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Your With-Profits Plan – a guide to how we manage the Fund

Conventional With-Profits Plans originally issued by Scottish Amicable Life Assurance Society (SALAS)

Your With-Profits Plan is a medium to long term investment that:

- combines your money with money from other **with-profits planholders**
- invests in the Prudential **With-Profits Fund**
- gives you the advantages of a well balanced mix of investments with some **smoothing** of investment returns.

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

Aims of this guide

This guide explains briefly how our **With-Profits Fund** works and our current approach to managing it. Please keep this guide in a safe place, along with your other Plan documents, as you might find it useful:

- when you get your yearly statement,
- if you get an illustration of what you might get back from your Plan, or
- if you'd like to discuss your Plan with a financial adviser.

This guide applies to Conventional With-Profits Plans, originally issued by the Scottish Amicable Life Assurance Society (SALAS) and transferred in 1997 under a Scheme of arrangement to our Scottish Amicable Insurance Fund (SAIF). In April 2021, in line with the Scheme of arrangements, the former SALAS business was transferred into our With-Profits Sub Fund.

This includes endowment assurances, whole of life assurances and pension plans. You might need to refer to one of our similar guides if you have more than one type of with-profits plan.

Further Information

You can find more detailed, technical information about how we manage our Fund in our Principles and Practices of Financial Management (PPFM) document, which is available on our website: **pru.co.uk/ppfm**

You can find the most up-to-date version of this guide, together with a summary of notable past or upcoming changes to our Principles and Practices of Financial Management, on our website.

Glossary

We've put terms in **bold** and explained what they mean in the glossary on the last page.

Applicable from January 2025

What's a with-profits plan?

It's a plan that shares in the profits of our **With-Profits Fund**, by adding bonuses. See "What are bonuses?" for more information.

We aim to grow your money invested in our **With-Profits Fund** over the medium to long term (5 to 10 years or more).

How does our With-Profits Fund work?

We combine and invest money from all of our **planholders** in our **With-Profits Fund**. The Fund has a wide range of investment types which we generally refer to as assets.

Investment performance usually has the biggest effect on the value of your Plan. You can find more detail on the factors that might affect the value of your Plan on page four.

What are bonuses?

Bonuses are the way you get your share of the profits of our Fund. Different types of plans get different bonus rates. We'll include the bonus rates relevant to your plan in your yearly statement.

There are two types of bonus:

1) Regular bonus

We expect to add this every year during the term of your Plan. We don't guarantee that we'll add a regular bonus each year, but once it is added to your Plan, it can't be removed. For more information please see, "Is the payout guaranteed?" on page four.

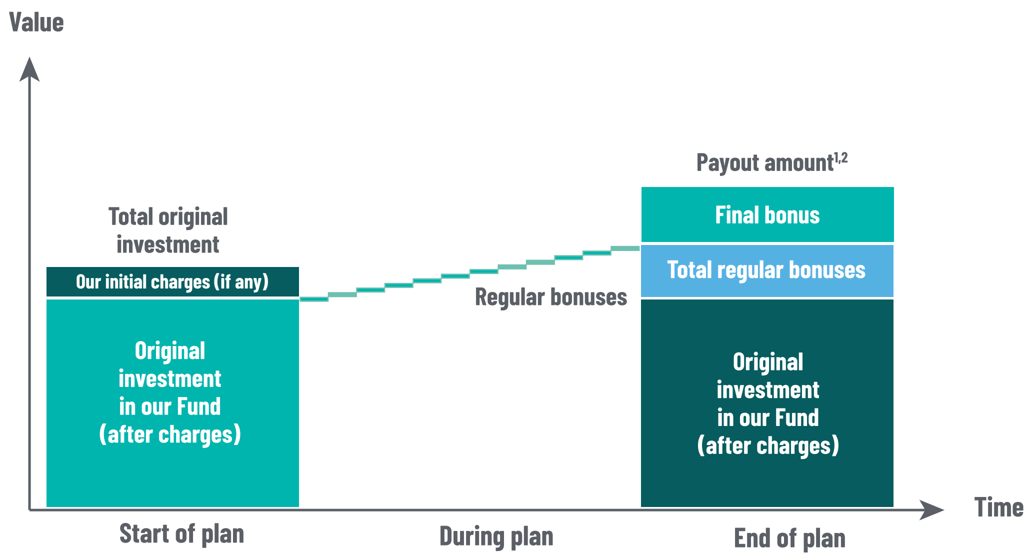
2) Final bonus

This is an additional bonus we expect to pay at the time of death or maturity for assurance plans, or on retirement at the specified normal retirement date for pension plans. If the investment return has been low over the lifetime of your Plan, a final bonus might not be paid.

How do we work out regular bonuses?

When we decide regular bonus rates, the main thing we consider is the return we expect our investments to earn in the future. We hold back some of this return, with the aim of paying a proportion of the proceeds as final bonuses.

The chart shows how we add bonuses to plans to determine the amount payable on death or maturity of an assurance plan, or on retirement at the specified normal retirement date for a pension plan.



This is for illustrative purposes only – it's not representative of any particular time period or investment performance. Its only aim is to explain how we add bonuses.

[1] If you stop paying premiums to your Plan, or retire earlier than at your specified normal retirement date for a pension plan, you will receive less than the payout amount shown, for more information see page six.

[2] For some pension plans, this will be the basic annuity payable from the specified normal retirement date.

Smoothing

In describing the **smoothing** process and how we work out final bonuses we use the terms "unsmoothed" and "smoothed" when referring to plan values:

- the unsmoothed value is the value of the investments underlying a plan, based upon our Fund's actual performance.
- the smoothed value is the amount paid out, after **smoothing** the peaks and troughs of our Fund's performance.

How do we work out final bonuses?

Final bonus rates at maturity for endowment assurance plans, or at the specified normal retirement date for pension plans, are set after considering the unsmoothed values of plans and how we expect investments to perform in the following months.

We combine all plans issued in a year, which have the same bonus rate, into a single plan which is typical of all the included plans. We then work out the unsmoothed value for this plan rather than for each individual plan.

The unsmoothed value depends on:

- how much has been invested,
- how long it's been invested,
- our Fund's investment performance while your money was invested,
- charges for guarantees,
- other charges and costs,
- taxation, and
- any profits and losses arising in our Fund from other business risks. See "Other business risks" on page five for more information.

Please note that for former SALAS business, the unsmoothed value is not affected by payments made to our **shareholders**, as our **shareholders** are not entitled to any of the profits of this business.

Instead of simply sharing out what our Fund makes – or loses – each year, we use a process known as **smoothing**.

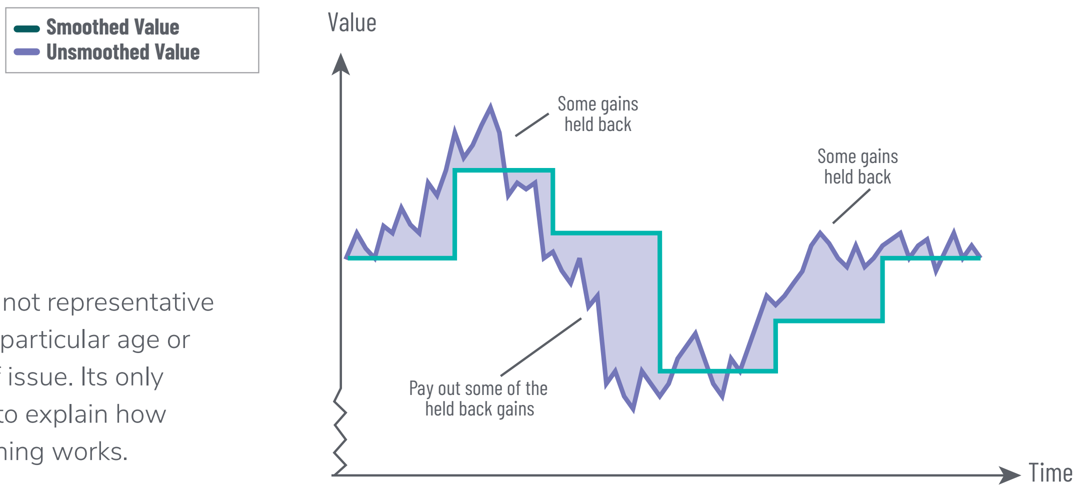
What's smoothing?

We hold back some of the investment returns in good years with the aim of using this to support bonus rates in years where the investment return has been lower. It offers some protection against investment market conditions but it won't stop the value of your Plan going down if investment returns have been low.

The payout amount on maturity for endowment assurance plans, or at the specified normal retirement date for pension plans, is represented by the light blue lines in the chart below. These lines show, for plans of the same duration, how the payout amounts change at each bonus declaration.

For each **planholder**, the payout amount will also differ from the unsmoothed value for two main reasons:

- the unsmoothed value changes each day, as the value of our Fund's assets change.
- as mentioned earlier, we use a typical plan rather than individual plans when setting the bonus rates for plans issued in the same year.



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

Is the payout guaranteed?

There's no fixed payout on a with-profits plan. We guarantee you'll get back the **sum assured** for your Plan, together with any attaching bonuses but the guarantee only applies if you move out of our **With-Profits Fund** at particular times – for instance on the specified normal retirement date for pensions, or maturity for endowment assurance plans, or if you die. If one of these events occur, we'd then add any final bonus to this amount. The total payout on one of these events occurring – which is made up of the **sum assured** for your Plan, together with any attaching bonuses plus any final bonus – is the smoothed value of the plan. Please see "What if you decide to stop paying **premiums** on your assurance plan?" on page six for more information.

What affects the value of your Plan?

We aim to be fair to all our **planholders** by balancing the interests of:

- holders of different types of plan
- **planholders** starting plans at different times
- **planholders** remaining in our Fund and those leaving our Fund

There are many factors that affect our bonus rates each year, which affect the amount you get back from your Plan. These include:

a) Investment performance

This usually has the biggest impact on the payout from your Plan. It depends on several things, including how much of our Fund we invest in the different types of asset.

The main asset types are:

- **company shares**
- **real estate**
- **fixed interest securities**
- **deposits**

We invest in a wide mix of these assets in both the UK and abroad.

Over time, the performance of different types of asset varies a lot. So our expert fund managers might change the asset mix with a view to:

- improving long-term performance

or

- reducing the risk level of our Fund.

Overall, our investment approach aims to secure the highest total return while maintaining an acceptable level of risk to our Fund.

b) Smoothing

Smoothing, which is explained on page three, limits the immediate effect of ups and downs in investment markets on what you will get back from your Plan on death or at maturity for assurance plans, or at the specified normal retirement date for pensions. In normal circumstances we don't expect most payout values to change by more than 10%, up or down, from one year to the next.

Over time, payout values on maturity or retirement at the specified normal retirement date will average 100% of the unsmoothed value. We intend that the difference between the smoothed and unsmoothed values of a typical plan will rarely be more than 20%.

As market values of assets change during a year, the value of our Fund is automatically affected. If this causes more than a 20% difference between the smoothed and unsmoothed values of a high number of plans, we'll consider changing the bonus rates for all plans.

Final bonus rates on death for assurance plans will be the same as the final bonus for maturing endowment assurance plans issued in the same year. The death benefit for pension plans depends on the plan conditions and is generally related to the transfer value at the time of death (see "What if you decide to stop paying **premiums** on your assurance Plan?" on page five).

c) Charges and costs

As costs affect plan payouts, we aim to keep the costs of running the business as low as possible and also to allocate the costs fairly across all **planholders**. By a fair allocation, we mean that, broadly across groups of products, each product group meets all the direct expenses for that group, as well as an appropriate share of all other expenses, including over-heads. Your Key Features Document will give you more information about the charges and costs that apply to your Plan.

d) Cost of guarantees and smoothing

Our charges include an amount to pay for the guarantees and **smoothing** you get. If the eventual cost of these is more than we expected, it might affect bonus rates on all plans and, in extreme circumstances, also the mix of assets in our Fund.

e) Tax

Any tax we have to pay on our **With-Profits Fund** will reduce what you get back from your Plan by allowing for it in the bonus rates we pay.

We charge tax in a way that is fair across all of our Funds. Investment returns earned over the lifetime of a plan allow for the effects of tax, including an allowance for unrealised gains.

Currently, there's no UK tax payable by our Fund on assets backing pensions business, although this might change in the future.

This information is based on our understanding of current taxation, legislation and HM Revenue & Customs practice, all of which are liable to change without notice. You might need to pay tax depending on your individual circumstances. Tax rules can also change in the future.

f) Other business risks

Other risks that might affect the value of your Plan include:

- operational risks, such as changes in regulatory requirements or taxation.

We regularly review risk levels to make sure they're acceptable to our Fund.

What if you decide to stop paying premiums on your assurance Plan?

You might decide to stop paying **premiums** and, subject to certain conditions:

- have a paid-up plan where you'll be able to get to a reduced guaranteed **sum assured**, payable on death or maturity or
- take a surrender value.†

If you stop paying **premiums**, you might get back less than you've invested in your Plan. This is particularly likely if you stop many years early.

If you're considering moving out of our **With-Profits Fund** you might want to speak to a financial adviser.

What if you decide to vary your pension Plan?

You might vary your Plan by:

- stopping **premium** payments where you'll become entitled to a reduced guaranteed benefit payable from your specified normal retirement date, to which bonuses will continue to be added,
- retiring earlier than your specified normal retirement date, with an appropriately reduced benefit, or
- taking a transfer value from your Plan to another pension product.†

If you stop paying **premiums**, you might get back less than you've invested in your Plan. This is particularly likely if you stop many years early.

If you're considering moving out of our **With-Profits Fund** you might want to speak to a financial adviser.

† We intend that amounts payable on surrender of an assurance, or transfer of a pension plan, will average 100% of the unsmoothed value for a typical plan over the long term less any deductions necessary to protect the interests of continuing planholders. In setting surrender values, we aim to ensure they progress smoothly to maturity values. Typically, this is done over the last 5 years of the policy. Unsmoothed values are affected by movements in the underlying asset values, and this can result in changes to the amounts payable on surrender or transfer. Please note, the value of your investment can go down as well as up so you might get back less than you put in.

What's the Inherited Estate?

As a long established life assurance company, Prudential's **With-Profits Fund** contains an amount of money in excess of the amount we expect to pay out to existing **planholders**. This is known as the **Inherited Estate**. It has built up over many years from a number of sources and it provides working capital to support current and future business.

How we use the Inherited Estate

This capital lets you benefit from **smoothing** and guarantees. And it gives us more flexibility to invest in a wide range of assets.

We're also required by regulation to hold a substantial amount of capital in our **With-Profits Fund**. This lets us demonstrate, at all times, that our Fund is solvent and able to meet its obligations to all **planholders**. The **Inherited Estate** provides this **solvency capital**.

The **Inherited Estate** of former SALAS business has been allocated to plan values under the terms of the Scheme arrangement, to former SALAS **with-profits planholders**.

Former SALAS **with-profits planholders** are not entitled to any distribution from the Prudential **With-Profits Fund's Inherited Estate.**

Where can you find out more?

If you'd like more information about your investment in our **With-Profits Fund**, please call us on **0800 000 000** or speak to a financial adviser. If you don't have a financial adviser and would like to know more about financial advice you can find out more information on our website: **pru.co.uk/find-an-adviser**

We put this guide together as a summary of how the Prudential's **With-Profits Fund** works. However, because we've kept it as short as possible, we've only given you the most important information.

We need to let you know that without all details you'll not have a complete picture. If you do need a detailed technical guide to how we manage our with-profits business, please refer to our PPFM. You might also find our Asset Mix and Investment Returns document useful.

You can find these on our website: **pru.co.uk/ppfm**

If you'd prefer a printed version, please let us know.

In the event of any conflict between this guide and the PPFM, the PPFM will take precedence.

Glossary

This is a glossary to help you with the terms specifically in this guide.

company shares	an investment that represents part ownership of a company. Shares are also known as equities
deposits	cash and other short-term investments, typically low risk loans
fixed interest securities	loans to governments and companies that pay a predetermined rate of interest
Inherited Estate	amount of money built up over time in our With-Profits Fund, which is in excess of the amount needed to meet expected commitments to current policyholders/planholders
planholder/with-profits planholder	a person that holds a Prudential with-profits policy or plan
premium	the amount paid or to be paid by the planholder for the plan
real estate	an investment in commercial real estate such as offices, shops, and industrial premises
shareholder	a person or group that owns one or more shares in Prudential companies. The owner of a share owns a small part of Prudential
smoothing	adjusting returns for some of the extreme ups and downs of short-term investment performance to provide a more stable return
solvency capital	funds that allow Prudential to demonstrate that our With-Profits Fund is solvent and able to meet its obligations to planholders even if it were to suffer significant losses
sum assured	This is normally the amount paid out on a plan if you die within the term. It is also the guaranteed amount to be paid out at maturity of an endowment assurance plan, or at the specified normal retirement date for pensions
With-Profits Fund	The With-profits Fund is the fund where Prudential's with-profits business is written. With-Profits planholders can share in the profits of the With-Profits Fund through discretionary distributions

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