PRUDENTIAL

Staff Pension Scheme

Defined Contribution Section

Market commentary from the DC Section Investment Consultant

June 2024

Your journey

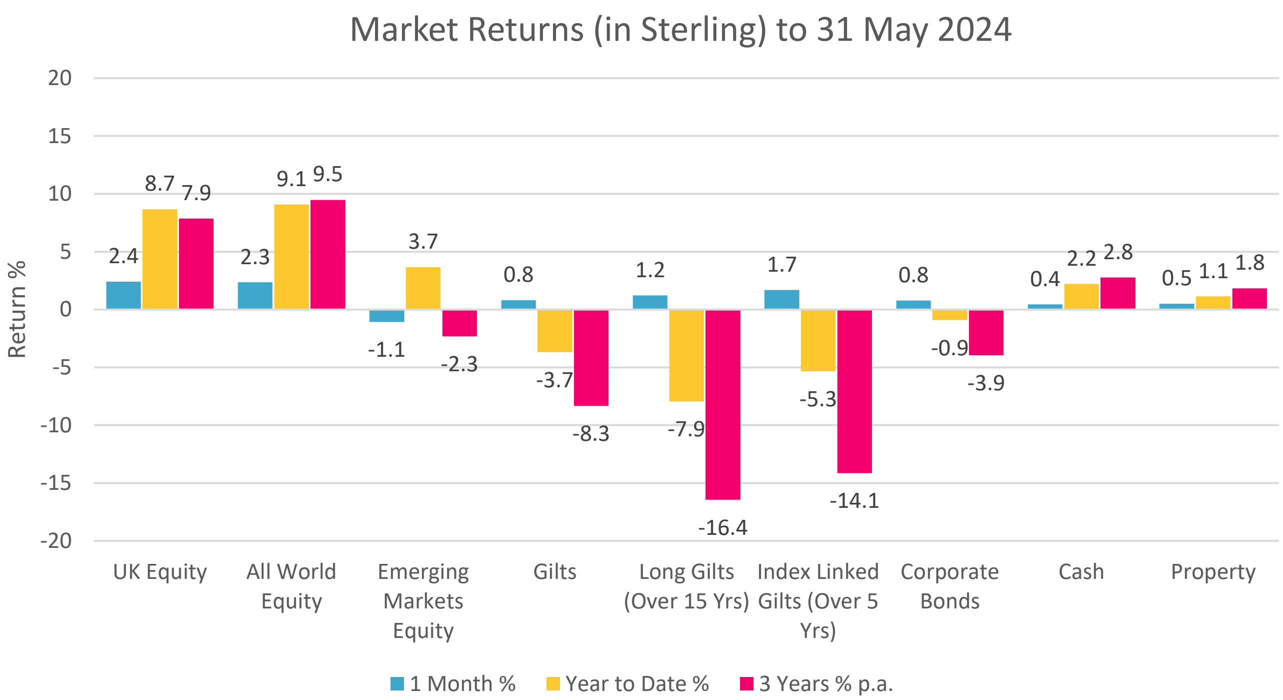
Investment Markets and PSPS Funds Update – June 2024

Introduction

This paper is addressed to the Trustee of the Prudential Staff Pension Scheme (“Scheme”) DC Section and provides a regular update on the performance of PSPS funds and investment markets.

This paper should not be released or otherwise disclosed to a third party except as required by law or with our prior written consent, in which case it should be released in its entirety. This paper may be shared with DC Section members of the Scheme on a non-reliance basis. We accept no liability to any third party unless we have expressly accepted such liability in writing.

Performance of Investment markets



Note: Property one month in arears. Source: Datastream

Indices: FTSE All Share, FTSE All World £, FTSE All Emerging £, FTSE British Govt Over 15Y, FTSE British Govt Index Linked Over 5Y, iBoxx Sterling Non-Gilts, SONIA, MSCI UK Monthly property

May 2024 highlights

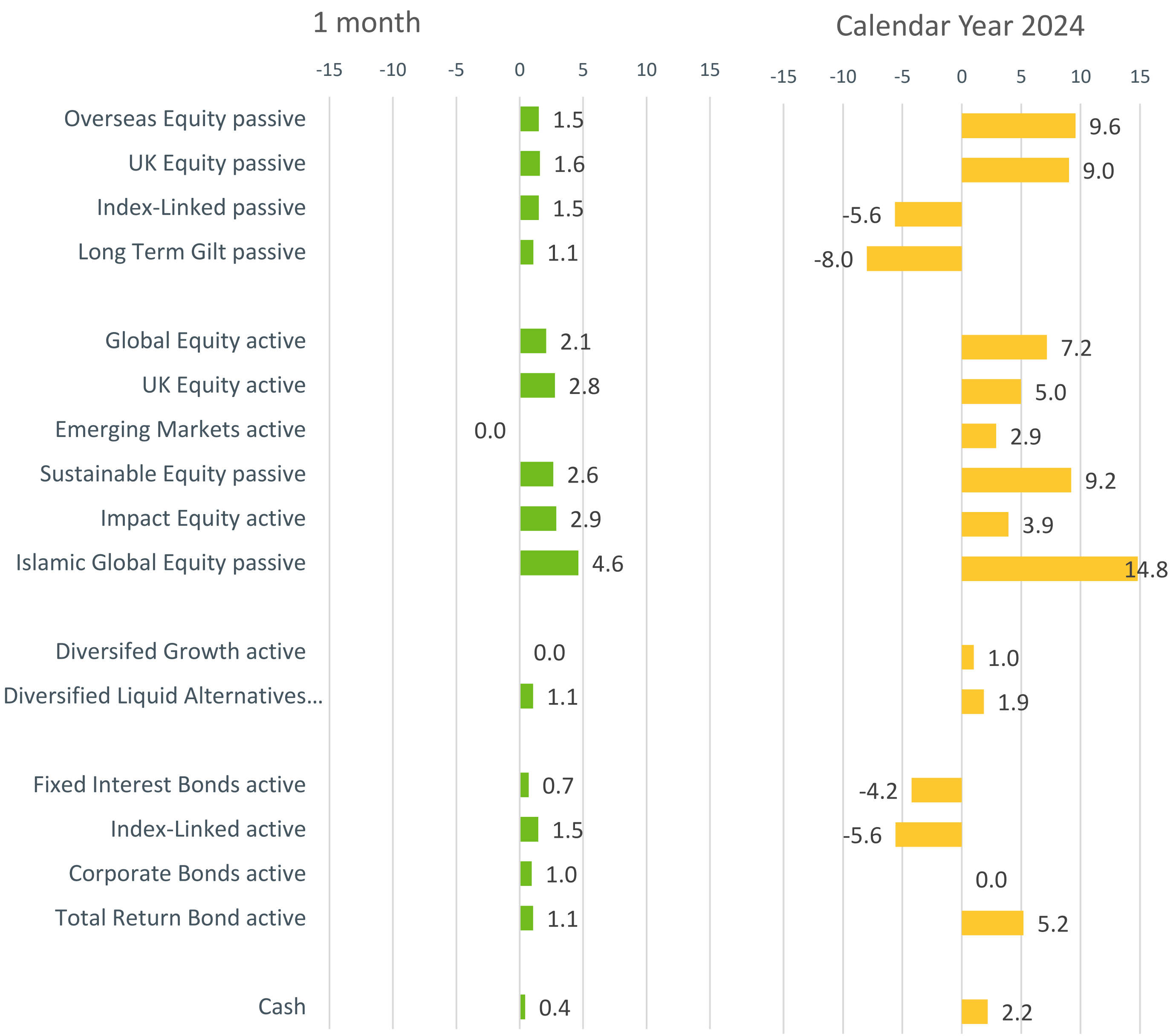
- First-quarter growth in the US economy was revised lower again in May, but the data still highlighted decent domestic demand, with the downside surprise owing largely to falling net exports and inventories. Meanwhile, the eurozone economy officially exited recession, as Q1 GDP was confirmed at 0.3% quarter on quarter in May.

- US flash composite purchasing managers’ indices (PMIs) exceeded expectations in May, while European PMI data indicated that activity improved. The UK PMI continues to suggest robust growth, despite slipping back in May.

- Year-on-year US headline CPI inflation edged lower in April and equivalent UK inflation fell significantly, albeit less than expected. Eurozone inflation, meanwhile, was revealed to have risen in May.

- Despite ongoing signs of sticky inflation, the US Federal Reserve's pushback against the suggestion of further rate cuts prompted US bond yields to fall. UK yields fell modestly, while eurozone yields rose.
- A decline in bond yields and a slate of better-than-expected earnings supported global equities, with the FTSE All World Total Return Index rising 3.7% in May. Technology was the best-performing sector, supporting growth stocks more broadly.
- Credit spreads generally continued to tighten and gold rose further in May, reaching fresh all-time highs. Meanwhile, oil prices fell amid supply-cut doubts and demand forecasts.
- The US dollar made its first monthly fall this year amid softer inflation and a decrease in market-implied interest rates, while the UK pound and euro rose. The Japanese yen continued to weaken, despite a relative rise in Japanese yields and policymakers confirming they had intervened to support the currency in April.

The chart below shows the **estimated** performance (net of annual fees) of the PSPS funds for **May 2024** and for the calendar year 2024. Please note that these are estimates of fund performance and not official performance figures from the fund provider. Longer term historical performance can also be found in appendix 1.



Please note –One day price lag on underlying funds of Overseas Equity Passive Fund. Unit prices of underlying component funds sourced from Bloomberg or Fund manager websites.

What is the impact on DC Section members?

- Returns were positive across all funds in May.
- Over the first five months of 2024, global equity funds have been strongest. With the exception of gilt and index-linked gilt funds, all funds have positive returns over this period.

Lifestyle Returns

We show the estimated performance of the Multi-Asset Lifestyle in appendix 2 for periods to **31 March 2024.** In the lifestyle, the allocation of members' investments across certain PSPS funds is adjusted automatically depending on each member's period to targeted retirement date, moving from riskier to less risky assets as members approach retirement. Therefore, the returns for members will vary across age groups and between members with different period to retirement. In the appendix we show the estimated returns for 3 different types of members, based on their periods to retirement.

Note on Currency

For the PSPS funds which invest in non-UK assets, the funds bear currency risk (i.e. the effect of changes in the value of currencies and in particular the change in value of the currency in which the assets are invested relative to sterling). Therefore, the return from these funds is driven both by the change in valuation of the assets themselves and the translation of that value from the local currency to sterling.

Market commentary – Monthly Update to end May 2024

- US Q1 GDP was revised lower in May, to an annualised quarterly pace of 1.3%, compared to the blistering 3.4% pace set in the last quarter of 2023. However, the data suggest that private- sector demand remains strong, with consumer spending, residential and non-residential investment still expanding at a decent pace. Volatile business inventories and higher-than-expected imports were the main drags on the headline figures. The eurozone and UK exited technical recessions in Q1, with quarter-on-quarter GDP rising 0.3% and 0.6%, respectively, with. the UK expanding at its fastest pace since 2021. Japanese GDP fell by more than expected, at -0.5% quarter -on -quarter.
- Survey data suggest global growth momentum improved further in Q2. After indicating a couple of months of slower growth, the flash US composite PMI suggests activity expanded at the fastest pace in over two years in May, as service sector activity rose sharply, and manufacturing also showed stronger growth. Eurozone PMIs point to continued recovery in activity, and the UK survey suggests robust growth, despite slipping back in May. While services continue to be the engine of growth in the current expansion, the upturn in the global manufacturing PMI gathered pace in May, with rates of expansion in output and new orders both strengthening. Input cost pressures eased in the UK, eurozone, and Japan, but rose at faster rates in the US, driven by rising prices in the manufacturing sector.
- Largely owing to energy prices, and their interaction with the Ofgem energy price cap, year-on-year UK headline inflation fell by a meaningful 0.9% in April, to 2.3%. However, this was still less than the expected decline to 2.1%. Core CPI, which excludes volatile energy and food prices, remained at 3.9%, while services inflation fell modestly, to 5.9% year- on- year. Following several months of upside surprise, US headline CPI inflation eased modestly, to 3.4% year- on- year in April, while the core measure eased to 3.6% year- on-year. Meanwhile, the flash release suggests eurozone headline and core inflation both rose more than expected in May, to 2.6% and 2.9%, respectively.
- While noting in its May meeting notes that it needs to see more progress on disinflation before embarking on rate cuts, the US Federal Reserve pushed back against the notion that the next move in rates could be

higher. The European Central Bank (ECB) also suggested that it is still on track to reduce rates in June, despite the recent set back in inflation data. Near-term US interest- rate expectations are little changed, with the market still expecting just one 0.25% cut in 2024, but longer-term expectations eased slightly. A similar pattern was observed in the UK, with markets continuing to expect one 0.25% rate cut in 2024. Given the weaker inflationary pressures, markets still anticipate that the ECB will act earlier to deliver two or three 0.25% cuts in 2024.

- US 10-year bond yields fell 0.2% pa to 4.5% pa, and equivalent gilt yields eased very modestly, to 4.3% pa, as inflation fell in both countries. Sovereign bond yields generally rose in Europe, as higher-than-expected inflation releases weighed on rate-cut expectations, with German 10-year bond yields rising by 0.1% to 2.7%. Equivalent Japanese yields rose by 0.2% pa to 1.1% pa, as markets bet on further interest -rate increases, which some market commentators have suggested might be deployed to defend the beleaguered Japanese yen.
- Credit spreads generally ground tighter in May amid decent economic data and yield-driven demand. That said, US speculative-grade credit spreads bucked the broader trend, rising marginally. Global investment-grade spreads eased slightly, and remained around 0.9% pa, with little regional dispersion. However, while European speculative-grade credit spreads declined by 0.2% pa, to 3.3% pa, their US counterparts rose slightly, to 3.2% pa. US and European leveraged loan spreads declined 0.1% pa and 0.2% pa, to 4.9% pa and 4.8% pa, respectively.
- The FTSE All World Total Return Index rose 3.7% in local-currency terms in May. US first- quarter earnings reported to date have beaten expectations by a wide margin and, more importantly, forecasts for full-year global equity earnings per share growth of around 10% in 2024, made at the start of the year, remain largely intact with the Q1 earnings season almost over. Technology was the best performing sector, as lower US yields benefited valuations, and utilities and financials were the only other outperformers. Energy was the worst performing sector, as oil prices fell. More value-oriented sectors such as consumer staples, basic materials, and industrials all materially underperformed. As such, Growth stocks outperformed value stocks by a wide margin in May.
- Despite all major regions having a positive absolute return, North American equities were the only outperforming region, given the market's above-average exposure to the outperforming technology sector, which benefitted from falling bond yields and strong earnings releases.
- Emerging markets was the worst performing region, as very weak inflation prints highlighted the fragility of the Chinese economic recovery, causing the rally there to falter. Japan was the next worst performing region in May. While yen weakness has typically been viewed as a positive for the exporter-heavy Japanese market, policy makers and investors are growing concerned about the impact of yen weakness on the spending power of consumers and importers. UK stocks also underperformed, given below average exposure to the outperforming technology sector, and above-average exposure to the underperforming energy sector. Europe ex UK only underperformed modestly, despite below average exposure to the technology sector, as the region benefited from positive earnings surprises.
- The US trade-weighted dollar fell 0.4% in May, as softer inflation and a decrease in market-implied interest rates pushed the currency into its first negative month of the year. The UK trade-weighted pound rose 0.7%, as higher inflation pushed back expectations of an interest rate cut next month. The Japanese trade-weighted yen slipped -0.5%, despite increasing expectations that the Bank of Japan might raise interest rates further and confirmation that policymakers had intervened to support the yen in April. Gold rose a further 1.5% in May to reach all-time highs, supported by geopolitical tensions, while crude oil fell 7.0% as traders questioned the durability of OPEC+ supply cuts and cast doubt on the strength of demand forecasts.
- The MSCI UK Property Total Return Index rose 0.5% in April, while capital values rose for the first time in a year -– though very marginally. The 12-month total return to the end of April was 0.2%, as income offset a

5.3% fall in capital values. Over the 12 months, capital values fell most sharply in the office sector, declining 16.0%. Over the same period, retail capital values fell by 5.7%, while industrial values rose a modest 0.4%. Aggregate annual nominal rental growth fell to 3.6% pa in April, but real rental growth rose as year-on-year inflation fell more sharply. Structural demand continues to support rental growth in the industrial sector, where nominal rents increased by 6.5% over the 12 months to end April. Annual rental growth remains much weaker in the office and retail sectors, at 2.3% and 0.8%, respectively.

Prepared by: -

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Partner	DC Investment Consultant

June 2024

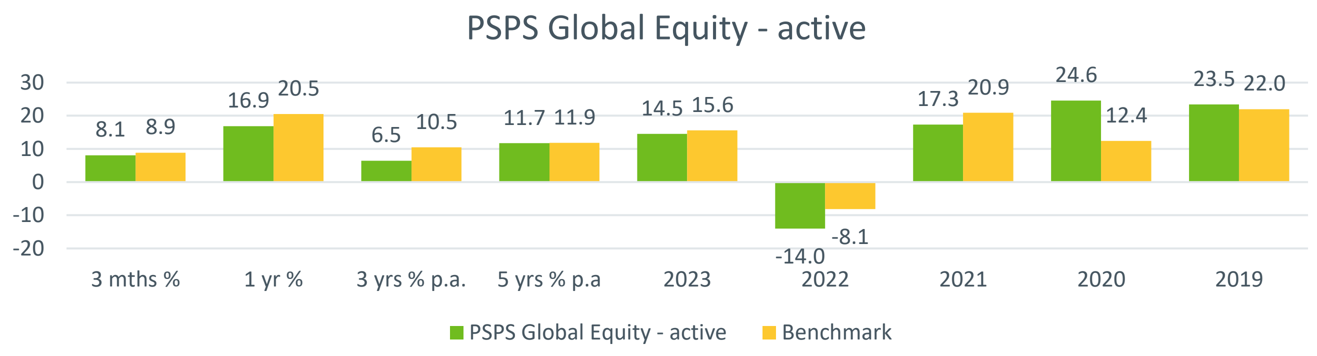
For and on behalf of Hymans Robertson LLP

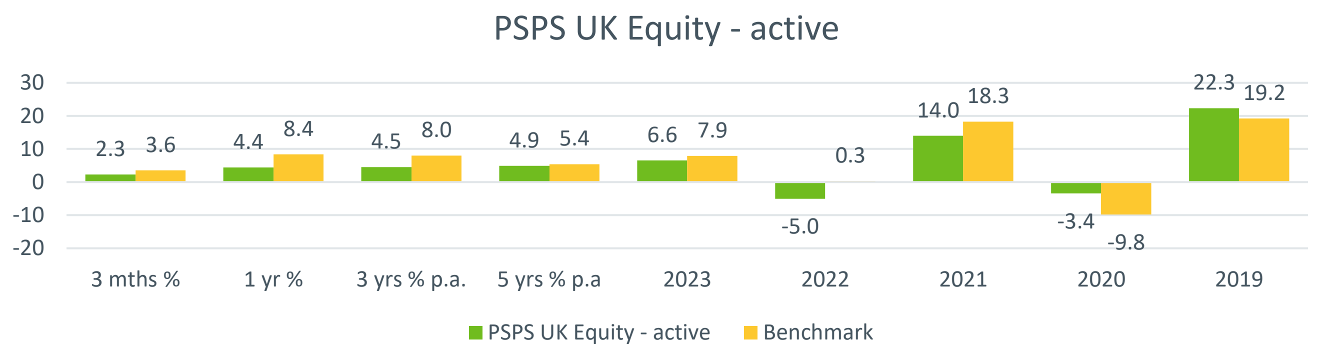
GENERAL RISK WARNING

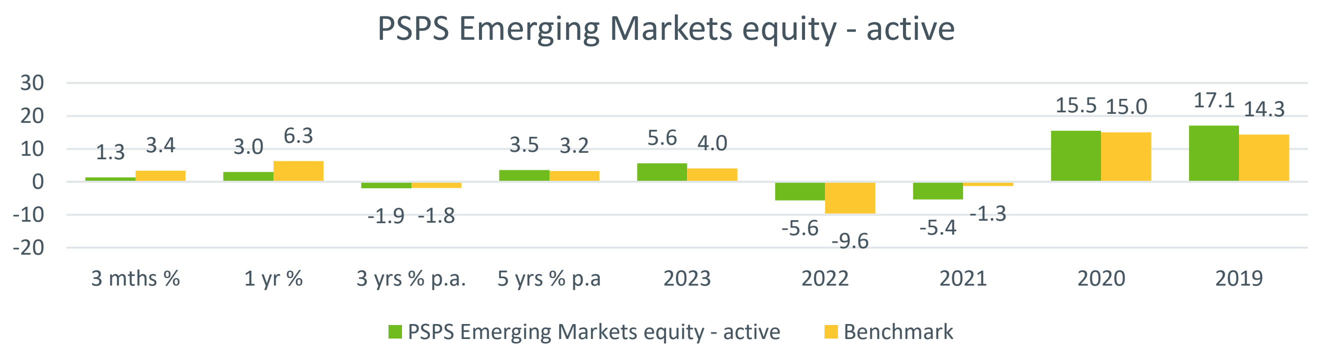
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.
Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

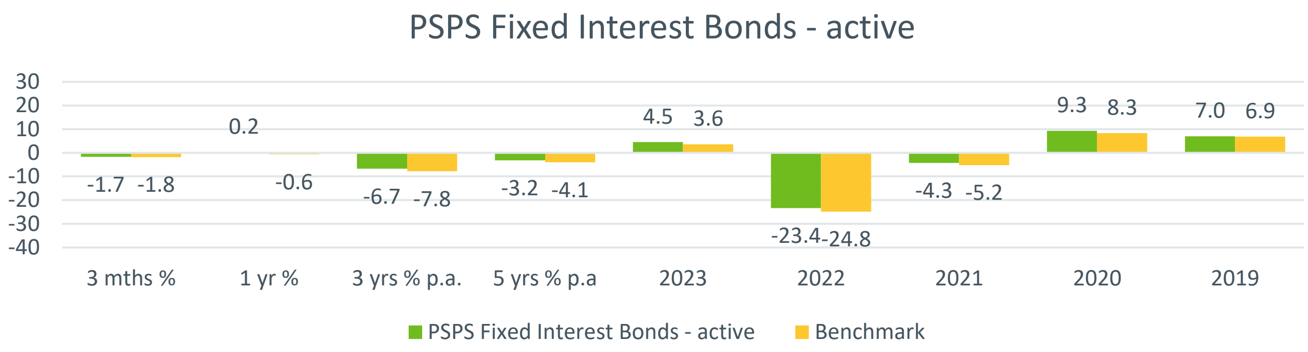
Appendix 1 – Performance of PSPS Funds (to 31/03/24)

The charts below summarise the performance (gross) of the PSPS funds and their benchmarks showing historic calendar years and the current calendar year to latest available quarter end date (updated quarterly). **Official performance data from fund provider shown below is to end March 2024.** (Source The Prudential Assurance Company Limited).








PSPS Fixed Interest Bonds - active
30
20
10
0
-10
-20
-30
-40
-1.7 -1.8
0.2
-0.6
-6.7 -7.8
-3.2 -4.1
4.5 3.6
-23.4 -24.8
-4.3 -5.2
9.3 8.3
7.0 6.9
3 mths %
1 yr %
3 yrs % p.a.
5 yrs % p.a
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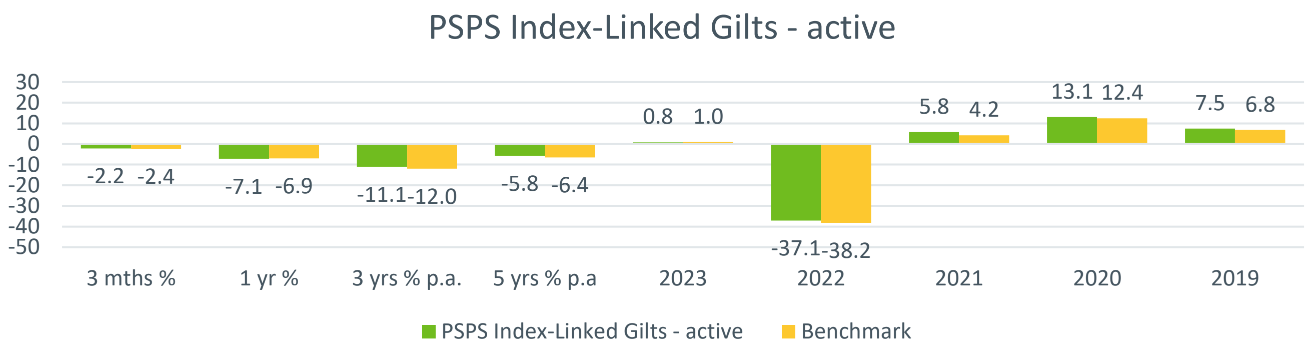
2022
2021
2020
2019
PSPS Fixed Interest Bonds - active
Benchmark


PSPS Index-Linked Gilts - active
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-10
-20
-30
-40
-50
-2.2 -2.4
-7.1 -6.9
-11.1 -12.0
-5.8 -6.4
0.8 1.0
-37.1 -38.2
5.8 4.2
13.1 12.4
7.5 6.8
3 mths %
1 yr %
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5 yrs % p.a
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2022
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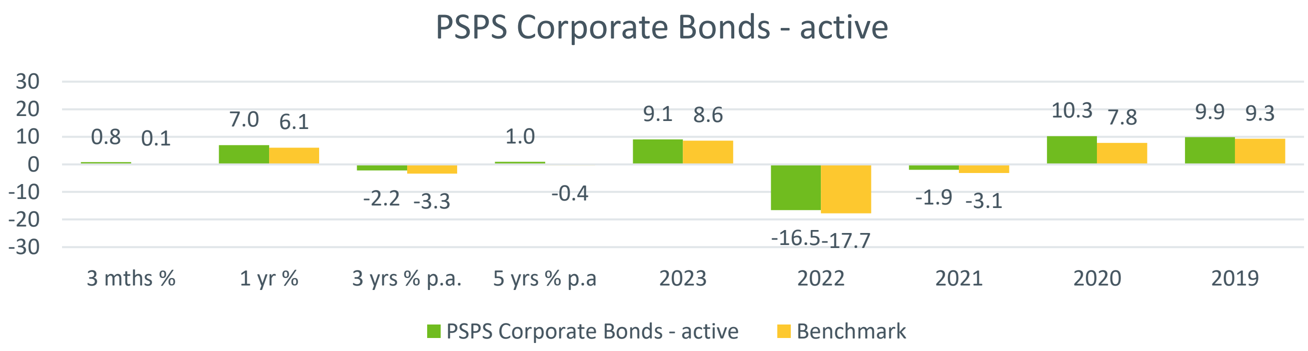
2019
PSPS Index-Linked Gilts - active
Benchmark


PSPS Corporate Bonds - active
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-10
-20
-30
0.8 0.1
7.0 6.1
-2.2 -3.3
1.0
-0.4
9.1 8.6
-16.5 -17.7
-1.9 -3.1
10.3 7.8
9.9 9.3
3 mths %
1 yr %
3 yrs % p.a.
5 yrs % p.a
2023
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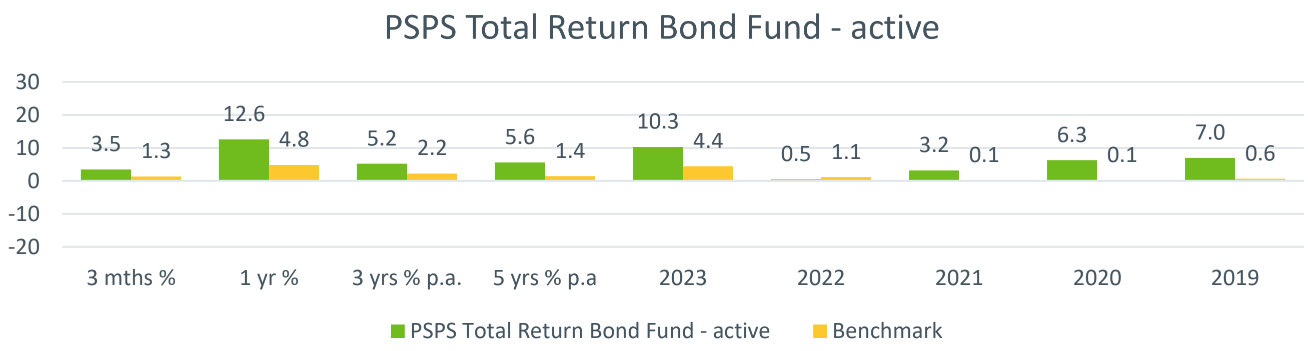
PSPS Corporate Bonds - active
Benchmark


PSPS Total Return Bond Fund - active
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-10
-20
3.5 1.3
12.6 4.8
5.2 2.2
5.6 1.4
10.3 4.4
0.5 1.1
3.2 0.1
6.3 0.1
7.0 0.6
3 mths %
1 yr %
3 yrs % p.a.
5 yrs % p.a
2023
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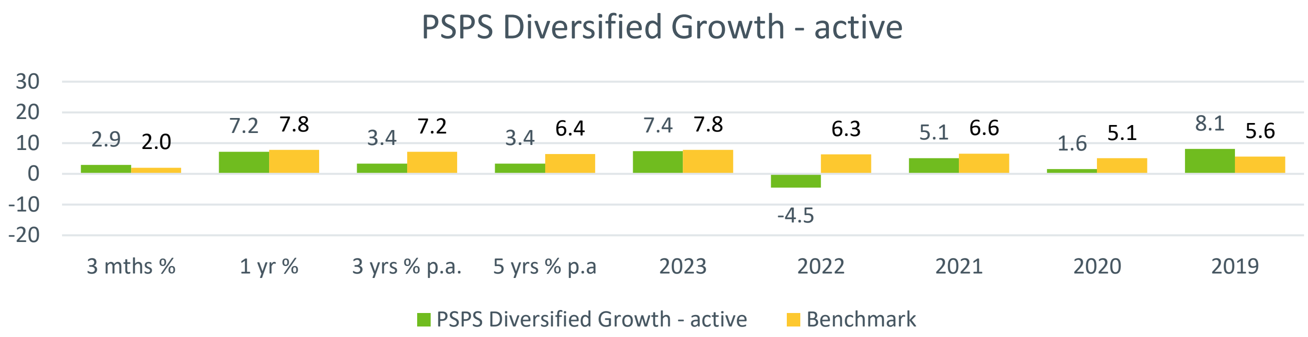
2020
2019
PSPS Total Return Bond Fund - active
Benchmark


PSPS Diversified Growth - active
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20
10
0
-10
-20
2.9 2.0
7.2 7.8
3.4 7.2
3.4 6.4
7.4 7.8
-4.5 6.3
5.1 6.6
1.6 5.1
8.1 5.6
3 mths %
1 yr %
3 yrs % p.a.
5 yrs % p.a
2023
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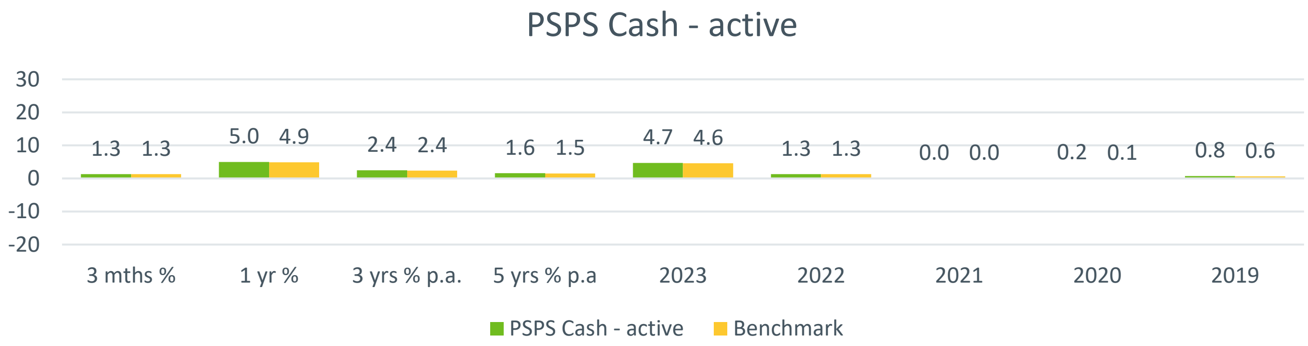
2019
PSPS Diversified Growth - active
Benchmark


PSPS Cash - active
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1.3 1.3
5.0 4.9
2.4 2.4
1.6 1.5
4.7 4.6
1.3 1.3
0.0 0.0
0.2 0.1
0.8 0.6
3 mths %
1 yr %
3 yrs % p.a.
5 yrs % p.a
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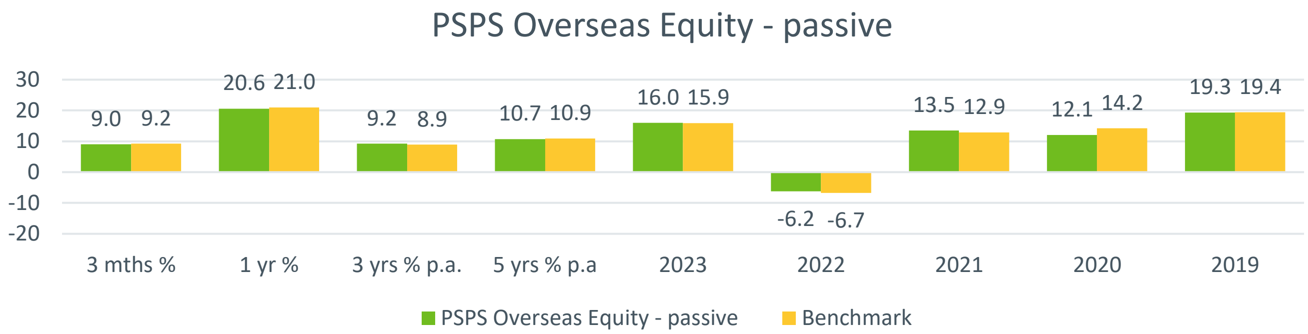
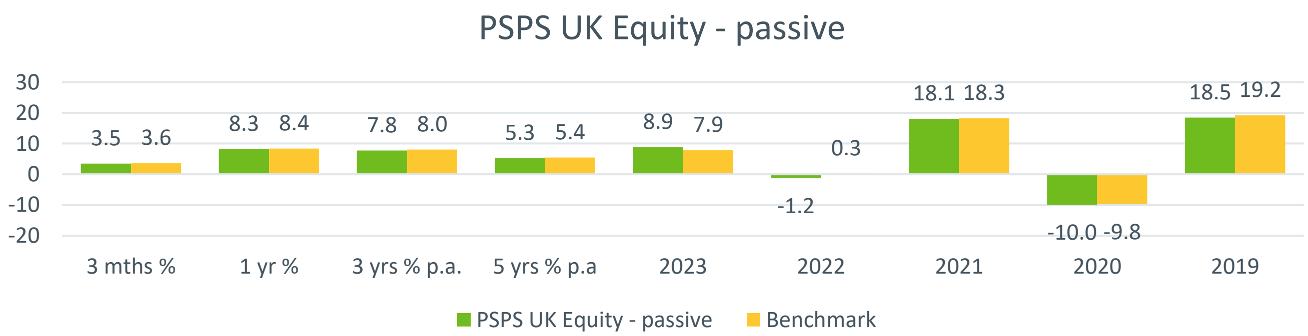
PSPS Cash - active
Benchmark


PSPS Overseas Equity - passive
30
20
10
0
-10
-20
9.0 9.2
20.6 21.0
9.2 8.9
10.7 10.9
16.0 15.9
-6.2 -6.7
13.5 12.9
12.1 14.2
19.3 19.4
3 mths %
1 yr %
3 yrs % p.a.
5 yrs % p.a
2023
2022
2021
2020
2019
PSPS Overseas Equity - passive
Benchmark


PSPS UK Equity - passive
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20
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-10
-20
3.5 3.6
8.3 8.4
7.8 8.0
5.3 5.4
8.9 7.9
-1.2 0.3
18.1 18.3
-10.0 -9.8
18.5 19.2
3 mths %
1 yr %
3 yrs % p.a.
5 yrs % p.a
2023
2022
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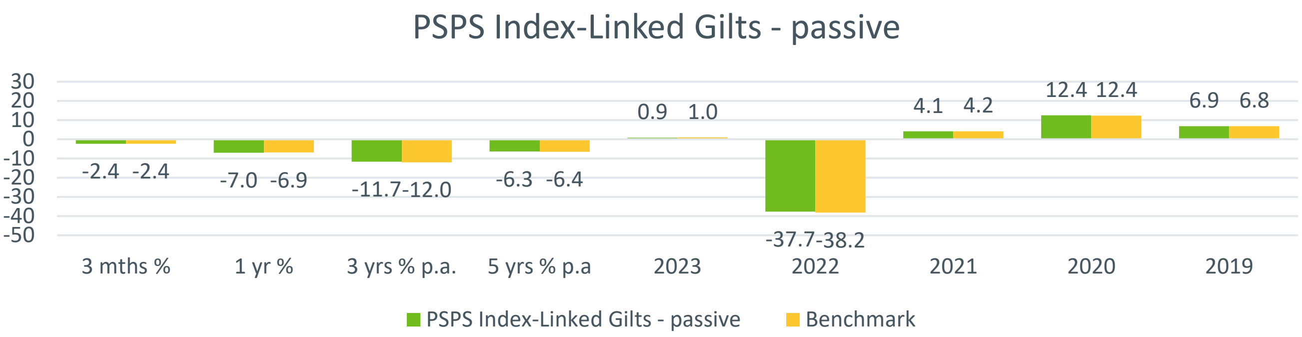
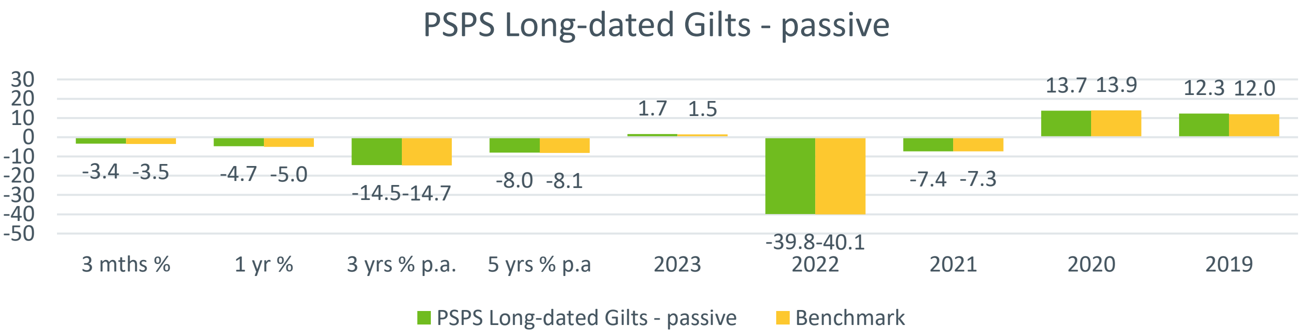
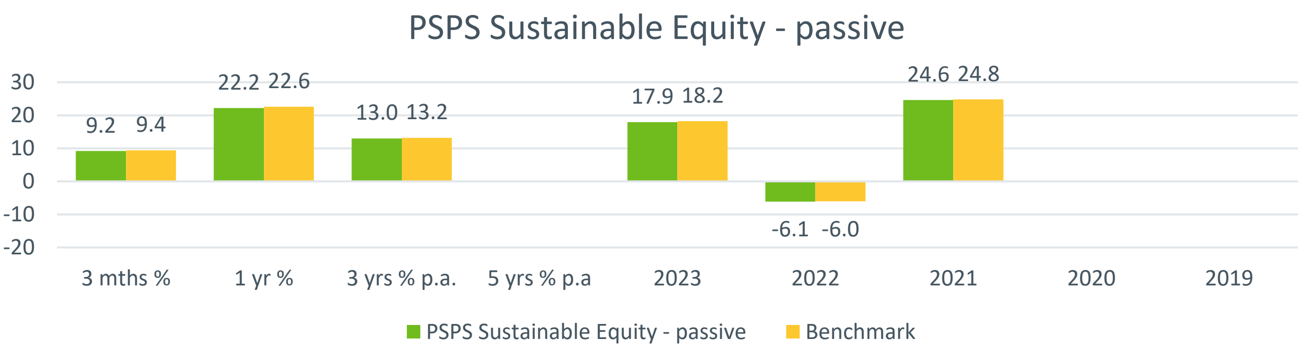
2019
PSPS UK Equity - passive
Benchmark



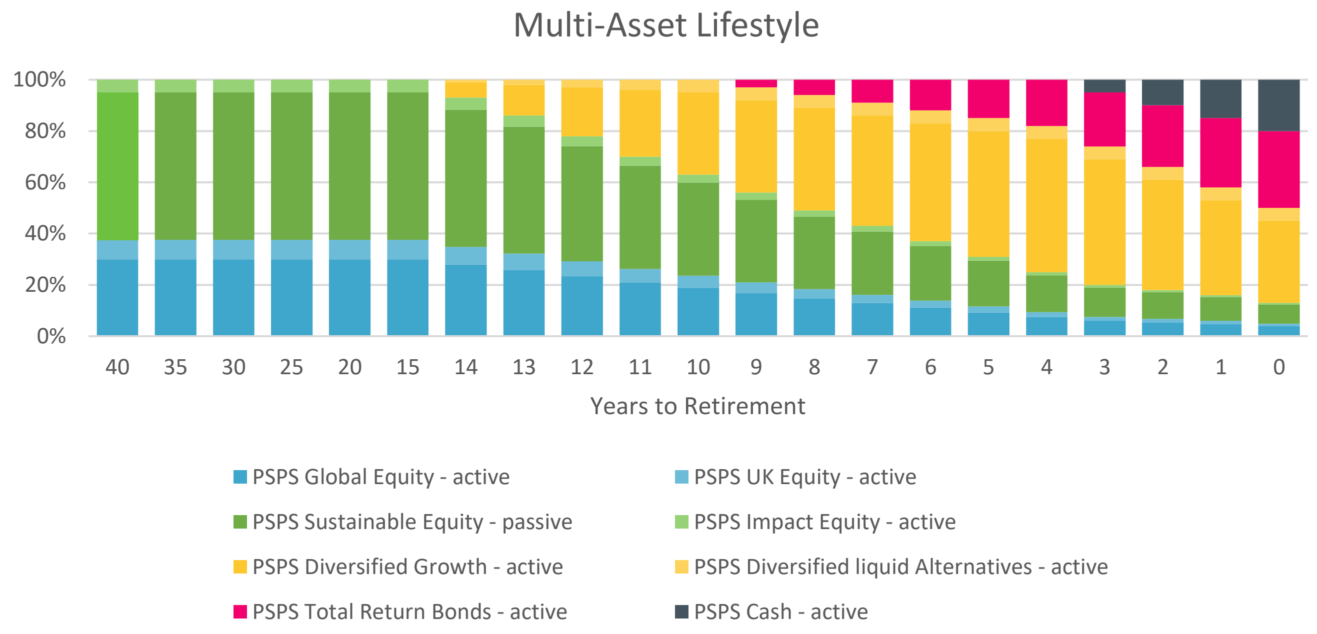




PSPS Sustainable Equity - passive Fund launched 10th January 2020 (formerly called PSPS Responsible Investment Equity -passive Fund)

Appendix 2 - Lifestyle Performance

The Multi-Asset Lifestyle strategy automatically adjusts members' investments across certain PSPS funds based on their periods to targeted retirement date as illustrated below, moving from riskier to less risk assets as retirement approaches.



Because the allocation to certain funds varies from member to member based on the period to retirement, returns for individual members will vary depending on their period to retirement. Therefore it is not possible to state a single figure for the lifestyle return but instead we have estimated three returns that are representative of different types of members based on their period to retirement.

We have selected a member with 30 years to retirement whose returns will reflect members earlier in their career and is a reasonable assumption of the return for any member who is over 15 years from retirement. We then also show the returns for members 10 and 3 years from retirement who will have begun the process of moving from riskier to less risk assets.

Estimated Performance for periods to 31 March 2024

Member - Years to Target Retirement Age	3 Months %	12 Months %	3 Years % p.a.	5 Years % p.a.
30 Years	8.1	18.6	8.1	9.8
10 Years	6.1	14.5	6.2	6.7
3 Years	3.9	10.4	4.6	5.0

Performance based upon Lifestyle and years to retirement. Asset allocations will vary in line with the lifestyle chart shown (above). Actual performance for individual members will vary. Figures are illustrative and are not actual performance experienced.

Performance has been estimated for a member at certain periods to retirement (as at date to which performance is estimated, i.e. quarter end date referred to in table above) based on the approximate returns achieved historically on a quarter-by-quarter basis through being invested in the current lifestyle strategy (introduced in May 2023 and shown in the chart, above) and its predecessor lifestyles.