



Pieter Hugo  
Chief Client and Distribution Officer

MAY 2020

## Update on management of the Prudential Global Equity Fund

We are pleased to inform you that the fund managers of the **Prudential Global Equity Fund**, London-based M&G Investments, have recently made an important adjustment in the way they are managing the fund that they (and we) expect will be beneficial for its performance going forward.

We would like to share the details of this adjustment with you, which involves increasing the portion of the fund in direct equity holdings that is managed using a combination of data science excellence and fundamental investment experience.

Please note that this adjustment doesn't change the fund's investment objective or its benchmark. The fund's benchmark (the MSCI All Country World Index TR Net) remains unchanged, as does its investment objective: to provide investors with capital growth over the long-term by investing in a diversified equity portfolio of global companies.

Since February 2018, a portion of the Prudential Global Equity Fund has been managed based on a proprietary-developed machine learning model. Until now some 30% of the fund has been managed on this basis, with the remainder of the equities pooled in M&G equity funds and invested in ETFs. In fact, the model has been used by the portfolio manager to manage global equities since May 2015.

Due to the superior returns the model has delivered over time, and continues to deliver even during times of extreme stress in the market like we've experienced during the past two months, M&G is now increasing the portion of the fund being managed based on the model to approximately 80%. At the same time, they will be reducing the allocation that is pooled in M&G equity funds to zero, and the balance of approximately 20% will remain in strategic ETFs. The ETF allocation is largely used for liquidity purposes and is expected to reduce over time.

### **How M&G uses the machine learning model**

In order to identify the companies the fund should invest in, the fund managers at M&G Investments feed proprietary data sets into a proprietary machine learning model. This produces a 'score' for each company in the investable universe, which is a measure of how likely the company is to outperform the benchmark. The team then constructs a portfolio using this information as input, and combines it with a fundamental overlay.

While the machine learning model is fundamental to the strategy, it is largely used to analyse the vast quantities of proprietary data it is provided with. Significant investment knowledge and expertise are required to build and manage the model, and subsequently interpret its output and build an optimised portfolio. The team's fundamental analysis and experience are also required to assess such issues as data errors, corporate actions, governance concerns, and scrutiny of cash flow and balance sheets, among others. In this, the fund managers are supported by M&G's large complement of equity analysts and portfolio managers. The fund managers ultimately make the final decisions as to which stocks are included in, and removed from, the portfolio. Holdings are continually being reassessed as part of M&G's fundamental active management approach.

Prudential Investment Managers and M&G Investments are continuously looking for ways to improve the management of our portfolios. Going forward, we are confident that this adjustment in management of the Prudential Global Equity Fund will prove beneficial for our clients.

If you have any questions about this change, please contact our Client Services Team on 0860 105 775 or email us at [query@prudential.co.za](mailto:query@prudential.co.za).