PRUDENTIAL

Your guide to

The Risk Managed PruFund range

For a smoother investment experience.

The Risk Managed PruFunds aim to grow your money while giving you a smoothed investment experience.

So if you want to benefit from the reduced level of risk a fully diverse fund offers, but are worried about the short term ups and downs associated with the stock market, the Risk Managed PruFunds range have an established smoothing process which helps to reduce the impact of extreme short term fluctuations of stock market investments.

We'll manage your money to achieve the best return we can for the level of risk you are willing to take.

The value of investing

Saving and investing is about putting plans in place for your long-term goals while making sure you have enough money set aside to cover regular expenses and emergencies.

Investing puts your money to work, so that it's active on your behalf – but it does carry risks. And different types of investments have different levels of risk. Generally speaking, there's a link between the amount of risk you're prepared to take, and the potential rewards you're looking to gain.

Cash may be more secure in a bank account or cash fund, but it has a lower growth potential. For example, the money left in a low interest cash account could be eroded by the effects of inflation, but you won't lose the money you put in.

Investing in a higher-risk investment, over the medium to long term (5-10 years or more) offers greater potential rewards but also a higher potential loss. And there are no certainties with investments, so taking a higher risk does not guarantee a higher return.

The effect of inflation

Inflation could have a significant impact on the purchasing power of your money and it's important to consider this carefully when looking at investment options.

The graph shows that if we assume 2.5% inflation each year, the purchasing power of £10,000 today could be worth just £5,394 in 25 years' time.

This example also assumes that the sum has not grown over time as no interest has been added.

The value of your investment can go down as well as up so you might get back less than you put in.

Where to invest

There are four broad categories of investment, often described as 'asset classes'.

Shares – also known as equities or stocks, where you buy a 'share' in a company.

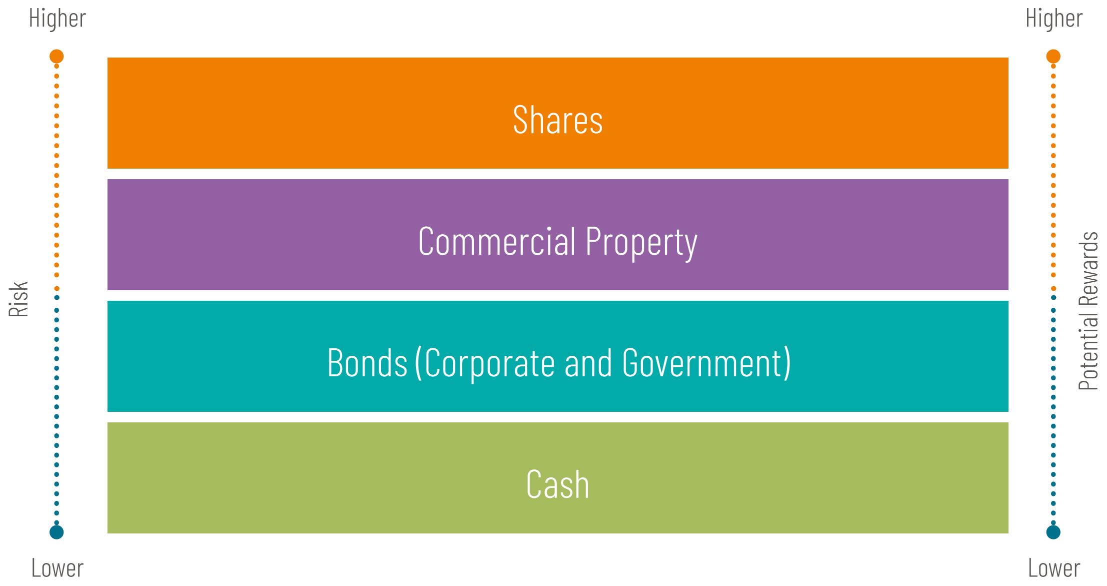
Commercial property – available in a variety of sectors including retail, office, and industrial.

Bonds – also known as fixed-interest investments, can be purchased from corporate entities or governments. UK government bonds are referred to as Gilts.

Cash – includes currency, deposit accounts and negotiable investments, for example, money orders, cheques and bank drafts

These asset classes offer different levels of risk and potential rewards so the most appropriate choice of assets for you would be those which are most in line with your attitude to risk and financial goals.

The risk and potential rewards of different asset classes



Please note this diagram is only intended to be a general indicator of the relationship between different asset classes in terms of risk and reward and may vary in certain circumstances. It's not intended to show examples of all types of asset classes.

The volatility factor

Finding the right balance between potential reward and risk is the key to successful investing.

To help decide what's the 'best fit' type of investment for you, it's important to consider the behaviour and volatility of asset classes, over time. For example, if an asset class rises and falls rapidly over the short-term, it's considered to be more volatile.

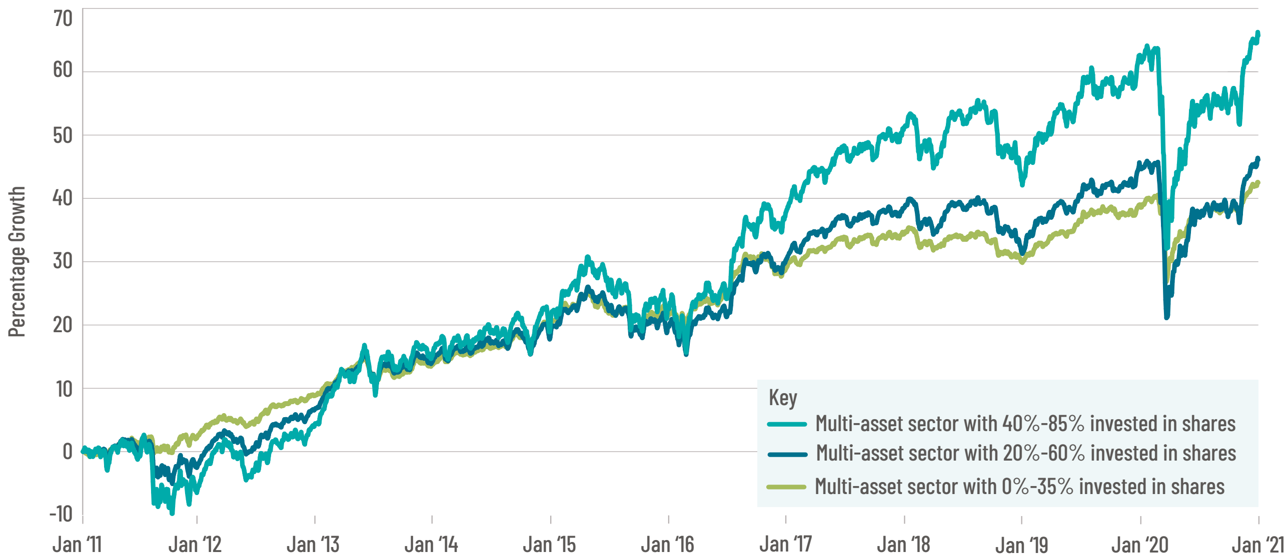
You may feel that the volatility which can result from investing in a single asset class is unacceptable. But at the same time, you're looking to achieve returns that offer the potential to outstrip inflation. So spreading your money over a variety of asset classes with the potential to gain some exposure to higher performing assets, without the risks that come from 'putting all your eggs in one basket', or in one asset class, could be an option for you.

Assuming you're willing to accept some degree of risk for your investments and are prepared to invest over the medium to long term (5-10 years or more), we have a range of multi-asset funds that may suit your needs.

Some examples of multi-asset funds over a 10-year period

The graph below shows examples of how some multi-asset funds have behaved over a 10-year period. All the sectors shown invest in a mix of asset classes, with each having a different level of investment in shares.

This graph demonstrates that while multi-asset funds can experience some volatility, the diversification can help avoid some of the highs and lows experienced by single asset classes.



In the graph above we have used Association of British Industry sectors, which group together funds with similar investment strategies. Please remember that past performance should not be considered a reliable indicator of future performance.

Source: FE fund info. The graph shows gross returns from 31 December 2010 to 31 December 2020 from the Insurance Association (IA) sectors, and are rebased in Pounds Sterling. The graph shows IA sectors.

Multi-Asset explained

A multi-asset fund typically invests in many different types of investments, including UK and international shares (equities), cash, property and fixed-interest securities, such as corporate bonds.

Each type of investment (asset class) has its own level of risk and return and by spreading your investment across different asset classes, it can help to reduce the extreme ups and downs that you get when investing in a single asset class. This is known as 'asset allocation'.

Investing in PruFunds

As we mentioned earlier in this guide, investing is about balancing the potential reward you could achieve with the level of risk you're prepared to accept.

Why Choose PruFund

Our customers choose to invest in PruFund for a number of reasons:

- PruFund gives you access to a wide range of investments, so all of your eggs aren't in one basket
- Investment costs are spread over many investors
- PruFund uses an established smoothing process, which aims to smooth some of the extreme short-term ups and downs of the market
- A choice of funds designed to suit different attitudes to risk and reward
- Actively managed by skilled experts in asset allocation – the M&G Treasury and Investment Office (T&IO)
- Invested in by over 445,800 customers
- Over £56bn* currently invested in the PruFund range
- Available on a range of pensions, drawdowns, investments and ISAs

You'll find more information on T&IO, and their approach to managing PruFund, on page 17.

*As at 31 December 2020

How do PruFunds work?

Your money is pooled together with that of other investors within your chosen fund and used to buy a large spread of different types of investments (often described as asset classes).

Reducing risk by investing in a diversified mix of asset classes

PruFunds aim to grow your money over the medium to long term (5 to 10 years or more).

PruFunds are invested in the Prudential With-Profits Fund, the largest with-profits funds in the UK. Worth approximately £118bn as at 31 December 2020, this means we can buy a wide range of assets which may not be possible for someone to buy directly.

However, there are differences across the range of PruFund funds in their objectives and mix of assets, and how PruFund delivers returns to investors when compared to other With-Profits business. This means the returns received by you will vary by fund choice.

PruFund funds are multi-asset funds which means you get access to a wide range of assets across different asset types and countries. This allows you to spread the risk of investment.

This diversification aims to balance the performance of the various assets, so "your eggs aren't all in one basket". This aims to offset proof performance in one asset type with good performance in another.

Investing money can be rewarding, but it's not without risk...

- The value of an investment can go down as well as up, so you might get back less than you put in.
- Charges will reduce the value of the investment and they may increase in the future.
- Withdrawals from the fund can exhaust the investment. Therefore, it's important to try to ensure that investment money needs to last for as long as is intended.
- Inflation will affect the buying power of the money you get back.

The smoothing process and how it works

The PruFund range of funds has an established smoothing process which uses Expected Growth Rates (EGRs) and, where required, Unit Price Adjustments (UPAs), to deliver a smoothed investment journey.

The aim of the smoothing process is to provide you with some protection from the extreme short-term ups and downs of direct investment. The smoothing process sets out an EGR for each PruFund fund and then compares that rate to how each fund is actually performing, making adjustments where necessary.

Expected Growth Rate (EGR)

Prudential sets EGRs; these are the annualised rates your investment would normally grow at. The EGRs 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 your investments in 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.

Unit Price Adjustment (UPA)

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 (UPAs).

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

The PruFund investment dates are:

25 February

25 May

25 August

25 November

(or the next working day if the investment date falls on a weekend or a Bank Holiday)

For the Prudential Retirement Account Series E fund and the Prudential International Portfolio Bond Series C fund, the PruFund investment dates are the 25th of each month.

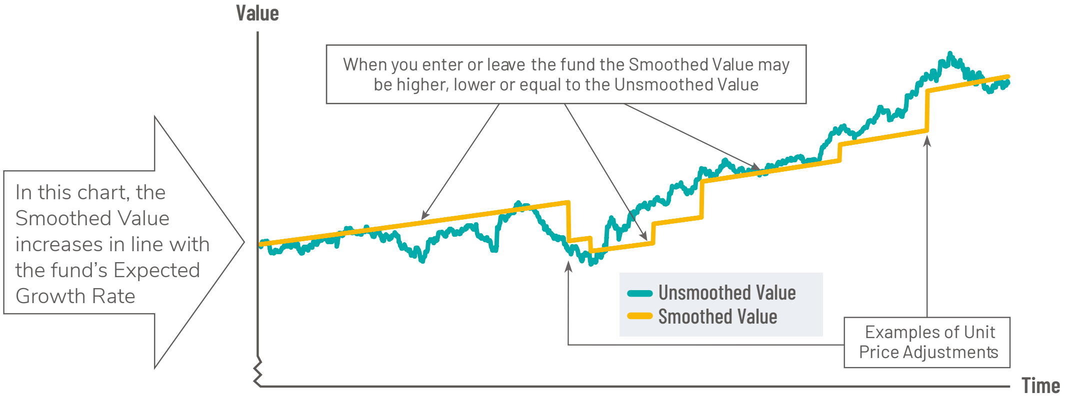
EGRs reflect our long-term view of the fund growth and UPAs allow us to make any necessary adjustments to help keep the fund growth on track, in line with the EGR. EGRs and UPAs are part of the smoothing process. You'll find the latest EGRs at: **pru.co.uk/investments/investment-fund-range/prufund-range**

What happens when I first invest?

Your investment is initially invested in a holding fund called a PruFund Account, where it will increase daily in line with the EGR applicable to that account. During this time product charges will be applied, but the investment will not be subject to any smoothing adjustments such as UPAs or Unit Price Resets, before it is switched into your chosen fund at the next investment date invested in your chosen fund, the EGR will be applied daily to the unit price of your fund over the duration of the quarter.

Combined with the spread of investments in the well-diversified funds, the smoothing process means that the risks associated with a PruFund investment can be lower than those found from investing directly in one asset class, such as equities.

An illustration of how PruFund smoothing works



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

Unit Price Reset – 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 be 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 those 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 in reinstated.

Moving out of PruFund

You can leave a PruFund fund at any time. There is no fixed term, but there is a 28-day delay if you are moving out of a PruFund to another fund. Currently there is no delay on moving out of PruFund if you are leaving the product, but we could introduce one if we needed to do so to protect all those within the fund.

Please see 'Your With-Profits Plan – a guide to how we manage the fund (PruFund range of funds)' (WPGB0031) for more information. Full details of how the PruFund smoothing process works, including when and by how much we will adjust the smoothed prices of the PruFund funds, along with some examples, can be found in 'A step by step guide to the PruFund smoothing process' (PRUF1098101), available from your financial adviser.

Introducing our Risk Managed PruFunds – smoothed range

You have a choice of five multi-asset Risk Managed PruFunds, each designed to suit different attitudes to risk and reward. They all benefit from our established PruFund smoothing process and are suitable for clients looking to invest for 5 to 10 years or more.

Each fund uses our established PruFund smoothing process and is actively managed by T&IO, who manage the asset allocation for these funds and will select funds from the range of With-Profit investment options available to them. The Risk Managed PruFunds are invested in the Prudential With-Profits Fund, one of the largest with-profits funds in the UK.

Balancing risk and reward

Asset allocation is an investment approach that aims to balance risk and create diversification, by dividing investments across a range of asset classes, like those described on page 5, and other alternative investments.

Each asset class has different levels of return and risk so will behave differently over time. For example, a diversified portfolio that includes higher-risk investments such as equities as well as lower-risk investments such as bonds, will help to manage and lower your risk. If equities have dramatically decreased in value, the fixed interest from your bonds should still help to provide some balance and stability.

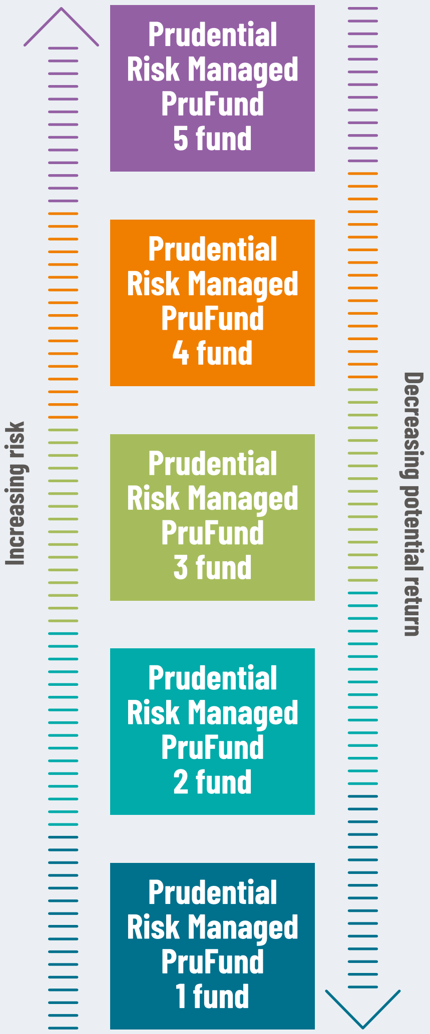
Our investment approach

Our investment strategy aims to secure the highest total return over the time you have your Plan, consistent with the objectives of the individual PruFund Fund, while maintaining an acceptable level of risk to our Fund.

Please remember that the value of your investment can go down as well as up and you may not get back what you put in.

Our risk profiles

The Prudential Risk Managed PruFunds are numbered 1 to 5, based on how volatile we expect each fund to be after smoothing has been applied. For example, Prudential Risk Managed PruFund 1 has the lowest volatility limit of 9% after smoothing, and therefore has the lowest amount invested in assets that may be more volatile (17%* is currently invested in shares). Whereas Prudential Risk Managed PruFund 5, has the highest volatility limit of 17%, after smoothing, and has the highest amount invested in assets that may be more volatile (currently 67% invested in shares).



Investment objectives

PruFund Risk Managed PruFund 5 – The fund aims to achieve long-term total return (the combination of income and growth of capital). The fund is actively managed and aims to limit the fluctuations ('volatility') of the investment experience, after allowing for smoothing, to 17% per annum over the medium to long term.

PruFund Risk Managed PruFund 4 – The fund aims to achieve long-term total return (the combination of income and growth of capital). The fund is actively managed and aims to limit the fluctuations ('volatility') of the investment experience, after allowing for smoothing, to 14.5% per annum over the medium to long term.

PruFund Risk Managed PruFund 3 – The fund aims to achieve long-term total return (the combination of income and growth of capital). The fund is actively managed and aims to limit the fluctuations ('volatility') of the investment experience, after allowing for smoothing, to 12% per annum over the medium to long term.

PruFund Risk Managed PruFund 2 – The fund aims to achieve long-term total return (the combination of income and growth of capital). The fund is actively managed and aims to limit the fluctuations ('volatility') of the investment experience, after allowing for smoothing, to 10% per annum over the medium to long term.

PruFund Risk Managed PruFund 1 – The fund aims to achieve long-term total return (the combination of income and growth of capital). The fund is actively managed and aims to limit the fluctuations ('volatility') of the investment experience, after allowing for smoothing, to 9% per annum over the medium to long term.

There's no guarantee that the fund will achieve its objective volatility limit.

* as at 30 September 2020

How our Risk Managed PruFunds are managed

Our Risk Managed PruFunds are managed by M&G's multi-asset team, Treasury & Investment Office (T&IO).

Who is T&IO?

The PruFund funds are managed by M&G's multi-asset team, Treasury & Investment Office (T&IO) – one of the largest and most well resourced in the UK.

T&IO manages £177 billion across a growing range of highly competitive multi-asset investment solutions and annuities, on behalf of Prudential UK and Europe.

T&IO has great strength in depth, with access to a team that includes investment professionals with expertise in capital market research, investment strategy design, liability management, derivatives and portfolio management.

Source: T&IO, 31 December 2020

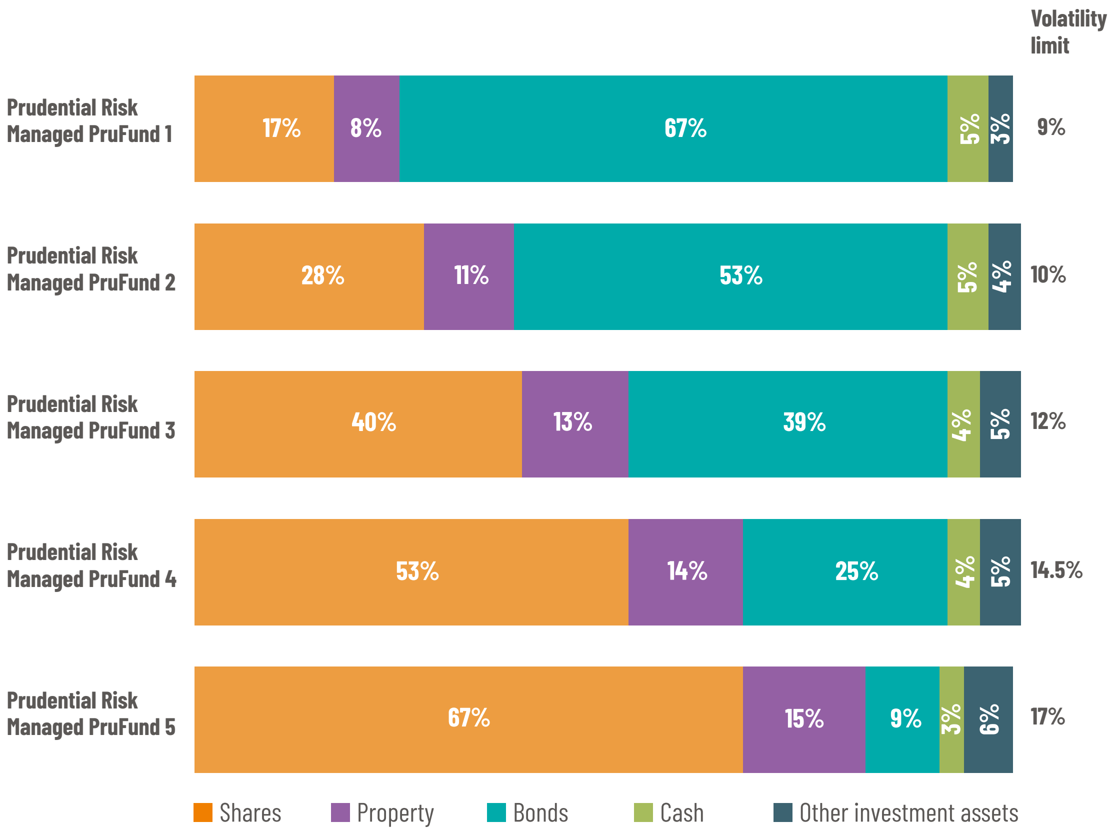
The Risk Managed PruFunds use the combined expertise of T&IO, the same team that manages our Risk Managed Active and Risk Managed Passive funds.

- T&IO recommends the asset allocation for each Risk Managed PruFund
- T&IO selects the funds which they believe best meet the portfolio asset mix requirements.
- T&IO is also the team behind the UK's largest With-Profits funds.

What our Risk Managed PruFunds invest in

The Risk Managed PruFunds are invested in the Prudential With-Profits Fund, the largest with-profits funds in the UK. As a with-profits investment, these funds are designed to spread risk by investing in a range of different asset classes.

The types of funds used, and the asset allocation split of each Risk Managed PruFunds will depend on the funds' objectives. Each Risk Managed PruFund has a different volatility objective which means your adviser can recommend a fund that's appropriate to your attitude to risk and reward. Each fund has a different range of investment in shares, with the rest being invested in various amounts in bonds and cash, as you can see in the graph below.



The asset mix shown here for the PruFund funds are as at the end of September 2020. The asset allocations are regularly reviewed and may vary from time to time but will always be consistent with the fund objective.

Asset types

The types of assets that T&IO can propose for the Risk Managed PruFunds are:

Cash – This can include cash deposits and other money market investments. Money market investments usually offer the lowest risk of all asset types but also the lowest potential returns. These may be held to target security more than substantial growth. Or to have just enough in cash deposits to make sure money is available for customer withdrawals.

Fixed Interest – A choice of passively managed funds that invest in assets such as corporate bonds or government bonds, from here in the UK and around the world.

Alternatives – Alternative assets may include assets such as private equity, infrastructure and hedge funds. They can offer a higher potential return than other types of assets and can help the overall diversification of a portfolio. The alternative asset funds are managed by selected specialists depending on the area of investment.

Equities – A choice of funds that invest in company shares, or equities, and "track" a range of different stock markets around the globe. These index-tracker funds will be internally selected by T&IO. One aim of index-tracker funds is to provide a lower-cost way to invest than funds that are actively managed.

The Treasury & Investment Office (T&IO) – experts in diversified investment

We believe a well-diversified fund is more likely to achieve consistent returns and that value can be added through a sound and well-structured investment process. This is why we use M&G's expert investment strategists at T&IO to make our strategic investment decisions.

As our in-house team, and 'manager of managers' for Prudential in the UK, M&G's Treasury and Investment Office are independent of the various underlying asset management businesses within M&G plc and are responsible for approximately £177bn* assets under management across a range of multi-asset investment solutions and other Prudential products.

M&G's investment strategist

T&IO's main objective is to ensure that they optimise the asset allocation of funds. This is core to their investment approach. T&IO uses their access to global investment expertise to determine the appropriate investment spread aiming to meet the investment objectives. Importantly, they regularly keep the asset allocation under control. To achieve the right mix of assets at any given time, they have a regular process of monitoring and adjusting the mix for any market or fund changes.

The T&IO approach to asset allocation

To help inform their asset allocation decisions, T&IO analyses the information available to them on the performance of assets over both the long and the short term. They look backward at historical information and they also look forward to consider how each asset is likely to perform. And at the core of any long-term asset allocation decision is a process that has been in place – and successful – for nearly two decades.

Access to a global range of funds

T&IO has access to the expertise of other M&G plc investment companies, such as M&G Investments and M&G Real Estate, and a global network of contacts at high quality external investment companies. This gives clients access to a range of investment funds both internal and external, managed by experts in their field.

Team-based approach

T&IO use a team-based approach to reach a consensus house view. As part of M&G plc, T&IO draws upon the experience of hundreds of investment professionals both in the UK and around the world. These investment teams are supported by experienced information and risk monitoring teams.

Governance framework

Governance and controls are particularly important for T&IO, and as such they work within a thorough and effective governance framework, so that each part of the investment process is reviewed and controlled at all times.

Fund selection and manager oversight

The T&IO Manager Oversight team has created a rigorous set of procedures to underpin the selection, ongoing monitoring and management of the various underlying investments.

Funds throughout the portfolios have been selected on the basis of a robust due diligence process that combines quantitative factors, including measures of performance and holdings analysis, with qualitative analysis focused on the business, people, process, philosophy and infrastructure.

The team also monitors the suitability of all underlying fund managers through a robust process of formal regular reviews, and our analysis of key risks within each underlying fund – single stock, sector and country exposures – helps us understand drivers and detractors of performance at any given time.

* as at 31 December 2020

PruFund funds – in summary:

- A spread of diversified investments – so you are not fully exposed to dramatic falls in one investment area
- Access to a wide range of investments – including some which individual investors may not be able to access directly
- An established smoothing process to help protect you from some of the day-to-day fluctuations associated with direct investment
- Actively managed by experts in asset allocation – M&G Treasury and Investment Office (T&IO)
- A choice of funds to help suit different attitudes to risk

More information

Please refer to 'Your With-Profits Plan – a guide to how we manage the fund (PruFund range of funds)' WPGB0031 or WPG627603 for Prudential Retirement Account, for more information. You can also refer to the relevant Key Features Document and Funds Guides for more details on our range of funds. These are available from your financial adviser.

The value of your investment can go down as well as up so you might get back less than you put in. For the PruFund range of 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 and the smoothing process.

Some terms explained

Active management

The traditional investment approach where fund managers actively build and change a portfolio of assets (eg stocks and shares) in order to take advantage of what they believe are the best opportunities.

Alternative assets

Alternative forms of investment can encompass a wide range of unconventional investments. In addition to direct investments in works of art and other collectables, such as coins and stamps, there is an expanding range of funds being offered to investors that invest in commodities, with themes that include agriculture, infrastructure and alternative energy.

Assets

Items that are owned by an individual such as property and investments. Money in a bank or building society account is known as a liquid asset. Assets may also be held in a fund.

Bond

Lower to medium-risk loans to the government or companies that pay you a fixed rate of interest.

Capital growth

Any money you receive in addition to the capital you've invested when you cash in your investment.

Corporate Bond

A loan to a company that earns you income in the form of interest. (See also Bond.)

Diversification

Spreading your investments to help reduce the risk within your portfolio.

FTSE100

An index of the share prices of the 100 largest companies (by market capitalisation) in the UK.

Fund Manager

An individual who is employed by a company to manage money. It is a fund manager's aim to buy shares or other assets such as property or bonds that they believe will increase in value or provide a level of income.

Holding Account

When you invest in one of our PruFund funds, your money will be put into a 'holding account' where it will stay until the next PruFund Investment Date. While your money is in a holding account, it increases daily in line with the Expected Growth Rate applicable to that account. During this time, we apply product charges but the investment will not be subject to any smoothing adjustments, Unit Price Resets or suspension of smoothing. There is an associated holding account for each PruFund fund.

Money Market Instruments

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.

Pooled Investment

Investments such as unit trusts, where a number of people put their money together to enable them to buy a wider range of investments, thereby spreading the risk of volatility.

Property

In the context of 'Property' as a type of asset, investment is usually in commercial property such as offices, shops and industrial premises.

Return

A measure of performance. It is the total of the increase in value and any income received over a given period, expressed as a percentage.

Shares

See Equities.

Stock market

A place where shares or other securities are bought and sold, for instance the London Stock Exchange.

Volatility

A measure of how much an investment's price is likely to fluctuate during a set period of time.

With-Profits Fund

Essentially a fund made up of shares, property, cash and fixed interest securities, which usually carries a medium risk. The products that use with-profits are typically regular and single premium savings plans and pensions. With-profits funds pool policyholders' investments, and the returns are smoothed to help reduce the volatility associated with direct equity investments.

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