

Dynamic Portfolios

Quarterly Update

In this Q2 2016 update you will find:

- › What makes our Dynamic Portfolios special
- › Commentary on markets and each portfolio from the experts
- › Asset allocation and holdings information

This is the quarterly update for Prudential Dynamic Portfolios.

Inside you will find information including investment aims, how funds are chosen, commentary on financial markets and updates on each portfolio.

The information in this guide is as at 30 June 2016 unless otherwise stated.

This Quarterly Update describes the asset allocations, fund aims and Risk/Reward profiles of the Open Ended Investment Company (OEIC) versions of these funds. This fund type is distinguished from the Unit-Linked versions, that invest exclusively in the OEIC funds, by the prefix 'CF' in their full name as in 'CF Prudential Dynamic 40-80 Portfolio' for example.

If you invest or hold these funds in a Pension, Life or International policy you may have the Unit-Linked version that doesn't have the 'CF' prefix. Instead it will simply say 'Prudential' (for Pension and Life funds) as in 'Prudential Dynamic 40-80 Portfolio' for example. International funds will have the prefix 'PIA' in their title.

The Unit-Linked versions generally have a slightly larger proportion of their holdings in cash and may have different charging and taxation costs. This will mean their investment performance will be different to their OEIC equivalent. Page 19 has the respective performance figures for both the OEIC and Unit-Linked versions of these funds, that is further broken down into the performance as held as an OEIC or within a Life, Pension or International Insurance policy.

Your product literature will help you identify which version of the fund you may hold. Or alternatively ask your financial adviser for more information.

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Prudential Dynamic Portfolios

Five portfolios designed to meet different investment objectives and help target different attitudes to risk.

- › Each Dynamic Portfolio is a "fund of funds", which means that each invests in a range of independently managed investment funds.
- › The portfolios contain different proportions of high and lower risk assets to target different goals and needs.
- › Our Dynamic Portfolios benefit from the asset allocation expertise of Prudential Portfolio Management Group Ltd (PPMG) and Morningstar Investment Management Europe Ltd.

Meet the experts

Prudential Portfolio Management Group Ltd (PPMG)

- › PPMG are the in-house investment strategists and "manager of managers" for Prudential in the UK.
- › They are independent of the various underlying asset management businesses within the Prudential Group.
- › PPMG is a team of circa 90 that includes experienced investment professionals with specialist expertise in capital markets research, manager research, investment strategy design, liability management, alternative investments and portfolio management.
- › They are responsible for over £163.2 billion of investors' money, as at 30 June 2016.

PPMG recommend each portfolio's asset allocation.

When reviewing the asset allocation, PPMG consider their long term view of each type of asset the portfolio can hold and decide which ones to use in line with appropriate risk parameters.



- › They have an impartial research business model which selects funds independently of fund managers, and were established in July 1999.
- › Their aim is to be the leading qualitative investment research company in the UK retail funds market.
- › Their research is widely used by fund managers, product providers and professional intermediaries alike.

Morningstar research and regularly review funds, and make "buy", "hold" and "sell" recommendations.

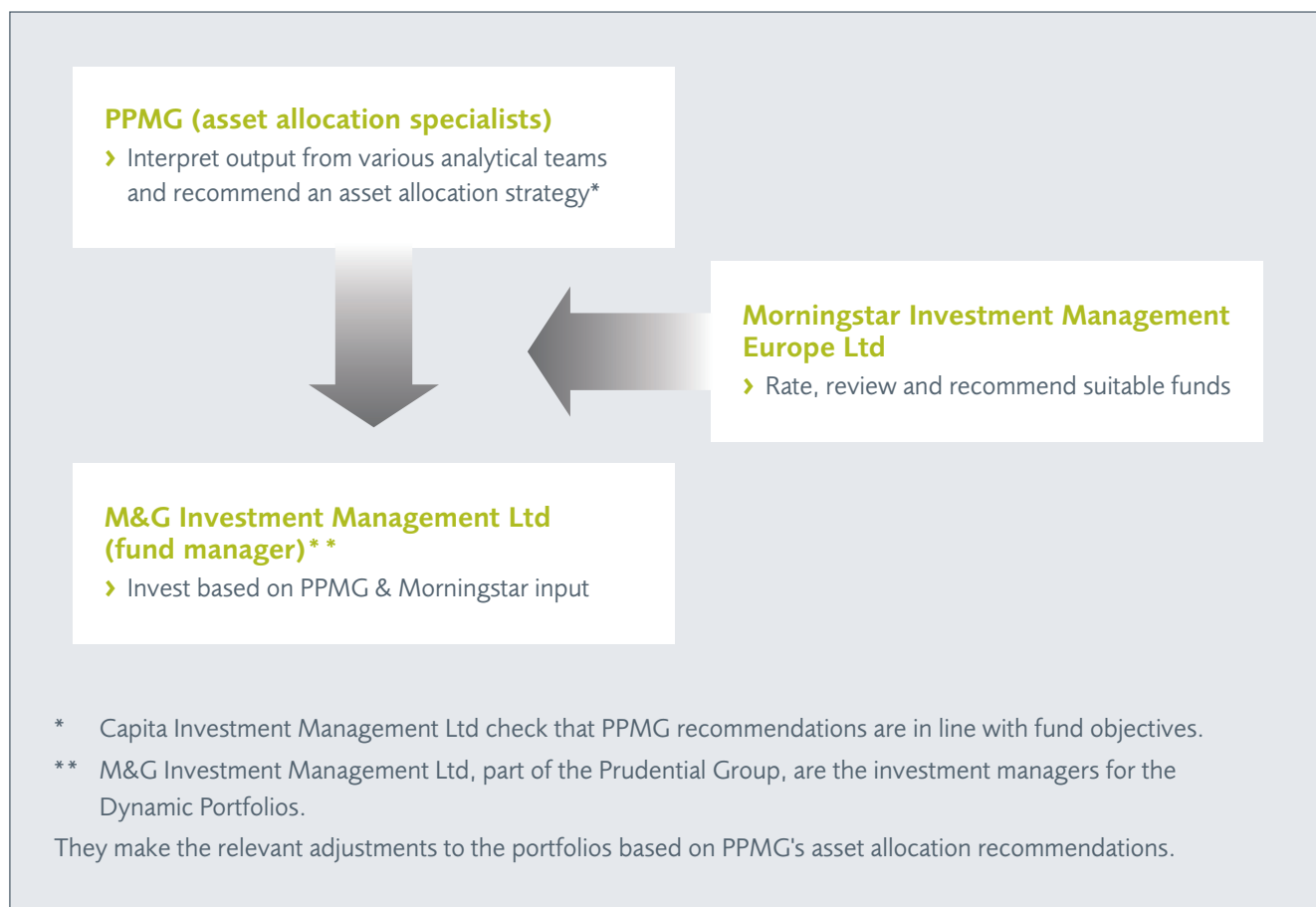
Morningstar recommend a range of independently managed funds from some of the best fund managers in the country.

When recommending funds for the portfolios, Morningstar Investment Management Europe Ltd look at the different styles of the managers and blend styles together to create an appropriate fund holding.

M&G Investment Management Ltd, part of the Prudential Group, are the investment managers for the Dynamic Portfolios. They make the relevant adjustments to the portfolios based on PPMG's asset allocation recommendations.

The underlying Prudential Dynamic Focused OEIC funds are owned by Capita Finance and are available for investment as OEIC funds or as life and pension funds available on Prudential and Prudential International products.

Prudential's Dynamic Portfolios



Past performance is no guide to the future. Performance can go up and down, and you not get back what you originally invested.

Prudential Portfolio Management Group Ltd (PPMG) – market update

In this section PPMG give their thoughts on current market conditions and how this shapes their views to the portfolio asset allocations.

This commentary reflects the general views of PPMG and should not be taken as recommendation or advice as how any specific market is likely to perform.

The headline news as far as the global economy went was the UK's decision to leave the European Union, following an in/out referendum held on 23 June.

In terms of the impact on markets, investors' appetite for risk had already fallen sharply in mid-June due to concerns about global growth combined with a greater likelihood that the UK might vote to leave the EU. Shares sold off and government bond prices rose before a turnaround in the polls suggested the 'Remain' side could prevail, which caused shares to rally.

Following the vote to leave, shares declined and sterling suffered swift losses against the US dollar. Markets

did start to stabilise as June drew to a close after Bank of England Governor Mark Carney moved to reassure investors and a decision was made not to trigger Article 50 – the legislation that would begin withdrawal from the EU in earnest – in the short-term.

Elsewhere, there was a statement from the US Federal Reserve that an interest rate rise in June could be appropriate if the US economy and jobs market continued to strengthen. This possibility caused the US dollar to rise sharply relative to most other currencies. Ultimately though, a disappointing jobs report in June, together with concern over the global economy, meant that no action was taken.

The longer-term impact of the vote to leave the European Union remains a concern. Ongoing uncertainty following the referendum may create opportunities and we will continue to closely consider our investment choices.

Al Denholm

Fund Manager of the Dynamic Portfolios and Chief Executive, Prudential Portfolio Management Group

Views on asset types

Each of the portfolios is made up of a number of different types of assets. These can be covered in three main categories.

Equities

Although there were many events that led to bouts of large volatility during the second quarter of 2016, most global stockmarkets were relatively stable. Investors seemed to be encouraged by a solid recovery in the oil price and several other commodities, which bolstered many emerging markets.

Of course, the second quarter of 2016 came to be increasingly dominated by the referendum. Shares and sterling were eventually stabilised, as Bank of England Governor Mark Carney announced that the central bank was standing by to do everything in its power to minimise the fallout of the 'Brexit' vote, which reassured investors.

US stockmarkets were relatively stable during the three months under review, with investors encouraged by continued strength in the oil price. Meanwhile most of Europe's stockmarkets declined over the quarter in local currency terms, with many different factors having an adverse effect on sentiment. As is usually the case in Japan, changes in the country's exchange rate had a big effect on share prices, due to the changing outlook for the earnings of the large number of exporting companies.

Despite continuing volatility we believe some equity markets will offer attractive opportunities at appropriate times.

Property

Uncertainty surrounding the outcome of June's referendum on the UK's membership of the European Union led to a sharp slowdown in the volume of UK commercial property transactions taking place so far this year. Over the six months, transactions are around half the level seen in the same period in 2015.

In the run-up to the referendum, capital and rental values in the UK commercial property sector have continued to rise, albeit at a slower pace than in 2015. In particular, underlying capital growth has moderated noticeably and was hurt further by the introduction of a new higher stamp duty tax band in the March Budget. Rental growth has moderated as well, but not to the same extent; tenant demand has so far remained robust and newly built quality properties remain limited. So far this year, total returns have been strongest in the office sector, followed by industrials.

We continue to hold UK commercial property funds. We believe it is still an attractive asset for the portfolios over the medium to long-term.

Fixed interest

The UK's vote to leave the European Union on 23 June had a major impact on financial markets and was the key driver behind returns in the second quarter of 2016. 10-year UK government bond (gilt) yields plunged from 1.41% at the end of March to a record low of 0.87% by the end of June. The majority of this fall occurred after the result of the referendum was announced, driven by expectations of a cut in UK interest rates, as well as a more generalised 'flight to safety'. These moves resulted in strong gains for gilts, especially longer-dated instruments which are the most sensitive to falling yields.

UK investment grade corporate bonds generally delivered solid gains over the quarter as well, although this was driven by the strong performance of government bond markets.

The result from the UK's referendum affected international bond markets as well. For example, the ensuing political and economic uncertainty has all but ruled out the possibility of any further hike in US interest rates for the foreseeable future.

Within Fixed Interest, we continue to favour corporate bonds over gilts.

Overview

The result of the EU referendum has created a lot of uncertainty which may persist for some time. The International Monetary Fund (IMF) forecasts for global growth had already been revised down for both 2016 and 2017, reflecting concerns over a weaker pick-up in emerging markets, prospects for lower oil prices and growth in the US holding steady (rather than gathering further steam). For the UK the vote to leave the EU will likely mean lower real growth (based on Gross Domestic Product figures) and higher inflation than previously expected.

The investment managers have made no immediate changes to the portfolios in reaction to the recent events but as always we are closely monitoring activity. The current uncertainty presents many challenges but will also create opportunities for experienced investors with long-term time horizons.

Dynamic 0-30 Portfolio

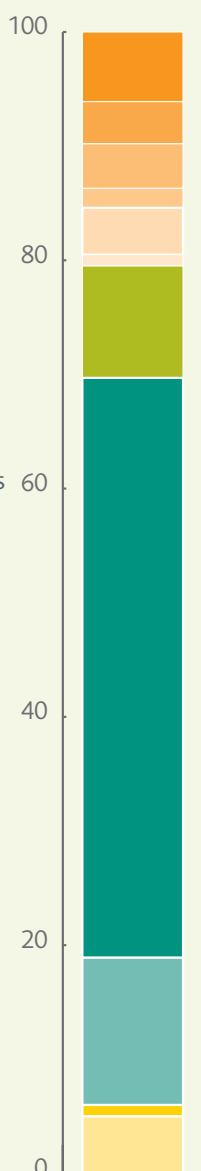
Investment objective of the collective fund (an Open Ended Investment Company or OEIC)

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

Total Fund size: £81,698,409

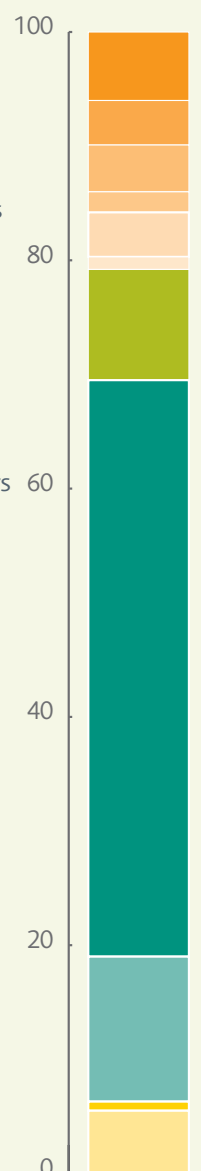
Holdings as at 31 March 2016

- **UK Equity Funds 6.1%**
Artemis Income
AXA Framlington UK Select Opps
Threadneedle UK
- **European Equity Funds 3.7%**
Henderson European Selected Opps
- **US Equity Funds 3.9%**
Schroder US Mid Cap
Threadneedle American
- **Japan Equity Funds 1.7%**
Schroder Tokyo
- **Asian Equity Funds 4.1%**
Fidelity South East Asia
Stewart Investors Asia Pacific Leaders
- **Emerging Equity Funds 1.0%**
Aberdeen Emerging Markets
- **Property Funds 9.8%**
Aviva Property Trust
M&G Property Portfolio
- **Investment Grade Corporate Bond Funds 50.8%**
Fidelity Moneybuilder Income
Invesco Perpetual Corporate Bond
Kames Investment Grade Bond
M&G Strategic Corporate Bond
Royal London Corporate Bond
- **High Yield Corporate Bond Funds 12.9%**
Baillie Gifford High Yield Bond
Kames High Yield Bond
M&G Global High Yield Bond
- **Cash 1.0%**
Cash
- **Money Market Funds 5.0%**
M&G Short Dated Corporate Bond



Holdings as at 30 June 2016

- **UK Equity Funds 6.0%**
Artemis Income
AXA Framlington UK Select Opps
Threadneedle UK
- **European Equity Funds 3.9%**
Henderson European Selected Opps
- **US Equity Funds 4.1%**
Schroder US Mid Cap
Threadneedle American
- **Japan Equity Funds 1.8%**
Schroder Tokyo
- **Asian Equity Funds 3.9%**
Fidelity South East Asia
Stewart Investors Asia Pacific Leaders
- **Emerging Equity Funds 1.1%**
M&G Global Emerging Markets
- **Property Funds 9.7%**
Aviva Property Trust
M&G Property Portfolio
- **Investment Grade Corporate Bond Funds 50.5%**
Fidelity Moneybuilder Income
Invesco Perpetual Corporate Bond
Kames Investment Grade Bond
M&G Strategic Corporate Bond
Royal London Corporate Bond
- **High Yield Corporate Bond Funds 12.7%**
Baillie Gifford High Yield Bond
Kames High Yield Bond
M&G Global High Yield Bond
- **Cash 0.8%**
Cash
- **Money Market Funds 5.5%**
M&G Short Dated Corporate Bond



The asset allocation and holdings for this portfolio can change regularly based on the views of the fund manager. These positions can also be impacted by cash flows in and out of the portfolio.

Where the fund invests in a collective fund, the manager of that underlying collective fund may use derivatives or alternative investments as part of the management of his/her fund.

Quarterly Portfolio Review from Morningstar

Morningstar select and recommend funds for each portfolio, based on the asset allocation PPMG have set for each portfolio to reflect the overall risk that the portfolio is willing to take (see pages 6 and 7 for the views of PPMG).

The following commentary reflects the general views of Morningstar and should not be taken as a recommendation or advice as to how any specific market is likely to perform.

We tend to associate political risk with emerging market investment. However, the second quarter of 2016 brought political risk much closer to home, as the unexpected result of the Brexit referendum created political upheaval and great economic uncertainty. This uncertainty was felt most keenly through sterling which fell by 7.52% against the US dollar over the quarter. While this sharp decline in the value of the UK's currency made the nation significantly poorer, it had a more positive impact on asset prices with most rising (in sterling terms) over the period. The key beneficiaries of these price rises were fixed income and defensive equities. In contrast European financial services, UK domestically orientated companies and property stocks fared much worse.

Fixed Income

Fixed Income investments produced very strong returns in the latter part of the quarter as the impact of the economic uncertainty caused by Brexit drove investors towards 'safe haven' assets. Consequently, yields on fixed income investments fell further with the 10-year gilt finishing the quarter below 1% having been near 2% at the start of the year. This resulted in a total return from gilts of 6.48% over the period. Investment grade credit did less well but still delivered 4.71%. This return was driven primarily by exposure to interest rates, as credit spreads remain broadly flat. Global high yield also produced a small positive return, driven by a pronounced narrowing of US spreads, while spreads in Europe widened over the quarter.

As in the first quarter of 2016, the UK investment grade section of the Portfolio lagged relevant indices. The lower duration positioning of active managers and exposure to lower quality credits proved to be a headwind. Invesco Perpetual Corporate Bond and M&G Strategic Corporate Bond underperformed broad indices and peers, hurt by the lack of duration in the portfolios.

Property

Commercial property suffered from Brexit nervousness with a sharp increase in redemptions resulting in the suspension of dealing on many open-ended funds after quarter-end and significant price falls in real estate investment trusts. Unlike other financial assets, property is both illiquid and indivisible and consequently vulnerable to declines in investor sentiment. However, it is important to note that the underlying assets in the suspended property funds continue to provide a competitive level of income. In addition, the suspensions, while inconvenient for investors, protect holders of the fund from forced sales and should therefore reduce the losses incurred.

During the quarter the fund price of M&G Property Portfolio was moved to an offer basis which hurt performance by around 6%. In contrast, Aviva Investors Property Trust, produced a small positive return and therefore outperformed peers and its index. Following the end of the quarter, trading in both funds was suspended to protect existing investors in light of heightened redemption requests.

Equities

Equity markets generally rose over the quarter with the US and Emerging markets especially strong. Within emerging markets both Latin American and Asian markets made good progress while emerging Europe lagged behind. In contrast, Japanese equities fell sharply at the end of the quarter as the yen strengthened dramatically following the Brexit vote. Other areas of weakness included UK mid-caps which fell by 2.86%, underperforming their large cap peers by over 9%. This bifurcation in returns reflects the greater exposure of the mid cap stocks to the UK domestic economy and hence their status as the preferred way for investors expressing this bearishness about the prospects for the UK economy.

As in the first quarter, the equity managers in the portfolio generally underperformed their indices. All three UK equity funds underperformed, as large cap stocks outperformed led by the energy and materials sectors. AXA Framlington UK Select Opportunities was a notable laggard hindered by the high exposure to mid-cap stocks. The US equity fund blend also underperformed, particularly the Threadneedle American fund.

Dynamic 10-40 Portfolio

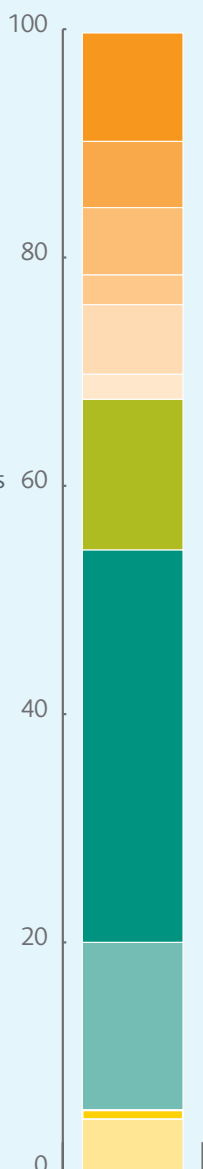
Investment objective of the collective fund (an Open Ended Investment Company or OEIC)

The Fund aims to achieve long-term total return (the combination of income and growth of capital) by investing mainly in collective investment schemes. Between 10% and 40% of the Fund will be invested in schemes whose predominant exposure is to equities.

Total Fund size: £177,118,103

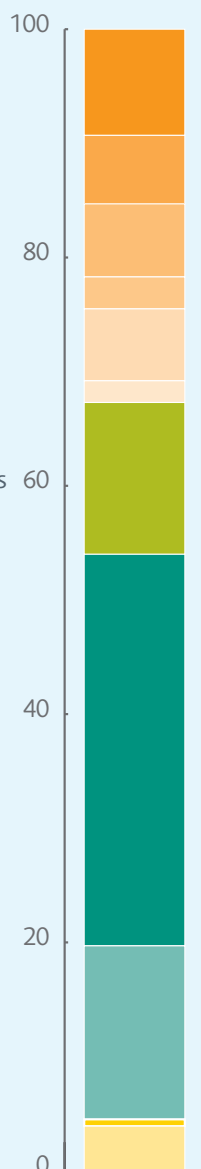
Holdings as at 31 March 2016

- UK Equity Funds 9.5%**
 - Artemis Income
 - AXA Framlington UK Select Opps
 - M&G Recovery
 - Threadneedle UK
- European Equity Funds 5.8%**
 - Henderson European Selected Opps
 - Jupiter European Special Situations
- US Equity Funds 5.9%**
 - Schroder US Mid Cap
 - Threadneedle American
- Japan Equity Funds 2.6%**
 - Schroder Tokyo
- Asian Equity Funds 6.1%**
 - Fidelity South East Asia
 - Stewart Investors Asia Pacific Leaders
- Emerging Equity Funds 2.2%**
 - M&G Global Emerging Markets
- Property Funds 13.2%**
 - Aviva Property Trust
 - M&G Property Portfolio
- Investment Grade Corporate Bond Funds 34.7%**
 - Fidelity Moneybuilder Income
 - Invesco Perpetual Corporate Bond
 - Kames Investment Grade Bond
 - M&G Strategic Corporate Bond
 - Royal London Corporate Bond
- High Yield Corporate Bond Funds 14.7%**
 - Baillie Gifford High Yield Bond
 - Kames High Yield Bond
 - M&G Global High Yield Bond
- Cash 0.8%**
 - Cash
- Money Market Funds 4.5%**
 - M&G Short Dated Corporate Bond



Holdings as at 30 June 2016

- UK Equity Funds 9.3%**
 - Artemis Income
 - AXA Framlington UK Select Opps
 - M&G Recovery
 - Threadneedle UK
- European Equity Funds 6.0%**
 - Henderson European Selected Opps
 - Jupiter European Special Situations
- US Equity Funds 6.4%**
 - Schroder US Mid Cap
 - Threadneedle American
- Japan Equity Funds 2.8%**
 - Schroder Tokyo
- Asian Equity Funds 6.3%**
 - Fidelity South East Asia
 - Stewart Investors Asia Pacific Leaders
- Emerging Equity Funds 1.9%**
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Fixed Income

Fixed Income investments produced very strong returns in the latter part of the quarter as the impact of the economic uncertainty caused by Brexit drove investors towards 'safe haven' assets. Consequently, yields on fixed income investments fell further with the 10-year gilt finishing the quarter below 1% having been near 2% at the start of the year. This resulted in a total return from gilts of 6.48% over the period. Investment grade credit did less well but still delivered 4.71%. This return was driven primarily by exposure to interest rates, as credit spreads remain broadly flat. Global high yield also produced a small positive return, driven by a pronounced narrowing of US spreads, while spreads in Europe widened over the quarter.

As in the first quarter of 2016, the UK investment grade section of the Portfolio lagged relevant indices. The lower duration positioning of active managers and exposure to lower quality credits proved to be a headwind. Invesco Perpetual Corporate Bond and M&G Strategic Corporate Bond underperformed broad indices and peers, hurt by the lack of duration in the portfolios.

Property

Commercial property suffered from Brexit nervousness with a sharp increase in redemptions resulting in the suspension of dealing on many open-ended funds after quarter-end and significant price falls in real estate investment trusts. Unlike other financial assets, property is both illiquid and indivisible and consequently vulnerable to declines in investor sentiment. However, it is important to note that the underlying assets in the suspended property funds continue to provide a competitive level of income. In addition, the suspensions, while inconvenient for investors, protect holders of the fund from forced sales and should therefore reduce the losses incurred.

During the quarter the fund price of M&G Property Portfolio was moved to an offer basis which hurt performance by around 6%. In contrast, Aviva Investors Property Trust, produced a small positive return and therefore outperformed peers and its index. Following the end of the quarter, trading in both funds was suspended to protect existing investors in light of heightened redemption requests.

Equity

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As in the first quarter, the equity managers in the portfolio generally underperformed their indices. All three UK equity funds underperformed, as large cap stocks outperformed led by the energy and materials sectors. AXA Framlington UK Select Opportunities was a notable laggard hindered by the high exposure to mid-cap stocks. The US equity fund blend also underperformed, particularly the Threadneedle American fund. In contrast, the Asian equity funds performed well, particularly Fidelity Asia which benefited from its exposure to Indian equities.

Dynamic 20-55 Portfolio

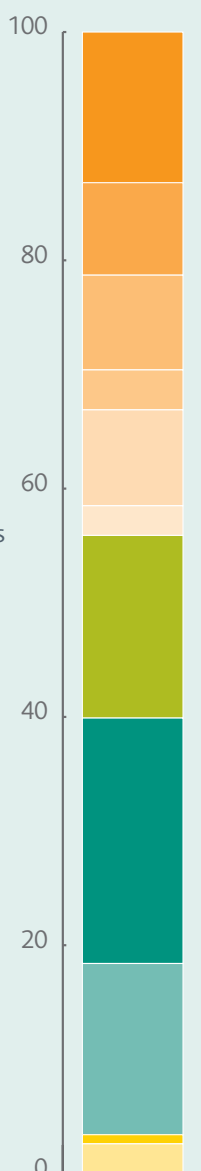
Investment objective of the collective fund (an Open Ended Investment Company or OEIC)

The Fund aims to achieve long-term total return (the combination of income and growth of capital) by investing mainly in collective investment schemes. Between 20% and 55% of the Fund will be invested in schemes whose predominant exposure is to equities.

Total Fund size: £246,756,864

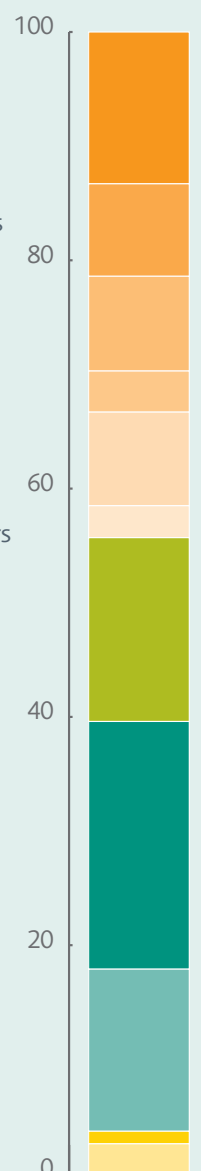
Holdings as at 31 March 2016

- UK Equity Funds 13.2%**
 - Artemis Income
 - AXA Framlington UK Select Opps
 - M&G Recovery
 - Threadneedle UK
- European Equity Funds 8.1%**
 - Henderson European Selected Opps
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 - Schroder Tokyo
 - Man GLG Japan Core Alpha
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As in the first quarter of 2016, the UK investment grade section of the Portfolio lagged relevant indices. The lower duration positioning of active managers and exposure to lower quality credits proved to be a headwind. Invesco Perpetual Corporate Bond and M&G Strategic Corporate Bond underperformed broad indices and peers, hurt by the lack of duration in the portfolios. The high yield bond funds also lagged their indices, with the return from Kames High Yield Bond fund hurt by the price swinging to the bid basis.

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emerging markets both Latin American and Asian markets made good progress while emerging Europe lagged behind. In contrast, Japanese equities fell sharply at the end of the quarter as the yen strengthened dramatically following the Brexit vote. Other areas of weakness included UK mid-caps which fell by 2.86%, underperforming their large cap peers by over 9%. This bifurcation in returns reflects the greater exposure of the mid cap stocks to the UK domestic economy and hence their status as the preferred way for investors expressing this bearishness about the prospects for the UK economy.

As in the first quarter, the equity managers in the portfolio generally underperformed their indices. All three UK equity funds underperformed, as large cap stocks outperformed led by the energy and materials sectors. AXA Framlington UK Select Opportunities was a notable laggard hindered by the high exposure to mid-cap stocks. The US equity fund blend also underperformed, particularly the Threadneedle American fund. In contrast, the Asian equity funds performed well, particularly Fidelity Asia which benefited from its exposure to Indian equities.

Dynamic 40-80 Portfolio

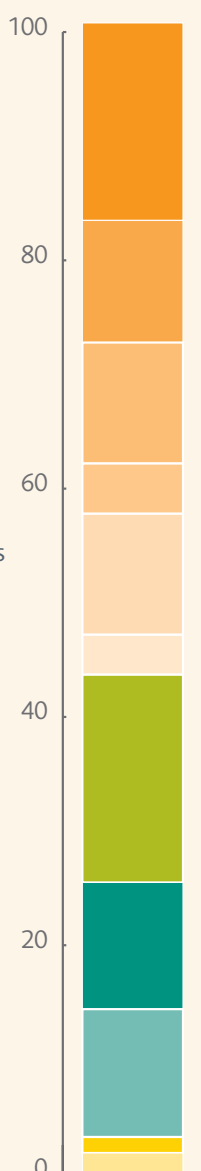
Investment objective of the collective fund (an Open Ended Investment Company or OEIC)

The Fund aims to achieve long-term total return (the combination of income and growth of capital) by investing mainly in collective investment schemes. Between 40% and 80% of the Fund will be invested in schemes whose predominant exposure is to equities.

Total Fund size: £244,158,070

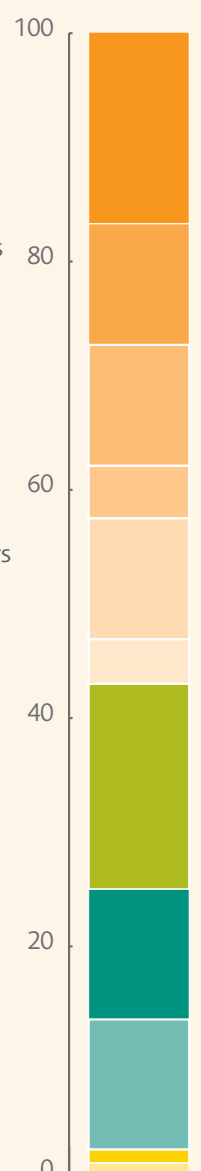
Holdings as at 31 March 2016

- UK Equity Funds 17.3%**
 - Artemis Income
 - AXA Framlington UK Select Opps
 - M&G Recovery
 - Threadneedle UK
- European Equity Funds 10.7%**
 - Henderson European Growth
 - Henderson European Selected Opps
 - Jupiter European Special Situations
- US Equity Funds 10.6%**
 - Schroder US Mid Cap
 - Threadneedle American
- Japan Equity Funds 4.4%**
 - Man GLG Japan CoreAlpha
 - Schroder Tokyo
- Asian Equity Funds 10.6%**
 - Fidelity South East Asia
 - Stewart Investors Asia Pacific Leaders
- Emerging Equity Funds 3.5%**
 - Aberdeen Emerging Markets
- Property Funds 18.2%**
 - Aviva Property Trust
 - M&G Property Portfolio
- Investment Grade Corporate Bond Funds 11.1%**
 - Fidelity Moneybuilder Income
 - Invesco Perpetual Corporate Bond
 - Kames Investment Grade Bond
 - M&G Strategic Corporate Bond
 - Royal London Corporate Bond
- High Yield Corporate Bond Funds 11.2%**
 - Baillie Gifford High Yield Bond
 - Kames High Yield Bond
 - M&G Global High Yield Bond
- Cash 1.4%**
 - Cash
- Money Market Funds 1.8%**
 - M&G Short Dated Corporate Bond



Holdings as at 30 June 2016

- UK Equity Funds 16.8%**
 - Artemis Income
 - AXA Framlington UK Select Opps
 - M&G Recovery
 - Threadneedle UK
- European Equity Funds 10.6%**
 - Henderson European Growth
 - Henderson European Selected Opps
 - Jupiter European Special Situations
- US Equity Funds 10.6%**
 - Schroder US Mid Cap
 - Threadneedle American
- Japan Equity Funds 4.6%**
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 - Cash
- Money Market Funds 1.0%**
 - M&G Short Dated Corporate Bond



The asset allocation and holdings for this portfolio can change regularly based on the views of the fund manager. These positions can also be impacted by cash flows in and out of the portfolio.

Where the fund invests in a collective fund, the manager of that underlying collective fund may use derivatives or alternative investments as part of the management of his/her fund.

Quarterly Portfolio Review from Morningstar

Morningstar select and recommend funds for each portfolio, based on the asset allocation PPMG have set for each portfolio to reflect the overall risk that the portfolio is willing to take (see pages 6 and 7 for the views of PPMG).

The following commentary reflects the general views of Morningstar and should not be taken as a recommendation or advice as to how any specific market is likely to perform.

We tend to associate political risk with emerging market investment. However, the second quarter of 2016 brought political risk much closer to home, as the unexpected result of the Brexit referendum created political upheaval and great economic uncertainty. This uncertainty was felt most keenly through sterling which fell by 7.52% against the US dollar over the quarter. While this sharp decline in the value of the UK's currency made the nation significantly poorer, it had a more positive impact on asset prices with most rising (in sterling terms) over the period. The key beneficiaries of these price rises were fixed income and defensive equities. In contrast European financial services, UK domestically orientated companies and property stocks fared much worse.

Fixed Income

Fixed Income investments produced very strong returns in the latter part of the quarter as the impact of the economic uncertainty caused by Brexit drove investors towards 'safe haven' assets. Consequently, yields on fixed income investments fell further with the 10-year gilt finishing the quarter below 1% having been near 2% at the start of the year. This resulted in a total return from gilts of 6.48% over the period. Investment grade credit did less well but still delivered 4.71%. This return was driven primarily by exposure to interest rates, as credit spreads remain broadly flat. Global high yield also produced a small positive return, driven by a pronounced narrowing of US spreads, while spreads in Europe widened over the quarter.

As in the first quarter of 2016, the UK investment grade section of the Portfolio lagged relevant indices. The lower duration positioning of active managers and exposure to lower quality credits proved to be a headwind. Invesco Perpetual Corporate Bond and M&G Strategic Corporate Bond underperformed broad indices and peers, hurt by the lack of duration in the portfolios. The high yield bond funds also lagged their indices, with the return from Kames High Yield Bond fund hurt by the price swinging to the bid basis.

Property

Commercial property suffered from Brexit nervousness with a sharp increase in redemptions resulting in the suspension of dealing on many open-ended funds after quarter-end and significant price falls in real estate investment trusts. Unlike other financial assets, property is both illiquid and indivisible and consequently vulnerable to declines in investor sentiment. However, it is important to note that the underlying assets in the suspended property funds continue to provide a competitive level of income. In addition, the suspensions, while inconvenient for investors, protect holders of the fund from forced sales and should therefore reduce the losses incurred.

During the quarter the fund price of M&G Property Portfolio was moved to an offer basis which hurt performance by around 6%. In contrast, Aviva Investors Property Trust, produced a small positive return and therefore outperformed peers and its index. Following the end of the quarter, trading in both funds was suspended to protect existing investors in light of heightened redemption requests.

Equity

Equity markets generally rose over the quarter with the US and Emerging markets especially strong. Within

emerging markets both Latin American and Asian markets made good progress while emerging Europe lagged behind. In contrast, Japanese equities fell sharply at the end of the quarter as the yen strengthened dramatically following the Brexit vote. Other areas of weakness included UK mid-caps which fell by 2.86%, underperforming their large cap peers by over 9%. This bifurcation in returns reflects the greater exposure of the mid cap stocks to the UK domestic economy and hence their status as the preferred way for investors expressing this bearishness about the prospects for the UK economy.

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Dynamic 60-100 Portfolio

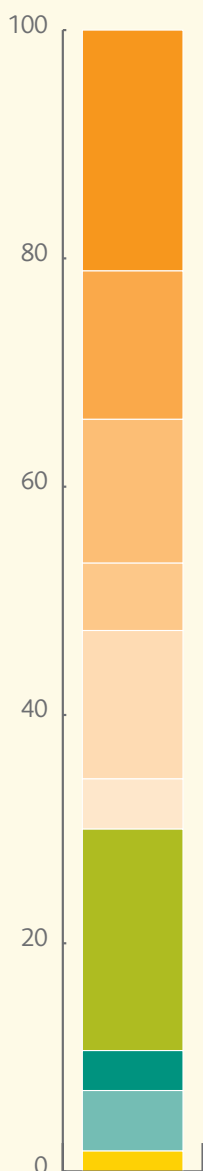
Investment objective of the collective fund (an Open Ended Investment Company or OEIC)

The Fund aims to achieve long-term total return (the combination of income and growth of capital) by investing mainly in collective investment schemes. Between 60% and 100% of the Fund will be invested in schemes whose predominant exposure is to equities.

Total Fund size: £91,569,884

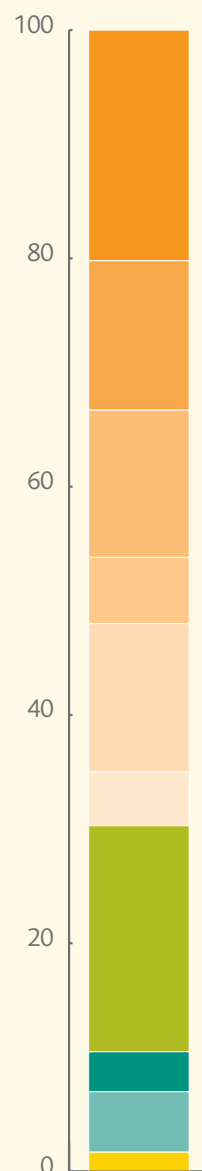
Holdings as at 31 March 2016

- **UK Equity Funds 21.1%**
Artemis Income
AXA Framlington UK Select Opps
M&G Recovery
Threadneedle UK
- **European Equity Funds 13.0%**
Henderson European Growth
Henderson European Selected Opps
Jupiter European Special Situations
- **US Equity Funds 12.6%**
Schroder US Mid Cap
Threadneedle American
- **Japan Equity Funds 5.9%**
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M&G Property Portfolio
- **UK Investment Grade 3.5%**
Fidelity Moneybuilder
Invesco Perpetual Corp
- **High Yield Corporate Bond Funds 5.3%**
Baillie Gifford High Yield Bond
Kames High Yield Bond
- **Cash 1.8%**
Cash



Holdings as at 30 June 2016

- **UK Equity Funds 20.2%**
Artemis Income
AXA Framlington UK Select Opps
M&G Recovery
Threadneedle UK
- **European Equity Funds 13.1%**
Henderson European Growth
Henderson European Selected Opps
Jupiter European Special Situations
- **US Equity Funds 12.9%**
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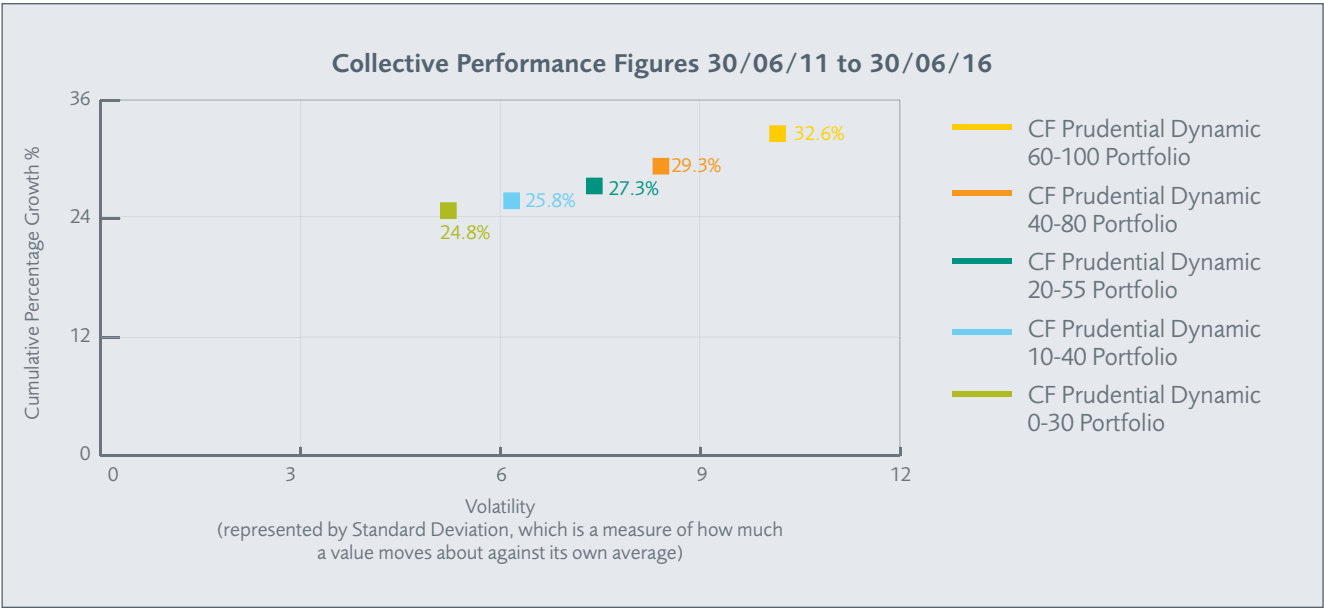
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Risk vs Return

The chart below illustrates the daily price (percentage growth) and volatility of each of the funds since launch.

Volatility, is the rate at which the price of, for example, a fund can move up or down. If the price of a fund moves up and down rapidly and by significant amounts over short term periods, it can be said to have a high volatility. If the price almost never changes by significant amounts over short term periods, it has a low volatility.



Source: FE

These figures are based on the OEIC which is the underlying investment of the Life, Pension and International fund versions. Bid to bid with net income reinvested. The figures include tax and charges applicable to the fund.

The CF Prudential Dynamic Focused OEIC funds are owned by Capita Finance (CF) and are available for investment as OEIC funds or as life and pension funds available on Prudential and Prudential International products.

Higher volatility can lead to higher levels of risk and greater potential loss or gains.

Past performance is not a guide to future performance. Investment returns can go down as well as up and you may not get back your original investment.

Performance

All figures sourced from FE. Please note that all performance figures for Prudential Funds are net of Annual Management Charge (AMC) and other fund charges where applicable. They take no account of any product charges that may or may not be applicable. Any product charges will have the effect of reducing the figures shown below.

Performance figures can vary between each of these funds due to different taxation rules and fund level charges. The Life, Pension and Prudential International funds can also hold an element of cash due to the short delay between new investments being received by these funds and being placed in the underlying OEIC portfolio fund, and this may also have an impact on the performance of these funds when compared to the underlying OEIC fund.

| OEIC Funds | 30/06/15 – 30/06/16 | 30/06/14 – 30/06/15 | 30/06/13 – 30/06/14 | 30/06/12 – 30/06/13 | 30/06/11 – 30/06/12 |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| CF Prudential Dynamic 0-30 Portfolio % | 2.9 | 3.0 | 7.9 | 8.6 | 0.6 |
| CF Prudential Dynamic 10-40 Portfolio % | 2.2 | 4.2 | 8.0 | 10.7 | -1.2 |
| CF Prudential Dynamic 20-55 Portfolio % | 1.5 | 4.8 | 8.0 | 13.0 | -2.0 |
| CF Prudential Dynamic 40-80 Portfolio % | 1.0 | 6.6 | 8.3 | 14.9 | -3.5 |
| CF Prudential Dynamic 60-100 Portfolio % | 1.2 | 8.3 | 8.3 | 17.8 | -5.2 |

The figures above are Bid to bid with net income reinvested. Annualised (Income fund).

| Pension Funds | 30/06/15 – 30/06/16 | 30/06/14 – 30/06/15 | 30/06/13 – 30/06/14 | 30/06/12 – 30/06/13 | 30/06/11 – 30/06/12 |
|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Pru Dynamic 0-30 Portfolio % | 3.2 | 3.2 | 8.1 | 8.9 | 1.5 |
| Pru Dynamic 10-40 Portfolio % | 2.4 | 4.5 | 8.2 | 10.9 | 0.1 |
| Pru Dynamic 20-55 Portfolio % | 1.7 | 4.8 | 8.0 | 13.0 | -0.2 |
| Pru Dynamic 40-80 Portfolio % | 1.2 | 6.7 | 8.4 | 14.6 | -2.0 |
| Pru Dynamic 60-100 Portfolio % | 1.2 | 8.1 | 8.3 | 17.5 | -4.3 |

The figures above are Bid to bid with gross income reinvested. Annualised. Series A fund.

| Life Funds | 30/06/15 – 30/06/16 | 30/06/14 – 30/06/15 | 30/06/13 – 30/06/14 | 30/06/12 – 30/06/13 | 30/06/11 – 30/06/12 |
|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| Pru Dynamic 0-30 Portfolio % | 2.3 | 2.4 | 6.1 | 6.8 | -0.1 |
| Pru Dynamic 10-40 Portfolio % | 1.8 | 4.0 | 6.7 | 9.5 | -1.1 |
| Pru Dynamic 20-55 Portfolio % | 1.3 | 4.4 | 6.8 | 11.3 | -1.7 |
| Pru Dynamic 40-80 Portfolio % | 0.9 | 5.8 | 7.0 | 13.0 | -3.0 |
| Pru Dynamic 60-100 Portfolio % | 1.0 | 7.0 | 6.9 | 15.4 | -4.6 |

The figures above are Bid to bid with net income reinvested. Annualised. Series 2 fund.

| International Funds | 30/06/15 – 30/06/16 | 30/06/14 – 30/06/15 | 30/06/13 – 30/06/14 | 30/06/12 – 30/06/13 | 30/06/11 – 30/06/12 |
|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| PIA Dynamic 0-30 Portfolio % | 3.1 | 3.2 | 7.5 | 8.2 | 0.9 |
| PIA Dynamic 10-40 Portfolio % | 1.8 | 4.0 | 7.6 | 10.3 | -1.3 |
| PIA Dynamic 20-55 Portfolio % | 1.2 | 4.6 | 7.6 | 12.6 | -2.2 |
| PIA Dynamic 40-80 Portfolio % | 0.6 | 6.4 | 7.9 | 14.5 | -3.8 |
| PIA Dynamic 60-100 Portfolio % | 0.9 | 8.0 | 8.0 | 17.4 | -5.3 |

The figures above are Bid to bid in sterling with gross income reinvested. Annualised. Series B fund.

Past performance is not a guide to future performance. The value of investments can go down as well as up and you could get back less than you invest.

Glossary

This glossary is a high-level guide to some of the technical terminology that may appear in our Fund Guide. It is not intended to be a definitive reference document and you should contact your adviser for further assistance where necessary.

Basic Materials Sector

A category of stocks covering companies involved with the discovery, development and processing of raw materials. The basic materials sector includes the mining and refining of metals, chemical producers and forestry products.

"Blue Chip" Companies

These are large, reputable companies which are thought to be financially sound.

Bonds

See Fixed Interest Securities.

"Boutique Managed" Funds

Investment funds that are specialised in some way either through the expertise needed to manage the portfolio or because it has an unusual theme or a collection of funds under one house. These "boutique" funds are typically offered by smaller, specialist firms as opposed to large investment management companies.

Broad Investment Grade

This is a term used to describe a listing of bonds and fixed income instruments on an index. It is used to measure the overall value of a collective group of bonds and represents the characteristics of these types of securities. It is a grading level that can be used by certain types of funds for determining assets that are suitable for investment into a fund.

Certificates of Deposit

These are money market investments that are generally issued by banks against a security. A certificate of deposit usually pays interest (which can vary) and entitles the bearer to receive a set interest rate up until a set maturity date and can be issued in any currency or denomination.

Closed Ended Funds

This describes a collective investment scheme which has a limited number of shares (or units). The shares are then traded on an exchange or directly through the fund manager to create a secondary market subject to market forces.

Collective Investment Schemes

A way of pooling investment with others as part of a single investment fund. This allows investors to participate in a wider range of investments than would normally be feasible if investing individually and to share the costs and benefits of doing so. Collective Investment Schemes, OEICs, Unit Trusts, Mutual funds, usually either target geographic regions (like emerging market countries) or specific themes (like technology or property).

Convertible Bonds (can also be called Deferred Equity)

These are corporate bonds that are exchangeable for a set number of another form of investment (for example, common shares) at a pre-stated price. Convertible bonds typically pay a lower income than is normally available from common bonds.

Corporate Bonds

These are loans to companies where the purchaser of the corporate bond lends money to the company in return for regular interest payments and the promise that the initial sum will be repaid on a specified later date.

Default Risk

This is the possibility that the issuer of a bond will be unable to make payments when they are due.

Derivatives

These cover products such as futures and options which are generally an arrangement to buy or sell a standard quantity of a specified asset on a fixed future date at a price agreed today. Also considered to be a financial instrument whose value is dependent upon the value of an underlying asset.

Equities

These are also known as shares or stocks and represent a share of the ownership of a company. Shares give two potential benefits – the share prices increase as the value of the company increases and regular payments, known as dividends, may be made to shareholders based on how well the company is doing. However, share prices can also go down, therefore there may not be dividends.

Eurobonds

A Eurobond is an international bond that is denominated in a currency not native to the country where it is issued. It can be categorized according to the currency in which it is issued. For example, a British company may issue a Eurobond in Germany, denominating it in U.S. dollars.

Exchange-Traded Fund

This is an investment vehicle the units of which are traded on a stock exchange. An exchange traded funds can hold a range of assets such as stocks, bonds or even commodities. Most track an index, such as the FTSE™ All share or the S&P 500.

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Fixed Interest Securities

These are more commonly known as "bonds" and are loans issued by companies or by governments in order to raise money. Bonds issued by companies are called corporate bonds, those issued by the UK government are called gilts and those issued by the US government are called treasury bonds. In effect all bonds are IOUs that promise to pay a sum on a specified date and pay a fixed rate of interest along the way.

Floating Rate Notes

These are basically short-term loans to financial organisations, such as banks, under which the investor receives interest payments from that financial organisation. At the end of an agreed period the financial organisation has to repay the loan. The interest payment rates are linked to a specified "floating" rate typically the London Interbank Offered Rate (LIBOR). This means that interest rate payments may go up or down.

Forwards Contract (or Forwards)

These are agreements between two parties to buy or sell an asset at a fixed future date for a price determined at the time of dealing.

Government Bonds

These are loans to the government where the purchaser of the government bond lends money to the government in return for regular interest payments and the promise that the initial sum will be repaid on a specified later date.

Government Sovereign Bond

Is a government debt issued in a foreign currency.

Hedging

A strategy employed in order to reduce or mitigate risk. Hedging involves making an offsetting transaction in one market in order to protect against possible losses in another.

Glossary

Hedged Back to Sterling

This is a specific example of hedging where the trader is trying to protect an existing or anticipated position from an unwanted move in sterling exchange rates.

Index-Linked Securities

Are similar to fixed interest securities but the payments out are normally increased by a price index e.g. for UK government index-linked securities, payments out are increased in line with the UK Retail Price Index.

Investment Grade

A credit rating given to a government or corporate bond that indicates that the agency giving the rating (e.g. Standard & Poors) believes that the issuer has a relatively low risk of default. Bonds with credit ratings of AAA, AA, A or BBB are considered investment grade. Low rated bonds with ratings of BB or below are often called Junk Bonds.

LIBOR (London Interbank Offered Rate)

This is the interest rate that London banks charge when lending money to one another over a short period of time. LIBOR is often used as a benchmark when setting other short term interest rates.

Money Market Investments

Are defined as cash and near cash such as bank deposits, certificates of deposits, fixed interest securities or floating rate notes, with, where applicable, a maturity date of under a year.

OEIC

This is an Open Ended Investment Company, which is the British version of a European SICAV (Société d'Investissement à Capital Variable) or Irish VCIC (Variable Capital Investment Company). Like all open collective Investment Schemes, an OEIC has no fixed amount of capital.

The total value of the OEIC is equally divided into shares which will vary in price and in the number issued. Each time that new money is invested, new shares or units are created to match the prevailing share price; each time shares are redeemed, the assets sold match the prevailing share price.

Options

Legal agreements that give the holder the right (but not the obligation) to buy or sell the underlying asset at an expiration date, at a price determined at the time of dealing.

Permanent Interest Bearing Shares (usually referred to as PIBS)

These are fixed-interest securities issued by building societies. Building societies use them in the way public limited companies would use preference shares (see below). Although similar to bonds, PIBS typically exist as long as their issuer does. They typically offer better interest rates than bonds although unlike bonds have no fixed redemption date and so redemption value will be determined by market values at the time of sale.

PIBS are not covered by UK government compensation schemes. If the building society is in financial distress, amounts are paid to holders of PIBS only after depositors.

Preference Shares (also called Preferred Stock or Preferred Shares)

These are shares in a company which give their holders an entitlement to a fixed dividend payment and may or may not carry voting rights. These are a 'higher ranking' stock than common stock and usually have specific rights attached to them.

Preference shares mean that the holder may get preferred treatment over common share holders – and carry a dividend that is paid out prior to dividends to common share holders. In the event of bankruptcy preferred share holders will be paid out from assets before common share holders and after debt holders.

Primary Industry

The industrial sector of an economy involved in the extraction and collection of natural resources, such as copper and timber, as well as by activities such as farming and fishing. A company in a primary industry can also be involved in turning natural resources into products. Primary industries tends to make up a larger portion of the economy of developing countries than they do for developed countries.

Qualified Investor Scheme (QIS)

A qualified investor scheme is essentially a mixed asset type of scheme where different types of permitted asset may be included as part of the scheme property, depending on the investment objectives and policy of that scheme and within any restrictions in the rules.

Regulated

This means the portfolio or fund has to conform to the regulations laid down by the financial authority of the country it is trading in (i.e. in the UK, the FCA protects the investor and provides structure around the products, financial services providers and markets).

Reverse Repurchase Agreement

A Reverse Repurchase Agreement is a legal contract with a bank, under which securities are purchased (for example, UK Government Bonds or Gilts) from the bank, with an agreement to sell them back to the same bank at a higher price at a specific date in the future.

Secondary Industry

The industrial sector of an economy that produces finished, usable products. Unlike a primary industry, which collects and produces raw materials for manufacture, a secondary industry makes products that are more likely to be consumed by individuals. Examples of secondary industry divisions include automobile manufacturing, steel production and telecommunications.

Shares

See Equities.

Short-Term Government Bonds

For the purposes of determining assets which the Prudential Cash Funds can invest in these are defined as government bonds with a repayment period of twelve months or less.

Smaller Companies

Companies quoted on a recognised exchange that have a market worth below that of blue chip companies. In the UK, smaller companies are typically defined as those outwith the top 350 companies in the FTSE™ All Share Index.

Transferable Securities

This is a descriptor given to a type of financial security which is traded on capital markets. The term is probably most commonly known and used in association with UCITS in UK and Europe (examples would be UCITS/some types of warrants).

Undertakings for Collective Investment in Transferable Securities (UCITS)

These are collective investments which can be sold across national borders within the EU having complied with regulations on investments and administration.

Unregulated

This means the portfolio or fund does not need to conform to regulations.

Warrants

A warrant is a security that entitles the holder to buy shares in the issuing company at a specified price and within a certain time frame.

Warrants are freely transferable and traded on major exchanges. Their value will go up or down as the price of the shares to which they relate goes up or down.

Prudential Dynamic Portfolios are available as unit-linked funds in:

- Prudential Pension Funds
- Prudential Life Funds
- Prudential International Funds

Or as an OEIC, CF Prudential Dynamic Portfolios, from fund "platforms" such as Fidelity FundsNetwork, Cofunds, Transact etc. as investment in an:

- ISA
- Discretionary Investment portfolio

Your financial adviser will be able to discuss these options with you and what could best meet your needs.



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