

	31.10.19 £'000	31.10.18 £'000
Amounts receivable for issue of shares	193	525
Sales awaiting settlement	480	–
Accrued revenue:		
Non-taxable dividends	18	115
UK property income distributions	15	71
Unfranked interest	–	3
AMC rebates from underlying investments	106	103
	139	292
Taxation recoverable:		
Income tax	37	48
Total debtors	849	865

#### 10. Cash and Bank Balances

	31.10.19 £'000	31.10.18 £'000
Bank balances	6,316	1,320
Margin account	48	–
Total cash and bank balances	6,364	1,320

**LF PRUDENTIAL RISK MANAGED ACTIVE 5**  
**FINANCIAL STATEMENTS** *continued*  
**NOTES TO THE FINANCIAL STATEMENTS** *continued*  
for the year ended 31 October 2019

## 11. Creditors

	31.10.19 £'000	31.10.18 £'000
Distribution payable	623	527
<b>Other Creditors</b>		
Amounts payable for redemption of shares	69	52
Purchases awaiting settlement	–	1,444
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	38	52
Administration fees	–	14
ACD reimbursement to revenue	(209)	–
	(171)	66
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	1	1
Transaction charges	1	–
	2	1
Taxation payable:		
Corporation tax	173	67
Other expenses	8	8
Total other creditors	81	1,638

## 12. Related Party Transactions

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 169 and amounts due at the year end are disclosed in notes 9 and 11.

## LF PRUDENTIAL RISK MANAGED ACTIVE 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

Link Fund Solutions Limited and its associates (including other authorised investment funds managed by Link Fund Solutions or its associates) held 224,813 (31.10.18: 176,967) 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 8,661,324 (31.10.18: 8,560,454) 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 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:

	31.10.19 £'000	31.10.18 £'000
Portfolio Manager in common	39,778	21,343
Portfolio Manager and ACD in common	20,562	–

### 13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.18: none).

### 14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.74%	0.74%	0.00%
Opening shares in issue	117,996	3,931,963	17,710,403
Issues	5,592	247,780	1,692,213
Redemptions	(21,962)	(514,371)	(2,345,685)
Conversions	–	(28,135)	–
Closing shares in issue	101,626	3,637,237	17,056,931

## LF PRUDENTIAL RISK MANAGED ACTIVE 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.49%	0.49%	0.74%
Opening shares in issue	1,317,815	42,945,145	3,940,183
Issues	243,642	9,081,377	1,007,296
Redemptions	(153,183)	(4,972,806)	(535,699)
Conversions	—	38,192	—
Closing shares in issue	<u>1,408,274</u>	<u>47,091,908</u>	<u>4,411,780</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.

Refer to the Portfolio Statement for exposure to counterparties obtained through the use of derivatives.

## LF PRUDENTIAL RISK MANAGED ACTIVE 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### (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 may indirectly be 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:

	31.10.19 £'000	31.10.18 £'000
Currency:		
Euro currency	1,706	2,611
Swiss francs	1	–
US dollars	27,347	1,623
Total foreign currency exposure	29,054	4,234
Pounds sterling	87,022	101,049
Total net assets	116,076	105,283

A 5% increase/decrease in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £1,302,283 decrease and £1,439,365 increase respectively on the net assets of the Fund.

## LF PRUDENTIAL RISK MANAGED ACTIVE 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### (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 31.10.19, leverage under the gross method was 0.94:1 and leverage under the commitment method was 1:1 (31.10.18: 1:1 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.

To reduce liquidity risk the Portfolio Manager will ensure that a substantial portion of the Fund's assets consist of cash and readily realisable investments.

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 £5,482,000 (31.10.18: £5,264,000). A 5% decrease would have an equal and opposite effect.

#### (G) DERIVATIVES

The derivatives held by the Fund during the current and prior year were for Efficient Portfolio Management (EPM) purposes and were not of a material nature.

## LF PRUDENTIAL RISK MANAGED ACTIVE 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 16. Portfolio Transaction Costs

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>		—	—	

Average portfolio dealing spread at 31.10.19 is 0.35% (31.10.18: 0.40%).



## LF PRUDENTIAL RISK MANAGED ACTIVE 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
<b>31.10.18</b>				
Ordinary shares	2,725	1	3	2,729
Collective investment schemes	14,531	1	5	14,537
Purchases total	17,256	2	8	17,266
<i>Transaction cost % of purchases total</i>		0.01%	0.05%	
<i>Transaction cost % of average NAV</i>		–	0.01%	
Collective investment schemes	14,633	(1)	–	14,632
Sales total	14,633	(1)	–	14,632
<i>Transaction cost % of sales total</i>		0.01%	–	
<i>Transaction cost % of average NAV</i>		–	–	

## 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
<b>31.10.19</b>				
Investment assets	7,493	102,084	71	109,648
<b>31.10.18</b>				
Investment assets	22,889	82,121	271	105,281

## LF PRUDENTIAL RISK MANAGED ACTIVE 5

### FINANCIAL STATEMENTS *continued*

#### DISTRIBUTION TABLE

for the year ended 31 October 2019 – 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	01.11.18
To	31.10.19

#### 'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.2235	–	2.2235	1.0206
Group 2	0.3129	1.9106	2.2235	1.0206

#### 'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.3075	–	2.3075	1.0549
Group 2	0.3564	1.9511	2.3075	1.0549

#### 'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	3.4782	–	3.4782	2.8522
Group 2	2.1615	1.3167	3.4782	2.8522

#### 'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	1.9819	–	1.9819	1.5417
Group 2	0.2413	1.7406	1.9819	1.5417

**LF PRUDENTIAL RISK MANAGED ACTIVE 5**  
**FINANCIAL STATEMENTS** *continued*  
**DISTRIBUTION TABLE** *continued*

**'P' ACCUMULATION SHARES**

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.1012	–	2.1012	1.6135
Group 2	0.7360	1.3652	2.1012	1.6135

**'R' ACCUMULATION SHARES**

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.1822	–	2.1822	1.5983
Group 2	0.5283	1.6539	2.1822	1.5983

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1 ACD'S REPORT

for the year ended 31 October 2019

### 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 volatility over rolling 5 year periods to 9%.

There is no guarantee that the volatility target will be met and at any time the actual volatility may be higher or lower than the long term target.

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. 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

27 February 2020

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

### ACD'S REPORT *continued*

### PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2019

Between 1 November 2018 and 31 October 2019 (the period in review) share classes R (Acc) 6.28%<sup>1</sup> and P (Acc) 6.58%<sup>1</sup> produced returns ahead of the 6.11%<sup>1</sup> sector average for IA Mixed Investment 0-35% Shares. A (Acc) was slightly behind the sector average returning 6.05%<sup>1</sup>.

#### Market Overview

There was a broad sell-off in stock markets in the final quarter of 2018, as investors became increasingly alarmed over weaker-than-expected economic data out of the US, European Union and Japan, an ongoing trade war between the US and China and generally less supportive monetary policy from the world's central banks. As a result, several stock markets hit, or nearly hit, bear market territory – that is, they fell by 20% or more from their peak.

However global stock markets rebounded strongly in early 2019. A combination of relief that company earnings for the final quarter of 2018 were better than expected and dovish comments by many central banks that interest rates would remain on hold drove sentiment. Many central banks including the US Federal Reserve have subsequently reversed monetary policy which has been very supportive of markets.

Stock market performance was mixed towards the end of the period in review, with emerging market stocks, in general, underperforming developed market stocks. Fears about the global economy led to a setback for stock markets in August, whilst government bonds in many countries rallied strongly. The yields on UK gilts, US Treasuries and German bunds fell to record lows, but have risen somewhat since.

#### Positioning

The portfolio management team implemented the 2019 strategic asset allocation review in September across all funds in the range.

Overall, equity allocations have been reduced by 3% in this Fund via small reductions to the benchmark positions for UK, US, European, Japanese and Asian equities. Conversely the allocation to fixed income has been increased by 3%. The main change this year is the addition of US treasuries that provide more favourable yields than other developed market government bonds and are still seen as a 'haven' in the event of a market downturn.

From a shorter-term tactical perspective, the portfolio manager currently has a small overweight position across global equities and a moderate underweight in global high yield and UK and European investment grade bonds. This mainly reflects the current low yield environment. The portfolio is also slightly overweight cash which will be allocated when an appropriate opportunity arises.

The team have reduced the Italian banks position to reflect a lower conviction as the fundamentals of the trade now have an extended payback period.

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<sup>1</sup> Source: FE Analytics.

## **LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1**

### **ACD'S REPORT** *continued*

### **PORTFOLIO MANAGER'S REPORT** *continued*

#### **Investment Activity**

Further to communications around the changes being made to LF Prudential Risk Managed Passive funds, the transition to the new underlying fund holdings was completed in late July 2019. This activity would have included a re-allocation across equity and fixed income as property holdings were redeemed and alternatives holdings reduced. Full details are in this report.

#### **Outlook**

The portfolio managers view of markets remains largely unchanged over recent months. Macro data continues to be weak, and we wait to see whether looser financial conditions/central bank easing will help produce stronger macro data in the near future (with its typical lagged effect). Markets have had a very strong year so far in 2019, fuelled by the global central bank easing theme that began at the end of 2018.

We believe another driver of markets has been the US/China trade discussions. Our sense is that market expectations of a positive outcome have built to a high level and have supported the current price levels of risky assets. There is obviously a risk that high expectations are dashed, sentiment is dented, and that market prices fall. We think it is difficult to have an insight on this particular outcome.

#### **M&G INVESTMENT MANAGEMENT LIMITED**

Portfolio Manager

19 November 2019

## 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. The lowest number on the scale does not mean that a fund is risk free.

The Fund has been classed as 3 because its volatility has been measured as medium to 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.

**Currency Risk:** As the Fund invests indirectly in overseas securities, exchange rates movements may, when not hedged, cause the value of your investment to increase or decrease.

Bonds are affected by trends in interest rates and inflation. If interest rates go up the value of capital may fall and vice versa. Inflation will also decrease the real value of capital. The value of a bond is also affected by its credit rating. Bonds with a higher average yield tend to be less liquid and have a lower credit rating. Investments in bonds with a higher yield also generally brings an increased risk of default on repayment by the issuer which could affect the income and capital of the Fund.

The Fund may invest indirectly in property. Property investments may be harder to buy and sell than other asset types.

**Non-UCITS Retail Scheme (NURS):** The Fund can be less diversified than UCITS schemes as it has higher investment limits for certain types of assets. It can also invest in assets which are not available to UCITS schemes. This can increase the potential rewards but can also increase risk.

The value of investments, and the income from them, will fluctuate. This will cause the Fund price to fall as well as rise and you may not get back what you originally invested.

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](http://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.

#### 'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	135.22	139.33	134.77
Return before operating charges*	8.84	0.37	9.42
Operating charges	(1.07)	(2.23)	(2.21)
Return after operating charges	7.77	(1.86)	7.21
Distributions	(2.57)	(2.25)	(2.65)
Closing net asset value per share	140.42	135.22	139.33
* after direct transaction costs of:	—	0.01	—

#### PERFORMANCE

Return after charges	5.75%	(1.33)%	5.35%
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#### OTHER INFORMATION

Closing net asset value (£'000)	185	303	314
Closing number of shares	131,409	224,141	225,437
Operating charges	0.77% <sup>1</sup>	1.60%	1.60%
Direct transaction costs	—	—	—

#### PRICES

Highest share price	146.49	141.28	142.17
Lowest share price	132.18	136.83	131.68

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	169.24	171.53	162.81
Return before operating charges*	10.98	0.46	11.39
Operating charges	(1.32)	(2.75)	(2.67)
Return after operating charges	9.66	(2.29)	8.72
Distributions	(3.19)	(2.78)	(3.21)
Retained distributions on accumulation shares	3.19	2.78	3.21
Closing net asset value per share	178.90	169.24	171.53
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	5.71%	(1.34)%	5.36%
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##### OTHER INFORMATION

Closing net asset value (£'000)	7,638	7,838	8,881
Closing number of shares	4,269,527	4,631,026	5,177,861
Operating charges	0.76% <sup>1</sup>	1.60%	1.60%
Direct transaction costs	—	—	—

##### PRICES

Highest share price	183.26	173.83	171.75
Lowest share price	165.73	168.45	159.06

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	135.37	139.53	134.93
Return before operating charges*	8.81	0.36	9.50
Operating charges	(0.11)	(0.35)	(0.35)
Return after operating charges	8.70	0.01	9.15
Distributions	(3.50)	(4.17)	(4.55)
Closing net asset value per share	140.57	135.37	139.53
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	6.43%	0.01%	6.78%
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##### OTHER INFORMATION

Closing net asset value (£'000)	150,260	156,867	171,075
Closing number of shares	106,894,445	115,880,365	122,612,020
Operating charges	0.08% <sup>1</sup>	0.25%	0.25%
Direct transaction costs	—	—	—

##### PRICES

Highest share price	147.47	142.89	144.21
Lowest share price	132.60	137.93	132.01

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	109.78	113.13	109.43
Return before operating charges*	7.13	0.30	7.66
Operating charges	(0.44)	(0.96)	(0.96)
Return after operating charges	6.69	(0.66)	6.70
Distributions	(2.48)	(2.69)	(3.00)
Closing net asset value per share	113.99	109.78	113.13
* after direct transaction costs of:	—	—	—

##### PERFORMANCE

Return after charges	6.10%	(0.59)%	6.12%
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##### OTHER INFORMATION

Closing net asset value (£'000)	6,937	6,393	5,370
Closing number of shares	6,085,800	5,824,023	4,746,330
Operating charges	0.39% <sup>1</sup>	0.85%	0.85%
Direct transaction costs	—	—	—

##### PRICES

Highest share price	119.42	115.35	116.40
Lowest share price	107.43	111.57	107.00

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	123.25	123.99	116.81
Return before operating charges*	8.02	0.31	8.20
Operating charges	(0.50)	(1.05)	(1.02)
Return after operating charges	7.52	(0.74)	7.18
Distributions	(2.79)	(2.94)	(3.21)
Retained distributions on accumulation shares	2.79	2.94	3.21
Closing net asset value per share	130.77	123.25	123.99
* after direct transaction costs of:	–	0.01	–

##### PERFORMANCE

Return after charges	6.10%	(0.60)%	6.15%
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##### OTHER INFORMATION

Closing net asset value (£'000)	102,315	111,821	69,303
Closing number of shares	78,241,121	90,726,089	55,893,928
Operating charges	0.39% <sup>1</sup>	0.85%	0.85%
Direct transaction costs	–	–	–

##### PRICES

Highest share price	134.02	126.40	124.22
Lowest share price	120.85	122.28	114.21

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	135.54	136.68	129.10
Return before operating charges*	8.79	0.37	9.04
Operating charges	(0.88)	(1.51)	(1.46)
Return after operating charges	7.91	(1.14)	7.58
Distributions	(2.72)	(2.90)	(3.21)
Retained distributions on accumulation shares	2.72	2.90	3.21
Closing net asset value per share	143.45	135.54	136.68
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	5.84%	(0.83)%	5.87%
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##### OTHER INFORMATION

Closing net asset value (£'000)	20,852	18,831	17,793
Closing number of shares	14,536,443	13,893,193	13,017,368
Operating charges	0.63% <sup>1</sup>	1.10%	1.10%
Direct transaction costs	—	—	—

##### PRICES

Highest share price	147.04	139.06	136.88
Lowest share price	132.83	134.67	126.18

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

**LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1**

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Fund Performance to 31 October 2019 (%)**

	1 year	3 years	5 years
LF Prudential Risk Managed Passive Fund 1	6.58	12.23	26.75

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 215 and 216.

**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 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	EQUITY PORTFOLIOS – 22.71% (31.10.18 – 19.24%)		
	UNITED KINGDOM – 8.15% (31.10.18 – 7.67%)		
2,346,425	iShares UK Equity Index	4,266	1.48
12,071,942	Legal & General UK Index	19,231	6.67
	TOTAL UNITED KINGDOM	23,497	8.15
	CONTINENTAL EUROPE – 2.65% (31.10.18 – 3.03%)		
2,652,394	Legal & General European Index	7,631	2.65
	TOTAL CONTINENTAL EUROPE	7,631	2.65
	ASIA EX JAPAN – 4.33% (31.10.18 – 2.91%)		
6,836,520	iShares Pacific ex Japan Equity Index	12,477	4.33
	TOTAL ASIA EX JAPAN	12,477	4.33
	JAPAN – 2.11% (31.10.18 – 1.45%)		
2,783,274	iShares Japan Equity Index	6,095	2.11
	TOTAL JAPAN	6,095	2.11
	NORTH AMERICA – 3.53% (31.10.18 – 3.26%)		
3,404,652	iShares US Equity Index	10,187	3.53
	TOTAL NORTH AMERICA	10,187	3.53
	EMERGING MARKETS – 1.94% (31.10.18 – 0.92%)		
3,572,874	iShares Emerging Markets Equity Index	5,577	1.94
	TOTAL EMERGING MARKETS	5,577	1.94
	TOTAL EQUITY PORTFOLIOS	65,464	22.71
	EQUITY INVESTMENT INSTRUMENTS – 2.91% (31.10.18 – 4.62%)		
624,187	BBGI	1,008	0.35
511,860	BioPharma Credit	397	0.14
460,040	Blue Capital Alternative Income <sup>1</sup>	63	0.02
63,800	Boussard & Gavaudan	944	0.33



# **LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1**

## **ACD'S REPORT** *continued*

## **PORTFOLIO STATEMENT** *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
506,848	DP Aircraft I	293	0.10
98,909	HarbourVest Global Private Equity	1,642	0.57
291,027	HgCapital	700	0.24
378,819	Intesa Sanpaolo <sup>2</sup>	733	0.26
398,831	NB Distressed Debt Investment	231	0.08
349,017	NextEnergy Solar	419	0.15
408,600	Renewables Infrastructure	534	0.19
669,400	SDCL Energy Efficiency Income	703	0.24
72,153	UniCredit <sup>2</sup>	706	0.24
	<b>TOTAL EQUITY INVESTMENT INSTRUMENTS</b>	<b>8,373</b>	<b>2.91</b>
	<b>PROPERTY PORTFOLIOS – 0.00% (31.10.18 – 8.79%)</b>	<b>–</b>	<b>–</b>
	<b>BOND PORTFOLIOS – 66.63% (31.10.18 – 67.48%)</b>		
44,927,007	iShares Corporate Bond Index	68,559	23.79
1,607,171	iShares Euro Investment Grade Corporate Bond Index	17,396	6.04
6,007,414	iShares US Corporate Bond Index	54,343	18.86
1,139,631	iShares USD Treasury Bond	5,713	1.98
10,376,384	M&G European Corporate Bond <sup>3</sup>	11,769	4.08
4,090,940	M&G Global High Yield Bond <sup>3</sup>	5,671	1.97
22,985,728	M&G Strategic Corporate Bond <sup>3</sup>	28,550	9.91
	<b>TOTAL BOND PORTFOLIOS</b>	<b>192,001</b>	<b>66.63</b>
	<b>FUTURES – 0.02% (31.10.18 – 0.00%)</b>		
75	EURO STOXX 50 Index Futures December 2019	62	0.02
9	FTSE 100 Index Futures December 2019	11	–
	<b>TOTAL FUTURES</b>	<b>73</b>	<b>0.02</b>

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	Portfolio of investments	265,911	92.27
	Net other assets	22,276	7.73
	Net assets	288,187	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.

<sup>1</sup> Delisted security.

<sup>2</sup> Ordinary shares.

<sup>3</sup> Related party holding (see note 12).

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

### ACD'S REPORT *continued*

### SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2019

Total purchases for the year £'000 (note 16)	201,844	Total sales for the year £'000 (note 16)	252,772
	Cost £'000		Proceeds £'000
<b>Major purchases</b>		<b>Major sales</b>	
iShares Corporate Bond Index	71,790	M&G Strategic Corporate Bond	68,209
iShares US Corporate Bond Index	59,564	M&G Corporate Bond	46,980
iShares Euro Investment Grade Corporate Bond Index	18,476	M&G Property Portfolio	25,959
iShares Pacific ex Japan Equity Index	15,332	M&G Short Dated Corporate Bond	16,052
iShares US Equity Index	12,021	M&G European Corporate Bond	14,958
iShares Emerging Markets Equity Index	6,323	Legal & General US Index	10,301
iShares Japan Equity Index	5,921	Legal & General Pacific Index	9,580
iShares USD Treasury Bond	5,727	M&G European Loan	8,065
iShares UK Equity Index	4,221	iShares US Corporate Bond Index	7,035
EURO STOXX 50 Index Futures September 2019	4,009	iShares Corporate Bond Index	5,619

In addition to the above, purchases totalling £4,196,151,000 and sales totalling £4,196,001,000 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 2019

	Notes	£'000	31.10.19 £'000	£'000	31.10.18 £'000
Income:					
Net capital gains/(losses)	3		11,602		(9,067)
Revenue	4	7,684		9,337	
Expenses	5	(597)		(1,321)	
Interest payable and similar charges	6	(4)		—	
Net revenue before taxation		7,083		8,016	
Taxation	7	(262)		(151)	
Net revenue after taxation			6,821		7,865
<b>Total return before distributions</b>			18,423		(1,202)
Distributions	8		(6,996)		(7,865)
<b>Change in net assets attributable to shareholders from investment activities</b>			11,427		(9,067)

#### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2019

	£'000	31.10.19 £'000	£'000	31.10.18 £'000
<b>Opening net assets attributable to shareholders</b>		302,053		272,736
Amounts receivable on issue of shares	37,749		62,813	
Amounts payable on redemption of shares	(65,755)		(27,627)	
		(28,006)		35,186
Change in net assets attributable to shareholders from investment activities		11,427		(9,067)
Retained distributions on Accumulation shares		2,713		3,197
Unclaimed distributions		—		1
<b>Closing net assets attributable to shareholders</b>		288,187		302,053

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

### FINANCIAL STATEMENTS *continued*

### BALANCE SHEET

as at 31 October 2019

	Notes	31.10.19 £'000	31.10.18 £'000
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investments		265,911	302,538
<b>Current assets</b>			
Debtors	9	2,379	3,444
Cash and bank balances	10	24,569	8,461
<b>Total assets</b>		<u>292,859</u>	<u>314,443</u>
<b>LIABILITIES</b>			
Provisions for liabilities		—	(36)
<b>Creditors</b>			
Bank overdrafts		(30)	—
Distribution payable	11	(3,897)	(4,992)
Other creditors	11	(745)	(7,362)
<b>Total liabilities</b>		<u>(4,672)</u>	<u>(12,390)</u>
<b>Net assets attributable to shareholders</b>		<u>288,187</u>	<u>302,053</u>

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2019

#### 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 page 24 have been applied to the financial statements of the Fund in the current and prior year.

The Fund has satisfied the qualifying investment 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/(Losses)

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

	31.10.19 £'000	31.10.18 £'000
Non-derivative securities	11,213	(10,031)
Derivative contracts	248	418
Transaction charges	(2)	(1)
AMC rebates from underlying investments	344	533
Currency (losses)/gains	(200)	13
Broker's commission on futures	(1)	–
Initial charge reimbursement	–	1
Net capital gains/(losses)	11,602	(9,067)

The net capital gains/(losses) figure includes realised gains of £18,159,000 and unrealised gains of £12,133,000 (31.10.18: includes realised gains of £874,000 and unrealised gains of £19,031,000). 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 2019

#### 4. Revenue

	31.10.19 £'000	31.10.18 £'000
Non-taxable dividends	2,404	2,013
Taxable dividends	130	230
UK property income distributions	409	750
Unfranked interest	3,654	4,707
AMC rebates from underlying investments	1,086	1,637
Bank interest	2	–
Interest futures	(1)	–
Total revenue	7,684	9,337

#### 5. Expenses

	31.10.19 £'000	31.10.18 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	522	853
Administration fees	98	439
ACD reimbursement to revenue <sup>1</sup>	(55)	–
	565	1,292
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	1
	24	23
Other expenses:		
Audit fees	8	6
Total expenses	597	1,321

<sup>1</sup> 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 Investment 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 2019

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

	31.10.19 £'000	31.10.18 £'000
Interest payable	4	–
Total interest payable and similar charges	4	–

#### 7. Taxation

	31.10.19 £'000	31.10.18 £'000
a) Analysis of charge for the year		
Corporation tax	186	139
Irrecoverable overseas tax	5	–
Adjustments in respect of prior periods	107	1
Current tax charge	298	140
Deferred tax – origination and reversal of timing differences (note 7c)	(36)	11
Total taxation (note 7b)	262	151

#### 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%) (31.10.18: 20%). The difference is explained below:

	31.10.19 £'000	31.10.18 £'000
Net revenue before taxation	7,083	8,016
Corporation tax at 20%	1,417	1,603



## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Effects of:		
Non-taxable dividends	(482)	(403)
Rebated capital expenses deductible for tax purposes	69	107
Irrecoverable overseas tax	5	–
Corporation tax: adjustment in respect of prior years	107	1
Tax deductible interest distributions	(854)	(1,157)
Total tax charge (note 7a)	<u>262</u>	<u>151</u>
c) Deferred tax		
Provision at the start of the year	36	25
Deferred tax charge in the year (note 7a)	<u>(36)</u>	<u>11</u>
Provision at the end of the year	<u>–</u>	<u>36</u>

## 8. Distributions

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

	31.10.19 £'000	31.10.18 £'000
Final	<u>6,610</u>	<u>8,189</u>
	6,610	8,189
Add: Revenue deducted on redemption of shares	796	421
Deduct: Revenue received on issue of shares	<u>(410)</u>	<u>(745)</u>
Net distribution for the year	<u>6,996</u>	<u>7,865</u>

Details of the distributions per share are set out in the table on pages 215 and 216.

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Distributions represented by:		
Net revenue after taxation	6,821	7,865
Allocations to capital:		
Tax relief from capital	175	–
Net distribution for the year	6,996	7,865

#### 9. Debtors

	31.10.19 £'000	31.10.18 £'000
Amounts receivable for issue of shares	1,755	218
Sales awaiting settlement	86	1,538
Accrued revenue:		
Non-taxable dividends	474	853
UK property income distributions	–	140
Unfranked interest	–	424
AMC rebates from underlying investments	63	236
	537	1,653
Taxation recoverable:		
Income tax	1	35
Total debtors	2,379	3,444

#### 10. Cash and Bank Balances

	31.10.19 £'000	31.10.18 £'000
Bank balances	24,426	8,461
Margin account	143	–
Total cash and bank balances	24,569	8,461

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 11. Creditors

	31.10.19 £'000	31.10.18 £'000
Distribution payable	3,897	4,992
<b>Other Creditors</b>		
Amounts payable for redemption of shares	168	1,938
Purchases awaiting settlement	408	5,213
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	33	84
Administration fees	–	39
ACD reimbursement to revenue	(55)	–
	(22)	123
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	2	2
Transaction charges	1	–
	3	2
Taxation payable:		
Corporation tax	180	78
Other expenses	8	8
Total other creditors	745	7,362

#### 12. Related Party Transactions

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 201 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 2019

Link Fund Solutions Limited and its associates (including other authorised investment funds managed by Link Fund Solutions or its associates) held 189,978 (31.10.18: 183,899) 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 106,894,195 (31.10.18: 115,880,115) 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 50.86% (31.10.18: 50.13%)

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:

	31.10.19 £'000	31.10.18 £'000
Portfolio Manager in common	45,990	229,313

### 13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.18: none).

### 14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.48%	0.48%	0.00%
Opening shares in issue	224,141	4,631,026	115,880,365
Issues	2,130	573,818	8,613,024
Redemptions	(94,862)	(883,319)	(17,598,944)
Conversions	—	(51,998)	—
Closing shares in issue	131,409	4,269,527	106,894,445

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.23%	0.23%	0.48%
Opening shares in issue	5,824,023	90,726,089	13,893,193
Issues	1,470,080	14,195,556	3,991,466
Redemptions	(1,215,196)	(26,750,369)	(3,343,812)
Conversions	6,893	69,845	(4,404)
Closing shares in issue	<u>6,085,800</u>	<u>78,241,121</u>	<u>14,536,443</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 2019

#### (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 may indirectly be 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:

	31.10.19 £'000	31.10.18 £'000
Currency:		
Euro currency	74,287	5,668
US dollars	1,316	1,495
Total foreign currency exposure	75,603	7,163
Pounds sterling	212,584	294,890
Total net assets	288,187	302,053

A 5% increase/decrease in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £3,600,181 decrease and £3,979,148 increase respectively on the net assets of the Fund.

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### (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 31.10.19, leverage under the gross method was 0.92:1 and leverage under the commitment method was 1:1 (31.10.18: 1:1 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.

To reduce liquidity risk the Portfolio Manager will ensure that a substantial portion of the Fund's assets consist of cash and readily realisable investments.

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 £13,296,000 (31.10.18: £15,127,000). A 5% decrease would have an equal and opposite effect.

#### (G) DERIVATIVES

The derivatives held by the Fund during the current and prior year were for Efficient Portfolio Management (EPM) purposes and were not of a material nature.

# **LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1**

## **FINANCIAL STATEMENTS** *continued*

## **NOTES TO THE FINANCIAL STATEMENTS** *continued*

for the year ended 31 October 2019

### **16. Portfolio Transaction Costs**

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>		—	—	

Average portfolio dealing spread at 31.10.19 is 0.28% (31.10.18 : 0.09%).



## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
<b>31.10.18</b>				
Ordinary shares	7,456	4	7	7,467
Collective investment schemes	37,829	1	–	37,830
Purchases total	45,285	5	7	45,297
<i>Transaction cost % of purchases total</i>		0.01%	0.02%	
<i>Transaction cost % of average NAV</i>		–	–	
Collective investment schemes	10,191	–	–	10,191
Sales total	10,191	–	–	10,191
<i>Transaction cost % of sales total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	

## 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
<b>31.10.19</b>				
Investment assets	14,096	251,752	63	265,911
<b>31.10.18</b>				
Investment assets	13,213	289,082	243	302,538

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

### FINANCIAL STATEMENTS *continued*

#### DISTRIBUTION TABLE

for the year ended 31 October 2019 – 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	01.11.18
To	31.10.19

#### 'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.5695	–	2.5695	2.2527
Group 2	0.8840	1.6855	2.5695	2.2527

#### 'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	3.1876	–	3.1876	2.7750
Group 2	0.6723	2.5153	3.1876	2.7750

#### 'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	3.5015	–	3.5015	4.1687
Group 2	3.5015	0.0000	3.5015	4.1687

#### 'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.4823	–	2.4823	2.6863
Group 2	1.2157	1.2666	2.4823	2.6863

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 1

### FINANCIAL STATEMENTS *continued*

### DISTRIBUTION TABLE *continued*

#### 'P' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.7897	–	2.7897	2.9373
Group 2	1.3955	1.3942	2.7897	2.9373

#### 'R' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.7150	–	2.7150	2.9001
Group 2	1.8797	0.8353	2.7150	2.9001

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2 ACD'S REPORT

for the year ended 31 October 2019

### 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 volatility over rolling 5 year periods to 10%.

There is no guarantee that the volatility target will be met and at any time the actual volatility may be higher or lower than the long term target.

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. 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

27 February 2020

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### ACD'S REPORT *continued*

### PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2019

Between 1 November 2018 and 31 October 2019 (the period in review) share classes R (Acc) 7.01%<sup>1</sup>, P (Acc) 7.22%<sup>1</sup> and A (Acc) 6.76%<sup>1</sup> produced returns that were ahead of the 6.42%<sup>1</sup> sector average for the IA Mixed Investment 20-60% Shares.

#### Market Overview

There was a broad sell-off in stock markets in the final quarter of 2018, as investors became increasingly alarmed over weaker-than-expected economic data out of the US, European Union and Japan, an ongoing trade war between the US and China and generally less supportive monetary policy from the world's central banks. As a result, several stock markets hit, or nearly hit, bear market territory – that is, they fell by 20% or more from their peak.

However global stock markets rebounded strongly in early 2019. A combination of relief that company earnings for the final quarter of 2018 were better than expected and dovish comments by many central banks that interest rates would remain on hold drove sentiment. Many central banks including the US Federal Reserve have subsequently reversed monetary policy which has been very supportive of markets.

Stock market performance was mixed towards the end of the period in review, with emerging market stocks, in general, underperforming developed market stocks. Fears about the global economy led to a setback for stock markets in August, whilst government bonds in many countries rallied strongly. The yields on UK gilts, US Treasuries and German bunds fell to record lows, but have risen somewhat since.

#### Positioning

The portfolio management team implemented the 2019 strategic asset allocation review in September across all funds in the range.

Overall, equity allocations have been reduced by 3.5% in this Fund via small reductions to the benchmark positions for UK, US, European, Japanese and Asian equities. There was a very small increased allocation to Emerging Markets reflecting the teams' belief that long-term structural factors, like favourable demographics, remain more positive.

Conversely the allocation to fixed income has been increased by 3.5%. The main change this year is the addition of US treasuries that provide more favourable yields than other developed market government bonds and are still seen as a 'haven' in the event of a market downturn.

From a shorter-term tactical perspective, the portfolio manager currently has a small overweight position across global equities and a moderate underweight in global high yield and UK and European investment grade bonds. This mainly reflects the current low yield environment. The portfolio is also slightly overweight cash which will be allocated when an appropriate opportunity arises.

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<sup>1</sup> Source: FE Analytics.

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### ACD'S REPORT *continued*

### PORTFOLIO MANAGER'S REPORT *continued*

The team have reduced the Italian banks position to reflect a lower conviction as the fundamentals of the trade now have an extended payback period.

#### Investment Activity

Further to communications around the changes being made to LF Prudential Risk Managed Passive funds, the transition to the new underlying fund holdings was completed in late July 2019. This activity would have included a re-allocation across equity and fixed income as property holdings were redeemed and alternatives holdings reduced. Full details are in this report.

#### Outlook

The portfolio managers view of markets remains largely unchanged over recent months. Macro data continues to be weak, and we wait to see whether looser financial conditions/central bank easing will help produce stronger macro data in the near future (with its typical lagged effect). Markets have had a very strong year so far in 2019, fuelled by the global central bank easing theme that began at the end of 2018.

We believe another driver of markets has been the US/China trade discussions. Our sense is that market expectations of a positive outcome have built to a high level and have supported the current price levels of risky assets. There is obviously a risk that high expectations are dashed, sentiment is dented, and that market prices fall. We think it is difficult to have an insight on this particular outcome.

#### M&G INVESTMENT MANAGEMENT LIMITED

Portfolio Manager  
19 November 2019

## 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 lowest number on the scale does not mean that a fund is risk free.

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

As this Fund has less than 5 years' price history, this calculation incorporates the volatility of an appropriate benchmark index.

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.

**Currency Risk:** As the Fund invests indirectly in overseas securities, exchange rates movements may, when not hedged, cause the value of your investment to increase or decrease.

Bonds are affected by trends in interest rates and inflation. If interest rates go up the value of capital may fall and vice versa. Inflation will also decrease the real value of capital. The value of a bond is also affected by its credit rating. Bonds with a higher average yield tend to be less liquid and have a lower credit rating. Investment in bonds with a higher yield also generally brings an increased risk of default on repayment by the issuer which could affect the income and capital of the Fund.

The Fund may invest indirectly in property. Property investments may be harder to buy and sell than other asset types.

**Non-UCITS Retail Scheme (NURS):** The Fund can be less diversified than UCITS schemes as it has higher investment limits for certain types of assets. It can also invest in assets which are not available to UCITS schemes. This can increase the potential rewards but can also increase risk.

The value of investments and the income from them, will fluctuate. This will cause the Fund price to fall as well as rise and you may not get back what you originally invested.

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](http://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.

#### 'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	112.15	115.31	110.19
Return before operating charges*	7.71	0.86	9.13
Operating charges	(0.81)	(1.89)	(1.84)
Return after operating charges	6.90	(1.03)	7.29
Distributions	(1.82)	(2.13)	(2.17)
Closing net asset value per share	117.23	112.15	115.31
* after direct transaction costs of:	—	0.01	—

#### PERFORMANCE

Return after charges	6.16%	(0.89)%	6.62%
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#### OTHER INFORMATION

Closing net asset value (£'000)	—	—	—
Closing number of shares	250	250	250
Operating charges	0.69% <sup>1</sup>	1.63%	1.62%
Direct transaction costs	—	0.01%	—

#### PRICES

Highest share price	122.20	118.06	117.86
Lowest share price	109.17	113.07	107.65

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	118.02	119.57	112.38
Return before operating charges*	8.28	0.42	9.09
Operating charges	(0.85)	(1.97)	(1.90)
Return after operating charges	7.43	(1.55)	7.19
Distributions	(2.00)	(1.66)	(1.91)
Retained distributions on accumulation shares	2.00	1.66	1.91
Closing net asset value per share	125.45	118.02	119.57
* after direct transaction costs of:	–	0.01	–

##### PERFORMANCE

Return after charges	6.29%	(1.30)%	6.40%
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##### OTHER INFORMATION

Closing net asset value (£'000)	21	5	5
Closing number of shares	17,023	4,361	4,361
Operating charges	0.69% <sup>1</sup>	1.63%	1.62%
Direct transaction costs	–	0.01%	–

##### PRICES

Highest share price	128.57	121.98	119.94
Lowest share price	115.05	117.04	109.82

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 <sup>1</sup> pence per share
Opening net asset value per share	99.27	100.00
Return before operating charges*	7.03	0.82
Operating charges	(0.14)	(0.15)
Return after operating charges	6.89	0.67
Distributions	(2.23)	(1.40)
Closing net asset value per share	103.93	99.27
* after direct transaction costs of:	—	0.01

##### PERFORMANCE

Return after charges	6.94%	0.67%
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##### OTHER INFORMATION

Closing net asset value (£'000)	1,022	10
Closing number of shares	983,376	10,071
Operating charges	0.14% <sup>3</sup>	0.28% <sup>2</sup>
Direct transaction costs	—	0.01%

##### PRICES

Highest share price	108.56	103.71
Lowest share price	96.84	100.00

<sup>1</sup> From 17 April 2018.

<sup>2</sup> Annualised figure due to share class being launched less than 1 year.

<sup>3</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	112.38	115.50	110.26
Return before operating charges*	8.03	0.20	8.58
Operating charges	(0.53)	(1.02)	(0.99)
Return after operating charges	7.50	(0.82)	7.59
Distributions	(2.24)	(2.30)	(2.35)
Closing net asset value per share	117.64	112.38	115.50
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	6.67%	(0.71)%	6.88%
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##### OTHER INFORMATION

Closing net asset value (£'000)	3,139	6,684	6,280
Closing number of shares	2,668,501	5,947,803	5,437,561
Operating charges	0.45% <sup>1</sup>	0.88%	0.87%
Direct transaction costs	—	0.01%	—

##### PRICES

Highest share price	122.78	118.29	118.10
Lowest share price	109.54	113.31	107.75

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	119.95	120.79	113.01
Return before operating charges*	8.53	0.22	8.80
Operating charges	(0.52)	(1.06)	(1.02)
Return after operating charges	8.01	(0.84)	7.78
Distributions	(2.39)	(2.41)	(2.41)
Retained distributions on accumulation shares	2.39	2.41	2.41
Closing net asset value per share	127.96	119.95	120.79
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	6.68%	(0.70)%	6.88%
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##### OTHER INFORMATION

Closing net asset value (£'000)	47,275	14,200	7,408
Closing number of shares	36,944,580	11,838,124	6,132,407
Operating charges	0.42% <sup>1</sup>	0.88%	0.87%
Direct transaction costs	—	0.01%	—

##### PRICES

Highest share price	131.05	123.72	121.05
Lowest share price	117.04	118.51	110.45

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	119.16	120.24	112.72
Return before operating charges*	8.55	0.28	8.82
Operating charges	(0.85)	(1.36)	(1.30)
Return after operating charges	7.70	(1.08)	7.52
Distributions	(2.12)	(2.15)	(2.17)
Retained distributions on accumulation shares	2.12	2.15	2.17
Closing net asset value per share	126.86	119.16	120.24
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	6.46%	(0.90)%	6.67%
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##### OTHER INFORMATION

Closing net asset value (£'000)	19,020	16,530	14,120
Closing number of shares	14,993,715	13,872,374	11,743,112
Operating charges	0.70% <sup>1</sup>	1.13%	1.12%
Direct transaction costs	—	0.01%	—

##### PRICES

Highest share price	130.00	122.96	120.51
Lowest share price	116.23	117.87	110.15

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

**LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2**

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Fund Performance to 31 October 2019 (%)**

	1 year	3 years	Since launch <sup>1</sup>
LF Prudential Risk Managed Passive Fund 2	6.76	11.47	25.83

<sup>1</sup> The Fund launched on 9 September 2015.

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 247 and 248.

**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 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	EQUITY PORTFOLIOS – 30.15% (31.10.18 – 29.20%)		
	CONTINENTAL EUROPE – 4.12% (31.10.18 – 4.61%)		
1,008,618	Legal & General European Index	2,902	4.12
	TOTAL CONTINENTAL EUROPE	2,902	4.12
	UNITED KINGDOM – 10.59% (31.10.18 – 11.66%)		
1,433,875	iShares UK Equity Index	2,607	3.70
3,048,650	Legal & General UK Index	4,856	6.89
	TOTAL UNITED KINGDOM	7,463	10.59
	ASIA EX JAPAN – 5.88% (31.10.18 – 4.57%)		
2,272,204	iShares Pacific ex Japan Equity Index	4,147	5.88
	TOTAL ASIA EX JAPAN	4,147	5.88
	JAPAN – 2.59% (31.10.18 – 2.02%)		
834,391	iShares Japan Equity Index	1,827	2.59
	TOTAL JAPAN	1,827	2.59
	NORTH AMERICA – 4.40% (31.10.18 – 4.86%)		
1,036,838	iShares US Equity Index	3,102	4.40
	TOTAL NORTH AMERICA	3,102	4.40
	EMERGING MARKETS – 2.57% (31.10.18 – 1.48%)		
1,159,493	iShares Emerging Markets Equity Index	1,810	2.57
	TOTAL EMERGING MARKETS	1,810	2.57
	TOTAL EQUITY PORTFOLIOS	21,251	30.15
	EQUITY INVESTMENT INSTRUMENTS – 3.32% (31.10.18 – 6.04%)		
180,384	BBGI	291	0.41
145,311	BioPharma Credit	113	0.16
58,845	Blue Capital Alternative Income <sup>1</sup>	8	0.01
18,500	Boussard & Gavaudan	274	0.39



## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
152,202	DP Aircraft I	88	0.12
30,350	HarbourVest Global Private Equity	504	0.72
88,322	HgCapital	212	0.30
86,480	Intesa Sanpaolo <sup>2</sup>	167	0.24
70,429	NB Distressed Debt Investment	41	0.06
99,055	NextEnergy Solar	119	0.17
119,249	Renewables Infrastructure	156	0.22
195,800	SDCL Energy Efficiency Income	206	0.29
16,472	UniCredit <sup>2</sup>	161	0.23
	TOTAL EQUITY INVESTMENT INSTRUMENTS	2,340	3.32
	PROPERTY PORTFOLIOS – 0.00% (31.10.18 – 12.19%)	–	–
	BOND PORTFOLIOS – 56.23% (31.10.18 – 50.79%)		
8,846,424	iShares Corporate Bond Index	13,500	19.16
350,549	iShares Euro Investment Grade Corporate Bond Index	3,794	5.38
1,241,367	iShares US Corporate Bond Index	11,229	15.93
225,410	iShares USD Treasury Bond	1,130	1.61
1,821,127	M&G European Corporate Bond <sup>3</sup>	2,066	2.93
1,083,684	M&G Global High Yield Bond <sup>3</sup>	1,502	2.13
5,158,266	M&G Strategic Corporate Bond <sup>3</sup>	6,407	9.09
	TOTAL BOND PORTFOLIOS	39,628	56.23
	FUTURES – 0.02% (31.10.18 – 0.00%)		
20	EURO STOXX 50 Index Futures December 2019	16	0.02
9	FTSE 100 Index Futures December 2019	(4)	(0.01)
3	S&P 500 E Mini Index Futures December 2019	3	0.01
	TOTAL FUTURES	15	0.02

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	Portfolio of investments <sup>4</sup>	63,234	89.72
	Net other assets	7,243	10.28
	Net assets	70,477	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.

<sup>1</sup> Delisted security.

<sup>2</sup> Ordinary shares.

<sup>3</sup> Related party holding (see note 12).

<sup>4</sup> 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 2019

Total purchases for the year £'000 (note 16)	47,648	Total sales for the year £'000 (note 16)	23,490
	Cost £'000		Proceeds £'000
<b>Major purchases</b>		<b>Major sales</b>	
iShares Corporate Bond Index	13,124	M&G Strategic Corporate Bond	6,324
iShares US Corporate Bond Index	11,189	M&G Property Portfolio	4,587
iShares Pacific ex Japan Equity Index	4,404	Legal & General US Index	2,005
iShares Euro Investment Grade Corporate Bond Index	3,847	Legal & General Pacific Index	1,969
iShares US Equity Index	3,213	M&G Corporate Bond	1,926
iShares UK Equity Index	2,570	FTSE 100 Index Futures September 2019	1,170
iShares Emerging Markets Equity Index	1,808	M&G Short Dated Corporate Bond	1,130
iShares Japan Equity Index	1,700	Euro Stoxx 50 Index Futures September 2019	970
M&G Strategic Corporate Bond	1,263	Legal & General Japan Index	802
Legal & General European Index	1,214	M&G European Loan	742

In addition to the above, purchases totalling £757,065,000 and sales totalling £757,080,000 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 2019

	Notes	£'000	31.10.19 £'000	£'000	31.10.18 £'000
Income:					
Net capital gains/(losses)	3		1,955		(972)
Revenue	4	1,234		1,019	
Expenses	5	(198)		(291)	
Interest payable and similar charges	6	(2)		—	
Net revenue before taxation		1,034		728	
Taxation	7	(101)		(91)	
Net revenue after taxation			933		637
<b>Total return before distributions</b>			2,888		(335)
Distributions	8		(940)		(645)
<b>Change in net assets attributable to shareholders from investment activities</b>			1,948		(980)

#### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2019

	£'000	31.10.19 £'000	£'000	31.10.18 £'000
<b>Opening net assets attributable to shareholders</b>		37,429		27,813
Amounts receivable on issue of shares	39,478		14,075	
Amounts payable on redemption of shares	(9,580)		(4,063)	
		29,898		10,012
Change in net assets attributable to shareholders from investment activities		1,948		(980)
Retained distributions on Accumulation shares		1,202		584
<b>Closing net assets attributable to shareholders</b>		70,477		37,429

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### FINANCIAL STATEMENTS *continued*

#### BALANCE SHEET

as at 31 October 2019

	Notes	31.10.19 £'000	31.10.18 £'000
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investments		63,238	36,755
<b>Current assets</b>			
Debtors	9	7,600	660
Cash and bank balances	10	6,363	1,670
<b>Total assets</b>		<u>77,201</u>	<u>39,085</u>
<b>LIABILITIES</b>			
Investment liabilities		(4)	–
Provisions for liabilities		–	(6)
<b>Creditors</b>			
Distribution payable	11	(82)	(137)
Other creditors	11	(6,638)	(1,513)
<b>Total liabilities</b>		<u>(6,724)</u>	<u>(1,656)</u>
<b>Net assets attributable to shareholders</b>		<u>70,477</u>	<u>37,429</u>

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2019

#### 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 page 24 have been applied to the financial statements of the Fund in the current and prior year.

#### 3. Net Capital Gains/(Losses)

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

	31.10.19 £'000	31.10.18 £'000
Non-derivative securities	1,849	(1,060)
Derivative contracts	99	47
Transaction charges	(2)	(1)
AMC rebates from underlying investments	35	41
Currency (losses)/gains	(26)	1
Net capital gains/(losses)	1,955	(972)

The net capital gains/(losses) figure includes realised gains of £1,053,000 and unrealised gains of £1,610,000 (31.10.18: includes realised losses of £33,000 and unrealised gains of £742,000). 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 2019

#### 4. Revenue

	31.10.19 £'000	31.10.18 £'000
Non-taxable dividends	568	314
Taxable dividends	13	5
UK property income distributions	72	127
Unfranked interest	431	393
AMC rebates from underlying investments	149	179
Bank interest	1	1
Total revenue	1,234	1,019

#### 5. Expenses

	31.10.19 £'000	31.10.18 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	189	238
Administration fees	13	50
ACD reimbursement to revenue <sup>1</sup>	(9)	–
	193	288
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	4	3
Safe custody and other bank charges	1	–
	5	3
Total expenses	198	291

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

<sup>1</sup> 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 Investment 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 2019

The audit fees of £7,800 (31.10.18: £6,000) are borne by the ACD.

#### 6. Interest Payable and Similar Charges

	31.10.19 £'000	31.10.18 £'000
Interest payable	2	–
Total interest payable and similar charges	2	–

#### 7. Taxation

	31.10.19 £'000	31.10.18 £'000
a) Analysis of charge for the year		
Corporation tax	106	88
Irrecoverable overseas tax	1	–
Current tax charge	107	88
Deferred tax – origination and reversal of timing differences (note 7c)	(6)	3
Total taxation (note 7b)	101	91

#### 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%) (31.10.18: 20%). The difference is explained below:

	31.10.19 £'000	31.10.18 £'000
Net revenue before taxation	1,034	728
Corporation tax at 20%	207	146
Effects of:		
Non-taxable dividends	(114)	(63)
Rebated capital expenses deductible for tax purposes	7	8
Irrecoverable overseas tax	1	–
Total tax charge (note 7a)	101	91



## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
c) Deferred tax		
Provision at the start of the year	6	3
Deferred tax charge in the year (note 7a)	(6)	3
Provision at the end of the year	—	6

## 8. Distributions

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

	31.10.19 £'000	31.10.18 £'000
Final	1,284	721
	1,284	721
Add: Revenue deducted on redemption of shares	137	37
Deduct: Revenue received on issue of shares	(481)	(113)
Net distribution for the year	940	645

Details of the distributions per share are set out in the table on pages 247 and 248.

	31.10.19 £'000	31.10.18 £'000
Distributions represented by:		
Net revenue after taxation	933	637
Allocations to capital:		
Tax relief from capital	7	8
Net distribution for the year	940	645

## 9. Debtors

	31.10.19 £'000	31.10.18 £'000
Amounts receivable for issue of shares	1,408	415

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Sales awaiting settlement	6,040	–
Accrued revenue:		
Non-taxable dividends	120	141
UK property income distributions	–	23
Unfranked interest	–	31
AMC rebates from underlying investments	12	25
	132	220
Taxation recoverable:		
Income tax	20	25
Total debtors	7,600	660

#### 10. Cash and Bank Balances

	31.10.19 £'000	31.10.18 £'000
Bank balances	6,304	1,670
Margin account	59	–
Total cash and bank balances	6,363	1,670

#### 11. Other Creditors

	31.10.19 £'000	31.10.18 £'000
Distribution payable	82	137
<b>Other Creditors</b>		
Amounts payable for redemption of shares	13	140
Purchases awaiting settlement	6,510	1,258

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	17	22
Administration fees	–	5
ACD reimbursement to revenue	(10)	–
	7	27
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	1	–
Transaction charges	1	–
	2	–
Taxation payable:		
Corporation tax	106	88
Total other creditors	6,638	1,513

## 12. Related Party Transactions

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 233 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 145,915 (31.10.18: 130,141) 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 983,126 (31.10.18: 5,009,821) 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	34.24%
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## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

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:

	31.10.19 £'000	31.10.18 £'000
Portfolio Manager in common	9,975	23,344

### 13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.18: 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	4,361	10,071
Issues	–	16,773	1,057,362
Redemptions	–	(4,111)	(84,057)
Closing shares in issue	250	17,023	983,376

  

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.23%	0.23%	0.48%
Opening shares in issue	5,947,803	11,838,124	13,872,374
Issues	1,845,405	25,489,188	3,543,405
Redemptions	(5,124,707)	(382,732)	(2,422,064)
Closing shares in issue	2,668,501	36,944,580	14,993,715

### 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.

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

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.

#### (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 may indirectly be 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.

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### (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:

	31.10.19 £'000	31.10.18 £'000
Currency:		
Euro currency	15,462	731
US dollars	362	259
Total foreign currency exposure	15,824	990
Pounds sterling	54,653	36,439
Total net assets	70,477	37,429

A 5% increase/decrease in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £753,525 decrease and £832,843 increase respectively on the net assets of the Fund.

#### (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 31.10.19, leverage under the gross method was 0.9:1 and leverage under the commitment method was 1:1 (31.10.18: 0.98:1 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.

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

To reduce liquidity risk the Portfolio Manager will ensure that a substantial portion of the Fund's assets consist of cash and readily realisable investments.

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 £3,162,000 (31.10.18: £1,838,000). A 5% decrease would have an equal and opposite effect.

#### (G) DERIVATIVES

The derivatives held by the Fund during the current and prior year were for Efficient Portfolio Management (EPM) purposes and were not of a material nature.

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 16. Portfolio Transaction Costs

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>		—	—	

Average portfolio dealing spread at 31.10.19 is 0.29% (31.10.18: 0.15%).



## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

31.10.18	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
Ordinary shares	902	1	1	904
Collective investment schemes	11,008	—	—	11,008
Purchases total	11,910	1	1	11,912
<i>Transaction cost % of purchases total</i>		0.01%	0.01%	
<i>Transaction cost % of average NAV</i>		—	0.01%	
Collective investment schemes	1,555	—	—	1,555
Sales total	1,555	—	—	1,555
<i>Transaction cost % of sales total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	

### 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).

31.10.19	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	3,481	59,749	8	63,238
Investment liabilities	(4)	—	—	(4)
31.10.18	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment assets	2,122	34,602	31	36,755

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### FINANCIAL STATEMENTS *continued*

#### DISTRIBUTION TABLE

for the year ended 31 October 2019 – 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	01.11.18
To	31.10.19

#### 'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	1.8240	–	1.8240	2.1280
Group 2	1.8240	0.0000	1.8240	2.1280

#### 'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	1.9954	–	1.9954	1.6638
Group 2	1.4714	0.5240	1.9954	1.6638

#### C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.2280	–	2.2280	1.3965
Group 2	1.0422	1.1858	2.2280	1.3965

#### 'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.2412	–	2.2412	2.3010
Group 2	0.8985	1.3427	2.2412	2.3010

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 2

### FINANCIAL STATEMENTS *continued*

### DISTRIBUTION TABLE *continued*

#### 'P' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.3910	–	2.3910	2.4096
Group 2	0.8147	1.5763	2.3910	2.4096

#### 'R' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.1245	–	2.1245	2.1519
Group 2	0.9878	1.1367	2.1245	2.1519

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3 ACD'S REPORT

for the year ended 31 October 2019

### 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 volatility over rolling 5 year periods to 12%.

There is no guarantee that the volatility target will be met and at any time the actual volatility may be higher or lower than the long term target.

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. 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

27 February 2020

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### ACD'S REPORT *continued*

### PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2019

Between 1 November 2018 and 31 October 2019 (the period in review) share classes R (Acc) 7.53%<sup>1</sup>, P (Acc) 7.83%<sup>1</sup> and A (Acc) 7.39%<sup>1</sup> produced returns ahead of the 6.42% sector average for IA Mixed Investment 20-60% Shares.

#### Market Overview

There was a broad sell-off in stock markets in the final quarter of 2018, as investors became increasingly alarmed over weaker-than-expected economic data out of the US, European Union and Japan, an ongoing trade war between the US and China and generally less supportive monetary policy from the world's central banks. As a result, several stock markets hit, or nearly hit, bear market territory – that is, they fell by 20% or more from their peak.

However global stock markets rebounded strongly in early 2019. A combination of relief that company earnings for the final quarter of 2018 were better than expected and dovish comments by many central banks that interest rates would remain on hold drove sentiment. Many central banks including the US Federal Reserve have subsequently reversed monetary policy which has been very supportive of markets.

Stock market performance was mixed towards the end of the period in review, with emerging market stocks, in general, underperforming developed market stocks. Fears about the global economy led to a setback for stock markets in August, whilst government bonds in many countries rallied strongly. The yields on UK gilts, US Treasuries and German bunds fell to record lows, but have risen somewhat since.

#### Positioning

The portfolio management team implemented the 2019 strategic asset allocation review in September across all funds in the range.

Overall, equity allocations have been reduced by 4% in this Fund via reductions to the benchmark positions for UK, US, European, Japanese and Asian equities. There was a very small increased allocation to Emerging Markets reflecting the teams' belief that long-term structural factors, like favourable demographics, remain more positive.

Conversely the allocation to fixed income has been increased by 4%. The main change this year is the addition of US treasuries that provide more favourable yields than other developed market government bonds and are still seen as a 'haven' in the event of a market downturn.

From a shorter-term tactical perspective, the portfolio manager currently has a small overweight position across global equities and a moderate underweight in global high yield and UK and European investment grade bonds. This mainly reflects the current low yield environment. The portfolio is also slightly overweight cash which will be allocated when an appropriate opportunity arises.

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<sup>1</sup> Source: FE Analytics.

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### ACD'S REPORT *continued*

### PORTFOLIO MANAGER'S REPORT *continued*

The team have reduced the Italian banks position to reflect a lower conviction as the fundamentals of the trade now have an extended payback period.

#### Investment Activity

Further to communications around the changes being made to LF Prudential Risk Managed Passive funds, the transition to the new underlying fund holdings was completed in late July 2019. This activity would have included a re-allocation across equity and fixed income as property holdings were redeemed and alternatives holdings reduced. Full details are in this report.

#### Outlook

The portfolio managers view of markets remains largely unchanged over recent months. Macro data continues to be weak, and we wait to see whether looser financial conditions/central bank easing will help produce stronger macro data in the near future (with its typical lagged effect). Markets have had a very strong year so far in 2019, fuelled by the global central bank easing theme that began at the end of 2018.

We believe another driver of markets has been the US/China trade discussions. Our sense is that market expectations of a positive outcome have built to a high level and have supported the current price levels of risky assets. There is obviously a risk that high expectations are dashed, sentiment is dented, and that market prices fall. We think it is difficult to have an insight on this particular outcome.

#### M&G INVESTMENT MANAGEMENT LIMITED

Portfolio Manager  
19 November 2019

## 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 lowest number on the scale does not mean that a fund is risk free.

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.

**Currency Risk:** As the Fund invests indirectly in overseas securities, exchange rates movements may, when not hedged, cause the value of your investment to increase or decrease.

Bonds are affected by trends in interest rates and inflation. If interest rates go up the value of capital may fall and vice versa. Inflation will also decrease the real value of capital. The value of a bond is also affected by its credit rating. Bonds with a higher average yield tend to be less liquid and have a lower credit rating. Investment in bonds with a higher yield also generally brings an increased risk of default on repayment by the issuer which could affect the income and capital of the Fund.

The Fund may invest indirectly in property. Property investments may be harder to buy and sell than other asset types.

**Non-UCITS Retail Scheme (NURS):** The Fund can be less diversified than UCITS schemes as it has higher investment limits for certain types of assets. It can also invest in assets which are not available to UCITS schemes. This can increase the potential rewards but can also increase risk.

The value of investments, and the income from them, will fluctuate. This will cause the Fund price to fall as well as rise and you may not get back what you originally invested.

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](http://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.

#### 'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	137.36	141.31	133.58
Return before operating charges*	9.97	0.68	12.31
Operating charges	(1.16)	(2.32)	(2.27)
Return after operating charges	8.81	(1.64)	10.04
Distributions	(2.64)	(2.31)	(2.31)
Closing net asset value per share	143.53	137.36	141.31
* after direct transaction costs of:	—	0.01	—

#### PERFORMANCE

Return after charges	6.42%	(1.16)%	7.52%
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#### OTHER INFORMATION

Closing net asset value (£'000)	204	272	332
Closing number of shares	142,571	198,000	235,096
Operating charges	0.82% <sup>1</sup>	1.63%	1.64%
Direct transaction costs	—	0.01%	—

#### PRICES

Highest share price	150.37	145.36	144.06
Lowest share price	133.37	137.67	130.41

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	168.56	170.67	158.74
Return before operating charges*	12.19	0.68	14.63
Operating charges	(1.36)	(2.79)	(2.70)
Return after operating charges	10.83	(2.11)	11.93
Distributions	(3.24)	(2.66)	(2.75)
Retained distributions on accumulation shares	3.24	2.66	2.75
Closing net asset value per share	179.39	168.56	170.67
* after direct transaction costs of:	–	0.01	–

##### PERFORMANCE

Return after charges	6.43%	(1.24)%	7.52%
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##### OTHER INFORMATION

Closing net asset value (£'000)	10,185	9,892	10,601
Closing number of shares	5,677,611	5,868,494	6,211,459
Operating charges	0.78% <sup>1</sup>	1.63%	1.64%
Direct transaction costs	–	0.01%	–

##### PRICES

Highest share price	184.41	175.43	171.06
Lowest share price	163.69	166.27	154.98

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	137.00	140.98	133.22
Return before operating charges*	9.72	0.17	11.98
Operating charges	(0.16)	(0.40)	(0.40)
Return after operating charges	9.56	(0.23)	11.58
Distributions	(3.40)	(3.75)	(3.82)
Closing net asset value per share	143.16	137.00	140.98
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	6.98%	(0.16)%	8.69%
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##### OTHER INFORMATION

Closing net asset value (£'000)	69,291	66,770	68,019
Closing number of shares	48,399,611	48,737,926	48,248,285
Operating charges	0.11% <sup>1</sup>	0.28%	0.29%
Direct transaction costs	—	0.01%	—

##### PRICES

Highest share price	150.67	146.28	145.23
Lowest share price	133.28	137.94	130.19

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	115.88	119.23	112.69
Return before operating charges*	8.27	0.30	10.24
Operating charges	(0.49)	(1.06)	(1.04)
Return after operating charges	7.78	(0.76)	9.20
Distributions	(2.58)	(2.59)	(2.66)
Closing net asset value per share	121.08	115.88	119.23
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	6.71%	(0.64)%	8.16%
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##### OTHER INFORMATION

Closing net asset value (£'000)	8,296	5,362	4,681
Closing number of shares	6,851,594	4,627,027	3,925,710
Operating charges	0.41% <sup>1</sup>	0.88%	0.89%
Direct transaction costs	—	0.01%	—

##### PRICES

Highest share price	127.28	123.35	122.37
Lowest share price	112.74	116.44	110.07

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	129.90	130.73	120.86
Return before operating charges*	9.31	0.33	10.99
Operating charges	(0.55)	(1.16)	(1.12)
Return after operating charges	8.76	(0.83)	9.87
Distributions	(2.89)	(2.84)	(2.86)
Retained distributions on accumulation shares	2.89	2.84	2.86
Closing net asset value per share	138.66	129.90	130.73
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	6.74%	(0.63)%	8.17%
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##### OTHER INFORMATION

Closing net asset value (£'000)	139,149	74,306	53,898
Closing number of shares	100,354,859	57,202,108	41,227,361
Operating charges	0.41% <sup>1</sup>	0.88%	0.89%
Direct transaction costs	—	0.01%	—

##### PRICES

Highest share price	142.62	135.17	131.17
Lowest share price	126.42	127.68	118.06

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	150.01	151.28	140.14
Return before operating charges*	10.83	0.45	12.80
Operating charges	(1.04)	(1.72)	(1.66)
Return after operating charges	9.79	(1.27)	11.14
Distributions	(3.02)	(2.97)	(3.02)
Retained distributions on accumulation shares	3.02	2.97	3.02
Closing net asset value per share	159.80	150.01	151.28
* after direct transaction costs of:	–	0.01	–

##### PERFORMANCE

Return after charges	6.53%	(0.84)%	7.95%
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##### OTHER INFORMATION

Closing net asset value (£'000)	27,543	24,266	19,926
Closing number of shares	17,236,484	16,175,576	13,171,964
Operating charges	0.67% <sup>1</sup>	1.13%	1.14%
Direct transaction costs	–	0.01%	–

##### PRICES

Highest share price	164.33	156.06	151.68
Lowest share price	145.84	147.62	136.87

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

**LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3**

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Fund Performance to 31 October 2019 (%)**

	1 year	3 years	5 years
LF Prudential Risk Managed Passive Fund 3	7.83	15.13	35.02

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 279 and 280.

**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 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	EQUITY PORTFOLIOS – 41.55% (31.10.18 – 40.45%)		
	CONTINENTAL EUROPE – 5.89% (31.10.18 – 6.35%)		
5,213,088	Legal & General European Index	14,998	5.89
	TOTAL CONTINENTAL EUROPE	14,998	5.89
	UNITED KINGDOM – 14.55% (31.10.18 – 16.09%)		
3,908,840	iShares UK Equity Index	7,106	2.79
18,808,157	Legal & General UK Index	29,961	11.76
	TOTAL UNITED KINGDOM	37,067	14.55
	ASIA EX JAPAN – 7.92% (31.10.18 – 6.39%)		
11,048,654	iShares Pacific ex Japan Equity Index	20,164	7.92
	TOTAL ASIA EX JAPAN	20,164	7.92
	JAPAN – 3.54% (31.10.18 – 2.85%)		
4,119,508	iShares Japan Equity Index	9,022	3.54
	TOTAL JAPAN	9,022	3.54
	NORTH AMERICA – 6.24% (31.10.18 – 6.80%)		
5,310,740	iShares US Equity Index	15,890	6.24
	TOTAL NORTH AMERICA	15,890	6.24
	EMERGING MARKETS – 3.41% (31.10.18 – 1.97%)		
5,559,093	iShares Emerging Markets Equity Index	8,678	3.41
	TOTAL EMERGING MARKETS	8,678	3.41
	TOTAL EQUITY PORTFOLIOS	105,819	41.55
	EQUITY INVESTMENT INSTRUMENTS – 3.78% (31.10.18 – 7.25%)		
777,087	BBGI	1,255	0.49
619,999	BioPharma Credit	481	0.19
546,860	Blue Capital Alternative Income <sup>1</sup>	75	0.03
78,900	Boussard & Gavaudan	1,167	0.46



## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
648,954	DP Aircraft I	375	0.15
121,149	HarbourVest Global Private Equity	2,011	0.79
364,043	HgCapital	875	0.34
316,882	Intesa Sanpaolo <sup>2</sup>	613	0.24
391,499	NB Distressed Debt Investment	227	0.09
408,233	NextEnergy Solar	490	0.19
455,499	Renewables Infrastructure	596	0.24
828,300	SDCL Energy Efficiency Income	870	0.34
60,356	UniCredit <sup>2</sup>	591	0.23
	TOTAL EQUITY INVESTMENT INSTRUMENTS	9,626	3.78
	PROPERTY PORTFOLIOS – 0.00% (31.10.18 – 14.96%)	–	–
	BOND PORTFOLIOS – 46.50% (31.10.18 – 36.02%)		
25,950,141	iShares Corporate Bond Index	39,600	15.55
923,588	iShares Euro Investment Grade Corporate Bond Index	9,997	3.93
3,715,776	iShares US Corporate Bond Index	33,613	13.20
652,399	iShares USD Treasury Bond	3,270	1.28
6,057,754	M&G European Corporate Bond <sup>3</sup>	6,871	2.70
3,933,036	M&G Global High Yield Bond <sup>3</sup>	5,452	2.14
15,794,810	M&G Strategic Corporate Bond <sup>3</sup>	19,619	7.70
	TOTAL BOND PORTFOLIOS	118,422	46.50
	DERIVATIVES – (0.04)% (31.10.18 – 0.00%)		
666	EURO STOXX 50 Index Futures December 2019	(61)	(0.02)
350	FTSE 100 Index Futures December 2019	(30)	(0.01)
441	S&P 500 E Mini Index Futures December 2019	(22)	(0.01)
	TOTAL DERIVATIVES	(113)	(0.04)

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	Portfolio of investments <sup>4</sup>	233,754	91.79
	Net other assets	20,914	8.21
	Net assets	254,668	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.

<sup>1</sup> Delisted security.

<sup>2</sup> Ordinary shares.

<sup>3</sup> Related party holding (see note 12).

<sup>4</sup> 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 2019

Total purchases for the year £'000 (note 16)	154,719	Total sales for the year £'000 (note 16)	109,088
	Cost £'000		Proceeds £'000
<b>Major purchases</b>		<b>Major sales</b>	
iShares Corporate Bond Index	38,503	M&G Strategic Corporate Bond	26,375
iShares US Corporate Bond Index	33,484	M&G Property Portfolio	26,371
iShares Pacific ex Japan Equity Index	21,393	Legal & General US Index	12,863
iShares US Equity Index	15,952	Legal & General Pacific Index	12,572
iShares Euro Investment Grade Corporate Bond Index	10,200	Legal & General Japan Index	5,149
iShares Emerging Markets Equity Index	8,629	FTSE 100 Index Futures September 2019	4,017
iShares Japan Equity Index	8,350	Legal & General Global Emerging Markets Index	3,900
iShares UK Equity Index	6,971	Euro Stoxx 50 Index Futures September 2019	3,598
FTSE 100 Index Futures September 2019	3,989	M&G Short Dated Corporate Bond	2,727
FTSE 100 Index Futures December 2019	3,613	M&G European Loan	2,469

In addition to the above, purchases totalling £2,732,887,000 and sales totalling £2,732,892,000 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 2019

	Notes	£'000	31.10.19 £'000	£'000	31.10.18 £'000
Income:					
Net capital gains/(losses)	3		8,318		(5,155)
Revenue	4	5,544		5,582	
Expenses	5	(550)		(1,061)	
Interest payable and similar charges	6	(6)		—	
Net revenue before taxation		4,988		4,521	
Taxation	7	(401)		(463)	
Net revenue after taxation			4,587		4,058
<b>Total return before distributions</b>			12,905		(1,097)
Distributions	8		(4,618)		(4,091)
<b>Change in net assets attributable to shareholders from investment activities</b>			8,287		(5,188)

#### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2019

	£'000	31.10.19 £'000	£'000	31.10.18 £'000
<b>Opening net assets attributable to shareholders</b>		180,868		157,457
Amounts receivable on issue of shares	80,900		43,266	
Amounts payable on redemption of shares	(18,996)		(16,928)	
		61,904		26,338
Change in net assets attributable to shareholders from investment activities		8,287		(5,188)
Retained distributions on Accumulation shares		3,609		2,261
<b>Closing net assets attributable to shareholders</b>		254,668		180,868

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### FINANCIAL STATEMENTS *continued*

#### BALANCE SHEET

as at 31 October 2019

	Notes	31.10.19 £'000	31.10.18 £'000
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investments		233,867	178,480
<b>Current assets</b>			
Debtors	9	2,446	2,233
Cash and bank balances	10	21,879	7,632
<b>Total assets</b>		<u>258,192</u>	<u>188,345</u>
<b>LIABILITIES</b>			
Investment liabilities		(113)	–
Provisions for liabilities		–	(36)
<b>Creditors</b>			
Distribution payable	11	(1,827)	(1,952)
Other creditors	11	(1,584)	(5,489)
<b>Total liabilities</b>		<u>(3,524)</u>	<u>(7,477)</u>
<b>Net assets attributable to shareholders</b>		<u>254,668</u>	<u>180,868</u>

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2019

#### 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 page 24 have been applied to the financial statements of the Fund in the current and prior year.

#### 3. Net Capital Gains/(Losses)

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

	31.10.19 £'000	31.10.18 £'000
Non-derivative securities <sup>1</sup>	8,038	(5,580)
Derivative contracts	206	254
Transaction charges	(2)	(1)
AMC rebates from underlying investments	154	164
Currency (losses)/gains	(77)	8
Broker's commission on futures	(1)	–
Net capital gains/(losses)	8,318	(5,155)

The net capital gains/(losses) figure includes realised gains of £11,432,000 and unrealised gains of £10,502,000 (31.10.18: includes realised gains of £812,000 and unrealised gains of £13,767,000). The realised gains on investments in the current year include amounts previously recognised as unrealised gains in the prior year.

<sup>1</sup> Prior year figures have been restated to correct rounding.

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 4. Revenue

	31.10.19 £'000	31.10.18 £'000
Non-taxable dividends <sup>1</sup>	3,150	2,374
Taxable dividends	46	–
UK property income distributions	417	803
Unfranked interest	1,389	1,570
AMC rebates from underlying investments	542	834
Bank interest	1	1
Futures interest	(1)	–
Total revenue	5,544	5,582

#### 5. Expenses

	31.10.19 £'000	31.10.18 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	514	774
Administration fees	60	265
ACD reimbursement to revenue <sup>2</sup>	(51)	–
	523	1,039
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	17	15
Safe custody and other bank charges	2	1
	19	16

<sup>1</sup> Prior year figures have been restated to correct rounding.

<sup>2</sup> 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 Investment 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 2019

	31.10.19 £'000	31.10.18 £'000
Other expenses:		
Audit fees	8	6
Total expenses	550	1,061

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

	31.10.19 £'000	31.10.18 £'000
Interest payable	6	–
Total interest payable and similar charges	6	–

#### 7. Taxation

	31.10.19 £'000	31.10.18 £'000
a) Analysis of charge for the year		
Corporation tax	434	448
Adjustments in respect of prior periods	–	1
Irrecoverable overseas tax	3	–
Current tax charge	437	449
Deferred tax – origination and reversal of timing differences (note 7c) <sup>1</sup>	(36)	14
Total taxation (note 7b)	401	463



## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

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%) (31.10.18: 20%). The difference is explained below:

	31.10.19 £'000	31.10.18 £'000
Net revenue before taxation <sup>1</sup>	4,988	4,521
Corporation tax at 20%	998	904
Effects of:		
Non-taxable dividends	(630)	(475)
Rebated capital expenses deductible for tax purposes	30	33
Irrecoverable overseas tax	3	–
Corporation tax: adjustment in respect of prior years	–	1
Total tax charge (note 7a)	401	463
c) Deferred tax		
Provision at the start of the year	36	22
Deferred tax charge in the year (note 7a)	(36)	14
Provision at the end of the year	–	36

## 8. Distributions

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

	31.10.19 £'000	31.10.18 £'000
Final	5,436	4,213
	5,436	4,213
Add: Revenue deducted on redemption of shares	167	176
Deduct: Revenue received on issue of shares	(985)	(298)
Net distribution for the year	4,618	4,091

Details of the distributions per share are set out in the table on pages 279 and 280.

<sup>1</sup> Prior year figures have been re-rounded to match deferred tax between 7a) and 7c).

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Distributions represented by:		
Net revenue after taxation	4,587	4,058
Allocations to capital:		
Tax relief to/from capital	31	33
Net distribution for the year	4,618	4,091

#### 9. Debtors

	31.10.19 £'000	31.10.18 £'000
Amounts receivable for issue of shares	1,565	889
Sales awaiting settlement	103	–
Accrued revenue:		
Non-taxable dividends	735	975
UK property income distributions	–	143
Unfranked interest	–	85
AMC rebates from underlying investments	41	105
	776	1,308
Taxation recoverable:		
Income tax	2	36
Total debtors	2,446	2,233

#### 10. Cash and Bank Balances

	31.10.19 £'000	31.10.18 £'000
Bank balances	21,700	7,632
Margin account	179	–
Total cash and bank balances	21,879	7,632

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 11. Creditors

	31.10.19 £'000	31.10.18 £'000
Distribution payable	1,827	1,952
<b>Other Creditors</b>		
Amounts payable for redemption of shares	173	358
Purchases awaiting settlement	1,223	4,777
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	43	70
Administration fees	–	23
ACD reimbursement to revenue	(51)	–
	(8)	93
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary fees	2	1
Transaction charges	1	–
Safe custody and other bank charges	1	–
	4	1
Taxation payable:		
Corporation tax	184	252
Other expenses	8	8
Total other creditors	1,584	5,489

#### 12. Related Party Transactions

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 265 and amounts due at the year end are disclosed in notes 9 and 11.

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

Link Fund Solutions Limited and its associates (including other authorised investment funds managed by Link Fund Solutions or its associates) held 480,688 (31.10.18: 431,308) 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 48,399,361 (31.10.18: 48,737,676) 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 27.09% (31.10.18: 26.95%)

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:

	31.10.19 £'000	31.10.18 £'000
Portfolio Manager in common	31,942	90,948

### 13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.18: none).

### 14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.48%	0.48%	0.00%
Opening shares in issue	198,000	5,868,494	48,737,926
Issues	3,018	299,908	8,678,028
Redemptions	(58,447)	(490,791)	(9,016,343)
Closing shares in issue	142,571	5,677,611	48,399,611

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.23%	0.23%	0.48%
Opening shares in issue	4,627,027	57,202,108	16,175,576
Issues	2,567,661	44,789,284	2,984,254
Redemptions	(343,094)	(1,636,533)	(1,923,346)
Closing shares in issue	<u>6,851,594</u>	<u>100,354,859</u>	<u>17,236,484</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 2019

#### (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 may indirectly be 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 direct foreign currency risk profile at the balance sheet date:

	31.10.19 £'000	31.10.18 £'000
Currency:		
Euro currency	46,445	3,897
US dollars	1,169	1,807
Total foreign currency exposure	47,614	5,704
Pounds sterling	207,055	175,164
Total net assets	254,669	180,868

A 5% increase/decrease in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £2,267,316 decrease and £2,505,981 increase respectively on the net assets of the Fund.

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### (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 31.10.19, leverage under the gross method was 0.92:1 and leverage under the commitment method was 1:1 (31.10.18: 0.99:1 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.

To reduce liquidity risk the Portfolio Manager will ensure that a substantial portion of the Fund's assets consist of cash and readily realisable investments.

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 £11,688,000 (31.10.18: £8,924,000). A 5% decrease would have an equal and opposite effect.

#### (G) DERIVATIVES

The derivatives held by the Fund during the current year were for Efficient Portfolio Management (EPM) purposes and were not of a material nature.

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 16. Portfolio Transaction Costs

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	154,717	1	1	154,719
<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	109,090	(2)	—	109,088
<i>Transaction cost % of sales total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	

Average portfolio dealing spread at 31.10.19 is 0.32% (31.10.18: 0.20%).



## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
<b>31.10.18</b>				
Ordinary shares	4,584	2	4	4,590
Collective investment schemes	35,239	1	1	35,241
Purchases total	39,823	3	5	39,831
<i>Transaction cost % of purchases total</i>		0.01%	0.01%	
<i>Transaction cost % of average NAV</i>		–	0.01%	
Collective investment schemes	14,047	(1)	–	14,046
Sales total	14,047	(1)	–	14,046
<i>Transaction cost % of sales total</i>		0.01%	–	
<i>Transaction cost % of average NAV</i>		–	–	

## 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
<b>31.10.19</b>				
Investment assets	12,821	220,971	75	233,867
Investment liabilities	(113)	–	–	(113)
<b>31.10.18</b>				
Investment assets	12,162	166,029	289	178,480

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### FINANCIAL STATEMENTS *continued*

#### DISTRIBUTION TABLE

for the year ended 31 October 2019 – 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	01.11.18
To	31.10.19

#### 'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.6446	–	2.6446	2.2061
Group 2	1.6073	1.0373	2.6446	2.2061

#### 'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	3.2447	–	3.2447	2.6595
Group 2	1.7958	1.4489	3.2447	2.6595

#### 'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	3.4028	–	3.4028	3.7507
Group 2	2.2755	1.1273	3.4028	3.7507

#### 'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.5799	–	2.5799	2.5888
Group 2	1.3428	1.2371	2.5799	2.5888

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 3

### FINANCIAL STATEMENTS *continued*

### DISTRIBUTION TABLE *continued*

#### 'P' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.8932	–	2.8932	2.8380
Group 2	1.2078	1.6854	2.8932	2.8380

#### 'R' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	3.0240	–	3.0240	2.9743
Group 2	1.4590	1.5650	3.0240	2.9743

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4 ACD'S REPORT

for the year ended 31 October 2019

### 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 volatility over rolling 5 year periods to 14.5%.

There is no guarantee that the volatility target will be met and at any time the actual volatility may be higher or lower than the long term target.

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. 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

27 February 2020

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

### ACD'S REPORT *continued*

### PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2019

Between 1 November 2018 and 31 October 2019 (the period in review) share classes R (Acc) 8.42%<sup>1</sup>, P (Acc) 8.64%<sup>1</sup> and A (Acc) 8.32%<sup>1</sup> produced returns ahead of the 8.24%<sup>1</sup> sector average for IA Mixed Investment 40-85% Shares.

#### Market Overview

There was a broad sell-off in stock markets in the final quarter of 2018, as investors became increasingly alarmed over weaker-than-expected economic data out of the US, European Union and Japan, an ongoing trade war between the US and China and generally less supportive monetary policy from the world's central banks. As a result, several stock markets hit, or nearly hit, bear market territory – that is, they fell by 20% or more from their peak.

However global stock markets rebounded strongly in early 2019. A combination of relief that company earnings for the final quarter of 2018 were better than expected and dovish comments by many central banks that interest rates would remain on hold drove sentiment. Many central banks including the US Federal Reserve have subsequently reversed monetary policy which has been very supportive of markets.

Stock market performance was mixed towards the end of the period in review, with emerging market stocks, in general, underperforming developed market stocks. Fears about the global economy led to a setback for stock markets in August, whilst government bonds in many countries rallied strongly. The yields on UK gilts, US Treasuries and German bunds fell to record lows, but have risen somewhat since.

#### Positioning

The portfolio management team implemented the 2019 strategic asset allocation review in September across all funds in the range.

Overall, equity allocations have been reduced by 4.5% in this Fund via reductions to the benchmark positions for UK, US, European, Japanese and Asian equities. There was a small increased allocation to Emerging Markets reflecting the teams' belief that long-term structural factors, like favourable demographics, remain more positive.

Conversely the allocation to fixed income has been increased by 4.5%. The main change this year is the addition of US treasuries that provide more favourable yields than other developed market government bonds and are still seen as a 'haven' in the event of a market downturn.

From a shorter-term tactical perspective, the portfolio manager currently has a small overweight position across global equities and a moderate underweight in global high yield and UK and European investment grade bonds. This mainly reflects the current low yield environment. The portfolio is also slightly overweight cash which will be allocated when an appropriate opportunity arises.

The team have reduced the Italian banks position to reflect a lower conviction as the fundamentals of the trade now have an extended payback period.

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<sup>1</sup> Source: FE Analytics.

## **LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4**

### **ACD'S REPORT** *continued*

### **PORTFOLIO MANAGER'S REPORT** *continued*

#### **Investment Activity**

Further to communications around the changes being made to LF Prudential Risk Managed Passive funds, the transition to the new underlying fund holdings was completed in late July 2019. This activity would have included a re-allocation across equity and fixed income as property holdings were redeemed and alternatives holdings reduced. Full details are in this report.

#### **Outlook**

The portfolio managers view of markets remains largely unchanged over recent months. Macro data continues to be weak, and we wait to see whether looser financial conditions/central bank easing will help produce stronger macro data in the near future (with its typical lagged effect). Markets have had a very strong year so far in 2019, fuelled by the global central bank easing theme that began at the end of 2018.

We believe another driver of markets has been the US/China trade discussions. Our sense is that market expectations of a positive outcome have built to a high level and have supported the current price levels of risky assets. There is obviously a risk that high expectations are dashed, sentiment is dented, and that market prices fall. We think it is difficult to have an insight on this particular outcome.

#### **M&G INVESTMENT MANAGEMENT LIMITED**

Portfolio Manager

19 November 2019

## 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 lowest number on the scale does not mean that a fund is risk free.

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

As this Fund has less than 5 years' price history, this calculation incorporates the volatility of an appropriate benchmark index.

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.

**Currency Risk:** As the Fund invests indirectly in overseas securities, exchange rates movements may, when not hedged, cause the value of your investment to increase or decrease.

Bonds are affected by trends in interest rates and inflation. If interest rates go up the value of capital may fall and vice versa. Inflation will also decrease the real value of capital. The value of a bond is also affected by its credit rating. Bonds with a higher average yield tend to be less liquid and have a lower credit rating. Investment in bonds with a higher yield also generally brings an increased risk of default on repayment by the issuer which could affect the income and capital of the Fund.

The Fund may invest indirectly in property. Property investments may be harder to buy and sell than other asset types.

**Non-UCITS Retail Scheme (NURS):** The Fund can be less diversified than UCITS schemes as it has higher investment limits for certain types of assets. It can also invest in assets which are not available to UCITS schemes. This can increase the potential rewards but can also increase risk.

The value of investments, and the income from them, will fluctuate. This will cause the Fund price to fall as well as rise and you may not get back what you originally invested.

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](http://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.

#### 'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	117.40	120.41	112.55
Return before operating charges*	9.45	0.71	11.53
Operating charges	(0.93)	(1.98)	(1.97)
Return after operating charges	8.52	(1.27)	9.56
Distributions	(2.11)	(1.74)	(1.70)
Closing net asset value per share	123.81	117.40	120.41
* after direct transaction costs of:	—	0.01	—

#### PERFORMANCE

Return after charges	7.26%	(1.06)%	8.49%
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#### OTHER INFORMATION

Closing net asset value (£'000)	1	5	4
Closing number of shares	250	3,656	3,656
Operating charges	0.76% <sup>1</sup>	1.64%	1.65%
Direct transaction costs	—	0.01%	—

#### PRICES

Highest share price	129.87	125.08	122.69
Lowest share price	113.66	117.09	109.40

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	123.26	124.58	114.82
Return before operating charges*	9.94	0.72	11.72
Operating charges	(0.97)	(2.04)	(1.96)
Return after operating charges	8.97	(1.32)	9.76
Distributions	(2.29)	(1.83)	(1.75)
Retained distributions on accumulation shares	2.29	1.83	1.75
Closing net asset value per share	132.23	123.26	124.58
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	7.28%	(1.06)%	8.50%
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##### OTHER INFORMATION

Closing net asset value (£'000)	52	22	2
Closing number of shares	39,319	18,044	1,463
Operating charges	0.76% <sup>1</sup>	1.64%	1.65%
Direct transaction costs	—	0.01%	—

##### PRICES

Highest share price	136.31	129.38	125.14
Lowest share price	119.40	121.10	111.61

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important information section on page 12.

## 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	31.10.19 pence per share	31.10.18 <sup>1</sup> pence per share
Opening net asset value per share	99.79	100.00
Return before operating charges*	7.95	1.58
Operating charges	(0.14)	(0.16)
Return after operating charges	7.81	1.42
Distributions	(2.40)	(1.63)
Closing net asset value per share	105.20	99.79
* after direct transaction costs of:	—	0.01

##### PERFORMANCE

Return after charges	7.83%	1.42%
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##### OTHER INFORMATION

Closing net asset value (£'000)	1,763	10
Closing number of shares	1,675,970	9,917
Operating charges	0.13% <sup>3</sup>	0.29% <sup>2</sup>
Direct transaction costs	—	0.01%

##### PRICES

Highest share price	110.60	105.96
Lowest share price	96.54	100.00

<sup>1</sup> From 17 April 2018.

<sup>2</sup> Annualised figure due to share class being launched less than 1 year.

<sup>3</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	117.58	120.62	112.68
Return before operating charges*	9.44	0.52	11.41
Operating charges	(0.54)	(1.08)	(1.06)
Return after operating charges	8.90	(0.56)	10.35
Distributions	(2.54)	(2.48)	(2.41)
Closing net asset value per share	123.94	117.58	120.62
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	7.57%	(0.47)%	9.19%
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##### OTHER INFORMATION

Closing net asset value (£'000)	3,498	6,620	6,401
Closing number of shares	2,822,255	5,630,948	5,306,724
Operating charges	0.44% <sup>1</sup>	0.89%	0.90%
Direct transaction costs	—	0.01%	—

##### PRICES

Highest share price	130.32	125.84	123.55
Lowest share price	113.91	117.54	109.60

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	125.72	126.31	115.69
Return before operating charges*	10.09	0.54	11.71
Operating charges	(0.55)	(1.13)	(1.09)
Return after operating charges	9.54	(0.59)	10.62
Distributions	(2.72)	(2.60)	(2.47)
Retained distributions on accumulation shares	2.72	2.60	2.47
Closing net asset value per share	135.26	125.72	126.31
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	7.59%	(0.47)%	9.18%
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##### OTHER INFORMATION

Closing net asset value (£'000)	48,039	22,534	12,491
Closing number of shares	35,515,269	17,923,911	9,888,775
Operating charges	0.42% <sup>1</sup>	0.89%	0.90%
Direct transaction costs	—	0.01%	—

##### PRICES

Highest share price	139.32	131.74	126.82
Lowest share price	121.86	123.05	112.52

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	124.89	125.73	115.39
Return before operating charges*	10.09	0.60	11.73
Operating charges	(0.88)	(1.44)	(1.39)
Return after operating charges	9.21	(0.84)	10.34
Distributions	(2.44)	(2.33)	(2.22)
Retained distributions on accumulation shares	2.44	2.33	2.22
Closing net asset value per share	134.10	124.89	125.73
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	7.37%	(0.67)%	8.96%
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##### OTHER INFORMATION

Closing net asset value (£'000)	10,100	7,750	4,360
Closing number of shares	7,532,741	6,205,444	3,467,456
Operating charges	0.68% <sup>1</sup>	1.14%	1.15%
Direct transaction costs	—	0.01%	—

##### PRICES

Highest share price	138.22	130.95	126.26
Lowest share price	121.04	122.40	112.21

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important information section on page 12.

**LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4**

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Fund Performance to 31 October 2019 (%)**

	1 year	3 years	Since launch <sup>1</sup>
LF Prudential Risk Managed Passive Fund 4	8.32	15.02	32.90

<sup>1</sup> The Fund launched on 9 September 2015.

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 311 and 312.

**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 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	EQUITY PORTFOLIOS – 54.23% (31.10.18 – 51.89%)		
	CONTINENTAL EUROPE – 8.03% (31.10.18 – 8.19%)		
1,772,211	Legal & General European Index	5,099	8.04
	TOTAL CONTINENTAL EUROPE	5,099	8.04
	UNITED KINGDOM – 19.50% (31.10.18 – 20.67%)		
2,045,005	iShares UK Equity Index	3,718	5.86
5,434,164	Legal & General UK Index	8,656	13.64
	TOTAL UNITED KINGDOM	12,374	19.50
	ASIA EX JAPAN – 10.14% (31.10.18 – 8.16%)		
3,525,401	iShares Pacific ex Japan Equity Index	6,434	10.14
	TOTAL ASIA EX JAPAN	6,434	10.14
	JAPAN – 4.31% (31.10.18 – 3.62%)		
1,248,279	iShares Japan Equity Index	2,734	4.31
	TOTAL JAPAN	2,734	4.31
	NORTH AMERICA – 8.02% (31.10.18 – 8.62%)		
1,701,957	iShares US Equity Index	5,092	8.02
	TOTAL NORTH AMERICA	5,092	8.02
	EMERGING MARKETS – 4.22% (31.10.18 – 2.63%)		
1,715,676	iShares Emerging Markets Equity Index	2,678	4.22
	TOTAL EMERGING MARKETS	2,678	4.22
	TOTAL EQUITY PORTFOLIOS	34,411	54.23
	EQUITY INVESTMENT INSTRUMENTS – 4.22% (31.10.18 – 8.98%)		
216,138	BBGI	349	0.55
173,582	BioPharma Credit	134	0.21
84,660	Blue Capital Alternative Income <sup>1</sup>	12	0.02
22,100	Boussard & Gavaudan	327	0.51



## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
181,815	DP Aircraft I	105	0.17
34,908	HarbourVest Global Private Equity	579	0.91
102,613	HgCapital	247	0.39
81,501	Intesa Sanpaolo <sup>2</sup>	158	0.25
98,746	NB Distressed Debt Investment	57	0.09
114,749	NextEnergy Solar	138	0.22
138,550	Renewables Infrastructure	181	0.28
227,200	SDCL Energy Efficiency Income	239	0.38
15,523	UniCredit <sup>2</sup>	152	0.24
	TOTAL EQUITY INVESTMENT INSTRUMENTS	2,678	4.22
	PROPERTY PORTFOLIOS – 0.00% (31.10.18 – 17.00%)	–	–
	BOND PORTFOLIOS – 35.22% (31.10.18 – 21.51%)		
4,958,733	iShares Corporate Bond Index	7,567	11.92
165,661	iShares Euro Investment Grade Corporate Bond Index	1,793	2.83
716,551	iShares US Corporate Bond Index	6,482	10.21
113,673	iShares USD Treasury Bond	570	0.90
1,070,898	M&G European Corporate Bond <sup>3</sup>	1,214	1.91
843,199	M&G Global High Yield Bond <sup>3</sup>	1,169	1.84
2,863,580	M&G Strategic Corporate Bond <sup>3</sup>	3,557	5.61
	TOTAL BOND PORTFOLIOS	22,352	35.22
	FUTURES – 0.04% (31.10.18 – 0.00%)		
15	EURO STOXX 50 Index Futures December 2019	12	0.02
3	FTSE 100 Index Futures December 2019	4	0.01
2	S&P 500 E Mini Index Futures December 2019	4	0.01
	TOTAL FUTURES	20	0.04

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	Portfolio of investments	59,461	93.71
	Net other assets	3,992	6.29
	Net assets	63,453	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.

<sup>1</sup> Delisted security.

<sup>2</sup> Ordinary shares.

<sup>3</sup> Related party holding (see note 12).

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

### ACD'S REPORT *continued*

### SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2019

Total purchases for the year £'000 (note 16)	43,882	Total sales for the year £'000 (note 16)	23,846
	Cost £'000		Proceeds £'000
<b>Major purchases</b>		<b>Major sales</b>	
iShares Corporate Bond Index	7,321	M&G Property Portfolio	6,512
iShares Pacific ex Japan Equity Index	7,035	Legal & General US Index	3,780
iShares US Corporate Bond Index	6,449	Legal & General Pacific Index	3,678
iShares US Equity Index	5,248	M&G Strategic Corporate Bond	2,449
iShares UK Equity Index	3,655	Legal & General Japan Index	1,460
iShares Emerging Markets Equity Index	2,653	FTSE 100 Index Futures September 2019	1,242
iShares Japan Equity Index	2,615	Legal & General Global Emerging Markets	
Legal & General European Index	1,914	Index	1,157
iShares Euro Investment Grade Corporate Bond		Euro Stoxx 50 Index Futures September 2019	1,032
Index	1,805	iShares Pacific ex Japan Equity Index	733
FTSE 100 Index Futures September 2019	1,233	iShares US Equity Index	532

In addition to above, purchases totalling £497,681,000 and sales totalling £497,696,000 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 2019

	Notes	£'000	31.10.19 £'000	£'000	31.10.18 £'000
Income:					
Net capital gains/(losses)	3		2,503		(1,017)
Revenue	4	1,329		966	
Expenses	5	(176)		(254)	
Interest payable and similar charges	6	(2)		—	
Net revenue before taxation		1,151		712	
Taxation	7	(59)		(38)	
Net revenue after taxation			1,092		674
<b>Total return before distributions</b>			3,595		(343)
Distributions	8		(1,099)		(681)
<b>Change in net assets attributable to shareholders from investment activities</b>			2,496		(1,024)

#### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2019

	£'000	31.10.19 £'000	£'000	31.10.18 £'000
<b>Opening net assets attributable to shareholders</b>		36,941		23,258
Amounts receivable on issue of shares	32,908		16,198	
Amounts payable on redemption of shares	(10,041)		(2,101)	
		22,867		14,097
Change in net assets attributable to shareholders from investment activities		2,496		(1,024)
Retained distributions on Accumulation shares		1,149		610
<b>Closing net assets attributable to shareholders</b>		63,453		36,941

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

### FINANCIAL STATEMENTS *continued*

#### BALANCE SHEET

as at 31 October 2019

	Notes	31.10.19 £'000	31.10.18 £'000
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investments		59,461	36,711
<b>Current assets</b>			
Debtors	9	721	690
Cash and bank balances	10	4,128	117
<b>Total assets</b>		<u>64,310</u>	<u>37,518</u>
<b>LIABILITIES</b>			
Provisions for liabilities		–	(8)
<b>Creditors</b>			
Bank overdrafts		(4)	–
Distribution payable	11	(112)	(140)
Other creditors	11	(741)	(429)
<b>Total liabilities</b>		<u>(857)</u>	<u>(577)</u>
<b>Net assets attributable to shareholders</b>		<u>63,453</u>	<u>36,941</u>

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2019

#### 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 page 24 have been applied to the financial statements of the Fund in the current and prior year.

#### 3. Net Capital Gains/(Losses)

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

	31.10.19 £'000	31.10.18 £'000
Non-derivative securities	2,360	(1,090)
Derivative contracts	119	39
Transaction charges	(2)	(1)
AMC rebates from underlying investments	36	33
Currency (losses)/gains	(10)	2
Net capital gains/(losses)	2,503	(1,017)

The net capital gains/(losses) figure includes realised gains of £1,192,000 and unrealised gains of £2,129,000 (31.10.18: includes realised gains of £3,000 and unrealised gains of £850,000). 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 2019

#### 4. Revenue

	31.10.19 £'000	31.10.18 £'000
Non-taxable dividends	898	553
Taxable dividends	6	–
UK property income distributions	105	151
Unfranked interest	235	160
AMC rebates from underlying investments	83	101
Bank interest	2	1
Total revenue	1,329	966

#### 5. Expenses

	31.10.19 £'000	31.10.18 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	170	203
Administration fees	13	47
ACD reimbursement to revenue <sup>1</sup>	(13)	–
	170	250
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	1	1
	6	4
Total expenses	176	254

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

<sup>1</sup> 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 Investment 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 2019

The audit fees of £7,800 (31.10.18: £6,000) are borne by the ACD.

#### 6. Interest Payable and Similar Charges

	31.10.19 £'000	31.10.18 £'000
Interest payable	2	–
Total interest payable and similar charges	2	–

#### 7. Taxation

	31.10.19 £'000	31.10.18 £'000
a) Analysis of charge for the year		
Corporation tax	66	34
Irrecoverable overseas tax	1	–
Current tax charge	67	34
Deferred tax – origination and reversal of timing differences (note 7c)	(8)	4
Total taxation (note 7b)	59	38

#### 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%) (31.10.18: 20%). The difference is explained below:

	31.10.19 £'000	31.10.18 £'000
Net revenue before taxation	1,151	712
Corporation tax at 20%	230	142
Effects of:		
Non-taxable dividends	(179)	(111)
Rebated capital expenses deductible for tax purposes	7	7
Irrecoverable income tax	1	–
Total tax charge (note 7a)	59	38



## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
c) Deferred tax		
Provision at the start of the year	8	4
Deferred tax charge in the year (note 7a)	(8)	4
Provision at the end of the year	—	8

## 8. Distributions

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

	31.10.19 £'000	31.10.18 £'000
Final	1,261	750
	1,261	750
Add: Revenue deducted on redemption of shares	133	24
Deduct: Revenue received on issue of shares	(295)	(93)
Net distribution for the year	1,099	681

Details of the distributions per share are set out in the table on pages 311 and 312.

	31.10.19 £'000	31.10.18 £'000
Distributions represented by:		
Net revenue after taxation	1,092	674
Allocations to capital:		
Tax relief from capital	7	7
Net distribution for the year	1,099	681

## 9. Debtors

	31.10.19 £'000	31.10.18 £'000
Amounts receivable for issue of shares	434	78

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Sales awaiting settlement	37	256
Accrued revenue:		
Non-taxable dividends	212	274
UK property income distributions	—	33
Unfranked interest	—	1
AMC rebates from underlying investments	8	16
	220	324
Taxation recoverable:		
Income tax	30	32
Total debtors	721	690

#### 10. Cash and Bank Balances

	31.10.19 £'000	31.10.18 £'000
Bank balances	4,095	117
Margin account	33	—
Total cash and bank balances	4,128	117

#### 11. Creditors

	31.10.19 £'000	31.10.18 £'000
Distribution payable	112	140
<b>Other Creditors</b>		
Amounts payable for redemption of shares	673	113
Purchases awaiting settlement	—	256

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	14	21
Administration fees	–	5
ACD reimbursement to revenue	(13)	–
	1	26
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Transaction charges	1	–
Taxation payable:		
Corporation tax	66	34
Total other creditors	741	429

## 12. Related Party Transactions

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 297 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 242,784 (31.10.18: 102,505) 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 5,020,460 (31.10.18: 5,009,667) 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	33.35%
FNZ (UK) Nominees Limited	23.49%

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

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:

	31.10.19 £'000	31.10.18 £'000
Portfolio Manager in common	5,940	13,853

### 13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.18: none).

### 14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.48%	0.48%	–
Opening shares in issue	3,656	18,044	9,917
Issues	–	21,804	2,032,675
Redemptions	(3,406)	(529)	(366,622)
Closing shares in issue	250	39,319	1,675,970

  

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.23%	0.23%	0.48%
Opening shares in issue	5,630,948	17,923,911	6,205,444
Issues	674,900	20,553,758	2,467,462
Redemptions	(3,483,593)	(2,962,400)	(1,140,165)
Closing shares in issue	2,822,255	35,515,269	7,532,741

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 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.

##### (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 PASSIVE FUND 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

The Fund invests in collective investment schemes and as such does not have any significant direct exposure to interest rate risk. The Fund may indirectly be 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 direct foreign currency risk profile at the balance sheet date:

	31.10.19 £'000	31.10.18 £'000
Currency:		
Euro currency	9,021	867
US dollars	397	431
Total foreign currency exposure	9,418	1,298
Pounds sterling	54,036	35,643
Total net assets	63,454	36,941

A 5% increase/decrease in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £448,445 decrease and £495,649 increase respectively on the net assets of the Fund.

#### (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 31.10.19, leverage under the gross method was 0.94:1 and leverage under the commitment method was 1:1 (31.10.18: 0.99:1 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 2019

#### (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.

To reduce liquidity risk the Portfolio Manager will ensure that a substantial portion of the Fund's assets consist of cash and readily realisable investments.

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 £2,973,000 (31.10.18: £1,836,000). A 5% decrease would have an equal and opposite effect.

#### (G) DERIVATIVES

The derivatives held by the Fund during the current and prior year were for Efficient Portfolio Management (EPM) purposes and were not of a material nature.

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 16. Portfolio Transaction Costs

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>		—	—	

Average portfolio dealing spread at 31.10.19 is 0.35% (31.10.18: 0.25%).



## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
<b>31.10.18</b>				
Ordinary shares	992	–	1	993
Collective investment schemes	15,775	1	1	15,777
Purchases total	16,767	1	2	16,770
<i>Transaction cost % of purchases total</i>		0.01%	0.01%	
<i>Transaction cost % of average NAV</i>		–	0.01%	
Collective investment schemes	2,160	–	–	2,160
Sales total	2,160	–	–	2,160
<i>Transaction cost % of sales total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	

### 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
<b>31.10.19</b>				
Investment assets	3,256	56,193	12	59,461
<b>31.10.18</b>				
Investment assets	3,091	33,575	45	36,711

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4

### FINANCIAL STATEMENTS *continued*

#### DISTRIBUTION TABLE

for the year ended 31 October 2019 – 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	01.11.18
To	31.10.19

#### 'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.1080	–	2.1080	1.7379
Group 2	2.1080	0.0000	2.1080	1.7379

#### 'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.2936	–	2.2936	1.8338
Group 2	0.4394	1.8542	2.2936	1.8338

#### 'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.4031	–	2.4031	1.6275
Group 2	1.6436	0.7595	2.4031	1.6275

#### 'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.5357	–	2.5357	2.4763
Group 2	1.0410	1.4947	2.5357	2.4763

**LF PRUDENTIAL RISK MANAGED PASSIVE FUND 4**  
**FINANCIAL STATEMENTS** *continued*  
**DISTRIBUTION TABLE** *continued*

**'P' ACCUMULATION SHARES**

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.7153	–	2.7153	2.5951
Group 2	1.4614	1.2539	2.7153	2.5951

**'R' ACCUMULATION SHARES**

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.4352	–	2.4352	2.3298
Group 2	1.7114	0.7238	2.4352	2.3298

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5 ACD'S REPORT

for the year ended 31 October 2019

### 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 volatility over rolling 5 year periods to 17%.

There is no guarantee that the volatility target will be met and at any time the actual volatility may be higher or lower than the long term target.

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. 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

27 February 2020

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

### ACD'S REPORT *continued*

### PORTFOLIO MANAGER'S REPORT

for the year ended 31 October 2019

Between 1 November 2018 and 31 October 2019 (the period in review) share classes R (Acc) 8.89%<sup>1</sup>, P (Acc) 9.10%<sup>1</sup> and A (Acc) 8.79%<sup>1</sup> produced returns ahead of the 7.24%<sup>1</sup> sector average for IA Flexible Investment.

#### Market Overview

There was a broad sell-off in stock markets in the final quarter of 2018, as investors became increasingly alarmed over weaker-than-expected economic data out of the US, European Union and Japan, an ongoing trade war between the US and China and generally less supportive monetary policy from the world's central banks. As a result, several stock markets hit, or nearly hit, bear market territory – that is, they fell by 20% or more from their peak.

However global stock markets rebounded strongly in early 2019. A combination of relief that company earnings for the final quarter of 2018 were better than expected and dovish comments by many central banks that interest rates would remain on hold drove sentiment. Many central banks including the US Federal Reserve have subsequently reversed monetary policy which has been very supportive of markets.

Stock market performance was mixed towards the end of the period in review, with emerging market stocks, in general, underperforming developed market stocks. Fears about the global economy led to a setback for stock markets in August, whilst government bonds in many countries rallied strongly. The yields on UK gilts, US Treasuries and German bunds fell to record lows, but have risen somewhat since.

#### Positioning

The portfolio management team implemented the 2019 strategic asset allocation review in September across all funds in the range.

Overall, equity allocations have been reduced by 5% in this Fund via reductions to the benchmark positions for UK, US, European, Japanese and Asian equities. There was a small increased allocation to Emerging Markets reflecting the teams' belief that long-term structural factors, like favourable demographics, remain more positive.

Conversely the allocation to fixed income has been increased by 5%. The main change this year is the addition of US treasuries that provide more favourable yields than other developed market government bonds and are still seen as a 'haven' in the event of a market downturn.

From a shorter-term tactical perspective, the portfolio manager currently has a small overweight position across global equities and a moderate underweight in global high yield and UK and European investment grade bonds. This mainly reflects the current low yield environment. The portfolio is also slightly overweight cash which will be allocated when an appropriate opportunity arises.

The team have reduced the Italian banks position to reflect a lower conviction as the fundamentals of the trade now have an extended payback period.

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<sup>1</sup> Source: FE Analytics.

## **LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5**

### **ACD'S REPORT** *continued*

### **PORTFOLIO MANAGER'S REPORT** *continued*

#### **Investment Activity**

Further to communications around the changes being made to LF Prudential Risk Managed Passive funds, the transition to the new underlying fund holdings was completed in late July 2019. This activity would have included a re-allocation across equity and fixed income as property holdings were redeemed and alternatives holdings reduced. Full details are in this report.

#### **Outlook**

The portfolio managers view of markets remains largely unchanged over recent months. Macro data continues to be weak, and we wait to see whether looser financial conditions/central bank easing will help produce stronger macro data in the near future (with its typical lagged effect). Markets have had a very strong year so far in 2019, fuelled by the global central bank easing theme that began at the end of 2018.

We believe another driver of markets has been the US/China trade discussions. Our sense is that market expectations of a positive outcome have built to a high level and have supported the current price levels of risky assets. There is obviously a risk that high expectations are dashed, sentiment is dented, and that market prices fall. We think it is difficult to have an insight on this particular outcome.

#### **M&G INVESTMENT MANAGEMENT LIMITED**

Portfolio Manager

19 November 2019

## 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. The lowest number on the scale does not mean that a fund is risk free.

The Fund has been classed as 4 because the 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.

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.

**Currency Risk:** As the Fund invests indirectly in overseas securities, exchange rates movements may, when not hedged, cause the value of your investment to increase or decrease.

Bonds are affected by trends in interest rates and inflation. If interest rates go up the value of capital may fall and vice versa. Inflation will also decrease the real value of capital. The value of a bond is also affected by its credit rating. Bonds with a higher average yield tend to be less liquid and have a lower credit rating. Investment in bonds with a higher yield also generally brings an increased risk of default on repayment by the issuer which could affect the income and capital of the Fund.

The Fund may invest indirectly in property. Property investments may be harder to buy and sell than other asset types.

**Non-UCITS Retail Scheme (NURS):** The Fund can be less diversified than UCITS schemes as it has higher investment limits for certain types of assets. It can also invest in assets which are not available to UCITS schemes. This can increase the potential rewards but can also increase risk.

The value of investments, and the income from them, will fluctuate. This will cause the Fund price to fall as well as rise and you may not get back what you originally invested.

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](http://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.

#### 'A' INCOME SHARES

CHANGE IN NET ASSETS PER SHARE	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	121.63	124.60	114.90
Return before operating charges*	10.00	0.98	13.53
Operating charges	(0.91)	(2.02)	(1.99)
Return after operating charges	9.09	(1.04)	11.54
Distributions	(2.38)	(1.93)	(1.84)
Closing net asset value per share	128.34	121.63	124.60
* after direct transaction costs of:	—	0.01	—

#### PERFORMANCE

Return after charges	7.48%	(0.84)%	10.04%
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#### OTHER INFORMATION

Closing net asset value (£'000)	6	3	—
Closing number of shares	4,809	2,431	250
Operating charges	0.72% <sup>1</sup>	1.62%	1.65%
Direct transaction costs	—	0.01%	0.01%

#### PRICES

Highest share price	135.23	130.74	127.11
Lowest share price	117.14	120.69	111.98

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	127.64	128.72	117.03
Return before operating charges*	10.57	1.02	13.73
Operating charges	(1.00)	(2.10)	(2.04)
Return after operating charges	9.57	(1.08)	11.69
Distributions	(2.48)	(1.89)	(1.73)
Retained distributions on accumulation shares	2.48	1.89	1.73
Closing net asset value per share	137.21	127.64	128.72
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	7.50%	(0.84)%	9.99%
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##### OTHER INFORMATION

Closing net asset value (£'000)	6	4	3
Closing number of shares	4,494	3,136	1,770
Operating charges	0.75% <sup>1</sup>	1.62%	1.65%
Direct transaction costs	—	0.01%	0.01%

##### PRICES

Highest share price	142.03	135.15	129.52
Lowest share price	123.08	124.74	114.13

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 <sup>1</sup> pence per share
Opening net asset value per share	100.18	100.00
Return before operating charges*	8.17	2.06
Operating charges	(0.11)	(0.16)
Return after operating charges	8.06	1.90
Distributions	(2.51)	(1.72)
Closing net asset value per share	105.73	100.18
* after direct transaction costs of:	—	0.01

##### PERFORMANCE

Return after charges	8.05%	1.90%
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##### OTHER INFORMATION

Closing net asset value (£'000)	1,891	10
Closing number of shares	1,787,944	9,829
Operating charges	0.11% <sup>3</sup>	0.28% <sup>2</sup>
Direct transaction costs	—	0.01%

##### PRICES

Highest share price	111.60	107.30
Lowest share price	96.43	99.98

<sup>1</sup> From 17 April 2018.

<sup>2</sup> Annualised figure due to share class being launched less than 1 year.

<sup>3</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	121.93	124.80	114.98
Return before operating charges*	10.01	0.80	13.32
Operating charges	(0.52)	(1.13)	(1.09)
Return after operating charges	9.49	(0.33)	12.23
Distributions	(2.73)	(2.54)	(2.41)
Closing net asset value per share	128.69	121.93	124.80
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	7.78%	(0.27)%	10.64%
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##### OTHER INFORMATION

Closing net asset value (£'000)	5,533	6,765	6,538
Closing number of shares	4,299,529	5,548,399	5,238,915
Operating charges	0.41% <sup>1</sup>	0.89%	0.90%
Direct transaction costs	—	0.01%	0.01%

##### PRICES

Highest share price	135.92	131.55	127.91
Lowest share price	117.59	121.18	112.13

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	130.30	130.65	118.10
Return before operating charges*	10.71	0.82	13.68
Operating charges	(0.54)	(1.17)	(1.13)
Return after operating charges	10.17	(0.35)	12.55
Distributions	(2.92)	(2.66)	(2.48)
Retained distributions on accumulation shares	2.92	2.66	2.48
Closing net asset value per share	140.47	130.30	130.65
* after direct transaction costs of:	–	0.01	–

##### PERFORMANCE

Return after charges	7.81%	(0.27)%	10.63%
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##### OTHER INFORMATION

Closing net asset value (£'000)	32,770	18,676	11,668
Closing number of shares	23,329,609	14,333,726	8,930,803
Operating charges	0.40% <sup>1</sup>	0.89%	0.90%
Direct transaction costs	–	0.01%	0.01%

##### PRICES

Highest share price	145.21	137.66	131.32
Lowest share price	125.72	126.81	115.17

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

## 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	31.10.19 pence per share	31.10.18 pence per share	31.10.17 pence per share
Opening net asset value per share	129.33	129.94	117.69
Return before operating charges*	10.71	0.88	13.68
Operating charges	(0.89)	(1.49)	(1.43)
Return after operating charges	9.82	(0.61)	12.25
Distributions	(2.63)	(2.40)	(2.22)
Retained distributions on accumulation shares	2.63	2.40	2.22
Closing net asset value per share	139.15	129.33	129.94
* after direct transaction costs of:	—	0.01	—

##### PERFORMANCE

Return after charges	7.59%	(0.47)%	10.41%
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##### OTHER INFORMATION

Closing net asset value (£'000)	6,251	4,650	2,104
Closing number of shares	4,491,835	3,595,186	1,619,288
Operating charges	0.66% <sup>1</sup>	1.14%	1.15%
Direct transaction costs	—	0.01%	0.01%

##### PRICES

Highest share price	143.94	136.72	130.63
Lowest share price	124.76	126.03	114.75

<sup>1</sup> The figure differs to the estimated Ongoing Charges Figure reported for the purposes of the Key Investor Information Document due to the changes effective 21 January 2019 as mentioned in the Important Information section on page 12.

**LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5**

**ACD'S REPORT** *continued*

**FUND INFORMATION** *continued*

**Fund Performance to 31 October 2019 (%)**

	1 year	3 years	Since launch <sup>1</sup>
LF Prudential Risk Managed Passive Fund 5	8.79	17.79	38.10

<sup>1</sup> The Fund launched on 9 September 2015.

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 343 and 344.

**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 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	EQUITY PORTFOLIOS – 65.46% (31.10.18 – 63.97%)		
	CONTINENTAL EUROPE – 9.67% (31.10.18 – 10.16%)		
1,561,029	Legal & General European Index	4,491	9.67
	TOTAL CONTINENTAL EUROPE	4,491	9.67
	UNITED KINGDOM – 23.20% (31.10.18 – 25.51%)		
1,133,606	iShares UK Equity Index	2,061	4.44
5,470,240	Legal & General UK Index	8,714	18.76
	TOTAL UNITED KINGDOM	10,775	23.20
	ASIA EX JAPAN – 12.38% (31.10.18 – 10.13%)		
3,152,005	iShares Pacific ex Japan Equity Index	5,752	12.38
	TOTAL ASIA EX JAPAN	5,752	12.38
	JAPAN – 5.27% (31.10.18 – 4.56%)		
1,119,259	iShares Japan Equity Index	2,451	5.27
	TOTAL JAPAN	2,451	5.27
	NORTH AMERICA – 9.79% (31.10.18 – 10.50%)		
1,519,695	iShares US Equity Index	4,547	9.79
	TOTAL NORTH AMERICA	4,547	9.79
	EMERGING MARKETS – 5.15% (31.10.18 – 3.11%)		
1,532,946	iShares Emerging Markets Equity Index	2,393	5.15
	TOTAL EMERGING MARKETS	2,393	5.15
	TOTAL EQUITY PORTFOLIOS	30,409	65.46
	EQUITY INVESTMENT INSTRUMENTS – 4.38% (31.10.18 – 10.04%)		
165,398	BBGI	267	0.57
133,441	BioPharma Credit	103	0.22
80,465	Blue Capital Alternative Income <sup>1</sup>	11	0.02
17,000	Boussard & Gavaudan	251	0.54



# **LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5**

## **ACD'S REPORT** *continued*

## **PORTFOLIO STATEMENT** *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
139,605	DP Aircraft I	81	0.17
26,262	HarbourVest Global Private Equity	436	0.94
76,760	HgCapital	185	0.40
59,856	Intesa Sanpaolo <sup>2</sup>	116	0.25
85,476	NB Distressed Debt Investment	49	0.11
88,190	NextEnergy Solar	106	0.23
102,168	Renewables Infrastructure	134	0.29
176,500	SDCL Energy Efficiency Income	185	0.40
11,401	UniCredit <sup>2</sup>	112	0.24
	TOTAL EQUITY INVESTMENT INSTRUMENTS	2,036	4.38
	PROPERTY PORTFOLIOS – 0.00% (31.10.18 – 17.52%)	–	–
	BOND PORTFOLIOS – 23.77% (31.10.18 – 7.48%)		
2,571,292	iShares Corporate Bond Index	3,924	8.45
66,558	iShares Euro Investment Grade Corporate Bond Index	720	1.55
369,091	iShares US Corporate Bond Index	3,339	7.19
45,791	iShares USD Treasury Bond	230	0.49
518,206	M&G European Corporate Bond <sup>3</sup>	588	1.27
447,683	M&G Global High Yield Bond <sup>3</sup>	620	1.33
1,304,047	M&G Strategic Corporate Bond <sup>3</sup>	1,620	3.49
	TOTAL BOND PORTFOLIOS	11,041	23.77
	FUTURES – 0.04% (31.10.18 – 0.00%)		
16	EURO STOXX 50 Index Futures December 2019	15	0.03
5	FTSE 100 Index Futures December 2019	5	0.01
2	S&P 500 E Mini Index Futures December 2019	2	–
	TOTAL FUTURES	22	0.04

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

### ACD'S REPORT *continued*

### PORTFOLIO STATEMENT *continued*

as at 31 October 2019

Holding	Portfolio of Investments	Value £'000	31.10.19 %
	Portfolio of investments	43,508	93.65
	Net other assets	2,949	6.35
	Net assets	46,457	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.

<sup>1</sup> Delisted security.

<sup>2</sup> Ordinary shares.

<sup>3</sup> Related party holding (see note 12).

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

### ACD'S REPORT *continued*

### SUMMARY OF MATERIAL PORTFOLIO CHANGES

for the year ended 31 October 2019

Total purchases for the year £'000 (note 16)	30,697	Total sales for the year £'000 (note 16)	19,055
	Cost £'000		Proceeds £'000
<b>Major purchases</b>		<b>Major sales</b>	
iShares Pacific ex Japan Equity Index	6,010	M&G Property Portfolio	5,636
iShares US Equity Index	4,559	Legal & General US Index	3,765
iShares Corporate Bond Index	3,825	Legal & General Pacific Index	3,682
iShares US Corporate Bond Index	3,329	Legal & General Japan Index	1,473
iShares Emerging Markets Equity Index	2,366	Legal & General Global Emerging Markets	
iShares Japan Equity Index	2,253	Index	1,144
iShares UK Equity Index	2,029	FTSE 100 Index Futures September 2019	1,097
Legal & General European Index	1,139	EURO STOXX 50 Index Futures September	
FTSE 100 Index Futures September 2019	1,099	2019	751
Legal & General UK Index	968	M&G Strategic Corporate Bond	463
		FTSE 100 Index Futures December 2019	436
		S&P 500 E Mini Futures March 2019	418

In addition to the above, purchases totalling £245,239,000 and sales totalling £242,535,000 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 2019

	Notes	£'000	31.10.19 £'000	£'000	31.10.18 £'000
Income:					
Net capital gains/(losses)	3		1,977		(761)
Revenue	4	1,021		731	
Expenses	5	(131)		(194)	
Interest payable and similar charges	6	(3)		—	
Net revenue before taxation		887		537	
Taxation	7	(24)		(9)	
Net revenue after taxation			863		528
<b>Total return before distributions</b>			2,840		(233)
Distributions	8		(869)		(533)
<b>Change in net assets attributable to shareholders from investment activities</b>			1,971		(766)

#### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31 October 2019

	£'000	31.10.19 £'000	£'000	31.10.18 £'000
<b>Opening net assets attributable to shareholders</b>		30,108		20,313
Amounts receivable on issue of shares	18,112		13,674	
Amounts payable on redemption of shares	(4,534)		(3,582)	
		13,578		10,092
Change in net assets attributable to shareholders from investment activities		1,971		(766)
Retained distributions on Accumulation shares		800		469
<b>Closing net assets attributable to shareholders</b>		46,457		30,108

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

### FINANCIAL STATEMENTS *continued*

#### BALANCE SHEET

as at 31 October 2019

	Notes	31.10.19 £'000	31.10.18 £'000
<b>ASSETS</b>			
<b>Fixed assets</b>			
Investments		43,508	29,809
<b>Current assets</b>			
Debtors	9	3,443	486
Cash and bank balances	10	3,266	178
<b>Total assets</b>		<u>50,217</u>	<u>30,473</u>
<b>LIABILITIES</b>			
Provisions for liabilities		—	(6)
<b>Creditors</b>			
Distribution payable	11	(162)	(141)
Other creditors	11	(3,598)	(218)
<b>Total liabilities</b>		<u>(3,760)</u>	<u>(365)</u>
<b>Net assets attributable to shareholders</b>		<u>46,457</u>	<u>30,108</u>

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 October 2019

#### 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 policies 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 page 24 have been applied to the financial statements of the Fund in the current and prior year.

#### 3. Net Capital Gains/(Losses)

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

	31.10.19 £'000	31.10.18 £'000
Non-derivative securities	1,872	(815)
Derivative contracts	78	30
Transaction charges	(2)	(1)
AMC rebates from underlying investments	31	25
Currency losses	(2)	–
Net capital gains/(losses)	1,977	(761)

The net capital gains/(losses) figure includes realised gains of £949,000 and unrealised gains of £1,580,000 (31.10.18: includes realised gains of £202,000 and unrealised gains of £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 2019

#### 4. Revenue

	31.10.19 £'000	31.10.18 £'000
Non-taxable dividends	800	516
Taxable dividends	2	2
UK property income distributions	86	119
Unfranked interest	97	51
AMC rebates from underlying investments	34	43
Bank interest	2	–
Total revenue	1,021	731

#### 5. Expenses

	31.10.19 £'000	31.10.18 £'000
Payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	127	155
Administration fees	11	37
ACD reimbursement to revenue <sup>1</sup>	(11)	–
	127	192
Payable to the Depositary, associates of the Depositary and agents of either of them:		
Depositary's fees	3	2
Safe custody and other bank charges	1	–
	4	2
Total expenses	131	194

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

<sup>1</sup> 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 Investment 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 2019

The audit fees of £7,800 (31.10.18: £6,000) are borne by the ACD.

#### 6. Interest Payable and Similar Charges

	31.10.19 £'000	31.10.18 £'000
Interest payable	3	–
Total interest payable and similar charges	3	–

#### 7. Taxation

	31.10.19 £'000	31.10.18 £'000
a) Analysis of charge for the year		
Corporation tax	30	5
Current tax charge	30	5
Deferred tax – origination and reversal of timing differences (note 7c)	(6)	4
Total taxation (note 7b)	24	9

#### 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%) (31.10.18: 20%). The difference is explained below:

	31.10.19 £'000	31.10.18 £'000
Net revenue before taxation	887	537
Corporation tax at 20%	177	107
Effects of:		
Non-taxable dividends	(159)	(103)
Rebated capital expenses deductible for tax purposes	6	5
Total tax charge (note 7a)	24	9
c) Deferred tax		
Provision at the start of the year	6	2
Deferred tax charge in the year (note 7a)	(6)	4
Provision at the end of the year	–	6



## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 8. Distributions

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

	31.10.19 £'000	31.10.18 £'000
Final	962	610
	962	610
Add: Revenue deducted on redemption of shares	69	18
Deduct: Revenue received on issue of shares	(162)	(95)
Net distribution for the year	869	533

Details of the distributions per share are set out in the table on pages 343 and 344.

	31.10.19 £'000	31.10.18 £'000
Distributions represented by:		
Net revenue after taxation	863	528
Allocations to capital:		
Tax relief from capital	6	5
Net distribution for the year	869	533

#### 9. Debtors

	31.10.19 £'000	31.10.18 £'000
Amounts receivable for issue of shares	474	157
Sales awaiting settlement	2,728	3

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Accrued revenue:		
Non-taxable dividends	213	263
UK property income distributions	–	26
Unfranked interest	–	1
AMC rebates from underlying investments	4	9
	217	299
Taxation recoverable:		
Income tax	24	27
Total debtors	3,443	486

### 10. Cash and Bank Balances

	31.10.19 £'000	31.10.18 £'000
Bank balances	3,231	178
Margin account	35	–
Total cash and bank balances	3,266	178

### 11. Creditors

	31.10.19 £'000	31.10.18 £'000
Distribution payable	162	141
<b>Other Creditors</b>		
Amounts payable for redemption of shares	864	1
Purchases awaiting settlement	2,704	192

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	31.10.19 £'000	31.10.18 £'000
Accrued expenses:		
Amounts payable to the ACD, associates of the ACD and agents of either of them:		
Annual Management Charge	10	16
Administration fees	–	4
ACD reimbursement to revenue	(11)	–
	(1)	20
Amounts payable to the Depositary, associates of the Depositary and agents of either of them:		
Transaction charges	1	–
Taxation payable:		
Corporation tax	30	5
Total other creditors	3,599	218

## 12. Related Party Transactions

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 329 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 51,031 (31.10.18: 34,338) 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 5,058,398 (31.10.18: 5,009,579) 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	50.65%
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## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

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:

	31.10.19 £'000	31.10.18 £'000
Portfolio Manager in common	2,828	7,216

### 13. Contingent Liabilities and Commitments

There are no contingent liabilities or unrecorded outstanding commitments (31.10.18: none).

### 14. Shares in Issue

	'A' Income	'A' Accumulation	'C' Income
Annual Management Charge	0.48%	0.48%	–
Opening shares in issue	2,431	3,136	9,829
Issues	2,584	1,476	1,789,979
Redemptions	(206)	(118)	(11,864)
Closing shares in issue	4,809	4,494	1,787,944

	'P' Income	'P' Accumulation	'R' Accumulation
Annual Management Charge	0.23%	0.23%	0.48%
Opening shares in issue	5,548,399	14,333,726	3,595,186
Issues	516,728	10,284,199	1,260,061
Redemptions	(1,765,598)	(1,288,316)	(363,412)
Closing shares in issue	4,299,529	23,329,609	4,491,835

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 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.

##### (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 PASSIVE FUND 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

The Fund invests in collective investment schemes and as such does not have any significant direct exposure to interest rate risk. The Fund may indirectly be 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 direct foreign currency risk profile at the balance sheet date:

	31.10.19 £'000	31.10.18 £'000
Currency:		
Euro currency	4,703	717
US dollars	346	383
Total foreign currency exposure	5,049	1,100
Pounds sterling	41,408	29,008
Total net assets	46,457	30,108

A 5% increase/decrease in the pounds Sterling exchange rate against all other currencies, assuming all other factors remained the same, would have an impact of £240,397 decrease and £265,702 increase respectively on the net assets of the Fund.

#### (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 31.10.19, leverage under the gross method was 0.94:1 and leverage under the commitment method was 1:1 (31.10.18: 0.99:1 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 2019

#### (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.

To reduce liquidity risk the Portfolio Manager will ensure that a substantial portion of the Fund's assets consist of cash and readily realisable investments.

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 £2,175,000 (31.10.18: £1,490,000). A 5% decrease would have an equal and opposite effect.

#### (G) DERIVATIVES

The derivatives held by the Fund during the current and prior year were for Efficient Portfolio Management (EPM) purposes and were not of a material nature.

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

#### 16. Portfolio Transaction Costs

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	<u>30,697</u>	<u>—</u>	<u>—</u>	<u>30,697</u>
<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	<u>19,055</u>	<u>—</u>	<u>—</u>	<u>19,055</u>
<i>Transaction cost % of sales total</i>		—	—	
<i>Transaction cost % of average NAV</i>		—	—	

Average portfolio dealing spread at 31.10.19 is 0.38% (31.10.18: 0.30%).



## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

### FINANCIAL STATEMENTS *continued*

### NOTES TO THE FINANCIAL STATEMENTS *continued*

for the year ended 31 October 2019

	Purchases/ sales before transaction costs £'000	Commissions £'000	Taxes £'000	Gross purchases/ net sales £'000
<b>31.10.18</b>				
Ordinary shares	796	1	1	798
Collective investment schemes	12,938	–	–	12,938
Purchases total	13,734	1	1	13,736
<i>Transaction cost % of purchases total</i>		0.01%	0.01%	
<i>Transaction cost % of average NAV</i>		–	0.01%	
Collective investment schemes	3,307	–	–	3,307
Sales total	3,307	–	–	3,307
<i>Transaction cost % of sales total</i>		–	–	
<i>Transaction cost % of average NAV</i>		–	–	

### 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
<b>31.10.19</b>				
Investment assets	2,277	41,220	11	43,508
<b>31.10.18</b>				
Investment assets	2,801	26,965	43	29,809

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

### FINANCIAL STATEMENTS *continued*

#### DISTRIBUTION TABLE

for the year ended 31 October 2019 – 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	01.11.18
To	31.10.19

#### 'A' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.3835	–	2.3835	1.9291
Group 2	1.7246	0.6589	2.3835	1.9291

#### 'A' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.4809	–	2.4809	1.8852
Group 2	1.8003	0.6806	2.4809	1.8852

#### 'C' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.5098	–	2.5098	1.7162
Group 2	1.4335	1.0763	2.5098	1.7162

#### 'P' INCOME SHARES

Final	Net Revenue	Equalisation	Payable 31.12.19	Paid 31.12.18
Group 1	2.7292	–	2.7292	2.5360
Group 2	1.5216	1.2076	2.7292	2.5360

## LF PRUDENTIAL RISK MANAGED PASSIVE FUND 5

### FINANCIAL STATEMENTS *continued*

### DISTRIBUTION TABLE *continued*

#### 'P' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.9201	–	2.9201	2.6625
Group 2	1.6781	1.2420	2.9201	2.6625

#### 'R' ACCUMULATION SHARES

Final	Net Revenue	Equalisation	Allocation 31.12.19	Allocated 31.12.18
Group 1	2.6280	–	2.6280	2.3968
Group 2	2.0848	0.5432	2.6280	2.3968

## GENERAL INFORMATION

### 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 valuation point of each sub-fund 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](http://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](http://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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Part of **Link Group**