

Your With-Profits Plan – a guide to how we manage the Fund

PruFund range of funds

Your Prudential With-Profits Plan is a medium to long-term investment that:

- combines your money with money from other **with-profits planholders**
- invests in our With-Profits Fund
- gives you the advantages of a well balanced mix of investments with some smoothing of investment returns.

Words in **bold** are defined in the glossary on page 4.

It aims to give you the highest possible return over the time you have your Plan, while maintaining an acceptable level of risk to our Fund.

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Aims of the guide

This guide explains briefly how our With-Profits Fund works and our current approach to managing it. Please keep it in a safe place, along with your other Plan documents, as you may find it useful:

- when you get your statement,
- if you get an illustration of what you might get back from your Plan,
- if you discuss your Plan with your Adviser

This guide applies to plans accessing the PruFund range of funds, which comprises:

| | |
|---|----------------------------|
| PruFund Growth Fund | PruFund 0-30 Fund |
| PruFund Growth Pension Fund | PruFund 10-40 Fund |
| PruFund Protected Growth Fund | PruFund 20-55 Fund |
| PruFund Protected Growth Pension Fund | PruFund 40-80 Fund |
| PruFund Growth and Income Fund | PruFund 0-30 Pension Fund |
| PruFund Cautious Fund | PruFund 10-40 Pension Fund |
| PruFund Cautious Pension Fund | PruFund 20-55 Pension Fund |
| PruFund Protected Cautious Fund | PruFund 40-80 Pension Fund |
| PruFund Protected Cautious Pension Fund | |

You may get similar guides if you have more than one type of with-profits plan.

There's more detailed and technical information about how we manage our Fund in our Principles and Practices of Financial Management (PPFM) document, which is available on our website: www.pru.co.uk/ppfm.

If you would like a printed version, please call us on 0800 000 000.

We'll send you a revised copy of this guide if we make any significant changes to our principles or practices of financial management.

What's a with-profits plan?

It's a plan that shares in the profits of a with-profits fund.

When you take money from your investment in our With-Profits Fund, the difference between the value of the units withdrawn and the investment you made to buy them (less our charges) represents your share of the profits of our Fund.

We aim to grow your money invested in our With-Profits Fund over the medium to long term. This should normally be considered as at least 10 years.

How does our With-Profits Fund work?

Money from all planholders is combined and invested in our With-Profits Fund, which has a wide range of investment types, generally referred to as assets.

Investment performance usually has the biggest effect on the value of your Plan. A fuller explanation of the factors that may affect the value of your Plan is given on page 3.

What's the Expected Growth Rate and how's it decided?

The Expected Growth Rates are the annualised rates which will normally be applied daily to increase the unit price of the funds. They are set quarterly by the Prudential Directors, having regard to the expected long-term investment return on the assets of the funds. They are published every quarter for each product on our website: www.pru.co.uk

Your investment will normally benefit from this growth rate on a daily basis, through an increase in the price of the units you hold (known as the unit price). When you invest, your money will first be used to buy units in the corresponding fixed rate accounts. Your money is then moved into the fund you have chosen on the next PruFund quarter date. The quarter dates are:

- 25 February
- 25 May
- 25 August
- 25 November

or the next working day if the quarter date is a weekend or a public holiday. When your money is in the fixed rate account and waiting to be moved into your chosen fund on the next PruFund quarter date, it'll grow at the Expected Growth Rate that applies to the fund you have chosen. Product charges will apply as normal during this period.

Like most stockmarket based investments, the value of the underlying funds change daily, sometimes increasing and sometimes decreasing. We aim to reduce the impact of these movements over the short term by using a smoothing process.

What's smoothing?

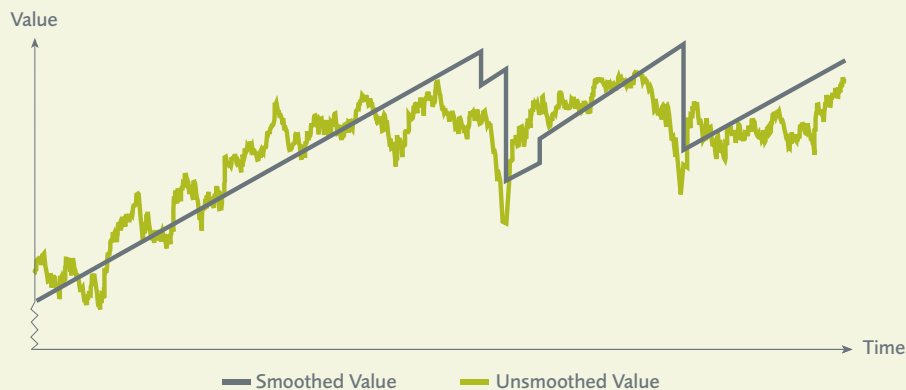
Smoothing

In describing the smoothing process we use the terms "unsmoothed" and "smoothed" when referring to prices:

- unsmoothed price is the value of the underlying fund divided by the total number of units
- smoothed price is the same as the unit price. It increases by the Expected Growth Rate as described above.

Between quarter dates, the smoothing process checks the gap between the smoothed price (published) and unsmoothed price (not published). For this purpose, the gap is calculated using both the unsmoothed price and a 5 day rolling average of the unsmoothed price. If at any time the gap is 10% or more the smoothed price will be adjusted immediately to reduce the gap to 2.5%.

When the Expected Growth Rate is set at the start of each quarter, if there is a gap of 5% or more when compared to the daily unsmoothed price, the smoothed price is adjusted to reduce the gap by half. Where necessary, this process may be repeated until the gap is less than 5%. Adjustments to the smoothed price can be down or up, depending on whether it's above or below the unsmoothed price.



This chart is for illustrative purposes only – it's not representative of any particular time period or investment performance. Its sole aim is to explain how smoothing works.

The smoothed price after any adjustment will increase at the Expected Growth Rate for the quarter. The unsmoothed price is not published. This avoids speculation over possible smoothed price adjustments (as described above) and so protects investors in these funds. There may be occasions where we have to suspend the smoothing process for one or more PruFund funds, to protect our With-Profits Fund and the clients invested in it. We may also suspend the smoothing process if unusually large volumes of money enter or leave the funds. When this happens your investment in the affected fund(s), will rise or fall in line with the unsmoothed price until the smoothing process is reinstated.

For more information, please refer to your Terms and Conditions.

Is the payout guaranteed?

As a result of the pricing and smoothing mechanisms used for the PruFund range of funds (see "What's smoothing?" on page 2) there is no fixed payout. The value of your Plan may fluctuate, and there could be times when you may not get back the full amount of your original investment.

You may however have selected certain product options, which do guarantee a minimum amount you'll get back from your Plan – please refer to your product literature for details of these.

What affects the value of your Plan?

We aim to be fair to all with-profits planholders by balancing the interests of:

- holders of different types of plan
- customers starting plans at different times
- planholders remaining in our Fund and those leaving our Fund
- our **shareholders**.

The value of your Plan may fluctuate and there could be times when you may not get back the full amount of your original investment.

There are many factors that affect the amount you get back from your Plan. These include:

a) Investment performance

This usually has the biggest impact on the payout from your Plan. It depends on several things, including how much of the funds we invest in the different types of asset.

The main asset types are:

- **company shares**
- **property**
- **fixed interest securities**
- **deposits**

We invest in a wide mix of these assets, both in the UK and abroad.

Over time, the relative performance of different types of asset varies a lot. So our expert fund managers may change the asset mix with the aim of maximising the returns for a given risk profile.

b) Smoothing

Smoothing, which is described on page 2, limits the immediate effect of ups and downs in investment markets on what you will get back from your Plan.

c) Our charges and costs

We aim to keep the costs of running the business as low as possible and to allocate the costs fairly across all planholders. If, however, our costs are higher than we expected, this may affect the value of your Plan.

Our charges are taken by cancelling units in your Plan. The Key Features document gives information about the charges we make to your Plan to cover our costs.

d) Transfers to our shareholders

Prudential provides capital to support the funds. Our **shareholders** get some of the profits in return for this support. They get one ninth of any

increase in the value of each plans' holding in the PruFund funds. This transfer is met by the charges taken from your Plan and is made when you take money from your investment in these funds.

e) Tax

We charge tax in a way that is fair across all of our Funds. Any tax we have to pay on our With-Profits Fund will reduce what you get back from your Plan by allowing for it in the Expected Growth Rate where applicable.

Currently, there is no UK tax payable by our Fund on assets backing pensions business, although this may change in the future.

Your Key Features document will give more information on taxation.

This information is based on our understanding, as at November 2011, of current taxation, legislation and HM Revenue & Customs practice, all of which are liable to change without notice. The impact of taxation (and any tax reliefs) depends on individual circumstances.

f) Other business risks

Other risks that may affect the value of your Plan include:

- operational risks, such as changes in regulatory requirements or taxation.
- Risk levels are reviewed regularly to ensure they're acceptable to our Fund.

What if you decide to move out of these funds?

You may decide to take money from your Plan for one of the following reasons:

- to retire
- to switch to another type of Prudential fund
- to transfer your investment to another company
- to cash in your Plan.

If you take money from some types of plan in the first few years of an investment, other than regular withdrawals, a surrender charge may apply. If a surrender charge could apply to your Plan, details are given in the Key Features document you received when you started the Plan.

If you're considering moving out of the With-Profits Fund you may wish to consult a Financial Adviser.

What's an inherited estate?

As a long-established life assurance company, our With-Profits Fund contains an amount of money in excess of the amount we expect to pay out to existing planholders. This is known as the inherited estate. It has built up over many years from a number of sources and it provides working capital, to support current and future business.

This capital allows you to benefit from smoothing and guarantees where applicable and allows us greater flexibility to invest in a wide range of assets.

We're also required by regulation to hold a substantial amount of capital in our long-term fund. This allows us to demonstrate, at all times, that our Fund is solvent and able to meet its obligations to all planholders. The inherited estate provides most of this **solvency capital**.

There are no plans to distribute our With-Profits Fund's inherited estate to planholders or Prudential **shareholders**, other than as required as part of the normal smoothing process or to meet guarantees. We have no current intention of closing our With-Profits Fund to new business, but if it did close, the inherited estate would still be needed to support existing business.

Where can you find out more?

If you want more information about your investment in our With-Profits Fund please call us on 0800 000 000 or speak to your Adviser.

This guide aims to provide a summary of how our With-Profits Fund works for the funds listed on page 1. However,

because we've kept it as short as possible, we've given you only the most important information.

We need to warn you that in the absence of all details you will not have a complete picture. If you do need a detailed technical guide to how we manage our With-Profits business, please refer to our Principles and Practices of Financial Management (PPFM). Investors in the PruFund Growth funds may also find our Asset Mix and Investment Returns document useful. These documents are available on our website www.pru.co.uk/ppfm/ Printed versions are available on request.

In the event of any conflict between this guide and the PPFM, the PPFM will take precedence.

The Money Advice Service give general information about with-profits funds in the Consumer section on their website: <http://yourmoney.moneyadvice.service.org.uk/products/with-profits/with-profits.html>

Glossary*

- **company shares:** an investment that represents part ownership of a company. Shares are also known as equities
- **deposits:** cash and other short-term investments, typically low risk loans
- **fixed interest securities:** loans to governments and companies that pay a predetermined rate of interest
- **property:** an investment in commercial property such as offices, shops, and industrial premises
- **shareholder:** a person or group in Prudential that owns one or more shares in Prudential companies. The owner of a share owns a small part of Prudential
- **solvency capital:** funds that allow Prudential to demonstrate that our With-Profits Fund is solvent and able to meet its obligations to planholders even if it were to suffer significant losses
- **with-profits planholder:** a person that holds a Prudential With-Profits plan

* glossary definitions are to be used in the context of this document.

