

A step-by-step guide to the PruFund smoothing process

Features of the smoothing process

The PruFund funds aim to grow your money over the medium to long term (5-10 years or more). The funds use an established 'smoothing process' which aims to protect you from the extreme short-term ups and downs of direct stock market investment. In other words, to give you a more stable rate of growth than you would get, if you were directly exposed to the daily changes in the fund's underlying investment performance.

So while you won't benefit from the full upside of any potential stock market rises, you won't suffer from the full effects of any downsides either.

To achieve this 'smoothing', the process uses Expected Growth Rates (EGRs) and, where required, Unit Price Adjustments (UPAs).



Expected Growth Rates (EGRs)



Unit Price Adjustments (UPAs)

Prudential set Expected Growth Rates (EGRs) – annualised rates your investment would normally grow at – which reflect our view of how we think each PruFund fund will perform over the long-term (up to 15 years).

Each PruFund fund has its own EGR and investments into a PruFund will normally grow daily by the relevant EGR. EGRs are reviewed every 3 months, and may be higher, the same, or lower than they were at the start of your investment.

Although we use a long term view of performance to set EGRs, we also have to take into account shorter-term performance. On a daily basis, if the shorter-term performance differs too much from our current Expected Growth Rate, we'd have to amend the value of your fund up or down to ensure we are not returning too much or too little. We call these Unit Price Adjustments.

Your financial adviser will be able to give you more information on our smoothing process, EGRs and Unit Price Adjustments for our PruFund funds.

EGRs reflect our long-term view of the fund growth and UPAs allow us to make any necessary adjustments to help keep the fund growth on track, in line with the EGR. EGRs and UPAs are part of the smoothing process.

There are 4 key steps to smoothing. They are:

- **Step 1:** PruFund Account (Holding Account)
- **Step 2:** Expected Growth Rates (EGRs)
- **Step 3:** Daily monitoring/Unit Price Adjustments (UPAs)
- **Step 4:** Quarterly monitoring/Unit Price Adjustments (UPAs)

Let's take a look at these steps in more detail.

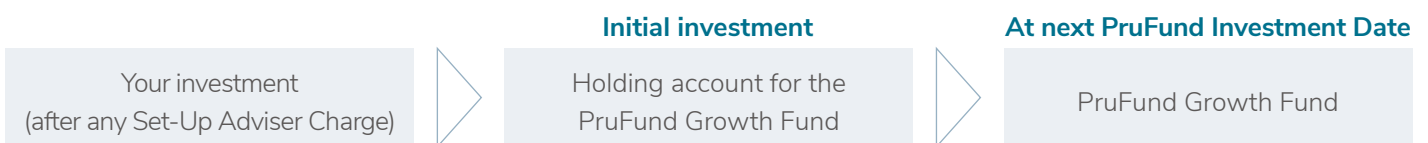
Step 1: The PruFund Account (holding account)

When you invest in one or more of our PruFund funds, your money will be put in a 'holding account' where it will stay until the next PruFund investment date¹. There is a PruFund Account (holding account) for each fund in the PruFund range of funds.

While your money is in a holding account, it increases daily in line with the EGR for that account. During this time we apply product charges, but the investment won't be subject to any smoothing adjustments such as UPAs or suspension of smoothing (see page 3 for more on suspension of smoothing).

At the next PruFund investment date, your money will be transferred from that holding account, to your chosen PruFund fund. Your money from your holding account buys units in your chosen fund at the price that applies on that day.

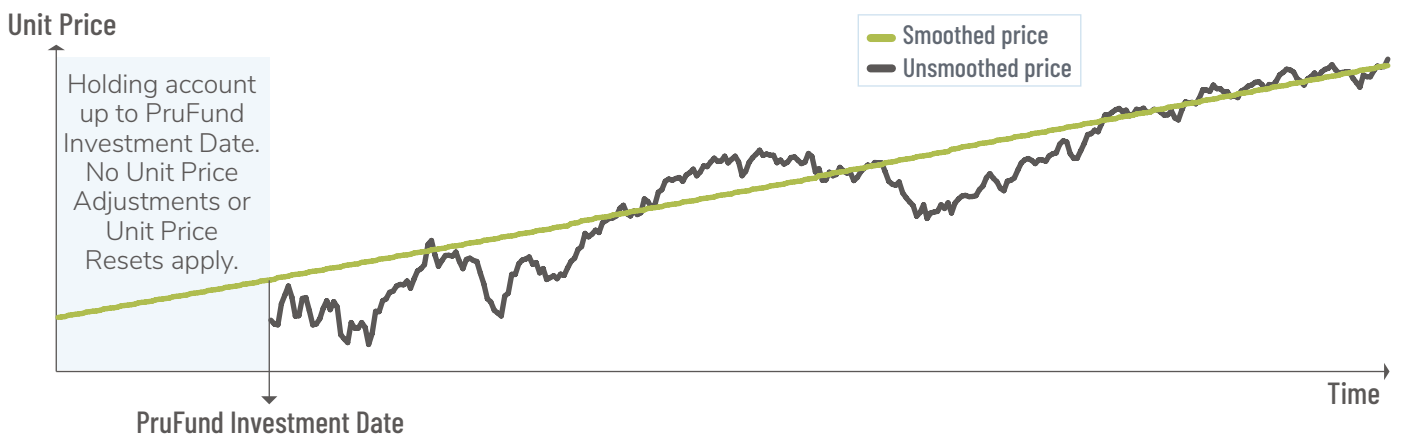
The example below, shows an investment being made into the PruFund Growth Fund.



This is a simplified example of how the process works and is for illustrative purposes only. It's not representative of any particular time period or investment performance.

For details on the smoothed and unsmoothed prices, see 'Unit Price Adjustment – Daily Monitoring' on page 3.

Holding Account Example



Changed your mind?

Once your investment is in a holding account you can't change your mind about which fund to invest in until the end of the holding account period. However, you can cancel your investment if you're still in the cancellation period. Your Key Features document gives you more information on this.

¹The PruFund investment date for all products is quarterly.

Step 2: Expected Growth Rates (EGRs)

On each PruFund investment date, Prudential sets an 'Expected Growth Rate (EGR) for each PruFund fund, based on our expectations of the long term investment return on the assets of the PruFund funds. We continuously monitor the EGRs to ensure they reflect up-to-date forecasts. You'll find the latest EGRs at: pru.co.uk/investments/investment-fund-range/prufund-range

The PruFund investment dates are:



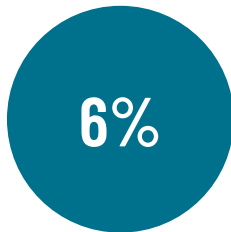
- or the next working day if the PruFund investment date is a weekend or Bank Holiday.

The unit price for each fund will normally change daily in line with the appropriate EGR, but will also reduce due to charges. For example, if there is an annual investment charge of 0.65%:

Unit Price at initial investment



EGR



Investment charge



Unit Price after Year 1



* This example assumes the EGR remains at 6% for the year and there are no Unit Price Adjustments, Unit Price Resets or suspension of smoothing.

Unit Price Resets explained

We may decide to reset the smoothed price of a PruFund fund on a particular day, to protect the With-Profits Fund. If we do, the smoothed price of the affected fund would be adjusted to the same value as the unsmoothed price on that working day. This adjusted smoothed price will then continue to grow in line with the EGR from the working day after this reset. This is known as a Unit Price Reset.

Suspension of smoothing explained

There may be occasions where we have to suspend the smoothing process for one or more PruFund funds for a period of consecutive days, to protect our With-Profits Fund and the clients invested in it. When this happens, the smoothed price for the affected fund(s) is set to the unsmoothed price for each day, until the smoothing process is reinstated.

Step 3 – Daily Monitoring/Unit Price Adjustment (UPA)

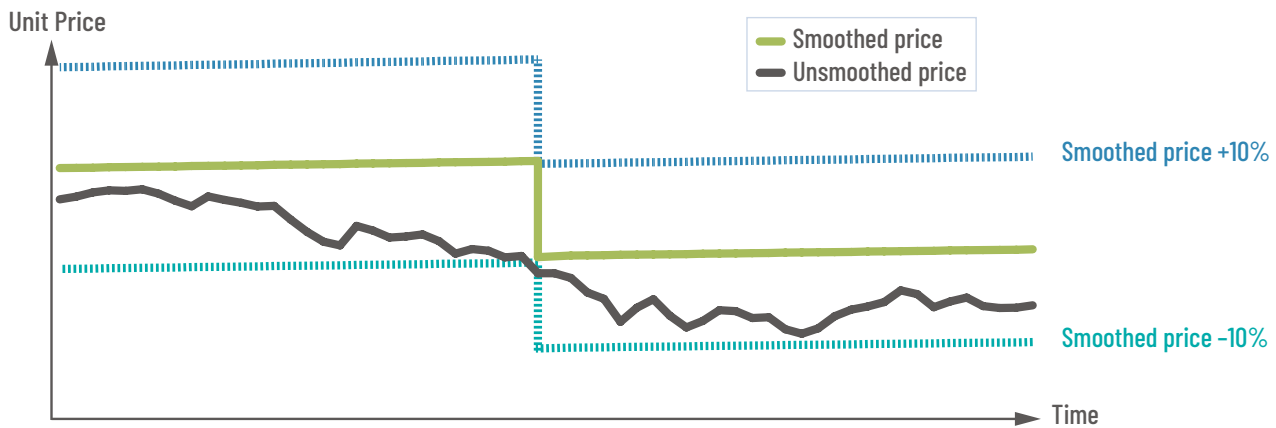
Each day, for each PruFund fund, we monitor:

- the unit price (or 'smoothed price') – which normally increases each day, by the EGR
- the 'unsmoothed' price – the value of the underlying fund, divided by the total number of units

And each day, as part of the smoothing process, we check gaps between the smoothed price and unsmoothed price. The gap is calculated using both the unsmoothed price and a five-working day rolling average of the unsmoothed price. If the gap is ever equal to, or more than, the Daily Smoothing Limit, we'll adjust the smoothed price straight away to reduce the gap, to the value of the Gap After Adjustment for the relevant fund. Here's an example of how it works.

An example of Unit Price Adjustment – Daily Monitoring

In this example, we have reflected the relevant smoothing limits applicable to the PruFund Growth Fund.



In this example we have adjusted the smoothed price for the PruFund Growth Fund in line with its Daily Smoothing Limit of 10%, to reduce the gap between the smoothed and unsmoothed price to 2.5% of the unsmoothed price.

Please note: The Daily Smoothing Limit and the Gap After Adjustment will vary by fund.

Want to know more?

If the gap is less than the Daily Smoothing Limit for the relevant fund (in this example of the PruFund Growth Fund, it's 10%) the smoothed price will normally remain as it is.

However, if for example, the smoothed price was 100p and the unsmoothed price was 112p (a 12% gap) then we'd increase the smoothed price to 109.2p (2.5% below 112p).

Similarly, if the smoothed price was 100p and the unsmoothed price 88p (a 12p gap), then we'd reduce the smoothed price to 90.2p (2.5% above 88p).



Looking for the unsmoothed price?

We don't publish the unsmoothed price. This avoids speculation over possible smoothed price adjustments and helps protect investors in the PruFund funds.

Daily Smoothing Limit explained

A specified limit, shown as a percentage of the smoothed price, that we may choose to vary from time to time, and that may differ across the range of PruFund funds.

Gap After Adjustment explained

This is the specified gap between the smoothed and unsmoothed price, immediately after the smoothed price has been adjusted, as a result of the Daily Smoothing being met or exceeded – and is shown as a percentage of the unsmoothed price.

Step 4 – Quarterly Monitoring/Unit Price Adjustment (UPA)

In addition to monitoring the PruFund unit prices on a daily basis, we also monitor the unit price, at each PruFund investment date (see page 3 for more information).

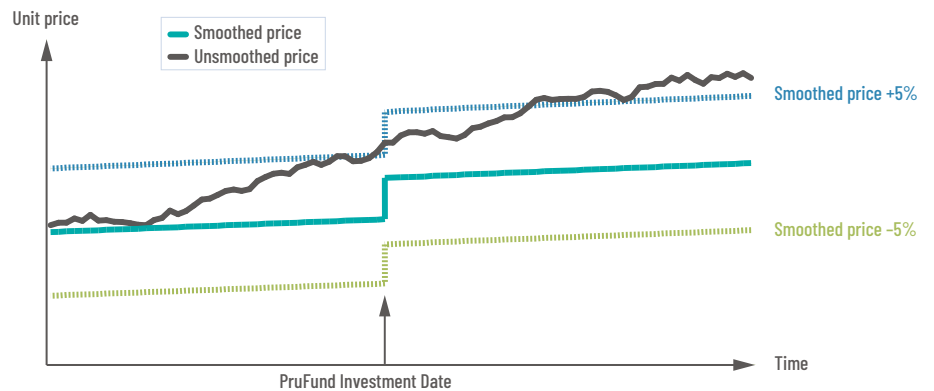
On each PruFund investment date, if there's a gap which is equal to or more than the Quarterly Smoothing Limit when we compare the unsmoothed and smoothed prices for that day, we'll adjust the smoothed price to reduce the gap by half. And we'll repeat this process, if needed, until the gap is less than the Quarterly Smoothing Limit (a specified limit, shown as a percentage of the smoothed price). After any change, the unit price will continue to increase by the EGR.

We may choose to vary this limit from time to time, and that may differ across the range of PruFund funds.

Example of a Unit Price Adjustment – monitoring at the PruFund Investment Date

In this example, we have reflected the relevant smoothing limits applicable to the PruFund Growth Fund.

In the example, we have adjusted the smoothed price for the PruFund Growth Fund in line with its quarterly smoothing limit of 5%, to reduce the gap between the smoothed and unsmoothed price by half. Only on the PruFund investment dates do we compare the smoothed and unsmoothed price, to check if there's a 5% gap. However, for simplicity, we have shown the +5% and -5% lines on every day.



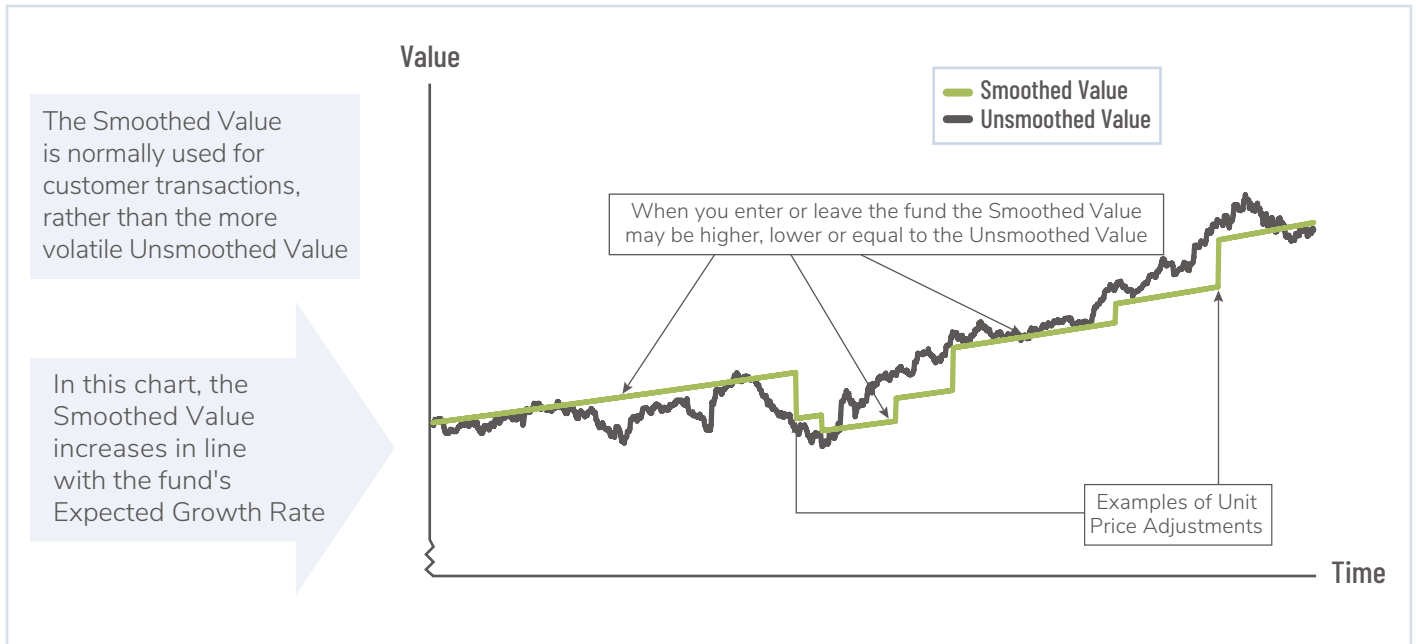
Please note: The Quarterly Smoothing Limit and the Gap After Adjustment will vary by fund.

Using the PruFund Growth Fund as an example, if at the PruFund investment date, the smoothed price was 100p and the unsmoothed price 94p (a 6% gap) then we'd reduce the smoothed price to 97p – reducing the gap by half.

Similarly, if at the PruFund investment date, the smoothed price was 100p and the unsmoothed price 108p (a gap of 8%), we'd increase the smoothed price to 104p.



An example of how the smoothing process works



Switching out of a PruFund fund – we normally make switches out of the PruFund funds 28 days after we receive your request, and will use the unit prices on the 28th day. For full details of switching out of PruFund funds, see your relevant Key Features document.

Withdrawals – there may be a delay for full or partial withdrawals from a PruFund fund. Please see your relevant Key Features document for details of the delay period that may apply.

Current smoothing limits

PruFund Funds	Quarterly Smoothing Limit	Daily Smoothing Limit	Gap After Adjustment (applies to daily smoothing limit only)
PruFund Growth Fund	5.0%	10.0%	2.5%
PruFund Cautious Fund	4.0%	8.0%	2.0%
PruFund Risk Managed 1 Fund	4.0%	8.0%	2.0%
PruFund Risk Managed 2 Fund	4.0%	8.0%	2.0%
PruFund Risk Managed 3 Fund	5.0%	10.0%	2.5%
PruFund Risk Managed 4 Fund	5.0%	10.0%	2.5%
PruFund Risk Managed 5 Fund	5.0%	10.0%	2.5%

The individual funds included in the PruFund range of funds, and their current smoothing limits are shown below.

Please note. The diagrams in this guide are simplified examples of how the process works, and assumes that for the unsmoothed price, the five-working-day rolling average rule has also been breached. They're for illustrative purposes only and are not representative of any particular time period or investment performance. Their sole aim is to show you how smoothing works.

Want to know more?

The PruFund range of funds invest in Prudential's With-Profits Fund.

For more information on the smoothing process and smoothing limits, please see 'Your With-Profits Plan – a guide to how we manage the fund (PruFund range of funds)' reference WPGB0031 (for PruFund Investment Plan and Trustee Investment Plan).

The value of an investment can go down as well as up and you may get back less than you paid in. For the range of PruFund funds, what you receive will depend on the value of the underlying investments, the Expected Growth Rates as set by the Prudential Directors, our charges, the smoothing process, if there is a guarantee and when you take your money out. The capital guarantee, if applicable, is applied at the end of the guarantee term specified in your personal illustration document.

The guarantees we provide are backed by the Prudential Assurance Company Limited (PAC) With-Profits Fund. We do not use a third party to back our guarantees.