

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

## International Portfolio Bond – The PruFund Range of Funds

This document contains information which is relevant to you as an investor in the PruFund Range of Funds through the International Portfolio Bond offered by Prudential International Assurance plc (PIA or Prudential International). The Prudential Assurance Company Ltd (PAC) accepts reinsurance business from PIA in respect of investments in the PruFund Range of Funds. The premiums received are placed in the Defined Charge Participating Sub-Fund of PAC **With-Profits Fund**, which is referred to in this guide as the **With-Profits Fund** or the Fund.

Your investment in the PruFund Range of Funds through the International Portfolio Bond is a medium to long-term investment that:

- › combines your money with money from other **with-profits bondholders**
- › invests in the PAC **With-Profits Fund**
- › combines the advantages of a well balanced mix of investments with some **smoothing** (see "**Why do we have a smoothing process?**" on page two) of investment returns.

The investment strategy aims to secure the highest total return over the time you have your investment in PruFund, consistent with the objectives of the individual PruFund Fund, while maintaining an acceptable level of risk to the PAC **With-Profits Fund**.

Your Bond refers to your contract and hence the overall investment you have made into the International Portfolio Bond product.

### Aims of this guide

This guide explains briefly how the **With-Profits Fund** works and the current approach to managing it.

Please keep this guide in a safe place, along with your other Bond documents, as you might find it useful:

- › when you get your half-yearly statement,
- › if you get an illustration of what you might get back from your Bond, or
- › if you'd like to discuss your Bond with a financial adviser.

This guide applies to investors in the Fund via Prudential International's PruFund Range of Funds held within the International Portfolio Bond.

### Further Information

You can find more detailed, technical information about how PAC manage the Fund in the Principles and Practices of Financial Management (PPFM) document, which is available on our website: [www.pru.co.uk/ppfm](http://www.pru.co.uk/ppfm)

You can find the most up-to-date version of this guide, together with a summary of notable past or upcoming changes to our Principles and Practices of Financial Management, on our website.

### Glossary

We've put terms in **bold** and explained what they mean in the glossary on the last page.

### What's a with-profits investment?

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

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

We aim to grow your money invested in the **With-Profits Fund** over the medium to long term.

### How does our With-Profits Fund work?

We combine and invest money from all of our **with-profits bondholders** in the Defined Charge Participating Sub-Fund of the PAC **With-Profits Fund**. The Fund has a wide range of investment types which we generally refer to as assets.

Investment performance, that is, the change in value over time of the assets held by the **With-Profits Fund**, usually has the biggest effect on the value of your Bond. You can find more detail on the factors that might affect the value of your investment in PruFund on page four.

### Why do we have a smoothing process?

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

The PruFund Range of Funds has an established smoothing process which uses Expected Growth Rates, and where necessary, Unit Price Adjustments, to deliver smoothed returns, and provide some protection from some of the extreme short-term ups and downs of direct stockmarket investment.

### What's the Expected Growth Rate and how do we decide it?

The Expected Growth Rates of the PruFund Range of Funds are the annualised rates which will normally be applied daily to increase the unit price of the Funds. The Directors of PAC set these every three months (quarterly). They'll take into account the investment returns that they expect the assets of the funds to earn over the long term (up to 15 years). They are published for each product, every three months (on the quarter dates) on our website: [www.pru.co.uk/egr](http://www.pru.co.uk/egr)

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 UK bank holiday.

The value of your investment in PruFund will normally change in line with this growth rate on a daily basis, through the price of the units you hold (known as the unit price).

### What happens when you invest?

Every time you invest in the PruFund Range of Funds, your money will buy units in the corresponding "fixed rate" account(s) before we move it into your chosen fund(s) on the next PruFund Investment Date. Please note that any units bought on a PruFund Investment Date will be switched on that same day.

The PruFund Investment Date will be the 25th of each month or the next working day if the 25th falls on a weekend or a UK bank holiday.

When your money is in the fixed rate account and waiting for us to move it into your chosen fund on the next (or the same if applicable) PruFund Investment Date it'll grow at the Expected Growth Rate that PAC have set for the fund you've chosen. Charges to the Bond will apply as normal during this period, but any **smoothing** adjustments, **Unit Price Resets**, or suspension of **smoothing** won't apply.

## What's the PruFund smoothing process?

When we're talking about prices and describing the **smoothing** process, we use the terms smoothed and unsmoothed:

- The smoothed price – which we also call the unit price, increases by the Expected Growth Rate as explained above. We publish this price.
- The unsmoothed price – which we work out by dividing the value of the underlying fund by the total number of units. We don't publish this price.

### How smoothing works for the PruFund Range of Funds

Every day, the **smoothing** process checks the gap between the smoothed price and unsmoothed price. For this purpose, PAC calculate the gap using both the unsmoothed price and a five working day rolling average of the unsmoothed price. If the gap is ever equal to or more than the **Daily Smoothing Limit**, PAC will adjust the smoothed price straight away, to reduce the gap to the value of the **Gap After Adjustment** for the relevant fund.

In addition, on each PruFund Investment Date if there is a gap which is equal to or more than the **Monthly Smoothing Limit**, when PAC compare the unsmoothed and smoothed prices for that day, PAC will reduce the gap by half by adjusting the smoothed price. Where necessary, this process will be repeated until the gap is less than the **Monthly Smoothing Limit**.

Any adjustments made to the smoothed price can be down or up, depending on whether it's above or below the unsmoothed price.

Please note, the **Daily Smoothing Limit**, **Monthly Smoothing Limit** and the **Gap After Adjustment** will vary by fund. The current values that apply to each fund can be found in the table on the last page.

The smoothed price after any adjustment made will increase at the Expected Growth Rate for the quarter. The unsmoothed price is not published. This protects investors by avoiding speculation over possible smoothed price adjustments.

### Can PAC reset the smoothed price?

PAC may decide to reset the smoothed price of a PruFund fund on a particular day, to protect the **With-Profits Fund**.

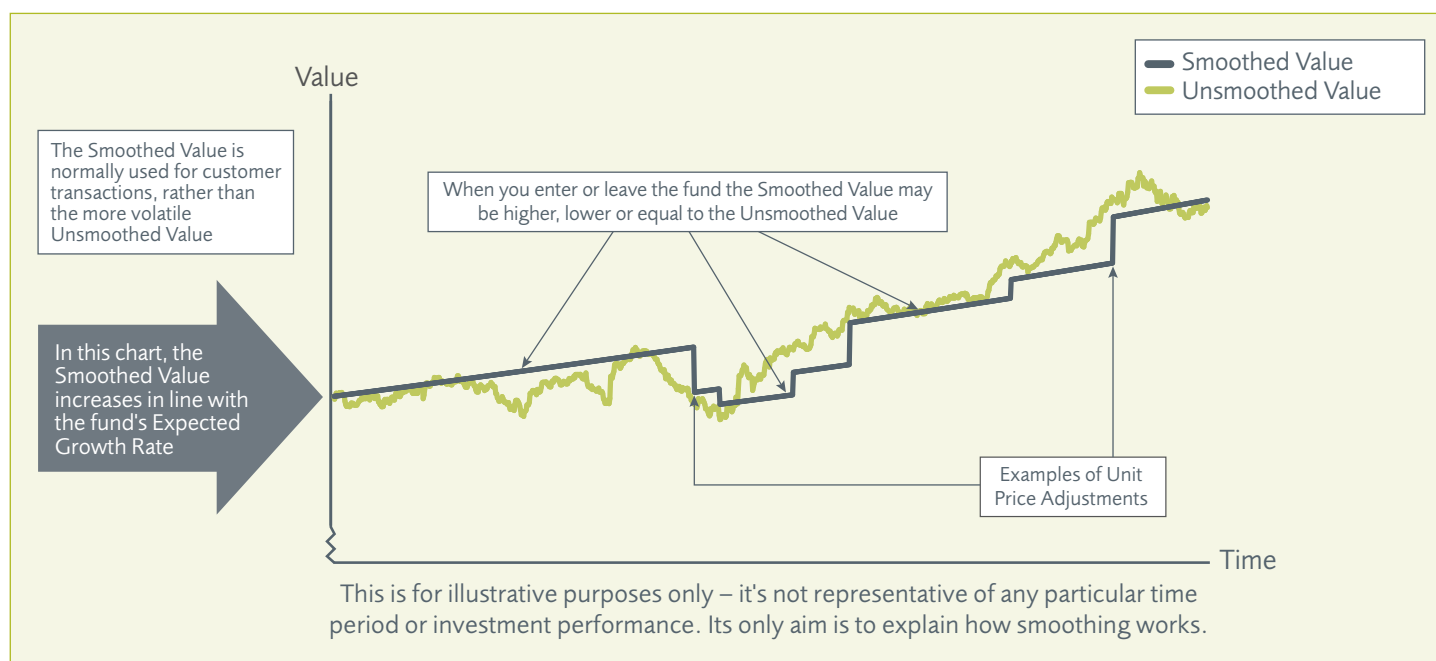
If PAC decide to reset, the smoothed price of the affected fund would be adjusted to be the same value as the unsmoothed price on that working day. That adjusted smoothed price will then continue to grow in line with the Expected Growth Rate from the working day after this reset of the smoothed price. This is referred to as a **Unit Price Reset** in other literature.

### Can smoothing be suspended?

There may be occasions where PAC have to suspend the **smoothing** process for one or more PruFund funds for a period of consecutive days, to protect the PAC **With-Profits Fund**. When this happens the smoothed price for the affected fund(s) is set to the unsmoothed price for each day until PAC reinstate the **smoothing** process.

Please note that business written into the International Portfolio Bond PruFund funds is treated entirely separately from other PruFund business, for the purposes of **Unit Price Reset** and "**suspension of smoothing**" criteria and outcomes.

**For more information, please refer to your Contract Conditions and Important Information Booklet.**



### Is the payout guaranteed?

There is no fixed payout amount, as a result of the pricing and **smoothing** mechanisms used for the PruFund Range of Funds (see "What's the PruFund smoothing process?" section).

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

However, where applicable you could have selected certain product options, which do guarantee a minimum amount you'll get back from your investment – please refer to your product literature for details of these and their relevant charges.

### What affects the value of your PruFund investment?

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

- holders of different types of plans
- **with-profits bondholders** starting plans at different times
- **with-profits bondholders** remaining in the **With-Profits Fund** and those leaving the **With-Profits Fund**
- our **shareholders**.

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

#### a) Investment performance

This usually has the biggest impact on the payout from your PruFund investment.

It depends on several things, including how much of the Fund PAC invest in the different types of assets.

The main asset types are:

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

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

Over time, the performance of different types of asset varies a lot. So the Fund's expert fund managers might change the asset mix with the aim of maximising the returns for a given risk profile.

#### b) Smoothing

**Smoothing**, which is explained on page three, limits the immediate effect of ups and downs in the performance of the different types of assets that the Fund invests in on what you get back from your PruFund investment.

#### 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 **with-profits bondholders**.

**The Key Features Document gives information about the charges applicable to your Bond.**

#### d) Cost of guarantees and smoothing

Our charges include an amount to pay for the guarantees and **smoothing** you get.

#### e) Tax

Currently, there is no tax payable by the Fund on assets backing PIA business other than any **withholding tax** on some **dividend income**.

#### f) Other business risks

Other risks that might affect the value of your Bond include:

- operational risks, such as changes in regulatory requirements or taxation

PAC regularly review risk levels to make sure they're acceptable to the **With-Profits Fund**.

### What if you decide to move out of the PruFund Range of Funds?

You might decide to take money from your Bond for one of the following reasons:

- to switch to another one of our funds,
- to cash in your Bond,
- one-off withdrawal, or
- regular withdrawals.

Any cancellation of units as a result of switches or withdrawals from the PruFund Range of Funds might be subject to a delay of up to 28 days to cancel units. The unit price on the final day of this 28 day period will be used as the price of the units for these purposes.

If you're considering moving out of the **PruFund Range of Funds** you might want to speak to a financial adviser.

### What's an inherited estate?

As a long established life assurance company, PAC's **With-Profits Fund** contains an amount of money in excess of the amount PAC expect to pay out to existing **with-profits bondholders** and other investors within the fund. 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, including business written in the Defined Charge Participating Sub-Fund.

### How we use the inherited estate

This capital lets you benefit from **smoothing** and guarantees and allows PAC greater flexibility to invest in a wide range of assets.

PAC are also required by regulation to hold a substantial amount of capital in the **With-Profits Fund**. This allows PAC to demonstrate, at all times, that the Fund is solvent and able to meet its obligations to all **with-profits bondholders** and other investors in the fund. The inherited estate provides most of this **solvency capital**.

As **with-profits bondholders** are invested in the Defined Charge Participating Sub Fund they are not entitled to any distribution of the **With-Profits Fund's inherited estate**.

### Where can you find out more?

If you'd like more information about your investment in Prudential International's PruFund Range of Funds please see "Your guide to investing in the PruFund Range of Funds".

We put this guide together as a summary of how the Fund works. However, because we've kept it as short as possible, we've only given you the most important information.

We need to let you know that without all details you'll not have a complete picture. If you do need a detailed technical guide to how PAC manage the With-Profits business, please refer to the Principles and Practices of Financial Management (PPFM). You can find this on our website. If you'd prefer a printed version, please let us know.

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

### Money Advice Service

The Money Advice Service gives general information about with-profits funds in the Consumer section on their website: [www.moneyadviceservice.org.uk/en/articles/with-profits-funds](http://www.moneyadviceservice.org.uk/en/articles/with-profits-funds).

## Glossary

This is a glossary to help you with the terms specifically in this guide.

- › **company shares:** an investment that represents part ownership of a company. Shares are also known as equities.
- › **Daily Smoothing Limit:** a specified limit (shown as a percentage of the smoothed price), which PAC may choose to vary from time to time and that may differ across the range of PruFund funds. Please see the table below for the current values.
- › **deposits:** cash and other short-term investments that typically earn interest.
- › **dividend income:** payments made by a corporation to its shareholder members.
- › **fixed interest securities:** loans to governments and companies that pay a predetermined rate of interest.
- › **Gap After Adjustment:** the specified gap (shown as a percentage of the unsmoothed price), between the smoothed price and the unsmoothed price immediately after the smoothed price has been adjusted as a result of the Daily Smoothing Limit being met or exceeded. PAC may choose to vary this percentage from time to time and it may differ across the range of PruFund funds. Please see the table below for the current values.
- › **property:** an investment in commercial property such as offices, shops, and industrial premises.
- › **Monthly Smoothing Limit:** a specified limit (shown as a percentage of the smoothed price), which PAC may choose to vary from time to time and that may differ across the range of PruFund funds. Please see the table below for the current values.
- › **shareholder:** a person or group that owns one or more shares in Prudential companies. The owner of a share owns a small part of Prudential.
- › **smoothing:** adjusting returns for some of the extreme ups and downs of short-term investment performance to provide a more stable return.
- › **solvency capital:** funds that allow Prudential to demonstrate that the PAC With-Profits Fund is solvent and able to meet its obligations to **with-profits bondholders** and other investors in the fund even if it were to suffer significant losses.
- › **Unit Price Reset:** means that the unit price (also called the smoothed price) of the affected PruFund would be adjusted to be the same value as the relevant unsmoothed price on that working day. That adjusted unit price would then continue to grow in line with the relevant Expected Growth Rate from the next working day.
- › **withholding tax:** this is a government requirement for the payer of an item of income to deduct tax from the payment and pay that tax to the government.
- › **with-profits bondholder:** a person that holds an investment in the **With-Profits Fund**.
- › **With-Profits Fund:** the With-Profits Fund is the fund where Prudential's with-profits business is written. With-profits bondholders can share in the profits of the With-Profits Fund through discretionary distributions.

The individual funds included in the PruFund Range of Funds, and their current smoothing limits, are:

<b>PruFund Funds</b>	<b>Monthly Smoothing Limit</b>	<b>Daily Smoothing Adjustment</b>	<b>Gap After Adjustment (applies to Daily Smoothing Limit only)</b>
PruFund Cautious Fund	4.0%	8.0%	2.0%
PruFund Growth Fund	5.0%	10.0%	2.5%
PruFund Risk Managed 1 Fund	4.0%	8.0%	2.0%
PruFund Risk Managed 2 Fund	4.0%	8.0%	2.0%
PruFund Risk Managed 3 Fund	5.0%	10.0%	2.5%
PruFund Risk Managed 4 Fund	5.0%	10.0%	2.5%
PruFund Risk Managed 5 Fund	5.0%	10.0%	2.5%



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

The registered office of Prudential International is in Ireland at Montague House, Adelaide Road, Dublin 2. Prudential International is a marketing name of Prudential International Assurance plc, a life assurance company operating from Ireland. Registration No. 209956. Prudential International Assurance plc is authorised by the Central Bank of Ireland. Prudential International is part of the same corporate group as The Prudential Assurance Company Limited. Both The Prudential Assurance Company Limited and Prudential International are direct and indirect subsidiaries respectively of M&G plc, a company incorporated in the United Kingdom. The Prudential Assurance Company Limited is not affiliated in any manner with Prudential Financial, Inc, a company whose principal place of business is in the United States of America or Prudential plc, an international group incorporated in the United Kingdom.