Prudential Independent Governance Committee's Report 2019

Enter

Contents

This document is interactive allowing you to navigate through it and control the information that you want to view. Look out for the following icons:

- Indicates an interactive function
- Shows or hides information
- Navigates on the same page
- Navigates to the previous or following page

You can navigate to sections from this Contents page and return to it using the **Contents** link at the top of each page.

One page summary for Members

The Independent Governance Committee represents you and our constant aim is to ensure you receive value for money and experience good customer service when investing in your workplace pension with Prudential. We work with the company throughout the year to do this.

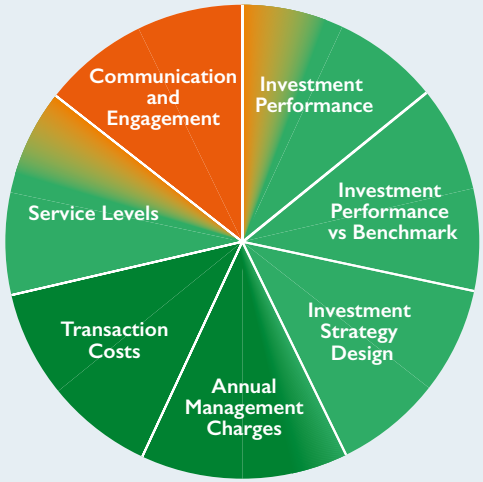
What happened in 2018?

Our focus for 2018 centred around investment performance, the amount you were charged for investing and the service and communications you have received throughout the year. Where you have not selected specific investment funds your money is invested in what is known as a 'default' strategy.

We have found that:

- Prudential's default fund has grown by more than the IGC thinks it needs to, despite a difficult year in 2018.
- Default investment strategies are now compatible with the Pension Freedoms.
- Charges are lower than the maximum IGC thinks is appropriate, including 'transaction costs'.
- Administration service levels have been good.
- Communications continue to improve.

IGC's VFM Framework & Scores for 2018



What we are still working on

There are some signs that members are taking more notice of their pension savings. However, there is more to do here. Prudential is taking part in a wider industry initiative called "The Pensions Dashboard" whose aim is to allow you to see all your various pensions from employers and providers all in one place. This should be up and running before the end of 2020.

Click on each segment for more information

Key conclusions

So I can once again report that Prudential is giving good value for money. You should however check that the amount you are saving is likely to give you the retirement you want.

Any questions?

If you want to find out more, please read the full report or leave us some **feedback**.

Lawrence Churchill CBE
Chairman, Independent Governance Committee

One page summary for Members

The Independent Governance Committee represents you and our constant aim is to ensure you receive value for money and experience good customer service when investing in your workplace pension with Prudential. We work with the company throughout the year to do this.

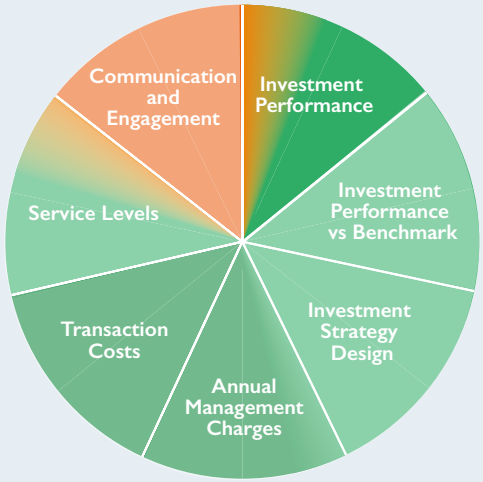
What happened in 2018?

Our focus for 2018 centred around investment performance, the amount you were charged for investing and the service and communications you have received throughout the year. Where you have not selected specific investment funds your money is invested in what is known as a 'default' strategy.

We have found that:

- Prudential's default fund has grown by more than the IGC thinks it needs to, despite a difficult year in 2018.
- Default investment strategies are now compatible with the Pension Freedoms.
- Charges are lower than the maximum IGC thinks is appropriate, including 'transaction costs'.
- Administration service levels have been good.
- Communications continue to improve.

IGC's VFM Framework & Scores for 2018



Investment Performance – Actual

92% of the FUM in Growth Funds achieve returns of more than 3% above inflation per year over 5 years (or 3 years for newer funds). 1 year performance was impacted by turbulent markets in 2018.

Click on each segment for more information

Key conclusions

So I can once again report that Prudential is giving good value for money. You should however check that the amount you are saving is likely to give you the retirement you want.

Any questions?

If you want to find out more, please read the full report or leave us some **feedback**.

Lawrence Churchill CBE
Chairman, Independent Governance Committee

One page summary for Members

The Independent Governance Committee represents you and our constant aim is to ensure you receive value for money and experience good customer service when investing in your workplace pension with Prudential. We work with the company throughout the year to do this.

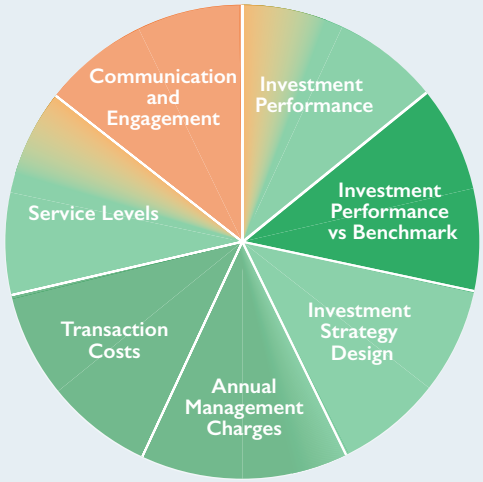
What happened in 2018?

Our focus for 2018 centred around investment performance, the amount you were charged for investing and the service and communications you have received throughout the year. Where you have not selected specific investment funds your money is invested in what is known as a 'default' strategy.

We have found that:

- Prudential's default fund has grown by more than the IGC thinks it needs to, despite a difficult year in 2018.
- Default investment strategies are now compatible with the Pension Freedoms.
- Charges are lower than the maximum IGC thinks is appropriate, including 'transaction costs'.
- Administration service levels have been good.
- Communications continue to improve.

IGC's VFM Framework & Scores for 2018



Investment Performance – vs Benchmarks

Prudential's investment options outperform their benchmarks (the fund it is designed to track).

Click on each segment for more information

Key conclusions

So I can once again report that Prudential is giving good value for money. You should however check that the amount you are saving is likely to give you the retirement you want.

Any questions?

If you want to find out more, please read the full report or leave us some **feedback**.

Lawrence Churchill CBE
Chairman, Independent Governance Committee

One page summary for Members

The Independent Governance Committee represents you and our constant aim is to ensure you receive value for money and experience good customer service when investing in your workplace pension with Prudential. We work with the company throughout the year to do this.

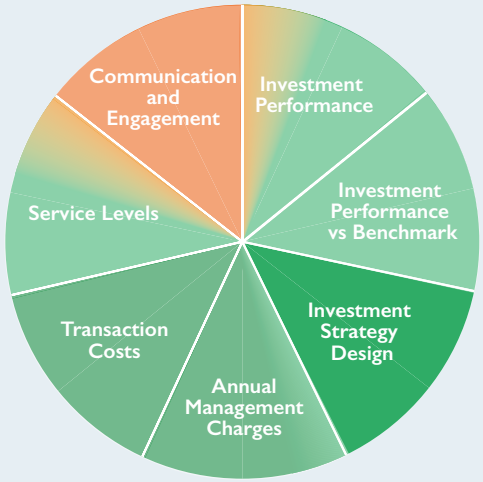
What happened in 2018?

Our focus for 2018 centred around investment performance, the amount you were charged for investing and the service and communications you have received throughout the year. Where you have not selected specific investment funds your money is invested in what is known as a 'default' strategy.

We have found that:

- Prudential's default fund has grown by more than the IGC thinks it needs to, despite a difficult year in 2018.
- Default investment strategies are now compatible with the Pension Freedoms.
- Charges are lower than the maximum IGC thinks is appropriate, including 'transaction costs'.
- Administration service levels have been good.
- Communications continue to improve.

IGC's VFM Framework & Scores for 2018



Investment Strategy Design

The IGC continues to monitor investment design and is fully supportive of Prudential's current approach.

Click on each segment for more information

Key conclusions

So I can once again report that Prudential is giving good value for money. You should however check that the amount you are saving is likely to give you the retirement you want.

Any questions?

If you want to find out more, please read the full report or leave us some **feedback**.

Lawrence Churchill CBE
Chairman, Independent Governance Committee

One page summary for Members

The Independent Governance Committee represents you and our constant aim is to ensure you receive value for money and experience good customer service when investing in your workplace pension with Prudential. We work with the company throughout the year to do this.

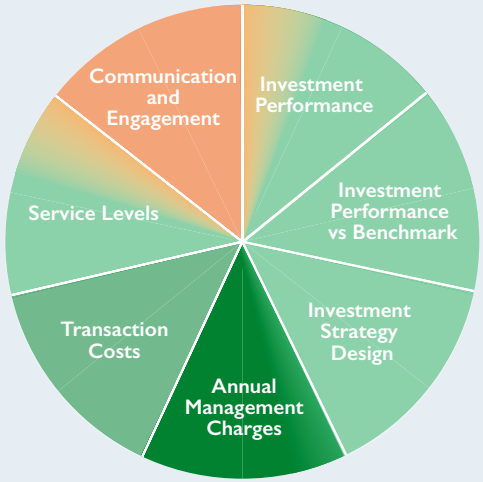
What happened in 2018?

Our focus for 2018 centred around investment performance, the amount you were charged for investing and the service and communications you have received throughout the year. Where you have not selected specific investment funds your money is invested in what is known as a 'default' strategy.

We have found that:

- Prudential's default fund has grown by more than the IGC thinks it needs to, despite a difficult year in 2018.
- Default investment strategies are now compatible with the Pension Freedoms.
- Charges are lower than the maximum IGC thinks is appropriate, including 'transaction costs'.
- Administration service levels have been good.
- Communications continue to improve.

IGC's VFM Framework & Scores for 2018



Annual Management Charges

99.9% of members are now paying less than 1% in charges per year and the most frequent charge applied on our default strategy continues to be less than 0.5% per year.

Click on each segment for more information

Key conclusions

So I can once again report that Prudential is giving good value for money. You should however check that the amount you are saving is likely to give you the retirement you want.

Any questions?

If you want to find out more, please read the full report or leave us some **feedback**.

Lawrence Churchill CBE
Chairman, Independent Governance Committee

One page summary for Members

The Independent Governance Committee represents you and our constant aim is to ensure you receive value for money and experience good customer service when investing in your workplace pension with Prudential. We work with the company throughout the year to do this.

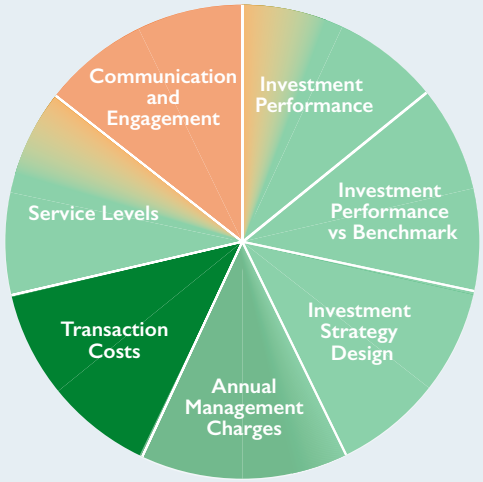
What happened in 2018?

Our focus for 2018 centred around investment performance, the amount you were charged for investing and the service and communications you have received throughout the year. Where you have not selected specific investment funds your money is invested in what is known as a 'default' strategy.

We have found that:

- Prudential's default fund has grown by more than the IGC thinks it needs to, despite a difficult year in 2018.
- Default investment strategies are now compatible with the Pension Freedoms.
- Charges are lower than the maximum IGC thinks is appropriate, including 'transaction costs'.
- Administration service levels have been good.
- Communications continue to improve.

IGC's VFM Framework & Scores for 2018



Transaction Costs

Across all of the IGC funds 96.9% have transactions costs of less than 0.20%.

Click on each segment for more information

Key conclusions

So I can once again report that Prudential is giving good value for money. You should however check that the amount you are saving is likely to give you the retirement you want.

Any questions?

If you want to find out more, please read the full report or leave us some **feedback**.

Lawrence Churchill CBE
Chairman, Independent Governance Committee

One page summary for Members

The Independent Governance Committee represents you and our constant aim is to ensure you receive value for money and experience good customer service when investing in your workplace pension with Prudential. We work with the company throughout the year to do this.

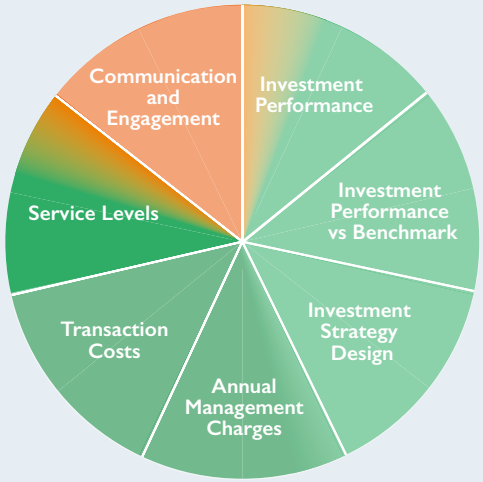
What happened in 2018?

Our focus for 2018 centred around investment performance, the amount you were charged for investing and the service and communications you have received throughout the year. Where you have not selected specific investment funds your money is invested in what is known as a 'default' strategy.

We have found that:

- Prudential's default fund has grown by more than the IGC thinks it needs to, despite a difficult year in 2018.
- Default investment strategies are now compatible with the Pension Freedoms.
- Charges are lower than the maximum IGC thinks is appropriate, including 'transaction costs'.
- Administration service levels have been good.
- Communications continue to improve.

IGC's VFM Framework & Scores for 2018



Service Levels

All service levels met except for a short period when service moved to another provider and the number of calls not answered was slightly higher than expected.

Click on each segment for more information

Key conclusions

So I can once again report that Prudential is giving good value for money. You should however check that the amount you are saving is likely to give you the retirement you want.

Any questions?

If you want to find out more, please read the full report or leave us some **feedback**.

Lawrence Churchill CBE
Chairman, Independent Governance Committee

One page summary for Members

The Independent Governance Committee represents you and our constant aim is to ensure you receive value for money and experience good customer service when investing in your workplace pension with Prudential. We work with the company throughout the year to do this.

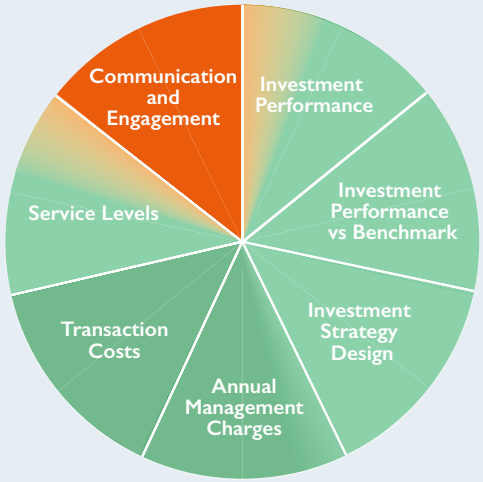
What happened in 2018?

Our focus for 2018 centred around investment performance, the amount you were charged for investing and the service and communications you have received throughout the year. Where you have not selected specific investment funds your money is invested in what is known as a 'default' strategy.

We have found that:

- Prudential's default fund has grown by more than the IGC thinks it needs to, despite a difficult year in 2018.
- Default investment strategies are now compatible with the Pension Freedoms.
- Charges are lower than the maximum IGC thinks is appropriate, including 'transaction costs'.
- Administration service levels have been good.
- Communications continue to improve.

IGC's VFM Framework & Scores for 2018



Communication and Engagement

The IGC is supportive of Prudential's ambitions to continue to improve customer engagement and understanding.

Click on each segment for more information

Key conclusions

So I can once again report that Prudential is giving good value for money. You should however check that the amount you are saving is likely to give you the retirement you want.

Any questions?

If you want to find out more, please read the full report or leave us some **feedback**.

Lawrence Churchill CBE
Chairman, Independent Governance Committee

Prudential IGC Main Report 2019

Lawrence Churchill CBE, Independent Chair

In this, my fourth annual report, I am pleased to report excellent progress on the programme of improvements we set out last year…

1. Introduction and Summary

This is my fourth Annual Report. Each year I try to make it concise, relevant and insightful. The main report will give an account of what we have done or are doing during the year, and to refer to what we said we would do in our plan for the year.

The Appendices, as last year, have information on:

- The purpose of the IGC and how the IGC operates
- Who the members of the IGC are
- A summary of members under the IGC review
- IGC's definition of value for money and scoring framework
- Jargon explained
- Your questions answered

We are now coming to the end of the reducing charges programme. Prudential has been supportive, with the main challenge being speed of implementation caused by the three legacy IT platforms we have to deal with.

There is an increasing emphasis on investment and the design of defaults and their performance in particular. The IGC has provided input to the Terms of Reference for the Review of Default Design and Strategy and I am expecting we will collectively identify some improvements when this project reports in the spring.

While performance last year was below our long term target, as market set-backs took hold in the midst of geo-political uncertainty, the longer term track record is still very strong. This aspect is the most important factor of value for money.

Prudential IGC Main Report 2019

Lawrence Churchill CBE, Independent Chair

In this, my fourth annual report, I am pleased to report excellent progress on the programme of improvements we set out last year…

During the year, we demonstrated that transaction costs had a negligible effect on net investment returns – an important finding given the level of concern raised across the industry. We have also delved deeper into Environmental, Social and Governance (ESG) issues and Climate Change. We found that Prudential operates a robust system of governance and stewardship and is collaborating actively with other major international investors.

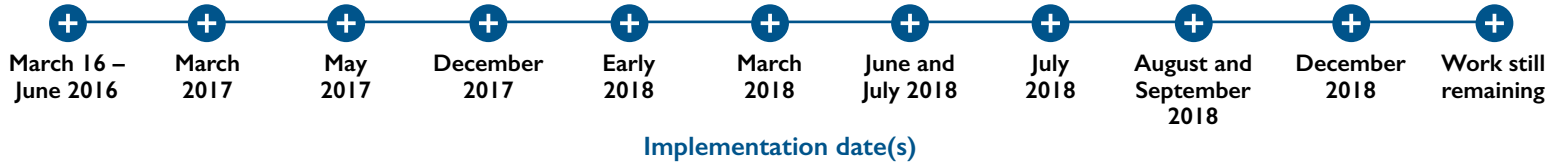
Service levels are undergoing a major change of emphasis – to focus on the customer experience, rather than the individual transactions which were the focus of historic service level agreements (SLAs). This is an area where Prudential has taken the lead and the IGC is fully supportive. As we transition, we continue to monitor, but for the most part, service levels are good.

Pension scheme member communication and engagement remain the most difficult areas to get traction. This is an industry issue, not just an issue for Prudential.

We very much welcome the Money and Pensions Service established at the beginning of this year and will give it our full support. In its review published in January 2019, the FCA comments that consumers continue to struggle to engage with their pensions and cite that only 52% read their annual pensions statement. In terms of consumer harm, the FCA highlight that the prospect of not having adequate income in retirement is the central challenge for the sector and refer to the low levels of contribution being made at 5% in 2016. It is acknowledged that the move of the auto-enrolment minimum to 8% in April 2019 is insufficient to bridge the gap. I highlighted this in last year's report and stress it again in 2019.

We have developed some examples on pages 23 and 24 to illustrate what pension pot sizes might look like based on different contribution levels.

You can also click on the timeline below for more details about what we have been doing over the last 3 years.



Prudential IGC Main Report 2019

Lawrence Churchill CBE, Independent Chair

In this, my fourth annual report, I am pleased to report excellent progress on the programme of improvements we set out last year…

During the year, we demonstrated that transaction costs had a negligible effect on net investment returns – an important finding given the level of concern raised across Gov a rob othe

Serv custo of hi taken monitor, but for the most part, service levels are good.

Pension scheme member communication and engagement remain the most difficult areas to get traction. This is an industry issue, not just an issue for Prudential.

We very much welcome the Money and Pensions Service established at the beginning of this year and will give it our full support. In its review published in consumers continue to struggle to engage 2% read their annual pensions statement. ighlight that the prospect of not having entral challenge for the sector and refer to de at 5% in 2016. It is acknowledged that um to 8% in April 2019 is insufficient to year's report and stress it again in 2019.

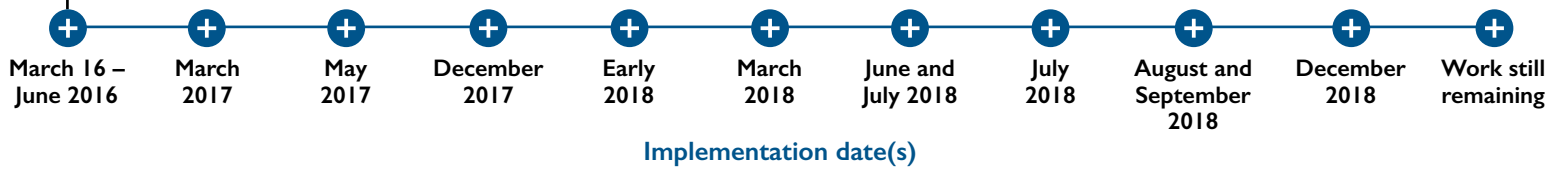
n pages 23 and 24 to illustrate what pension pot sizes might look like based on different contribution levels.

You can also click on the timeline below for more details about what we have been doing over the last 3 years.

Action
Initial charges eliminated.

Commentary
As outlined in 2016/17 Chair Statement.

Implementation date(s)
March 16 – June 16.



Prudential IGC Main Report 2019

Lawrence Churchill CBE, Independent Chair

In this, my fourth annual report, I am pleased to report excellent progress on the programme of improvements we set out last year…

During the year, we demonstrated that transaction costs had a negligible effect on net investment returns – an important finding given the level of concern raised across Gover a robu other

Servic custor of hist taken monit

Pensio areas

We very much welcome the Money and Pensions Service established at the beginning of this year and will give it our full support. In its review published in onsumers continue to struggle to engage % read their annual pensions statement. ghlight that the prospect of not having ntral challenge for the sector and refer to le at 5% in 2016. It is acknowledged that um to 8% in April 2019 is insufficient to ear's report and stress it again in 2019.

pages 23 and 24 to illustrate what on different contribution levels.

for more details about what we have

Action

Reduce charges for Individual Pensions that were formerly in a contract-based workplace pension.

Commentary

It took a long time to identify all individual pension members who were previously members of a workplace scheme. We found 110,000 policies, and successively brought their charges in line.

Around 25,000 customers benefited from these changes.

Implementation date(s)

Removal of commission charges completed March 17.

Removal of initial charges completed July 17.

Implementation date(s)

Prudential IGC Main Report 2019

Lawrence Churchill CBE, Independent Chair

In this, my fourth annual report, I am pleased to report excellent progress on the programme of improvements we set out last year…

During the year, we demonstrated that transaction costs had a negligible effect on net investment returns – an important finding given the level of concern raised across t
Governa
a robust
other m

Service
custome
of histor
taken th
monitor, but for the most part, service levels are good.

Pension scheme member communication and engagement remain the most difficult areas to get traction. This is an industry issue, not just an issue for Prudential.

We very much welcome the Money and Pensions Service established at the beginning of this year and will give it our full support. In its review published in
nsumers continue to struggle to engage
read their annual pensions statement.
ight that the prospect of not having
ral challenge for the sector and refer to
at 5% in 2016. It is acknowledged that
to 8% in April 2019 is insufficient to
's report and stress it again in 2019.

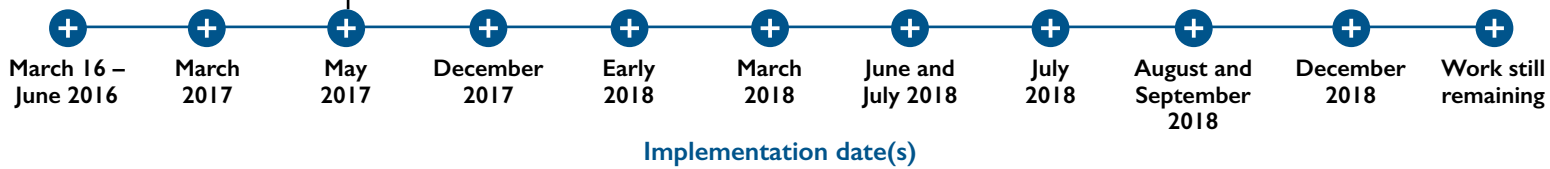
ages 23 and 24 to illustrate what pension pot sizes might look like based on different contribution levels.

You can also click on the timeline below for more details about what we have been doing over the last 3 years.

Action
Monthly admin fees eliminated.

Commentary
Due to be eliminated by July 17, removed two months ahead of schedule.

Implementation date(s)
May 17.



Prudential IGC Main Report 2019

Lawrence Churchill CBE, Independent Chair

In this, my fourth annual report, I am pleased to report excellent progress on the programme of improvements we set out last year…

During the year, we demonstrated that transaction costs had a negligible effect on net investment returns – an important finding given the level of concern raised across the
Governan
a robust s
other maj

Service le
customer
of historic
taken the
monitor, b

Pension sc
areas to g

We very much welcome the Money and Pensions Service established at the beginning of this year and will give it our full support. In its review published in
umers continue to struggle to engage
ead their annual pensions statement.
nt that the prospect of not having
l challenge for the sector and refer to
5% in 2016. It is acknowledged that
o 8% in April 2019 is insufficient to
report and stress it again in 2019.

es 23 and 24 to illustrate what
ifferent contribution levels.

more details about what we have

Action
Higher charging fund closures.

Commentary
Detailed VFM assessments completed on all high charging funds.

Funds failing the VFM tests were closed and members were moved to a lower cost alternative fund with a similar performance objective.

Implementation date(s)
Dec 17.

Implementation date(s)

Prudential IGC Main Report 2019

Lawrence Churchill CBE, Independent Chair

In this, my fourth annual report, I am pleased to report excellent progress on the programme of improvements we set out last year…

During the year, we demonstrated that transaction costs had a negligible effect on net investment returns – an important finding given the level of concern raised across the industry. We have also delved deeper into Environmental, Social and Governance (ESG) issues and Climate Change. We found that Prudential operates a robust system of governance and stewardship and is collaborating actively with other majo

Service lev
customer e
of historic s
taken the le
monitor, but for the most part, service levels are good.

Pension scheme member communication and engagement remain the most difficult areas to get traction. This is an industry issue, not just an issue for Prudential.

We very much welcome the Money and Pensions Service established at the beginning of this year and will give it our full support. In its review published in January 2019, the FCA comments that consumers continue to struggle to engage with their pensions and cite that only 52% read their annual pensions statement. In terms of consumer harm, the FCA highlight that the prospect of not having

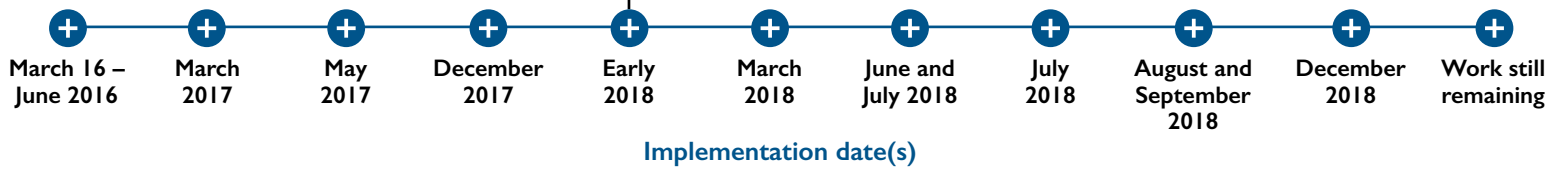
challenge for the sector and refer to
5% in 2016. It is acknowledged that
8% in April 2019 is insufficient to
eport and stress it again in 2019.

s 23 and 24 to illustrate what
pension pot sizes might look like based on different contribution levels.

You can also click on the timeline below for more details about what we have been doing over the last 3 years.

Action
High charging funds review.

Commentary
10 more funds approved for closure by Sept 2018.



Prudential IGC Main Report 2019

Lawrence Churchill CBE, Independent Chair

In this, my fourth annual report, I am pleased to report excellent progress on the programme of improvements we set out last year…

During the year, we demonstrated that transaction costs had a negligible effect on net investment returns – an important finding given the level of concern raised across the industry. We have also delved deeper into Environmental, Social and Governance (ESG) issues and Climate Change. We found that Prudential operates a robust system of governance and stewardship and is collaborating actively with other major

Service level
customer ex
of historic se
taken the lea
monitor, but for the most part, service levels are good.

Pension scheme member communication and engagement remain the most difficult areas to get traction. This is an industry issue, not just an issue for Prudential.

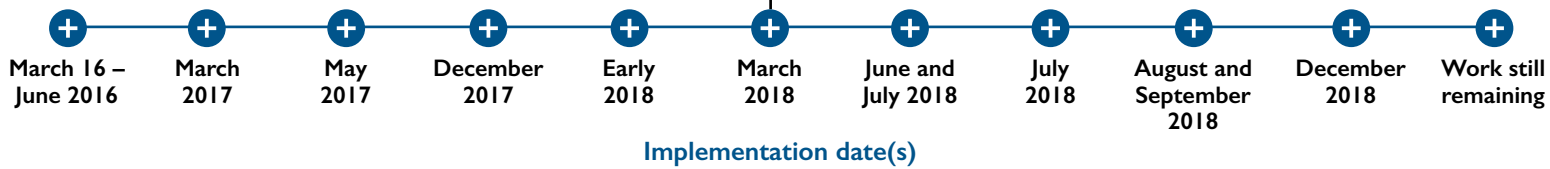
We very much welcome the Money and Pensions Service established at the beginning of this year and will give it our full support. In its review published in January 2019, the FCA comments that consumers continue to struggle to engage with their pensions and cite that only 52% read their annual pensions statement. In terms of consumer harm, the FCA highlight that the prospect of not having
hallenge for the sector and refer to
6 in 2016. It is acknowledged that
3% in April 2019 is insufficient to
port and stress it again in 2019.

23 and 24 to illustrate what
pension pot sizes might look like based on different contribution levels.

You can also click on the timeline below for more details about what we have been doing over the last 3 years.

Action
Higher charging funds review.

Commentary
4 high charge funds failing the VFM tests were closed.



Prudential IGC Main Report 2019

Lawrence Churchill CBE, Independent Chair

In this, my fourth annual report, I am pleased to report excellent progress on the programme of improvements we set out last year…

During the year, we demonstrated that transaction costs had a negligible effect on net investment returns – an important finding given the level of concern raised across the industry. We have also delved deeper into Environmental, Social and Governance (ESG) issues and Climate Change. We found that Prudential operates a robust system of governance and stewardship and is collaborating actively with other major i

Service levels
customer exp
of historic ser
taken the lead
monitor, but for the most part, service levels are good.

Pension scheme member communication and engagement remain the most difficult areas to get traction. This is an industry issue, not just an issue for Prudential.

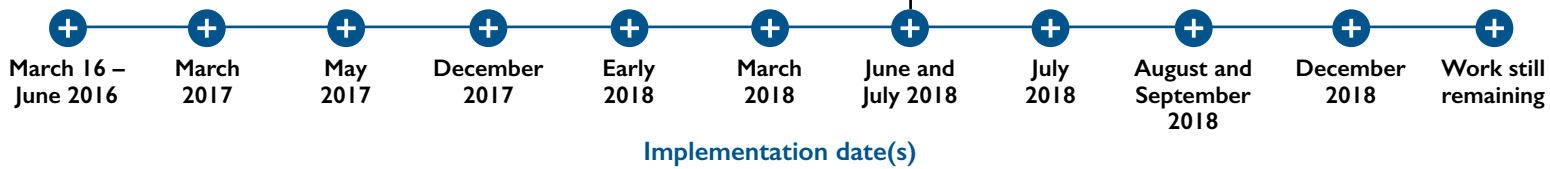
We very much welcome the Money and Pensions Service established at the beginning of this year and will give it our full support. In its review published in January 2019, the FCA comments that consumers continue to struggle to engage with their pensions and cite that only 52% read their annual pensions statement. In terms of consumer harm, the FCA highlight that the prospect of not having llenge for the sector and refer to in 2016. It is acknowledged that 6 in April 2019 is insufficient to ort and stress it again in 2019.

3 and 24 to illustrate what pension pot sizes might look like based on different contribution levels.

You can also click on the timeline below for more details about what we have been doing over the last 3 years.

Action
Higher charging funds review and Investment Choice.

Commentary
3 high charge funds, that were failing the VFM tests, were closed.



Prudential IGC Main Report 2019

Lawrence Churchill CBE, Independent Chair

In this, my fourth annual report, I am pleased to report excellent progress on the programme of improvements we set out last year…

During the year, we demonstrated that transaction costs had a negligible effect on net investment returns – an important finding given the level of concern raised across the industry. We have also delved deeper into Environmental, Social and Governance (ESG) issues and Climate Change. We found that Prudential operates a robust system of governance and stewardship and is collaborating actively with other major int

Service levels a
customer expe
of historic servi
taken the lead
monitor, but fo

Pension scheme member communication and engagement remain the most difficult areas to get traction. This is an industry issue, not just an issue for Prudential.

We very much welcome the Money and Pensions Service established at the beginning of this year and will give it our full support. In its review published in January 2019, the FCA comments that consumers continue to struggle to engage with their pensions and cite that only 52% read their annual pensions statement. In terms of consumer harm, the FCA highlight that the prospect of not having

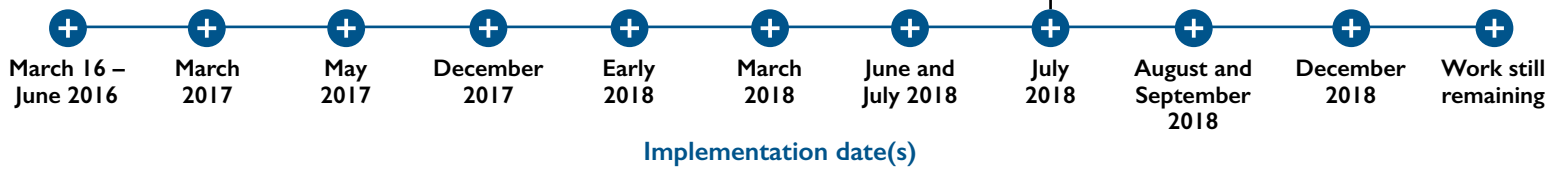
enge for the sector and refer to
2016. It is acknowledged that
in April 2019 is insufficient to
t and stress it again in 2019.

and 24 to illustrate what
nt contribution levels.

You can also click on the timeline below for more details about what we have been doing over the last 3 years.

Action
Investment Choice.

Commentary
Commentary – 13,000 members are given access to a broader fund range with lifestyle options and 8 older funds are closed.



Prudential IGC Main Report 2019

Lawrence Churchill CBE, Independent Chair

In this, my fourth annual report, I am pleased to report excellent progress on the programme of improvements we set out last year…

During the year, we demonstrated that transaction costs had a negligible effect on net investment returns – an important finding given the level of concern raised across the industry. We have also delved deeper into Environmental, Social and Governance (ESG) issues and Clima
a robust system of governance and s
other major international investors.

Service levels are undergoing a majo
customer experience, rather than th
of historic service level agreements (
taken the lead and the IGC is fully su
monitor, but for the most part, servic

Pension scheme member communication and engagement remain the most difficult areas to get traction. This is an industry issue, not just an issue for Prudential.

We very much welcome the Money and Pensions Service established at the beginning of this year and will give it our full support. In its review published in January 2019, the FCA comments that consumers continue to struggle to engage
tatement.
having
nd refer to
dged that
icient to
n 2019.
what

Action

Higher charging funds review and Watch List activity.

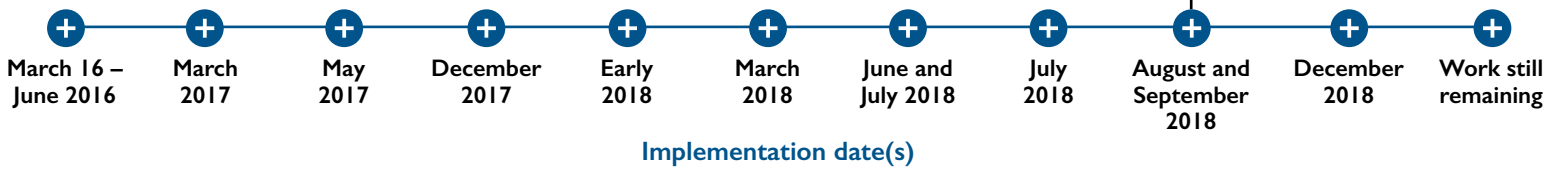
Commentary

15 funds were closed.

11 were high charging.

4 were not meeting the VFM tests or had been recommended for closure through the Watch List process.

You can also click on the timeline below for more details about what we have been doing over the last 3 years.



Prudential IGC Main Report 2019

Lawrence Churchill CBE, Independent Chair

In this, my fourth annual report, I am pleased to report excellent progress on the programme of improvements we set out last year…

During the year, we demonstrated that transaction costs had a negligible effect on net investment returns – an important finding given the level of concern raised across the industry. We have also delved deeper into Environmental, Social and Governance (ESG) issues and Climate Change. We found that Prudential operates a robust system of governance and stewardship and is collaborating actively with other major international investors.

Service levels are undergoing a major change customer experience, rather than the individu of historic service level agreements (SLAs). Th taken the lead and the IGC is fully supportive. monitor, but for the most part, service levels a

Pension scheme member communication and engagement remain the most difficult areas to get traction. This is an industry issue, not just an issue for Prudential.

We very much welcome the Money and Pensions Service established at the beginning of this year and will give it our full support. In its review published in January 2019, the FCA comments that consumers continue to struggle to engage with their pensions and cite that only 52% read their annual pensions statement. In terms of consumer harm, the FCA highlight that the prospect of not having

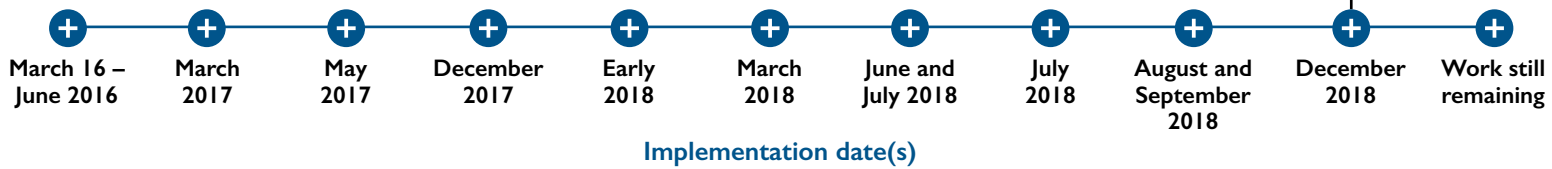
Action

Investment Choice.

Commentary

10 funds were closed to simplify the proposition and bring more consistency of investment choice across different products.

You can also click on the timeline below for more details about what we have been doing over the last 3 years.



Prudential IGC Main Report 2019

Lawrence Churchill CBE, Independent Chair

In this, my fourth annual report, I am pleased to report excellent progress on the programme of improvements we set out last year…

During the year, we demonstrated that transaction costs had a negligible effect on net investment returns – an important finding given the level of concern raised across the industry. We have also delved deeper into Environmental, Social and Governance (ESG) issues and Climate Change. We found that Prudential operates a robust system of governance and stewardship and is collaborating actively with other major international investors.

Service levels are undergoing a major change of en
customer experience, rather than the individual tra
of historic service level agreements (SLAs). This is a
taken the lead and the IGC is fully supportive. As w
monitor, but for the most part, service levels are go

Pension scheme member communication and engagement remain the most difficult areas to get traction. This is an industry issue, not just an issue for Prudential.

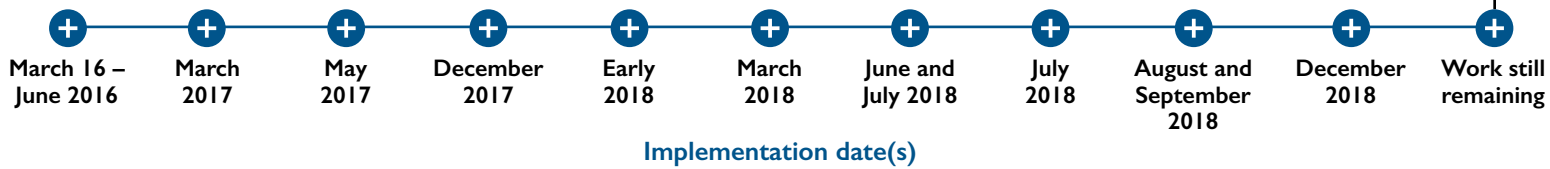
We very much welcome the Money and Pensions Service established at the beginning of this year and will give it our full support. In its review published in January 2019, the FCA comments that consumers continue to struggle to engage with their pensions and cite that only 52% read their annual pensions statement. In terms of consumer harm, the FCA highlight that the prospect of not having adequate income in retirement is the central challenge for the sector and refer to

Commentary

Complete the switches out of the high charge funds.

Repricing to be considered for the 25 remaining members who are invested in funds with charges above 1%. More detail is in the 2019 **work plan** on page 36.

You can also click on the timeline below for more details about what we have been doing over the last 3 years.



Chris wonders if he should pay more into his pension . . .

Chris is 25 and he believes he's too young to have to think about his pension. The information on the workplace pension **website** explains that minimum contribution levels will increase in April 2019 and his employer may offer to match additional contributions. He decides to find out if paying more than the minimum contribution levels could really make a difference.

Pension: Group Personal Pension **Current pension savings: £5,000** **Salary: £30,000**

Chris requests an illustration projected to age 55, based on a 0.75% annual management charge and a projected growth rate of 5% (growth rates aren't guaranteed as performance of the funds can go up and down). The table below shows what could happen in 3 different scenarios. The total contribution (cost), potential growth and estimated pension pot values are calculated based on 30 years.

Chris's contribution							Chris's employer pays			Total potential growth	Total estimated pension pot value	Comments
% of salary	Chris pays		The Government puts in (as tax relief on contributions)		Total contribution							
	Monthly cost	Total cost	Monthly amount	Total amount	Monthly amount	Total amount	% of salary	Monthly amount	Total amount			
3%	£60	£21,600	£15	£5,400	£75	£27,000	2%	£50	**£18,000**	£56,000	**£106,000**	Minimum contribution levels pre April 2019
5%	£100	£36,000	£25	£9,000	£125	£45,000	3%	£75	**£27,000**	£82,000	**£159,000**	Minimum contribution levels post April 2019
6%	£120	£43,200	£30	£10,800	£150	£54,000	4%	£100	**£36,000**	£100,000	**£195,000**	Assuming Chris pays 1% more and gets an extra 1% from his employer

Chris realises that if he can afford to pay £25 (1% of his salary) per month more than the new minimum contribution levels, his employer will also pay £25 (1% of his salary) per month more and it could mean **an extra £36,000 in his pension pot**. With the basic tax relief of 20% he really only pays £20 more per month and he realises that he probably spends more than that on a night out. *Basic tax relief is 20% (if tax is paid in Scotland or Wales the figures may differ).

Susan wonders if she could continue making pension contributions following redundancy . . .

Susan is 45 and has just been made redundant so she is thinking about her pensions options and checks out the workplace pensions **website**. She decides to get some illustrations to see what impact stopping contributions could have whilst she works out what she will do next.

Pension: Group Personal Pension **Current pension savings: £25,000** **Salary: £30,000**

Susan receives her illustration projected to age 55 based on a 0.75% annual management charge and a projected growth rate of 5% (growth rates aren't guaranteed as performance of the funds can go up and down). The table below shows what could happen in 3 different scenarios. The total contribution (cost), potential growth and estimated pension pot values are calculated based on 10 years.

Susan's contribution							Total potential growth	Total estimated pension pot value	Comments
Susan pays			The Government puts in (as tax relief on contributions)		Total contribution				
% of salary	Monthly cost	Total cost	Monthly amount	Total amount	Monthly amount	Total amount			
0%	£0	£0	£0	£0	£0	£0	£12,700	**£37,700**	Stop paying contributions altogether
6%	£125	£7,500	£25	£1,500	£150	£9,000	£13,700	**£47,700**	Stop paying contributions now and restart at £125pm in 5 years
6%	£125	£15,000	£25	£3,000	£150	£18,000	£17,000	**£60,000**	Pay £125 per month from now

Susan realises that she could try and factor pension contributions of £150 (6% of her current salary) per month into her plans from now as it may mean **an extra £22,300 in her pension pot**. As she will continue to receive basic tax relief of 20% on her contributions, she really only pays £125 per month.
*Basic tax relief is 20% (if tax is paid in Scotland or Wales the figures may differ).

Michael Payne, Prudential Appointed Member

No-one will pay charges over 1% –

We are in the final stages of our programme to close funds that do not meet our Value for Money objectives.

2. Charges

2.1 Charges over 1%

No default fund charges more than 1% for investment management and administration.

There are a number of members who have self-selected funds charging more than 1%. We frequently review that these funds continue to produce returns in line with their objectives. At the same time, we challenged Prudential to reduce the number of funds available to workplace pensions as we felt there were too many.

The closure programme has continued throughout the year (see 3.3). Updated figures at the end of 2018 indicated 187 members would remain in expensive funds into 2019, so the actions were to:

- Notify the majority of these members that we are switching them out of 3 funds for which cheaper equivalent funds exist.
- reprice 6 funds for the remaining 25 members.

Compared to IGC's reference points, all funds now provide good value for money.

John Nestor, Independent Member

The Watch list process is more proactive and funds that were not performing versus their benchmark are now closed.

3. Investments

3.1 Fund performance

The IGC's key concern is that the default fund retains its value as a minimum. We would like to see additional growth of 3% above inflation per year after charges. This is a **long term** rate which we believe can be achieved without excessive risk taking.

Global political and economic uncertainty resulted in turbulent markets during 2018 and the final quarter of the year saw a downturn for markets across the world. Prudential's flagship default fund – Prudential Dynamic Growth IV (PDGIV) – fell by 5.17% over the year. UK inflation measured by the Consumer Price Index (CPI) was 2.15%, so in the short term the fund lost real growth of 7.32%.

Longer term performance is more important, and, as the fund was introduced to cater for Pension Freedoms, we have three year's worth of data. Performance of the main funds used in PDGIV – is still very strong over the three years. Annualised returns have been 8.83% per year, whereas inflation averaged 2.27% over the period. So if you were invested throughout the period you have had excellent performance – more than 6.5% per year over inflation.

Prudential Dynamic Growth II (PDGII) is also used in the default glide path and is less exposed to risk assets. It lost value of 3.57% during 2018, inflation increased by 2.15%, so purchasing power reduced by 5.72%. Over the longer term of three years, annualised performance was 7.23% per year and average inflation was 2.27%, so significant real growth of just under 5% per year was achieved.

Performance of the main funds used in default strategies (after charges)

The table below shows the performance of the funds at Q4 2018, after charges, and compared to inflation. 3 and 5 year performance figures are annualised

Fund	FUM (£m)	Members invested	3 yr. performance after changes	3 yr. performance above inflation
PDGIV	£1,930m	103,000	8.83%	6.56%
PDGII	£287m	19,000	7.23%	4.96%
Managed Pension Fund	£565m	37,000	6.10%	3.83%

Some members in the Scottish Amicable schemes use the Prudential Managed Pension fund as their default. This fund fell by 6.51% in the year but has averaged growth of 6.1% per year over the last three years, which is 3.83% per year ahead of inflation and ahead of IGC's long term ambition of 3% per year.

Cash, which has a limited use in the default strategy, lost purchasing power of 2-3% during the year (2.62% per year over the last three years and 1.86% over the last five) which is unsurprising given the low interest rate environment.

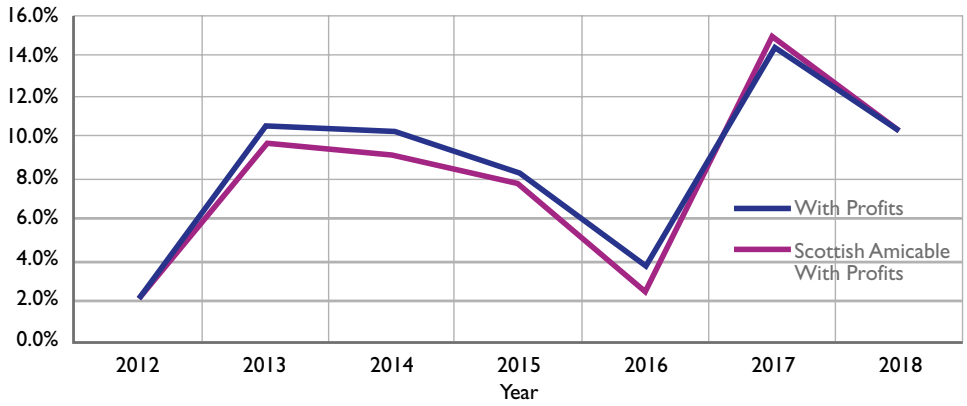
With Profits

Performance is reported before tax and charges.

The With Profits fund is designed to be more resilient in turbulent markets, and only fell by 2.8% during the year. The longer term results are very strong, averaging growth of 7% per year over three years, compared to inflation of 2.27%, and the growth over five years averages 6.5% per year compared to inflation of 1.51%.

Importantly, we also confirmed that if the charges for guarantees were excluded, all the With Profits funds were charging 1% or less for investment, in line with our reference point for unit-linked funds. There are no concerns about the value for money members are receiving. Performance of the With Profits fund exceeded both the ABI's indices for equivalent unit-linked funds and our value for money reference point of 3% more than inflation, over three and five years.

With Profits Investment Returns (before tax and charges)



3.2 Transaction Costs

The FCA introduced an industry standard for calculating transaction costs in January 2018. Prudential, along with the rest of the industry, found it very difficult to obtain the data from the asset managers and then to calculate and report on the costs in the timeframes given. 80% of the information required was received in November and showed a number of anomalies for further review. In January 2019 we received an updated report, and the final report covering all funds was received in March 2019.

I regarded the time it took to produce this analysis as not being "reasonable", as required by the FCA, and held meetings with senior executives, including the Head of Compliance. Following these useful conversations, my judgement is that the topic had been given appropriate priority and was a key topic at fortnightly management meetings. Mitigating factors were that the delay was caused by external third parties and there was no indication (from results we had seen) of any material value for money issue. We are scheduled to receive comprehensive quarterly reports during 2019.

The data presented are annualised costs based on periods in 2018 which differ with different external fund managers, and are reported as 'basis points' (bps) which are one hundredth of one percent e.g. 0.01% = 1bp.

- PDGIV Targeting Retirement Options Lifestyle – the flagship default fund costs in the growth phase were 3bps. This compares favourably to the estimate of 7bps reported last year.
- Transaction costs for With Profits were 4.7bps.
- PDGIV Prudential Targeting Retirement Options Lifestyle – midway through the de-risking phase, costs were 4.8bps
- In the glide path, asset allocation changes to reduce volatility, and transaction costs tend to increase.

Expensive looking outliers

We also looked at the transaction costs for the self-select funds. We decided, based on industry information, that 20 basis points might be a reasonable average level of transaction cost and decided to investigate those funds higher than 30bps as outliers. We found 14 outliers, representing 2% of workplace pension funds. The range for these outliers was between 30 and 75bps. It is too early to draw any firm conclusions from the data, as many figures are annualised based on a short period during volatile investment conditions. We expect to have a full year's worth of data for all funds later in the year, and we will report more fully on any remaining outliers next year.

Transaction cost (bps)	No. of funds	% of IGC FUM
< 10	71	93%
10 to 20	16	3.9%
20-30	7	1.1%
30-50	11	1.3%
> 50	3	0.7%

The 5 highest transaction costs ranged from 50 to 95bps and represented a considerable drag on returns.

With around £5.3bn in workplace schemes, 96.9% of funds incur costs of less than 20bps and transaction costs get our green rating, compared to our reference point of 80%.

Transaction costs for funds used in the main default strategies and With Profits

Fund	Asset Class	Transaction cost (bps)	% of FUM
PDGIV	Multi-Asset	3	36.2%
With Profits	Multi-Asset	4.7	19.9%
Prudential Managed	Multi-Asset	5.9	10.9%
Prudential Equity	Equity	7.1	4.3%
Prudential Discretionary	Multi-Asset	-7.2	3.5%

Benchmarks from abroad

According to the Pensions Policy Institute report "Charges, Returns and Transparency in DC – what can we learn from other countries? December 2018" transaction costs in the Netherlands were 13 bps when first reported in 2012 and have now reduced to 8 bps in 2016. Although the technical basis of calculation may be different, we can safely say that Prudential's figures are low by international standards.

As reporting of transaction costs becomes the norm, it is important to put them in the correct perspective. They are not costs which are designed to pay for administration services or to provide income to the provider; rather they are the necessary costs of dealing in securities to deliver the investment strategy and performance of the fund. As such, there is a strong argument to relate them not to costs paid for other services, but to the returns on investment.

3.3 Investment Choice

In response to the IGC's view that there were too many funds on offer, Prudential agreed that a simple proposition is best for customers and they pointed out that not all funds were available to all members. Feedback from employers suggests that they like the facility for their members to choose from a range of funds – although in practice only a minority did so. Extensive research found no evidence of customer detriment from the number of funds available.

During the year 40 funds were closed as the range on offer simplified and funds not deemed to pass the value for money tests were eliminated.

Prudential monitors the time taken to close funds. Where a fund is closed but it takes too long to effect the closure, Prudential has paid compensation to members for lost investment performance over the delay period; over 3700 members qualified for these goodwill payments in 2018.

We receive quarterly investment reports and investigate any underperforming funds that persistently fail our value for money tests. Prudential's Q4 2018 internal Watch List report confirmed that there were no concerns with any of the 87 available funds. It is the IGC view that this process is more proactive than it was a year or two ago.

3.4 Investment strategy design

3.4.1 Compatibility with Pension Freedoms

The programme to make sure that default investment strategies are aligned to Pension Freedoms completed in September after two and a half years. With the exception of two employer's schemes where discussions are ongoing, all schemes now have compatible glide paths.

Measuring the performance of the fund does not necessarily reflect individual member experience. Fund prices go up and down every day, whereas pension contributions are generally paid in once a month. To check what happened to an individual member paying monthly, we asked Prudential to run some calculations to assess the impact of potentially volatile prices during the year. This confirmed that members' experience generally mirrored the fund price movement.

As members get older, more of them will be within ten years of retirement, when their pensions pot will be invested in a number of funds, in different proportions as they de-risk their investments in the years before retirement. Looking at fund growth figures alone, it is not easy to assess how an individual's total investment during the default glide path performed. We will ask Prudential to change their management information to make this easier to assess. In order to make our Value for Money assessment work, we need to expand on our inflation +3% reference point for growth funds and set a reference point for funds targeting lower risk and lower return. We will commission some work on what these reference points should be, but initially we will compare the non-growth funds, taken together, against inflation to make sure that purchasing power is not depleted during de-risking.

3.4.2 Environmental, Social and Governance (ESG)

ESG Process

ESG considerations have now become mainstream issues for Investors, as there is growing awareness of the long-term financial risks to pension funds from unsustainable business practice.

As I reported last year, Prudential integrates ESG into its investment management using a Responsible Investment Framework and has committees overseeing implementation supported by specialist staff who identify sector specific risks. In common with leading providers, Prudential has seen the extension of ESG principles beyond Equities and into Fixed Interest, Credit and Property portfolios.

ESG Affiliations

Increased collaboration between major investors has been noticeable over the last year with Prudential among the major investors, as part of the Climate Action 100+ initiative, who persuaded Shell to publish a statement on its "Low carbon transition plan". Prudential is a member of the Institutional Investors Group on Climate Change (IIGCC), is supporting the Task Force on Climate related Financial Disclosure (TCFD), and is developing scenario planning under the United Nations Environment Programme.

In total 16 different affiliations are listed in the 2018 Stewardship Report.

ESG Performance

As an individual organisation, Prudential Group launched the M&G Positive Impact Fund. M&G has an A+ strategy and governance score from the United Nations Principles for Responsible Investment (UNPRI), Tier One in the UK Stewardship Code, is 4th in Global Climate Change Index for Asset Managers and is ranked 11th in ShareAction's responsible investment survey.

Simultaneous with this IGC report, Prudential will be publishing its Stewardship Report and its own ESG Report. It is fair to say that the IGC has been impressed with the energy and commitment it has seen in this area and with the systematic and collaborative approach being adopted.

But a long road ahead

We are all collectively at the beginning of a long journey and much remains to be achieved if we are to hit the global warming targets set in Paris in 2015 or to achieve the United Nations' Sustainable Development Goals. If the FCA, as expected, extends the remit of IGCs to report on ESG, I will produce a more detailed report next year.

Jennifer Owens, Prudential Appointed Member

We are already seeing improvements since Diligenta took over service.

4. Service level performance

Service levels have been met for the most part. As mentioned previously, the impetus has been to move away from measuring isolated tasks to measuring end to end processes, and this transition is continuing. We have looked more at customer feedback scores this year and this source of direct customer feedback shows high levels of satisfaction.

The main challenge for service levels this year was on call response times as the service was transitioned from one outsourced supplier to another during August. This had a short term impact, which was resolved by October and service since remains stable.

In conjunction with improvements to end to end processes the Contact Centre plan to expand on paperless claims by being able to deal with claims over the phone and reduce the customer effort in the retirement journey.

Complaints handling continues to be good with only 2 cases referred to the Financial Ombudsman Service for adjudication this year and the Prudential decisions were supported.

Performance of Individual Service Areas:

Area	Achieved	Targets
New Business	95%	83%
Claims	74%	59%
Customer Servicing	93%	66%
Call Quality Auditing	97%	97%
Abandoned Rate	5%	4%
Average Speed of Answer (seconds)	104	<=129
NPS (Customer feedback)	65	N/A

Positive NPS scores show that customers are more likely to recommend Prudential than not recommend them. A score of 100 means that all customers would recommend Prudential, so a score of 65 is a good result, but shows room for improvement.

Lesley Alexander, Independent Member

Making it easier for Prudential's customers to engage

Prudential's business transformation programme will provide a robust platform for driving customer communications and engagement to the next level.

5. Communication and Engagement

Work involves the company as a whole as part of the Prudential transformation programme. At the heart of this is a customer centric focus, key to which is making sure that customers receive the right information at the right time for them, and in the right way, so that they will then be able to make properly informed decisions about their pension savings.

Prudential has embraced the following principles –

- All customers receive the right information at the right time and in the right way
- Each customer interaction has a purpose and this purpose is made clear to the customer
- Developing digital tools and communications to provide more intuitive ways to interact is key to customer engagement
- Any changes must be able to keep pace with evolving legislation

Progress in 2018

- Changes to laws and regulations have altered the way that customers think about and access their benefits. Prudential redesigned communications and processes to help members better understand the investment options available and how these might suit individual retirement needs.
- We prioritised the redesign of the Annual Benefit Statement journey.
- We continued to build on our learning from external research, in particular our work with NMG. The key findings from this were that the employer has a significant role to play in effective customer communication strategies. Therefore the approach towards Corporate Pension customers' needs has to vary and engaging the employer is important.
- The IGC continues to listen to employers and work alongside them with Prudential to improve member outcomes.
- Last year the IGC committed to exploring what Prudential can do to provide information and guidance to members to help align savings habits and desired retirement lifestyle. We have started by looking at Workplace Pension customers who are not invested into any default strategy; this has been to better understand these members, in particular their investment choices and whether they are appropriate for their individual needs.

6. Report back against the 2018 plan

6.1 Transaction Costs

As reported previously, difficulties within the fund management industry meant that data came into Prudential later than we would have liked. The initial data we have seen however indicates that anything above 10 bps for default funds or 20 bps for specialist funds would need scrutiny. The major exception to this is property funds. Consequently, we have done little to oversee how transaction costs are communicated to customers and will carry this forward to 2019.

6.2 Investments

The transition of default funds to be compatible with Pension Freedoms is complete. Prudential also reduced the number of funds available to members. Research has begun into glide path design and the extent of the inherent impact of the cost of retaining flexibility; we expect results from the study in the spring.

6.3 Communication and Engagement

As the FCA has noted, this remains a major challenge and is likely to be more a question of increased collaboration across the industry than anything a single provider can achieve unilaterally. We welcome the establishment of the Money and Pensions Service and the Government's decision to proceed with the Pensions Dashboard.

We are pleased to see Prudential making improvements to both the content and style of communications with customers. We don't, however, underestimate the task of helping people understand what they can do to have the retirement income they want. The IGC is keen to see Prudential successfully implement its business transformation programme as this will provide a robust platform for driving customer communications and engagement to the next level.

6.4 Service Levels

In 2018 the statement proposed that the IGC would monitor the transition of outsourced services from Capita to Diligenta.

The IGC has seen an improvement since Diligenta has taken over service – particularly with the reduction of the overall customer enquiries before we move to the customer journey measures.

Our customer feedback scores continue to be high compared to our peer groups. There has been an increase in these scores through Q4, which is likely linked to the service improvements and the reduction in overall customer enquiries.

6.5 Prudential's Transformation Programme

The work we have seen here is ambitious, impressive, and has the potential to increase customer value.

7. Work plan for 2019

7.1 Charges

The initial work which IGCs were asked to undertake is complete. We will continue to monitor the modal investment and administration charges for default funds, and continue to apply Value for Money tests to self-selected funds. We are keen to see sensible disclosure of Transaction Costs and a practical communications solution to the negative transaction costs which can arise using the FCA methodology. The IGC will respond to the FCA's consultation on these and other matters.

7.2 Investments

7.2.1 We will continue to monitor the performance of the default funds and if there is a second consecutive year of below trend performance, consider whether we would recommend any changes.

7.2.2 We will encourage Prudential to report on the returns from investment strategies rather than just the performance of the funds in isolation; this is particularly relevant during the years of de-risking.

7.2.3 We will monitor the emerging findings of the review of default glide paths and feed back our views.

7.2.4 We will review the calibration of our Value for Money Scorecard and make any changes necessary – for example determine reference points for fund growth during de-risking.

7.2.5 We will work on any issues which the FCA decides should be brought within the IGC remit

7.3 Service level Performance

7.3.1 We hope that we will be able to report on elements of the Customer Journey rather than just individual transactions.

7.3.2. We will endeavour to report more on what customers feed back in their Net Promoter Scores.

7.4 Communication and Engagement

- Continue to support the efforts to benchmark value for money across providers and participate in the 2019 programme. We are keen for this to be extended to all customers we oversee and we welcome the opportunity to better understand industry challenges around engaging pension customers.
- We would like to obtain more commentary and feedback from our customers which can be used to help inform future direction for member communications and engagement.
- Continue our review of workplace pension customers who are not invested in a default strategy. The next step is to draw out different groups/challenges and look at communications and tools for these customers.

Appendices

Appendix 1 – What is the IGC set up to do and how does it operate?

The IGC's overriding objective is to independently review the Value for Money of contract based defined contribution (DC) workplace pension schemes. External members are recruited through an open process run by the Chair and existing external members. Internal members are suggested by Prudential and interviewed by the external members. Internal members have their contracts of employment altered so that they act solely in the customers' interest in IGC discussions.

The IGC has met as a Committee for formal meetings on six occasions during 2018. There were also a number of informal meetings, and individual members have met with staff, other IGC Chairs, subject matter experts and Prudential's regulators (FCA) outside of formal meetings.

Prudential dedicates significant resources to the support of the IGC. This includes dedicated staff in the Corporate Pensions team and assistance from across the organisation from Risk, Company Secretariat, Legal, Investment Office and Customer Services.

Appendix 2 – Who are the IGC Members?

The IGC is properly constituted with three independent members and two members from Prudential, whose biographies showing their qualifications for the role can be seen below.

Lawrence Churchill CBE, Independent Chairman

Lesley Alexander, Independent Member

John Nestor, Independent Member

Michael Payne, Prudential Appointed Member

Jennifer Owens, Prudential Appointed Member

Lawrence has devoted his life to making financial services work for everyone.

As well as being CEO of three insurance groups, Lawrence chaired the Raising Standards Quality Mark Scheme for the Association of British Insurers, and was a board member of the Personal Investment Authority and of the Financial Ombudsman Service. Totally independent, the FOS deals with complaints against financial firms.

To protect pensions when an employer goes bust, Lawrence set up the Pension Protection Fund for the UK Government. He was also a board member of the Board for Actuarial Standards – setting technical and communication standards for actuaries. More recently, Lawrence set up NEST for the UK Government to give people on modest incomes a pension provider specifically designed for them and also chaired the Financial Services Compensation Scheme, which protects policyholders if a financial services firm become insolvent.

Lawrence is currently Chairman of Clara Pensions Ltd and of the Pensions Policy Institute.

Appendix 2 – Who are the IGC Members?

The IGC is properly constituted with three independent members and two members from Prudential, whose biographies showing their qualifications for the role can be seen below.

Lawrence Churchill CBE, Independent Chairman

Lesley Alexander, Independent Member

John Nestor, Independent Member

Michael Payne, Prudential Appointed Member

Jennifer Owens, Prudential Appointed Member

Strategic Partner of the employee communications company, Ferrier Pearce. Lesley is a serving Vice President, Fellow and council member of the Pensions Management Institute.

Lesley is also chair of the UK Sustainable Investment and Finance Association and is the former CEO of the HSBC Bank Pension Trust (UK) Ltd.

She has unique experience and insight into the practical application of behavioural economics to employee retirement savings. Lesley takes a passionate interest in how clearly we tell you what is going on and explain things.

Appendix 2 – Who are the IGC Members?

The IGC is properly constituted with three independent members and two members from Prudential, whose biographies showing their qualifications for the role can be seen below.

Lawrence Churchill CBE, Independent Chairman

Lesley Alexander, Independent Member

John Nestor, Independent Member

John brings considerable expertise in investment strategy and asset management. John is a Client Director of Capital Cranfield Pensions Trustees Limited. He was managing director of both UBS Global Asset Management and Citigroup Asset Management. John is chair of trustees for Marylebone Cricket Club (MCC) Pension Scheme and a trustee of the RAC Staff Pension Scheme. John is an expert on how well, and how reliably, your pension pot should grow.

Michael Payne, Prudential Appointed Member

Jennifer Owens, Prudential Appointed Member

Appendix 2 – Who are the IGC Members?

The IGC is properly constituted with three independent members and two members from Prudential, whose biographies showing their qualifications for the role can be seen below.

Lawrence Churchill CBE, Independent Chairman

Lesley Alexander, Independent Member

John Nestor, Independent Member

Michael Payne, Prudential Appointed Member

Jennifer Owens, Prudential Appointed Member

Michael is a qualified actuary with around 20 years of post-qualification experience, and around 30 years of experience of working in life assurance and pensions.

Michael is currently the Wealth CFO, where he provides support and challenge to the Managing Director of the Wealth part of Prudential's business.

Over his 13 years at Prudential, Michael has held a number of senior actuarial and finance roles, most recently being Regulatory and Legacy Portfolio Actuarial and Operations Director, where he had Actuarial and Operational accountability across a number of regulatory and legacy related areas. Prior to this, he was accountable for all of financial reporting across UK and Europe, in his role as Director of Finance Reporting.

Before joining Prudential, Michael spent a number of years working at Scottish Widows now part of Lloyds Banking Group, Scottish Friendly, and Scottish Amicable, in a variety of senior positions.

Appendix 2 – Who are the IGC Members?

The IGC is properly constituted with three independent members and two members from Prudential, whose biographies showing their qualifications for the role can be seen below.

Lawrence Churchill CBE, Independent Chairman

Lesley Alexander, Independent Member

John Nestor, Independent Member

Michael Payne, Prudential Appointed Member

Jennifer Owens, Prudential Appointed Member

Jennifer joined Prudential as General Counsel in August 2017 and was previously General Counsel and Company Secretary at Towergate Insurance. Prior to that, she held General Counsel roles within investment bank and fund manager Execution Noble and held senior legal and compliance roles at GE Capital, after her time in private practice at Herbert Smith.

Appendix 3 – Members under IGC Review

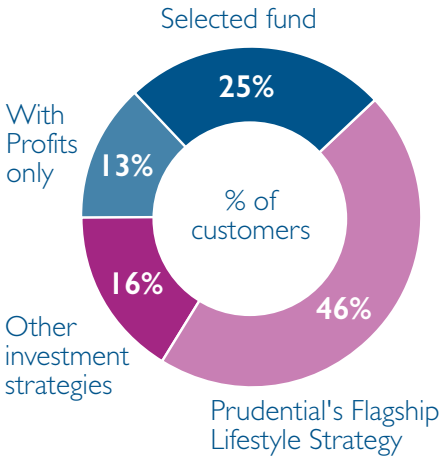
FUM £5.3bn

215k CUSTOMERS

265k POLICIES

£1.5bn FUM ACTIVELY PAYING MEMBERS

INVESTMENT TYPES



65 NPS (customer feedback score)

99.9% OF CUSTOMERS PAYING BELOW 1% IN CHARGES PER YEAR

92% OF FUM IN GROWTH FUNDS IS EXCEDING THE IGC GROWTH MEASURE

Appendix 4 – IGC's Definition of Value for Money (VfM)

The IGC's approach to VfM takes account of a range of factors, including charges, performance, service and communications. However, these have been weighted to reflect our view that what ultimately matters is the outcome for members.

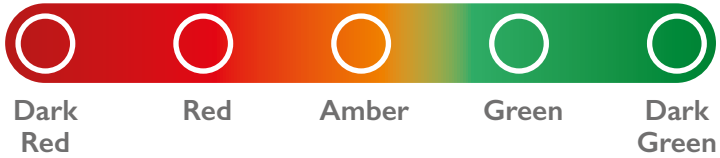
On the basis that good financial outcomes that lead to higher retirement income are the most important, we prioritise investment returns and charges as being the most important elements of VfM. We then look at a number of secondary service quality features, placing particular emphasis on the swift and accurate processing of contributions, the level of performance in dealing with complaints, and the quality of communications. We anticipate more work on the quality of communications in the years ahead. With regard to the primary financial components of VfM, it is important to note that

a) for investment returns, we have given priority to actual outcomes as well as looking at forecast returns for an appropriate risk exposure in the design of default investment strategies. We have used an externally benchmarked reference point for fund performance of inflation (measured by the Consumer Price Index – CPI) +3% per year (after charges) over a sustained period. If fund performance has been delivered at this level or above, we believe that VfM concerns do not arise in relation to investment returns or charges. We measure performance over 1, 3 and 5 years, where the fund has been in existence for that long.

b) For charges, we have continued to use the following reference points to identify where VfM concerns might arise:

- 0.75% per year for default strategy charges in schemes used for auto enrolment (or the equivalent limits set by DWP for schemes with combination charges)
- 1.00% per year for unit-linked schemes not used for auto-enrolment
- 1.25% per year for With Profits investments where the benefits of smoothing and guarantees bring extra value to members. We review both the cost of the investment and the cost of these guarantees separately, scrutinizing the value offered by both. Our reference point represents the combined cost of both elements.

IGC's VfM Framework and Colour Coding



Our scaling runs from Dark red to Dark green. Colours can be rated light or dark depending if results are just beating or comfortably beating the calibration set for the colour.

Investment Performance – Actual

Growth Funds achieve the following after charges over each period measured:

- Inflation (CPI) + 3% per year
- Inflation (CPI) +1% per year
- Less than CPI +1% per year

The value of CPI at Q4 2018 is **5.15%** over a 1 year period, **5.27%** over a 3 year annualised period and **4.51%** over a 5 year annualised period.

Investment Performance – Relative

- Funds Beat their Benchmark
- Funds underperform their Benchmark by 7.5%
- Funds underperform their Benchmark by more than 7.5%

Investment Strategy Design

Are Default Fund Glide Paths consistent with Pension Freedoms?

Yes **Materially** **No**

Are the Risks/Implied Volatility of the strategy made clear?

Yes **Materially** **No**

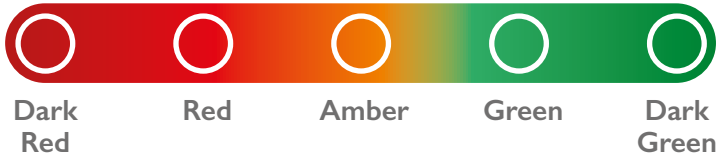
Are the Risk/returns of the strategy close to the Efficient Frontier?

Yes **Reasonably Close** **No**

Has the Default Fund Strategy been stochastically modeled?

Yes **No**

IGC's VfM Framework and Colour Coding



Our scaling runs from Dark red to Dark green. Colours can be rated light or dark depending if results are just beating or comfortably beating the calibration set for the colour.

Annual Management Charges

- Most frequent charge applied less than 0.5%
- All member borne charges less than or equal to reference points
- Between 0% and 5% FUM above reference point
- More than 5% of funds under management are above reference point

Transaction Costs

(NOTE: The FCA quoted 0.5% as the average level of transaction Costs in their Market Study)

- Default fund less than 0.2%
  80% of Funds under management incur costs of less than 0.2%
- 80% of Funds under management incur costs between 0.2-0.5%
- More than 20% of Funds under Management incur costs of more than 0.5%

Service Levels

- All service levels met
- Between 50%-100% of Service levels met
- More than half Service levels not met

Communication and Engagement

We do not currently have a consistent scorecard for the various components. We have made an intuitive assessment for 2018.

Appendix 5 – Jargon explained

AMC – Annual Management Charge: the charge made over the year by fund managers and product providers to cover the expenses associated with running the investment fund and administering the pension plan. Although shown as an annual percentage figure, the charge is usually taken from the fund daily.

FUM – Funds under Management. Total Market Value of assets managed by the investment firm for their investors.

BPs – Basis points. One basis point is equal to 1/100th of 1%, or 0.01%.

COBS – Code of Business Sourcebook (in other words, the FCA's rule book).

CPI – The Consumer Prices Index: CPI is the official measure of inflation of consumer prices of the United Kingdom.

Efficient Frontier – A combination of assets (i.e. a portfolio) is referred to as efficient if it has the best possible expected level of return for its level of risk.

ESG – Environmental, social and governance (ESG) refers to the three key factors when measuring the sustainability and ethical impact of an investment in a business or company.

FCA – The Financial Conduct Authority.

Guarantees – An investment guarantee is a special provision designed to protect investors from incurring overall losses.

Growth Funds – Funds that invest in equities, multi assets or property

IGC – Independent Governance Committee.

IIGCC – Institutional Investors Group on Climate Change

IPB – The Independent Project Board was set up by the OFT to oversee the audit of workplace pensions.

NPS – Net Promoter Score. A customer experience measure used to gauge the loyalty of a customer to a provider ranging from –100 to 100.

Pension Freedoms – In April 2015 tax rules were changed to allow individuals in defined contribution pensions (also known as money purchase pensions) to choose whether they use their pension to provide a lump sum, a series of lump sums, a guaranteed income for life or to place their money in a drawdown plan.

Prudential – "Prudential" is a trading name of The Prudential Assurance Company Limited, the provider of the workplace pensions.

Reference Point – A level of charge for a fund above which IGC believes Value for Money concerns might arise.

Smoothing – The use of accounting techniques to level out fluctuations in investment returns from one period to the next (aiming to 'smooth' the peaks and troughs of market movements).

TCFD – Task Force on Climate related Financial Disclosure.

VfM – Value for Money, see appendix 4 for more information.

Transaction Costs – Expenses incurred when buying or selling a good or service. Costs include broker charges and spreads, which are the differences between the price the dealer paid and the price the buyer pays.

UNPRI – United Nations Principles for Responsible Investment.

Watch List – Funds are added to this watch list if they are under performing or if there are additional causes for concern (e.g. significant unexpected changes in the market). These funds are then monitored closely and reviewed on a regular basis.

Appendix 6 – Your questions answered

What is the IGC?

The Independent Governance Committee (IGC) was set up in March 2015 and the majority of the IGC board is independent of Prudential, including the Chairman.

The key aim of the IGC is to act solely in the interests of members and to assess whether members receive on-going value for money (VfM) from their pension savings.

The IGC's approach to VfM takes account of a range of factors, including charges, investment performance, service and communications.

How do I know if my pension plan is a "workplace pension" covered by the Prudential IGC?

You will be covered by the Prudential IGC if your employer arranged a Group Personal Pension or Group Stakeholder with Prudential.

You are not covered by the Prudential IGC if you are currently a member of an occupational scheme. If you have any questions please contact your trustees.

I've left my employer. Is my plan still counted as a workplace pension?

Providing your employer arranged a Group Personal Pension or Group Stakeholder with Prudential, your plan still counts as a workplace pension covered by the Prudential IGC, even if you no longer work for the employer who arranged the workplace pension.

How can I check if my employer is using my scheme as an auto-enrolment or qualifying plan?

You should contact your employer (or pensions manager) to check whether your plan is covered. Your employer (or pensions manager) will be able to confirm this for you.

Where can I find out what charges are applied to my plan?

The charges applied will depend upon what type of product you have and where you have chosen to invest your money. You can find more information about the charges applied to your plan by reading your policy documentation.

We also send you an annual statement which shows how your plan is doing and outlines any charges you may have paid.

Where can I find out more about workplace pensions?

Here is a link to the **workplace pensions website** where you can find information, tools, video guides and more case studies to help you decide your next steps.

PRUAG5076 05/2019