

# Prudential Investment Funds (1)

Annual investment report and financial statements (audited)

December 2011

# Contents

<b>Introduction</b>	Page	1
Company information <sup>+</sup>	Page	1
Notes to shareholders <sup>+</sup>	Page	1
Authorised Corporate Director's report <sup>+</sup>	Page	2
<b>Prudential Investment Funds (1)</b>	Page	3
Authorised Corporate Director's responsibilities <sup>+</sup>	Page	3
Depositary's responsibilities and report <sup>+</sup>	Page	3
Independent auditor's report <sup>+</sup>	Page	4
<b>Aggregated financial statements (audited)</b>	Page	5
Directors' statement	Page	8
<b>Investment Report<sup>+</sup> and financial statements for</b>		
Prudential Adventurous Portfolio	Page	9
Prudential Balanced Portfolio	Page	17
Prudential Cautious Growth Portfolio	Page	25
Prudential Cautious Managed Growth Fund	Page	33
Prudential Cautious Portfolio	Page	41
Prudential Defensive Portfolio	Page	49
Prudential Managed Defensive Fund	Page	57
<b>Further information<sup>+</sup></b>		
Risk factor	Page	65
Liquidity	Page	65
Dilution	Page	65
The EU Savings Directive	Page	65

<sup>+</sup> Collectively, these comprise the Authorised Corporate Director's report.

# Introduction

## Company information

### Company

Prudential Investment Funds (1)

### Registered Office

Laurence Pountney Hill, London EC4R 0HH

### Authorised Corporate Director (ACD)

Prudential Unit Trusts Limited

Laurence Pountney Hill, London EC4R 0HH

(Authorised and regulated by the Financial Services Authority)

### Directors of the ACD

L U Darby

C I Jackson

M Lewis

G W MacDowall

L J Mumford

W J Nott

L J Scrine

J R Talbot

J Warburton

### Investment manager

M&G Investment Management Limited

Laurence Pountney Hill, London EC4R 0HH

(Authorised and regulated by the Financial Services Authority)

### Secretary

M&G Management Services Limited

### Registrar

International Financial Data Services (UK) Limited

IFDS House, St. Nicholas Lane, Basildon Essex SS15 5FS

(Authorised and regulated by the Financial Services Authority)

### Depositary

The Royal Bank of Scotland Plc, Trustee & Depositary Services,

The Broadstone, 50 South Gyle Crescent, Edinburgh EH12 9UZ

(Authorised and regulated by the Financial Services Authority)

With effect from 28 October 2011,

National Westminster Bank Plc, Trustee & Depositary Services,

The Broadstone, 50 South Gyle Crescent, Edinburgh EH12 9LD

(Authorised and regulated by the Financial Services Authority)

### Independent auditors

PricewaterhouseCoopers LLP

7 More London Riverside, London SE1 2RT

### Customer Relations

Prudential

PO Box 10866 Chelmsford, Essex CM99 2BX

Telephone: 0845 783 5500

For security purposes and to improve the quality of our service, we may record and monitor telephone calls. You will require your customer number. Failure to provide this will affect your ability to transact with us.

Copies of the Prospectus are available on request free of charge.

All literature provided will be in English.

Prudential Unit Trusts Limited is a member of the Investment Management Association.

You are classified as a 'Retail Client' as defined in the FSA Rules unless we notify you in writing to the contrary. As a retail client you benefit from the highest level of protection under FSA Rules.

## Notes to shareholders

Mr Mark Thompson resigned as a Director of Prudential Unit Trusts Limited on 10 December 2010.

Mr John Warburton was appointed as a Director of Prudential Unit Trusts Limited on 28 June 2011.

Please note that, effective from 3 October 2011, State Street Bank and Trust Company has been assisting the Trustee in the performance of its function as Custodian of the Scheme Property.

The Royal Bank of Scotland (RBS), the Trustee of the trust has transferred its Trustee and Depositary Services business to National Westminster Bank, which took effect on 28 October 2011.

As Trustee, the National Westminster Bank Plc has the same duties and responsibilities as RBS and this change of Trustee will have no impact on the way the trust is operated.

# Introduction

## Authorised Corporate Director's report

**The Authorised Corporate Director (ACD) presents its annual investment report and audited financial statements for the year ended 31 October 2011.**

The sub-funds in this report are all part of an umbrella Open-Ended Investment Company (OEIC), Prudential Investment Funds (1). This OEIC is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the Financial Services Authority (FSA) under the Financial Services and Markets Act 2000. Prudential Investment Funds (1), as an umbrella OEIC, contains seven sub-funds, each of which are non-UCITS retail schemes as defined in the Collective Investment Schemes sourcebook, as issued (and amended) by the FSA:

Prudential Adventurous Portfolio <sup>[a]</sup>

Prudential Balanced Portfolio <sup>[a]</sup>

Prudential Cautious Growth Portfolio <sup>[a]</sup>

Prudential Cautious Managed Growth Fund

Prudential Cautious Portfolio <sup>[a]</sup>

Prudential Defensive Portfolio <sup>[a]</sup>

Prudential Managed Defensive Fund

<sup>[a]</sup> Launched 22 January 2010.

The Company was authorised on 8 February 2007 and was launched on 16 February 2007.

The Company's principal activity is to carry on business as an OEIC. The Company is structured as an umbrella company, and different sub-funds may be established by the ACD from time to time with the agreement of the Depositary and approval from the FSA. The sub-funds are operated separately and the assets of each sub-fund are managed in accordance with the investment objective and policy applicable to that sub-fund.

The investment report and financial statements for each sub-fund for the year ended 31 October 2011 are set out in detail in their section of this report (see contents page).

G W MacDowall  
Director of Prudential Unit Trusts Limited

J R Talbot  
Director of Prudential Unit Trusts Limited

13 December 2011

## Prudential Investment Funds (1)

### Authorised Corporate Director's responsibilities

#### Statement of the Authorised Corporate Director's responsibilities in respect of the annual investment report and financial statements of the Company

The Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Services Authority (FSA), requires the Authorised Corporate Director (ACD) to prepare the investment report and financial statements for each financial year which give a true and fair view of the financial position of the Company as at the end of the financial year, and the net revenue and the net losses for the year. In preparing the financial statements, the ACD is required to:

- a) comply with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010, the Instrument of Incorporation, generally accepted accounting principles and applicable accounting standards subject to any material departures which are required to be disclosed and explained in the financial statements;
- b) select suitable accounting policies and then apply them consistently;
- c) make judgments and estimates that are reasonable and prudent;
- d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation.

The ACD is required to keep proper accounting records, and to manage the Company in accordance with the Collective Investment Schemes sourcebook, as issued (and amended) by the FSA, the Instrument of Incorporation and the Prospectus, and to take reasonable steps for the prevention and detection of fraud or other irregularities.

### Depositary's responsibilities and report

#### Statement of the Depositary's responsibilities in respect of the financial statements of the Company

The Depositary is under a duty to take into custody and to hold the property of the Company. Under the Regulations relating to Reports, it is the duty of the Depositary to enquire into the conduct of the Authorised Corporate Director in the management of the Company in each accounting period and report thereon to shareholders in a report which shall contain the matters prescribed by the Regulations. A copy of the Depositary's report is included in this report.

#### Report of the Depositary to the shareholders of Prudential Investment Funds (1) for the period ended 31 October 2011

The Depositary is responsible for the safekeeping of all of the property of the Company (other than tangible moveable property) which is entrusted to it and for the collection of income that arises from that property.

It is the duty of the Depositary to take reasonable care to ensure that the Company is managed in accordance with the Financial Services Authority's Collective Investment Schemes sourcebook (COLL), as amended, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228), as amended ('the OEIC Regulations'), the Company's Instrument of Incorporation and Prospectus, in relation to the pricing of, and dealings in, shares in the Company; the application of income of the Company; and the investment and borrowing powers applicable to the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the Authorised Corporate Director:

- has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with COLL and, where applicable, the OEIC Regulations, the Instrument of Incorporation and Prospectus of the Company, and
- has observed the investment and borrowing powers and restrictions applicable to the Company.

National Westminster Bank Plc  
Trustee and Depositary Services  
Edinburgh

13 December 2011

# Prudential Investment Funds (1)

## Independent auditors' report

### Independent auditors' report to the shareholders of Prudential Investment Funds (1) ICVC

We have audited the financial statements of Prudential Investment Funds (1) ICVC ('the Company') for the year ended 31 October 2011 which comprise the aggregated statement of total return, the aggregated statement of change in net assets attributable to shareholders, the aggregated balance sheet and related notes and for each of the Company's sub-funds, the statement of total return, the statement of change in net assets attributable to shareholders, the balance sheet, the related notes and the distribution tables. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice 'Financial Statements of Authorised Funds' issued by the Investment Management Association (the 'Statement of Recommended Practice for Authorised Funds').

### Respective responsibilities of the Authorised Corporate Director and auditors

As explained more fully in the Authorised Corporate Director's Responsibilities Statement the Authorised Corporate Director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook as required by paragraph 67(2) of the Open-Ended Investment Companies Regulations 2001 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authorised Corporate Director; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Prudential Investment Funds (1) annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Company and each of the sub-funds at 31 October 2011 and of the net revenue and the net losses of the scheme property of the Company and each of the sub-funds for the year then ended; and
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds, the Collective Investment Schemes sourcebook and the Instrument of Incorporation.

### Opinion on other matters prescribed by the Collective Investment Schemes sourcebook

In our opinion:

- We have obtained all the information and explanations we consider necessary for the purposes of the audit; and
- the information given in the Authorised Corporate Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Collective Investment Schemes sourcebook requires us to report to you if, in our opinion:

- proper accounting records for the Company have not been kept; or
- the financial statements are not in agreement with the accounting records and returns.

PricewaterhouseCoopers LLP  
Chartered Accountants and  
Statutory Auditors  
London  
13 December 2011

The financial statements are published at [www.pru.co.uk/managersreports](http://www.pru.co.uk/managersreports), which is a website maintained by Prudential UK ('Prudential'). The maintenance and integrity of the Prudential Unit Trust website is the responsibility of the Authorised Fund Manager; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# Aggregated financial statements

for the year ended 31 October 2011

## Statement of total return

Note	2011		2010	
	£'000	£'000	£'000	£'000
<b>Income</b>				
Net capital (losses) / gains	3	(1,027)		17,116
Revenue	4	14,932	9,189	
Expenses	5	(2,806)	(831)	
Finance costs: Interest	12	(1)	0	
Net revenue before taxation		12,125	8,358	
Taxation	6	(680)	(315)	
Net revenue after taxation		11,445	8,043	
<b>Total return before distributions</b>		<b>10,418</b>	<b>25,159</b>	
Finance costs: Distributions	12	(11,463)	(8,040)	
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>(1,045)</b>	<b>17,119</b>	

## Statement of change in shareholders' net assets

	2011		2010	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>339,010</b>		<b>203,232</b>
Amounts received on issue of shares	267,172		130,940	
Amounts paid on cancellation of shares	(23,119)		(12,516)	
		244,053		118,424
Stamp Duty Reserve Tax (SDRT)		(188)		(220)
Change in net assets attributable to shareholders from investment activities (see above)		(1,045)		17,119
Retained distributions on Accumulation shares		1,850		455
<b>Closing net assets attributable to shareholders</b>		<b>583,680</b>		<b>339,010</b>

## Balance sheet

	as at 31 October 2011		as at 31 October 2010	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		581,629		335,163
<b>Debtors</b>				
Amounts receivable on issues	3,118		3,290	
Bank interest receivable	2		0	
Distributions receivable	1,469		316	
Management fee rebates due	797		131	
Sales awaiting settlement	2,900		3,000	
Tax recoverable	1,872		1,212	
		10,158		7,949
Cash and bank balances				
Cash held as bank balances	6,917		5,615	
Cash held on deposit	1,025		4,054	
		7,942		9,669
<b>Total other assets</b>		<b>18,100</b>		<b>17,618</b>
<b>Total assets</b>		<b>599,729</b>		<b>352,781</b>
<b>Liabilities</b>				
Investment liabilities		(466)		(2,015)
<b>Creditors</b>				
Amounts payable on cancellations	(492)		(11)	
Corporation tax payable	(877)		(391)	
Deferred taxation	(43)		(24)	
Expenses payable	(221)		(111)	
Income tax payable	(1,521)		(1,289)	
Net distributions payable on Income shares	(9,402)		(6,662)	
Purchases awaiting settlement	(3,027)		(3,240)	
SDRT payable	0		(28)	
<b>Total other liabilities</b>		<b>(15,583)</b>		<b>(11,756)</b>
<b>Total liabilities</b>		<b>(16,049)</b>		<b>(13,771)</b>
<b>Net assets attributable to shareholders</b>		<b>583,680</b>		<b>339,010</b>

## Notes to the financial statements

### 1 Accounting policies

The accounting policies applied are set out in the notes to the financial statements of each of the sub-funds.

The aggregated financial statements represent the summation of the financial statements for each of the sub-funds.

### 2 Risk management policies

The risk management policies are set out in the notes to the financial statements of each of the sub-funds.

# Aggregated financial statements

## Notes to the financial statements (continued)

### 3 Net capital (losses) / gains

	2011 £'000	2010 £'000
Non-derivative securities	(835)	15,956
Forward currency contracts	(1,435)	1,164
Currency gains / (losses)	1,134	(3)
Management fee rebates taken to capital	119	9
Transaction charges	(10)	(10)
<b>Net capital (losses) / gains</b>	<b>(1,027)</b>	<b>17,116</b>

### 4 Revenue

	2011 £'000	2010 £'000
Annual payments	1,618	1,108
Bank interest	19	6
Deposit interest	34	28
HM Revenue & Customs interest	0	3
Interest distributions	8,450	5,509
Interest on debt securities	0	360
Management fee rebates	2,540	928
Overseas dividends	229	300
Stock dividends	215	99
UK dividends	1,827	848
<b>Total revenue</b>	<b>14,932</b>	<b>9,189</b>

### 5 Expenses

	2011 £'000	2010 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge	2,252	502
Administration fee	438	246
	2,690	748
<b>Payable to the Depositary or associate</b>		
Depositary's fee (including VAT)	42	23
<b>Other expenses</b>		
Audit fee (including VAT)	68	58
Safe custody charge	6	2
	74	60
<b>Total expenses</b>	<b>2,806</b>	<b>831</b>

### 6 Taxation

	2011 £'000	2010 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	653	249
Overseas tax	4	0
Tax on annual payments	5	46
Taxation relief on annual payments	0	(15)
Prior period adjustment	0	15
	662	295
Current tax charge (note 6b)	662	295
Deferred tax (note 6c)	18	20
<b>Total taxation</b>	<b>680</b>	<b>315</b>

#### b) Factors affecting taxation charge for the year

Net income before taxation	12,125	8,538
Corporation tax at 20%	2,425	1,671
Effects of:		
Tax on management fee rebates taken to capital	24	1
UK dividends not taxable	(365)	(170)
Stock dividends not taxable	(43)	(20)
Overseas dividends not taxable	(46)	(31)
Interest distributions	(1,322)	(1,193)
Prior period expenses utilised	(1)	0
Current period expenses not utilised	4	20
Revenue taxable in different periods	(23)	(29)
Overseas tax	4	0
Tax on annual payments	5	46
Tax relief on annual payments	0	(15)
Prior period adjustment	0	15
<b>Current tax charge (note 6a)</b>	<b>662</b>	<b>295</b>

#### c) Provision for deferred taxation

Provision at the start of the year	25	4
Deferred tax in profit and loss account (note 6a)	18	20
<b>Provision at the end of the year</b>	<b>43</b>	<b>24</b>

### 7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (31.10.10: same).

### 8 Related parties

The required disclosures are set out in the notes to the financial statements of each of the sub-funds.

### 9 Financial instruments

The required disclosures are set out in the notes to the financial statements of each of the sub-funds.

# Aggregated financial statements

## Notes to the financial statements (continued)

### 10 Portfolio transaction costs

	2011 £'000	2010 £'000
<b>a) Purchases</b>		
Purchases excluding transaction costs	470,575	192,697
Commissions	3	0
<b>Total purchases including transaction costs</b>	<b>470,578</b>	<b>192,697</b>
<b>b) Sales</b>		
Sales excluding transaction costs	223,276	75,174
Taxes	0	(15)
<b>Total sales net of transaction costs</b>	<b>223,276</b>	<b>75,159</b>

### 11 Shareholder funds

The required disclosures are set out in the notes to the financial statements of each of the sub-funds.

### 12 Finance costs

	2011 £'000	2010 £'000
<b>Income shares (sterling)</b>		
<b>Class 'A'</b> - Dividend distributions	160	73
- Interest distributions	52	12
<b>Class 'C'</b> - Dividend distributions	3,451	1,519
- Interest distributions	5,739	5,058
<b>Accumulation shares (sterling)</b>		
<b>Class 'A'</b> - Dividend distributions	1,354	312
- Interest distributions	496	143
	11,252	7,117
Income tax deducted at source	1,520	1,288
	12,772	8,405
Income deducted on cancellation of shares	268	124
Income received on issue of shares	(1,577)	(489)
<b>Finance costs: Distributions</b>	<b>11,463</b>	<b>8,040</b>
Finance costs: Interest	1	0
<b>Total finance costs</b>	<b>11,464</b>	<b>8,040</b>
Net income per statement of total return	11,445	8,043
Tax on management fee rebates taken to capital	24	1
Undistributed income brought forward	10	6
Undistributed income carried forward	(16)	(10)
<b>Finance costs: Distributions</b>	<b>11,463</b>	<b>8,040</b>

# Aggregated financial statements

## Directors' statement

This report has been prepared in accordance with the requirements of the Collective Investment Schemes sourcebook as issued (and amended) by the Financial Services Authority.

G W MacDowall  
J R Talbot

Directors  
Prudential Unit Trusts Limited

13 December 2011

# Prudential Adventurous Portfolio

## Authorised Corporate Director's report

### Investment objective of the Prudential Adventurous Portfolio

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.

### Policy for achieving the objective of the Prudential Adventurous Portfolio

The Fund is an actively managed portfolio investing in collective investment schemes in order to provide a well diversified exposure to global equities, fixed interest and variable rate assets, immovable property, cash and / or near cash. Typically the Fund will have a high exposure to assets providing potential for growth, such as equities. Scheme selection is made on the basis of in depth initial and ongoing qualitative assessment of the fund managers and quantitative analysis of the collective investment schemes.

The Fund may also invest directly in other assets including transferable securities, other collective investment schemes, cash and near cash, deposits, warrants and money market instruments. Derivative instruments may be held directly for the purposes of efficient portfolio management only.

## Investment activities over the report period

During the 12 months under review, the Prudential Adventurous Portfolio produced a total return (capital performance with net income reinvested) of 3.0%\*. This was ahead of the average total return of the fund's peer group, the IMA Active Managed sector which fell by 0.4%\*.

The fund produced a healthy return for investors amid a review period which offered a mixed bag of investor sentiment, volatility and risk aversion. The period began with the US Federal Reserve's plan to inject \$600 billion into the country's financial system to encourage growth, which contributed to the Dow Jones Index hitting two-year highs. The end of the 12-month period also saw European markets rallying strongly on expectations that policy initiatives would begin to provide some certainty to the continent's on-going sovereign debt crisis.

The period in-between was not so clear-cut. As we moved through 2011, civil unrest across the Middle East and North Africa fuelled concerns about potential oil supply problems, and the devastating earthquake and tsunami which struck Japan on 11 March threw stockmarkets into chaos.

Going into the summer, global markets experienced a prolonged bout of risk aversion and extreme volatility, which intensified noticeably in August and again in September. Equities were sold indiscriminately across the world as investors worried about the ability of policymakers to solve the eurozone's debt problems. A reduction in global growth expectations in response to fiscal tightening in developed countries also dampened investor sentiment and appetite for riskier assets.

Given these conditions, the fund manager felt that risk assets, particularly equities, appeared attractively priced, but not inexpensive enough to fully justify the inherent risks in volatile markets. He reduced the portfolio's target allocation to equities from 87% at the

beginning of the review period to 81% at the start of June, raising this back to 82% at the end of the period, before the October rally. The lion's share of reduced equity exposure came from the US, where targeted allocation was reduced from 17% to 11%.

Despite fluctuating markets, the portfolio's exposure to global equities, predominantly in the US and Japan, helped to boost performance. In particular, the Threadneedle American Fund, the Schroder US Mid Cap Fund as well as the Schroder Tokyo Fund and GLG Japan Core Alpha Fund, all added value to the portfolio.

Following the tragic events in Japan in March, the fund manager significantly increased the portfolio's weighting in the Schroder Tokyo Fund, believing that many good companies in the country had become considerably undervalued. With this in mind, he also topped up his position in the GLG Japan Core Alpha Fund, raising his total targeted exposure in Japan from 10% to 13%.

The portfolio also has exposure to the wider Asian market and, while the First State Asia Pacific Leaders Fund added value, the Fidelity South East Asia Fund delivered disappointing results. Likewise, exposure to European equities through the Henderson European Selected Opportunities Fund, the Henderson European Growth Fund and the Jupiter European Special Situations Fund underperformed given the difficult market conditions on the continent.

The fund manager maintained his 8% target allocation to property. This was split between the M&G Property Portfolio and the Aviva Property Trust, both of which produced positive, though muted, returns over the period while providing an additional element of diversification.

In terms of fixed interest, given volatile market conditions the fund manager increased his exposure to both investment grade and high yield corporate debt from zero holdings at the beginning of the period to 10%, lowering this down to 5% at the end, as he raised his allocation to equities. He remained very negative on government bonds throughout the review period, believing the asset class to be highly overvalued, and where possible he avoided holding them within the portfolio.

The fund manager was cautiously positive on corporate bonds, which he believed were offering much better value than their government counterparts, with credit spreads (the difference between the yield on a corporate bond and a government bond of a similar maturity) appearing attractive. Exposure to the Fidelity Moneybuilder Income Fund, and the Kames (formerly Aegon) Investment Grade Bond Fund added value to the portfolio, while allocation to the Baillie Gifford High Yield Bond Fund detracted from performance. The fund manager also reallocated 4% of the portfolio into the M&G High Interest Fund, while holding a total targeted cash position of 1% at the end of the reporting period.

The fund manager believes that, particularly concerning Europe, market risks still very much exist. Political will and strong policy decisions, including additional fiscal consolidation across the EU, will be necessary to help shore up the system, and it is unlikely to be a smooth road in the near term. As such, the fund manager will continue to hold a range of assets, including global equities, fixed income, property and cash, while tailoring the portfolio to focus on areas where he believes that the best valuations lie. He believes that this can help the fund to produce an attractive level of growth for investors over the longer term.

\* Source: Morningstar, Inc.

Basis: Bid to bid with net income reinvested to 31 October 2011.

Please note that the views expressed in this report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a financial adviser.

# Prudential Adventurous Portfolio

## Fund statistics

Sterling Class 'C' shares are not generally available to all investors.

### Distribution dates and fund facts

Distribution type	xd		payment	
Final	01.11.12		31.12.12	
Final distribution				
	Inc	Acc	Total Expense Ratio <sup>[b]</sup>	
	31.12.11 <sup>[a]</sup>	01.11.11 <sup>[a]</sup>	31.10.11	31.10.10
Sterling	p	p	%	%
Class 'A'	0.1870	0.2050	2.75	2.61
Class 'C'	1.2940	n/a	1.29	1.79

<sup>[a]</sup> The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

<sup>[b]</sup> The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

### Fund performance

Performance of share classes

	Net asset value per share as at 31.10.11		Net asset value per share as at 31.10.10		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	113.10	113.40	110.51	110.51	+2.34	+2.62
Class 'C'	113.34	n/a	110.66	n/a	+2.42	n/a

### Prices

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling		p	p	p	p
Class 'A'	2010 <sup>[a]</sup>	118.63	97.23	118.64	97.23
	2011 <sup>[b]</sup>	122.32	103.90	122.42	103.98
Class 'C'	2010 <sup>[a]</sup>	119.00	97.28	n/a	n/a
	2011 <sup>[b]</sup>	123.36	105.03	n/a	n/a

<sup>[a]</sup> From 22 January 2010 (the launch date of the sub-fund) to 31 December 2010.

<sup>[b]</sup> To 1 November 2011.

Past performance is not a guide to future performance.

The price of shares and the income from them can go down as well as up, and you may get back less than you invested.

### Income

#### Dividend income per share

	Calendar year	Distributed	Reinvested
Sterling (net)		p	p
Class 'A'	2010	0.0140	0.0140
	2011 <sup>[a]</sup>	0.1870	0.2050
Class 'C'	2010	0.6930	n/a
	2011 <sup>[a]</sup>	1.2940	n/a

<sup>[a]</sup> Up to final: ex-distribution date 1 November 2011; payment date 31 December 2011.

### Net assets

	Period ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling		p	p		
Class 'A'	Oct 2010	110.51	110.51	125,000	3,065,000
	Oct 2011	113.10	113.40	515,000	12,731,000
Class 'C'	Oct 2010	110.66	n/a	7,782,000	n/a
	Oct 2011	113.34	n/a	11,218,000	n/a

#### Total net asset value of sub-fund

Period ended	£
Oct 2010	12,137,000
Oct 2011	27,734,000

# Prudential Adventurous Portfolio

## Portfolio

### Portfolio statement

as at 31 October 2011

Holding <sup>[a]</sup>	Value £'000	31.10.11 %	31.10.10 %
<b>Equity portfolios</b>		<b>82.09</b>	<b>86.07</b>
<b>Continental Europe</b>		<b>20.43</b>	<b>19.91</b>
1,696,183 Henderson European Growth Fund	1,867	6.73	
231,616 Henderson European Selected Opportunities Fund (formerly Gartmore European Selected Opportunities Fund) Retail	1,915	6.90	
859,660 Jupiter European Special Situations Fund	1,885	6.80	
<b>United Kingdom</b>		<b>20.21</b>	<b>19.28</b>
434,241 BlackRock UK Fund Sterling Class 'A'	1,334	4.81	
733,375 Cazenove UK Growth & Income Fund Sterling Class 'B'	1,434	5.17	
589,438 M&G Recovery Fund Sterling Class 'A'	1,432	5.16	
1,147,840 Schroder UK Alpha Plus Fund Sterling Class 'A'	1,405	5.07	
<b>Far East</b>		<b>12.97</b>	<b>14.58</b>
280,461 Fidelity South East Asia Fund	1,849	6.67	
503,855 First State Asia Pacific Leaders Fund Sterling Class 'A'	1,746	6.30	
<b>Japan</b>		<b>12.38</b>	<b>9.81</b>
1,478,254 GLG Japan CoreAlpha Fund Retail	1,192	4.30	
1,363,440 Schroder Tokyo Fund Sterling Class 'A'	2,242	8.08	
<b>United States</b>		<b>11.12</b>	<b>17.78</b>
83,283 M&G American Fund Sterling Class 'A' (Income)	659	2.38	
1,575,258 Schroder US Mid Cap Fund Sterling Class 'A'	865	3.12	
1,413,980 Threadneedle American Fund Class 1	1,559	5.62	
<b>Emerging markets</b>		<b>4.98</b>	<b>4.71</b>
279,936 Aberdeen Emerging Markets Fund Sterling Class 'A'	1,382	4.98	
<b>Property portfolios</b>		<b>7.67</b>	<b>7.66</b>
811,910 Aviva Investors Property Trust	1,101	3.97	
1,405,598 M&G Property Portfolio Sterling Class 'S' (Income)	1,026	3.70	
<b>Bond portfolios</b>		<b>8.72</b>	<b>3.22</b>
602,040 Baillie Gifford High Yield Bond Fund Sterling Class 'A' (Income)	635	2.29	
714,340 Kames High Yield Bond Fund (formerly Aegon High Yield Bond Fund) Sterling Class 'A'	648	2.34	
4,664,264 M&G High Interest Fund Sterling Class 'A' (Income)	1,137	4.09	
<b>Portfolio of investments (note 1b)</b>	<b>27,313</b>	<b>98.48</b>	<b>96.95</b>
<b>Net other assets</b>	<b>421</b>	<b>1.52</b>	<b>3.05</b>
<b>Net assets attributable to shareholders</b>	<b>27,734</b>	<b>100.00</b>	<b>100.00</b>

[a] All holdings are in Accumulation shares / units unless otherwise stated.

## Financial statements

for the year ended 31 October 2011.

### Statement of total return

Notes	2011 £'000	2010 £'000
Income		
Net capital (losses) / gains	3	(27)
Revenue	4	84
Expenses	5	(38)
Net revenue before taxation	154	46
Taxation	6	(4)
Net revenue after taxation	141	42
<b>Total return before distributions</b>	<b>114</b>	<b>752</b>
Finance costs: Distributions	12	(41)
<b>Change in net assets attributable to shareholders from investment activities</b>	<b>(29)</b>	<b>711</b>

### Statement of change in net assets attributable to shareholders

	2011 £'000	2010 £'000
<b>Opening net assets attributable to shareholders</b>	<b>12,137</b>	<b>0</b>
Amounts received on issue of shares	18,144	11,610
Amounts paid on cancellation of shares	(2,517)	(182)
Stamp Duty Reserve Tax (SDRT)	(27)	(2)
Change in net assets attributable to shareholders from investment activities (see above)	(29)	711
Retained distributions on Accumulation shares	26	0
<b>Closing net assets attributable to shareholders</b>	<b>27,734</b>	<b>12,137</b>

# Prudential Adventurous Portfolio

## Financial statements

### Balance sheet

	as at 31 October 2011		as at 31 October 2010	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		27,313		11,767
<b>Debtors</b>				
Amounts receivable on issues	182		174	
Distributions receivable	24		9	
Management fee rebates due	80		18	
Tax recoverable	26		5	
		312		206
<b>Cash and bank balances</b>				
Cash held as bank balances	563		415	
		563		415
<b>Total other assets</b>		<b>875</b>		<b>621</b>
<b>Total assets</b>		<b>28,188</b>		<b>12,388</b>
<b>Liabilities</b>				
<b>Creditors</b>				
Corporation tax payable	(11)		(2)	
Deferred taxation	(2)		(2)	
Expenses payable	(20)		(11)	
Net distributions payable on Income shares	(146)		(54)	
Purchases awaiting settlement	(275)		(180)	
SDRT payable	0		(2)	
		(454)		(251)
<b>Net assets attributable to shareholders</b>		<b>27,734</b>		<b>12,137</b>

### Notes to the financial statements

#### 1 Accounting policies

##### a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

##### b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 31 October 2011, being the last business day of the financial year. The fair value of investments managed by the Authorised Corporate Director (ACD) is their single price except in the case of the M&G Property Portfolio which is valued at cancellation price; the fair value of investments which are managed by other management groups is their contractual bid price; and in the case of shares in open-ended investment companies, fair value is their single price.

##### c) Investment gains and losses

Gains and losses on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date are treated as capital.

##### d) Dividend and interest income

Distributions from collective investment schemes are recognised net of attributable tax credits when the security is quoted ex-distribution.

Bank interest is recognised on an accruals basis and treated as revenue.

##### e) Equalisation

Income received from investments in authorised collective investment schemes, which are purchased during the financial year, will include an element of equalisation which represents the average amount of income included in the price paid for shares. The equalisation is treated as a return of capital for taxation purposes and is not included in the distributable income.

##### f) Management fee rebates

These are recognised on an accruals basis as either revenue or capital in accordance with the treatment of the management fee charged in the underlying collective investment schemes.

##### g) Expenses

For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

##### h) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

##### i) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

##### j) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

# Prudential Adventurous Portfolio

## Financial statements

### Notes to the financial statements (continued)

#### k) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

#### 2 Risk management policy

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) report, the ACD accepts market price risk, interest rate risk and currency risk, in relation to the investment portfolio. Generally, the ACD does not seek to hedge these exposures since the ACD believes that, in the long term, such hedging would be detrimental to total return.

The capital and income value of the sub-fund's investments, whether held directly or through collective investment schemes, can be significantly affected by exchange rate fluctuations.

The sub-fund also invests in interest-bearing securities through holdings in collective investment schemes. Any change to prevailing interest rates or in the expectations of future rates may result in an increase or decrease in the value of securities held. In general, if interest rates rise the capital value of the security or underlying fund is likely to fall and vice versa.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

Liquidity risk relates to the capacity to meet liabilities. The primary source of this risk to the sub-fund is the liability to shareholders for any redemption of shares. The risk is minimised by holding cash and readily realisable securities and via access to overdraft facilities. As noted on page 65, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (31.10.10: same).

#### 3 Net capital (losses) / gains

	2011 £'000	2010 £'000
Non-derivative securities	(35)	711
Management fee rebates taken to capital	9	0
Transaction charges	(1)	(1)
<b>Net capital (losses) / gains</b>	<b>(27)</b>	<b>710</b>

#### 4 Revenue

	2011 £'000	2010 £'000
Annual payments	53	21
Bank interest	1	0
Interest distributions	69	3
Management fee rebates	129	35
UK dividends	98	25
<b>Total revenue</b>	<b>350</b>	<b>84</b>

#### 5 Expenses

	2011 £'000	2010 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge	158	22
Administration fee	26	7
	<b>184</b>	<b>29</b>
<b>Payable to the Depositary or associate</b>		
Depositary's fee (including VAT)	2	1
<b>Other expenses</b>		
Audit fee (including VAT)	10	8
<b>Total expenses</b>	<b>196</b>	<b>38</b>

#### 6 Taxation

	2011 £'000	2010 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	13	2
Current tax charge (note 6b)	13	2
Deferred tax (note 6c)	0	2
<b>Total taxation</b>	<b>13</b>	<b>4</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	154	46
Corporation tax at 20%	31	9
Effects of:		
Tax on management fee rebates taken to capital	2	0
UK dividends not taxable	(20)	(5)
Revenue taxable in different periods	0	(2)
<b>Current tax charge (note 6a)</b>	<b>13</b>	<b>2</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	2	0
Deferred tax in profit and loss account (note 6a)	0	2
<b>Provision at the end of the year</b>	<b>2</b>	<b>2</b>

The sub-fund does not have an unrecognised deferred tax asset at the year end (31.10.10: same).

#### 7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (31.10.10: same).

# Prudential Adventurous Portfolio

## Financial statements

### Notes to the financial statements (continued)

#### 8 Related parties

Prudential Unit Trusts Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where Prudential Unit Trusts Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from Prudential Unit Trusts Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to Prudential Unit Trusts Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

During the year, there were transactions in shares in related parties of Prudential Unit Trusts Limited with a total value of £6,801,000 (2010: £2,860,000).

At the balance sheet date, the sub-fund held shares in related parties of Prudential Unit Trusts Limited with a value of £4,254,000 (31.10.10: £2,324,000).

At the balance sheet date, material shareholders from within Prudential plc, of which Prudential Unit Trusts Limited is a wholly owned subsidiary, have holdings totalling 45.86% (31.10.10: 70.93%) of the sub-fund's shares.

#### 9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (31.10.10: same).

##### Currency exposure

There was no direct foreign currency exposure within the sub-fund at the balance sheet date. However, there was significant foreign currency exposure within the sub-fund's holdings of collective investment schemes since their assets are denominated in currencies other than sterling, with the effect that their balance sheet and total returns can be affected by exchange rate fluctuations (31.10.10: same).

##### Interest rate profile

The interest-bearing financial assets of the sub-fund consist of bank balances, on which interest is calculated at a variable rate by reference to sterling bank deposit rates; and the sub-fund's holdings in bond portfolios which are principally exposed to holdings in fixed and variable rate financial assets (31.10.10: same).

##### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.10.10: same).

#### 10 Portfolio transaction costs

	2011 £'000	2010 £'000
<b>a) Purchases</b>		
Purchases excluding transaction costs	21,059	11,563
<b>b) Sales</b>		
Sales excluding transaction costs	5,478	507

There were no significant transaction costs during the year (2010: same).

#### 11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Income and Accumulation) shares and Sterling Class 'C' (Income) shares.

The charging structure for each share class, as at 31 October 2011, is set out in the following table (31.10.10: same):

	Class 'A' %	Class 'C' %
<b>Initial charge:</b>		
of amount invested	5.00	nil
<b>Withdrawal fee:</b>		
of amount redeemed <sup>[a]</sup>	nil	nil
<b>ACD's annual remuneration:</b>		
of allocated 'NAV'	1.40	0.18

[a] The ACD may, at not less than 60 days notice to shareholders in writing, make a charge on the withdrawal of shares. At present no withdrawal fee is levied.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

	31.10.11		31.10.10	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
<b>Sterling Class 'A'</b>	582	14,437	138	3,387
<b>Class 'C'</b>	12,715	n/a	8,612	n/a

The net asset value per share and the number of shares are given in the comparative table on page 10. The distribution per share is given in the distribution table on page 15. Each share class has the same rights on winding-up.

# Prudential Adventurous Portfolio

## Financial statements

### Notes to the financial statements (continued)

#### 12 Finance costs

	2011 £'000	2010 £'000
<b>Income shares (sterling)</b>		
Class 'A' - Final	1	0 <sup>[a]</sup>
Class 'C' - Final	145	54
<b>Accumulation shares (sterling)</b>		
Class 'A' - Final	26	0 <sup>[a]</sup>
Finance costs: Dividend distributions	172	54
Income deducted on cancellation of shares	6	1
Income received on issue of shares	(35)	(14)
<b>Finance costs: Distributions</b>	<b>143</b>	<b>41</b>
Net revenue per statement of total return	141	42
Tax on management fee rebates taken to capital	2	0
Undistributed income brought forward	1	0
Undistributed income carried forward	(1)	(1)
<b>Finance costs: Distributions</b>	<b>143</b>	<b>41</b>

<sup>[a]</sup> The total comparative distribution for Sterling Class 'A' (Income and Accumulation) shares was £447.

### Distribution tables

Dividend distributions on Income shares	Net income	Equal- isation	Distribution payable / paid	
			2011	2010
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
<b>Class 'A' - Final</b>				
Group 1:	0.1870	-	0.1870	0.0140
Group 2:	0.0806	0.1064	0.1870	0.0140
<b>Class 'C' - Final</b>				
Group 1:	1.2940	-	1.2940	0.6930
Group 2:	0.8098	0.4842	1.2940	0.6930

  

Dividend distribution on Accumulation shares	Net income	Equal- isation	Amount reinvested	
			2011	2010
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
<b>Class 'A' - Final</b>				
Group 1:	0.2050	-	0.2050	0.0140
Group 2:	0.1698	0.0352	0.2050	0.0140

Final period 01.11.10 - 31.10.11

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax but must be deducted from the cost of shares for Capital Gains Tax purposes.

## Prudential Adventurous Portfolio

This page is intentionally blank

# Prudential Balanced Portfolio

## Authorised Corporate Director's report

### Investment objective of the Prudential Balanced Portfolio

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.

### Policy for achieving the objective of the Prudential Balanced Portfolio

The Fund is an actively managed portfolio investing mainly in collective investment schemes in order to provide a well diversified exposure to global equities, fixed income and variable rate assets, immovable property, cash and / or near cash. Typically the Fund will have a bias towards assets providing potential for growth, such as equities. Scheme selection is made on the basis of in depth initial and ongoing qualitative assessment of the fund managers and quantitative analysis of the collective investment schemes.

The Fund may also invest directly in other assets including transferable securities, other collective investment schemes, cash and near cash, deposits, warrants and money market instruments. Derivative instruments may be directly held for the purposes of efficient portfolio management only.

## Investment activities over the report period

During the 12 months under review, the Prudential Balanced Portfolio produced a total return (capital performance with net income reinvested) of 2.0%\*. This was ahead of the average total return of 0.3%\* in the fund's peer group, the IMA Balanced Managed sector.

While the fund's equity and fixed interest holdings delivered positive returns overall, the review period offered a mixed bag of investor sentiment, volatility and risk aversion. The period began with the US Federal Reserve's plan to inject \$600 billion into the country's financial system to encourage growth, which contributed to the Dow Jones Index hitting two-year highs. The end of the 12-month period also saw European markets rallying strongly on expectations that policy initiatives would begin to provide some certainty to the continent's on-going sovereign debt crisis.

The period in-between was not so clear-cut. As we moved through 2011, civil unrest across the Middle East and North Africa fuelled concerns about potential oil supply problems, and the devastating earthquake and tsunami which struck Japan on 11 March threw stockmarkets into chaos.

Going into the summer, global markets experienced a prolonged bout of risk aversion and extreme volatility, which intensified noticeably in August and again in September. Equities were sold indiscriminately across the world as investors worried about the ability of policymakers to solve the eurozone's debt problems. A reduction in global growth expectations in response to fiscal tightening in developed countries also dampened investor sentiment and appetite for riskier assets.

Given these conditions, the fund manager felt that risk assets, particularly equities, appeared attractively priced, but not inexpensive enough to justify the inherent risks in volatile markets. He reduced the portfolio's target allocation to equities from 70% to 65% of the portfolio at the beginning of 2011, cutting back his targeted allocation to the US in particular.

Despite fluctuating markets, the portfolio's exposure to global equities, predominantly in the US and Japan, helped to boost performance. In particular, the Threadneedle American Fund, the Schroder US Mid Cap Fund as well as the Schroder Tokyo Fund and GLG Japan Core Alpha Fund, all added value to the portfolio. Following the tragic events in Japan in March, the fund manager significantly increased the portfolio's weighting in the GLG Japan Core Alpha Fund, believing that many good companies in the country had become undervalued. With this in mind, he likewise considerably increased his position in the Schroder Tokyo Fund.

The portfolio also has exposure to the wider Asian market, and while the First State Asia Pacific Leaders Fund added value, the Fidelity South East Asia Fund delivered disappointing results. Likewise, exposure to European equities through the Henderson European Selected Opportunities Fund, the Henderson European Growth Fund and the Jupiter European Special Situations Fund underperformed given the difficult market conditions on the continent.

The fund manager maintained his 10% target allocation to property. This was split between the M&G Property Portfolio and the Aviva Property Trust, both of which produced positive, though muted, returns over the period while providing an additional element of diversification.

In terms of fixed interest, the fund manager adjusted allocations broadly in line with equity holdings, increasing his target holdings from 18% to 24% of the overall portfolio through the middle of the review period, and settling back to 24% by the end. He remained very negative on government bonds throughout the review period, believing the asset class to be highly overvalued, and where possible he avoided holding them within the portfolio.

The fund manager was cautiously positive on corporate bonds, which he believed were offering much better value than their government counterparts, with credit spreads (the difference between the yield on a corporate bond and a government bond of a similar maturity) appearing attractive. Exposure to the M&G Strategic Corporate Bond Fund, the Fidelity Moneybuilder Income Fund, and the Kames (formerly Aegon) Investment Grade Bond Fund all added value to the portfolio.

In the high yield bond sector, the fund manager maintained his targeted allocation of 5% throughout the review period, distributed evenly across the Kames High Yield Bond Fund and the Baillie Gifford High Yield Bond Fund. Overall he topped up positions across his bond allocation, although exposure to the Old Mutual Corporate Bond Fund was eliminated following a change in the fund's asset manager. He also reallocated 4% of the portfolio into the M&G High Interest Fund, holding a total targeted cash position of 5% at the end of the reporting period.

The fund manager believes that, particularly concerning Europe, market risks still very much exist. Political will and strong policy decisions, including additional fiscal consolidation across the EU, will be necessary to help shore up the system, and it is unlikely to be a smooth road in the near-term. As such, the fund manager believes that holding a balanced range of assets, including fixed income, cash, equities and property, is the best way to provide a healthy risk-adjusted return for the fund's investors, without over-exposure to any single part of the market.

\* Source: Morningstar, Inc.

Basis: Bid to bid with net income reinvested to 31 October 2011.

Please note that the views expressed in this report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a financial adviser.

# Prudential Balanced Portfolio

## Fund statistics

Sterling Class 'C' shares are not generally available to all investors.

### Distribution dates and fund facts

Distribution type	xd		payment	
Final	01.11.12		31.12.12	
	Final distribution		Total Expense Ratio <sup>(b)</sup>	
	Inc	Acc	31.10.11	31.10.10
	31.12.11 <sup>[a]</sup>	01.11.11 <sup>[a]</sup>		
Sterling	p	p	%	%
Class 'A'	0.5410	0.5440	2.70	2.40
Class 'C'	1.6360	n/a	1.30	1.97

<sup>[a]</sup> The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

<sup>(b)</sup> The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

### Fund performance

Performance of share classes

	Net asset value per share as at 31.10.11		Net asset value per share as at 31.10.10		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	110.45	111.27	108.07	108.31	+2.20	+2.73
Class 'C'	110.53	n/a	108.13	n/a	+2.22	n/a

### Prices

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling		p	p	p	p
Class 'A'	2010 <sup>[a]</sup>	114.44	98.20	114.70	98.20
	2011 <sup>[b]</sup>	118.49	103.21	118.76	103.45
Class 'C'	2010 <sup>[a]</sup>	114.69	98.24	n/a	n/a
	2011 <sup>[b]</sup>	119.35	104.21	n/a	n/a

<sup>[a]</sup> From 22 January 2010 (the launch date of the sub-fund) to 31 December 2010.

<sup>[b]</sup> To 1 November 2011.

Past performance is not a guide to future performance.

The price of shares and the income from them can go down as well as up, and you may get back less than you invested.

### Income

#### Dividend income per share

	Calendar year	Distributed	Reinvested
Sterling (net)		p	p
Class 'A'	2010	0.2460	0.2460
	2011 <sup>[a]</sup>	0.5410	0.5440
Class 'C'	2010	1.0050	n/a
	2011 <sup>[a]</sup>	1.6360	n/a

<sup>[a]</sup> Up to final: ex-distribution date 1 November 2011; payment date 31 December 2011.

### Net assets

	Period ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling		p	p		
Class 'A'	Oct 2010	108.07	108.31	690,000	13,778,000
	Oct 2011	110.45	111.27	2,111,000	51,452,400
Class 'C'	Oct 2010	108.13	n/a	18,180,000	n/a
	Oct 2011	110.53	n/a	45,930,000	n/a

#### Total net asset value of sub-fund

Period ended	£
Oct 2010	35,326,000
Oct 2011	110,345,000

# Prudential Balanced Portfolio

## Portfolio

### Portfolio statement

as at 31 October 2011

Holding <sup>[a]</sup>	Value £'000	31.10.11 %	31.10.10 %
<b>Equity portfolios</b>			
<b>Continental Europe</b>			
3,063,247		<b>65.59</b>	<b>67.03</b>
<b>United Kingdom</b>			
<b>Far East</b>			
<b>Japan</b>			
<b>United States</b>			
<b>Emerging markets</b>			
<b>Property portfolios</b>			
<b>Bond portfolios</b>			
<b>Portfolio of investments (note 1b)</b>	<b>109,463</b>	<b>99.20</b>	<b>96.94</b>
<b>Net other assets</b>	<b>882</b>	<b>0.80</b>	<b>3.06</b>
<b>Net assets attributable to shareholders</b>	<b>110,345</b>	<b>100.00</b>	<b>100.00</b>

[a] All holdings are in Accumulation shares / units unless otherwise stated.

## Financial statements

for the year ended 31 October 2011.

### Statement of total return

Notes	2011 £'000	2010 £'000
<b>Income</b>		
Net capital (losses) / gains	3	1,337
Revenue	4	257
Expenses	5	(103)
Net revenue before taxation	872	154
Taxation	6	(22)
Net revenue after taxation	746	132
<b>Total return before distributions</b>	<b>184</b>	<b>1,469</b>
Finance costs: Distributions	12	(130)
<b>Change in net assets attributable to shareholders from investment activities</b>	<b>(567)</b>	<b>1,339</b>

### Statement of change in net assets attributable to shareholders

	2011 £'000	2010 £'000
<b>Opening net assets attributable to shareholders</b>	<b>35,326</b>	<b>0</b>
Amounts received on issue of shares	78,439	35,369
Amounts paid on cancellation of shares	(3,107)	(1,392)
Stamp Duty Reserve Tax (SDRT)	(26)	(24)
Change in net assets attributable to shareholders from investment activities (see above)	(567)	1,339
Retained distributions on Accumulation shares	280	34
<b>Closing net assets attributable to shareholders</b>	<b>110,345</b>	<b>35,326</b>

# Prudential Balanced Portfolio

## Financial statements

### Balance sheet

	as at		as at	
	31 October 2011	31 October 2011	31 October 2010	31 October 2010
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		109,463		34,246
<b>Debtors</b>				
Amounts receivable on issues	482		1,376	
Distributions receivable	133		33	
Management fee rebates due	259		37	
Tax recoverable	180		27	
		1,054		1,473
<b>Cash and bank balances</b>				
Cash held as bank balances	1,615		879	
		1,615		879
<b>Total other assets</b>		<b>2,669</b>		<b>2,352</b>
<b>Total assets</b>		<b>112,132</b>		<b>36,598</b>
<b>Liabilities</b>				
<b>Creditors</b>				
Amounts payable on cancellations	(266)		0	
Corporation tax payable	(119)		(17)	
Deferred taxation	(12)		(5)	
Expenses payable	(50)		(19)	
Net distributions payable on Income shares	(762)		(184)	
Purchases awaiting settlement	(578)		(1,045)	
SDRT payable	0		(2)	
<b>Total liabilities</b>		<b>(1,787)</b>		<b>(1,272)</b>
<b>Net assets attributable to shareholders</b>		<b>110,345</b>		<b>35,326</b>

### Notes to the financial statements

#### 1 Accounting policies

##### a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

##### b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 31 October 2011, being the last business day of the financial year. The fair value of investments managed by the Authorised Corporate Director (ACD) is their single price except in the case of the M&G Property Portfolio which is valued at cancellation price; the fair value of investments which are managed by other management groups is their contractual bid price; and in the case of shares in open-ended investment companies, fair value is their single price.

##### c) Investment gains and losses

Gains and losses on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date are treated as capital.

##### d) Dividend and interest income

Distributions from collective investment schemes are recognised net of attributable tax credits when the security is quoted ex-distribution.

Bank interest is recognised on an accruals basis and treated as revenue.

##### e) Equalisation

Income received from investments in authorised collective investment schemes, which are purchased during the financial year, will include an element of equalisation which represents the average amount of income included in the price paid for shares. The equalisation is treated as a return of capital for taxation purposes and is not included in the distributable income.

##### f) Management fee rebates

These are recognised on an accruals basis as either revenue or capital in accordance with the treatment of the management fee charged in the underlying collective investment schemes.

##### g) Expenses

For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

##### h) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

##### i) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

##### j) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

# Prudential Balanced Portfolio

## Financial statements

### Notes to the financial statements (continued)

#### 1 Accounting policies (continued)

##### k) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

#### 2 Risk management policy

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) report, the ACD accepts market price risk, interest rate risk and currency risk, in relation to the investment portfolio. Generally, the ACD does not seek to hedge these exposures since the ACD believes that, in the long term, such hedging would be detrimental to total return.

The capital and income value of the sub-fund's investments, whether held directly or through collective investment schemes can be significantly affected by exchange rate fluctuations.

The sub-fund also invests in interest-bearing securities through holdings in collective investment schemes. Any change to prevailing interest rates or in the expectations of future rates may result in an increase or decrease in the value of securities held. In general, if interest rates rise the capital value of the security or underlying fund is likely to fall and vice versa.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

Liquidity risk relates to the capacity to meet liabilities. The primary source of this risk to the sub-fund is the liability to shareholders for any redemption of shares. The risk is minimised by holding cash and readily realisable securities and via access to overdraft facilities. As noted on page 65, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (31.10.10: same).

#### 3 Net capital (losses) / gains

	2011 £'000	2010 £'000
Non-derivative securities	(601)	1,336
Management fee rebates taken to capital	40	2
Transaction charges	(1)	(1)
<b>Net capital (losses) / gains</b>	<b>(562)</b>	<b>1,337</b>

#### 4 Revenue

	2011 £'000	2010 £'000
Annual payments	239	44
Bank interest	4	1
Interest distributions	616	90
Management fee rebates	457	75
UK dividends	286	47
<b>Total revenue</b>	<b>1,602</b>	<b>257</b>

#### 5 Expenses

	2011 £'000	2010 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge	617	78
Administration fee	95	16
	712	94
<b>Payable to the Depository or associate</b>		
Depository's fee (including VAT)	7	1
<b>Other expenses</b>		
Audit fee (including VAT)	10	8
Safe custody charge	1	0
	11	8
<b>Total expenses</b>	<b>730</b>	<b>103</b>

#### 6 Taxation

	2011 £'000	2010 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	119	17
Current tax charge (note 6b)	119	17
Deferred tax (note 6c)	7	5
<b>Total taxation</b>	<b>126</b>	<b>22</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	872	154
Corporation tax at 20%	175	31
Effects of:		
Tax on management fee rebates taken to capital	8	0
UK dividends not taxable	(57)	(9)
Revenue taxable in different periods	(7)	(5)
<b>Current tax charge (note 6a)</b>	<b>119</b>	<b>17</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	5	0
Deferred tax in profit and loss account (note 6a)	7	5
<b>Provision at the end of the year</b>	<b>12</b>	<b>5</b>

The sub-fund does not have an unrecognised deferred tax asset at the year end (31.10.10: same).

#### 7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (31.10.10: same).

# Prudential Balanced Portfolio

## Financial statements

### Notes to the financial statements (continued)

#### 8 Related parties

Prudential Unit Trusts Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where Prudential Unit Trusts Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from Prudential Unit Trusts Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to Prudential Unit Trusts Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

During the year, there were transactions in shares in related parties of Prudential Unit Trusts Limited with a total value of £19,394,000 (2010: £6,422,000).

At the balance sheet date, the sub-fund held shares in related parties of Prudential Unit Trusts Limited with a value of £20,073,000 (31.10.10: £6,199,000).

At the balance sheet date, material shareholders from within Prudential plc, of which Prudential Unit Trusts Limited is a wholly owned subsidiary, have holdings totalling 46.16% (31.10.10: 55.68%) of the sub-fund's shares.

#### 9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (31.10.10: same).

##### Currency exposure

There was no direct foreign currency exposure within the sub-fund at the balance sheet date. However, there was significant foreign currency exposure within the sub-fund's holdings of collective investment schemes since their assets are denominated in currencies other than sterling, with the effect that their balance sheet and total returns can be affected by exchange rate fluctuations (31.10.10: same).

##### Interest rate profile

The interest-bearing financial assets of the sub-fund consist of bank balances, on which interest is calculated at a variable rate by reference to sterling bank deposit rates; and the sub-fund's holdings in bond portfolios which are principally exposed to holdings in fixed and variable rate financial assets (31.10.10: same).

##### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.10.10: same).

#### 10 Portfolio transaction costs

	2011 £'000	2010 £'000
<b>a) Purchases</b>		
Purchases excluding transaction costs	88,519	33,075
<b>b) Sales</b>		
Sales excluding transaction costs	12,701	165

There were no significant transaction costs during the year (2010: same).

#### 11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Income and Accumulation) shares and Sterling Class 'C' (Income) shares.

The charging structure for each share class, as at 31 October 2011, is set out in the following table (31.10.10: same):

	Class 'A' %	Class 'C' %
<b>Initial charge:</b>		
of amount invested	5.00	nil
<b>Withdrawal fee:</b>		
of amount redeemed <sup>[a]</sup>	nil	nil
<b>ACD's annual remuneration:</b>		
of allocated 'NAV'	1.40	0.18

[a] The ACD may, at not less than 60 days notice to shareholders in writing, make a charge on the withdrawal of shares. At present no withdrawal fee is levied.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

	31.10.11		31.10.10	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
<b>Sterling</b>				
<b>Class 'A'</b>	2,332	57,249	746	14,923
<b>Class 'C'</b>	50,764	n/a	19,657	n/a

The net asset value per share and the number of shares are given in the comparative table on page 18. The distribution per share is given in the distribution table on page 23. Each share class has the same rights on winding-up.

# Prudential Balanced Portfolio

## Financial statements

### Notes to the financial statements (continued)

#### 12 Finance costs

	2011 £'000	2010 £'000
<b>Income shares (sterling)</b>		
Class 'A' - Final	11	1
Class 'C' - Final	751	183
<b>Accumulation shares (sterling)</b>		
Class 'A' - Final	280	34
Finance costs: Dividend distributions	1,042	218
Income deducted on cancellation of shares	19	8
Income received on issue of shares	(310)	(96)
<b>Finance costs: Distributions</b>	<b>751</b>	<b>130</b>
Net revenue per statement of total return	746	132
Tax on management fee rebates taken to capital	8	0
Undistributed income brought forward	2	0
Undistributed income carried forward	(5)	(2)
<b>Finance costs: Distributions</b>	<b>751</b>	<b>130</b>

### Distribution tables

Dividend distributions on Income shares	Net income	Equal- isation	Distribution payable / paid	
			2011	2010
<b>Sterling Class 'A' - Final</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Group 1:	0.5410	-	0.5410	0.2460
Group 2:	0.2755	0.2655	0.5410	0.2460
<b>Class 'C' - Final</b>				
Group 1:	1.6360	-	1.6360	1.0050
Group 2:	0.9108	0.7252	1.6360	1.0050

Dividend distribution on Accumulation shares	Net income	Equal- isation	Amount reinvested	
			2011	2010
<b>Sterling Class 'A' - Final</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Group 1:	0.5440	-	0.5440	0.2460
Group 2:	0.2761	0.2679	0.5440	0.2460

Final period 01.11.10 - 31.10.11

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax but must be deducted from the cost of shares for Capital Gains Tax purposes.

## Prudential Balanced Portfolio

This page is intentionally blank

# Prudential Cautious Growth Portfolio

## Authorised Corporate Director's report

### Investment objective of the Prudential Cautious Growth Portfolio

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.

### Policy for achieving the objective of the Prudential Cautious Growth Portfolio

The Fund is an actively managed portfolio investing mainly in collective investment schemes in order to provide a well diversified exposure to global fixed income and variable rate assets, cash, near cash, equities and / or immovable property. From time to time, however, the Fund may have a high exposure to equities and / or fixed income assets. Scheme selection is made on the basis of in depth initial and ongoing qualitative assessment of the fund managers and quantitative analysis of the collective investment schemes.

The Fund may also invest directly in other assets including transferable securities, other collective investment schemes, cash and near cash, deposits, warrants and money market instruments. Derivative instruments may be held directly for the purposes of efficient portfolio management only.

## Investment activities over the report period

During the 12 months under review, the Prudential Cautious Growth Portfolio produced a total return (capital performance with net income reinvested) of 2.2%\*. This was ahead of the average total return of 0.7%\* in the fund's peer group, the IMA Cautious Managed sector.

While the fund's equity and fixed interest holdings delivered positive returns overall, the review period offered a mixed bag of investor sentiment, volatility and risk aversion. The period began with the US Federal Reserve's plan to inject \$600 billion into the country's financial system to encourage growth, which contributed to the Dow Jones Index hitting two-year highs. The end of the 12-month period also saw European markets rallying strongly on expectations that policy initiatives would begin to provide some certainty to the continent's on-going sovereign debt crisis.

The period in-between was not so clear-cut. As we moved through 2011, civil unrest across the Middle East and North Africa fuelled concerns about potential oil supply problems, and the devastating earthquake and tsunami which struck Japan on 11 March threw stockmarkets into chaos.

Going into the summer, global markets experienced a prolonged bout of risk aversion and extreme volatility, which intensified noticeably in August and again in September. Equities were sold indiscriminately across the world as investors worried about the ability of policymakers to solve the eurozone's debt problems. A reduction in global growth expectations in response to fiscal tightening in developed countries also dampened investor sentiment and appetite for riskier assets.

Given these conditions, the fund manager felt that risk assets, particularly equities, appeared attractively priced, but not inexpensive enough to justify the inherent risks in volatile markets. He reduced the

portfolio's target allocation to equities in the run-up to the summer, but added back to the position at the beginning of October when pricing appeared more favourable.

Despite fluctuating markets, the portfolio's exposure to global equities, predominantly in the US and Japan, helped to boost performance. In particular, the Threadneedle American Fund, the Schroder US Mid Cap Fund and the Schroder Tokyo Fund all added value to the portfolio. Following the tragic events in Japan in March, the fund manager significantly increased the portfolio's weighting in the Schroder Tokyo Fund, believing that many good companies in the country had become considerably undervalued and their ability to generate strong cashflows over the longer term was not being recognised by investors. He further topped up the position in October.

The portfolio also has exposure to the wider Asian market, and while the First State Asia Pacific Leaders Fund added value, the Fidelity South East Asia Fund delivered disappointing results. Likewise, exposure to European equities through the Henderson European Selected Opportunities Fund, the Henderson European Growth Fund and the Jupiter European Special Situations Fund underperformed given the difficult market conditions on the continent.

The fund manager maintained his 9% target allocation to property. This was split between the M&G Property Portfolio and the Aviva Property Trust, both of which produced positive, though muted, returns over the period while providing an additional element of diversification.

In terms of fixed interest, the fund manager adjusted allocations in line with equity holdings, increasing his target holdings from 30% to 40% of the overall portfolio through the middle of the period, and reducing this back to 35% by the end. He remained very negative on government bonds throughout the review period, believing the asset class to be highly overvalued, and where possible he avoided holding them within the portfolio.

The fund manager was more positive on corporate bonds, which he believed were offering much better value than their government counterparts, with credit spreads (the difference between the yield on a corporate bond and a government bond of a similar maturity) appearing attractive. Exposure to the M&G Strategic Corporate Bond Fund, the Fidelity MoneyBuilder Income Fund, and the Kames (formerly Aegon) Investment Grade Bond Fund all added value to the portfolio.

The fund manager also gained confidence in the high yield bond sector, and as the period progressed he increased his targeted allocation from 5% to 10% of the portfolio. Overall he topped up positions across his bond allocation, although exposure to the Old Mutual Corporate Bond Fund was eliminated following a change in the fund's asset manager.

The fund manager believes that, particularly concerning Europe, market risks still very much exist. Political will and strong policy decisions, including additional fiscal consolidation across the EU, will be necessary to help shore up the system, and it is unlikely to be a smooth road in the near term. As such, the fund manager believes that holding a balanced range of assets, including fixed income, cash, equities and property, is the best way to provide a healthy risk-adjusted return for the fund's investors, without over-exposure to any single part of the market.

\* Source: Morningstar, Inc.  
Basis: Bid to bid with net income reinvested to 31 October 2011.

Please note that the views expressed in this report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a financial adviser.

# Prudential Cautious Growth Portfolio

## Fund statistics

Sterling Class 'C' shares are not generally available to all investors.

### Distribution dates and fund facts

Distribution type	xd		payment	
Final	01.11.12		31.12.12	
	Final distribution		Total Expense Ratio <sup>[b]</sup>	
	Inc	Acc	31.10.11	31.10.10
	31.12.11 <sup>[a]</sup>	01.11.11 <sup>[a]</sup>		
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
<b>Class 'A'</b>	0.8810	0.8880	2.72	2.44
<b>Class 'C'</b>	1.9610	n/a	1.15	1.80

<sup>[a]</sup> The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

<sup>[b]</sup> The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

### Fund performance

Performance of share classes

	Net asset value per share as at 31.10.11		Net asset value per share as at 31.10.10		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
<b>Class 'A'</b>	109.02	110.25	107.52	107.86	+1.40	+2.22
<b>Class 'C'</b>	109.04	n/a	107.53	n/a	+1.40	n/a

### Prices

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
<b>Sterling</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
<b>Class 'A'</b>	2010 <sup>[a]</sup>	111.93	98.39	112.31	98.39
	2011 <sup>[b]</sup>	116.06	102.99	116.42	103.31
<b>Class 'C'</b>	2010 <sup>[a]</sup>	112.15	98.44	n/a	n/a
	2011 <sup>[b]</sup>	116.84	103.93	n/a	n/a

<sup>[a]</sup> From 22 January 2010 (the launch date of the sub-fund) to 31 December 2010.

<sup>[b]</sup> Up to 1 November 2011.

Past performance is not a guide to future performance.

The price of shares and the income from them can go down as well as up, and you may get back less than you invested.

### Income

#### Dividend income per share

	Calendar year	Distributed	Reinvested
<b>Sterling (net)</b>		<b>p</b>	<b>p</b>
<b>Class 'A'</b>	2010	0.3670	0.3670
	2011 <sup>[a]</sup>	0.8810	0.8880
<b>Class 'C'</b>	2010	1.1490	n/a
	2011 <sup>[a]</sup>	1.9610	n/a

<sup>[a]</sup> Up to final: ex-distribution date 1 November 2011; payment date 31 December 2011.

### Net assets

	Period ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
<b>Sterling</b>		<b>p</b>	<b>p</b>		
<b>Class 'A'</b>	Oct 2010	107.52	107.86	953,000	10,345,000
	Oct 2011	109.02	110.25	3,714,000	46,582,000
<b>Class 'C'</b>	Oct 2010	107.53	n/a	21,360,000	n/a
	Oct 2011	109.04	n/a	48,558,900	n/a

#### Total net asset value of sub-fund

Period ended	£
Oct 2010	35,151,000
Oct 2011	108,352,000

# Prudential Cautious Growth Portfolio

## Portfolio

Portfolio statement				
as at 31 October 2011				
Holding <sup>[a]</sup>	Value £'000	31.10.11 %	31.10.10 %	
<b>Equity portfolios</b>				
<b>Continental Europe</b>		<b>14.59</b>	<b>11.01</b>	
2,874,235	Henderson European Growth Fund	3,165	2.92	
862,887	Henderson European Selected Opportunities Fund (formerly Gartmore European Selected Opportunities Fund) Retail	7,135	6.59	
2,508,479	Jupiter European Special Situations Fund	5,501	5.08	
<b>United Kingdom</b>		<b>14.22</b>	<b>11.36</b>	
1,680,145	BlackRock UK Fund Sterling Class 'A'	5,163	4.77	
2,666,247	Cazenove UK Growth & Income Fund Sterling Class 'B'	5,214	4.81	
2,070,007	M&G Recovery Fund Sterling Class 'A'	5,028	4.64	
<b>Far East</b>		<b>5.82</b>	<b>9.99</b>	
460,375	Fidelity South East Asia Fund	3,034	2.80	
945,662	First State Asia Pacific Leaders Fund Sterling Class 'A'	3,277	3.02	
<b>Japan</b>		<b>5.50</b>	<b>4.60</b>	
3,416,501	Schroder Tokyo Fund Sterling Class 'A'	5,955	5.50	
<b>United States</b>		<b>6.51</b>	<b>10.79</b>	
5,086,402	Schroder US Mid Cap Fund Sterling Class 'A'	2,792	2.58	
3,859,157	Threadneedle American Fund Class 1	4,255	3.93	
<b>Emerging markets</b>		<b>5.11</b>	<b>4.93</b>	
1,122,598	Aberdeen Emerging Markets Fund Sterling Class 'A'	5,542	5.11	
<b>Property portfolios</b>		<b>8.79</b>	<b>9.61</b>	
3,438,474	Aviva Investors Property Trust	4,662	4.30	
6,666,357	M&G Property Portfolio Sterling Class 'S' (Income)	4,866	4.49	
<b>Bond portfolios</b>		<b>37.82</b>	<b>33.34</b>	
2,819,132	Baillie Gifford High Yield Bond Fund Sterling Class 'A' (Income)	2,971	2.74	
3,874,157	Fidelity MoneyBuilder Income Fund	5,017	4.63	
3,650,817	Invesco Perpetual Corporate Bond Fund	5,187	4.79	
2,341,031	Investec Strategic Bond Fund Sterling Class 'A'	5,091	4.70	
4,828,287	Kames High Yield Bond Fund (formerly Aegon High Yield Bond Fund) Sterling Class 'A'	4,382	4.04	
5,044,895	Kames Investment Grade Bond Fund (formerly Aegon Investment Grade Bond Fund) Sterling Class 'A'	6,004	5.54	
16,452,195	M&G High Interest Fund Sterling Class 'A' (Income)	4,009	3.70	
3,509,954	M&G High Yield Corporate Bond Fund Sterling Class 'X'	3,240	2.99	
6,017,266	M&G Strategic Corporate Bond Fund Sterling Class 'A'	5,082	4.69	
<b>Portfolio of investments</b> (note 1b)	<b>106,572</b>	<b>98.36</b>	<b>95.63</b>	
<b>Net other assets</b>	<b>1,780</b>	<b>1.64</b>	<b>4.37</b>	
<b>Net assets attributable to shareholders</b>	<b>108,352</b>	<b>100.00</b>	<b>100.00</b>	

[a] All holdings are in Accumulation shares / units unless otherwise stated.

## Financial statements

for the year ended 31 October 2011.

Statement of total return					
	Note	2011		2010	
		£'000	£'000	£'000	£'000
Income					
Net capital (losses) / gains	3		(561)		1,329
Revenue	4	1,819		292	
Expenses	5	(653)		(100)	
Net revenue before taxation		1,166		192	
Taxation	6	(199)		(31)	
Net revenue after taxation			967		161
<b>Total return before distributions</b>			<b>406</b>		<b>1,490</b>
Finance costs: Distributions	12		(971)		(160)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(565)</b>		<b>1,330</b>

Statement of change in net assets attributable to shareholders					
		2011		2010	
		£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>			<b>35,151</b>		<b>0</b>
Amounts received on issue of shares		75,562		35,026	
Amounts paid on cancellation of shares		(2,191)		(1,216)	
Stamp Duty Reserve Tax (SDRT)			73,371		33,810
Change in net assets attributable to shareholders from investment activities (see above)			(565)		1,330
Retained distributions on Accumulation shares			414		38
<b>Closing net assets attributable to shareholders</b>			<b>108,352</b>		<b>35,151</b>

# Prudential Cautious Growth Portfolio

## Financial statements

### Balance sheet

	as at 31 October 2011 £'000		as at 31 October 2010 £'000	
<b>Assets</b>				
Investment assets		106,572		33,615
<b>Debtors</b>				
Amounts receivable on issues	1,161		870	
Distributions receivable	192		36	
Management fee rebates due	239		31	
Tax recoverable	241		36	
		1,833		973
<b>Cash and bank balances</b>				
Cash held as bank balances	2,012		1,563	
		2,012		1,563
<b>Total other assets</b>		<b>3,845</b>		<b>2,536</b>
<b>Total assets</b>		<b>110,417</b>		<b>36,151</b>
<b>Liabilities</b>				
<b>Creditors</b>				
Amounts payable on cancellations	(90)		0	
Corporation tax payable	(233)		(26)	
Deferred taxation	(10)		(5)	
Expenses payable	(52)		(17)	
Net distributions payable on Income shares	(985)		(249)	
Purchases awaiting settlement	(695)		(700)	
SDRT payable	0		(3)	
		(2,065)		(1,000)
<b>Total liabilities</b>		<b>(2,065)</b>		<b>(1,000)</b>
<b>Net assets attributable to shareholders</b>		<b>108,352</b>		<b>35,151</b>

### Notes to the financial statements

#### 1 Accounting policies

##### a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

##### b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 31 October 2011, being the last business day of the financial year. The fair value of investments managed by the Authorised Corporate Director (ACD) or an associate, is their single price except in the case of the M&G Property Portfolio which is valued at cancellation price; the fair value of investments which are managed by other management groups is their contractual bid price; in the case of shares in open-ended investment companies, fair value is their single price.

##### c) Investment gains and losses

Gains and losses on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date are treated as capital.

##### d) Dividend and interest income

Distributions from collective investment schemes are recognised net of attributable tax credits when the security is quoted ex-distribution.

Bank interest is recognised on an accruals basis and treated as revenue.

##### e) Equalisation

Income received from investments in authorised collective investment schemes, which are purchased during the financial year, will include an element of equalisation which represents the average amount of income included in the price paid for shares. The equalisation is treated as a return of capital for taxation purposes and is not included in the distributable income.

##### f) Management fee rebates

These are recognised on an accruals basis as either revenue or capital in accordance with the treatment of the management fee charged in the underlying collective investment schemes.

##### g) Expenses

For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

##### h) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

##### i) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

##### j) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

# Prudential Cautious Growth Portfolio

## Financial statements

### Notes to the financial statements (continued)

#### 1 Accounting policies (continued)

##### k) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

#### 2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) report, the ACD accepts market price risk, interest rate risk and currency risk, in relation to the investment portfolio. Generally, the ACD will not seek to hedge these exposures since the ACD believes that, in the long term, such hedging would be detrimental to total return.

The capital and income value of the sub-fund's investments, whether held directly or through collective investment schemes can be significantly affected by exchange rate fluctuations.

The sub-fund also invests in interest-bearing securities through holdings in collective investment schemes. Any change to prevailing interest rates or in the expectations of future rates may result in an increase or decrease in the value of securities held. In general, if interest rates rise the capital value of the security or underlying fund is likely to fall and vice versa.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

Liquidity risk relates to the capacity to meet liabilities. The primary source of this risk to the sub-fund is the liability to shareholders for any redemption of shares. The risk is minimised by holding cash and readily realisable securities and via access to overdraft facilities. As noted on page 65, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (31.10.10: same).

#### 3 Net capital (losses) / gains

	2011 £'000	2010 £'000
Non-derivative securities	(597)	1,327
Management fee rebates taken to capital	37	3
Transaction charges	(1)	(1)
<b>Net capital (losses) / gains</b>	<b>(561)</b>	<b>1,329</b>

#### 4 Revenue

	2011 £'000	2010 £'000
Annual payments	205	48
Bank interest	5	1
Interest distributions	972	133
Management fee rebates	429	71
UK dividends	208	39
<b>Total revenue</b>	<b>1,819</b>	<b>292</b>

#### 5 Expenses

	2011 £'000	2010 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge	544	75
Administration fee	91	16
	<b>635</b>	<b>91</b>
<b>Payable to the Depository or associate</b>		
Depository's fee (including VAT)	7	1
<b>Other expenses</b>		
Audit fee (including VAT)	10	8
Safe custody charge	1	0
	<b>11</b>	<b>8</b>
<b>Total expenses</b>	<b>653</b>	<b>100</b>

#### 6 Taxation

	2011 £'000	2010 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	194	26
Current tax charge (note 6b)	194	26
Deferred tax (note 6c)	5	5
<b>Total taxation</b>	<b>199</b>	<b>31</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	1,166	192
Corporation tax at 20%	233	38
Effects of:		
Tax on management fee rebates taken to capital	7	1
UK dividends not taxable	(41)	(8)
Revenue taxable in different periods	(5)	(5)
<b>Current tax charge (note 6a)</b>	<b>194</b>	<b>26</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	5	0
Deferred tax in profit and loss account (note 6a)	5	5
<b>Provision at the end of the year</b>	<b>10</b>	<b>5</b>

The sub-fund does not have an unrecognised deferred tax asset at the year end (31.10.10: same).

#### 7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (31.10.10: same).

# Prudential Cautious Growth Portfolio

## Financial statements

### Notes to the financial statements (continued)

#### 8 Related parties

Prudential Unit Trusts Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where Prudential Unit Trusts Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from Prudential Unit Trusts Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to Prudential Unit Trusts Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

During the year, there were transactions in shares in related parties of Prudential Unit Trusts Limited with a total value of £22,088,000 (2010: £8,841,000).

At the balance sheet date, the sub-fund held shares in related parties of Prudential Unit Trusts Limited with a value of £22,225,000 (31.10.10: £6,899,000).

At the balance sheet date, material shareholders from within Prudential plc, of which Prudential Unit Trusts Limited is a wholly owned subsidiary, have holdings totalling 49.12% (31.10.10: 65.41%) of the sub-fund's shares.

#### 9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (31.10.10: same).

##### Currency exposure

There was no direct foreign currency exposure within the sub-fund at the balance sheet date. However, there was significant foreign currency exposure within the subfund's holdings of collective investment schemes since their assets are denominated in currencies other than sterling, with the effect that their balance sheet and total returns can be affected by exchange rate fluctuations (31.10.10: same).

##### Interest rate profile

The interest-bearing financial assets of the sub-fund consist of bank balances, on which interest is accrued at a variable rate by reference to sterling bank deposit rates, and the sub-fund's holdings in bond portfolios which are principally exposed to holdings in fixed and variable rate financial assets (31.10.10: same).

##### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.10.10: same).

#### 10 Portfolio transaction costs

	2011 £'000	2010 £'000
<b>a) Purchases</b>		
Purchases excluding transaction costs	86,271	33,525
<b>b) Sales</b>		
Sales excluding transaction costs	12,717	1,237

There were no significant transaction costs during the year (2010: same).

#### 11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Income and Accumulation) shares and Sterling Class 'C' (Income) shares.

The charging structure for each share class, as at 31 October 2011, is set out in the following table (31.10.10: same):

	Class 'A' %	Class 'C' %
<b>Initial charge:</b>		
of amount invested	5.00	nil
<b>Withdrawal fee:</b>		
of amount redeemed <sup>[a]</sup>	nil	nil
<b>ACD's annual remuneration:</b>		
of allocated 'NAV'	1.40	0.18

[a] The ACD may, at not less than 60 days notice to shareholders in writing, make a charge on the withdrawal of shares. At present no withdrawal fee is levied.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

	31.10.11		31.10.10	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
<b>Sterling</b>				
<b>Class 'A'</b>	4,049	51,356	1,025	11,158
<b>Class 'C'</b>	52,947	n/a	22,968	n/a

The net asset value per share and the number of shares are given in the comparative table on page 26. The distribution per share is given in the distribution table on page 31. Each share class has the same rights on winding-up.

# Prudential Cautious Growth Portfolio

## Financial statements

### Notes to the financial statements (continued)

#### 12 Finance costs

	2011 £'000	2010 £'000
<b>Income shares (sterling)</b>		
Class 'A' - Final	33	4
Class 'C' - Final	952	245
<b>Accumulation shares (sterling)</b>		
Class 'A' - Final	414	38
Finance costs: Dividend distributions	1,399	287
Income deducted on cancellation of shares	18	6
Income received on issue of shares	(446)	(133)
<b>Finance costs: Distributions</b>	<b>971</b>	<b>160</b>
Net revenue per statement of total return	967	161
Tax on management fee rebates taken to capital	7	1
Undistributed income brought forward	2	0
Undistributed income carried forward	(5)	(2)
<b>Finance costs: Distributions</b>	<b>971</b>	<b>160</b>

### Distribution tables

Dividend distributions on Income shares	Net income	Equal- isation	Distribution payable / paid	
	p	p	2011	2010
<b>Sterling Class 'A' - Final</b>			p	p
Group 1:	0.8810	-	0.8810	0.3670
Group 2:	0.3582	0.5228	0.8810	0.3670
<b>Class 'C' - Final</b>				
Group 1:	1.9610	-	1.9610	1.1490
Group 2:	1.0451	0.9159	1.9610	1.1490

Dividend distribution on Accumulation shares	Net income	Equal- isation	Amount reinvested	
	p	p	2011	2010
<b>Sterling Class 'A' - Final</b>			p	p
Group 1:	0.8880	-	0.8880	0.3670
Group 2:	0.4120	0.4760	0.8880	0.3670

Final period 01.11.10 - 31.10.11

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax but must be deducted from the cost of shares for Capital Gains Tax purposes.

## Prudential Cautious Growth Portfolio

This page is intentionally blank

# Prudential Cautious Managed Growth Fund

## Authorised Corporate Director's report

### Investment objective of the Prudential Cautious Managed Growth Fund

The Fund's objective is to deliver long term total return (the combination of income and growth of capital).

### Policy for achieving the objective of the Prudential Cautious Managed Growth Fund

The Fund aims to achieve its objective through asset allocation unconstrained by any benchmark. The Fund may invest globally either directly or via other collective investment schemes in assets including transferable securities, debt instruments, money market instruments, cash, near cash, deposits, derivatives, and indirectly in property. Derivative instruments may be used for both investment purposes and efficient portfolio management. The Fund will invest no more than 60% of the portfolio in equities.

## Investment activities over the report period

During the 12 months under review, the Prudential Cautious Managed Growth Fund produced a total return (capital performance with net income reinvested) of 2.0%\*. This was ahead of the average total return of 0.7%\* in the fund's peer group, the IMA Cautious Managed sector.

While the fund's equity and fixed interest holdings delivered positive returns overall, the review period offered a mixed bag of investor sentiment, volatility and risk aversion. The period began with the US Federal Reserve's plan to inject \$600 billion into the country's financial system to encourage growth, which contributed to the Dow Jones Index hitting two-year highs. The end of the period also saw European markets rallying strongly on expectations that policy initiatives would begin to provide some certainty to the continent's on-going sovereign debt crisis.

The period in-between was not so clear-cut. As we moved through 2011, civil unrest across the Middle East and North Africa fuelled concerns about potential oil supply problems, and the devastating earthquake and tsunami which struck Japan on 11 March threw stockmarkets into chaos.

Going into the summer, global markets experienced a prolonged bout of risk aversion and extreme volatility, which intensified noticeably in August and again in September. Equities were sold indiscriminately across the world as investors worried about the ability of policymakers to solve the eurozone's debt problems. A reduction in global growth expectations in response to fiscal tightening in developed countries also dampened investor sentiment and appetite for riskier assets.

Given these conditions, the fund manager felt that risk assets, particularly equities, appeared attractively priced, but not inexpensive enough to justify the inherent risks in volatile markets. He reduced the fund's target allocation to equities in the run-up to the summer, from 54% to 45.5%, but added back to the position at the beginning of October when pricing appeared more favourable, settling at 50%.

There were a number of changes to the equities portion of the portfolio over the reporting period, resulting from several mergers between funds in the Prudential range with funds managed by M&G Investments. The Prudential Equity Income Trust merged with the M&G Dividend Fund, the Prudential European Trust merged with the M&G Pan European Fund, the Prudential North American Trust with the M&G American Fund, and the Prudential Japanese Trust with the M&G Japan Fund. The fund manager also closed his position in the Prudential UK Growth Fund, transferring his exposure to the Prudential UK Growth QIS Fund, which launched in August as a result of a demerger of the Sterling 'C' unit class from the Prudential UK Growth Trust.

The fund manager increased the portfolio's weighting in Japan, believing that many good companies in the country had become considerably undervalued. He maintained his targeted 6% allocation in the wider Asian market, with exposure to the Prudential Pacific Markets Trust, though this position dragged on the fund's performance.

The fund manager maintained his 9% target allocation to property throughout the period. This was through the M&G Property Portfolio which produced positive, though muted, returns over the period while providing an additional element of diversification.

In terms of fixed interest, the fund manager adjusted allocations in line with equity holdings, increasing his target holdings from 29% to 40% of the overall portfolio through the middle of the period, and reducing this back to 35% by the end. He remained very negative on government bonds throughout the review period, believing the asset class to be highly overvalued, and where possible he avoided holding them within the fund.

He was more positive on corporate bonds, which he believed were offering much better value than their government counterparts, with credit spreads (the difference between the yield on a corporate bond and a government bond of a similar maturity) appearing attractive. In another fund merger, the Prudential Corporate Bond Trust merged with the M&G Corporate Bond Fund, which performed well over the review period, while exposure to the M&G European Corporate Bond Fund also added value to the portfolio. In addition, the fund manager gained confidence in the high yield bond sector, and as the period progressed he increased his targeted allocation from 4% to 10%.

In the alternatives space, the fund manager reduced his targeted exposure to hedge funds from 1% to 0.5% of the portfolio, while also slightly trimming exposure to distressed debt from 0.5% to 0.4%. In the middle of the review period, he added a small percentage of exposure to private equity through Conversus Capital and Catco Reinsurance, equating to 1% of the portfolio.

The fund manager believes that, particularly concerning Europe, market risks still very much exist. Political will and strong policy decisions, including additional fiscal consolidation across the EU, will be necessary to help shore up the financial system, and it is unlikely to be a smooth road in the near term. As such, the fund manager believes that holding a balanced range of assets is the best way to provide a healthy risk-adjusted return for the fund's investors, without over-exposure to any single part of the market. The driver of the Prudential Cautious Managed Growth Fund is asset allocation and stock selection with reference to a comparable peer group. Further moves to achieve closer alignment with this benchmark are possible going forward into the next reporting period.

\* Source: Morningstar, Inc.

Basis: Bid to bid with net income reinvested to 31 October 2011.

Please note that the views expressed in this report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a financial adviser.

# Prudential Cautious Managed Growth Fund

## Fund statistics

Sterling Class 'C' shares are not generally available to all investors.

### Distribution dates and fund facts

Distribution type	xd		payment	
Final	01.11.12		31.12.12	
	Final distribution		Total Expense Ratio <sup>(b)</sup>	
	Inc	Acc	31.10.11	31.10.10
	31.12.11 <sup>[a]</sup>	01.11.11 <sup>[a]</sup>		
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
<b>Class 'A'</b>	2.1310	2.2829	1.78	1.66
<b>Class 'C'</b>	3.2790	n/a	0.42	0.31

<sup>[a]</sup> The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

<sup>(b)</sup> The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

### Fund performance

Performance of share classes

	Net asset value per share as at 31.10.11		Net asset value per share as at 31.10.10		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
<b>Class 'A'</b>	102.09	111.72	102.30	109.67	-0.21	+1.87
<b>Class 'C'</b>	102.03	n/a	102.25	n/a	-0.22	n/a

### Prices

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
<b>Sterling</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
<b>Class 'A'</b>	2007 <sup>[a]</sup>	104.75	97.39	104.75	97.39
	2008	102.46	73.16	103.28	74.28
	2009	98.94	72.56	102.78	74.97
	2010	106.39	95.47	113.88	100.74
	2011 <sup>[b]</sup>	110.23	97.91	118.18	104.98
<b>Class 'C'</b>	2007 <sup>[a]</sup>	105.41	97.79	n/a	n/a
	2008	102.75	73.05	n/a	n/a
	2009	99.74	72.68	n/a	n/a
	2010	107.44	96.06	n/a	n/a
	2011 <sup>[b]</sup>	111.00	98.86	n/a	n/a

<sup>[a]</sup> From 16 February 2007 (the launch date of the sub-fund) to 31 December 2007.

<sup>[b]</sup> To 1 November 2011.

Past performance is not a guide to future performance.

The price of shares and the income from them can go down as well as up, and you may get back less than you invested.

### Income

#### Dividend income per share

	Calendar year	Distributed	Reinvested
<b>Sterling (net)</b>		<b>p</b>	<b>p</b>
<b>Class 'A'</b>	2007	0.8230	0.8230
	2008	1.9430	1.9585
	2009	2.0040	2.0705
	2010	1.6420	1.7327
	2011 <sup>[a]</sup>	2.1310	2.2829
<b>Class 'C'</b>	2007	1.5030	n/a
	2008	2.9650	n/a
	2009	2.9190	n/a
	2010	2.7220	n/a
	2011 <sup>[a]</sup>	3.2790	n/a

<sup>[a]</sup> Up to final: ex-distribution date 1 November 2011; payment date 31 December 2011.

### Net assets

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
<b>Sterling</b>		<b>p</b>	<b>p</b>		
<b>Class 'A'</b>	Oct 2009	94.18	99.38	2,005,000	7,311,500
	Oct 2010	102.30	109.67	3,708,000	11,829,500
	Oct 2011	102.09	111.72	3,775,000	12,200,500
<b>Class 'C'</b>	Oct 2009	94.10	n/a	36,691,800	n/a
	Oct 2010	102.25	n/a	32,776,800	n/a
	Oct 2011	102.03	n/a	32,100,800	n/a

#### Total net asset value of sub-fund

Year ended	£
Oct 2009	43,684,000
Oct 2010	50,283,000
Oct 2011	50,238,000

# Prudential Cautious Managed Growth Fund

## Portfolio

### Portfolio statement

as at 31 October 2011

Holding	Value £'000	31.10.11 %	31.10.10 <sup>[a]</sup> %
<b>Equity portfolios</b>			
<b>Continental Europe</b>			
5,210,202	M&G Pan European Fund Sterling Class 'A' (Income)	7,135	14.20
<b>United Kingdom</b>			
2,090,295	M&G Dividend Fund Sterling Class 'C' (Income)	1,165	2.32
618,793	M&G Recovery Fund Sterling Class 'A' (Accumulation)	1,497	2.98
358,268	Prudential Small Companies Trust Sterling Class 'C' (Income)	1,041	2.07
1,622,711	Prudential UK Growth QIS Fund Sterling Class 'C' (Income)	3,256	6.48
<b>Far East</b>			
1,347,898	Prudential Pacific Markets Trust Sterling Class 'C' (Income)	3,248	6.46
<b>Japan</b>			
11,468,181	M&G Japan Fund Sterling Class 'A' (Income)	3,068	6.11
<b>United States</b>			
408,101	M&G American Fund Sterling Class 'A' (Income)	3,238	6.45
<b>Equity investment instruments</b>			
236,270	Alternative Investment Strategies	247	0.49
600,000	Catco Reinsurance Opportunities Fund	401	0.80
10,750	Conversus Capital	137	0.27
905,434	International Public Partnerships	1,051	2.09
322,506	NB Distressed Debt Investment Fund	199	0.40
64,501	NB Distressed Debt Investment Fund (Subscription Shares)	0	0.00
<b>Non-equity investment instruments</b>			
87,000	iShares MSCI Emerging Markets Index Fund	2,130	4.24
<b>Property portfolios</b>			
6,451,455	M&G Property Portfolio Sterling Class 'S' (Income)	4,711	9.38
<b>Bond portfolios</b>			
17,520,975	M&G Corporate Bond Fund Sterling Class 'I' (Income)	6,164	12.27
7,292,378	M&G European Corporate Bond Fund Sterling Class 'A' (Accumulation)	6,276	12.49
22,716	M&G European Loan Fund Sterling Class 'A' (Income)	1,853	3.69
3,276,905	M&G High Yield Corporate Bond Fund Sterling Class 'X' (Accumulation)	3,021	6.01
<b>Forward currency contracts</b>			
€(3,000,000)	Sold for £2,598,150 (expires 09.11.11)	(25)	(0.05)
<b>Portfolio of investments (notes 1b &amp; 1d)</b>		<b>49,813</b>	<b>99.15</b>
<b>Net other assets</b>		<b>425</b>	<b>0.85</b>
<b>Net assets attributable to shareholders</b>		<b>50,238</b>	<b>100.00</b>

[a] The comparative sector weightings have been re-analysed to reflect changes to the sector classifications.

## Financial statements

for the year ended 31 October 2011.

### Statement of total return

Notes	2011 £'000	2010 £'000	
<b>Income</b>			
Net capital (losses) / gains	3	(71)	3,943
Revenue	4	1,914	1,603
Expenses	5	(295)	(257)
Finance costs: Interest	12	(1)	0
Net income before taxation		1,618	1,346
Taxation	6	(200)	(200)
Net income after taxation		1,418	1,146
<b>Total return before distributions</b>		<b>1,347</b>	<b>5,089</b>
Finance costs: Distributions	12	(1,418)	(1,147)
<b>Change in net assets attributable to shareholders from investment activities</b>			
		(71)	3,942

### Statement of change in net assets attributable to shareholders

	2011 £'000	2010 £'000	
<b>Opening net assets attributable to shareholders</b>		<b>50,283</b>	<b>43,684</b>
Amounts received on issue of shares	3,324		7,490
Amounts paid on cancellation of shares	(3,530)		(4,989)
Stamp Duty Reserve Tax (SDRT)		(47)	(49)
Change in net assets attributable to shareholders from investment activities (see above)		(71)	3,942
Retained distributions on Accumulation shares		279	205
<b>Closing net assets attributable to shareholders</b>		<b>50,238</b>	<b>50,283</b>

# Prudential Cautious Managed Growth Fund

## Financial statements

### Balance sheet

	as at 31 October 2011		as at 31 October 2010	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		49,838		50,269
Debtors				
Amounts receivable on issues	63		0	
Distributions receivable	164		53	
Management fee rebates due	16		5	
Sales awaiting settlement	1,000		0	
Tax recoverable	379		346	
		1,622		404
Cash and bank balances				
Cash held as bank balances	374		244	
Cash held on deposit	0		675	
		374		919
<b>Total other assets</b>		<b>1,996</b>		<b>1,323</b>
<b>Total assets</b>		<b>51,834</b>		<b>51,592</b>
<b>Liabilities</b>				
Investment liabilities		(25)		0
Creditors				
Amounts payable on cancellations	(42)		0	
Corporation tax payable	(364)		(324)	
Deferred taxation	(12)		(10)	
Expenses payable	(20)		(19)	
Net distributions payable on Income shares	(1,133)		(953)	
SDRT payable	0		(3)	
Total other liabilities		(1,571)		(1,309)
<b>Total liabilities</b>		<b>(1,596)</b>		<b>(1,309)</b>
<b>Net assets attributable to shareholders</b>		<b>50,238</b>		<b>50,283</b>

### Notes to the financial statements

#### 1 Accounting policies

##### a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

##### b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 31 October 2011, being the last business day of the financial year. The fair value of equity and non-equity shares is bid price, excluding any accrued interest; the fair value of investments managed by the Authorised Corporate Director (ACD), or an associate, is their single price except in the case of the M&G Property Portfolio which is valued at cancellation price; and the fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. Unquoted investments are shown at the ACD's valuation.

##### c) Investment gains and losses

Gains and losses, including exchange differences, on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date, including unrealised exchange differences, are treated as capital.

##### d) Exchange rates

Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling as at 12 noon on 31 October 2011, being the last business day of the financial year.

##### e) Derivative financial instruments

Gains and losses on forward currency contracts and derivative contracts are accounted for in accordance with the fund manager's motives and circumstances on entering into the contracts. Where the motives and circumstances are to protect or enhance capital return, gains or losses are recognised in net capital (losses) / gains; where the motives and circumstances are to generate or protect revenue, the costs or income are recognised in net revenue before taxation.

##### f) Dividend and interest income

Dividends from quoted equity and non-equity shares are recognised net of attributable tax credits when the security is quoted ex-dividend. Overseas dividends received after the deduction of withholding tax are shown gross of taxation, with the taxation consequences shown within the taxation charge. Dividends are recognised as either revenue or capital depending upon the nature and circumstances of the dividend receivable. Distributions from collective investment schemes are recognised net of attributable tax credits when the security is quoted ex-distribution.

Bank interest is recognised on an accruals basis and treated as revenue.

##### g) Equalisation

Income received from investments in authorised collective investment schemes, which are purchased during the financial year, will include an element of equalisation which represents the average amount of income included in the price paid for shares. The equalisation is treated as a return of capital for taxation purposes and is not included in the distributable income.

# Prudential Cautious Managed Growth Fund

## Financial statements

### Notes to the financial statements (continued)

#### 1 Accounting policies (continued)

##### h) Management fee rebates

These are recognised on an accruals basis as either revenue or capital in accordance with the treatment of the management fee charged in the underlying collective investment schemes.

##### i) Stock dividends

The ordinary element of stocks received in lieu of cash dividends is recognised as income of the sub-fund. Any enhancement above the cash dividend is treated as capital.

##### j) Expenses

For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against income for the year on an accruals basis.

##### k) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

##### l) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

##### m) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

##### n) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue. Stock dividends form part of the distributable income.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

#### 2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) report, the ACD accepts market price risk, currency risk and interest rate risk in relation to the investment portfolio.

The capital and income value of the sub-fund's investments, whether held directly or through collective investment schemes, can be significantly affected by exchange rate fluctuations. During the period, it has been the policy to hedge some of the investment portfolio against currency movements through the use of forward currency contracts.

Short-term foreign currency exposures are generally covered by short dated currency contracts. Income arising in foreign currencies is generally converted into sterling shortly after receipt and is not hedged in advance of receipt.

The sub-fund also invests in interest-bearing securities through direct holdings and holdings in collective investment schemes. Any change to prevailing interest rates or in the expectations of future rates may result in an increase or decrease in the value of securities held. In general, if interest rates rise the capital value of the security or underlying fund is likely to fall and vice versa. The sub-fund may invest in other funds where a significant part of their portfolio is invested in below investment grade securities. The value of such funds may be more volatile than normal.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

Liquidity risk relates to the capacity to meet liabilities. The primary source of this risk to the sub-fund is the liability to shareholders for any redemption of shares. The risk is minimised by holding cash and readily realisable securities and via access to overdraft facilities. As noted on page 65, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (31.10.10: same).

#### 3 Net capital (losses) / gains

	2011 £'000	2010 £'000
Non-derivative securities	(55)	3,795
Forward currency contracts	(25)	151
Currency gains / (losses)	11	(1)
Transaction charges	(2)	(2)
<b>Net capital (losses) / gains</b>	<b>(71)</b>	<b>3,943</b>

#### 4 Revenue

	2011 £'000	2010 £'000
Annual payments	214	235
Bank interest	2	1
Deposit interest	4	10
Interest distributions	747	770
Interest on debt securities	0	32
Management fee rebates	322	136
Overseas dividends	141	52
Stock dividends	51	23
UK dividends	433	344
<b>Total revenue</b>	<b>1,914</b>	<b>1,603</b>

# Prudential Cautious Managed Growth Fund

## Financial statements

### Notes to the financial statements (continued)

#### 5 Expenses

	2011 £'000	2010 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge <sup>[a]</sup>	237	194
Administration fee	44	50
	<b>281</b>	<b>244</b>
<b>Payable to the Depositary or associate</b>		
Depositary's fee (including VAT)	4	4
<b>Other expenses</b>		
Audit fee (including VAT)	9	9
Safe custody charge	1	0
	10	9
<b>Total expenses</b>	<b>295</b>	<b>257</b>

[a] The charge excludes management fee rebates received from Prudential Unit Trust Limited, or an associate, in relation to the annual management charge of the underlying collective investment schemes for which Prudential Unit Trusts Limited, or an associate, acts as Authorised Corporate Director / Manager. These rebates have been recognised as revenue in note 4 and amount to £322,000 (2010: £136,000).

#### 6 Taxation

	2011 £'000	2010 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	197	182
Overseas tax	1	0
Tax on annual payments	0	12
Tax relief on annual payments	0	(15)
Prior period adjustment	0	15
	198	194
Current tax charge (note 6b)	198	194
Deferred tax (note 6c)	2	6
	<b>200</b>	<b>200</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net income before taxation	1,617	1,346
Corporation tax at 20%	324	269
Effects of:		
UK dividends not taxable	(87)	(69)
Stock dividends not taxable	(10)	(5)
Overseas dividends not taxable	(28)	(10)
Revenue taxable in different periods	(2)	(3)
Overseas tax	1	0
Tax on annual payments	0	12
Tax relief on annual payments	0	(15)
Prior period adjustment	0	15
	198	194
<b>Current tax charge (note 6a)</b>	<b>198</b>	<b>194</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	10	4
Deferred tax in profit and loss account (note 6a)	2	6
	12	10
<b>Provision at the end of the year</b>	<b>12</b>	<b>10</b>

#### 7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (31.10.10: same).

#### 8 Related parties

Prudential Unit Trusts Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where Prudential Unit Trusts Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from Prudential Unit Trusts Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to Prudential Unit Trusts Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

During the year, there were transactions in shares in related parties of Prudential Unit Trusts Limited with a total value of £59,778,000 (2010: £19,747,000).

At the balance sheet date, the sub-fund held shares in related parties of Prudential Unit Trusts Limited with a value of £45,673,000 (31.10.10: £46,513,000).

At the balance sheet date, material shareholders from within Prudential plc, of which Prudential Unit Trusts Limited is a wholly owned subsidiary, have holdings totalling 66.77% (31.10.10: 67.84%) of the sub-fund's shares.

# Prudential Cautious Managed Growth Fund

## Financial statements

### Notes to the financial statements (continued)

#### 9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (31.10.10: same).

#### Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets		Total	
	as at 31.10.11 £'000	as at 31.10.10 £'000	as at 31.10.11 £'000	as at 31.10.10 £'000	as at 31.10.11 £'000	as at 31.10.10 £'000
Euro	(25)	0	0	0	(25)	0
US dollar	737	206	3	0	740	206
	712	206	3	0	715	206
Sterling	49,101	50,063	422	14	49,523	50,077
<b>Total</b>	<b>49,813</b>	<b>50,269</b>	<b>425</b>	<b>14</b>	<b>50,238</b>	<b>50,283</b>

There was also significant foreign currency exposure within the sub-fund's holdings of collective investment schemes since their assets are denominated in currencies other than sterling, with the effect that their balance sheets can be affected by exchange rate fluctuations.

#### Interest rate profile

The interest-bearing financial assets of the sub-fund consist of bank balances, on which interest is calculated at a variable rate by reference to sterling bank deposit rates, and the sub-fund's holdings in bond portfolios which are principally exposed to holdings in fixed and variable rate financial assets (31.10.10: same).

#### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.10.10: same).

#### 10 Portfolio transaction costs

	2011 £'000	2010 £'000
<b>a) Purchases</b>		
Purchases excluding transaction costs	53,783	13,952
Commissions	1	0
<b>Total purchases including transaction costs</b>	<b>53,784</b>	<b>13,952</b>
<b>b) Sales</b>		
Sales excluding transaction costs	54,160	8,913

#### 11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Income and Accumulation) shares and Sterling Class 'C' (Income) shares.

The charging structure for each share class, as at 31 October 2011, is set out in the following table (31.10.10: same):

	Class 'A' %	Class 'C' %
<b>Initial charge:</b>		
of amount invested	5.00	nil
<b>Withdrawal fee:</b>		
of amount redeemed <sup>[a]</sup>	nil	nil
<b>ACD's annual remuneration:</b>		
of allocated 'NAV'	1.35	nil

[a] The ACD may, at not less than 60 days notice to shareholders in writing, make a charge on the withdrawal of shares. At present no withdrawal fee is levied.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

	31.10.11		31.10.10	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
<b>Sterling</b>				
Class 'A'	3,854	13,630	3,793	12,974
Class 'C'	32,754	n/a	33,516	n/a

The net asset value per share and the number of shares are given in the comparative table on page 34. The distribution per share is given in the distribution table on page 40. Each share class has the same rights on winding-up.

#### 12 Finance costs

	2011 £'000	2010 £'000
<b>Income shares (sterling)</b>		
Class 'A'- Final	80	61
Class 'C'- Final	1,053	892
<b>Accumulation shares (sterling)</b>		
Class 'A'- Final	279	205
Finance costs: Dividend distributions	1,412	1,158
Income deducted on cancellation of shares	35	35
Income received on issue of shares	(29)	(46)
<b>Finance costs: Distributions</b>	<b>1,418</b>	<b>1,147</b>
Finance costs: Interest	1	0
<b>Total finance costs</b>	<b>1,419</b>	<b>1,147</b>
Net revenue per statement of total return	1,418	1,146
Undistributed income brought forward	2	3
Undistributed income carried forward	(2)	(2)
<b>Finance costs: Distributions</b>	<b>1,418</b>	<b>1,147</b>

# Prudential Cautious Managed Growth Fund

## Financial statements

### Distribution tables

Dividend distributions on Income shares	Net income	Equal- isation	Distribution payable / paid	
			2011	2010
<b>Sterling Class 'A' -Final</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Group 1:	2.1310	-	2.1310	1.6420
Group 2:	1.5394	0.5376	2.1310	1.6420
<b>Class 'C' -Final</b>				
Group 1:	3.2790	-	3.2790	2.7220
Group 2:	1.8884	1.3906	3.2790	2.7220

Dividend distribution on Accumulation shares	Net income	Equal- isation	Amount reinvested	
			2011	2010
<b>Sterling Class 'A' -Final</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Group 1:	2.2829	-	2.2829	1.7327
Group 2:	1.5096	0.7733	2.2829	1.7327

Final period 01.11.10 - 31.10.11

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax but must be deducted from the cost of shares for Capital Gains Tax purposes.

# Prudential Cautious Portfolio

## Authorised Corporate Director's report

### Investment objective of the Prudential Cautious Portfolio

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.

### Policy for achieving the objective of the Prudential Cautious Portfolio

The Fund is an actively managed portfolio investing mainly in collective investment schemes in order to provide a well diversified exposure to global fixed income and variable rate assets, cash, near cash, equities and / or immovable property. Typically the Fund will have a bias towards lower risk assets such as fixed income assets and cash, but will always have some exposure to equities. Scheme selection is made on the basis of in depth initial and ongoing qualitative assessment of the fund managers and quantitative analysis of the collective investment schemes.

The Fund may also invest directly in other assets including transferable securities, other collective investment schemes, cash and near cash, deposits, warrants and money market instruments. Derivative instruments may be held directly for the purposes of efficient portfolio management only.

## Investment activities over the report period

During the 12 months under review, the Prudential Cautious Portfolio produced a total return (capital performance with net income reinvested) of 1.1%\*. This was ahead of the average total return of 0.7%\* in the fund's peer group, the IMA Cautious Managed sector.

While the fund's equity and fixed interest holdings delivered positive returns overall, the review period offered a mixed bag of investor sentiment, volatility and risk aversion. The period began with the US Federal Reserve's plan to inject \$600 billion into the country's financial system to encourage growth, which contributed to the Dow Jones Index hitting two-year highs. The end of the 12-month period also saw European markets rallying strongly on expectations that policy initiatives would begin to provide some certainty to the continent's on-going sovereign debt crisis.

The period in-between was not so clear-cut. As we moved through 2011, civil unrest across the Middle East and North Africa fuelled concerns about potential oil supply problems, and the devastating earthquake and tsunami which struck Japan on 11 March threw stockmarkets into chaos.

Going into the summer, global markets experienced a prolonged bout of risk aversion and extreme volatility, which intensified noticeably in August and again in September. Equities were sold indiscriminately across the world as investors worried about the ability of policymakers to solve the eurozone's debt problems. A reduction in global growth expectations in response to fiscal tightening in developed countries also dampened investor sentiment and appetite for riskier assets.

Given these conditions, the fund manager felt that risk assets, particularly equities, appeared attractively priced, but not inexpensive enough to justify the inherent risks in volatile markets. He reduced the

portfolio's target allocation to equities from 36% to 31% in the run-up to the summer, but increased the allocation back to 37% when pricing appeared more favourable at the beginning of October.

Despite fluctuating markets, the portfolio's exposure to global equities, predominantly in the US and Japan, helped to boost performance. In particular, the Threadneedle American Fund and the Schroder US Mid Cap Fund both added value to the portfolio. Following the tragic events in Japan in March, the fund manager added a large position in the Schroder Tokyo Fund which proved beneficial to performance. The position was added in the belief that many good companies in the country had become considerably undervalued.

The portfolio also has exposure to the wider Asian market, and while the First State Asia Pacific Leaders Fund added value, the Fidelity South East Asia Fund delivered disappointing results. Likewise, exposure to European equities through the Henderson European Selected Opportunities Fund, the Henderson European Growth Fund and the Jupiter European Special Situations Fund underperformed given the difficult market conditions on the continent.

The fund manager maintained his 8% target allocation to property. This was split between the M&G Property Portfolio and the Aviva Property Trust, both of which produced positive, though muted, returns over the period while providing an additional element of diversification.

In terms of fixed interest, the fund manager adjusted allocations broadly in line with equity holdings, increasing his target holdings from 53% to 58% of the overall portfolio through the middle of the review period, and settling back to 54% by the end of the period. He remained very negative on government bonds throughout the review period, believing the asset class to be highly overvalued, and where possible he avoided holding them within the portfolio.

The fund manager was cautiously positive on corporate bonds, which he believed were offering much better value than their government counterparts, with credit spreads (the difference between the yield on a corporate bond and a government bond of a similar maturity) appearing attractive. Exposure to the M&G Strategic Corporate Bond Fund, the Fidelity MoneyBuilder Income Fund, and the Kames (formerly Aegon) Investment Grade Bond Fund all added value to the portfolio.

The fund manager also gained confidence in the high yield bond sector, increasing his targeted allocation from 5% to 10%, distributed across the Kames High Yield Bond Fund, and the Baillie Gifford High Yield Bond Fund. In addition, he added a position in the M&G High Yield Corporate Bond Fund in February to further diversify his high yield exposure. Overall he topped up positions across his bond allocation, although exposure to the Old Mutual Corporate Bond Fund was eliminated following a change in the fund's asset manager. He also adjusted the portfolio's cash position from 16% at the beginning of the reporting period to 10% at the end, the majority of which was held in the M&G High Interest Fund.

The fund manager believes that, particularly concerning Europe, market risks still very much exist. Political will and strong policy decisions, including additional fiscal consolidation across the EU, will be necessary to help shore up the system, and it is unlikely to be a smooth road in the near term. As such, the fund manager believes that holding a balanced range of assets is the best way to provide a healthy risk-adjusted return for the fund's investors, without over-exposure to any single part of the market.

\* Source: Morningstar, Inc.

Basis: Bid to bid with net income reinvested to 31 October 2011.

Please note that the views expressed in this report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a financial adviser.

# Prudential Cautious Portfolio

## Fund statistics

Sterling Class 'C' shares are not generally available to all investors.

### Distribution dates and fund facts

Distribution type	xd		payment	
Final	01.11.12		31.12.12	
	Final distribution		Total Expense Ratio <sup>[b]</sup>	
	Inc	Acc	31.10.11	31.10.10
	31.12.11 <sup>[a]</sup>	01.11.11 <sup>[a]</sup>		
Sterling	p	p	%	%
Class 'A'	1.0660	1.0720	2.31	2.26
Class 'C'	2.1370	n/a	1.20	1.55

<sup>[a]</sup> The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

<sup>[b]</sup> The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

### Fund performance

Performance of share classes

	Net asset value per share as at 31.10.11		Net asset value per share as at 31.10.10		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	107.17	108.72	106.91	107.39	+0.24	+1.24
Class 'C'	107.18	n/a	106.94	n/a	+0.22	n/a

### Prices

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling		p	p	p	p
Class 'A'	2010 <sup>[a]</sup>	109.29	98.95	109.78	98.95
	2011 <sup>[b]</sup>	113.61	103.01	114.13	103.48
Class 'C'	2010 <sup>[a]</sup>	109.88	99.01	n/a	n/a
	2011 <sup>[b]</sup>	114.41	103.97	n/a	n/a

<sup>[a]</sup> From 22 January 2010 (the launch date of the sub-fund) to 31 December 2010.

<sup>[b]</sup> To 1 November 2011.

Past performance is not a guide to future performance.

The price of shares and the income from them can go down as well as up, and you may get back less than you invested.

### Income

#### Dividend income per share

	Calendar year	Distributed	Reinvested
Sterling (net)		p	p
Class 'A'	2010	0.4800	0.4800
	2011 <sup>[a]</sup>	1.0660	1.0720
Class 'C'	2010	1.2540	n/a
	2011 <sup>[a]</sup>	2.1370	n/a

<sup>[a]</sup> Up to final: ex-distribution date 1 November 2011; payment date 31 December 2011.

### Net assets

	Period ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling		p	p		
Class 'A'	Oct 2010	106.91	107.39	1,315,000	7,362,000
	Oct 2011	107.17	108.72	3,281,000	33,079,000
Class 'C'	Oct 2010	106.94	n/a	11,571,000	n/a
	Oct 2011	107.18	n/a	25,754,000	n/a

#### Total net asset value of sub-fund

Period ended	£
Oct 2010	21,686,000
Oct 2011	67,083,000

# Prudential Cautious Portfolio

## Portfolio

### Portfolio statement

as at 31 October 2011

Holding <sup>[a]</sup>	Value £'000	31.10.11 %	31.10.10 %
<b>Equity portfolios</b>			
<b>Continental Europe</b>			
1,280,749		37.61	36.47
381,767		10.22	9.88
1,045,728		2.10	
		4.70	
		3.42	
<b>United Kingdom</b>			
749,801		10.28	9.75
1,128,415		3.45	
		3.29	
976,620		3.54	
<b>Far East</b>			
270,696		5.15	5.25
481,522		2.66	
		2.49	
<b>Japan</b>			
1,883,205		4.91	0.00
		4.91	
<b>United States</b>			
2,848,918		5.12	9.76
1,694,206		2.34	
		2.78	
<b>Emerging markets</b>			
262,281		1.93	1.83
<b>Property portfolios</b>			
2,035,321		7.86	8.02
3,442,831		4.11	
		3.75	
<b>Bond portfolios</b>			
1,931,479		53.30	51.73
3,499,725		3.04	
3,268,580		6.76	
		6.92	
2,106,652		6.83	
2,913,542		3.94	
3,946,410		7.00	
24,767,046		9.00	
2,223,429		3.06	
5,365,843		6.75	
<b>Portfolio of investments</b> (note 1b)	<b>66,260</b>	<b>98.77</b>	<b>96.22</b>
<b>Net other assets</b>	<b>823</b>	<b>1.23</b>	<b>3.78</b>
<b>Net assets attributable to shareholders</b>	<b>67,083</b>	<b>100.00</b>	<b>100.00</b>

[a] All holdings are in Accumulation shares / units unless otherwise stated.

## Financial statements

for the year ended 31 October 2011.

### Statement of total return

Notes	2011 £'000	2010 £'000	
<b>Income</b>			
Net capital (losses) / gains	3	(441)	827
Revenue	4	1,144	205
Expenses	5	(417)	(63)
Finance costs: Interest	12	0	0
Net revenue before taxation		727	142
Taxation	6	(129)	(25)
Net revenue after taxation		598	117
<b>Total return before distributions</b>		<b>157</b>	<b>944</b>
Finance costs: Distributions	12	(600)	(116)
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>(443)</b>	<b>828</b>

### Statement of change in net assets attributable to shareholders

	2011 £'000	2010 £'000	
<b>Opening net assets attributable to shareholders</b>		<b>21,686</b>	<b>0</b>
Amounts received on issue of shares	46,659		21,758
Amounts paid on cancellation of shares	(1,156)		(918)
Stamp Duty Reserve Tax (SDRT)		45,503	20,840
Change in net assets attributable to shareholders from investment activities (see above)		(443)	828
Retained distributions on Accumulation shares		355	35
<b>Closing net assets attributable to shareholders</b>		<b>67,083</b>	<b>21,686</b>

# Prudential Cautious Portfolio

## Financial statements

### Balance sheet

	as at 31 October 2011		as at 31 October 2010	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		66,260		20,866
<b>Debtors</b>				
Amounts receivable on issues	640		642	
Bank interest payable	1		0	
Distributions receivable	56		23	
Management fee rebates due	110		15	
Tax recoverable	192		29	
		999		709
<b>Cash and bank balances</b>				
Cash held as bank balances	1,464		1,486	
		1,464		1,486
<b>Total other assets</b>	<b>2,463</b>		<b>2,195</b>	
<b>Total assets</b>		<b>68,723</b>		<b>23,061</b>
<b>Liabilities</b>				
<b>Creditors</b>				
Corporation tax payable	(150)		(22)	
Deferred taxation	(5)		(3)	
Expenses payable	(36)		(14)	
Net distributions payable on Income shares	(585)		(152)	
Purchases awaiting settlement	(864)		(1,180)	
SDRT payable	0		(4)	
		(1,640)		(1,375)
<b>Total liabilities</b>		<b>(1,640)</b>		<b>(1,375)</b>
<b>Net assets attributable to shareholders</b>		<b>67,083</b>		<b>21,686</b>

### Notes to the financial statements

#### 1 Accounting policies

##### a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

##### b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 31 October 2011, being the last business day of the financial year. The fair value of investments managed by the Authorised Corporate Director (ACD) is their single price except in the case of the M&G Property Portfolio which is valued at cancellation price; the fair value of investments which are managed by other management groups is their contractual bid price; and in the case of shares in open-ended investment companies, fair value is their single price.

##### c) Investment gains and losses

Gains and losses on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date are treated as capital.

##### d) Dividend and interest income

Distributions from collective investment schemes are recognised net of attributable tax credits when the security is quoted ex-distribution.

Bank interest is recognised on an accruals basis and treated as revenue.

##### e) Equalisation

Income received from investments in authorised collective investment schemes, which are purchased during the financial year, will include an element of equalisation which represents the average amount of income included in the price paid for shares. The equalisation is treated as a return of capital for taxation purposes and is not included in the distributable income.

##### f) Management fee rebates

These are recognised on an accruals basis as either revenue or capital in accordance with the treatment of the management fee charged in the underlying collective investment schemes.

##### g) Expenses

For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

##### h) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

##### i) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

##### j) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

##### k) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

# Prudential Cautious Portfolio

## Financial statements

### Notes to the financial statements (continued)

#### 2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) report, the ACD accepts market price risk, interest rate risk and currency risk, in relation to the investment portfolio. Generally, the ACD will not seek to hedge these exposures since the ACD believes that, in the long term, such hedging would be detrimental to total return.

The capital and income value of the sub-fund's investments, whether held directly or through collective investment schemes can be significantly affected by exchange rate fluctuations.

The sub-fund also invests in interest-bearing securities through holdings in collective investment schemes. Any change to prevailing interest rates or in the expectations of future rates may result in an increase or decrease in the value of securities held. In general, if interest rates rise the capital value of the security or underlying fund is likely to fall and vice versa.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

Liquidity risk relates to the capacity to meet liabilities. The primary source of this risk to the sub-fund is the liability to shareholders for any redemption of shares. The risk is minimised by holding cash and readily realisable securities and via access to overdraft facilities. As noted on page 65, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (31.10.10: same).

#### 3 Net capital (losses) / gains

	2011 £'000	2010 £'000
Non-derivative securities	(460)	825
Management fee rebates taken to capital	20	3
Transaction charges	(1)	(1)
<b>Net capital (losses) / gains</b>	<b>(441)</b>	<b>827</b>

#### 4 Revenue

	2011 £'000	2010 £'000
Annual payments	107	32
Bank interest	3	1
Interest distributions	708	113
Management fee rebates	227	41
UK dividends	99	18
<b>Total revenue</b>	<b>1,144</b>	<b>205</b>

#### 5 Expenses

	2011 £'000	2010 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge	351	45
Administration fee	51	9
	402	54
<b>Payable to the Depositary or associate</b>		
Depositary's fee (including VAT)	4	1
<b>Other expenses</b>		
Audit fee	10	8
Safe custody charge	1	0
	11	8
<b>Total expenses</b>	<b>417</b>	<b>63</b>

#### 6 Taxation

	2011 £'000	2010 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	127	22
Current tax charge (note 6b)	127	22
Deferred tax (note 6c)	2	3
<b>Total taxation</b>	<b>129</b>	<b>25</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	727	142
Corporation tax at 20%	145	29
Effects of:		
Tax on management fee rebates taken to capital	4	0
UK dividends not taxable	(20)	(4)
Revenue taxable in different periods	(2)	(3)
<b>Current tax charge (note 6a)</b>	<b>127</b>	<b>22</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	3	0
Deferred tax in profit and loss account (note 6a)	2	3
<b>Provision at the end of the year</b>	<b>5</b>	<b>3</b>

The sub-fund does not have an unrecognised deferred tax asset at the year end (31.10.10: same).

#### 7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (31.10.10: same).

# Prudential Cautious Portfolio

## Financial statements

### Notes to the financial statements (continued)

#### 8 Related parties

Prudential Unit Trusts Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where Prudential Unit Trusts Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from Prudential Unit Trusts Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to Prudential Unit Trusts Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

During the year, there were transactions in shares in related parties of Prudential Unit Trusts Limited with a total value of £16,162,000 (2010: £6,937,000).

At the balance sheet date, the sub-fund held shares in related parties of Prudential Unit Trusts Limited with a value of £17,505,000 (31.10.10: £6,362,000).

At the balance sheet date, material shareholders from within Prudential plc, of which Prudential Unit Trusts Limited is a wholly owned subsidiary, have holdings totalling 41.46% (31.10.10: 57.15%) of the sub-fund's shares.

#### 9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (31.10.10: same).

##### Currency exposure

There was no direct foreign currency exposure within the sub-fund at the balance sheet date. However, there was significant foreign currency exposure within the sub-fund's holdings of collective investment schemes since their assets are denominated in currencies other than sterling, with the effect that their balance sheet and total returns can be affected by exchange rate fluctuations (31.10.10: same).

##### Interest rate profile

The interest-bearing financial assets of the sub-fund consist of bank balances, on which interest is calculated at a variable rate by reference to sterling bank deposit rates, and the sub-fund's holdings in bond portfolios which are exposed to holdings in fixed and variable rate financial assets (31.10.10: same).

##### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.10.10: same).

#### 10 Portfolio transaction costs

	2011 £'000	2010 £'000
a) Purchases		
Purchases excluding transaction costs	52,122	20,763
b) Sales		
Sales excluding transaction costs	6,269	723

There were no significant transaction costs during the year (2010: same).

#### 11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Income and Accumulation) shares and Sterling Class 'C' (Income) shares.

The charging structure for each share class, as at 31 October 2011, is set out in the following table (31.10.10: same):

	Class 'A' %	Class 'C' %
Initial charge: of amount invested	5.00	nil
Withdrawal fee: of amount redeemed <sup>[a]</sup>	nil	nil
ACD's annual remuneration: of allocated 'NAV'	1.40	0.18

[a] The ACD may, at not less than 60 days notice to shareholders in writing, make a charge on the withdrawal of shares. At present no withdrawal fee is levied.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

	31.10.11		31.10.10	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling Class 'A'	3,516	35,963	1,406	7,906
Class 'C'	27,604	n/a	12,374	n/a

The net asset value per share and the number of shares are given in the comparative table on page 42. The distribution per share is given in the distribution table on page 47. Each share class has the same rights on winding-up.

# Prudential Cautious Portfolio

## Financial statements

### Notes to the financial statements (continued)

#### 12 Finance costs

	2011 £'000	2010 £'000
<b>Income shares (sterling)</b>		
Class 'A' - Final	35	7
Class 'C' - Final	550	145
<b>Accumulation shares (sterling)</b>		
Class 'A' - Final	355	35
Finance costs: Dividend distributions	940	187
Income deducted on cancellation of shares	9	8
Income received on issue of shares	(349)	(79)
<b>Finance costs: Distributions</b>	<b>600</b>	<b>116</b>
Net revenue per statement of total return	598	117
Tax on management fee rebates taken to capital	4	0
Undistributed income brought forward	1	0
Undistributed income carried forward	(3)	(1)
<b>Finance costs: Distributions</b>	<b>600</b>	<b>116</b>

### Distribution tables

Dividend distributions on Income shares	Net income	Equal- isation	Distribution payable / paid	
			2011	2010
<b>Sterling Class 'A' - Final</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Group 1:	1.0660	-	1.0660	0.4800
Group 2:	0.4156	0.6504	1.0660	0.4800
<b>Class 'C' - Final</b>				
Group 1:	2.1370	-	2.1370	1.2540
Group 2:	1.0896	1.0474	2.1370	1.2540

  

Dividend distribution on Accumulation shares	Net income	Equal- isation	Amount reinvested	
			2011	2010
<b>Sterling Class 'A' - Final</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Group 1:	1.0720	-	1.0720	0.4800
Group 2:	0.3989	0.6731	1.0720	0.4800

Final period 01.11.10 - 31.10.11

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax but must be deducted from the cost of shares for Capital Gains Tax purposes.

## Prudential Cautious Portfolio

This page is intentionally blank

# Prudential Defensive Portfolio

## Authorised Corporate Director's report

### Investment objective of the Prudential Defensive Portfolio

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.

### Policy for achieving the objective of the Prudential Defensive Portfolio

The Fund is an actively managed portfolio investing mainly in collective investment schemes in order to provide a well diversified exposure to global fixed income and variable rate assets, cash, near cash, equities and / or immovable property. Typically the Fund will have a high exposure to lower risk assets such as fixed income assets, cash and near cash. Scheme selection is made on the basis of in depth initial and ongoing qualitative assessment of the fund managers and quantitative analysis of the collective investment schemes.

The Fund may also invest directly in other assets including transferable securities, other collective investment schemes, cash and near cash, deposits, warrants and money market instruments. Derivative instruments may be held directly for the purposes of efficient portfolio management only.

## Investment activities over the report period

During the 12 months under review, the Prudential Defensive Portfolio produced a total return (capital performance with net income reinvested) of 1.0%\*. This was ahead of the average total return of 0.7%\* in the fund's peer group, the IMA Cautious Managed sector.

While the fund's combined equity and fixed interest holdings delivered positive returns overall, the review period offered a mixed bag of investor sentiment, volatility and risk aversion. The period began with the US Federal Reserve's plan to inject \$600 billion into the country's financial system to encourage growth, which contributed to the Dow Jones Index hitting two-year highs. The end of the 12-month period also saw European markets rallying strongly on expectations that policy initiatives would begin to provide some certainty to the continent's on-going sovereign debt crisis.

The period in between was not so clear-cut. As we moved through 2011, civil unrest across the Middle East and North Africa fuelled concerns about potential oil supply problems, and the devastating earthquake and tsunami which struck Japan on 11 March threw stockmarkets into chaos.

Going into the summer, global markets experienced a prolonged bout of risk aversion and extreme volatility, which intensified noticeably in August and again in September. Equities were sold indiscriminately across the world as investors worried about the ability of policymakers to solve the eurozone's debt problems. A reduction in global growth expectations in response to fiscal tightening in developed countries also dampened investor sentiment and appetite for riskier assets.

Given these conditions, the fund manager felt that risk assets, particularly equities, appeared attractively priced, but not inexpensive enough to justify the inherent risks in volatile markets. He reduced the portfolio's target allocation to equities from 20% to 15% in the run-up to the summer, but increased the allocation back to 21% when pricing appeared more favourable at the beginning of October.

In fluctuating markets, the exposure to global equities generally had a negative impact on the portfolio. While the First State Asia Pacific Leaders Fund and the Cazenove UK Growth and Income Fund both produced positive returns, the Henderson European Selected Opportunities Fund underperformed given difficult market conditions in Europe. Likewise, the Aberdeen Emerging Markets Fund and Fidelity South East Asia Fund both produced disappointing results.

In terms of fixed interest, the fund manager adjusted allocations broadly in line with equity holdings, increasing his target holdings from 69% to 74% of the overall portfolio through the middle of the review period, and settling back to 69% by the end. He remained very negative on government bonds throughout the review period, believing the asset class to be highly overvalued, and where possible he avoided holding them within the portfolio.

The fund manager was cautiously positive on corporate bonds, which he believed were offering much better value than their government counterparts, with credit spreads (the difference between the yield on a corporate bond and a government bond of a similar maturity) appearing attractive. He felt that there was still a good selection of well financed businesses offering shorter or medium-term bonds at attractive rates of interest, which more than compensated investors for the possibility that they might not be able to pay back their loans. Exposure to the M&G Strategic Corporate Bond Fund provided the largest boost to performance for the review period, while the Fidelity MoneyBuilder Income Fund and the Kames (formerly Aegon) Investment Grade Bond Fund both added value to the portfolio.

The fund manager closed the position in the Threadneedle American Fund in February, with the proceeds raised from the sale used to initiate a position in the M&G High Yield Corporate Bond Fund to take advantage of the higher rates of interest on offer in the high yield area of the fixed interest market. The portfolio also has exposure to the Kames High Yield Bond, which boosted performance, and the Ballie Gifford High Yield Bond, which underperformed. Overall he increased targeted exposure to high yield from 5% to 10% over the review period, subsequently reducing his targeted allocation to the M&G High Interest Fund from 19% to 14%.

The fund manager maintained his 9% target allocation to property. This was split between the M&G Property Portfolio and the Aviva Property Trust, both of which produced positive, though muted, returns over the period while providing an additional element of diversification.

The fund manager believes that, particularly concerning Europe, market risks still very much exist. Political will and strong policy decisions, including additional fiscal consolidation across the EU, will be necessary to help shore up the system, and it is unlikely to be a smooth road in the near term. As such, the fund manager believes that holding a balanced range of assets, including fixed interest, cash, equities and property, is the best way to provide a healthy risk-adjusted return for the fund's investors, without over-exposure to any single part of the market.

\* Source: Morningstar, Inc.

Basis: Bid to bid with net income reinvested to 31 October 2011.

Please note that the views expressed in this report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a financial adviser.

# Prudential Defensive Portfolio

## Fund statistics

Sterling Class 'C' shares are not generally available to all investors.

### Distribution dates and fund facts

Distribution type	xd		payment	
Final	01.11.12		31.12.12	
	Final distribution		Total Expense Ratio <sup>[b]</sup>	
	Inc	Acc	31.10.11	31.10.10
	31.12.11 <sup>[a]</sup>	01.11.11 <sup>[a]</sup>		
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
<b>Class 'A'</b>	1.3476	1.3532	2.79	2.18
<b>Class 'C'</b>	2.4020	n/a	1.20	1.25

<sup>[a]</sup> The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

<sup>[b]</sup> The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

### Fund performance

Performance of share classes

	Net asset value per share as at 31.10.11		Net asset value per share as at 31.10.10		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
<b>Class 'A'</b>	105.42	107.26	105.64	106.12	-0.21	+1.07
<b>Class 'C'</b>	105.46	n/a	105.67	n/a	-0.20	n/a

### Prices

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
<b>Sterling</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
<b>Class 'A'</b>	2010 <sup>[a]</sup>	107.57	98.97	107.57	98.97
	2011 <sup>[b]</sup>	109.39	102.73	109.90	103.21
<b>Class 'C'</b>	2010 <sup>[a]</sup>	108.44	99.04	n/a	n/a
	2011 <sup>[b]</sup>	110.11	103.71	n/a	n/a

<sup>[a]</sup> From 22 January 2010 (the launch date of the sub-fund) to 31 December 2010.

<sup>[b]</sup> To 1 November 2011.

Past performance is not a guide to future performance.

The price of shares and the income from them can go down as well as up, and you may get back less than you invested.

### Income

#### Interest income per share

	Calendar year	Distributed	Reinvested
<b>Sterling (net)</b>		<b>p</b>	<b>p</b>
<b>Class 'A'</b>	2010	0.4920	0.4920
	2011 <sup>[a]</sup>	1.3476	1.3532
<b>Class 'C'</b>	2010	1.3232	n/a
	2011 <sup>[a]</sup>	2.4020	n/a

<sup>[a]</sup> Up to final: ex-distribution date 1 November 2011; payment date 31 December 2011.

### Net assets

	Period ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
<b>Sterling</b>		<b>p</b>	<b>p</b>		
<b>Class 'A'</b>	Oct 2010	105.64	106.12	598,000	3,946,000
	Oct 2011	105.42	107.26	1,896,000	17,672,500
<b>Class 'C'</b>	Oct 2010	105.67	n/a	8,024,000	n/a
	Oct 2011	105.46	n/a	11,090,000	n/a

#### Total net asset value of sub-fund

Period ended	£
Oct 2010	13,298,000
Oct 2011	32,650,000



# Prudential Defensive Portfolio

## Financial statements

### Balance sheet

	as at		as at	
	31 October 2011	31 October 2010	31 October 2011	31 October 2010
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		32,374		13,014
<b>Debtors</b>				
Amounts receivable on issues	332		171	
Distributions receivable	33		14	
Management fee rebates due	48		6	
Tax recoverable	109		24	
		522		215
<b>Cash and bank balances</b>				
Cash held as bank balances	783		359	
		783		359
<b>Total other assets</b>		<b>1,305</b>		<b>574</b>
<b>Total assets</b>		<b>33,679</b>		<b>13,588</b>
<b>Liabilities</b>				
<b>Creditors</b>				
Amounts payable on cancellations	0		(11)	
Deferred taxation	(2)		0	
Expenses payable	(23)		(11)	
Income tax payable	(97)		(21)	
Net distributions payable on Income shares	(292)		(109)	
Purchases awaiting settlement	(615)		(135)	
SDRT payable	0		(3)	
<b>Total liabilities</b>		<b>(1,029)</b>		<b>(290)</b>
<b>Net assets attributable to shareholders</b>		<b>32,650</b>		<b>13,298</b>

### Notes to the financial statements

#### 1 Accounting policies

##### a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

##### b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 31 October 2011, being the last business day of the financial year. The fair value of investments managed by the Authorised Corporate Director (ACD) is their single price except in the case of the M&G Property Portfolio which is valued at cancellation price; the fair value of investments which are managed by other management groups is their contractual bid price; and in the case of shares in open-ended investment companies, fair value is their single price.

##### c) Investment gains and losses

Gains and losses on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date are treated as capital.

##### d) Dividend and interest income

Distributions from collective investment schemes are recognised net of attributable tax credits when the security is quoted ex-distribution.

Bank interest is recognised on an accruals basis and treated as revenue.

##### e) Equalisation

Income received from investments in authorised collective investment schemes, which are purchased during the financial year, will include an element of equalisation which represents the average amount of income included in the price paid for shares. The equalisation is treated as a return of capital for taxation purposes and is not included in the distributable income.

##### f) Management fee rebates

These are recognised on an accruals basis as either revenue or capital in accordance with the treatment of the management fee charged in the underlying collective investment schemes.

##### g) Expenses

For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

##### h) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

##### i) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

##### j) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

# Prudential Defensive Portfolio

## Financial statements

### Notes to the financial statements (continued)

#### 1 Accounting policies (continued)

##### k) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

#### 2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) report, the ACD accepts market price risk, interest rate risk and currency risk, in relation to the investment portfolio. Generally, the ACD will not seek to hedge these exposures since the ACD believes that, in the long term, such hedging would be detrimental to total return.

The capital and income value of the sub-fund's investments, whether held directly or through collective investment schemes can be significantly affected by exchange rate fluctuations.

The sub-fund also invests in interest-bearing securities through holdings in collective investment schemes. Any change to prevailing interest rates or in the expectations of future rates may result in an increase or decrease in the value of securities held. In general, if interest rates rise the capital value of the security or underlying fund is likely to fall and vice versa.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

Liquidity risk relates to the capacity to meet liabilities. The primary source of this risk to the sub-fund is the liability to shareholders for any redemption of shares. The risk is minimised by holding cash and readily realisable securities and via access to overdraft facilities. As noted on page 65, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (31.10.10: same).

#### 3 Net capital (losses) / gains

	2011 £'000	2010 £'000
Non-derivative securities	(110)	478
Management fee rebates taken to capital	13	2
Transaction charges	(1)	(1)
<b>Net capital (losses) / gains</b>	<b>(98)</b>	<b>479</b>

#### 4 Revenue

	2011 £'000	2010 £'000
Annual payments	65	20
Bank interest	2	1
Interest distributions	484	99
Management fee rebates	95	23
UK dividends	41	9
<b>Total revenue</b>	<b>687</b>	<b>152</b>

#### 5 Expenses

	2011 £'000	2010 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge	195	31
Administration fee	24	6
	219	37
<b>Payable to the Depositary or associate</b>		
Depositary's fee (including VAT)	2	1
<b>Other expenses</b>		
Audit fee (including VAT)	10	8
<b>Total expenses</b>	<b>231</b>	<b>46</b>

#### 6 Taxation

	2011 £'000	2010 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	3	0
Current tax charge (note 6b)	3	0
Deferred tax (note 6c)	2	0
<b>Total taxation</b>	<b>5</b>	<b>0</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	456	106
Corporation tax at 20%	91	21
Effects of:		
Tax on management fee rebates taken to capital	3	0
UK dividends not taxable	(8)	(2)
Interest distributions	(81)	(19)
Prior period expenses utilised	(1)	0
Current period expenses not utilised	0	2
Revenue taxable in different periods	(1)	(2)
<b>Current tax charge (note 6a)</b>	<b>3</b>	<b>0</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	2	0
<b>Provision at the end of the year</b>	<b>2</b>	<b>0</b>

The sub-fund does not have an unrecognised deferred tax asset at the year end (31.10.10: same).

Interest distributions have been made in respect of all distributions during the current and preceding years. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs where applicable.

# Prudential Defensive Portfolio

## Financial statements

### Notes to the financial statements (continued)

#### 7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (31.10.10: same).

#### 8 Related parties

Prudential Unit Trusts Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where Prudential Unit Trusts Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from Prudential Unit Trusts Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to Prudential Unit Trusts Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

During the year, there were transactions in shares in related parties of Prudential Unit Trusts Limited with a total value of £7,103,000 (2010: £4,699,000).

At the balance sheet date, the sub-fund held shares in related parties of Prudential Unit Trusts Limited with a value of £9,737,000 (31.10.10: £4,550,000).

At the balance sheet date, material shareholders from within Prudential plc, of which Prudential Unit Trusts Limited is a wholly owned subsidiary, have holdings totalling 36.17% (31.10.10: 63.84%) of the sub-fund's shares.

#### 9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (31.10.10: same).

##### Currency exposure

There was no direct foreign currency exposure within the sub-fund at the balance sheet date. However, there were significant holdings of collective investment schemes since their assets are denominated in currencies other than sterling, with the effect that their balance sheet and total returns can be affected by exchange rate fluctuations (31.10.10: same).

##### Interest rate profile

The interest-bearing financial assets of the sub-fund consist of bank balances, on which interest is accrued at a variable rate by reference to sterling bank deposit rates, and the sub-fund's holdings in bond portfolios which are exposed to holdings in fixed and variable rate financial assets (31.10.10: same).

##### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.10.10: same).

#### 10 Portfolio transaction costs

	2011 £'000	2010 £'000
a) Purchases		
Purchases excluding transaction costs	23,953	13,299
b) Sales		
Sales excluding transaction costs	4,482	763

There were no significant transaction costs during the year (2010: same).

#### 11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Income and Accumulation) shares and Sterling Class 'C' (Income) shares.

The charging structure for each share class, as at 31 October 2011, is set out in the following table (31.10.10: same):

	Class 'A' %	Class 'C' %
<b>Initial charge:</b>		
of amount invested	5.00	nil
<b>Withdrawal fee:</b>		
of amount redeemed <sup>[a]</sup>	nil	nil
<b>ACD's annual remuneration:</b>		
of allocated 'NAV'	1.40	0.18

[a] The ACD may, at not less than 60 days notice to shareholders in writing, make a charge on the withdrawal of shares. At present no withdrawal fee is levied.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

	31.10.11		31.10.10	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling Class 'A'	1,999	18,956	632	4,187
Class 'C'	11,695	n/a	8,479	n/a

The net asset value per share and the number of shares are given in the comparative table on page 50. The distribution per share is given in the distribution table on page 55. Each share class has the same rights on winding-up.

# Prudential Defensive Portfolio

## Financial statements

### Notes to the financial statements (continued)

#### 12 Finance costs

	2011 £'000	2010 £'000
<b>Income shares (sterling)</b>		
Class 'A' - Final	26	3
Class 'C' - Final	266	106
<b>Accumulation shares (sterling)</b>		
Class 'A' - Final	239	19
	531	128
Income tax deducted at source	96	21
Finance costs: Interest distributions	627	149
Income deducted on cancellation of shares	29	3
Income received on issue of shares	(202)	(46)
<b>Finance costs: Distributions</b>	<b>454</b>	<b>106</b>
Net revenue per statement of total return	451	106
Tax on management fee rebates taken to capital	3	0
<b>Finance costs: Distributions</b>	<b>454</b>	<b>106</b>

### Distribution tables

Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equal- isation	Distribution payable/paid 2011 2010	
	p	p	p	p	p	p
<b>Sterling Class 'A' - Final</b>						
Group 1:	1.6845	0.3369	1.3476	-	1.3476	0.4920
Group 2:	-	-	-	1.3476	1.3476	0.4920
<b>Class 'C' - Final</b>						
Group 1:	3.0025	0.6005	2.4020	-	2.4020	1.3232
Group 2:	0.3404	0.0681	0.2723	2.1297	2.4020	1.3232

Interest distribution on Accumulation shares	Gross income	Income tax deducted	Net income	Equal- isation	Amount reinvested 2011 2010	
	p	p	p	p	p	p
<b>Sterling Class 'A' - Final</b>						
Group 1:	1.6915	0.3383	1.3532	-	1.3532	0.4920
Group 2:	-	-	-	1.3532	1.3532	0.4920

Final period 01.11.10 - 31.10.11

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax but must be deducted from the cost of shares for Capital Gains Tax purposes.

# Prudential Defensive Portfolio

This page is intentionally blank

# Prudential Managed Defensive Fund

## Authorised Corporate Director's report

### Investment objective of the Prudential Managed Defensive Fund

The Fund's objective is to deliver long term total return (the combination of income and growth of capital) with a bias towards income.

### Policy for achieving the objective of the Prudential Managed Defensive Fund

The Fund aims to achieve its objective through asset allocation unconstrained by any benchmark. The Fund may invest globally either directly or via other collective investment schemes in assets including transferable securities, debt instruments, money market instruments, cash, near cash, deposits, derivatives, and indirectly in property. Derivative instruments may be used for both investment purposes and efficient portfolio management. The Fund will invest no more than 35% of the portfolio in equities.

## Investment activities over the report period

During the 12 months under review, the Prudential Managed Defensive Fund produced a total return (capital performance with net income reinvested) of 2.5%\*. This was ahead of the average total return of 0.7%\* in the fund's peer group, the IMA Cautious Managed sector.

While the fund's combined equity and fixed interest holdings delivered positive returns overall, the review period offered a mixed bag of investor sentiment, volatility and risk aversion. The period began with the US Federal Reserve's plan to inject \$600 billion into the country's financial system to encourage growth, which contributed to the Dow Jones Index hitting two-year highs. The end of the period also saw European markets rallying strongly on expectations that policy initiatives would begin to provide some certainty to the continent's on-going sovereign debt crisis.

The period in-between was not so clear-cut. As we moved through 2011, civil unrest across the Middle East and North Africa fuelled concerns about potential oil supply problems, and the devastating earthquake and tsunami which struck Japan on 11 March threw stockmarkets into chaos.

Going into the summer, global markets experienced a prolonged bout of risk aversion and extreme volatility, which intensified noticeably in August and again in September. Equities were sold indiscriminately across the world as investors worried about the ability of policymakers to solve the eurozone's debt problems. A reduction in global growth expectations in response to fiscal tightening in developed countries also dampened investor sentiment and appetite for riskier assets.

Given these conditions, the fund manager felt that risk assets, particularly equities, appeared attractively priced, but not inexpensive enough to justify the inherent risks in volatile markets. He reduced the fund's target allocation to equities in the run-up to the summer, from 20% to 15%, but added back to the position at the beginning of October when pricing appeared more favourable, settling at 21%.

There were a number of changes to the equities portion of the portfolio over the reporting period, resulting from several mergers between funds in the Prudential range with funds managed by M&G Investments. The Prudential European Trust merged with the M&G Pan European Fund while the Prudential North American Trust merged with the M&G American Fund. By the end of the reporting period, the majority of the fund's equity holdings were divided between the M&G Pan European Fund and the Prudential UK Growth QIS Fund, both with 8% targeted allocations.

The fund manager maintained his 9% target allocation to property throughout the period. This was through the M&G Property Portfolio which produced positive, though muted, returns over the period while providing an additional element of diversification.

In terms of fixed interest, the fund manager adjusted allocations in line with equity holdings, increasing his target holdings from 47.5% to 60% of the overall portfolio through the middle of the period, and reducing this back to 55% by the end. He remained very negative on government bonds throughout the review period, believing the asset class to be highly overvalued, and where possible he avoided holding them within the fund.

He was more positive on corporate bonds, which he believed were offering much better value than their government counterparts, with credit spreads (the difference between the yield on a corporate bond and a government bond of a similar maturity) appearing attractive. He felt that there was still a good selection of well financed businesses offering shorter or medium-term bonds at attractive rates of interest which more than compensated investors for the possibility that they might not be able to pay back their loans.

In another fund merger, the Prudential Corporate Bond Trust merged with the M&G Corporate Bond Fund, which performed well over the review period, while exposure to the M&G European Corporate Bond Fund also added value to the portfolio. In addition, the fund manager gained confidence in the high yield bond sector, and as the period progressed he increased his targeted allocation from 2.5% to 10%.

In the alternatives space, the fund manager reduced his targeted exposure to hedge funds from 0.5% to 0.2% of the portfolio, while also slightly trimming exposure to distressed debt from 0.5% to 0.4%. In the middle of the review period, he added a small percentage of exposure to private equity through Conversus Capital and Catco Reinsurance, equating to 1% of the portfolio.

The fund manager believes that, particularly concerning Europe, market risks still very much exist. Political will and strong policy decisions, including additional fiscal consolidation across the EU, will be necessary to help shore up the financial system, and it is unlikely to be a smooth road in the near term. As such, the fund manager believes that holding a balanced range of assets is the best way to provide a healthy risk-adjusted return for the fund's investors, without over-exposure to any single part of the market. The driver of the Prudential Managed Defensive Fund is asset allocation and stock selection with reference to a comparable peer group. Further moves to achieve closer alignment with this benchmark are possible going forward into the next reporting period.

\* Source: Morningstar, Inc.

Basis: Bid to bid with net income reinvested to 31 October 2011.

Please note that the views expressed in this report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a financial adviser.

# Prudential Managed Defensive Fund

## Fund statistics

Sterling Class 'C' shares are not generally available to all investors.

### Distribution dates and fund facts

Distribution type	xd		payment	
Final	01.11.12		31.12.12	
	Final distribution		Total Expense Ratio <sup>(b)</sup>	
	Inc	Acc	31.10.11	31.10.10
	31.12.11 <sup>[a]</sup>	01.11.11 <sup>[a]</sup>		
Sterling Class 'A'	p	p	%	%
	2.2980	2.4860	1.81	1.62
Class 'C'	3.4952	n/a	0.32	0.28

<sup>[a]</sup> The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

<sup>[b]</sup> The Total Expense Ratio (TER) shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

### Fund performance

Performance of share classes

	Net asset value per share as at 31.10.11		Net asset value per share as at 31.10.10		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling Class 'A'	p	p	p	p	%	%
	110.59	123.00	110.06	119.97	+0.30	+2.48
Class 'C'	110.68	n/a	110.15	n/a	+5.51	n/a

### Prices

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling Class 'A'		p	p	p	p
	2007 <sup>[a]</sup>	102.55	98.91	103.53	98.91
	2008	101.92	90.11	103.50	92.43
	2009	109.05	91.20	113.88	94.92
	2010	113.61	106.14	121.57	113.51
	2011 <sup>[b]</sup>	114.87	107.97	125.16	117.77
Class 'C'					
	2007 <sup>[a]</sup>	103.28	99.23	n/a	n/a
	2008	102.15	90.03	n/a	n/a
	2009	110.13	91.46	n/a	n/a
	2010	114.91	106.38	n/a	n/a
	2011 <sup>[b]</sup>	115.79	109.23	n/a	n/a

<sup>[a]</sup> From 16 February 2007 (the launch date of the sub-fund) to 31 December 2007.

<sup>[b]</sup> To 1 November 2011.

Past performance is not a guide to future performance.

The price of shares and the income from them can go down as well as up, and you may get back less than you invested.

### Income

#### Interest income per share

	Calendar year	Distributed	Reinvested
Sterling (net)		p	p
Class 'A'	2007	1.5532	1.5532
	2008	2.2424	2.2772
	2009	2.8796	2.9973
	2010	2.1208	2.2681
	2011 <sup>[a]</sup>	2.2980	2.4860
Class 'C'	2007	2.2580	n/a
	2008	3.3752	n/a
	2009	3.9780	n/a
	2010	3.3232	n/a
	2011 <sup>[a]</sup>	3.4952	n/a

<sup>[a]</sup> Up to final: ex-distribution date 1 November 2011; payment date 31 December 2011.

### Net assets

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling Class 'A'		p	p		
	Oct 2009	104.67	111.94	304,000	2,040,500
	Oct 2010	110.06	119.97	424,000	5,445,500
	Oct 2011	110.59	123.00	1,113,000	10,352,500
Class 'C'					
	Oct 2009	104.69	n/a	149,910,643	n/a
	Oct 2010	110.15	n/a	148,999,643	n/a
	Oct 2011	110.68	n/a	156,584,643	n/a

#### Total net asset value of sub-fund

Year ended	£
Oct 2009	159,548,000
Oct 2010	171,129,000
Oct 2011	187,278,000



# Prudential Managed Defensive Fund

## Financial statements

### Balance sheet

	as at		as at	
	31 October 2011	31 October 2011	31 October 2010	31 October 2010
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		189,809		171,386
<b>Debtors</b>				
Amounts receivable on issues	258		57	
Bank interest receivable	1		0	
Distributions receivable	867		148	
Management fee rebates due	45		19	
Sales awaiting settlement	1,900		3,000	
Tax recoverable	745		745	
		3,816		3,969
<b>Cash and bank balances</b>				
Cash held as bank balances	106		669	
Cash held on deposit	1,025		3,379	
		1,131		4,048
<b>Total other assets</b>	<b>4,947</b>		<b>8,017</b>	
<b>Total assets</b>	<b>194,756</b>		<b>179,403</b>	
<b>Liabilities</b>				
Investment liabilities		(441)		(2,015)
<b>Creditors</b>				
Amounts payable on cancellations	(94)		0	
Expenses payable	(20)		(19)	
Income tax payable	(1,424)		(1,268)	
Net distributions payable on				
Income shares	(5,499)		(4,961)	
SDRT payable	0		(11)	
<b>Total other liabilities</b>	<b>(7,037)</b>		<b>(6,259)</b>	
<b>Total liabilities</b>	<b>(7,478)</b>		<b>(8,274)</b>	
<b>Net assets attributable to shareholders</b>	<b>187,278</b>		<b>171,129</b>	

### Notes to the financial statements

#### 1 Accounting policies

##### a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

##### b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 31 October 2011, being the last business day of the financial year. The fair value of equity shares is bid price; the fair value of investments managed by the Authorised Corporate Director (ACD), or an associate, is their single price except in the case of the M&G Property Portfolio which is valued at cancellation price; the fair value of investments which are managed by other management groups is their contractual bid price; and the fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

##### c) Investment gains and losses

Gains and losses on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date are treated as capital.

##### d) Exchange rates

Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling as at 12 noon on 31 October 2011, being the last business day of the financial year.

##### e) Derivative financial instruments

Gains and losses on forward currency contracts and derivative contracts are accounted for in accordance with the fund manager's motives and circumstances on entering into the contracts. Where the motives and circumstances are to protect or enhance capital return, gains or losses are recognised in net capital gains; where the motives and circumstances are to generate or protect revenue, the costs or income are recognised in net revenue before taxation.

##### f) Dividend and interest income

Dividends from quoted equity and non-equity shares are recognised net of attributable tax credits when the security is quoted ex-dividend. Overseas dividends received after the deduction of withholding tax are shown gross of taxation, with the taxation consequences shown within the taxation charge. Dividends are recognised as either revenue or capital depending upon the nature and circumstances of the dividend receivable. Distributions from collective investment schemes are recognised net of attributable tax credits when the security is quoted ex-distribution.

Bank interest, deposit interest and other income are recognised on an accruals basis and treated as revenue.

##### g) Equalisation

Income received from investments in authorised collective investment schemes, which are purchased during the financial year, will include an element of equalisation which represents the average amount of income included in the price paid for shares. The equalisation is treated as a return of capital for taxation purposes and is not included in the distributable income.

##### h) Management fee rebates

These are recognised on an accruals basis as either revenue or capital in accordance with the treatment of the management fee charged in the underlying collective investment schemes.

# Prudential Managed Defensive Fund

## Financial statements

### Notes to the financial statements (continued)

#### 1 Accounting policies (continued)

i ) **Stock dividends**

The ordinary element of stocks received in lieu of cash dividends is recognised as revenue of the sub-fund. Any enhancement above the cash dividend is treated as capital.

j ) **Expenses**

For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

k ) **Apportionment of income and expenses to multiple share classes**

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

l ) **Taxation**

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

m ) **Deferred taxation**

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

n ) **Distribution policy**

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue. Stock dividends do not form part of the distributable income.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the sub-fund.

#### 2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) report, the ACD accepts market price risk, currency risk and interest rate risk in relation to the investment portfolio.

The capital and income value of the sub-fund's investments, whether held directly or through collective investment schemes, can be significantly affected by exchange rate fluctuations. During the year, it has been the policy to hedge some of the investment portfolio against currency movements through the use of forward currency contracts.

Short-term foreign currency exposures are generally covered by short dated currency contracts. Income arising in foreign currencies is generally converted into sterling shortly after receipt and is not hedged in advance of receipt.

The sub-fund also invests in interest-bearing securities through direct holdings and holdings in collective investment schemes. Any change to prevailing interest rates or in the expectations of future rates may result in an increase or decrease in the value of securities held. In general, if interest rates rise the capital value of the security or underlying fund is likely to fall and vice versa. The sub-fund may invest in other funds where a significant part of their portfolio is invested in below investment grade securities. The value of such funds may be more volatile than normal.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

Liquidity risk relates to the capacity to meet liabilities. The primary source of this risk to the sub-fund is the liability to shareholders for any redemption of shares. The risk is minimised by holding cash and readily realisable securities and via access to overdraft facilities. As noted on page 65, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (31.10.10: same).

#### 3 Net capital gains

	2011 £'000	2010 £'000
Non-derivative securities	1,023	7,483
Forward currency contracts	(1,410)	1,013
Currency gains / (losses)	1,123	(2)
Transaction charges	(3)	(3)
<b>Net capital gains</b>	<b>733</b>	<b>8,491</b>

#### 4 Revenue

	2011 £'000	2010 £'000
Annual payments	735	708
Bank interest	2	1
Deposit interest	30	18
HM Revenue & Customs interest	0	3
Interest distributions	4,854	4,301
Interest on debt securities	0	328
Management fee rebates	881	547
Overseas dividends	88	248
Stock dividends	164	76
UK dividends	662	366
<b>Total revenue</b>	<b>7,416</b>	<b>6,596</b>

# Prudential Managed Defensive Fund

## Financial statements

### Notes to the financial statements (continued)

#### 5 Expenses

	2011 £'000	2010 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge	150	57
Administration fee	107	142
	<b>257</b>	<b>199</b>
<b>Payable to the Depository or associate</b>		
Depository's fee (including VAT)	16	14
<b>Other expenses</b>		
Audit fee (including VAT)	9	9
Safe custody charge	2	2
	11	11
<b>Total expenses</b>	<b>284</b>	<b>224</b>

#### 6 Taxation

	2011 £'000	2010 £'000
<b>a ) Analysis of charge in the year</b>		
Corporation tax	0	0
Overseas tax	3	0
Tax on annual payments	5	33
Current tax charge (note 6b)	8	33
Deferred tax (note 6c)	0	0
<b>Total taxation</b>	<b>8</b>	<b>33</b>
<b>b ) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	7,132	6,372
Corporation tax at 20%	1,426	1,274
Effects of:		
UK dividends not taxable	(132)	(73)
Stock dividends not taxable	(33)	(15)
Overseas dividends not taxable	(18)	(21)
Interest distributions	(1,241)	(1,174)
Current period expenses not utilised	4	18
Revenue taxable in different periods	(6)	(9)
Overseas tax	3	0
Tax on annual payments	5	33
<b>Current tax charge (note 6a)</b>	<b>8</b>	<b>33</b>
<b>c ) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The sub-fund has not recognised a deferred tax asset of £79,000 (31.10.10: £81,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

Interest distributions have been made in respect of all distributions during the current and preceding years. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs where applicable.

#### 7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (31.10.10: same).

#### 8 Related parties

Prudential Unit Trusts Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where Prudential Unit Trusts Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from Prudential Unit Trusts Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to Prudential Unit Trusts Limited in respect of the Authorised Corporate Director's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

During the year, there were transactions in shares in related parties of Prudential Unit Trusts Limited with a total value of £145,526,000 (2010: £109,789,000).

At the balance sheet date, the sub-fund held shares in related parties of Prudential Unit Trusts Limited with a value of £180,066,000 (31.10.10: £165,361,000).

At the balance sheet date, material shareholders from within Prudential plc, of which Prudential Unit Trusts Limited is a wholly owned subsidiary, have holdings totalling 87.38% (31.10.10: 96.21%) of the sub-fund's shares.

# Prudential Managed Defensive Fund

## Financial statements

### Notes to the financial statements (continued)

#### 9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (31.10.10: same).

#### Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets / (liabilities)		Total	
	as at 31.10.11 £'000	as at 31.10.10 £'000	as at 31.10.11 £'000	as at 31.10.10 £'000	as at 31.10.11 £'000	as at 31.10.10 £'000
Euro	(45,476)	(38,301)	9	0	(45,467)	(38,301)
US dollar	2,815	720	0	4	2,815	724
	(42,661)	(37,581)	9	4	(42,652)	(37,577)
Sterling	232,029	206,952	(2,099)	1,754	229,930	208,706
<b>Total</b>	<b>189,368</b>	<b>169,371</b>	<b>(2,090)</b>	<b>1,758</b>	<b>187,278</b>	<b>171,129</b>

#### Interest rate profile

The interest-bearing financial assets of the sub-fund consist of bank balances, on which interest is calculated at a variable rate by reference to sterling bank deposit rates, and the sub-fund's holdings in bond portfolios which are principally exposed to holdings in fixed and variable rate financial assets.

#### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.10.10: same).

#### 10 Portfolio transaction costs

	2011 £'000	2010 £'000
<b>a) Purchases</b>		
Purchases excluding transaction costs	144,868	66,520
Commissions	2	0
<b>Total purchases including transaction costs</b>	<b>144,870</b>	<b>66,520</b>
<b>b) Sales</b>		
Sales excluding transaction costs	127,469	62,866
Taxes	0	(15)
<b>Total sales net of transaction costs</b>	<b>127,469</b>	<b>62,851</b>

#### 11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Income and Accumulation) shares and Sterling Class 'C' (Income) shares.

The charging structure for each share class, as at 31 October 2011, is set out in the following table (31.10.10: same):

	Class 'A' %	Class 'C' %
<b>Initial charge:</b>		
of amount invested	5.00	nil
<b>Withdrawal fee:</b>		
of amount redeemed <sup>[a]</sup>	nil	nil
<b>ACD's annual remuneration:</b>		
of allocated 'NAV'	1.35	nil

[a] The ACD may, at not less than 60 days notice to shareholders in writing, make a charge on the withdrawal of shares. At present no withdrawal fee is levied.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

	31.10.11		31.10.10	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
<b>Sterling</b>				
Class 'A'	1,231	12,733	467	6,533
Class 'C'	173,314	n/a	164,129	n/a

The net asset value per share and the number of shares are given in the comparative table on page 58. The distribution per share is given in the distribution table on page 64. Each share class has the same rights on winding-up.

#### 12 Finance costs

	2011 £'000	2010 £'000
<b>Income shares (sterling)</b>		
Class 'A'- Final	26	9
Class 'C'- Final	5,473	4,952
<b>Accumulation shares (sterling)</b>		
Class 'A'- Final	257	124
	5,756	5,085
Income tax deducted at source	1,424	1,267
Finance costs: Interest distributions	7,180	6,352
Income deducted on cancellation of shares	152	63
Income received on issue of shares	(206)	(75)
<b>Finance costs: Distributions</b>	<b>7,126</b>	<b>6,340</b>
Net revenue per statement of total return	7,124	6,339
Undistributed income brought forward	2	3
Undistributed income carried forward	0	(2)
<b>Finance costs: Distributions</b>	<b>7,126</b>	<b>6,340</b>

# Prudential Managed Defensive Fund

## Financial statements

### Distribution table

Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equal- isation	Distribution payable /paid	
	p	p	p	p	2011	2010
<b>Sterling</b>						
<b>Class 'A' - Final</b>						
Group 1:	2,8725	0.5745	2.2980	-	2.2980	2.1208
Group 2:	1.8465	0.3093	1.4772	0.8208	2.2980	2.1208
<b>Class 'C' - Final</b>						
Group 1:	4.3690	0.8738	3.4952	-	3.4952	3.3232
Group 2:	2.9110	0.5822	2.3288	1.1664	3.4952	3.3232

Interest distribution on Accumulation shares	Gross income	Income tax deducted	Net income	Equal- isation	Amount reinvested	
	p	p	p	p	2011	2010
<b>Sterling</b>						
<b>Class 'A' - Final</b>						
Group 1:	3.1075	0.6215	2.4860	-	2.4860	2.2681
Group 2:	1.6796	0.3359	1.3437	1.1423	2.4860	2.2681

Final period 01.11.10 - 31.10.11

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax but must be deducted from the cost of shares for Capital Gains Tax purposes.

## Further information

### Risk factor

#### **Risk affecting all sub-funds**

Within the Prudential Investment Funds (1) range, although each sub-fund will be treated as being responsible for meeting its own liabilities, the Authorised Corporate Director (ACD) may reallocate these liabilities in a manner which is fair to all Company investors if any sub-fund is unable to meet its liabilities. A shareholder is not, however, liable for the debts of the Company and will never be liable to make any further payment to the Company after paying the purchase price of the shares.

### Liquidity

The ACD's policy is that the sub-funds should normally be close to fully invested but this is subject to the need to retain liquidity for the purpose of effecting the redemption of shares, and the efficient management of the sub-funds in accordance with their objectives. There may, therefore, be occasions when there will be higher levels of liquidity, for example following the issue of shares or the realisation of investments. Higher liquidity levels may also arise when a sub-fund's asset allocation policy is changed.

### Dilution

The actual cost of purchasing or selling a sub-fund's investments may deviate from the mid-market price due to dealing costs and these costs can have an adverse effect on the value of the sub-fund, known as 'dilution'. The Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Services Authority, allows the cost of dilution to be recovered from investors on the purchase or redemption of shares by means of a dilution adjustment to the dealing price, and this is the policy which has been adopted by the ACD.

Further information on the ACD's dilution adjustment policy is in the Prospectus, which is available free of charge from the ACD, Prudential Unit Trusts Limited.

### The EU savings directive

The percentage of the following Prudential sub-funds held in interest-bearing assets (as defined by the UK rules for the EU savings directive 2003/48/EC) is as follows:

Prudential Adventurous Portfolio	9.88%
Prudential Balanced Portfolio	25.49%
Prudential Cautious Growth Portfolio	35.31%
Prudential Cautious Managed Growth Fund	38.82%
Prudential Cautious Portfolio	50.91%
Prudential Defensive Portfolio	69.73%
Prudential Managed Defensive Fund	68.02%



[www.pru.co.uk](http://www.pru.co.uk)

'Prudential' is a trading name of Prudential Unit Trusts Limited and Prudential Personal Equity Plans Limited. This name is also used by other companies within the Prudential Group, which between them provide a range of financial products including life assurance, pensions, savings and investment products. Prudential Unit Trusts Limited and Prudential Personal Equity Plans Limited are registered in England and Wales under numbers 1796126 and 2059989 respectively. Registered Office at Laurence Pountney Hill, London EC4R 0HH. Authorised and regulated by the Financial Services Authority.