

PRUDENTIAL
PruFund Cautious/Protected Cautious (Offshore)



INFORMATION ONLY

Key Information

Fund Manager	Portfolio Management Group (PMG)
Launch Date	25/11/2009

Classification

Sector	Unclassified
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Investment Objective & Methodology

PruFund Cautious and PruFund Protected Cautious funds are unitised managed funds which invest in Prudential's main With Profits fund. The funds currently invest around 70% in a diversified portfolio of fixed interest securities and holdings of cash and money market instruments. The balance is invested in UK and international shares, property and alternative assets.

The PruFund Protected Cautious includes either a 7th, 8th 9th or 10th year anniversary guarantee of a return of original investment, dependent on the term selected. On the guarantee anniversary, the investment is automatically switched into the PruFund Cautious Fund, following any guarantee being applied if applicable. The additional charge for the guarantee varies between 1.25% and 0.30% per annum depending on the term selected and is applicable for the duration of the guarantee period.

What differentiates PruFund from a conventional managed fund is the Smoothing Mechanism used to mitigate the effects of sharp market movements. It should be noted at this stage that the Smoothing Mechanism works in either direction and does not, therefore, offer any guarantee as to the future return which can be expected. If the value of the underlying investments fall the price of units in the PruFund will fall but perhaps not quite so sharply.

The initial investment invests into a holding fund called PruFund Account and switches to the chosen fund on the next PruFund quarter date. While the investment is in the PruFund Account, it is increased daily in line with the Expected Growth Rate (EGR) applicable to the account. During this time product charges are taken but the investment will not be subject to any smoothing adjustments or suspension of smoothing.

Once invested in to the PruFund, on one of the quarterly dates, the unit price is smoothed around the Expected Growth Rate (EGR) which is set quarterly by Prudential. This reflects their views on the medium to long term prospects of the asset classes held within each fund.

The Smoothed Unit Price (SUP) will increase daily in line with the last declared EGR. At the end of each quarter (assuming nothing traumatic has occurred – see below) the EGR will be reviewed. The SUP will be adjusted up or down should it rest 5% or more above or below the value of the underlying assets. The SUP will be moved 50% of the way towards the value of the underlying assets.

Within each quarter (in other words, at any time) the SUP will be adjusted should it become more than 10% adrift of the value of the underlying assets, in either direction. Should this happen the price will be adjusted to 102.5% or 97.5% of underlying assets depending on whether the underlying asset value was above or below the SUP when the adjustment is made.

In identifying the need for such an adjustment, the 5 day rolling average value of the underlying assets will be used. This should reduce the instances when such adjustments are required by reducing the impact of single day market movements.

The whole smoothing process can be suspended should the Pru identify 'excessive' movements of capital into or out of the funds. Limits are defined so that neither market movements nor 'normal' capital flows will trigger a suspension.

The duration of a suspension will be at the discretion of the Directors. The position will be reviewed at least every 30 days. On a suspension, the SUP will revert to the underlying value of the underlying assets.

Each fund will operate independently.

OBSR Conclusion

The smoothing mechanism should reduce day to day volatility in unit prices but the mechanism does not offer any guarantee or protection against market falls either in the short or longer term. The fact that the funds are well diversified by asset class and geographically offers some protection.

Where there is a difference between the SUP and the underlying asset value, the Pru Main Fund will 'fund the difference' but only to a limited extent. The Main Fund is protected because the SUP can be adjusted downward if market or capital movements exceed Pru's expectations.

Overall, these are sound funds and the smoothing mechanism is easy to understand. It should not, however, be forgotten that the Pru have ample opportunity to protect the Main Fund by adjusting the SUP and/or suspending the smoothing mechanism altogether.

The smoothing mechanism does not in our view significantly alter the risk characteristics of the funds.

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