

# Your investment with Prudential

A guide to Prudential's pension funds



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## You and your investment

This guide explains the full range of funds that are available through your Prudential investment.

## A wide investment choice

The Prudential fund range included in this guide is applicable to investments in the following products:

- › Director's Finance Account (DFA)
- › DFA Exempt Investment Bond
- › Executive Pension Plan (EPP)
- › EPP Exempt Investment Bond
- › Trustee Investment Plan
- › Free Standing Additional Voluntary Contribution Plan
- › Personal Pension Account
- › Personal Pension Plan
- › Pension Transfer Plan

## Risk types

To help you and your adviser assess the potential level of risk and reward of our funds, we've included in this guide information on the risks applicable with different types of assets.

We have categorised these risks in line with the major asset types and investment styles used (see Risk Types on the following pages). There are many types of risk and when assessing funds we have grouped some that are not covered by the main headings as "Other". Generally, the higher the potential returns, the higher the risk.

To try and reduce the risk of losing money many funds hold a broad range of different types of assets. This means that you are not relying on the performance of an individual asset, nor of assets of the same type. This practice is known as diversification.

### Equity

Equities are commonly known as "shares". When a fund buys a company share, it is investing in a company and, in exchange, receives a share of the ownership of that company. Shares give two potential investment benefits:

- share prices increase as the value of the company increases
- companies pay dividends – regular payments made to shareholders based on how well the company is doing.

Over the longer-term, equities are considered by many investment experts to offer greater growth potential than many other asset types. But over the short term, the value of equities can go up and down a lot. Funds investing in equities tend to carry a higher risk of capital loss than funds investing in fixed interest securities or money market investments (see below). The financial results of other companies and general stock market and economic conditions can all affect a company's share price, and consequently the value of any fund investing in that company.

Where a fund invests significantly in equities, we have rated the fund as having a risk type of "Equity".

### Fixed Interest and Index-Linked Securities

Fixed interest securities, more commonly known as "bonds", are loans issued by companies or by governments in order to raise money. Bonds issued by companies are called Corporate Bonds, those issued by the UK government are often called Gilts or UK Government Bonds and those issued by the US government are called Treasury Bonds. In effect all bonds are IOUs that promise to pay you a sum on a specified date and pay a fixed rate of interest along the way. Index-linked securities are similar but the payments out are normally increased by a price index e.g. for UK government index-linked securities, payments out are increased in line with the UK Retail Price Index. On the whole, investing in bonds is seen as lower-risk than investing in equities. Gilts are very low-risk. To date, no UK government has ever failed to pay back money owed to investors. But with corporate bonds there is a risk that the company may not be able to repay its loan or that it may default on its interest payments.

The risks related to investing in bonds can be reduced if you invest through a bond fund. Where a fund manager selects a range of bonds, you are less reliant on the performance of any one company or government. If bond income generated is reinvested by the fund, bond funds can be used to provide attractive levels of growth. However, there is a risk you might not get back the amount you invest and the income you receive is neither fixed or guaranteed.

Corporate and Government bonds are sensitive to interest rate trends. An increase in interest rates is likely to reduce their value, and hence the value of any fund investing in them. Where a fund is exposed to this risk, we have rated the fund as having a risk type of "Fixed Interest".

### **Commercial Property**

Commercial property investment generally means the fund is sharing in the returns from the ownership of some buildings (for example, offices and shopping centres). The value of the property may increase and tenants may pay rent to the owners of the building.

However, commercial properties can be difficult to buy and sell quickly. Fund managers may have to delay withdrawal of money by customers from a property fund until they can sell some of the buildings the fund invests in.

The actual value of a property is what someone is prepared to pay for it – an actual sale value. As sales are infrequent, interim valuations are based on a valuer's opinion and may be revised up or down from time to time. This can affect the value of a fund invested in commercial property, with the value possibly fluctuating significantly.

This leads to a number of risks for funds investing in property:

- Cash could remain uninvested as property assets can be difficult to buy, leading to lower returns than expected.
- The value of the fund may be reduced if a large number of withdrawals are requested and it is necessary for properties to be sold at reduced prices.
- There may be delays removing your money from the fund if property cannot be sold.
- Property fund valuations may be revised periodically, upwards or downwards.
- Rental income is not guaranteed. Defaulted rent and unoccupied properties could reduce returns.
- If the size of the fund falls significantly, the fund may have to hold fewer properties, and this reduced diversification may lead to an increase in risk.

Where a fund is exposed to these risks, we have rated the fund as having a risk type of "Property".

### **Currency Risk and Overseas Investments**

Overseas investments allow you to take advantage of the growth potential of markets outside of the UK, but currency changes can affect the value of overseas investments. Because the value of overseas investments is converted from local currency into pounds (Sterling), the Sterling value can fall if the local currency weakens against Sterling, independent of the performance of the asset itself.

Where a significant proportion of a fund is invested in non-Sterling assets, we have rated the fund as having a risk type of "Currency".

### **Smaller Companies and Developing Markets**

In comparison to larger companies, shares of smaller companies may be harder to trade and short-term performance may be more volatile. There may also be more chance the companies will become insolvent. Funds which invest in small companies can have volatile returns and a greater risk of capital loss.

Some investments are in markets which are less developed than the UK market. In such markets, the ability to trade, and the safe keeping of assets on behalf of the fund, and especially regulation may all be poorer than in well-developed markets. This means increased risk for your investment.

Where a fund has these types of risk, we have rated it as having a risk type of "Smaller Companies and Developing Markets".

### Financial Instruments

There are several financial arrangements that fund managers can use to improve fund performance. Some of the most common are:

**Derivatives:** These cover products such as futures and options which are generally an arrangement to buy or sell a standard quantity of a specified asset on a fixed future date at a price agreed today. This type of investment may carry a higher risk of capital loss than funds investing in other assets. Sometimes in the event of a counterparty to a derivative (the party with which the fund manager has made the agreement about future deals) being in financial difficulties, it may be difficult to obtain a price for valuations or for the investment manager to dispose of the asset – that creates risk to the value of the fund. There is a risk of capital loss in the event of the counterparty to the derivative becoming insolvent or suffering other financial difficulties. In such circumstances the derivative may have no value.

**Geared Assets:** Funds that are geared or borrow assets or which use short-selling are likely to be more volatile than other funds and there is a higher risk of capital loss.

Where a fund could be exposed to these types of risk, we have rated it as having a risk type of "Financial Instruments".

### Other

We have rated two funds as having a risk type of "Other".

- › In addition to the risks and characteristics of the individual asset types, specialist investments have other features that are unique to where they invest.

Specialist funds invest in particular markets or geographical areas. Because they invest in a smaller range of asset types, they tend to be more risky than non-specialist funds, but can deliver greater returns.

- › Ethical funds are restricted from investment in certain companies due to the criteria used to select investments for the fund. This may mean that the returns from the fund are more volatile than funds which do not have these restrictions.
- › The fund may have investment concentrated in relatively few individual assets. Therefore, returns from the fund can be significantly influenced by the performance of a small number of individual holdings and may be more volatile than funds with a wider spread of underlying assets.
- › Some funds keep a proportion of your money in cash deposits and other money market investments. Over the long-term, money market investments usually offer the lowest risk of all asset types but also the lowest potential returns. Some funds hold money

market investments because they are aiming for security more than substantial growth. Others hold just enough in cash deposits to make sure money is available for customer withdrawals. Over the long term, money market investments can be a low risk asset type but may also produce low returns compared to other asset types.

A money market investment is at risk if any of the banks, building societies or other financial institutions with whom the fund's money is deposited becomes insolvent or suffers other financial difficulties. In such circumstances, the money deposited with that institution may not be returned in full. Some money market investments will be affected if interest rates rise, leading to a drop in value of any fund holding them.

- › The fund may offer some form of protection from downside risks for which there will be a charge and which will normally have an impact on long-term returns. The protection may be provided through the use of derivative contracts and this may give rise to counterparty risk and liquidity problems. The provision of the guarantees may result in a significant proportion of the fund being invested in cash and other lower risk investments.

Where a fund could be exposed to these types of risk, we have rated it as having a risk type of "Other".

## Funds and risk types

Funds	Risk types						
	Equity	Fixed Interest	Property	Currency	Smaller Companies and Developing Markets	Financial Instruments	Other
Prudential Cash		X					X
Prudential Cautious UK Managed	X	X					
Prudential Corporate Bond		X					
Prudential Equity	X						
Prudential European	X			X			
Prudential Fixed Interest		X					
Prudential Global Balanced (UK View)	X	X		X			
Prudential Index-Linked Gilt		X					
Prudential International	X			X			
Prudential Japanese	X			X			
Prudential Managed	X	X		X			
Prudential North American	X			X			
Prudential Pacific Markets	X			X			
Prudential Property			X				
Prudential Small Companies	X				X		
Prudential With-Profits	X	X	X	X	X	X	X

## Choosing the right funds

### Choice of risk profile

Before deciding which funds to invest in, you should consider the types of funds and level of risk involved. To help you choose an investment mix to suit your specific needs, the funds are graded into risk bands – minimal risk, lower risk, lower to medium risk, medium risk, medium to higher risk and higher risk.

These risk rating categories have been developed by Prudential to help provide an indication of the potential level of risk and reward that is attributable to a fund based on the type of assets which may be held within the fund. Other companies may use different descriptions and as such these risk rating categories should not be considered as generic to the fund management industry.

Prudential will keep the risk rating categories under regular review and as such they may be subject to change in the future. We recommend therefore that before making any fund choice in the future you ensure you understand the appropriate risk rating before making a decision. You will find this information in our Fund Guides along with further information at [www.pru.co.uk](http://www.pru.co.uk). You should also consider discussing your decision with your adviser. They may charge you for this advice.

The information included in this guide is correct as at August 2010.

Furthermore, for pension investment, it is important to take into account the perceived fund risks that suit each individual life stage. Different risk profiles may be appropriate at different stages of the investment.

You should also consider that the effect of inflation could reduce what you are able to buy in the future with your pension. If investment returns are sufficiently low, inflation could cancel out returns that you make on your pension investment. This risk is particularly relevant to lower risk funds that invest in fixed interest and cash, because they have no protection against inflation, as provided by equity and property investments.

## Prudential's investment expertise

Prudential plc is an international financial services group with significant operations in Asia, the US and the UK. We serve approximately 25 million customers and have £290 billion of assets under management. We are one of the best capitalised insurers in the world with an Insurance Groups Directive (IGD) capital surplus estimated at £3.4 billion.\*

Understanding and responding to our customers' needs is at the heart of our business. It is something we have been doing for over 160 years. We generate sustainable value for our shareholders through a relentless focus on meeting our customers' savings, income and protection needs and a disciplined approach to investing in the most profitable growth opportunities.

The Group is structured around four main business units: Prudential Corporation Asia, Jackson National Life Insurance Company, Prudential UK & Europe and M&G. These are supported by central functions which are responsible for leading Group strategy, cash and capital management, leadership development and succession, reputation management and other core Group functions.

\*At 31 December 2009

## Asset management companies

M&G

PPM America

Prudential Asset Management (Singapore)

Prudential Property Investment Managers

PPM Ventures

## The Prudential range of funds

### Investment fund descriptions, charges and risk classification

A description of the funds available is detailed below. Units may be held in up to ten funds at any one time. All of the funds mentioned are investment-linked funds with the exception of the With-Profits Fund.

Please note, some of these funds may not be available to your particular plan.

Your funds will now invest in the Series A range of Prudential Pension Funds. Further information is available on our website at [www.pru.co.uk](http://www.pru.co.uk)

Category/Fund	Annual Management Charge %
<b>Minimal risk</b>	
These funds may invest in a combination of deposits, money market investments and other types of interest bearing securities.	
Prudential Cash Pension Fund Ex PHP	1.00
This Fund aims to provide a return consistent with investing in interest bearing deposits and/or short-term UK Government bonds.	
<b>Lower risk</b>	
These funds may invest in fixed interest securities including gilts, index-linked and an element of corporate bonds. These types of investment are generally recognised as lower risk.	
Prudential Fixed Interest Pension Fund	1.00
This Fund aims to provide a high and secure income, with stability of capital by investing mainly in Government, sovereign and government guaranteed stocks.	
Prudential Index-Linked Gilt Pension Fund	1.00
This Fund aims to maximise returns over medium to long terms by investing mainly in a spread of Index-Linked Stocks issued by the British Government. Index Linked means that both the interest payments and redemption proceeds of the assets within the Fund increase in line with changes in the Retail Price Index.	

Category/Fund	Annual Management Charge %
<p><b>Lower to medium risk</b> Some of these funds invest in fixed interest securities, predominantly corporate bonds, with higher yielding corporate bonds placed towards the top end of this range as they carry higher default risk. The other funds in this category invest in a wide range of assets which help to provide risk diversification.</p>	
Prudential Cautious UK Managed Pension Fund (formerly Equity Income)	1.00
<p>This Fund aims to provide income and long-term capital growth, by investing mainly in UK equities, corporate bonds and to a lesser extent UK Government bonds (gilts).</p>	
Prudential Corporate Bond Pension Fund	1.00
<p>This Fund aims to provide long-term return in sterling from capital and net income combined by investing in a portfolio consisting wholly or mainly of bonds issued by UK companies.</p>	
Prudential With-Profits Pension Fund (only available on certain products)	*
<p>This Fund aims to maximise growth over the medium to long term by investing in shares, property, fixed interest and other investments. The Fund currently invests in UK and international equities, property, fixed interest securities, index-linked securities and other specialist investments.</p> <p>The Fund aims to protect investors against some of the ups and downs of investment performance using "smoothing" mechanisms. There are currently two types of bonuses:</p>	<p><b>Regular bonus</b> This is added during the term of your plan. When we decide the rates of regular bonus, one of the main things we consider is the return we expect our investments to earn in future. We hold back some of this return to enable us to pay final bonus. We can change the rate of future bonus any time without prior notice.</p> <p><b>Final bonus</b> This is an additional bonus, which we expect to pay when you take money from your plan. If the investment return has been low over the lifetime of your Plan, a final bonus may not be paid. Final bonus may vary and is not guaranteed.</p> <p>If all, or any part of your Plan is invested in the With-Profits Fund, and the pension is transferred, switched to another fund or early retirement is taken, we may apply an adjustment called a Market Value Reduction (MVR). If an MVR applies you may not receive any final bonus, or the full value of the regular bonus. However, the amount you get back from your Plan will not be less than the value of the underlying investments relating to your share of the Fund. MVRs are designed to protect investors not taking their money out of the Fund.</p> <p>* The Annual Management Charge of this fund and charges to cover the cost of guarantees are already taken into account when we calculate the bonus rates for our With-Profits Fund. For further details of the charges for this fund please refer to your Key Features document.</p>

## Fund Charges and Classification – continued

Category/Fund	Annual Management Charge %
<b>Medium risk</b> These funds are predominantly multi-asset funds with a higher weighting in equities. The Property Fund is also in this category.	
Prudential Global Balanced (UK View) Pension Fund	1.00
This Fund aims to provide long-term return in sterling from capital and net income combined by investing in a portfolio consisting wholly or mainly of equity and fixed interest securities (including bonds, convertibles and preference shares) of companies throughout the world. The Fund will normally have a higher weighting in UK equities with the remainder being invested elsewhere around the world, principally in continental Europe, the USA and the Far East.	
Prudential Managed Pension Fund	1.00
This Fund aims to provide steady medium to long-term total growth (the combination of income and growth of capital) by investing mainly in a broad spread of Prudential's investment linked funds and collective investment schemes.	
Prudential Property Pension Fund	1.00
This Fund aims to achieve a rising level of income and long-term growth. This Fund invests in shops, retail warehouses, offices, industrial, warehouse property and land geographically spread throughout the UK. This can be difficult to sell – so you may not be able to sell/cash in this investment when you want to. We may have to delay acting on your instructions to sell your investments. At other times the fund may hold significant levels of cash and short term deposits in advance of purchasing, or following sale of, property and / or land. You should look upon your investment in property as being long term. There are large costs when we buy and sell property. The allowance for these costs amongst other factors can lead to short-term falls in the price of units in the Property Fund. The value of property is generally a matter of a valuer's opinion rather than fact.	

Category/Fund	Annual Management Charge %
<p><b>Medium to higher risk</b>            This fund offers a diverse geographical spread of equity investment. The fund within this category will have greater overseas exposure and underlying volatility than the "medium" sector.</p>	
Prudential International Pension Fund	1.00
<p>This Fund aims to provide long-term capital growth by investing mainly in a spread of equity markets throughout the world, mainly through Prudential's Unit Trusts. This includes the Prudential Trusts investing in the markets of the USA, Europe, the Asia-Pacific region and Japan. It provides instant investment diversification across a broad cross-section of overseas equity portfolios.</p>	
<p><b>Higher risk</b>            These are specialist equity-invested funds that focus on set geographical regions or a particular type of share e.g. shares of smaller companies or those that conform to certain criteria.</p>	
Prudential Equity Pension Fund	1.00
<p>This Fund aims to provide total long-term growth (the combination of income and growth of capital) by investing in a portfolio of equity holdings listed on the London Stock Exchange, with a focus on "blue chip" companies.</p>	
Prudential European Pension Fund	1.00
<p>This Fund aims to achieve long-term capital growth by investing mainly in the shares of continental European companies quoted on the stockmarkets of Europe in all economic sectors.</p>	
Prudential Japanese Pension Fund	1.00
<p>This Fund aims to provide high long-term growth through actively managing a portfolio consisting wholly or mainly of companies, the securities of which are listed in, or the operations of which are based mainly in, Japan.</p>	

## Fund Charges and Classification – continued

Category/Fund	Annual Management Charge %
<b>Higher risk – continued</b>	
Prudential North American Pension Fund	1.00
This Fund aims to provide total long-term growth (the combination of income and growth of capital) by investing in an actively managed portfolio of investments consisting wholly or mainly of companies which are mainly based in the USA, but with the scope to invest in Canada and Latin America.	
Prudential Pacific Markets Pension Fund	1.00
This Fund aims to provide total long-term growth (the combination of income and growth of capital) by investing in an actively managed portfolio of investments consisting wholly or mainly of companies which are mainly based in the Asia Pacific region (excluding Japan).	
Prudential Small Companies Pension Fund	1.00
This Fund aims to provide above average long-term capital growth. It invests mainly in the shares of small growing companies, mainly in the UK.	

Where the funds invest in underlying Unit Trusts, additional expenses may be incurred. These are typically in the region of 0.00% to 0.20% each year, but can be more or less than this.

## Other funds

The following Prudential pension fund is also available for certain products:

- Prudential Guaranteed Pension Fund

## Important information

Full terms and conditions of our Pension Plans are available on request.

Further information on these funds is available in the Fund Prices section of our website [www.pru.co.uk/funds](http://www.pru.co.uk/funds)

From time to time, investment-linked funds may hold a small proportion of cash in addition to stocks, shares or property.

It should be appreciated that unit prices of the investment-linked funds can go down as well as up. The value of an investment or fund may fluctuate and is therefore not guaranteed. You may not get back the full amount of your original investment. For investments in the With-Profits Fund the value of the policy depends on how much profit the fund makes and how we decide to distribute that profit. Policyholders receive a distribution of profits by means of bonuses or other methods as specified in the relevant policy documentation.

If the taxation treatment of the funds changes, we reserve the right to change the arrangements for the investment of the underlying assets of the fund.

If the Annual Management Charge on the fund exceeds the return earned the fund will go down in value.

Our charges may vary in the future and may be higher than they are now.

For any fund there may be a delay in buying, selling or switching of units. These delays will only apply in exceptional circumstances and if this applies to you we will let you know. For more information please refer to your Technical Guide.

# Glossary of investment terms

This glossary is a high-level guide to some of the technical terminology that may appear in this Fund Guide. It is not intended to be a definitive reference document and you should contact your adviser for further assistance where necessary.

**Basic Materials Sector** – a category of stocks covering companies involved with the discovery, development and processing of raw materials. The basic materials sector includes the mining and refining of metals, chemical producers and forestry products.

**"Blue Chip" Companies** – these are large, reputable companies which are thought to be financially sound.

**Bonds** – see Fixed Interest Securities.

**'Boutique Managed' Funds** – investment funds that are specialised in some way either through the expertise needed to manage the portfolio or because it has an unusual theme or a collection of funds under one house. These "boutique" funds are typically offered by smaller, specialist firms as opposed to large investment management companies.

**Broad Investment Grade** – this is a term used to describe a listing of bonds and fixed income instruments on an index. It is used to measure the overall value of a collective group of bonds and represents the characteristics of these types of securities. It is a grading level that can be used by certain types of funds for determining assets that are suitable for investment into a fund.

**Certificates of Deposit** – these are a money market investments that are generally issued by banks against a security. A certificate of deposit usually pays interest (which can vary) and entitles the bearer to receive a set interest rate up until a set maturity date and can be issued in any currency or denomination.

**Closed Ended Funds** – this describes a collective investment scheme which has a limited number of shares (or units). The shares are then traded on an exchange or directly through the fund manager to create a secondary market subject to market forces.

**Collective Investment Schemes** – a way of pooling investment with others as part of a single investment fund. This allows investors to participate in a wider range of investments than would normally be feasible if investing individually and to share the costs and benefits of doing so. Collective Investment Schemes, OEICs, Unit Trusts, Mutual funds, usually either target geographic regions (like emerging market countries) or specific themes (like technology or property).

**Convertible Bonds (can also be called Deferred Equity)** – these are corporate bonds that are exchangeable for a set number of another form of investment (for example, common shares) at a pre-stated price. Convertible bonds typically pay a lower income than is normally available from common bonds.

**Corporate Bonds** – these are loans to companies where the purchaser of the corporate bond lends money to the company in return for regular interest payments and the promise that the initial sum will be repaid on a specified later date.

**Default Risk** – this is the possibility that the issuer of a bond will be unable to make payments when they are due.

**Derivatives** – these cover products such as futures and options which are generally an arrangement to buy or sell a standard quantity of a specified asset on a fixed future date at a price agreed today. Also considered to be a financial instrument whose value is dependent upon the value of an underlying asset.

**Equities** – these are also known as shares or stocks and represents a share of the ownership of a company. Shares give two potential benefits – the share prices increase as the value of the company increases and regular payments, known as dividends, may be made to shareholders based on how well the company is doing.

**Eurobonds** – a Eurobond is an international bond that is denominated in a currency not native to the country where it is issued. It can be categorized according to the currency in which it is issued. For example, a British company may issue a Eurobond in Germany, denominating it in U.S. dollars.

**Exchange-Traded Fund** – this is an investment vehicle the units of which are traded on a stock exchange. An exchange traded funds can hold a range of assets such as stocks, bonds or even commodities. Most track an index, such as the FTSE ALL share or the S&P 500.

**Fixed Interest Securities** – these are more commonly known as "bonds" and are loans issued by companies or by governments in order to raise money. Bonds issued by companies are called corporate bonds, those issued by the UK government are called gilts and those issued by the US government are called treasury bonds. In effect all bonds are IOUs that promise to pay a sum on a specified date and pay a fixed rate of interest along the way.

**Floating Rate Notes** – these are basically short-term loans to financial organisations, such as banks, under which the investor receives interest payments from that financial organisation. At the end of an agreed period the financial organisation has to repay the loan. The interest payment rates are linked to a specified "floating" rate typically the London Interbank Offered Rate (LIBOR). This means that interest rate payments may go up or down.

**Forwards Contract (or Forwards)** – these are agreements between two parties to buy or sell an asset at a fixed future date for a price determined at the time of dealing.

**Government Bonds** – these are loans to the government where the purchaser of the government bond lends money to the government in return for regular interest payments and the promise that the initial sum will be repaid on a specified later date.

**Government Sovereign Bond** – is a government debt issued in a foreign currency.

**Hedging** – a strategy employed in order to reduce or mitigate risk. Hedging involves making an offsetting transaction in one market in order to protect against possible losses in another.

**Hedged Back to Sterling** – this is a specific example of hedging where the trader is trying to protect an existing or anticipated position from an unwanted move in sterling exchange rates.

**Index-Linked Securities** – are similar to fixed interest securities but the payments out are normally increased by a price index e.g. for UK government index-linked securities, payments out are increased in line with the UK Retail Price Index.

**Investment Grade** – a credit rating given to a government or corporate bond that indicates that the agency giving the rating (e.g. Standard & Poors) believes that the issuer has a relatively low risk of default. Bonds with credit ratings of AAA, AA, A or BBB are considered investment grade. Low rated bonds with ratings of BB or below are often called Junk Bonds.

**LIBOR (London Interbank Offered Rate)** – this is the interest rate that London banks charge when lending money to one another over a short period of time. LIBOR is often used as a benchmark when setting other short term interest rates.

**Money Market Investments** – are defined as cash and near cash such as bank deposits, certificates of deposits, fixed interest securities or floating rate notes, with, where applicable, a maturity date of under a year.

**OEIC** – this is an Open Ended Investment Company, which is the British version of a European SICAV (Societe D'investissemnt a Capital variable) or Irish VCIC (Variable Capital Investment Company). Like all open collective Investment Schemes, an OEIC has no fixed amount of capital.

The total value of the OEIC is equally divided into shares which will vary in price and in the number issued. Each time that new money is invested, new shares or units are created to match the prevailing share price; each time shares are redeemed, the assets sold match the prevailing share price.

**Options** – legal agreements that give the holder the right (but not the obligation) to buy or sell the underlying asset at an expiration date, at a price determined at the time of dealing.

**Permanent Interest Bearing Shares (usually referred to as PIBS)** – these are fixed-interest securities issued by building societies. Building societies use them in the way public limited companies would use preference shares (see above). Although similar to bonds, PIBS typically exist as long as their issuer does. They typically offer better interest rates than bonds although unlike bonds have no fixed redemption date and so redemption value will be determined by market values at the time of sale.

PIBS are not covered by UK government compensation schemes. If the building society is in financial distress, amounts are paid to holders of PIBS only after depositors.

**Preference Shares (also called Preferred Stock or Preferred Shares)** – these are shares in a company which give their holders an entitlement to a fixed dividend payment and may or may not carry voting rights. These are a "higher ranking" stock than common stock and usually have specific rights attached to them.

Preference shares mean that the holder may get preferred treatment over common share holders – and carry a dividend that is paid out prior to dividends to common share holders. In the event of bankruptcy preferred share holders will be paid out from assets before common share holders and after debt holders.

**Primary Industry** – the industrial sector of an economy involved in the extraction and collection of natural resources, such as copper and timber, as well as by activities such as farming and fishing. A company in a primary industry can also be involved in turning natural resources into products. Primary industries tends to make up a larger portion of the economy of developing countries than they do for developed countries.

**Regulated** – this means the portfolio or fund has to conform to the regulations laid down by the financial authority it is trading in (i.e. in the UK the FSA protects the investor and provides structure around the products), financial service providers and markets.

**Secondary Industry** – the industrial sector of an economy that produces finished, usable products. Unlike a primary industry, which collects and produces raw materials for manufacture, a secondary industry makes products that are more likely to be consumed by individuals. Examples of secondary industry divisions include automobile manufacturing, steel production and telecommunications.

**Shares** – see Equities.

**Short-Term Government Bonds** – for the purposes of determining assets which the Prudential Cash Funds can invest in these are defined as government bonds with a repayment period of twelve months or less.

**Smaller Companies** – companies quoted on a recognised exchange that have a market worth below that of blue chip companies. In the UK, smaller companies are typically defined as those with market capitalisations below the top 350 companies in the FTSE All Share Index.

**Transferable Securities** – this is a descriptor given to a type of financial security which is traded on capital markets. The term is probably most commonly known and used in association with UCITS in UK and Europe (examples would be UCITS/ depositary receipts/some types of warrants).

**Undertakings for Collective Investment in Transferable Securities (UCITS)** – these are collective investments which can be sold across national borders within the EU having complied with regulations on investments and administration.

**Unregulated** – this means the portfolio or fund does not need to conform to regulations.

**Warrants** – a warrant is a security that entitles the holder to buy shares in the issuing company at a specified price and within a certain time frame.

Warrants are freely transferable and traded on major exchanges. Their value will go up or down as the price of the shares to which they relate goes up or down.



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