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

## Prudential International Investment Bond and International Prudence Bond – The PAC With-Profits Funds

**Important Information**

Access to the Prudential PAC Sterling, PAC Euro and PAC US Dollar **With-Profits Fund** is no longer available to new customers investing in Prudential International Investment Bond (PIIB) on or after 11/09/2017.

However, if you're an existing customer pre 11/09/2017, you'll still be able to top-up or switch into the Prudential With-Profits PAC Sterling, PAC Euro and PAC US Dollar Funds.

Any reference to With-Profits within this document is only applicable to policyholders pre 11/09/17.

This document contains information which is relevant to you as an investor in a PAC With-Profits Fund offered by Prudential International Assurance Ltd (PIA). The Prudential Assurance Company Ltd (PAC) accepts reinsurance business from PIA in respect of investments in PIA's PAC With-Profits 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 a PAC **With-Profits Fund** through Prudential International Investment Bond or International Prudence 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** of investment returns.

It aims to maximise the return over the time you have your Bond, while maintaining an acceptable level of risk to the PAC **With-Profits Fund**.

### Aims of this guide

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

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

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

### 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**.

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 by adding bonuses. See "What are bonuses?" for more information.

It aims to grow the money invested in your bond over the medium to long term.

## How does our With-Profits Fund work?

We combine and invest money from all of our 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 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 Bond on page four.

## What are bonuses?

Bonuses are the way you get your share of the profits of the Fund. Different types of bond get different bonus rates. The bonus rates relevant to your bond will be included in your yearly statement.

There are two types of bonus:

### 1) Regular bonus

We'll add this during the term of your bond. We'll add this daily, monthly or yearly, depending on the type of bond. We don't guarantee that we'll add a regular bonus each year, but once added to your bond it acts to increase the guaranteed minimum payout. Please see "Is the payout guaranteed?" on page four for more information on what the guaranteed minimum payout is and when it applies.

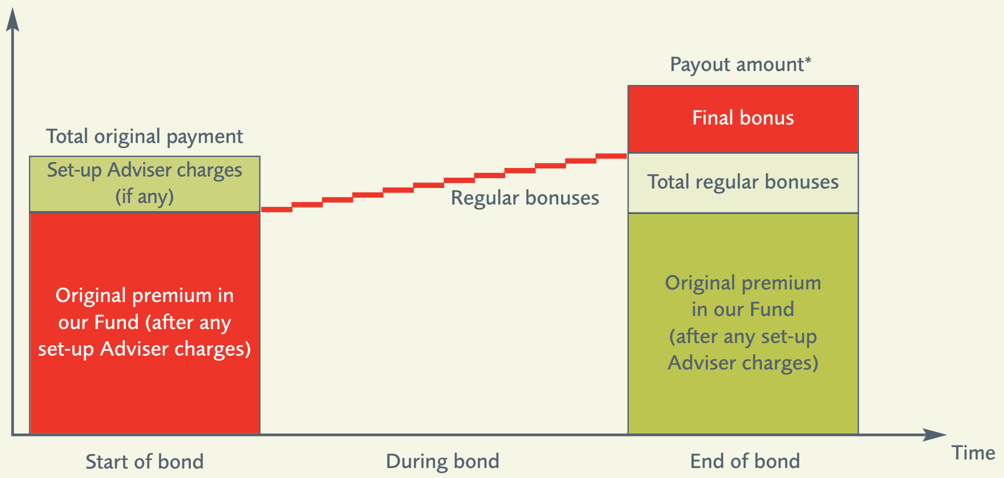
### 2) Final bonus

This is an additional bonus we expect to pay when you take money from your bond. If the investment return has been low over the lifetime of your bond, a final bonus might not be paid.

## How do we work out regular bonuses?

When we decide regular bonus rates, the main thing we consider is the return we expect our investments to earn in the future. We hold back some of this return with the aim of paying a proportion of the proceeds as final bonuses.

The chart shows how we add bonuses to the **premium** to reach a payout amount.




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

* If you take your money from your bond other than when a guarantee applies, you might get back less than the payout represented in the chart above. For more information on guarantees and the impact on bonuses please see "Is the payout guaranteed?" and "What affects the value of your bond?" on page four and "What if you decide to move out of the **With-Profits Fund**?" on page five.

**Smoothing**

In describing the **smoothing** process and how we work out final bonuses we use the terms "unsmoothed" and "smoothed" when referring to bond values:

- the unsmoothed value is the value of the investments underlying a bond, based upon the Fund's actual performance
- the smoothed value is the amount paid out, after **smoothing** the peaks and troughs of the Fund's performance

## How do we work out final bonuses?

We set final bonus rates after considering the unsmoothed values of bonds and how we expect investments to perform in the following months. We combine all bonds issued in the same period which have the same bonus rate. We then work out the unsmoothed value for this group of bonds.

The unsmoothed value depends on:

- how much has been invested,
- how long it's been invested,
- the Fund's investment performance while your money was invested,
- other charges and costs,
- taxation, and
- any profits and losses arising in the Fund from other business risks. See "Other business risks" on page four for more information.

Instead of simply sharing out what the Fund makes – or loses – each year, we use a process known as **smoothing**.

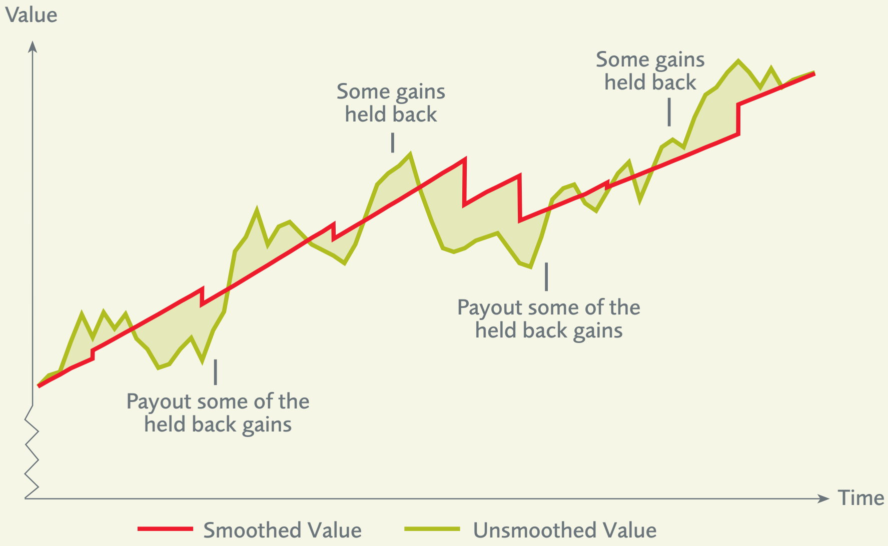
## What's smoothing?

We hold back some of the investment returns in good years with the aim of using this to support bonus rates in years where the investment return has been lower. It offers some protection against bad investment markets but it won't stop the value of your bond going down if investment returns have been poor.

The red line in the chart below represents the amount paid out (the smoothed value). The amount will go up or down at each bonus declaration.

For each bondholder, the payout amount will also differ from the unsmoothed value for two main reasons:

- the unsmoothed value changes each day, as the value of the Fund's assets change
- as mentioned earlier, we group bonds together when setting the bonus rates for bonds issued in the same year.




This is not representative of any of our Funds, bond options or any specific time period. Its sole aim is to explain how smoothing works

## Is the payout guaranteed?

There's no fixed payout on a with-profits bond. We guarantee a minimum amount you'll get back from a **With-Profits Fund** but the guarantee applies only if you move out of the **With-Profits Fund** at particular times – for instance if you die.

This guaranteed minimum payout is the amount you've invested (adjusted for any withdrawals or adviser charges, where appropriate), less charges, plus any regular bonuses we've added. We'd then add any final bonus to this amount. The total payout – minimum guaranteed payout plus any final bonus – is the smoothed value of the bond.

## What affects the value of your bond?

We aim to be fair to all our bondholders by balancing the interests of:

- holders of different types of bonds
- customers starting bonds at different times
- bondholders remaining in the Fund and those leaving the Fund.

There are many factors that affect our bonus rates each year, which affect the amount you get back from your bond. These include:

### a) Investment performance

This usually has the biggest impact on the payout from your bond.

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

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 our 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 investment markets on what you get back from your bond.

Over time, payout values will average 100% of the unsmoothed value. We intend that the difference between the smoothed and unsmoothed values of a bond will rarely be more than 20%.

As market values of assets change during a year, the value of the Fund is automatically affected. If this causes more than a 20% difference between the smoothed and unsmoothed values of a high number of bonds, we'll consider changing the bonus rates for all bonds.

### c) Our charges and costs

As costs affect policy payouts, we aim to keep the costs of running the business as low as possible and also to allocate the costs fairly across all bondholders. By a fair allocation, we mean that, broadly across groups of products, each product group meets all the direct expenses for that group, as well as an appropriate share of all other expenses, including over-heads.

### d) Cost of guarantees and smoothing

Our charges include an amount to pay for the guarantees and **smoothing** you get. If the eventual cost of these is more than we expected, it might affect bonus rates on all bonds and, in extreme circumstances, also the mix of assets in the Fund.

### 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.

We regularly review risk levels to make sure they're acceptable.

## What if you decide to move out of the With-Profits Fund?

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

- to switch to another one of our Funds, or
- to cash in your bond.

In some cases if you move money out of the **With-Profits Fund**, a Market Value Reduction or surrender charge might apply.

### 1) Market Value Reduction

We might apply a Market Value Reduction (MVR) if you take money from your bond at any date other than when a guarantee applies. Your Key Features Document sets out when a guarantee applies to your specific bond.

We'll only apply an MVR if the value of the assets underlying your investment is less than the value of your investment including bonuses, and is applied to protect people who remain in the **With-Profits Fund** from the effects of people leaving it.

If an MVR applies you might not get any final bonus, or the full value of your regular bonus, and you might even get back less than you had invested. When we apply an MVR, the amount you get back from your bond will not be less than the unsmoothed value. Unsmoothed value is described on page three.

### 2) Surrender charge

If you take money from your International Prudence Bond in the first few years, a surrender charge will apply whether or not an MVR has been applied. If a surrender charge could apply to your bond, details are given in the Key Features Document you got when you started your bond.

If you're considering moving out of the **With-Profits Fund** you might want to speak to a financial adviser.

## What's an inherited estate?

As a long established life assurance company, the **With-Profits Fund** contains an amount of money in excess of the amount we expect to pay out to existing bondholders. 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.

### How we use the inherited estate

This capital lets you benefit from **smoothing** and guarantees and allows us 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 demonstrate, at all times, that the Fund is solvent and able to meet its obligations to all bondholders. The **inherited estate** provides most of this **solvency capital**.

There are no plans to distribute the **With-Profits Fund's inherited estate** to bondholders or Prudential **shareholders**, other than as required as part of the normal **smoothing** process or to meet guarantees. When managing the **With-Profits Fund** PAC aren't generally required to take account of any current bondholders' interest in the prospect of a distribution (or greater distribution) from Prudential's **inherited estate** to bondholders. PAC have no current intention of closing the **With-Profits Fund** to new business, but if it did close, the **inherited estate** would still be needed to support existing business.

## Where can you find out more?

If you'd like more information about your investment in Prudential International's PAC **With-Profits Funds** please see "**Your guide to investing in With-Profits**".

We put this guide together as a summary of how the **With-Profits 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 we 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.

### The 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**

## 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.
- **deposits**: cash and other short-term investments, typically low risk loans.
- **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.
- **inherited estate**: amount of money built up over time in a with-profits fund, which is in excess of the amount needed to meet expected commitments to current policyholder/bondholders.
- **premium**: the amount paid or to be paid by the bondholder for the bond.
- **property**: an investment in commercial property such as offices, shops, and industrial premises.
- **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 bondholders even if it were to suffer significant losses.
- **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 a Prudential With-Profits bond.
- **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.

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