Pru
part of M&G plc

Your Investment Plan

A guide to how we manage the funds

1. Aims of the Guide

This guide explains briefly how the Prudential unit-linked funds work and our current approach to managing them. It explains the standards and practices we use to manage the funds. Principally the guide will explain:

- the nature and extent of the decisions we take to manage the funds, and
- how we treat customers and shareholders fairly.

Please note, this document does not apply to the Prudential International Assurance (PIA) Onshore or Offshore Portfolio Bonds or the Prudential Retirement Account.

1.1 How We Manage The Funds

The guide sets out the way Prudential manages the unit-linked business of the following companies which are part of the M&G plc Group: The Prudential Assurance Company Limited (PAC); Prudential Pensions Limited (PPL) and PIA (except noted above). In particular we describe:

- the standards we use in managing the funds for current and future policyholders,
- the approach we follow in meeting our duty to policyholders and in responding to long-term changes in the business and economic environments,
- the approach we use to manage the funds and how we respond to short-term changes in the business and economic environments.

2. Calculating Unit Prices

This section summarises how we value the unit-linked funds. In particular, it describes how we value the underlying investments in the funds and how the unit price is then calculated from this value.

Our overall aim when calculating unit prices is to make sure that we are treating policyholders fairly. This includes:

- providing a fair value of all investments within a fund,
- allowing for fund charges and expenses appropriately,
- ensuring policyholders receive a fair price when units are bought and sold,
- using a fair and understandable method to price units, ensuring that the method is fair to both policyholders and shareholders, and
- ensuring that policyholders in individual funds do not either gain or lose as a result of the treatment of policyholders in other funds.

We may change the methods we use, if circumstances change. We will only make changes if they are consistent with treating policyholders fairly and have the approval of the appropriate Board of Directors.

2.1 Fund Valuations

We will calculate a maximum and minimum value for each fund at least once a month. For most funds we carry out this valuation every working day.

The maximum value is the price at which the underlying investments in the fund can be bought – taking into account taxes and other charges. This is sometimes called the Creation Price.

The minimum value is the price at which the underlying investments in the fund can be sold – less an allowance for taxes or other charges. This is sometimes called the Cancellation Price.

We may also reduce both values by an amount we consider appropriate to meet expenses, taxes and other costs we may become liable for in the future.

2.1.1 Cash

We will value money held in cash and amounts held in current and deposit accounts and in other time-related deposits at their nominal values.

2.1.2 Property

We will value property at an amount that represents a fair and reasonable market price.

2.1.3 Collective investment schemes and other investments

We will value units or shares in a Collective Investment Scheme (e.g. Unit Trusts, Open Ended Investment Companies (OEICs), Qualified Investor Schemes (QISs) or Property Authorised Investment Fund (PAIF)) or any other investments quoted on a recognised investment exchange as follows:

- If a single price is quoted, at the most recent such price.
- If separate buying and selling prices are quoted, then in most cases by using these prices to calculate the maximum and minimum values described in Section 2.1.

If there is no market value readily available we will use an estimate of the value of the assets.

2.2 Charges and Expenses

2.2.1 Annual Management Charges (AMCs)

Unit prices in most funds include a daily allowance for the AMC applying to that particular fund. Alternatively, the AMC of the fund may be met through deducting units.

2.2.2 Initial Charges

Some funds have an initial charge applied to them, more commonly known as a bid/offer spread. The initial charge is never more than 5% of the Offer Price plus a rounding adjustment of no more than 0.1p.

Some funds have no initial charge so both the Bid and Offer prices are the same.

2.2.3 Other expenses

Our unit-linked funds incur costs in holding and transacting in their underlying investments. In addition, many of our unit-linked funds invest in underlying Collective Investment Schemes and these underlying investments can have various expenses that have an impact on the price of the fund. Depending on your plan, some of these expenses may be rebated. Your policy documentation may contain more detail.

Where funds invest in property, they may incur costs of management and development of properties, and these are not rebated.

2.3 Creating or cancelling units

When the number of units in a fund is increasing we will usually create additional units at the Creation Price (See Section 2.1). When the number of units is reducing we will normally cancel units at the Cancellation Price (See Section 2.1).

The Creation and Cancellation Prices are the same for funds that invest in single priced investments.

Funds that invest directly in the underlying assets (for example shares, property and government bonds) will have different Creation and Cancellation Prices.

2.4 Policyholder Unit Allocation

When a policyholder carries out transactions in a fund they buy units at the Offer Price and sell units at the Bid Price, unless the policy documentation indicates otherwise.

The basis for calculating the Bid and Offer Prices depends on whether the number of units in the fund is increasing or reducing:

- If the fund is growing we will base the Bid Price on the Creation Price, we will then use it to calculate the Offer Price allowing for any initial charge.
- If the fund is getting smaller we will base the Bid Price on the Cancellation Price, we will then use it to calculate the Offer Price allowing for any initial charge.

2.5 Timing and Availability of Prices

We calculate the value and price of most of our funds each working day.

For the majority of funds, the price for a working day is based on a fund valuation at noon.

You can find most fund prices on the funds section of our website **pru.co.uk/funds**

Alternatively, you can request individual valuations using the contact details on the documentation you received when you took out your plan.

2.6 Mirror Funds

Funds may invest in 'underlying' funds. If the Prudential fund is investing in just one underlying fund then it's what's known as a 'mirror' fund, as the performance of the Prudential fund broadly aims to reflect the performance of the underlying fund it invests in. The performance of our Prudential fund, compared to what it's invested in won't be exactly the same. The differences between the underlying fund and our fund can be due to additional charges, cash management (needed to help people to enter and leave our fund when they want), tax and timing of investments (this is known as a fund's dealing cycle, it varies between managers and can be several days).

3. Error Correction

We will endeavour to correct any pricing errors that may arise as soon as reasonably practical once identified. We will compensate policyholders or the fund if either has suffered a material loss. Losses may not be compensated if these are below a minimum amount depending on the nature of the pricing error.

4. Discretion

This section outlines the scope and limits to Prudential's discretion in managing the unit-linked funds. The appropriate Company's Board will monitor how we apply any discretion. When exercising discretion our overall aim is to ensure that we treat policyholders fairly.

Any material change to the way Prudential manages the funds must be made with the approval of the appropriate Company's Board.

Please see below for some of the key discretions. For a full list, please refer to Prudential's statement of Unit-Linked Principles and Practices (PSULPP), which is available on our website **pru.co.uk/funds/psulpp**.

4.1 Charges and Expenses

If permitted by the policy documentation we may increase or decrease the charges or expenses that apply to a fund.

4.2 Transaction Delays

In general the policy documentation gives us some discretion to delay the cancellation of units that you may wish to cancel. We may need to do this in exceptional circumstances to protect the interests of other policyholders, and would not normally expect this deferral period to be longer than:

- Six months if the units being cancelled are in a fund invested in property assets, or in units of another fund invested in property assets.
- One month in other circumstances.

For specific policies and funds, there may be other specific restrictions covered in the policy documentation. In particular, if allowable by the plan documentation, we may defer unit cancellations beyond the above timescales in certain circumstances if we consider it necessary to protect the interests of remaining policyholders in the fund.

4.3 Closing or Merging of Funds

We may decide at any time to close a fund to new money or switches in, or to merge funds that have similar investment objectives. We will normally give policyholders at least one month's advance notice (or any longer period stated in their policy documentation) of any such change.

4.4 Asset Allocation and Strategy

The Fund Manager is responsible for managing the fund on a day to day basis. The Fund Manager will manage the fund in line with its stated objective and will also take account of short and long term expectations in decisions relating to stock, sector and asset selection.

4.5 Managing Complaints

We will deal with any complaints regarding the operation of the funds in line with the Prudential Customer Charter for Complaints. This Charter is available on request and we provide one when we receive a complaint.

We will correct any breach of policy conditions as soon as possible after we become, or are made aware of them.

4.6 Response to Adverse Events

If a significant adverse external event results in market values for some investments becoming unavailable or raises questions about the appropriateness of those values, we may take action to protect the interests of all customers in a unit-linked fund. For example, on 11 September 2001, following the attack on the World Trade Centre values were either unavailable or extremely volatile.

If any value is unexpectedly unavailable, for example we have not received an external unit trust price, the company may choose to make an adjustment to the value from the previous day.

The products Prudential Assurance Company Limited (PACL) and Prudential Pensions Limited (PPL) offer are covered by the Financial Services Compensation Scheme (FSCS). If we get into financial difficulties, you may be able to make a claim. In the case of PIA, this depends on UK residency status at the time the bond starts and whether the policy was taken out before or after 1 December 2001. The FSCS is an independent body set up by Government to provide compensation for people where their authorised financial services provider gets into financial difficulties and becomes unable, or unlikely to be able, to pay claims against it. This circumstance is referred to as being 'in default'. Losses, which may result from poor investment performance, are not covered by the FSCS. Further information can be found in product literature.

4.7 Criteria for Moving Funds Between Bid and Offer Bases

For all funds with a Creation and Cancellation price, we have the discretion to price on either an expanding basis or a contracting basis. The pricing basis is normally decided monthly.

5. Taxation

In this section we describe the way in which we allow for tax when pricing the unit-linked funds. We are liable for tax on the investment income and capital gains that we receive on the investments in UK based life funds.

Prudential International Assurance (PIA) do not allow for tax in the pricing of any unit-linked funds accessed by its offshore products (e.g. Prudential International Investment Bond). PIA is not liable to any direct forms of tax in respect of the income and gains on its policyholder funds, although income from its investments may suffer from withholding tax. PIA has a branch in the UK which sells a bond to UK residents (Prudential Onshore Portfolio Bond) which offers access to external funds that are not priced by Prudential. An allowance for tax is deducted on a monthly basis from the client's assets. Please note the remainder of section 5 does not apply to any PIA products.

We receive tax relief on certain expenses (known as "allowable expenses") that are incurred in the course of managing any funds which are subject to tax.

The overall aim for the methods we apply to tax charging is to ensure that tax allocations are shared fairly between:

- policyholders and shareholders,
- different funds,
- different groups of policyholders.

Our approach is to charge tax to each fund that approximates to the tax that the fund would bear as a standalone taxable entity. Where possible we will use losses in the current tax year to reduce the tax payable on any gains made in previous years.

In addition an allowance is made for any losses within the fund that cannot be offset against gains.

We seek to pass on to the fund the actual tax charge it incurs on these funds. Where the actual charge is not known (perhaps because it will not be incurred until some later date) we will charge the fund with an estimate of the actual charge.

This information is based on our understanding of current taxation, legislation and HM Revenue & Customs practice, all of which are liable to change without notice. Tax rules can change, and the impact of taxation (and any tax relief) depends on your circumstances.

5.1 Investment Income Taxation

In unit-linked life funds, tax is charged on investment income at the policyholder tax rate (currently 20%). Dividends from equities are not subject to further tax.

Unit-linked pension funds are not currently subject to any additional tax, but we will recover any tax already incurred where appropriate.

5.2 Capital Gains Tax

In unit-linked life funds, a capital gain occurs when an investment is sold (or deemed to be sold) at a higher price than the one at which it was bought, subject to any indexation relief available. A capital loss occurs when an investment is sold (or deemed to be sold) at a lower price than the one at which it was bought.

Realised gains are charged to tax in the current year at the policyholder tax rate (currently 20%).

Net unrealised gains on equities and properties are charged to tax in the current tax year but we apply a discounted tax rate to allow for the expected time until the gains will be realised.

5.3 Expense Relief

In unit-linked life funds, relief for allowable expenses incurred by the funds is granted at the policyholder tax rate (currently 20%).

6. Where Can You Find Out More?

If you'd like more information about your investment please call us on **0800 000 000** or speak to your financial adviser.

This guide aims to provide a summary of how Prudential manages its unit-linked funds. However, because we have kept it as short as possible we have given you only the most important information. Please note that in the absence of all details you will not have a complete picture.

If you'd like a more detailed technical guide to how we manage Prudential's unit-linked business, please see our PSULPP, which is available on our website **pru.co.uk/funds/psulpp**

In the event of any conflict between the two documents, the PSULPP will take precedence.

PPFM10005 10/2021_WEB