Prudential Newton Higher Income fund (series 3)

NEWTON
The Power of Ideas

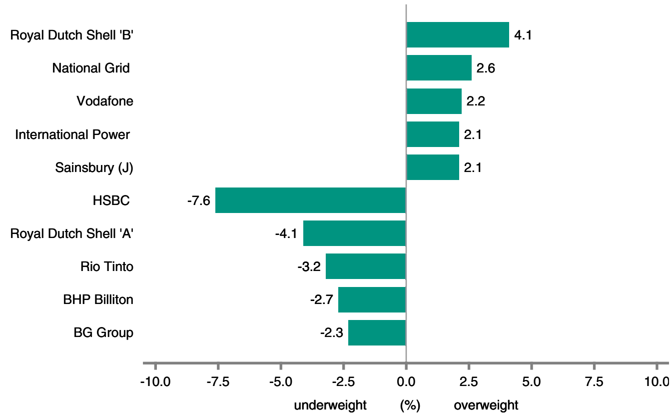
Fund description

The fund is actively managed and invests purely in the UK. The fund aims for high and rising income by investing in UK companies that offer strong yields, primarily from the largest 350 stocks in the UK. A strict yield criteria is applied in that all holdings must yield 15% more than the FTSE All-Share Index for inclusion in the portfolio.

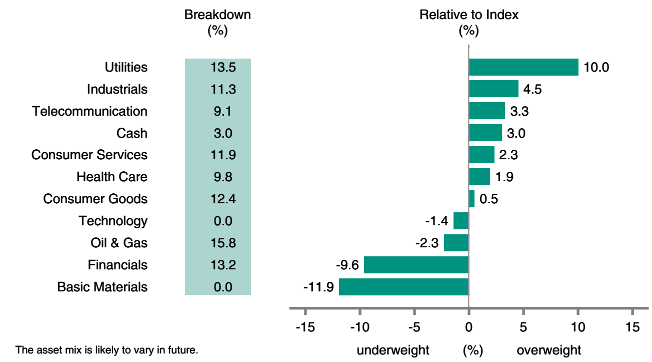
Key facts

Underlying fund size	£2,848m
Number of holdings	72
Underlying fund launch date	01/06/1987
Portfolio Manager	Tineke Frikkee
Benchmark	FTSE All-Share Index
Investment Style	Active, Global Thematic
Sedol code	3420177
Performance Objective	To achieve increasing distributions with long-term capital growth

Top 5 over and underweight positions



Sector positions vs benchmark



The asset mix is likely to vary in future.

Commentary

Performance was negatively affected by the avoidance of mining companies Rio Tinto, Anglo American, BHP Billiton and Xstrata, whose shares were boosted by a sharp recovery in commodity prices. Such companies are not held because of their low yields. (The fund will only invest in stocks paying a higher than average dividend as a proportion of their share price, and will sell stocks when their yield falls below the required level.) The holding in the UK's RSA Insurance Group lagged the market rally. However, we believe the insurer has a strong international growth potential and offers a compelling dividend yield. Stock selection in the consumer services sector detracted from performance, with the holdings in Sainsbury's, and Home Retail Group hurting the returns.

In contrast, the avoidance of the banking stocks Barclays, HSBC Holdings, Lloyds Banking Group and Royal Bank of Scotland Group was beneficial as fears of equity issuance and the prospect of enhanced regulatory scrutiny unsettled investors. Performance was also enhanced by the core holding in National Grid, which performed strongly during the quarter. Our position in publisher Pearson was also positive for performance as the business is performing better than expected. The core holding in GlaxoSmithKline also contributed to performance. Towards the end of the review period, shares in the pharmaceutical giant benefited from perceptions that the bill to overhaul the US healthcare system would be less damaging to industry profits than had been anticipated.

Source: Newton
All figures are as at 31 December 2009, unless otherwise stated.

Performance

Past performance of the fund over each of the last 5 years to the end of December

	31/12/08 - 31/12/09	31/12/07 - 31/12/08	31/12/06 - 31/12/07	31/12/05 - 31/12/06	31/12/04 - 31/12/05
Newton Higher Income fund	14.8	-19.6	3.3	18.6	19.9
Benchmark	30.1	-29.9	5.3	16.8	22.0

Past performance of the fund to 31 December 2009

	Quarter	1 Year*	3 Years*	5 Years*
Newton Higher Income fund	4.5	14.8	-1.6	6.3
Benchmark	5.5	30.1	-1.3	6.5

Source: Prudential and Financial Express. *annualised

Based on percentage change in unit price. It is important to remember that past performance is not a reliable indicator of future performance. The value of your investment may go down as well as up and the fund value at retirement may be less than the payments you have made.

Prudential Newton Higher Income fund (series 3)

Prudential risk rating

Higher

What type of funds are in this risk category?

These are specialist equity funds that focus on set geographical regions or a particular type of share e.g. shares of smaller companies or those that conform to certain criteria.

What is the risk rating?

- Risk ratings have been developed by Prudential to help provide an indication of the potential level of risk and reward that is attributable to a fund based on the type of assets which may be held within the fund. Other companies may use different descriptions and as such these risk ratings should not be considered as generic across the fund management industry.
- Prudential will keep the risk ratings under regular review and as such they may be subject to change in the future. We therefore recommend that before making any fund choice in the future you understand the appropriate risk rating before making a decision. You will find this information at www.pru.co.uk.
- You should also consider discussing your decision and the appropriateness of this risk rating with an adviser

Important information

Who is this factsheet for and what does it do?

This factsheet is intended for the trustees, sponsors, advisers and members of occupational pension schemes using Prudential group pension contracts and Prudential grouped personal pensions and Stakeholder pension contracts.

Its purpose is to shed some light on how investment markets and funds have performed over the period and is provided for information only.

If you are not familiar with any of the investment terminology included on this factsheet, then please contact an adviser.

Can I get advice?

This factsheet should not be considered as a financial promotion and any changes to investment arrangements should be discussed with an adviser. It is not our intention to give an indication of how any particular funds will perform in the future. The commentary in this factsheet reflects the general views of the individual fund manager and should not be taken as a recommendation or advice as to how a specific market or fund is likely to perform.

Who manages the funds?

Ths fund is managed by Mellon Fund Managers Limited

How are the performance figures calculated?

The performance shown overleaf is measured on the fluctuation of the daily published price. This published price is adjusted to accommodate the fund's dealing cycle where appropriate.

To obtain current unit price and performance information for all funds in the Prudential Fund range, simply log on to http://www.pru.co.uk/funds/series/ and choose 'Pension Funds' and then select Prudential Corporate Pensions (Series 3).

How are the fund prices calculated?

This fund has a single price, based on the valuation of the underlying assets and cash flows into and out of the fund. This valuation price will be the published price.

What is the dealing cycle?

The Pensions Series 3 fund range is forward priced which means that the member gets the next available price after they invest.

This fund has a dealing cycle of T+1. This means that money received on day T buys units at the valuation date price applicable at close of business 1 day later.

Other important information

Exchange Rate fluctuations may cause the Sterling values of overseas investments to rise or fall.

Retirement has more potential with PRUDENTIAL

BTBQ00061A Dec 2009