

Investment guide

Flexible Lifetime Annuity and Flexible Income Drawdown Plan
(Flexible Retirement Income Account (FRIA))

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Investment guide for Flexible Lifetime Annuity and Flexible Income Drawdown Plan

The funds mentioned in this guide are available via:

- Flexible Income Drawdown Plan (FIDP)*
- Flexible Lifetime Annuity (FLA)

This guide provides you with the details of the investment options to support you today and throughout retirement.

It's very important that you clearly understand the risks associated with any fund you may wish to invest in. This guide aims to help you and your financial adviser understand the potential reward and risks associated with each of our funds.

* Please note that not all the funds listed in this guide are available for this product when the plan is initially taken out. They are, however, available if you wish to switch your investment to them after the plan has started. For further information please refer to the Member's Booklet.

Choice

By offering a wide selection of funds we aim to give you a choice from a range of fund management companies and different types of investments.

The funds available are listed in two categories:

- Prudential Multi-Asset funds: managed by Prudential and with the ability to invest in a wide range of asset types
- Additional fund choice: other funds you can choose which are made available by Prudential

We also offer a choice of three Lifetime Investment Strategies.

A Self Invested Person Pension (SIPP) facility is also available for our Flexible Income Drawdown Plan.

We would recommend that you discuss your fund selection with your financial adviser.

Using this fund guide – potential reward and risk

The assets of a fund will have a significant effect on the performance of your investment. Performance doesn't just mean growth – it also includes the risk of losing money.

Generally, the higher the potential returns, the higher the risk.

To help you and your adviser assess the potential reward and risk of our funds we've included in this guide:

- Risk Types – information on the risks applicable with different types of assets
- Association of British Insurers (ABI) Sector Definitions – details on industry recognised fund categories
- Potential reward and risk indicator – a Prudential view on the potential reward and risk that different asset types might offer.

Pages 6 to 12 give more information about each of these categories. From pages 18 to 21 we've indicated what these mean for each of our funds.

Please remember that the name of a fund is not indicative of the risk that it may take.

Please note

The information in this guide aims to help you and your adviser understand the potential reward and risk offered by our funds. However, these are Prudential views based on the type of asset which may be held within the fund.

The information in this guide may not take account of current market conditions or other short-term fund specific changes.

Up to date information on each of our funds can be found on www.pru.co.uk/funds

Risk types

We have categorised these risks in line with the major asset types and investment styles used. 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 called Gilts 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 nor 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".

Risk types – continued

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 a number of 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.

- ▶ Some funds 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".

Association of British Insurers (ABI) – sector definitions

The Association of British Insurers (ABI) is a trade body that represents the insurance industry. It maintains ranges of investment fund sectors to facilitate comparisons between similar funds. These sectors allow advisers and investors to make like-for-like comparisons between funds which invest in, or can potentially invest in, broadly comparable assets.

Each of our funds is matched against the relevant ABI sector so you can see in broad terms the type of assets that may be held by that fund.

Asia Pacific including Japan Equities

- › Funds which invest at least 80% of their assets in Asia Pacific equities and which include Japanese equities.
- › Asia Pacific includes all countries in the FTSE World Asia Pacific index.
- › Not to include funds which would otherwise qualify for the Japan Equity sector.

Asia Pacific excluding Japan Equities

- › Funds which invest at least 80% of their assets in Asia Pacific equities, but which normally hold no equities quoted on the Japanese stock market.
- › Asia Pacific includes all countries in the FTSE World Asia Pacific index.

Commodity/Energy

- › Funds that invest at least 80% of their assets in commodity and/or energy related securities.

Deposit & Treasury

- › Funds in this sector are not “no risk” funds but to satisfy the sector parameters they must have stability of capital as the principal and overriding objective.
- › Funds must invest 100% of their assets in sterling denominated permitted instruments.
- › Permitted instruments must not have a final maturity greater than 12 months.
- › The investment quality of each of the permitted instruments must be closely matched with the fund's objective of stability of capital.
- › The permitted instruments for this sector are:
 - Current Account Cash
 - Time Deposits (including call accounts)
 - Certificates of Deposit
 - UK Treasury Bills
 - UK Short Gilts
- › Insured funds that track a recognised cash index, such as the Bank of England base interest rate, can be included.

Distribution

- › Maximum of 60% total equity (including Preference Shares, Permanent Interest Bearing Shares and Convertibles).
- › Minimum of 20% total equity.

- › Minimum of 50% Sterling based assets (including fixed interest hedged back to Sterling).
- › Fixed interest defined as Government Sovereign Bonds and Corporate Bonds.

Europe excluding UK Equities

- › Funds which invest at least 80% of their assets in equities quoted on European stock markets, but which normally hold no equities quoted on the UK stock market.
- › Europe includes all countries in the FTSE World Europe/MSCI Europe indices.

Flexible Investment

The funds in this sector are expected to have a range of different investments. However, the fund manager has significant flexibility over what to invest in. There is no minimum or maximum requirement for investment in company shares (equities) and there is scope for funds to have a high proportion of shares. The manager is accorded a significant degree of discretion over asset allocation and is allowed to invest up to 100% in equities at their discretion.

- › No minimum equity requirement
- › No minimum fixed income or cash requirement
- › No minimum currency requirement

Global Emerging Markets Equities

- › Funds which invest at least 80% of their assets in equities from emerging markets, as defined by the FTSE World Index Indices, without geographical restriction.

Global Equities

- › Funds which invest at least 80% of their assets in equities.
- › Funds must be invested in more than one equity region.
- › Not to include funds which would otherwise qualify for the Global Emerging Markets Equity sector.

Global Fixed Interest

- › Funds which invest at least 80% of their assets in non-UK broad investment grade fixed interest securities.
- › Fixed interest defined as Government Sovereign Bonds and Corporate Bonds. Preference Shares, Permanent Interest Bearing Shares and Convertibles are not treated as fixed interest investments.

Global Property

- › Funds that invest at least 80% of their assets in direct property and property securities.
- › Minimum 50% non-UK assets.

Japan Equities

- › Funds which invest at least 80% of their assets in equities quoted on the Japanese stock market.

Mixed Investment 0%-35% Shares *

Funds in this sector are required to have a range of different investments. Up to 35% of the fund can be invested in company shares (equities). At least 45% of the fund must be in fixed income investments (for example, corporate and Government bonds) and/or "cash" investments. "Cash" can include investments such as current account cash, short-term fixed income investments and certificates of deposit.

- › Maximum 35% equity exposure (including convertibles)
- › No minimum equity requirement
- › Minimum 45% investment grade fixed income and cash
- › Minimum 80% investment in established market currencies (US Dollar, Sterling & Euro) of which 40% must be Sterling
- › Sterling requirement includes assets hedged back to Sterling

Mixed Investment 20%-60% Shares *

Funds in this sector are required to have a range of different investments. The fund must have between 20% and 60% invested in company shares (equities). At least 30% of the fund must be in fixed income investments (for example, corporate and Government bonds) and/or "cash" investments "Cash" can include investments such as current account cash, short-term fixed income investments and certificates of deposit.

- › Maximum 60% equity exposure (including convertibles)
- › Minimum 20% equity exposure
- › Minimum 30% fixed income and cash
- › Minimum 60% investment in established market currencies (US Dollar, Sterling & Euro) of which 30% must be Sterling
- › Sterling requirement includes assets hedged back to Sterling

Mixed Investment 40%-85% Shares *

Funds in this sector are required to have a range of different investments. However, there is scope for funds to have a high proportion in company shares (equities). The fund must have between 40% and 85% invested in company shares.

* These sectors are not designed to reflect the risk of funds. The names of the sectors reflect the maximum and minimum amount of a fund that can be invested in shares. Fund managers may often invest at or near the maximum amount in shares. Mixed investment funds can hold a range of different investments in addition to shares (for example corporate bonds, property and cash) and may adopt a range of different investment strategies. To understand more about how your fund is invested and its risk profile, contact your Financial Adviser. The sectors group funds that are broadly similar (on the basis of their shares content) for comparison purposes. To give fund managers flexibility, the criteria for each sector overlaps so a fund may sometimes meet the requirements for more than one sector. UK shares are investments in companies quoted on the UK stock market. Overseas shares are investments in companies quoted on non-UK stock markets.

- › Maximum 85% equity exposure (including convertibles)
- › Minimum 40% equity exposure
- › No minimum fixed income or cash requirement
- › Minimum 50% investment in established market currencies (US Dollar, Sterling & Euro) of which 25% must be Sterling
- › Sterling requirement includes assets hedged back to Sterling

Money Market

- › Funds which invest at least 95% of their assets in Sterling (or hedged back to Sterling) money market instruments.
- › Money market instruments are defined as cash and near cash, such as bank deposits, certificates of deposit, fixed interest securities or floating rate notes.

North America Equities

- › Funds which invest at least 80% of their assets in equities quoted on United States and Canadian stock markets.

Protected/Guaranteed Funds

- › Funds, other than money market funds, which principally aim to provide a return of a set amount of capital back to the investor (either explicitly guaranteed or via an investment strategy highly likely to achieve this objective) plus some market upside.

Specialist

- › Funds that have an investment universe that is not accommodated by any of the other ABI sectors.
- › As funds in this sector do not meet any pre-set parameters, these should not be compared on a like-for-like basis.

Sterling Corporate Bond

- › Funds which invest at least 80% of their assets in Sterling-denominated (or hedged back to Sterling) broad investment grade corporate bond securities. This excludes Preference Shares, Permanent Interest Bearing Shares and Convertible Securities.

Sterling High Yield

- › Funds which invest at least 80% of their assets in Sterling-denominated (or hedged back to Sterling) fixed interest securities.
- › Funds which invest at least 50% of their assets in sub investment grade fixed interest securities.
- › Fixed interest defined as Government Sovereign Bonds and Corporate Bonds.
- › Preference Shares, Permanent Interest Bearing Shares and Convertibles are not treated as fixed interest investments.

Sterling Long Bond

- › Funds (used in conjunction with pension plans) with a specific objective for the movement in the value of units in a fund that is approximate to movements in annuity purchase prices.
- › Funds which invest at least 80% of their assets in Sterling-denominated (or hedged back to Sterling) long duration (10 years or more) broad investment grade fixed interest securities.

Sterling Other Fixed Interest

- › Funds with investment policy permitting significant changes in asset allocation between broad investment grade and sub-investment grade securities.
- › Funds which invest at least 80% of their assets in Sterling-denominated (or hedged back to Sterling) fixed interest securities.
- › Fixed interest defined as Government Sovereign Bonds and Corporate Bonds.
- › Preference Shares, Permanent Interest Bearing Shares and Convertibles are not treated as fixed interest investments.

Sterling Strategic Bond

- › Funds with investment policy permitting significant changes in asset allocation between broad investment grade fixed interest securities and sub-investment grade fixed interest securities, convertibles, preference shares and permanent interest bearing shares (PIBs).
- › Funds which invest at least 80% of their assets in Sterling-denominated (or hedged back to Sterling) fixed interest securities, convertibles, preference shares and PIBs.
- › Fixed Interest securities defined as Government sovereign bonds, local authority bonds, supranational bonds and corporate bonds.

UK All Companies

- › Funds which invest at least 80% of their assets in equities quoted on the UK stock market.
- › Funds have the primary objective of achieving capital growth or total return.

UK Direct Property

- › Funds that normally invest at least 80% of their assets in UK property. Managers may occasionally use Property Index Certificates or other property instruments for up to 20% property investment.
- › UK property defined as real estate located within the UK.

UK Equity Income

- › Funds which invest at least 80% of their assets in equities quoted on the UK stock market.
- › Net of tax yield on the underlying portfolio of at least 110% of the FTSE All-Share yield.
- › It is not normally possible to derive income from life and pension funds as they are not income-generating assets. However, there is clearly a distinct style evident in funds invested in this way and the parameters for the UK Equity Income Sector aim to group these in a comparable way.

UK Gilts

- › Funds which invest at least 80% of their assets in UK Government securities (Gilts).
- › Funds invest at least 95% of their assets in:
 - UK Government securities (Gilts),
 - UK Government backed securities
 - Sterling denominated (or hedged back to Sterling) AAA rated, overseas government backed securities.

UK Index-linked Gilts

- › Funds which invest at least 80% of their assets in UK Index Linked Government securities (Index-Linked Gilts).

- › Funds which invest at least 95% of their assets in:
 - UK Government Index Linked securities (Index Linked Gilts)
 - UK Government backed Index Linked securities, or
 - Sterling denominated (or hedged back to Sterling) AAA rated, overseas government backed Index Linked securities.

UK Property Securities

- › Funds that invest at least 80% of their assets in property securities quoted on the UK stock market and direct property located in the UK.
- › Property securities include real estate investment trusts, shares issued by companies that own, develop or manage direct property and Property Index Certificates.

UK Smaller Companies

- › Funds which invest at least 80% of their assets in equities quoted on the UK stock market which form the bottom 10% by market capitalisation.

Unclassified

- › This sector is for funds that do not provide sufficient data to be monitored, and consequently cannot be compared on a like-for-like basis.

Potential reward and risk indicator

Investing is about balancing the risk you are comfortable with alongside the potential rewards that you want to achieve. Your attitude to investment risk is personal to you and may change in the future.

The table opposite can help illustrate this concept. It's not exhaustive, but covers a wide range of funds and investments and shows the general principle that, as the level for potential higher returns increases so does the level of risk. The following pages indicate how this relates to our funds.

The value of our funds may fluctuate. You may not get back the full amount of your investment.

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. Where a risk rating is amended as a result of, in our view, a significant change to the assets held by the fund or in the way the fund is managed information will be provided on the new risk rating. We recommend that before making any fund choice in the future you ensure you understand the appropriate risk ratings at that time.

You will find this information in our Fund Guides, along with further information, at www.pru.co.uk/funds. You should also consider discussing your decision with your Financial Adviser. It is important to also note that your adviser may make their own assessment of the risk rating of funds when considering your needs and objectives, and this may differ from Prudential's own internal assessment. They may charge you for advice.

The information included in this guide is correct as at January 2012.

Potential Reward and Risk Indicator	Types of Fund *
6 Higher	Single Country Equity Funds, International Equity Funds, Specialist Funds
5	Flexible Investment Global Property Funds
4	Mixed Investment 40%-85% Shares Direct Property Funds Global High Yield Funds
3 Potential Rewards	Mixed Investment 20%-60% Shares Distribution Managed Funds Sterling High Yield Funds Global Fixed Interest Funds With-Profits Funds **
2	Mixed Investment 0%-35% Shares Sterling Fixed Interest Funds Corporate Bond Funds Protected/Guaranteed Funds
1 Lower	Deposit & Treasury Funds Money Market Funds

Higher Risks Lower

* These are predominantly based on sector classifications by the Association of British Insurers (ABI). The description used may match an individual ABI sector name or be a Prudential suggested description for a grouping of similar sectors.
The only exception to this is 'With-Profits' which is not classified by the ABI.

** Some funds invest in our With-Profits Fund and appear in a lower or higher Potential Reward and Risk Indicator category. Our Fund Guides provide further information.

Fund information

Important explanations

Unit Pricing Basis

When determining the basis to be used for calculating the unit price, it is important to consider how much money is either going into the fund or is being taken out. The unit price is then used to determine the value of individual policyholders' investments in the fund.

If more money is being paid into the fund than is being taken out, then the fund will need to purchase assets. If this is the case then the amount that is needed to buy assets for the fund (i.e. the purchase price) will be more relevant than the amount obtained for selling the assets (i.e. the sale price) in determining the unit price of the fund.

If more money is being taken out of the fund than is being paid in then the fund will need to sell assets. If this is the case, the sale price of the underlying assets will be more relevant when calculating the unit price.

Sales prices are generally lower than purchase prices. The size of the difference depends on the cost of either purchasing or selling the assets the fund invests in. These costs tend to be largest for funds investing in property, smaller companies and developing markets so will have the largest impact on the change in price. If there is a switch from a purchase price to a sales price then the unit price will reduce. If there is a switch from a sales price to a purchase price then the unit price will increase. In both cases the movement in price can be significant and will occur immediately.

Please see your Technical Guide for further information.

› The fund value

The value of our funds may fluctuate. You may not get back the full amount of your 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 it.

› How funds invest

Some of the Prudential funds listed in this guide may gain all or part of their investment exposure by investing in collective investment vehicles (e.g. Unit Trusts, Open Ended Investment Companies (OEICs)), derivatives or other investment vehicles, for which the aims and underlying assets are consistent with the objectives of the fund. These Prudential funds may hold an element of cash due to the short delay between new investments being received by the Prudential fund and being placed in the underlying investment(s), and this may have an impact on the performance of the Prudential fund when compared to the underlying investment(s).

› Your funds

Your funds are invested in a Prudential contract. Although the investment return will reflect the performance of your chosen fund manager(s), you do not have any contract with them; your contract remains with Prudential. This does not apply to funds held as part of a self invested personal pension.

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.

› **Investment flexibility to age 90**

Flexible Income Drawdown Plan and Flexible Lifetime Annuity are available from age 55 onwards and in conjunction provide you with the opportunity to run your chosen investment strategy seamlessly to age 90.

If you buy a Flexible Lifetime Annuity, the investment strategy can continue undisturbed up to age 90. Any self invested funds must be switched to "insured" funds before a Flexible Lifetime Annuity is purchased.

Fund Charges

› **Annual Management Charge**

We take an Annual Management Charge from each of the funds you invest in. These are shown on pages 16 to 19.

In general the AMC is taken by the deduction of 1/365th of the applicable Annual Management Charge, from the daily unit price of the relevant unit linked fund.

This differs slightly for With-Profits. Please see page 14 for further details.

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

› **Other fund charges**

All of the funds we offer (except our With-Profits and Property Fund) invest in unit trusts/open-ended investment companies (OEICS). These funds incur additional expenses and these are detailed in this guide.

These additional expenses are reflected in the unit price(s). The Annual Management Charge (AMC) and additional unit trust/OEIC expenses are known collectively as a "yearly fund charge". This AMC also includes a 0.25% charge for further commission – this is ongoing commission linked to the value of the plan.

If you agree a different commission (renewal/trail commission) rate above or below 0.25% this will be debited or credited through cancelling or adding units respectively.

For the With-Profits Fund, we deduct a charge through the bonus mechanism. This is currently expected to be 1% a year (if you agree a different renewal/trail commission rate above or below 0.25% this will be debited or credited through cancelling or adding units respectively), assuming future investment returns in the With-Profits Fund are 7% a year. Charges on With-Profits business depend on the performance of the With-Profits Fund and, in particular, the investment returns achieved and expenses incurred. Over time, if investment returns are higher, then we would expect to increase the charge, and if investment returns are lower, we would expect to reduce the charge.

The legal aspects

The Prudential Flexible Retirement Income Account is a Personal Pension registered under Chapter 2 of Part 4 of the Finance Act 2004 and can accept pension funds transferred from the following types of pension plan:

- Another Personal or Stakeholder Pension, but excluding money put aside for Protected Rights.
- Money saved under an Occupational Pension Scheme, but excluding money put aside for Guaranteed Minimum Pension or Protected Rights.
- A Free-standing Additional Voluntary Contribution contract, but excluding money put aside for Protected Rights.
- A "Section 32" contract, but excluding money put aside for Guaranteed Minimum Pension or Protected Rights.
- S226 (Retirement Annuity Contracts).

For Flexible Lifetime Annuity we can also accept Open Market Options from both Personal and Company Pension Schemes but excluding any contracted-out rights from being contracted-out of the State Second Pension (S2P) and/or its predecessor.

Important information

- › This brochure is based on our understanding, as at January 2012, of the current taxation, legislation and HM Revenue and Customs practice, all of which are liable to change without notice. The impact of taxation (and any tax reliefs) depends on individual circumstances.
- › Our charges may vary in the future and may be higher than they are now.
- › The value of the fund may be eroded, especially if investment returns are poor and a high level of income is taken; this could result in a lower income in the future.
- › The investment returns may be less than those shown in the illustrations.
- › Annuity rates may be at a worse level in the future.
- › When maximum withdrawals are taken, high levels of income may not be sustainable.

Full terms and conditions are available from our Administration Office at:

**Prudential
Flexible Retirement Income
Servicing Team,
Stirling
FK9 4UE**

More information on investing

How many funds can I hold?

If you are following a self-managed investment strategy you can invest in a maximum of 19 funds from the range available subject to the minimum investment amount and fund restrictions at outset on the Flexible Income Drawdown Plan.

What is the minimum I can invest in any fund?

The minimum amount that you can initially invest in any one fund is £2,500. This is also the minimum amount you can switch between funds.

What is the maximum I can invest in any fund?

If you are buying a Flexible Income Drawdown Plan, there are no maximum limits to how much you can invest in any of the funds in this brochure. If you are buying a Flexible Lifetime Annuity at outset, you are limited to investing a maximum of 50% of the value of your fund in our With-Profits Fund. There are no maximum limits in any of the other funds.

Funds, ABI sectors, risk types, risk indicator and Annual Management Charges (correct as at January 2012)

Funds	Association of British Insurers (ABI) sector	Risk types	
		Equity	Fixed Interest
Prudential Multi-Asset funds (see page 18 for more information)			
Prudential Cautious Managed Growth*	Mixed Investment 20%-60% Shares	X	X
Prudential Managed Defensive*	Mixed Investment 0%-35% Shares	X	X
Prudential With-Profits	Unclassified	X	X
Additional fund choice (see pages 19 to 23 for more information)			
Prudential Artemis Capital*	UK All Companies	X	
Prudential Artemis Income*	UK Equity Income	X	
Prudential Artemis Strategic Bond*	Sterling Other Fixed Interest		X
Prudential Artemis UK Growth*	UK All Companies	X	
Prudential AXA Framlington Equity Income*	UK Equity Income	X	
Prudential AXA Framlington Health*	Specialist	X	
Prudential BlackRock Gold & General*	Commodity/Energy	X	
Prudential BlackRock UK*	UK All Companies	X	
Prudential BlackRock UK Absolute Alpha*	Unclassified	X	
Prudential BlackRock UK Smaller Companies*	UK Smaller Companies	X	
Prudential BlackRock UK Special Situations*	UK All Companies	X	
Prudential Cazenove UK Growth & Income*	UK All Companies	X	
Prudential First State Asia Pacific Leaders*	Asia Pacific excluding Japan Equities	X	
Prudential Henderson Cautious Managed*	Mixed Investment 20%-60% Shares	X	X
Prudential Henderson China Opportunities*	Mixed Investment 20%-60% Shares	X	
Prudential Henderson Emerging Markets Opportunities*	Mixed Investment 20%-60% Shares	X	
Prudential Henderson European Selected Opportunities*	Europe excluding UK Equities	X	
Prudential Invesco Perpetual Distribution*	Mixed Investment 20%-60% Shares	X	X
Prudential Invesco Perpetual Global Bond*	Global Fixed Interest		X
Prudential Invesco Perpetual High Income*	UK Equity Income	X	
Prudential Invesco Perpetual UK Equity	UK Equity Income	X	
Prudential Invesco Perpetual Japanese Smaller Companies*	Japan Equities	X	
Prudential Invesco Perpetual Managed	Flexible Investment	X	
Prudential Invesco Perpetual Monthly Income Plus*	Sterling Other Fixed Interest		X
Prudential JP Morgan Europe Dynamic (ex UK)*	Europe excluding UK Equities	X	
Prudential JP Morgan Europe Smaller Companies*	Europe excluding UK Equities	X	
Prudential JP Morgan Natural Resources*	Specialist	X	

* These funds are not available for the Flexible Income Drawdown Plan (FIDP) when the plan is initially taken out. They are however available if you wish to switch your investment to them after the plan has started.

Risk types					Annual Management Charge (%)		
Property	Currency	Smaller Companies and Developing Markets	Financial Instruments	Other	Risk Indicator	Annual Management Charge	Unit Trust Expense
X	X	X	X		3	0.80%	0.40%
X	X			X	2	0.80%	0.30%
X	X	X	X	X	3	1.00% ¹	N/A
	X				6	1.55%	0.20%
	X		X		6	1.55%	0.10%
	X		X	X	3	1.30%	0.15%
		X			6	1.55%	0.15%
		X			6	1.55%	0.15%
	X	X		X	6	1.55%	0.10%
	X	X		X	6	1.60%	0.25%
					6	1.40%	0.20%
			X	X	6	1.55%	0.20%
		X			6	1.45%	0.20%
		X			6	1.45%	0.20%
					6	1.50%	0.15%
	X	X			6	1.65%	0.10%
				X	3	1.30%	0.20%
	X	X			6	1.55%	0.20%
	X	X			6	1.55%	0.25%
	X				6	1.55%	0.20%
	X		X	X	3	1.60%	0.25%
	X				4	1.30%	0.25%
	X	X	X	X	6	1.45%	0.20%
	X	X	X	X	6	1.225%	0.00%
	X	X			6	1.55%	0.25%
	X				5	1.225%	0.00%
	X		X	X	3	1.55%	0.25%
	X				6	1.55%	0.25%
	X	X			6	1.55%	0.25%
	X			X	6	1.55%	0.25%

continued overleaf

¹ The Annual Management Charge of this fund is already taken into account when we calculate the bonus rates for our With-Profits Fund. Please refer to your Key Features document for further details.

Funds, ABI sectors, risk types, risk indicator and Annual Management Charges (correct as at January 2012)

Funds	Association of British Insurers (ABI) sector	Risk Type	
		Equity	Fixed Interest
Additional fund choice (see pages 19 to 23 for more information)			
Prudential M&G American	North America Equities	X	
Prudential M&G Asian	Asia Pacific excluding Japan Equities	X	
Prudential M&G Corporate Bond	Sterling Corporate Bond		X
Prudential M&G European	Europe excluding UK Equities	X	
Prudential M&G Gilt & Fixed Interest Income	UK Gilt		X
Prudential M&G Global Growth	Global Equities	X	
Prudential M&G High Interest	Money Market		X
Prudential M&G High Yield Corporate Bond	Sterling High Yield		X
Prudential M&G Japan	Japan Equities	X	
Prudential M&G Managed Growth	Flexible Investment	X	
Prudential M&G Recovery	UK All Companies	X	
Prudential M&G Smaller Companies	UK Smaller Companies	X	
Prudential Martin Currie North American*	North America Equities	X	
Prudential Neptune Balanced*	Flexible Investment	X	X
Prudential Neptune Income*	UK Equity Income	X	
Prudential Newton Global Higher Income*	Global Equities	X	
Prudential Newton International Bond*	Global Fixed Interest		X
Prudential Newton Managed	Flexible Investment	X	
Prudential Newton UK Equity Income	UK Equity Income	X	
Prudential Property Fund	UK Direct Property		

* These funds are not available for the Flexible Income Drawdown Plan (FIDP) when the plan is initially taken out. They are however available if you wish to switch your investment to them after the start of the plan.

Risk types					Annual Management Charge (%)		
Property	Currency	Smaller Companies and Developing Markets	Financial Instruments	Other	Risk Indicator	Annual Management Charge	Unit Trust Expense
	X				6	1.00%	0.15%
	X	X			6	1.50%	0.30%
					2	0.80%	0.15%
	X	X			6	1.00%	0.35%
	X				2	0.80%	0.15%
	X	X			6	1.00%	0.15%
	X		X	X	1	0.80%	0.20%
	X			X	2	1.25%	0.20%
	X				6	1.50%	0.50%
	X				5	0.80%	0.20%
		X		X	6	1.00%	0.15%
					6	1.00%	0.35%
	X				6	1.55%	0.20%
	X	X		X	4	1.60%	0.00%
	X			X	6	1.60%	0.05%
	X	X		X	6	1.50%	0.20%
	X				4	1.25%	0.15%
	X	X			6	1.025%	0.00%
					6	1.025%	0.00%
X					4	0.80%	0.05%

Fund objectives

Prudential Multi-Asset funds

Multi-Asset funds work by spreading your money across a number of different types of assets. These can include different investments, such as company shares, fixed interest bonds, cash and property – from both the UK and abroad.

By investing in a number of different assets the fund manager aims to balance the risk that is being taken. So if one asset is falling in value then another may be increasing. Of course there could be times when all the assets in the fund are either rising or falling in value depending on the market conditions at that time.

Prudential Cautious Managed Growth

The investment strategy of the fund is to purchase units in the Prudential Unit Trusts Ltd Prudential Cautious Managed Growth Fund. That fund aims to achieve long term total return (the combination of income and growth of capital) through investing globally either directly or via other collective investment schemes in assets including transferable securities, debt instruments, money market instruments, cash, near cash, deposits, equities, derivatives, and indirectly in property. That fund will invest no more than 60% of the portfolio in equities.

Prudential Managed Defensive

The investment strategy of the fund is to purchase units in the Prudential Unit Trusts Ltd Prudential Managed Defensive Fund. That fund aims to achieve long term total return (the combination of income and growth of capital) with a bias towards income through investing either directly or via other collective investment schemes in assets including transferable securities, debt instruments, money market instruments, cash, near cash, deposits, equities, derivatives, and indirectly in property. The fund will invest no more than 35% of the portfolio in equities. Assets held will predominantly be denominated in sterling.

Prudential With-Profits*

The 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.

* This fund aims to protect investors against some of the ups and downs of investment performance using a "smoothing" mechanism. Please refer to Your With-Profits Plan – A guide to how we manage the Fund (document reference WPG0027) for more information.

Additional fund choice

The following funds cover a range of different assets and types of funds which could be right for you at different times. Some of the funds are managed by Prudential whilst others are managed by external fund managers.

These funds aim to offer additional choice.

The following funds are all Prudential Pension Funds. For the externally managed funds the Prudential fund will invest in the fund manager's own fund or collective investment scheme of the same name unless otherwise indicated.

Prudential Artemis Capital

The investment strategy of the fund is to purchase units in the Artemis Capital Fund. That fund aims to achieve long-term capital growth. The emphasis of the Fund will be investment in UK companies in the FTSE 100 index, however the Manager has the flexibility to invest in UK companies outside the FTSE 100 Index and overseas companies.

Prudential Artemis Income

The investment strategy of the fund is to purchase units in the Artemis Income Fund. That fund aims to achieve a rising income combined with capital growth from a portfolio primarily made up of investments in the United Kingdom. The Manager actively manages the portfolio in order to achieve the objective with exposure to ordinary shares, preference shares, convertibles and fixed interest securities.

Prudential Artemis UK Growth

The investment strategy of the fund is to purchase units in the Artemis UK Growth Fund. That fund aims to achieve long-term capital growth. The emphasis of the fund will be investment in companies listed, quoted and/or traded in the UK and in companies which have a significant part of their activities in the UK which are quoted on a regulated market outside the UK.

Prudential Artemis Strategic Bond

The investment strategy of the fund is to purchase units in the Artemis Strategic Bond Fund. That fund aims to achieve a total return by investment predominantly in fixed income markets but may selectively invest in other markets and asset classes as determined by the manager's strategy from time to time.

Prudential AXA Framlington Equity Income

The investment strategy of the fund is to purchase units in the AXA Framlington Equity Income Fund. That fund aims to produce a higher than average yield combined with long term growth of income and capital. Investment is made principally in UK equities and convertible shares of companies which, in the manager's opinion, show above average profitability, management quality and growth.

Prudential AXA Framlington Health

The investment strategy of the fund is to purchase units in the AXA Framlington Health Fund. That fund aims for capital growth through investment in healthcare and medical services and product companies worldwide. Investment will be in producers of pharmaceuticals, biotechnology firms, medical device and instrument manufacturers, distributors of healthcare products, care providers and managers and other healthcare services companies.

Prudential BlackRock Gold & General

The investment strategy of the fund is to purchase units in the BlackRock Gold & General Fund. That fund is a specialised unit trust which aims to achieve long term capital growth by investing in gold, mining and precious metal-related shares. It tends to be volatile and is particularly suitable for diversification in a larger portfolio.

Prudential BlackRock UK

The investment strategy of the fund is to purchase units in the BlackRock UK Fund. That fund aims to achieve long-term capital growth for investors by investing primarily in the shares of larger companies incorporated or listed in the UK. The fund may also invest in collective investment schemes.

Prudential BlackRock UK Absolute Alpha

The investment strategy of the fund is to purchase units in the BlackRock UK Absolute Alpha Fund. That fund aims to achieve a positive absolute return for investors. The fund invests primarily in a portfolio of equities and equity-related securities (including derivatives) of companies incorporated or listed in the UK, although from time to time cash and near cash may be held. The fund may also invest in other transferable securities, permitted money market instruments, permitted deposits and units in collective investment schemes.

Prudential BlackRock UK Smaller Companies

The investment strategy of the fund is to purchase units in the BlackRock UK Smaller Companies Fund. That fund aims to achieve long term capital growth for investors by investing primarily in the shares of smaller companies incorporated or listed in the UK which the Manager considers to have above average growth prospects. The fund may also invest in collective investment schemes.

Prudential BlackRock UK Special Situations

The investment strategy of the fund is to purchase units in the BlackRock UK Special Situations Fund. That fund aims to achieve long-term capital growth for investors by investing primarily in the shares of companies incorporated or listed in the UK and will normally have an emphasis on small or medium sized companies. The fund may also invest in collective investment schemes.

Prudential Cazenove UK Growth & Income

The investment strategy of the fund is to purchase units in the Cazenove UK Growth and Income Fund. That fund aims to achieve long term capital and income growth through investment mainly in shares in larger UK companies but may have some investments in smaller companies. Investments will be made in UK equities, fixed interest and other securities.

Prudential First State Asia Pacific Leaders

The investment strategy of the fund is to purchase units in the First State Asia Pacific Leaders Fund. That fund aims to achieve long-term capital growth by investing primarily in large and mid capitalisation equities in the Asia Pacific region (excluding Japan, including Australasia).

Prudential Henderson Cautious Managed

The investment strategy of the fund is to purchase units in the Henderson Cautious Managed Fund. That fund aims to provide a combination of income and long-term capital growth through investment in a diversified portfolio of equities, bonds and other related investments. The investment in equities will be limited to a maximum of 60% of the value of the fund's portfolio.

Prudential Henderson China Opportunities

The investment strategy of the fund is to purchase units in the Henderson China Opportunities Fund. That fund aims to achieve a long-term return, in excess of the long-term return that is typically achieved from investments in Hong Kong and Chinese equity markets. The fund invests predominantly in companies registered in Hong Kong or China, or that carry out the majority of their business activities in these markets.

Prudential Henderson Emerging Markets Opportunities

The investment strategy of the fund is to purchase units in the Henderson Emerging Markets Opportunities Fund. That fund aims to achieve a long-term return, in excess of the long-term return that is typically achieved from emerging equity markets. The fund invests predominantly in companies registered in emerging markets, or that carry out the majority of their business activities in these markets.

Prudential Henderson European Selected Opportunities

The investment strategy of the fund is to purchase units in the Henderson European Selected Opportunities Fund. That fund aims to achieve a long-term return, in excess of the long-term return that is typically achieved from European equity markets, by investing in companies registered in Europe or that carry out the majority of their business activities in these markets.

Prudential Invesco Perpetual Distribution

The investment strategy of the fund is to purchase units in the Invesco Perpetual Distribution Fund. That fund aims to achieve a balance of income and capital growth through investing in a portfolio primarily of UK equity and fixed interest securities.

Prudential Invesco Perpetual Global Bond

The investment strategy of the fund is to purchase units in the Invesco Perpetual Global Bond Fund. That fund aims to achieve a good overall investment return in the medium to long term with relative security of capital by investing primarily in international bonds of differing interest yields and maturities.

Prudential Invesco Perpetual High Income

The investment strategy of the fund is to purchase units in the Invesco Perpetual High Income Fund. That fund aims to achieve a high level of income, together with capital growth by investing primarily in companies listed in the UK, with the balance invested internationally.

Prudential Invesco Perpetual UK Equity

The investment strategy of the fund is to purchase units in the Invesco Perpetual Income Fund. That fund aims to achieve a reasonable level of income, together with capital growth by investing primarily in shares of companies listed in the UK, with the balance invested internationally.

Prudential Invesco Perpetual Japanese Smaller Companies

The investment strategy of the fund is to purchase units in the Invesco Perpetual Japanese Smaller Companies Fund. That fund aims to achieve capital growth, primarily through a portfolio of investments in smaller Japanese companies.

Prudential Invesco Perpetual Managed*

The investment strategy of the fund is to achieve long-term capital growth by investing mainly in UK and overseas securities.

Prudential Invesco Perpetual Monthly Income Plus

The investment strategy of the fund is to purchase units in the Invesco Perpetual Monthly Income Plus Fund. That fund aims to achieve a high level of income whilst seeking to maximise total return through investing in high yielding corporate and government bonds, together with UK equities.

Prudential JP Morgan Europe Dynamic (ex UK)

The investment strategy of the fund is to purchase units in the JP Morgan Europe Dynamic (ex UK) Fund. That fund aims to maximise long-term capital growth by investing primarily in continental European equities.

Prudential JP Morgan Europe Smaller Companies

The investment strategy of the fund is to purchase units in the JP Morgan Europe Smaller Companies Fund. That fund aims to provide long-term capital growth by investing primarily in European smaller companies.

Prudential JP Morgan Natural Resources

The investment strategy of the fund is to purchase units in the JP Morgan Natural Resources Fund. That fund aims to provide capital growth over the long term by investing primarily in the shares of companies throughout the world engaged in the production and marketing of commodities.

* This is a Prudential fund managed on our behalf by the fund management group stated. It should not be confused with the same or similarly named fund or unit trust offered independently by this fund management group.

Prudential M&G American

The investment strategy of the fund is to purchase units in the M&G American Fund. That fund aims to achieve long-term capital growth through investment wholly or mainly in securities of North American (including Canadian) issuers. When not wholly invested as above, it may only invest in companies which are listed, registered or trading within North America.

Prudential M&G Asian

The investment strategy of the fund is to purchase units in the M&G Asian Fund. That fund's sole aim is long-term capital growth. It invests wholly or mainly in a range of Asian (including Australasian) securities. When not wholly invested as above, the fund may also invest in global securities with the exception of Japanese securities.

Prudential M&G Corporate Bond

The investment strategy of the fund is to purchase units in the M&G Corporate Bond Fund. That fund aims to achieve a higher total return (the combination of income and growth of capital) from investment than would be obtainable in UK government fixed interest securities (ie gilts) of similar maturities. The fund invests mainly in sterling denominated corporate debt instruments. Any currency exposures within the fund may be managed by currency hedges into sterling.

Prudential M&G European

The investment strategy of the fund is to purchase units in the M&G European Fund. That fund aims to achieve long term capital growth by investing wholly or predominantly in a diversified portfolio of securities of European (excluding United Kingdom) issuers.

Prudential M&G Gilt and Fixed Interest Income

The investment strategy of the fund is to purchase units in the M&G Gilt & Fixed Interest Income Fund. That fund aims to provide a secure income with stability of capital consistent with investment in gilts. The fund invests mainly in short, medium or longdated gilts according to M&G's view at any given moment of the likely course of interest rates and trend of the gilt-edged market.

Prudential M&G Global Growth

The investment strategy of the fund is to purchase units in the M&G Global Growth Fund. That fund aims to maximise long-term total return (the combination of capital growth and income) by investing mainly in a wide range of global equities. The fund will invest globally (including in the UK) in the equities of companies across a wide range of geographies, sectors and market capitalisations

Prudential M&G High Interest

The investment strategy of the fund is to purchase units in the M&G High Interest Fund. That fund aims to provide income with stability of capital. The fund invests mainly in debt instruments (which include, but are not limited to: variable rate securities, fixed interest securities, gilts and corporate debt).

Prudential M&G High Yield Corporate Bond

The investment strategy of the fund is to purchase units in the M&G High Yield Corporate Bond Fund. That fund aims to maximise total return (the combination of income and growth of capital) while generating a high level of income. The fund invests predominantly in higher yielding corporate debt instruments which may be denominated in sterling, European currencies and other major global currencies, should the investment managers deem them to be appropriate investments.

Prudential M&G Japan

The investment strategy of the fund is to purchase units in the M&G Japan Fund. That fund aims to achieve long-term capital growth by investing in a wide range of securities of Japanese issuers, covering most aspects of the economy. Income is not a consideration when investments are selected.

Prudential M&G Managed Growth

The investment strategy of the fund is to purchase units in the M&G Managed Growth Fund. That fund aims to achieve long-term capital growth by investing predominantly in collective investment schemes in order to provide a well diversified exposure to global equities.

Prudential M&G Recovery

The investment strategy of the fund is to purchase units in the M&G Recovery Fund. That fund aims to achieve capital growth by investing predominantly in a diversified range of securities issued by companies which are out of favour, in difficulty or whose future prospects are not fully recognised by the market. The sole aim of the Fund is capital growth. There is no particular income yield target.

Prudential M&G Smaller Companies

The investment strategy of the fund is to purchase units in the M&G Smaller Companies Fund. That fund aims to achieve capital growth by investing in smaller companies, where good management can have most impact on earnings. Investment in such shares can offer prospects of above average capital growth. Income is not a major factor and the yield can be expected to be less than that of the FTSE All-Share Index.

Prudential Martin Currie North American

The investment strategy of the fund is to purchase units in the Martin Currie North American Fund. That fund aims to produce capital growth by investment in the United States of America and Canada. The fund will consist primarily of transferable securities.

Prudential Neptune Balanced

The investment strategy of the fund is to purchase units in the Neptune Balanced Fund. That fund aims to generate a positive total return from investment predominantly in equities and bonds.

Prudential Neptune Income

The investment strategy of the fund is to purchase units in the Neptune Income Fund. That fund aims to generate a rising level of income. Whilst income is the main objective there is also potential for capital growth, from an actively managed portfolio invested predominantly in UK securities and UK fixed interest stocks, with some overseas exposure.

Prudential Newton Global Higher Income

The investment strategy of the fund is to purchase units in the Newton Global Higher Income Fund. That fund aims to achieve increasing annual distributions together with long-term capital growth from investing predominantly in global securities.

Prudential Newton International Bond

The investment strategy of the fund is to purchase units in the Newton International Bond Fund. That fund aims to maximise the total return from income and capital growth in the world bond markets through investment predominantly in government and other public securities.

Prudential Newton Managed*

The investment strategy of the fund is to provide total long-term growth (the combination of income and growth of capital) by investing mainly in a diversified portfolio of UK and international equities with the option of holding up to 15% in bonds and cash.

Prudential Newton UK Equity Income*

The investment strategy of the fund is to provide total long-term growth (the combination of income and growth of capital) by investing in a portfolio consisting wholly or mainly of UK equities. The fund concentrates on high yielding equities which exhibit strong cash flow and dividend growth.

Prudential Property Fund

The investment strategy of the fund is to purchase units in the M&G Property Portfolio. That portfolio aims to maximise long-term total return (the combination of income and growth of capital) through investment mainly in commercial property. The portfolio invests in a diversified portfolio of commercial property mainly in the UK, seeking to add value through strategic asset allocation, stock selection and asset management. The portfolio may also invest in other property related assets, including collective investment schemes, securities, derivatives and debt instruments, as well as government debt, money market instruments and cash.

* This is a Prudential fund managed on our behalf by the fund management group stated. It should not be confused with the same or similarly named fund or unit trust offered independently by this fund management group.

Lifetime investment strategies

There are three Lifetime investment strategies to choose from:

- › Cautious
- › Standard
- › Adventurous.

Each strategy offers a different balance of potential investment return and risk, which is set by the mix of investment funds held. These are our own definitions, and apply to the strategies rather than to the funds within each strategy. The Lifetime Investment Strategy funds (which are described in detail on previous pages) are:

- › The Prudential With-Profits Fund
- › The M&G Managed Growth Pension Fund
- › The M&G Corporate Bond Pension Fund (Series 2).

The investment risk of each strategy reduces as you get older. We do this by automatically re-balancing the mix between the different investment funds within the chosen strategy every year. Your choice of strategy also determines your investment mix when you reach age 90.

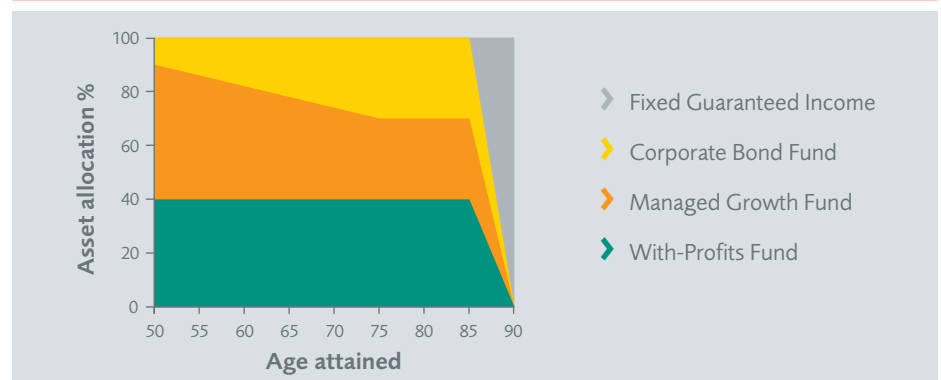
The Lifetime Investment Strategies have been designed to run potentially right through to age 90. If you are only investing in the Flexible Income Drawdown Plan (FIDP), and do not expect to buy a Flexible Lifetime Annuity (FLA) at or before age 75, it may not be appropriate for you to pursue a Lifetime Investment Strategy. You will need to discuss this with your adviser.

Details of the three strategies are set out here:

Cautious

With this strategy, units are held in a mix of the M&G Managed Growth Fund (which is a "fund of funds"), the Prudential With-Profits Fund and the M&G Corporate Bond Fund. The Managed Growth Fund is gradually replaced by a greater holding in the Corporate Bond Fund. When you reach age 85, the holding in each of the investment funds will gradually be replaced by an element of Fixed Guaranteed Income. Once you reach age 90 you will receive 100% Fixed Guaranteed Income i.e. a fixed amount of income which is guaranteed for life and will not reduce.

Cautious lifetime strategy



Note: While the Cautious lifetime strategy is lower risk when compared with the other investments available from FRIA, it is higher risk when compared with other low risk investments, such as a guaranteed pension annuity for example.

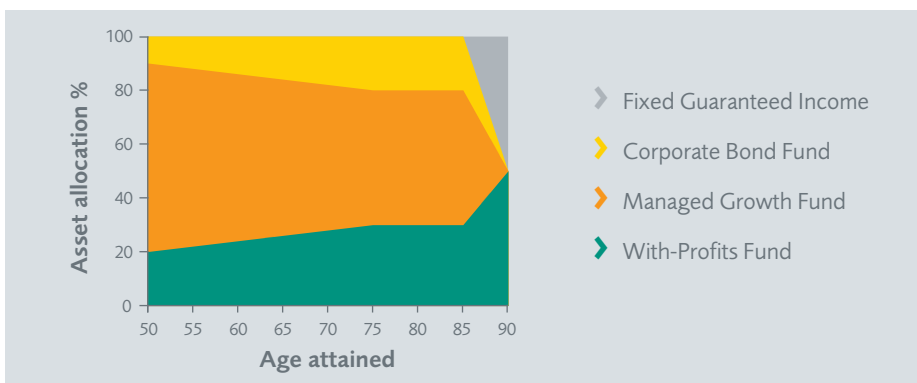
Standard

With this strategy, units are held in the M&G Managed Growth Fund (which is a "fund of funds"), the Prudential With-Profits Fund and the M&G Corporate Bond Fund. The units in the Managed Growth Fund are gradually replaced by a greater holding in the With-Profits Fund and the Corporate Bond Fund. When you reach age 85, some of the holding in the Managed Growth Fund and the entire holding in the Corporate Bond Fund will be gradually exchanged for Fixed Guaranteed Income. When you reach age 90, the income will be divided between a Fixed Guaranteed Income and an income from the With-Profits Fund. Your income from the With-Profits Fund will change in line with the performance of the With-Profits Fund.

Choosing a strategy

Whichever strategy you choose, you must remember that the higher the exposure to the stock market, the greater the potential investment returns over the longer term. Equally, if the stock market falls, the greater the risk that the value of investment and so your retirement income will fall.

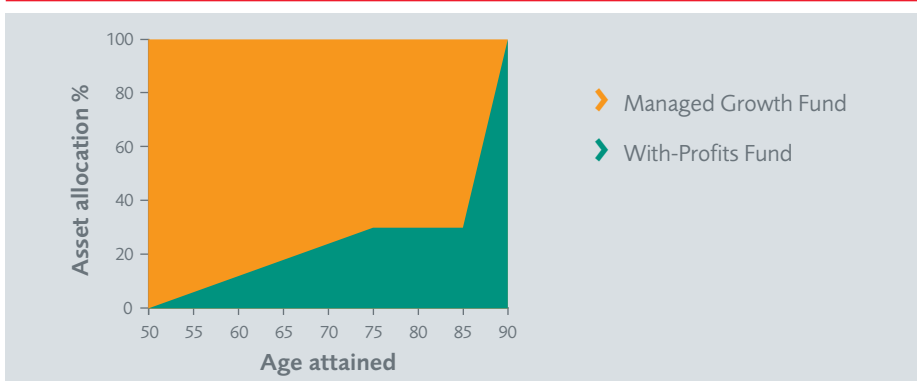
Standard lifetime strategy



Adventurous

This strategy has the highest stock market content, provided by the M&G Managed Growth Fund (which is a "fund of funds"). The holding in this fund is gradually switched into the Prudential With-Profits Fund. By the time you reach age 90, the whole Account is invested in the With-Profits Fund, which then provides an income that will change in line with the performance of the fund.

Adventurous lifetime strategy



Glossary of investment terms

This glossary is a high-level guide to some of the technical terminology that may appear in our 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'Investissement 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.

Qualified Investor Scheme (QIS) –

A qualified investor scheme is essentially a mixed asset type of scheme where different types of permitted asset may be included as part of the scheme property, depending on the investment objectives and policy of that scheme and within any restrictions in the rules.

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. the FSA in the UK), 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/depository 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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