Pru
part of M&G plc

Market Value Reduction

A clear explanation

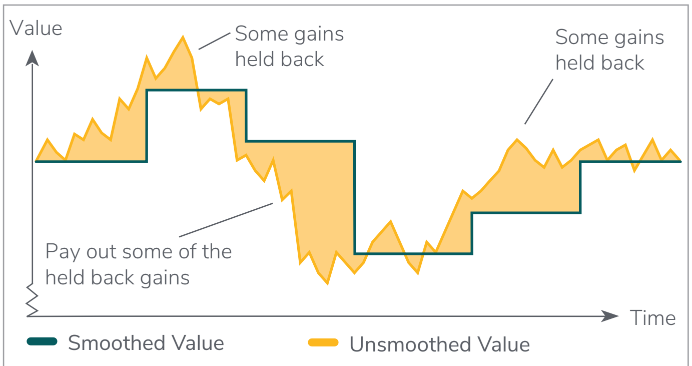
What's a Market Value Reduction?

If you withdraw or switch money from a with-profits fund, you may get less than the value of your plan as shown on the last policy statement we sent you. This is so that we can make sure everyone invested in a with-profits fund gets a fair share of the profits. We call this a Market Value Reduction (MVR), as what we'll pay out is based on the underlying market value of the investments.

How a with-profits fund works

Instead of paying you direct returns (such as dividends), a with-profits fund typically pays you a share of its profits via bonuses that are added to the value of your plan.

In deciding how much a bonus should be, we use a process called 'smoothing'. This means when the value of investments goes up, we may hold back some of the money we would otherwise pay to investors in their bonuses. As a result, when the value of investments goes down, it's more likely we will still be able to pay bonuses. This 'smoothes' the impact on your returns of sharp rises and falls in the market.



This is not representative of any particular age or year of issue. Its only aim is to explain how smoothing works.

Why we sometimes apply an MVR to a with-profits fund

The prices of assets traded on financial markets usually move up or down a bit every day. But sometimes, there can be a very sharp fall in the markets – such as during the COVID-19 Pandemic.

If lots of investors pull their money out of a with-profits fund after a sharp fall in its value, there's a risk they could get an unfairly large share of the fund's profits. This would leave remaining investors worse off. So, an MVR protects investors who aren't taking their money out, and means that you get a return based on the earnings of the with-profits fund over the period your payments have been invested.

So, if you tell us you want to make a withdrawal or a transfer from a with-profits fund, we might decide to apply an MVR to your transaction. This means you'll get less than the value of your plan, as shown in your last statement.

An MVR means we can be fair to all investors

The money the MVR holds back from your withdrawal or transfer doesn't go to us. Instead, it's kept in the fund, where it's used to protect those who remain invested. An MVR aims to balance returns for investors who stay in the fund with those who leave.

For example:

Imagine that five investors all have equal, £10,000 stakes in a single fund worth £50,000.

The value of the fund falls by 20%, and it is now worth £40,000. One investor, Angela, decides to leave, but her stake isn't adjusted to allow for the recent fall in value. She gets £10,000.

The remaining £30,000 is divided between the four investors who stay in the fund – so they're down to £7,500 each.

An MVR applied to Angela's withdrawal, resulting in Angela being paid £8,000 might have felt unfair to her. But it would have been the fairest thing to everyone with a stake in the fund.

When an MVR will apply to your transaction

We apply MVRs on a case-by-case basis. We may decide to apply an MVR if:

- the value of your plan is greater than the value of the assets your money is invested in

and you do one of the following:

- switch into another investment fund (including between with-profits funds)
- cash in or transfer your plan
- take early or late retirement
- take a full or partial withdrawal from your plan (if allowed)
- pay adviser charges from a with-profits fund
- take certain regular withdrawals.

We may change our MVR practice at any time without giving prior notice. For example, it may be altered if there's a significant reduction in the value of the investment markets in which our with-profits funds invest, or if there's a significant increase in the number of people wanting to cash-in their with-profits investments.

If we make a change to our current practice, it would apply to all new plans and existing plans in place at the time of the change.

How an MVR will affect the value of your transaction

An MVR isn't a fixed amount. The reduction will depend on:

- how much your plan is worth, including any bonuses that have been applied to it
- the performance of the with-profits fund over the time you've been invested in it.

When an MVR will not apply to your transaction

You'll only be affected by an MVR if you want to withdraw or transfer your money. Otherwise, it won't affect you. We also guarantee not to apply an MVR:

- if the investor has died
- at the selected/normal retirement date of a pension plan
- at the anticipated annuitisation age of a relevant income drawdown plan
- at the maturity of an endowment plan.

Some withdrawal amounts may be exempt from an MVR

We currently apply an MVR exemption if:

- you have been invested in the with-profits fund for at least five years, and
- the total amount withdrawn in the last 12 months is £25,000 or less, including any other payments (except certain regular withdrawals). An MVR would only be applied to the withdrawal amount over £25,000.

This exemption doesn't apply to:

- the Flexible Retirement Income Account
- Money Purchase Pensions (MPPs) and Additional Voluntary Contributions (AVCs), except for certain plans from Scottish Amicable Life plc (SAL) or Scottish Amicable Life Assurance Society (SALAS), or if the product Key Features Document issued to you says an MVR would be applied.

Certain regular withdrawals from onshore and offshore bonds taken out before 11 November 2013, may be exempt from an MVR.

If you want to know more

You can find more information on MVRs in your product Key Features and policy documentation.

You can also refer to our **'Customer-Friendly Principles and Practices of Financial Management'** documents in the **'Unitised and Cash Accumulation With-Profits'** section, which can be found at **pru.co.uk/ppfm**

You can call us on **0800 000 000** Monday to Friday 8am to 6pm. We might record your call for training and quality purposes.

Or write to us:
Customer Service Centre
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