



If the 60:40 Fund is the Past, is the Smoothed Fund the Future?

Clive Moore IDAD



Overview Of IDAD



IDAD is an independent firm that specialises in delivering investment and risk management solutions to its clients.

Established in 2002, and with clients around the world, IDAD services wealth managers, banks and credit institutions, insurance companies and family offices across a wide range of asset classes.

IDAD combines its strengths in structuring, quantitative analysis, investment management and execution, with its open-architecture bank and custodian relationships, to become a trusted and reliable partner in the delivery of relevant and cost-effective solutions for its clients.



Larry Fink CEO BlackRock – April 2025

The traditional portfolio allocation comprised of 60% stocks and 40% bonds that dates back to the 1950s “may no longer fully represent true diversification.”

“The future standard portfolio may look more like 50/30/20 — stocks, bonds and private assets like real estate, infrastructure and private credit.”

Not a game changer, but important to access gains from other asset classes

Other asset classes don't always provide liquidity and can be volatile

Investors want **liquidity, decent returns** and **limited risk**

...and not everyone likes structured products 😊



This one



02/10/2015 - 02/10/2025 Data from FE fundinfo2025

...Or This one



02/10/2015 - 02/10/2025 Data from FE fundinfo 2025

Life Insurance Companies

- Took in Premiums and invested the money in order to deliver benefits to policyholders
- Money invested in Government bonds, other bonds, equities and property

Asset Liability Matching

- A mix of short-term and longer-term investments – e.g. to match age profile of lives assured
- Policies were ‘with profits’ or ‘without profits’
- Without Profits – policyholder/beneficiaries receive just the policy benefits (sum assured)
- With Profits – share in a bonus paid by insurance company determined by the profits made on their investments

Market Developments

- Hugely popular with mortgage repayment contracts (regular savings endowments to repay mortgage lump-sum) due to tax breaks
- Returns boosted by early redemption penalties
- Single premium bonds over sold, Lifeco consolidation
- With Profit funds re-structured into ‘Smoothed’ Funds

How do Smoothed Funds Work?

- Large pool of assets, including less liquid (i.e. property) with periodic valuations
- Regular unit price but based on an assumed growth rate – i.e. 7% p.a.
- Unit Price Adjustments (used to be called Market Value Adjustments) to take accounts of bigger swings in value

What's the Use Case?

- Investors benefit from asset returns on a wider portfolio without suffering the illiquidity/pricing risks normally associated
- Peace of mind for investors and advisers who don't want full market risk and prefer steady returns
- Ideal for late accumulation and decumulation

What are the Downsides?

- Need a very big pool of assets to make it work well
- Too paternalistic for some (a bit socialist)
- Unit Price Adjustments can surprise investors

Managing Income Drawdown Risk

What is Sequencing Risk?

When an investor begins withdrawing from their portfolio — for example, to generate regular income — the order in which investment returns are realised becomes critically important. This is known as sequencing risk. Even if two investors experience the same average return over time, the one who suffers negative returns early in retirement or income drawdown may run out of money significantly faster.

- Withdrawals during market downturns mean the investor sells more units at lower prices.
- This reduces the capital left to benefit from any future recovery.
- Once capital is depleted, the portfolio can't recover — even if markets rebound later.

How Smoothed Funds help manage Sequencing Risk

The smoothing mechanism is designed to reduce the impact of short-term market volatility on investment returns. By gradually adjusting the fund's unit price in line with long-term expectations — rather than immediate market fluctuations — it helps to provide investors with greater stability and predictability in the returns they experience.

- Reduces the risk of locking in losses during temporary market downturns
- Fewer 'units' need to be sold to fund income
- Capital preservation extends the longevity of the portfolio

Smoothing Reduces The Impact Of Market Timing

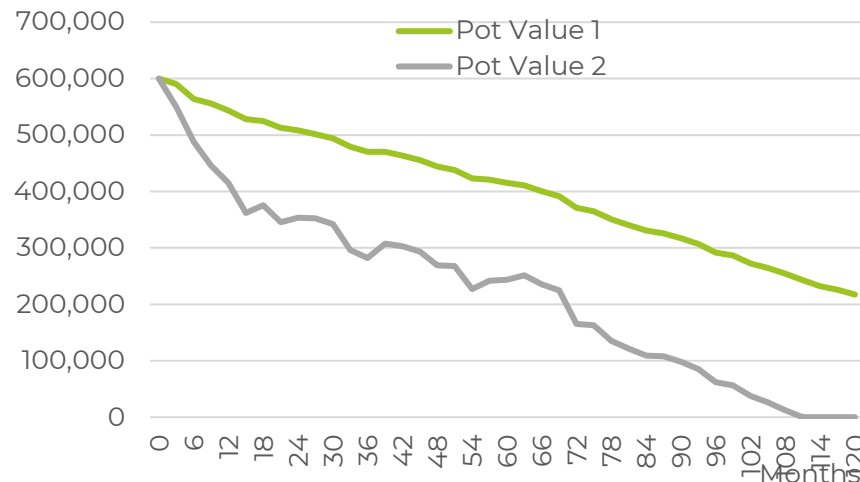


The Role of Smoothing

This chart shows two return paths with the same long-term outcome.

- **Price 1** (green) represents a smoothed return path — consistent and stable.
- **Price 2** (grey) experiences early losses and delayed recovery.

Even with the same long-term returns the timing of those returns makes a material difference when withdrawals are involved.



The Drawdown Impact

This chart assumes a starting pot of €600,000 and regular withdrawals of €15,000 every 3 months.

- **Pot Value 1** (green) portfolio remains resilient, retaining over €200,000 after 10 years.
- **Pot Value 2** (grey) portfolio is depleted before the 10-year mark due to early losses.

More stable returns during early withdrawals help preserve capital and improve long-term outcomes.

Prufund Smoothing Mechanism

Objective of Smoothing

Smoothing in a fund aims to reduce volatility and provide more stable, predictable returns over time, helping investors avoid dramatic fluctuations, enhance long-term performance, and maintain a steady growth trajectory while managing risk.

Expected Growth Rates (EGR)

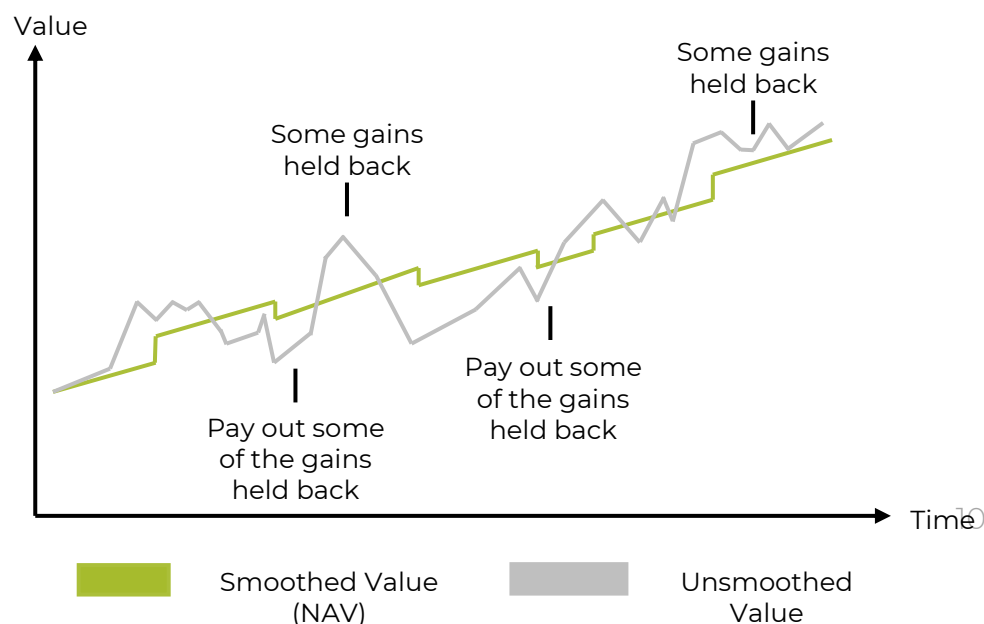
The annualised rates represent the expected long-term growth (up to 15 years) of investment in Prufund Growth, based on M&G's outlook for the underlying assets. The likelihood of meeting these expectations increases with the length of the investment. EGRs are reviewed quarterly, potentially adjusting higher, lower, or remaining the same.

Current EGRs (before management fees):

- EUR: 6.60% p.a.
- USD: 7.20% p.a.
- GBP: 7.30% p.a.

Unit Price Adjustments (UPA)

Prudential uses a long-term view to set EGRs but adjusts the fund value daily or monthly if short-term performance deviates significantly, making Unit Price Adjustments to ensure returns are neither too high nor too low.



*The smoothing diagram is intended for illustrative purposes only and does not reflect the actual performance of the fund

The Smoothed Growth Feeder Fund



Fund summary

- IDAD has launched three new sub-funds from its regulated Isle of Man fund platform
- EUR, GBP and USD denominated sub-funds, each with its own asset allocation
- Each fund will invest exclusively in insurance policies linked to PruFund Growth
- AMC matches the discount to provide equality on charges
- Investors receive broadly the same investment experience as those investing via insurance policies – performance, fees and liquidity

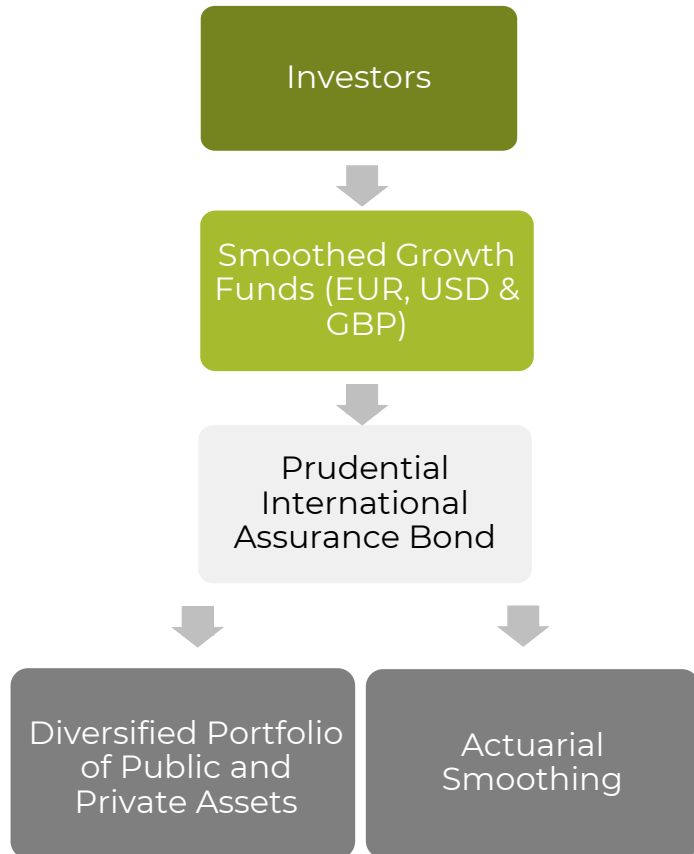
Why this is distinctive

- PruFund is typically only accessible via insurance policies, limiting access for international investors
- Part of IDAD's WealthGuard range delivering protected investment options to investors in formats that suit the international adviser market

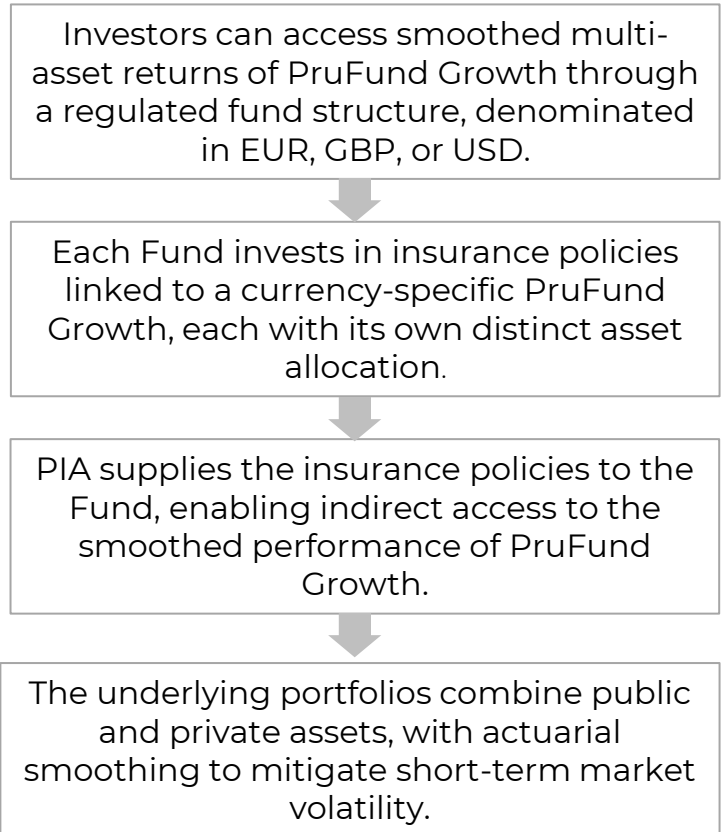
For advisers

- Platform friendly
- Direct application available
- Different charging structures available
- Provide the stability and reassurance investors need – especially in difficult market conditions
- Peace of mind

Fund Flows



Investment Activity



Overview Of The Prufund & M&G

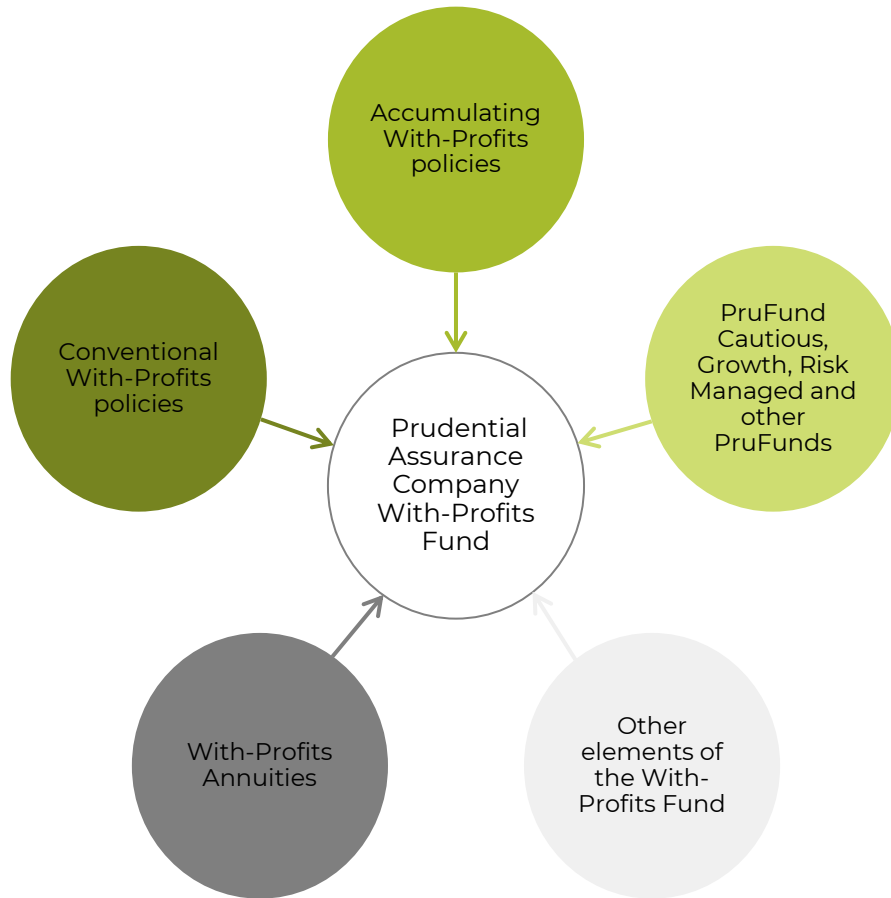


M&G is a global investment management firm with a rich history, offering a wide range of investment solutions across asset classes, and is known for its expertise in managing both institutional and individual client portfolios with a focus on long-term growth and risk management.

The PruFund is a range of with-profits funds managed by M&G, designed to offer steady growth while reducing the impact of market volatility through a unique smoothing mechanism that helps provide more predictable returns over the long term.

M&G Treasury and Investment Office (T&IO) is responsible for managing the PruFund range and manage over £130 billion in assets, across their with-profits range.





Pooled Investment

Investors' money is pooled into the Prudential With-Profits Fund, the largest of its kind in the UK.

Unique Capability Set

The scale of the With-Profits Fund enables M&G to deploy a distinctive set of investment capabilities, either independently or with partners, to deliver compelling propositions across multiple markets.

These include:

- A long-term multi-asset investment approach
- The smoothing mechanism
- Volatility control

Reliable Returns

The reliability of the fund's return is underpinned by three aspects of With-Profits: the performance of the investments, the management of risk that comes with a diversified portfolio of assets and the smoothing process.

Equity and Fixed Interest Exposure

The portfolio maintains a balanced split between equities (including global and regional allocations) and fixed income assets. Equities comprise approximately 40.4% of the allocation, offering significant growth potential, and fixed interest represents 33.2%, with a focus on stability and income generation across various regions.

Real Estate and Alternative Assets

The portfolio also has a substantial allocation to illiquid assets, with real estate (12.0%) and alternative assets (12.2%), providing diversification, capital appreciation potential, and reduced correlation with traditional equity and fixed interest markets.

Liquidity Consideration

A relatively small portion (2.2% cash) ensures the fund remains flexible and able to take advantage of market opportunities or manage short-term risks.

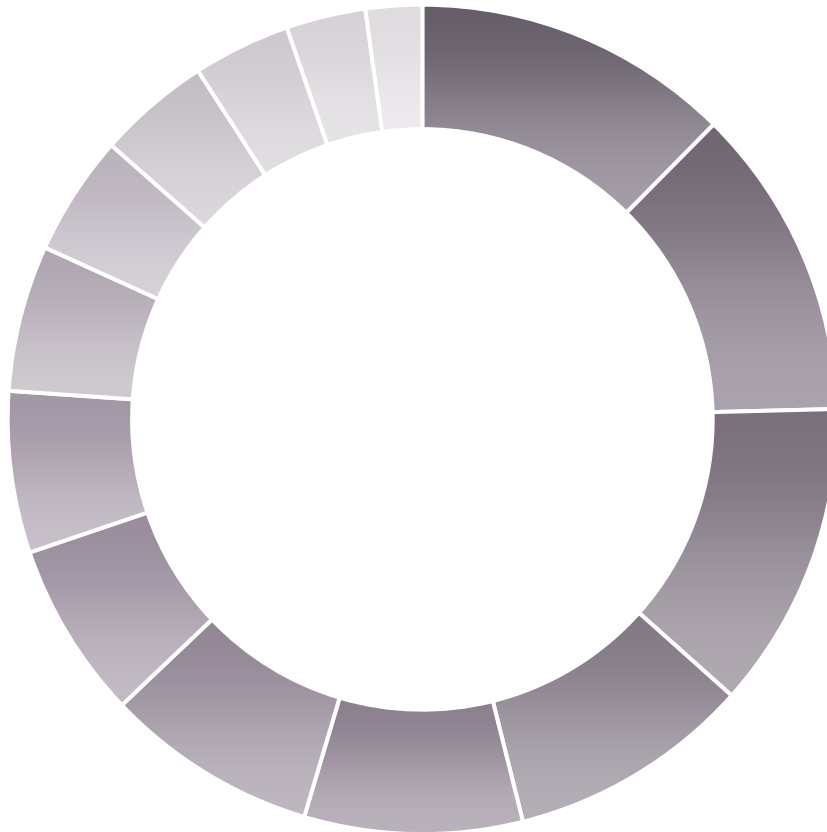
Global Diversification

Geographically, the fund is highly diversified, with substantial allocations to US, Eurozone, Asia, and emerging markets, providing broad international exposure across both developed and developing economies

PIA Prufund Growth EUR Asset Allocation

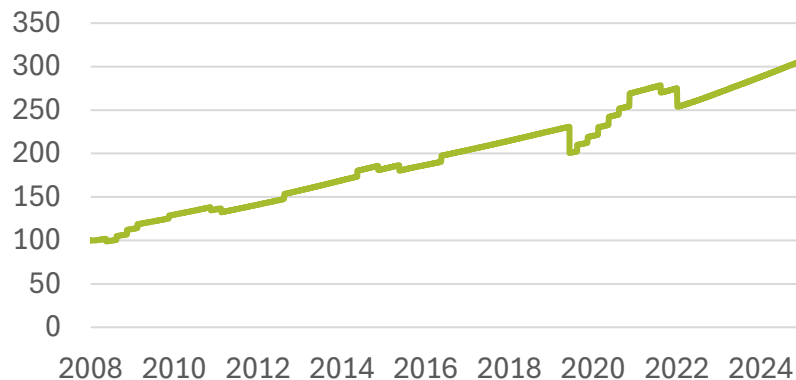


PIA PruFund Growth B EUR Asset Allocation as of June 2025



- European Equities 12.4%
- Alternative Assets 12.2%
- Real Estate 12.0%
- US Fixed Interest 9.5%
- Pacific Market Equities 8.5%
- Euro Fixed Interest 8.3%
- North American Equities 6.9%
- Asia Fixed Interest 6.3%
- UK Equities 5.7%
- UK Fixed Interest 4.7%
- Other Fixed Interest 4.4%
- Global Emerging Markets Equities 3.8%
- Japanese Equities 3.1%
- Cash 2.2%

PIA Prufund Growth B EUR Performance



Scenario Analysis

Event	Performance	Start Date	End Date
European Sovereign Debt	1.42%	23-Apr-10	02-Jul-10
US credit rating downgrade	0.45%	29-Apr-11	03-Oct-11
Oil and China instability	0.76%	29-Dec-15	11-Feb-16
February 2018 Flash Crash	0.18%	26-Jan-18	08-Feb-18
Q4 2018 Drawdown	1.35%	20-Sep-18	24-Dec-18
COVID-19	-12.73%	19-Feb-20	23-Mar-20
Ukraine	0.64%	03-Jan-22	13-Oct-22
2023 Rate Hike Sell-off	0.92%	15-Aug-23	04-Oct-23

Performance (before management fees) PruFund Growth Ser B EUR

Annualised Return	6.83%
Annualised Volatility	5.38%
Sharpe Ratio (Rf=1.21%)	1.03
Maximum Drawdown	-13.10%
Longest Drawdown	1.9 years
Best 1-Day Return	5.69%
Worst 1-Day Return	-13.10%
Best 1-Year Return	24.20%
Worst 1-Year Return	-8.70%

Source: M&G, Bloomberg and IDAD September 2025

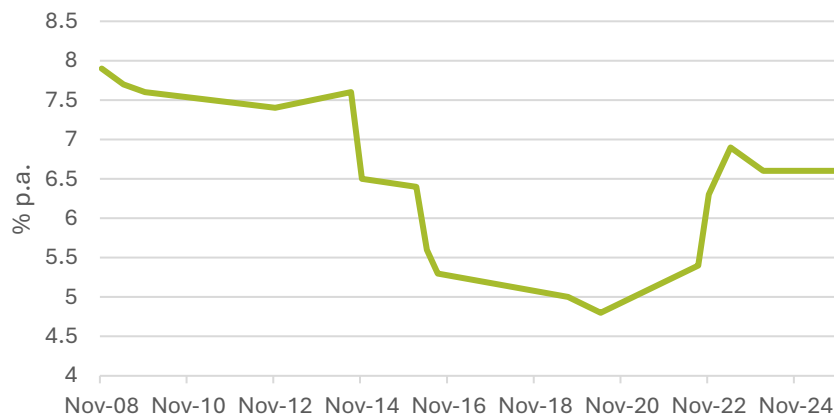
PIA Prufund Growth B EUR EGR and UPA

Expected Growth Rate (EGR)

Every February, May, August and November (on or around the 25th), EGRs are set as annual rates at which a customer's investment is expected to grow under normal conditions.

Average EGR: **6.38% p.a.** (between 25-Nov-08 and 01-Oct-25)

Performance can be adjusted through Unit Price Adjustments to better align with actual market performance and asset values during periods of significant market fluctuation.



Unit Price Adjustment (UPA)

UPAs are employed as part of the smoothing process to ensure that the fund's unit price accurately reflects the underlying asset values during significant market fluctuations.

Case Study: COVID-19

In response to the market movements at the onset of the COVID-19 pandemic, the fund applied a downward adjustment of 13.12%. Over the subsequent 18 months, a series of positive adjustments were implemented to reflect the recovery in asset values, ensuring that pricing remained fair and representative of the fund's economic position.

Date	UPA (%)
Oct-22	-7.84
May-22	-3.06
Aug-21	5.68
May-21	2.68
Feb-21	3.97
Nov-20	3.87
Aug-20	3.12
May-20	3.64
Mar-20	-13.12
Feb-17	3.72
Feb-16	-3.41
Aug-15	-2.70

Questions

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