



Prudential
Seizing
the
Opportunity

Investment Management of Life Assets

Garth Jones and Kelvin Blacklock
Prudential Corporation Asia
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An interesting and complex investment challenge

- **£7.8 billion** in assets under management, managing more than 70 funds
- **Many different types of product :**
 - Participating and Non-participating
 - Unit linked
 - Regular and single premiums
- **Many types of investment mandates**
 - Plain vanilla : Domestic assets only, no derivatives
 - Full asset universe and full derivative availability
- **Multiple currencies**
 - 12 base currencies, many with restrictions on convertibility : Vietnam to Japan
 - Global investment universe but local liabilities
- **Huge variation in Regulatory environments**
 - Life Fund / Assets less Reserves
 - RBC / Book Value

The Philosophy : We have not had to reinvent the wheel

- **Prudential has over 150 years of experience managing UK Life assets**
 - Very large (c. £ 70 billion) fund investing across global asset markets
 - Substantial resources and expertise already in place
- **Significant competitive advantage:**
 - The PMG responsible for oversight and control of portfolio management for UK Life assets who have an average 15 years with Prudential
 - Focus on many common issues e.g. ALM, asset allocation, risk based capital, regulatory and accounting requirements etc
- **Asia leverages PMG's experience, resources and management approach**

3 stage process

**Strategic asset
allocation (SAA)**

**Tactical asset
allocation (TAA)**

**Fund
management**

Strategic asset allocation (SAA)

Objective

Determining and defining risk profile and resultant asset mix of fund

Focus

Long term
“Big Picture”

Approach

- Risk / reward trade off between assets and liabilities using Stochastic modeling / deterministic scenarios to assess short and long term positions
- Balancing PRE, Life Fund strength, Economic and Regulatory Capital with shareholder returns

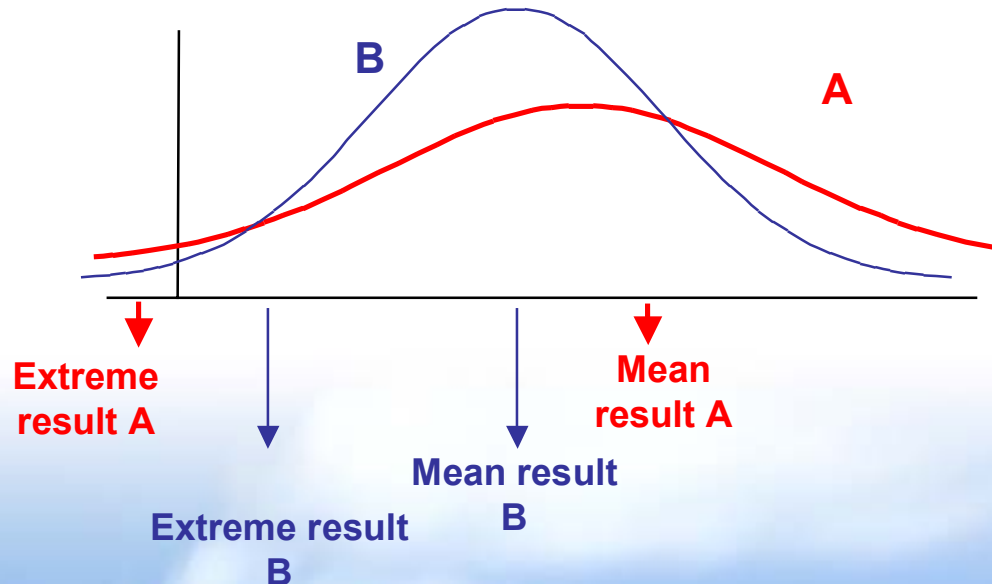
Strategic asset allocation (SAA)

Objective

Determining and defining risk profile and resultant asset mix of fund

Example of
stochastic
modelling

Distribution of shareholder value for strategies A and B



Strategy A is more attractive with a higher mean and lower extreme measure of shareholder value

Strategic asset allocation (SAA)

Objective

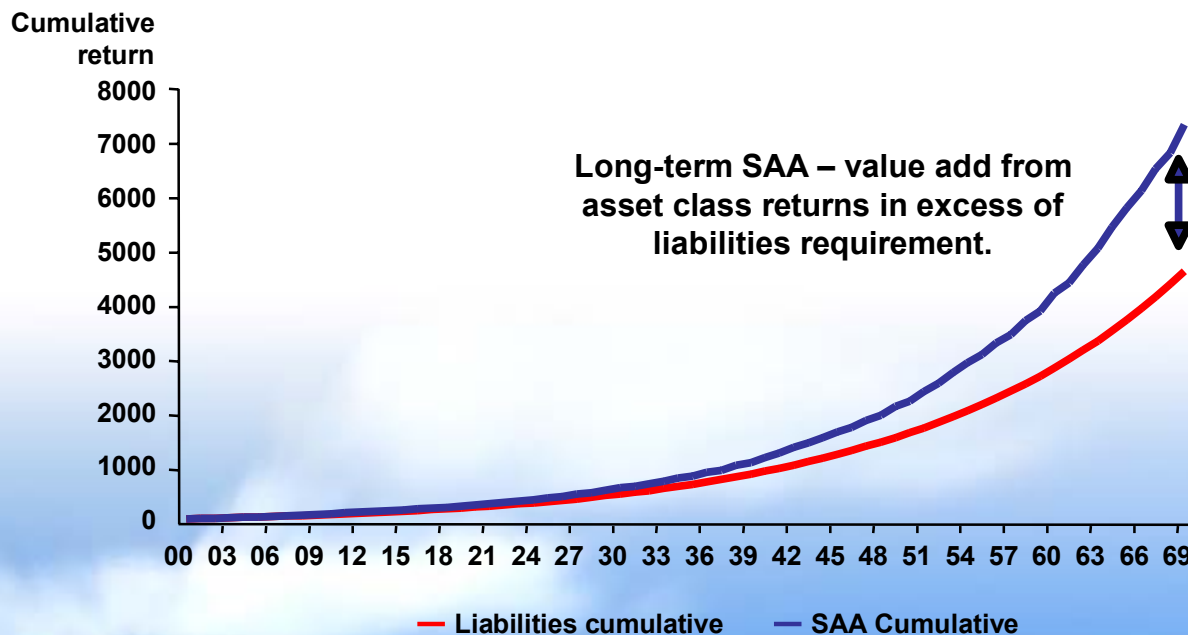
Determining and defining risk profile and resultant asset mix of fund

Focus

Long term
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Desired results

SAATAA and IMF performance contribution



Tactical asset allocation (TAA)

Objective

Medium-term adjustments to “pure” SAA within a risk controlled framework allowing for asset mis-pricing

Focus

Asset mis-pricing
Medium term

Approach

- Extreme valuation signals on asset pricing eg substantial deviations from equilibrium
- Balancing PRE, Life Fund strength, Economic and Regulatory Capital with shareholder returns

Tactical asset allocation (TAA)

Objective

Medium-term adjustments to “pure” SAA within a *risk controlled* framework allowing for asset mis-pricing

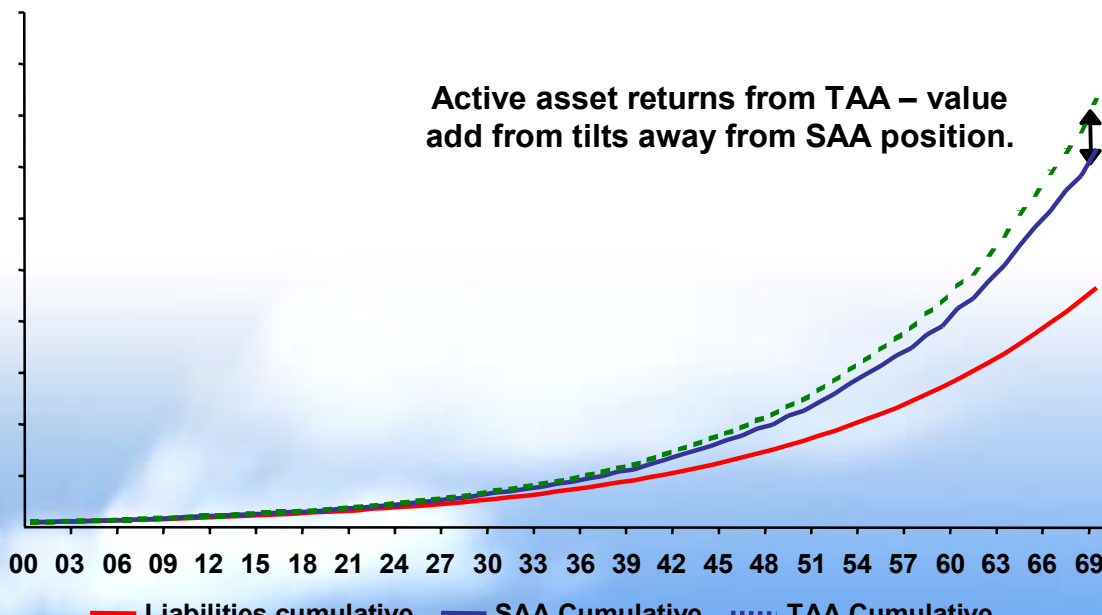
Focus

Asset mis-pricing
“Medium term”

Desired results

SAA / TAA and IMF performance contribution

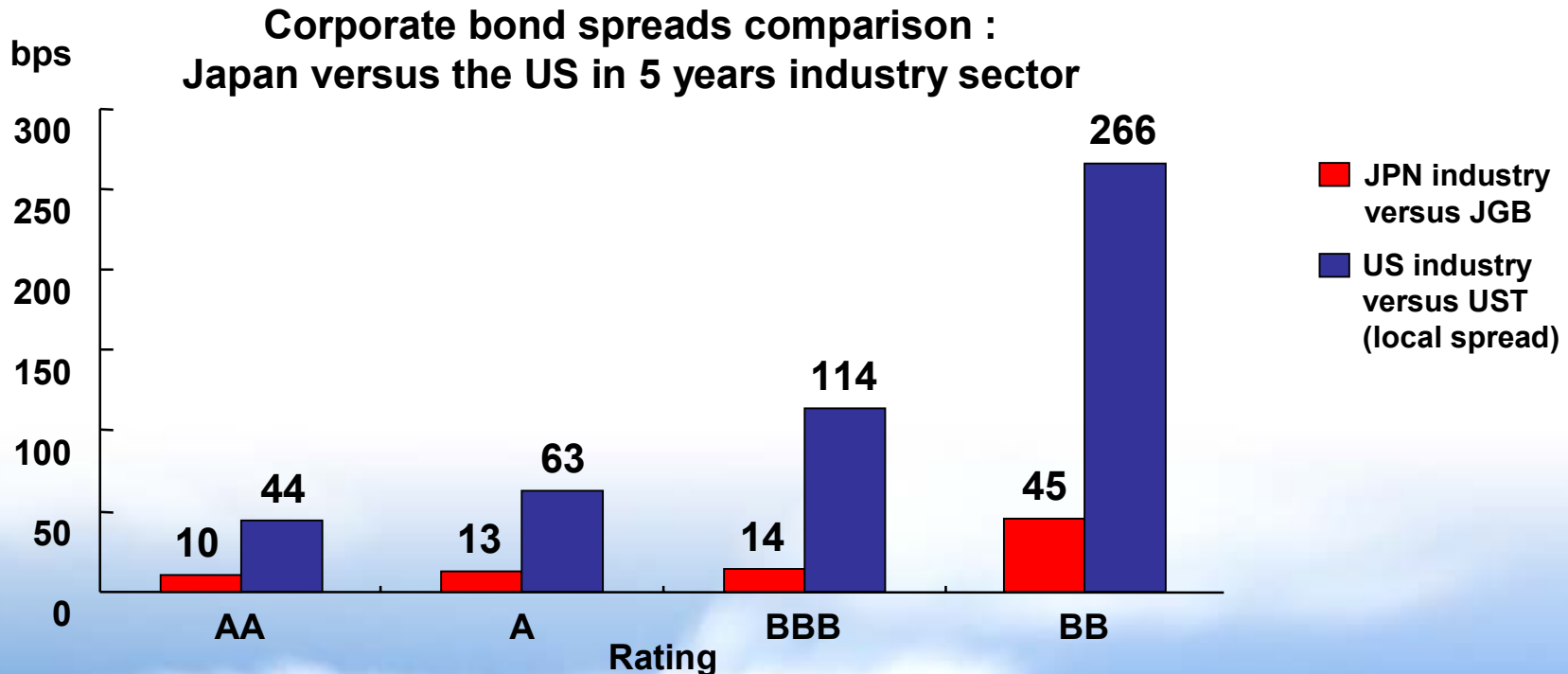
Cumulative
return



TAA : Example : US Fixed Income for Prudential Corporation Asia funds

Rationale for TAA into US credits out of domestic bonds

- US credit risk premiums more attractive than Asian local markets
- Deeper and wider US credit markets offer diversification benefits
- Deregulation in several countries allowed life funds to invest up to 30% offshore



20-25% of AUM for several of the Asian life funds was allocated to FX hedged US corporate bonds with the fund management outsourced to PPMA in Chicago

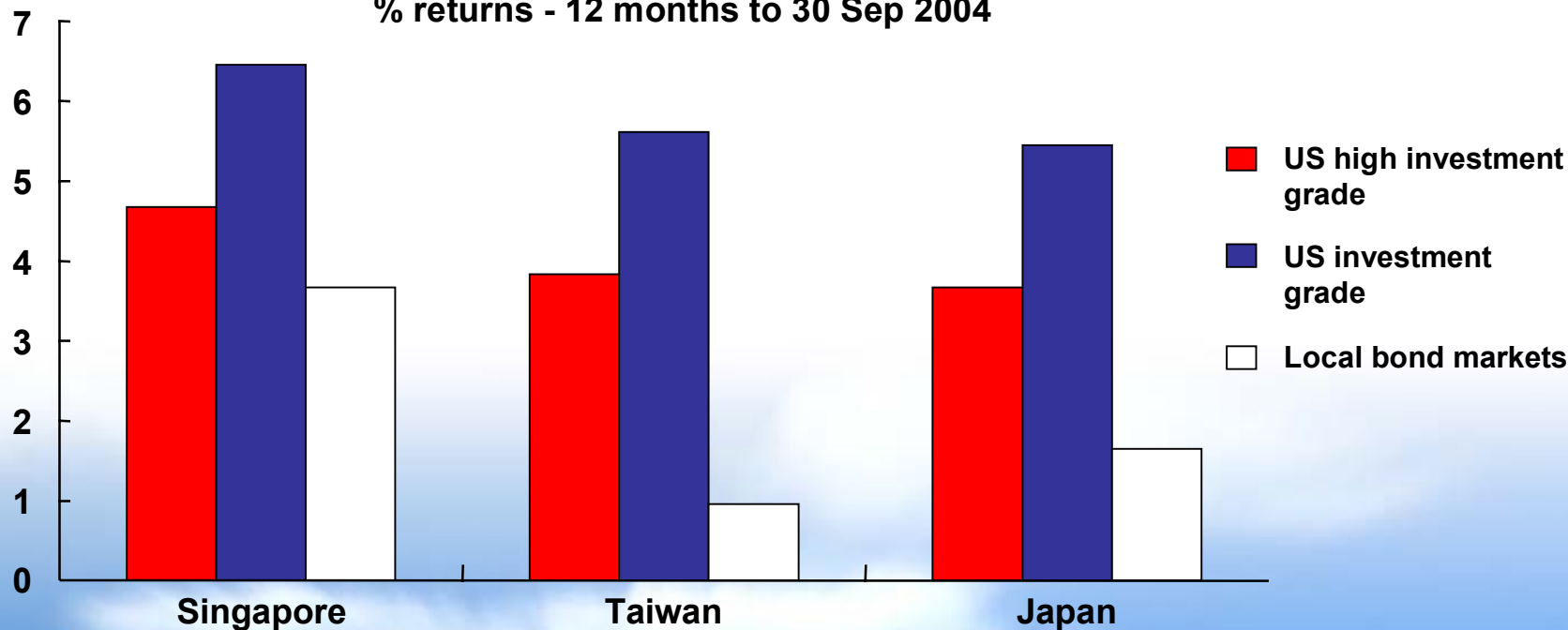
TAA . Example . US Fixed Income for Prudential Corporation Asia funds

£ 12mn of value added over past 12 months

- TAA into Hedged US credit out of domestic bonds in several countries added excess returns to funds as US credit markets outperformed domestic bond markets resulting in £ 12 million of value add

Hedged US corp bond versus Asian local bond market returns

% returns - 12 months to 30 Sep 2004

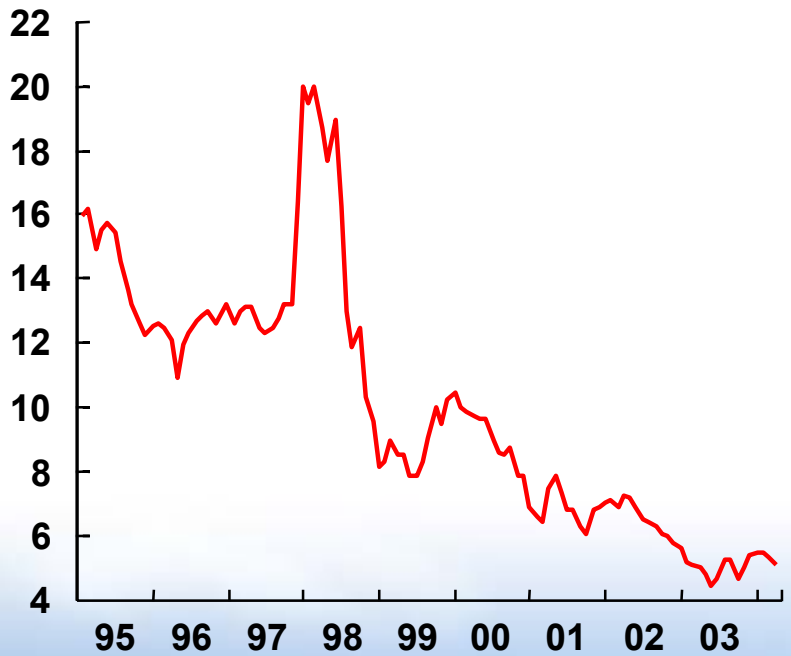


TAA : Korean example

The Korean bond market remains expensive from a medium term valuation perspective

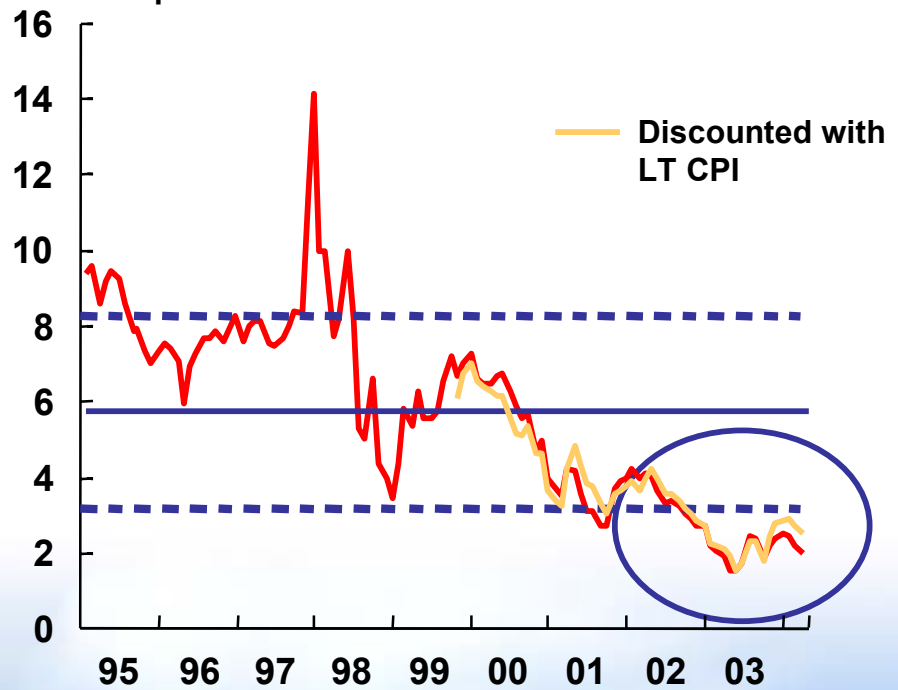
Actual yields

Yield on 10 Year Government Bonds



Valuation Measure

Required Return on 10 Year Government Bonds

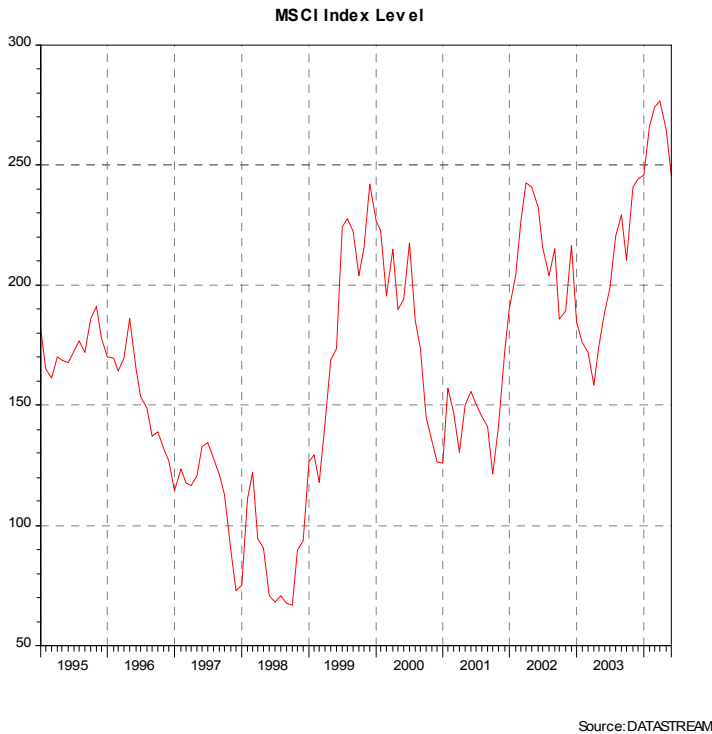


- The SAA duration for the Korean life fund was 6yrs
- As a result of this extreme pricing anomaly we reduced the duration on the fund by 1 y to 5yr, to try to take advantage of a rise in yields back towards equilibrium

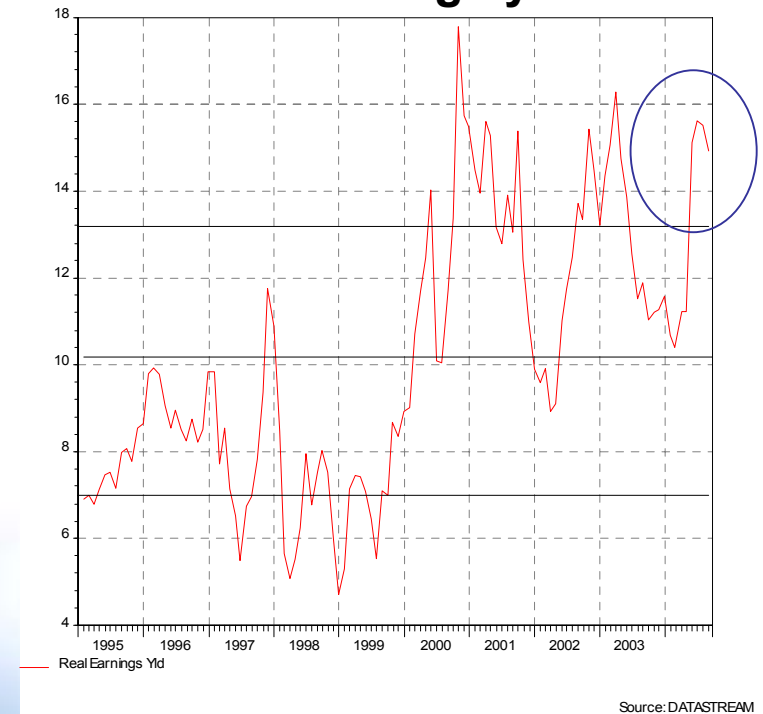
TAA : Korean example

Despite a strong run , Korean equities appear cheap as earnings have risen faster than prices

MSCI index level



Valuation measure : Real earnings yield



As a result of this extreme pricing anomaly we added a 5% allocation to Korean equities to the Korean Life fund which has an SAA position of 100% fixed income

Fund management

Objective

Asset tilts within portfolios and stock selection within asset classes, *without changing the overall risk profile of the fund*

Focus

- **Investment views**
- **Benchmark and risk tolerance in IMA**
- **Asset mis-pricing**
- **Medium / shorter term**

Approach

- **Regional functional reporting ensures process and risk management consistency**
- **Clear Investment Management Agreements with risk management parameters (credit, concentration etc) and compliance aspects**
- **Performance Related Fees aligned with strategic asset allocation where possible**

Fund management

Objective

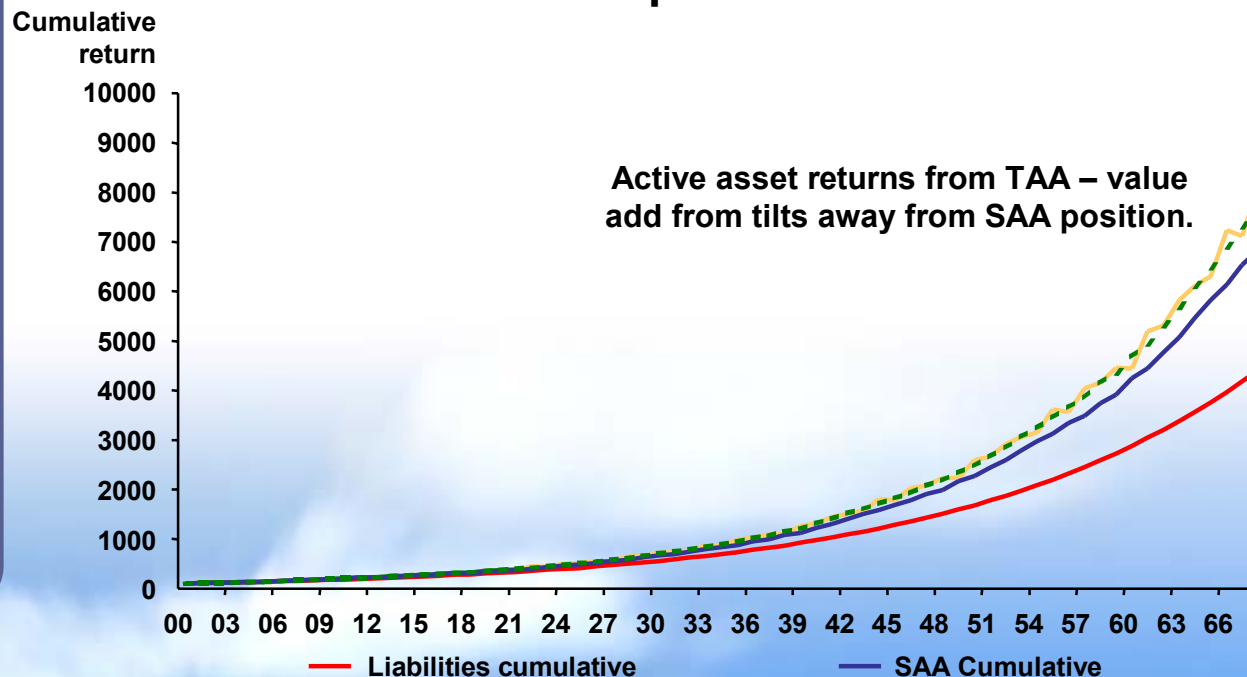
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Desired results

SAA / TAA and IMF performance contribution



Fund management

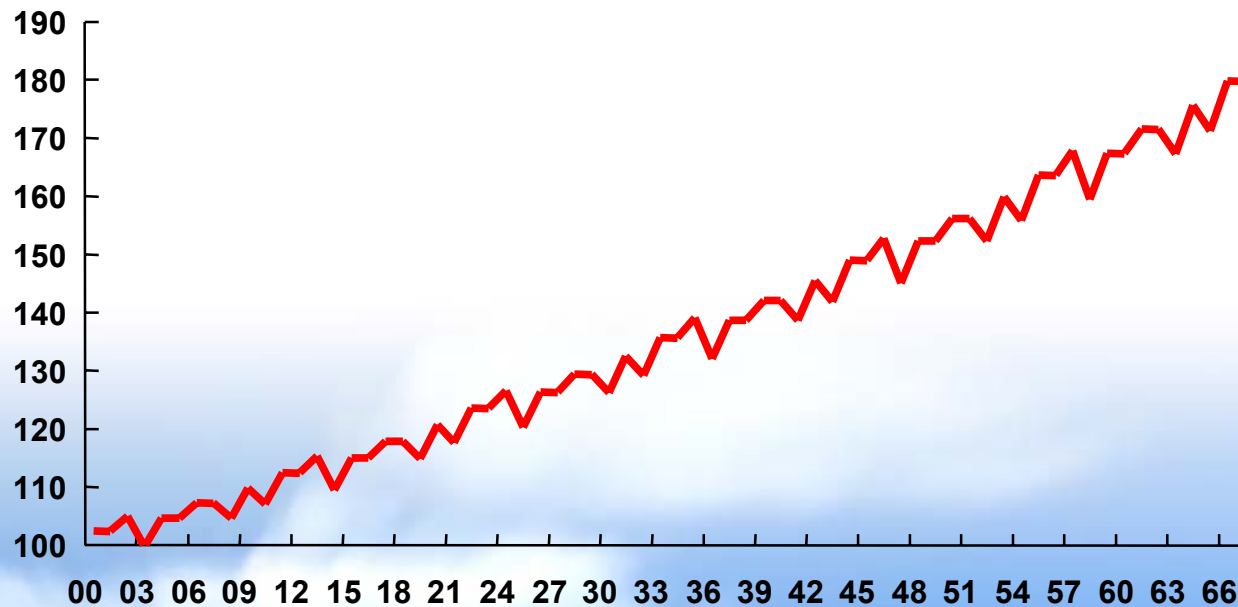
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Small annual contribution cumulative impact can be large

Fund management performance contribution

Cumulative return



— Fund management contribution

Fund management

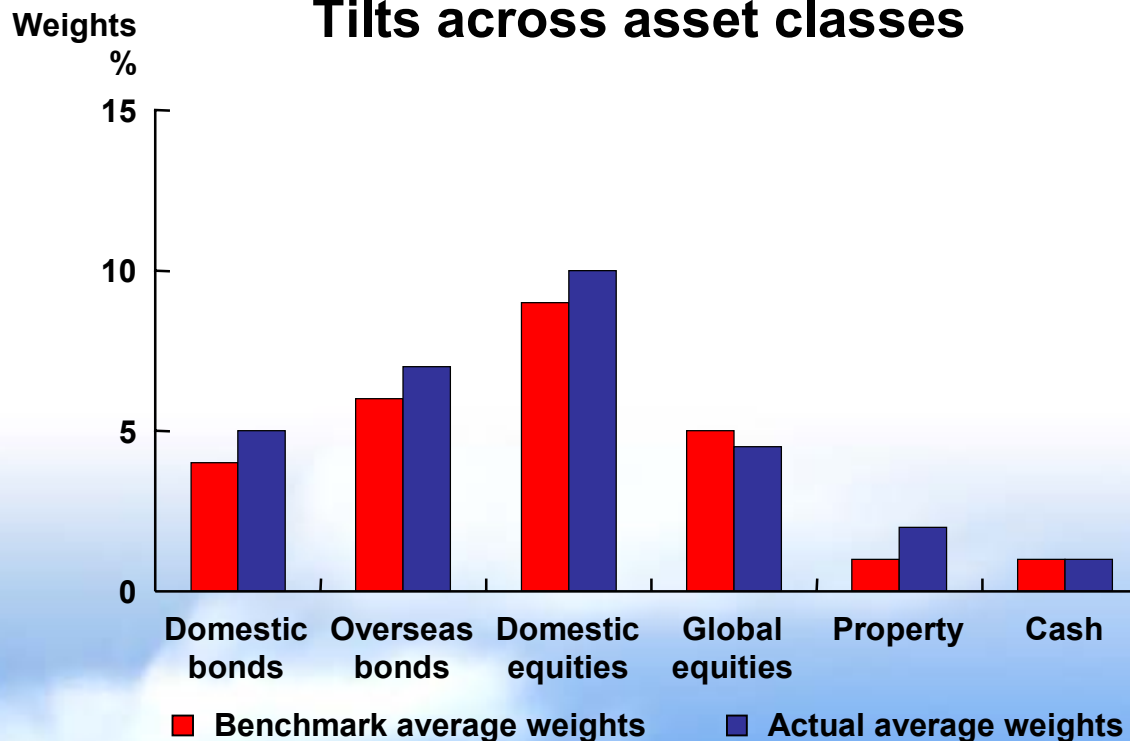
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Tilts across asset classes



Fund management

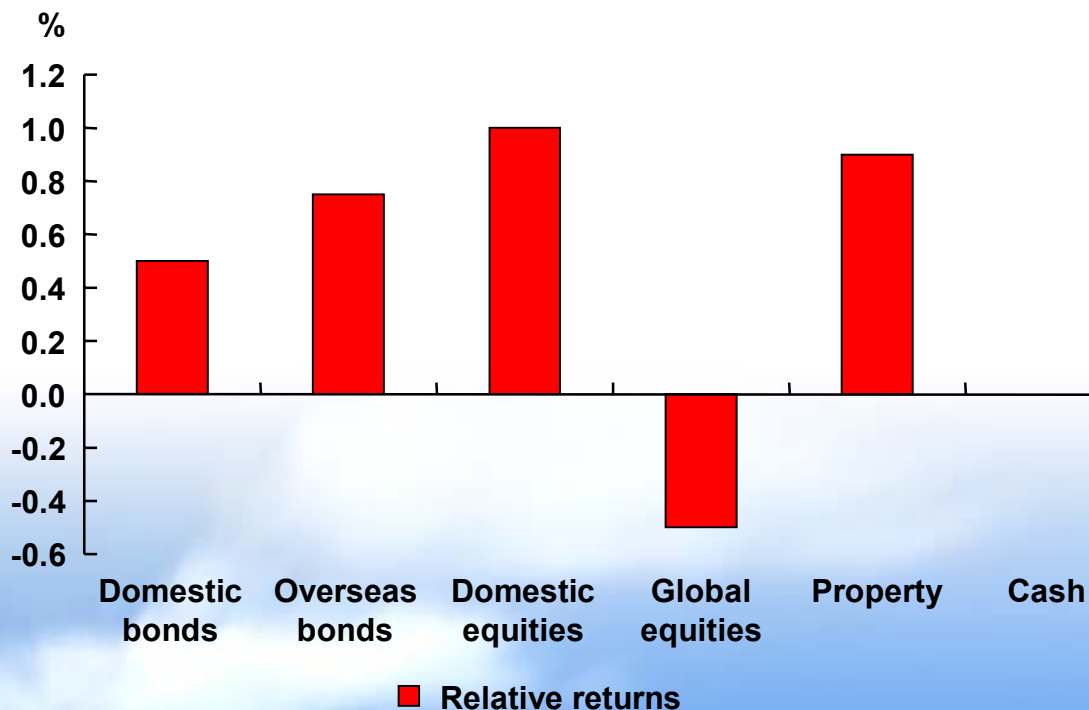
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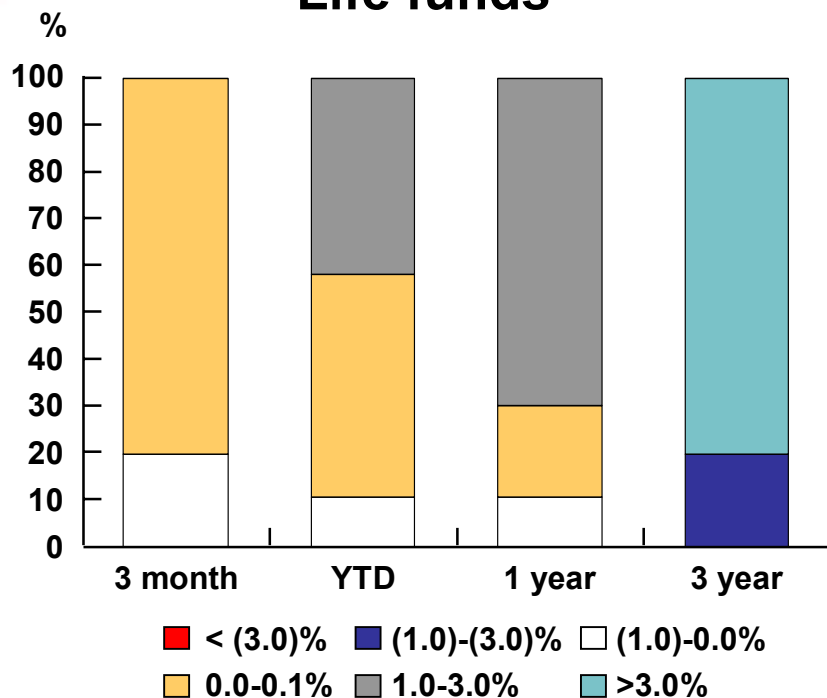
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Stock selection within asset classes

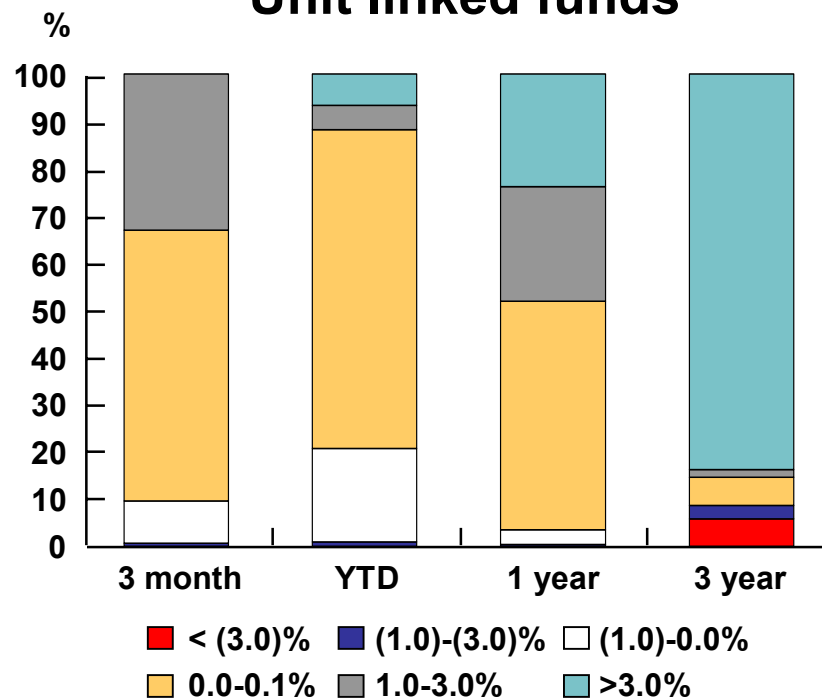


Investment performance

Life funds







Unit linked funds



Source of funds	No of funds	FUM (£ m)
Singapore Life	1	1,318
HK Life	2	1,222
Japan Life	1	622
Total	4	3,161

Source of funds	No of funds	FUM (£ m)
Indonesia	5	146
Singapore	10	1,102
Malaysia	6	144
Philippines	3	9
Total	24	1,401

Added significant value to our life companies' funds

	Clients	Value added last 3 years (£ million)
	Singapore Life	49
	Hong Kong Life	43
	Malaysia Life*	23
	United Kingdom Life	127
Total		242

Governance and controls

**Strategic asset
allocation (SAA)**

Long-term allocation among
different asset classes

**Tactical asset
allocation (TAA)**

Medium-term adjustments to
“pure” SAA within a risk
controlled framework

**SAA Steering
Committee**

**TAA Steering
Committee**

Local Investment Committee

**Two green lights
required**





Summary : Investment management of life assets

A strong competitive advantage in asset management

- **Large and complex funds, but managed by strong and effective architecture**
- **Leveraging Prudential's experience in the UK**
- **Rigorous and consistent approach applying specialist knowledge and experience**
- **Scale and depth of fund management capabilities**
- **Strong track record of delivering consistent risk controlled out-performance**

