Pru
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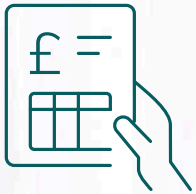
Investing to help make your company's surplus cash work harder



A company's surplus cash is money that exceeds what's needed for short to medium-term expenses

Many companies keep 'rainy day' money in case of emergencies. But what if there's more money than the company needs?

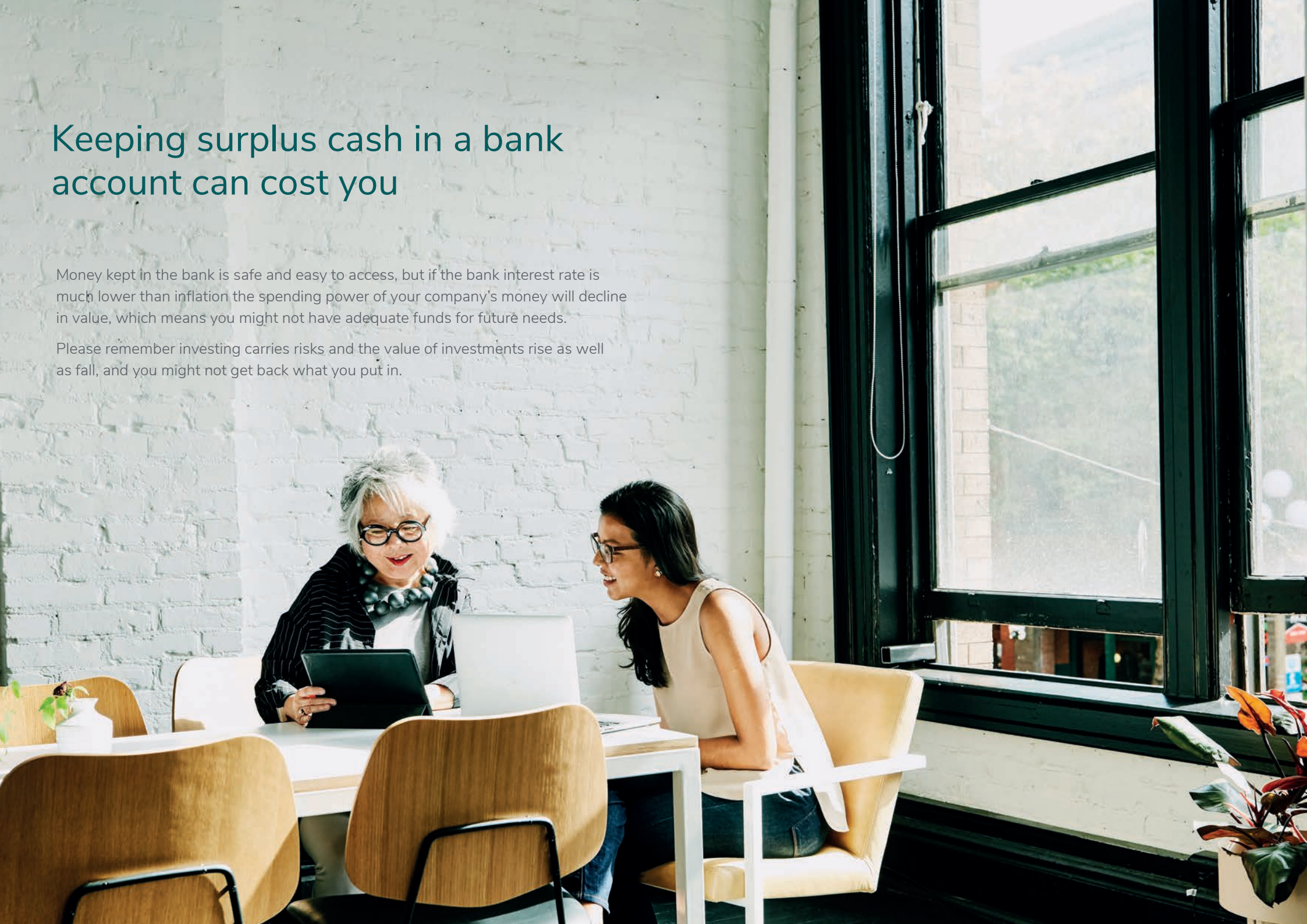
This brochure will tell you about investing surplus corporate cash, why some companies invest, things to consider, and what your financial adviser can do to help.

Please remember that investments do rise and fall and you may not receive as much back as what you put in.

Keeping surplus cash in a bank account can cost you

Money kept in the bank is safe and easy to access, but if the bank interest rate is much lower than inflation the spending power of your company's money will decline in value, which means you might not have adequate funds for future needs.

Please remember investing carries risks and the value of investments rise as well as fall, and you might not get back what you put in.



How inflation erodes the value of money in a bank account

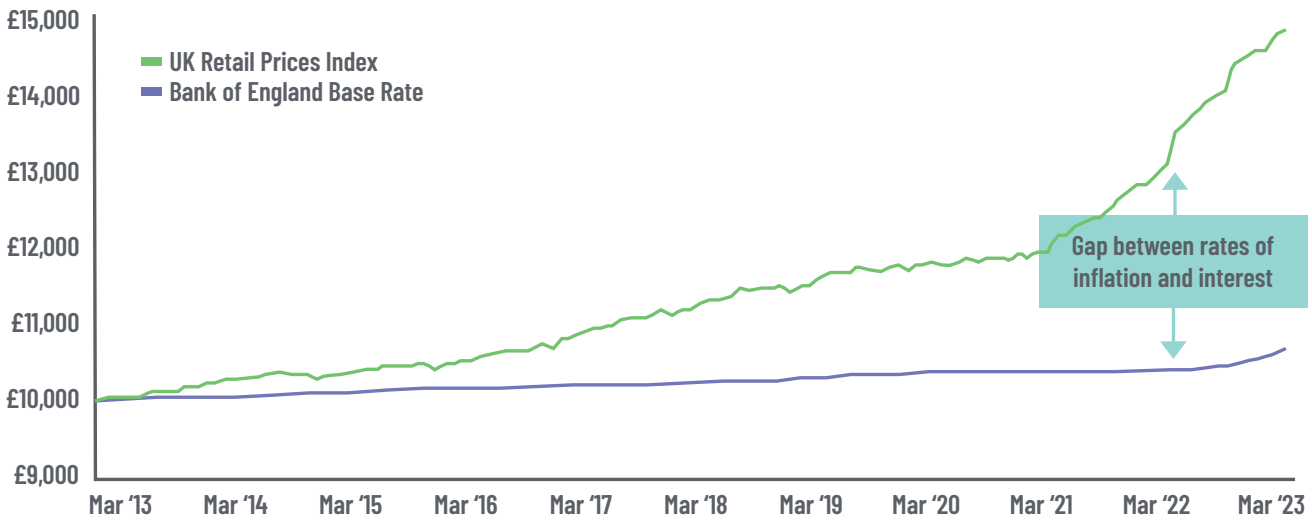
This diagram shows the relationship between low interest rates and inflation.

If your business kept £10,000 in the bank for 10 years, from 31 March 2013 – 31 March 2023, there would be very little growth in the value of your money because of the low rate of interest paid by the bank during that time period. The purple line, which represents the Bank of England base rate, shows the change in the value.

However, inflation represented here by the green line, has increased significantly in the same time frame.

What's most important here is to notice the gap between the green and purple lines. That is the gap between the interest rate and the inflation rate and what it shows is just how much your money's buying power would've declined during this 10-year period. And will continue to decline as long as interest rates remain below inflation.

Mind the gap – why money in a bank account could be losing value



This graph shows the gross returns from 31 March 2013 – 31 March 2023.

Source: FE fundinfo. Past performance is not a reliable indicator of the future performance.

Your adviser can show you the effect inflation could have on your company's money in a bank account. Or, you can also use the Bank of England Borrowing and Savings Calculator to see how different interest rates affect your borrowing or saving. If you're reading a printed copy of this brochure, you can use the underlined phrase to search the internet to find the calculator.

4 facts about investing surplus corporate cash

The aim of investing surplus cash is to:

- Help your surplus cash to grow
- Help your surplus cash to potentially meet or exceed the rate of inflation

Companies invest surplus cash to support their individual business goals.

For example:

- The business has a surplus but no specific spending plans and wants to see the surplus grow – not let it languish in a bank account
- The business knows it has large expenses ahead, like new staff, machinery, or technology, and could want to preserve future purchasing power
- The business operates in an industry with predictable ups and downs, and seeks returns to prepare for dry spells ahead

Working with a financial adviser, companies can invest on a schedule to suit their needs, for example:

- Companies new to investing may choose to invest a small amount at first
- Some prefer to invest a lump sum of their surplus cash in one transaction
- Others invest annually, with top-up contributions over time

Working with a financial adviser helps to ensure the business considers potential risks and complexities such as:

- Which investing approach provides the most suitable solution for the business
- Know what's surplus and not needed for bonuses, dividends, pensions or reinvestment
- How the company's size affects accounting methods and whether the company is subject to historic cost accounting or fair value rules
- Potential impacts on future Business Relief for Inheritance tax (IHT) and Business Asset Disposal Relief for Capital Gains tax (CGT)

Please remember that investments rise as well as fall and you may get back less than you invest. Investing may not be suitable if you need instant access to cash as investing is for the medium to long term (5 – 10 years). Investing surplus corporate cash can be complex, a financial adviser is best placed to help to decide if it is right for your business.

Investing surplus cash with the PruFund range of funds

PruFund funds are multi-asset funds which are invested in the Prudential With-Profits Fund. A multi-asset fund is a fund that invests in a wide range of financial assets in the stock market. Prudential's With Profits Fund is the largest with-profits fund in the UK.

The aim of each PruFund fund is to grow your money over the medium to long term (at least 5-10 years) with a view to providing you with a smoother investment journey than what you would experience if you invested directly in the stock market. You can access PruFund funds through a range of products, including our onshore and offshore investment bonds. Your adviser can tell you more.

It's important to remember the value of your investment can go down as well as up so you might not get back the amount you put in.

Facts to know about PruFund Funds

A range of multi-asset funds that can be accessed through products such as onshore and offshore investment bonds

The potential to grow over the medium to long term – 5 to 10 years or more

An established smoothing process that can offer protection from short-term stock market ups and downs

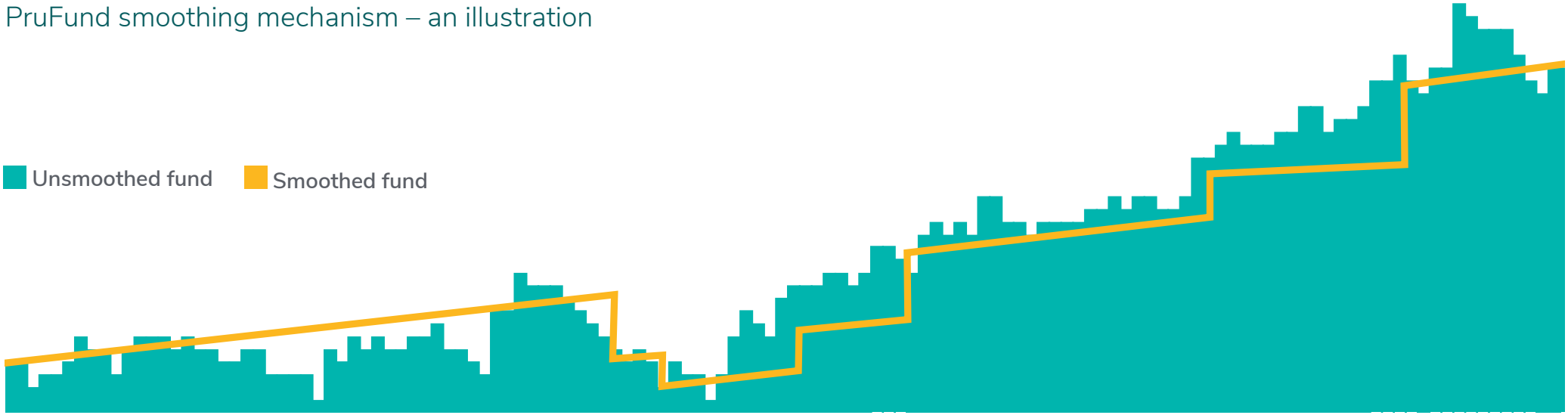
Invests in the Prudential With-Profits Fund, one of the largest and financially strongest with-profits funds in the UK

Monitoring and management by M&G Treasury & Investment Office (TI&O)

Investing surplus cash with the PruFund range of funds

As with a number of investments, the value of the underlying funds change daily, up and down. PruFunds offer a smoothing mechanism that aims to reduce the impact of these movements over the short term, although it's worth noting that PruFund cannot fully protect customers against more extreme market movements.

PruFund smoothing mechanism – an illustration



This chart aims to illustrate the concept of a smoothed fund, but it is not representative of any particular time period or investment performance.

The **green** area of the chart represents the ups and downs of the market that could occur in an unsmoothed fund.

The **yellow** line represents the activity of a smoothed fund, which is designed to reduce the ups and downs of the market.

It's important to remember that the value of any investment may go up as well as down and you may not get back the same amount as what you put in. For the range of PruFund funds, what you receive will depend on the value of the underlying investments, the Expected Growth Rate as set by the Prudential Directors, our charges, the smoothing process, if there is a guarantee, and when you take your money out.

Please speak to your adviser to learn more.

Next steps

Being a business owner requires multi-tasking in the extreme. That's why it's so important to have people around you – people like your financial adviser – with the expertise to guide you.

Your adviser is committed to the long term success of your business. So speak to your adviser today to find out if investing is right for you.

pru.co.uk

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