Pru
part of M&G plc

Prudential's Statement of Unit-Linked Principles and Practices (PSULPP)

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Contents

1 Purpose

This document provides details of the principles and practices that Prudential applies in the operation of all of its unit-linked funds. This document does not cover the investments offered through Prudential International Assurance plc (PIA) Onshore or Offshore Portfolio Bonds, or the Prudential Retirement Account as Prudential do not perform unit pricing on the funds available through these products[1].

Prudential is committed to providing open and honest communications and believes that this document will help with this aim. In managing unit-linked business, firms rely on their ability to use discretion, particularly in relation to the basis used to determine prices and the allowance for taxation in the pricing of funds. The purpose of this document is therefore to explain the principles and practices adopted in the management of Prudential's unit-linked business and in particular:

- explain the nature and extent of the discretion available;
- show how competing or conflicting interests or expectations of
    - different groups and generations of policyholders, and
    - policyholders and shareholders,
- are managed so that policyholders and shareholders are treated fairly; and
- give a knowledgeable observer (e.g. a financial adviser) an understanding of the mechanics of an investment in a unit-linked policy with Prudential.

The document covers funds available to all unit-linked policies issued in the UK and the Republic of Ireland by the following companies in M&G plc:

- The Prudential Assurance Company Limited (PAC),
- Prudential Pensions Limited (PPL), and
- PIA (except as noted above).

The funds within each of these companies may be written in different series and can have different charging structures. The series of funds available to each policyholder will depend on when the policyholder started their policy. Full details of the fund series in each company are contained in Appendix A.

To fully understand the operation of Prudential unit-linked policies, the reader should read the whole document and not just selected sections. In particular, principles should be read with their associated practices. However, the document is not a comprehensive explanation either of the management of the unit-linked business of M&G plc or of every matter which may affect that business.

No part of the document should be read as a recommendation to policyholders or potential policyholders or their advisers in relation to effecting or maintaining a unit-linked policy. Accordingly, any person considering whether to effect or maintain a unit-linked policy with any member of M&G plc should seek financial advice.

None of the contents of this document forms part of, or varies, the terms or conditions of any policy issued by any member of the M&G plc. In the event of any inconsistency between the contents of this document and the terms and conditions of any policy, the terms and conditions of the policy prevail.

[1] Prudential Retirement Account Investors and PIA Portfolio Bond customers should consult their terms and conditions for details on how their investments will be managed. These are available on **pru.co.uk.**

2 Glossary of Terms

Annual Management Charge (AMC)	A regular charge that is reflected in the price and / or number of units.
Collective Investment Schemes	A way of pooling investment with others as part of a single investment fund. This allows investors to participate in a wider range of investments than would normally be feasible if investing individually, and to share the costs and benefits of doing so. Collective Investment Schemes include Unit Trusts, Open Ended Investment Companies (OEICs), Qualified Investor Schemes (QISs), Fonds Commun de Placements (FCPs), Property Authorised Investment Funds (PAIFs) and Sociétés D'Investissement À Capital Variable (SICAVs).
Dual Priced Funds	These funds have two prices, Bid and Offer. Unitholders buy units in a fund at the Offer Price, and sell them back to the fund at the Bid Price. The difference between the Bid and Offer prices is the initial charge. Please see section 6.3.3.2 for further information.
External Funds	These are unit-linked funds which either: (i) invest exclusively in Collective Investment Schemes (as defined above) offered by external fund managers or by other companies within M&G plc; or (ii) link to funds offered by non M&G plc companies through reinsurance agreements.
Fonds Commun de Placement (FCP)	This is a Luxembourg based investment fund which is a pooled collection of assets managed by a management company on behalf of the unitholders.
Internal Deal	Some unit-linked funds may hold units of other funds in the same range. This is to allow a fund to gain exposure to a certain type of investment (for example property) without incurring the costs of directly holding those investments.
Internal Funds	These are unit-linked funds that are managed by M&G plc companies. These funds will invest in suitable assets to meet their investment strategy. These assets may include (but are not limited to) equities, fixed-interest bonds, property or cash. Internal Funds can also be invested in Collective Investment Schemes or other Internal Funds.
Investment Trust	A limited company whose business is the investment of shareholders' funds, the shares being traded like those of any other public company.
Material	Material in the context of a unit-linked fund would be an event which has had, or could have, an effect on a fund (either financially or on how the fund is managed) that would be determined as requiring an additional action to be undertaken. Judgement is required to be used when deciding whether any event is material. Prudential have controls and governance in place to determine whether an event is classed as material or not.
Net Asset Value	The NAV of a unit-linked fund is the fund value that is used to calculate the unit price for the fund. A full description of how to calculate a fund value can be found in section 6.3.1.

Open Ended Investment Companies (OEICs)	OEICs are Collective Investment Schemes with no fixed amounts of capital. Like unit trusts, OEICs are collective investments that allow investors to pool their money in a single fund, thus benefitting from professional fund management, reduced dealing costs and a reduction in risk. An OEIC has a legal structure based on a company. The total value of an OEIC is equally divided into shares. Each time that new money is invested, new shares are created to match the prevailing share price; each time shares are redeemed, assets are sold to match the prevailing share price.
Property Authorised Investment Fund (PAIF)	This is an open-ended investment company which is a form of authorised investment fund. Its investment portfolio comprises predominantly one or more of: • real property (commercial and residential) • shares in UK Real Estate Investment Trusts (UK-REITs) • shares in certain foreign entities equivalent to UK-REITs A PAIF is exempt from corporation tax on a pool of income and gains arising from investment in the type of property assets listed above.
PAC	The Prudential Assurance Company Limited. PAC is a proprietary company, the shares of which are wholly owned by M&G plc. PAC's principal activities are with-profits and non-profit life and pensions insurance business.
Qualified Investor Scheme (QIS)	A QIS is a type of authorised investment fund, regulated by the Financial Conduct Authority (FCA). Investors in a QIS will be institutional investors, such as life and pension funds.
Single Priced Funds	These funds have a single price that is used for both allocating and deallocating units to policies.
Société D'Investissement À Capital Variable (SICAV)	A SICAV is an open-ended investment fund in which the amount of capital in the fund varies according to the number of investors. Shares in the fund are bought and sold based on the fund's current net asset value.
Unit Trust	Unit Trusts are collective funds which allow investors to pool their money in a single fund, thus spreading their risk, getting the benefit of professional fund management, and reducing their dealing costs.

3 Principles and Practices

In this document we define the Principles and Practices used in managing the unit-linked business of companies in the M&G plc, which includes business acquired by or reinsured into the companies.

- The Principles define the overarching standards adopted in managing the unit-linked funds of the business for current and future policyholders and describe the approach used:
  - in meeting our duty to unit-linked policyholders, and
  - in responding to longer-term changes in the business and economic environment.
- The Practices describe the approach used:
  - in managing the unit-linked funds, and
  - in responding to changes in the business and economic environment in the shorter-term.

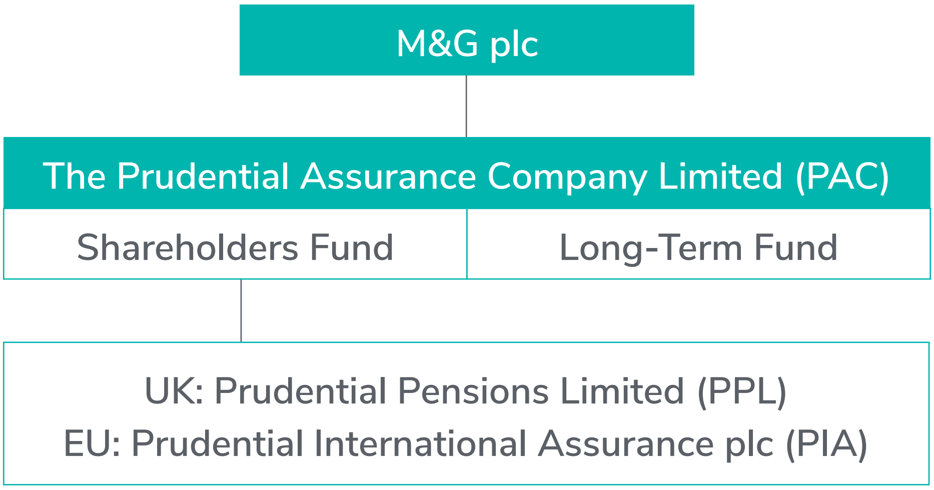
The contents of the document may be amended in the future, either as the circumstances of M&G plc change or business or economic environments alter, or to reflect new product launches, or to reflect changes in the management of the unit-linked business.

We expect our Practices to be revised from time to time as both circumstances and the business environment change. Policyholders will be notified in a reasonable period after the effective date of any material change, generally in their next annual statement.

The most important aspects have been summarised in a Customer Guide (available on the M&G webpage: **mandg.com/pru/customer/en-gb/funds/psulpp**).

4 Company Structure

M&G plc owns, directly or indirectly, all or most of the shares of a number of insurance companies which are shown below, as well as those of a number of other types of companies which are not shown.



Prudential's unit-linked funds may be held within PAC, PPL, or PIA.

M&G plc also owns, directly or indirectly, various investment management companies including M&G and M&G Real Estate. A large part of PAC's assets are managed by these companies.

5 Governance Structure

5.1 The Board

In addition to their other responsibilities the Board of each company within M&G plc is responsible for the governance of that company's unit-linked business. The Board may delegate duties to senior committees.

5.2 Investment Committees

Investment committees meet at least quarterly to discuss matters relating to the PAC, PPL and PIA unit-linked funds. These committees are responsible for the oversight of the funds within their remit. The Treasury & Investment Office (T&IO), part of Prudential Portfolio Management Group (PPMG), supports the committees in providing this oversight on a day to day basis.

5.3 The Chief Actuary (Head of Actuarial Function for PIA)

The Chief Actuary (Head of Actuarial Function for PIA) reports to the Board on any concerns regarding Prudential's ability to meet policyholder liabilities.

5.4 Unit Pricing Manager

A Unit Pricing Manager is appointed with responsibility for the pricing function. For Pru UK life and pension funds, this role is covered by the Investment Funds Oversight Manager, whose team performs oversight of the fund accounting & pricing services provided by third party agents.

The Unit Pricing Manager provides an annual report to the relevant stakeholder groups on the application of the controls over the pricing function.

5.5 Internal Audit and Risk

Internal Audit and Risk operate a risk based approach to the monitoring/audit of processes and performance, ensuring any key risks identified are addressed. Reports are provided to the various Boards as appropriate. Guidance on regulatory requirements is also provided.

5.6 M&G Treasury and Investment Office (T&IO)

The M&G Treasury and Investment Office is the team of in-house investment strategists and 'manager of managers' for Prudential in the UK.

T&IO support the investment process, which can be broken down into three areas:

Strategic asset allocation (SAA)

The Long Term Investment Strategy team within T&IO set the risk tolerance and asset allocation for the funds determining the optimal SAA, subject to relevant cost constraints, structural and regulatory considerations.

Fund selection and manager oversight

The T&IO Manager Oversight Team has created a rigorous set of procedures to underpin the selection, ongoing monitoring and management of the various underlying investments.

Funds throughout the portfolios have been selected on the basis of a robust due diligence process that combines quantitative factors, including measures of performance and holdings analysis, with qualitative analysis focused on the business, people, process, philosophy and infrastructure. Their initial and ongoing due diligence processes also incorporate assessment and challenge of manager's ESG (Environmental, Social and Governance) investment policies and practices and ambitions. This ensures that the managers awarded mandates are aligned with T&IO values and ambitions.

The team also monitors the suitability of all underlying fund managers through a robust process of formal regular reviews.

Portfolio Management

Portfolio management responsibilities include:

- ensuring the portfolios are managed in line with target exposures and limits while minimising cost and risk, adhering to agreed target tactical asset allocation positions, and managing cash-flows and other fund dynamics.
- ensuring changes in SAA are implemented effectively and efficiently.
- preparing and reviewing trade instructions to minimise operational errors.
- reviewing on an ongoing basis exposures, risks and performance.
- managing and reporting to ensure that cash inflows are allocated appropriately across portfolios and outflows can be covered in stressed scenarios.

5.7 Conflicts of Interest

M&G is subject to a range of legal and regulatory obligations which require the identification and management of actual, potential or perceived conflicts of interest.

A 'conflict of interest' is any relationship or arrangement that is not, or appears not to be, in the best interests of the organisation or its customers. Conflicts of interest involve the abuse, actual or potential, of the trust people have in professionals and can also damage the whole organisation by reducing the trust people have in it. M&G has implemented and will periodically review, at least annually, policies, procedures and controls to manage conflicts of interest.

M&G maintains a register of key conflicts of interest. The register is periodically reviewed, at least annually, to assess the risks and the effectiveness of the controls in place.

6 Calculating Unit Prices

6.1 Introduction

6.1.1 In this section we describe the way in which we value unit-linked funds, in particular the way that we value the assets in the fund and the methods we use to work out the unit price from the asset value.

6.2 Principles

6.2.1 Our overall principle in calculating unit prices is to ensure that we treat all policyholders fairly. In particular we aim to:

- provide a fair valuation of the assets within a fund;
- allow for charges and expenses borne by the fund appropriately;
- provide a fair price to policyholders on purchase and sale of units;
- use a fair and transparent method of unit pricing;
- avoid cross-subsidies between policyholders of individual funds; and
- ensure that the pricing method is fair to both policyholders and shareholders.

6.2.2 We may change these principles and the methods used to achieve them if circumstances change. We will only do so if the changes are compatible with treating customers fairly, and only with the approval of the appropriate Board of Directors.

6.3 Practices

6.3.1 Fund Valuations

6.3.1.1 We calculate a maximum and a minimum value for each unit-linked fund.

6.3.1.2 For most funds this valuation is carried out every working day. Some property assets may be valued monthly. Rental income is usually accounted for daily.

6.3.1.3 The maximum value is the price at which the assets in the fund could be bought, plus an allowance for items such as income accrued, tax, duties and charges payable when buying the assets. The price derived from this value is sometimes known as the Creation Price. However, please note section 6.3.1.6.

6.3.1.4 The minimum value is the price at which the assets in the fund could be sold (including items such as income accrued), less an allowance for items such as tax, duties and charges payable when selling the assets. The price derived from this value is sometimes known as the Cancellation Price. However, please note section 6.3.1.6.

6.3.1.5 The allowance for dealing costs included in the calculation of unit prices is reviewed at least quarterly by M&G for all relevant unit-linked funds.

6.3.1.6 Both values may be further reduced by reserves we consider appropriate to meet expenses, taxes and other financial costs imposed by the government for which we may become liable in the future such as Financial Services Compensation Scheme levies.

6.3.1.7 We will normally value a unit-linked fund on the maximum value (6.3.1.3) if we believe the fund is expanding (i.e. there is more money entering the fund than leaving it). We will normally value a fund on the minimum value (6.3.1.4) if we believe the fund is contracting (i.e. there is more money leaving the fund than entering it). More detail is given in 6.3.4.

6.3.2 Asset Values

6.3.2.1 Collective Investment Schemes

Units or shares in a Collective Investment Scheme (e.g. Unit Trusts, OEICs, QISs, FCPs, PAIFs or SICAVs) will be valued as follows:

- If a single price is quoted for Prudential to buy and sell units or shares (as is the case for most Collective Investment Schemes), at the most recent such price; or
- If separate buying and selling prices for Prudential are quoted, then in most cases these are used to calculate the maximum and minimum values referred to in section 6.3.1.

Specifically Collective Investment Schemes can publish either a single price or two or more prices to apply to customer transactions.

(i) A single priced Collective Investment Scheme has a single price used to buy and sell units which is used to calculate the Prudential unit-linked fund price. Any initial charge is taken through a separate charge and is not reflected in the price (Prudential usually does not incur such charges but if such a charge was incurred this may be passed onto the Prudential fund).

A single priced Collective Investment Scheme can either have a single swinging price (the price switches between the cost of selling (cancellation) or buying (creation) the assets in the Collective Investment Scheme) or have a single price but apply a dilution levy to pass on buying and selling costs to transacting customers.

Note: A change in basis of the underlying Collective Investment Scheme can result in additional volatility on top of the performance of the underlying assets.

(ii) Alternatively a Collective Investment Scheme can provide Prudential with a number of prices, including Bid, Offer, Creation and Cancellation. Depending upon the trading terms of the Collective Investment Scheme, those buying units in the Collective Investment Scheme will receive either the Offer or Creation price, while those selling units will receive either the Bid or Cancellation price. The prices that Prudential would incur in trading in that Collective Investment Scheme would normally be the same prices used to value the units of that Collective Investment Scheme that are held within the Prudential fund, We would use the higher trade price to calculate the creation price of our fund, and the lower trade price to calculate the cancellation price of our fund.

The difference between the Bid and Offer prices is the initial charge. Prudential is not usually required to pay initial charges. However, where Prudential are required to pay such charges, we may pass this charge on to the fund. If the cost to the fund is material, impacted customers would be notified.

Some Collective Investment Schemes provide both a creation and cancellation price. For these funds we may use the two prices provided to calculate the creation and cancellation prices of our fund.

6.3.2.2 Any Other Investment Quoted on a Recognised Investment Exchange

Any other investment quoted on a recognised investment exchange will be valued as follows:

- If a single price is quoted for buying and selling the security, at the most recent such price; or
- If separate buying and selling prices are quoted, then these are used to calculate the maximum and minimum values referred to in section 6.3.1.

6.3.2.3 Property

Property will be valued by an external property surveyor at a value that they believe represents a fair and reasonable prevailing market price.

6.3.2.4 Cash

Cash and amounts held in current and deposit accounts and in other time-related deposits will be valued at their nominal values.

6.3.2.5 Exceptions

If there is no readily available market value, we will obtain an estimate of the value of the assets (see section 7.3.7 for more details).

6.3.3 Charges and Expenses

6.3.3.1 Annual Management Charges (AMCs)

6.3.3.1.1 Unit prices in most funds include a daily allowance for the AMC appropriate for each unit-linked fund.

6.3.3.1.2 The AMC is normally taken daily by multiplying the total net asset value of that day by the current annual charge divided by the number of days in the relevant calendar year. The unit price quoted will be after allowing for the AMC.

6.3.3.1.3 There are some funds where there is no allowance for AMCs in the unit prices. For these funds the AMC is usually taken by cancelling units in the fund once a month, adjusting for partial month periods where appropriate.

6.3.3.1.4 There are some policies where there is partial allowance for AMCs in the unit prices. For these policies the base AMC will be taken as in section 6.3.3.1.2 and the balance of the charge will be taken as described in section 6.3.3.1.3.

6.3.3.1.5 For unit-linked funds that hold investments in other funds, we ensure that AMCs are not double charged to policyholders.

6.3.3.2 Initial Charges

6.3.3.2.1 When a policyholder transacts in a unit-linked fund they will buy units at the Offer Price and sell units at the Bid Price unless otherwise indicated in policy documentation. See section 6.3.4 for more details about Offer and Bid Prices.

6.3.3.2.2 For dual priced funds (identified as such in Appendix A) there is an initial charge equal to the difference between the Bid Price and the Offer Price. The charge is never greater than 5% of the Offer Price plus a rounding adjustment of no more than 0.1p.

6.3.3.2.3 For Single Priced funds the Bid Price and the Offer Price are equal and there is no initial charge.

6.3.3.3 Other Charges and Expenses

6.3.3.3.1 The underlying assets of Prudential's unit-linked funds bear various expenses that effectively impact on the price of the fund.

6.3.3.3.2 The expenses incurred can include:

- Registrar Fees
- Custody Transaction Charges
- Handling Charges
- Trustee Fees
- Bank Charges
- Interest Charges
- Audit Fees
- Stamp Duty Reserve Tax
- Broker Commission
- Administration Charges
- Other Regional Charges
- Regulatory Fees
- Value Added Tax
- Property Related Expenses

In addition, there are various expenses incurred in maintaining and operating the unit-linked funds. For example, these can include transaction fees and safe keeping fees.

6.3.3.3.3 The impact of these expenses on unit prices will vary. We disclose our estimate of the impact in all illustrations and in marketing literature. In addition we review the expected level of such expenses at least annually.

6.3.3.3.4 Stakeholder pension products were introduced in April 2001. One of the legislative requirements of such products is that the overall annual charge on funds invested must be capped. From 6 April 2005, the 1% legislative cap applicable throughout the term of these types of products was increased to 1.5% for the first 10 years of the term. Prudential Stakeholder pension products continue to cap the overall annual charge on funds at 1% throughout the term of the product. In order to ensure that this cap is not breached, we rebate additional non-property related expenses to the funds in accordance with the current relevant product literature. Funds which invest in property assets can incur certain expenses (e.g. to manage and develop properties) which are exempt from the Stakeholder legislative caps, and these expenses are not rebated to the funds.

6.3.3.4 Dilution Levies

6.3.3.4.1 Where funds invest in Collective Investment Schemes which quote a single price for buying and selling units, the fund manager will reserve the right to impose a dilution levy if any trade could materially impact the underlying unit value to the detriment of the remaining unitholders.

6.3.3.4.2 Dilution levies are taken as a charge made against the trades placed and so reduces either the amount of assets purchased or the sale proceeds for assets sold. These levies may be applied in the creation or cancellation of units, or may be absorbed by the fund – this depends on the practice of the external fund manager.

6.3.3.4.3 If the external fund manager makes such a charge, Prudential may make a corresponding charge. The dilution levy is not designed to make a profit, but to cover additional expenses, and so ensure that remaining investors are not impacted.

6.3.3.4.4 Dilution levies may be charged on any fund in the fund range. Where dilution levies are not currently charged, fund managers retain the right to charge these levies in the future.

6.3.4 Policyholder Unit Allocation

6.3.4.1.1 When a policyholder transacts in a unit-linked fund we credit units at the Offer Price and cancel units at the Bid Price unless otherwise indicated in their policy documentation.

6.3.4.1.2 The basis for determining Bid Price will depend on whether the fund is assumed to be contracting or expanding, whilst the Offer Price will always be the Bid Price plus any initial charge (6.3.3.2).

6.3.4.1.3 If the fund is expanding the Bid Price will normally be the Creation Price (6.3.1.3).

6.3.4.1.4 If the fund is contracting the Bid Price will normally be the Cancellation Price (6.3.1.4).

6.3.4.1.5 The pricing basis is normally decided monthly. A decision to change the pricing basis is generally taken only after a period (for example, three month) of expansion (that is, net customer purchases) or contraction (that is, net customer redemption) against the current basis.

6.3.4.1.6 Within any month there may be transactions that go against the current pricing basis for a fund (e.g. there are more units sold than bought on a given day when the fund is priced on an expanding basis). In such circumstances the pricing basis may be changed or Prudential will bear the cost of these transactions (except for the PPL MPP funds, where it is the policyholders in these funds that will bear this cost), but may hold a box (section 9) to minimise the cost to shareholders.

6.3.4.1.7 Nearly all funds are priced each day on a forward pricing basis. Forward pricing is when transactions are undertaken at a future price that is calculated once all transactions are known. Forward pricing means that each investor receives the most up-to-date value for their investments but investors do not know in advance what price they will get for a particular transaction. Instructions received before noon on any working day will normally receive the effective price for that day. Instructions received after noon will normally receive the effective price for the following working day.

6.3.4.1.8 A small number of funds remain historically priced (e.g. PPL MPP1 funds (see Appendix A)). This is where instructions received on a particular day receive the previous working day's price.

6.3.4.1.9 The final exceptions to the normal approach are the Prulink Managed Fund, Prulink Cash Fund and Prufund Managed Fund. These funds are valued and priced on a weekly basis.

6.3.5 Basis for Creating or Cancelling Units

6.3.5.1 When the number of units in the fund is increasing, additional units will normally be created at the Creation Price (6.3.1.3). When the number of units in the fund is reducing, units will normally be cancelled at the Cancellation Price (6.3.1.4).

6.3.5.2 For funds that invest in single priced investments, Creation and Cancellation Prices are the same.

6.3.5.3 Funds that invest directly in the underlying assets (e.g. equities, property and government bonds) will have different Creation and Cancellation Prices.

6.3.5.4 An exception to this normal practice is that some funds have trades carried out at special prices (for example unit transactions relating to stock transfers are carried out at the underlying price of those assets, expense free).

6.3.5.5 If there are delays in creating or cancelling units as a result of administration problems or backdated transactions, the profit or loss is borne by Prudential, not the fund. Prudential aims to ensure that as far as possible processing delays are minimised. However, the price that the policyholder receives on a delayed transaction is that which they would have received if there had been no such delay.

6.3.6 Rounding of Prices

6.3.6.1 Creation and Cancellation Prices are normally calculated daily. The prices (in pence) are normally then rounded to at least 2 decimal places (or nearer 0.01p) before the Bid and Offer Prices are calculated from them. The Bid and Offer prices for most funds are rounded at most to the nearest 0.1p.

6.3.6.2 All of the PPL GILP funds round the Bid Price down to the nearest whole pence and the Offer Price up to the nearest whole pence, with the exception of the Cash and Long Term Gilt Passive funds which round the Bid Price down to the lower 0.01p and Offer price up to the higher 0.01p. The PPL MPP and Prulink funds round Bid and Offer Prices up to the higher 0.1p if the fund is priced on an expanding basis and down to the lower 0.1p if the fund is priced on a contracting basis.

6.3.6.3 All PIA funds priced in Euros or US Dollars round prices to the nearer 0.01 cent.

6.3.7 Prices Used for Internal Deals

6.3.7.1 Some unit-linked funds hold units in other funds in the same range. This is to allow a fund to gain exposure to a certain type of investment without directly holding those investments and incurring extra costs. A typical example is a managed fund that invests in other funds such as a property fund to gain exposure to property returns. An internal deal is when one fund buys or sells units in another fund.

6.3.7.2 Internal deals for PAC funds take place at the Creation Price for purchases and Cancellation Price for sales. See section 6.3.4.5 for more details.

Internal deals in PPL happen at the appropriate price (cancellation or creation) depending on the total cashflows on that day. See section 6.3.4.5 for more details.

6.3.8 Timing and Availability of Prices

6.3.8.1 The majority of Prudential unit-linked funds are valued and priced each working day. However, please note 6.3.8.4.

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

6.3.8.3 For PPL funds, the price for a working day is based on a valuation at 9 p.m.

6.3.8.4 The following funds are not valued daily:

- The property assets in some funds are valued monthly or quarterly, but may be adjusted for items such as property rental income more frequently;
- Prudential (ScotAm) Cash Life Fund and the Prudential Cash Pension Fund, which are part of the former Scottish Amicable Life fund range, are priced monthly;
- Prulink funds are valued and priced weekly; and
- Prufund Managed Fund is valued and priced weekly.

6.3.8.5 Most unit-linked fund prices are available to policyholders from the fund performance section **mandg.com/pru/customer/en-gb/funds**

6.3.8.6 Individual policy valuations are available on request from Prudential using the contact details on policy documentation provided to policyholders.

6.3.9 Mirror Funds

6.3.9.1 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).

7 Discretion

7.1 Introduction

7.1.1 In this section we outline the scope of and limits to Prudential's discretion in managing unit-linked funds. The appropriate Company's Board will monitor the application of any discretion.

7.2 Principles

The overall principle that we aim for in exercising discretion is to ensure that we treat all policyholders fairly. In particular we aim to:

- operate the funds according to the published criteria and standards whenever possible;
- disclose the scope of the company's discretion in managing unit-linked funds; and
- ensure that any change to the objectives and methods of managing unit-linked funds only happens when we believe it to be consistent with treating customers fairly.

7.2.1 For internal unit-linked funds, any change to the objectives and methods of managing the funds must be made with the approval of the appropriate Board (see section 5.1). For external unit-linked funds, the external fund manager must notify Prudential of any changes to objectives or methods of managing these funds.

7.3 Practices

7.3.1 Rounding

7.3.1.1 Policy documents generally give discretion to Prudential in determining the appropriate level of rounding in unit prices. The scope of discretion will vary from product to product.

7.3.1.2 Generally, Prudential exercises this discretion so that the effect of rounding is neutral to both policyholders and Prudential. Prudential's current practice is detailed in section 6.3.6.

7.3.2 Dealing Costs

7.3.2.1 Notional dealing costs are included in the calculation of prices for property funds and other direct investment funds. These allowances are based on market levels and are reviewed at least quarterly by M&G (see section 6.3.1.5).

7.3.3 Taxation

7.3.3.1 The details of how Prudential exercises discretion in relation to the allowance in unit pricing for taxation is covered in section 8.

7.3.4 Charges and Expenses

7.3.4.1 Policy documents outline any discretion that Prudential has in determining the charges and expenses that can be applied to the fund, and the scope that Prudential has to change the level of charges taken.

7.3.4.2 Prudential will normally give at least one month's notice in writing to affected policyholders before increasing the level of annual management charges taken against a unit-linked fund.

7.3.4.3 Prudential will not increase product charges (e.g. the AMC) on any fund where the policy wording of the policies investing in the fund do not allow such increases.

7.3.5 Deferral of Transactions

7.3.5.1 Policy documents generally give some discretion to allow Prudential to defer cancelling units that policyholders wish to cancel. We 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; or
- One month, in other circumstances.

For specific policies and funds there may be other specific restrictions covered in the policy conditions. In particular, if allowable by the policy conditions, 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. In the event of any inconsistency between the contents of this document and any policy, the terms and conditions of the policy prevail.

7.3.5.2 We will only exercise this discretion in exceptional circumstances, where we believe that implementing the transaction immediately could disadvantage other policyholders in the fund.

7.3.5.3 We will not defer the transaction for longer than necessary to protect the interests of other policyholders.

7.3.5.4 It is impossible to specify all the circumstances where deferral could apply. However, one example could be where the fund's assets are not readily tradable at prices that allow us to ensure that the reasonable interests of both policyholders choosing to encash their units and other policyholders are protected. Another example could be where we are unable to cancel units in an external unit-linked fund due to restrictions imposed by the external fund manager.

7.3.6 Closing or Merging of Funds

7.3.6.1 Prudential may decide at any time to close a fund, subdivide a fund or to merge together funds that have similar investment objectives.

7.3.6.2 We will normally give policyholders at least six weeks advance notification (or any longer period outlined in their policy terms) of any such change.

Each external fund manager and external life assurance company also has the power to change or withdraw the availability of the link to its own fund(s). If this happens, we will give you as much notice as is practicable given the circumstances of the change.

7.3.6.3 We will consider the circumstances in each fund closure and may choose to meet some or all of the costs of a switch to any other fund available through that product.

7.3.7 Asset Valuation

7.3.7.1 Assets are normally valued in line with the practices in section 6.3.2. However, there may be times when a fair market value for assets is not available (e.g. valuation of shares which have been suspended from trading). In these situations we will obtain an estimate of the value of the assets.

7.3.7.2 Where a market value is not available for an asset held by an internal directly invested unit-linked fund, the Fair Valuation Policy will be invoked, and expert advice may be sought from M&G's Valuation Sub-Committee and/or the Liquidity Management Sub-Committee, with the final asset value to be used for pricing purposes decided by the Unit Pricing Manager, potentially with approval from members of the relevant company Board.

7.3.7.3 For most external unit-linked funds where no fund price is supplied by the external fund manager, the Prudential fund price will be estimated based on a representative index (if available) consistent with the investment strategy of the fund. The Unit Pricing Manager, or deputy, will instruct the use of the relevant indexing in these circumstances.

For PPL external unit-linked funds, where no fund price is available on a particular day, normally no indexation is applied. Instead pricing will either be delayed for one day until the manager's prices are provided, or in the case of overseas bank holidays, the price that would have applied to a trade with that fund manager will be used.

For PAC external funds, where no fund price is to be made available (e.g. non-valuation day) the previous day's price will be used. Indexing will be used in all other cases where a price is expected, but delayed beyond a reasonable cut-off time, to estimate a price that would be comparable with that eventually received from the fund manager.

7.3.8 Asset Allocation and Strategy

7.3.8.1 Each unit-linked fund has an investment objective that its fund manager aims to meet. The objective, risk profile and investment strategy of the fund will be disclosed to policyholders at outset.

7.3.8.2 The objective, risk profile or investment strategy of a fund may be amended at any point. If this happens for Internal Funds, we will notify affected policyholders of any material change before the change is made where possible, or as soon as is reasonably practical thereafter. For External Funds, we will notify policyholders as soon as is reasonably practical following notification of any material change from the external fund manager.

7.3.8.3 The fund manager has delegated responsibility for managing the fund on a day to day basis. The fund manager will manage the fund in line with the stated objective, but take account of short and long term expectations in decisions relating to stock, sector and asset selection. For unit-linked funds whose objectives are to purchase units in an underlying Collective Investment Scheme, this responsibility lies with the fund manager of the underlying Collective Investment Scheme.

7.3.8.4 There is active monitoring of cash levels within funds.

7.3.8.5 The levels of liquidity in all funds are monitored regularly and reported to the relevant Investment Committee.

7.3.9 Complaint Resolution

7.3.9.1 Any complaints, including those regarding the operation of the unit-linked funds will be dealt with in line with FCA guidelines which are summarised at **mandg.com/pru/customer/en-gb/existing-customers/contact-us/make-a-complaint**

7.3.9.2 Details of the principles and practices that Prudential applies to correction of unit pricing errors are covered in section 10.

7.3.9.3 If we become or are made aware of breaches of policy conditions we will correct these as soon as reasonably practical after they are identified.

7.3.10 Response to Adverse Events

7.3.10.1 If a significant adverse external event results in the unavailability of market values for some assets or raises questions about the appropriateness of those values, we may take action to protect the interests of all policyholders in a unit-linked fund. (For example, on 11 September 2001, as a result of the attack on the World Trade Centre, asset values were either unavailable or extremely volatile.)

7.3.10.2 Actions that may be taken include, but are not limited to:

- Temporary suspension of trading;
- Temporary suspension of unit price; or
- Divergence from stated investment strategy.

7.3.10.3 If any asset value is unavailable unexpectedly, for example an external unit trust price has not been provided, we may choose to make an adjustment to the previous day's value.

7.3.10.4 These practices will only be used when necessary to secure policyholder protection.

7.3.10.5 The Prudential Assurance Company Limited (PACL) and Prudential Pensions Limited (PPL) 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.

7.3.11 Launching Funds and Seeding with Capital

7.3.11.1 New funds are regularly added to our fund range to reflect changing customer requirements.

7.3.11.2 To enable a new fund to operate effectively through a diversified portfolio of assets prior to having received substantial policyholder investment, the fund may be "seeded" with an appropriate level of shareholder capital.

7.3.11.3 Once the fund has received sufficient policyholder investment to allow it to run a reasonably diversified investment strategy, the seeding capital will be returned.

7.3.12 Criteria for Moving Funds Between Bid and Offer Bases

7.3.12.1 For all funds with a creation or cancellation price, we have the discretion to price on either an expanding basis or a contracting basis.

7.3.12.2 Prudential's exercise of this discretion is outlined in sections 6.3.4.5 and 6.3.4.6.

7.3.13 Internal Deals Between two Unit-Linked Funds

7.3.13.1 Internal deals for PAC funds take place at the Creation Price for purchases and Cancellation Price for sales. Internal deals in PPL happen at the appropriate price (cancellation or creation) depending on the total cashflows on that day (section 6.3.7).

7.3.14 Determining Distribution Rates for Income

7.3.14.1 Some funds distribute income to policyholders on a regular basis. The amount distributed is decided by us, based on the income earned during the period but is also impacted by other factors (such as previous distributions, expected income and cash available). For some of these funds, we may also adjust the distribution amount to spread it more evenly over the year. Any income that is not paid out will be retained in the fund for future distributions.

7.3.15 Choice of Pricing Point

7.3.15.1 Prudential's choice of pricing point for each unit-linked fund is outlined in section 6.3.8.

7.3.16 Review of Scope of Discretion

7.3.16.1 Prudential will review the scope of discretion as required, such as upon a significant change to the investor base.

8 Taxation

8.1 Introduction

8.1.1 In this section we describe the way in which we allow for tax when pricing unit-linked funds that are subject to tax. We are charged tax on the investment income and capital gains that we receive on the investments in such funds.

8.1.2 We receive tax relief on certain types of expenses incurred in the course of managing any funds which are subject to tax. These are known as allowable expenses and are determined in accordance with the relevant legislation.

8.1.3 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. The remainder of section 8 does not apply to PIA offshore products.

8.1.4 PIA has a branch in the UK which sells a bond to UK residents which offers access to external funds that are not priced as Prudential unit-linked funds. An allowance for tax is deducted on a monthly basis from the client's assets. As this document relates to Prudential unit-linked funds only, the remainder of section 8 does not apply to that product.

8.2 Principles

8.2.1 The overall aim of the tax charging methodology is to ensure that all tax allocations are fair between shareholders and policyholders, between different funds and between 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, and in addition there is an allowance made for any losses within the fund that cannot be offset against gains.

8.2.2 We seek to pass on to the fund the actual tax charge it incurs on these funds. In circumstances where the actual charge is not known (perhaps because it will not be incurred until some later date), Prudential will estimate the charge to the fund.

8.2.3 We will give immediate credit to policyholders for losses that could be carried back and offset against gains that were brought into the company's actual tax computations in earlier years. However, we will not give credit to policyholders for losses that could be carried back into an earlier year's actual tax computation where losses have been carried forward into that year. This reduces the complications of allowing for tax in pricing in this scenario and hence the risk of pricing errors.

8.2.4 The scope and nature of the taxation of unit-linked life funds may be subject to change over time. We will account for any future changes in any tax calculations from the effective date of such changes.

8.3 Practices

8.3.1 Investment Income Taxation

8.3.1.1 Investment income comprises:

- dividends from shares
- rental income from property
- coupons from fixed interest investments
- income from Stock Lending
- rebates of management charges from underlying Collective Investment Schemes
- distributions from underlying Collective Investment Schemes
- profits and losses on fixed interest securities
- profits and losses on Collective Investment Schemes that hold over 60% of their assets in fixed interest securities

8.3.1.2 Investments in Collective Investment Schemes that hold more than 60% of their assets in fixed interest securities are currently taxed under the loan relationship regime and are taxed as income on a marked to market basis, rather than under the deemed disposal regime (see 8.3.2.6).

8.3.1.3 Where there are current year losses and gains in the previous year we will use the loss to minimise the tax burden on the fund.

8.3.1.4 In the unit-linked life funds, tax is charged on investment income at the policyholder tax rate (currently 20%). However, dividends from equities and the equity element of distributions from Collective Investment Schemes are not subject to further tax. From 1 July 2009, overseas dividends from the vast majority of countries are no longer subject to any taxation in the UK but they may be subject to withholding tax in the country of origin. We give partial credit in the unit price for any losses that cannot be offset against gains in the fund.

8.3.1.5 The unit-linked pension funds are exempt from UK tax on their investment income. Consequently, the unit-linked pension funds are able to recover UK tax deducted at source on investment income from cash and interest bearing securities to the extent that the tax can be offset against Prudential's overall tax liability. Where a dividend distribution is paid by a Collective Investment Scheme, no tax recovery is available on the part of the distribution that relates to equities (franked investment income). If overseas withholding tax has been suffered on the investment income, and used to reduce the corporation tax liability of the Collective Investment Scheme, then the portion of the withholding tax that has been offset against corporation tax liabilities is not recoverable.

8.3.2 Capital Gains Taxation

8.3.2.1 A capital gain occurs when an asset is sold (or deemed to be sold) at a price higher than it was purchased, subject to any indexation relief available. A capital loss occurs when an asset is sold (or deemed to be sold) at a price lower than it was purchased at.

8.3.2.2 It is possible to use capital losses to offset gains in the fund (see section 8.3.2.3 and 8.3.2.4). We give partial credit in the unit price for losses that will fall into the company's actual tax computation in a future year in excess of the deemed gains carried forward to that particular year. Any losses that cannot be offset in this way are carried forward and will be offset against future gains or future deemed disposal sevenths carried forward to future years.

8.3.2.3 Where there are current year losses and gains in either or both of the previous two years we will carry-back the loss to minimise the tax burden on the fund.

8.3.2.4 We allow capital losses (realised and deemed disposal) to be offset against deemed disposal gains that have been brought forward from previous years and have yet to fall into the company's actual tax computations.

8.3.2.5 We hold an actuarial reserve to ensure that we do not make a profit from only giving partial credit for these losses at fund level when we have taken credit for them at company level.

8.3.2.6 Gains and losses on most Collective Investment Schemes are taxed under the deemed disposal rules (Collective Investment Schemes that hold more than 60% of their assets in fixed interest securities are currently taxed under the loan relationship scheme, see 8.3.1).

Under the deemed disposal rules, the following process applies:

- at the end of each year Prudential is deemed to have disposed of and immediately repurchased the holdings at market price and a notional gain (or loss) is calculated,
- a gain (but not a loss) will be adjusted by any appropriate indexation allowance,
- this gain (or loss) is then divided by 7, and
- this value is charged to tax in the current tax year and each of the next 6 tax years.

As a result, at any point we will know the outstanding amount of deemed gains and losses brought forward from each of the previous 6 years.

There will also be an unrealised gain or loss position in respect of the current tax year. We estimate the expected charge to capital gains in respect of the current year by adding:

- 1/7th of the currently unrealised gains (or losses), and
- 1/7th of the deemed disposals gain (or loss) from each of the previous six years.

8.3.2.7 Net realised gains are charged to tax in the current tax year at the policyholder tax rate (currently, 20%).

8.3.2.8 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.

Equities currently have a rate of 18.5% applied to the unrealised gains.

Property currently has a rate of 17% applied to the unrealised gains.

8.3.2.9 When any equities or properties are realised there will be an increase in the tax provision as the tax rate on realised gains is greater than the discounted rate used to calculate the provision.

8.3.2.10 A tax provision is set up for each fund in respect of realised gains, deemed disposal gains and unrealised gains for the year to date. The tax provision also allows for the deemed disposal gains that will be charged to tax in each of the next six years and we apply a discount rate of 3% p.a. to allow for the time until these will arise.

8.3.2.11 Each quarter there will be a payment either to or from the fund at the same time as the company pays an instalment of tax under the Quarterly Instalment Payment (QIP) scheme. If the total tax payment due from the fund at the end of the quarter is greater than the amount of tax already paid then there will be a deduction from the fund. If the total tax payment due is less than the amount of tax that has already been paid then there will be a payment into the fund.

8.3.2.12 An exception to the general principle that unit-linked funds will be treated as if they were standalone taxable entities is those linked funds that invest in other linked funds.

Tax is charged at the lowest level, so there is no offsetting of the tax positions of the lower level funds. It could happen that one of the underlying linked funds is in an overall gain position while another is an overall loss position and so has a zero tax provision. If the higher level linked fund had invested directly in the underlying assets it would have been possible to offset the gains and losses.

8.3.2.13 A small number of Life contracts have Corporate Capital Gains Tax deducted from the claim amount on exit. These contracts are:

- M&G Unit Trust Assurance Plan,
- M&G Trust Assurance Plan,
- M&G Regular Investment Plan, and
- PruTrust.

8.3.3 Expense Relief

8.3.3.1 Relief for allowable expenses, as defined in section 8.1.2, is granted at the policyholder tax rate (currently 20%).

9 Box Management

9.1 Introduction

9.1.1 In this section we describe how we use a "box" in the management of our unit-linked business.

9.1.2 A box is where the shareholders of the company hold additional units in excess of those allocated to policyholders and will deal in the box rather than directly with the underlying assets.

9.2 Principles

9.2.1 We may hold a box to reduce the expense to the fund of making a series of small transactions and to reduce the shareholder exposure when the net cashflows are on a different basis than the current pricing basis (see section 6.3.4).

9.2.2 We will not run the box to make a profit by taking positions based on a view of investment conditions.

9.2.3 We set box limits in relation to the costs of buying and selling units and the size of the fund.

9.3 Practices

9.3.1 Prudential does not currently operate a box on any funds.

10 Error Correction

10.1 Introduction

10.1.1 In this section we describe how we address any pricing errors which arise in our unit-linked funds.

10.2 Principles

10.2.1 We will endeavour to correct all errors as soon as reasonably practical once identified.

10.2.2 We will compensate policyholders where they have suffered a material loss.

10.2.3 We will compensate the fund if it has suffered a material loss.

10.3 Practices

10.3.1 Definition of Materiality

10.3.1.1 Prudential defines a material error as one which affects the unit price by more than 0.5%. Any such error will normally be reported to the FCA.

10.3.2 Action Taken

10.3.2.1 All errors identified which impact prices are recorded and monitored and the underlying cause of the error corrected. Where an error is identified, any correction required to the unit price of the fund to make the future prices correct will be implemented as soon as possible.

10.3.2.2 In addition, all material errors (section 10.3.1) are reported by the Finance department to the Regulatory Risk department, who monitor actions as required.

10.3.2.3 Errors impacting prices by more than 0.1% but less than 0.5% are investigated for wider implications. However, unless the error is a widespread systemic error likely to have resulted in a material loss for individual retail investors, compensation will not normally be paid.

10.3.2.4 Material errors (section 10.3.1) will be compensated subject to 'de minimis' levels agreed by the Board.

10.3.3 Monitoring of Error Correction

10.3.3.1 The relevant Board monitors the correction of pricing errors.

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