Pru
part of M&G plc

Understanding PruFund cost and charges information

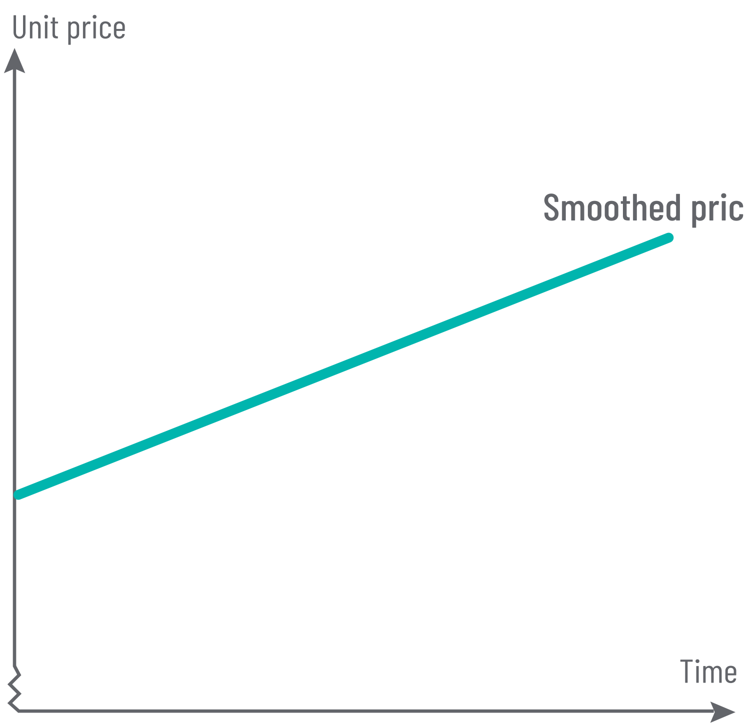
Now that PruFund is available on the M&G Wealth Platform alongside the range of packaged retirement and investment products, we've produced this guide to help you understand the difference in how cost and charges information is provided.

Setting the Expected Growth Rates

The best starting point is to understand how costs and charges influence the Expected Growth Rates (EGRs) which determine the published smoothed price, which is the price your client sees.

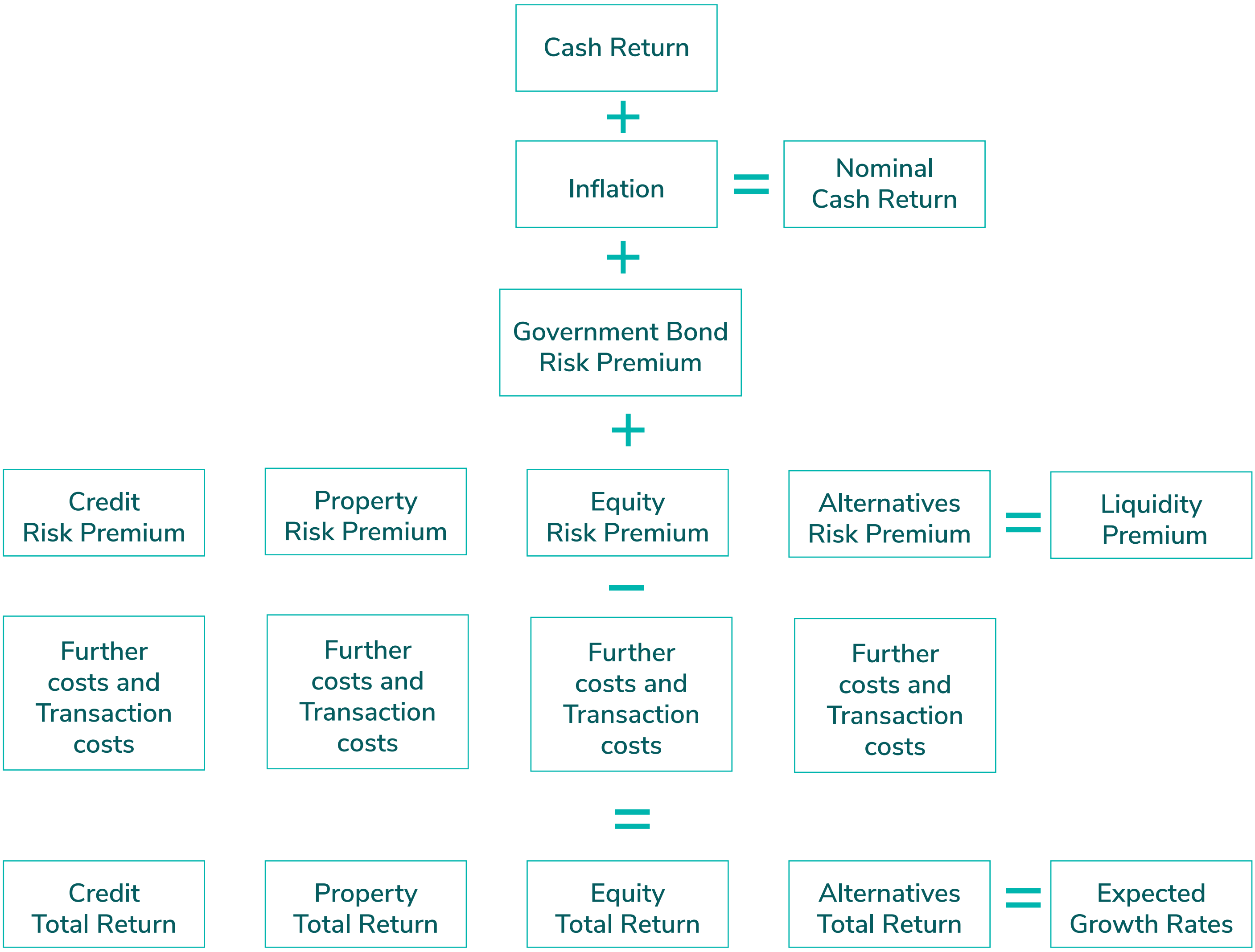
EGRs – or the annualised rates your client's investment would normally grow at – are set quarterly by the Pru Directors, who consider the investment returns expected to be earned on the assets of the funds over the long-term (up to 15 years). These are a forward looking expectation of returns and not guaranteed, so at each quarterly review they could increase, decrease or remain unchanged.

The smoothed unit price for each PruFund will normally change daily in line with the appropriate EGR as shown in the simple graph opposite.



In arriving at the EGR, we also allow for all other fund related costs, for example, Further Costs/Transaction Costs/IMEs, **but not the AMC**.

So the EGR the investor sees already has all these costs factored into the returns declared. This means that although these costs are disclosed separately, you don't need to deduct these from your client's potential returns as they are already allowed for in the published EGR. The diagram below explains this.



It's also important to understand that Unit Price Adjustments (UPAs) can also impact on the smoothed price.

Calculating the smoothed price

As we mentioned earlier, the smoothed unit price for each PruFund will normally change daily in line with the appropriate EGR, but will also reduce due to charges, such as the annual management charge. UPAs can also impact the smoothed price.

How the smoothed unit price is calculated, and what is taken into account in the setting of it, differs by Product and/or Series. The table below sets out the difference.

<table>
<tr><th>Product</th><th>Series</th><th>Impact on Smoothed Unit Price</th><th>Impact on Unsmoothed Unit Price</th></tr>
<tr><td>Retirement Account</td><td>Series D&E</td><td rowspan="2">The smoothed price disclosed for these Series of PruFund funds are net of the Annual Management Charge (AMC).</td><td rowspan="2">Transaction costs that may apply in relation to the buying and selling of underlying instruments within the PruFund fund have no impact on the setting of the daily smoothed price, however may have an impact in the need to apply a Unit Price Adjustment (UPA) or suspension of the smoothing price.</td></tr>
<tr><td>M&G Wealth Platform</td><td>Series F</td></tr>
<tr><td>Prudential ISA</td><td>ISA</td><td>The smoothed price disclosed for this Series of PruFund funds is the gross EGR, as the AMC is deducted from this product by the monthly cancellation of units from the PruFund fund held by your client.</td><td>Transaction costs that may apply in relation to the buying and selling of underlying instruments within the PruFund fund have no impact on the setting of the daily smoothed price, however may have an impact in the need to apply a Unit Price Adjustment (UPA) or suspension of the smoothing price.</td></tr>
</table>

You can find out more about the smoothing process in our **Step-by-step guide to smoothing**

How are fund charges disclosed

The table below sets out the different types of regulations influence how we need to disclose cost and charges.

Document	Product	How is document provided	Fund charges disclosed		
			Ongoing costs		Transaction costs
			AMC	Further costs	
COBS illustration	M&G Wealth Platform	Client specific illustration through online journey	Yes Required to be included under COBS illustration rules.		No COBS 13 Annex 2 2.6 (2) states "must not include the firm's dealing costs incurred on the underlying portfolio".
	Retirement Account	Client specific illustration through online journey			
	Prudential ISA	Generic illustration, if required, is available through PruAdviser			
Ex-ante costs and charges illustration	M&G Wealth Platform	Available using the online Wrap charges calculator through the platform	Yes The M&G Wealth Platform is captured by MiFID II which requires ex-ante disclosure.		
	Retirement Account	Not applicable	No Retirement Account is a SIPP only product and not impacted by MiFID II rules.		
	Prudential ISA	Use the Prudential ISA Cost and Charges Calculator on PruAdviser	Yes The Prudential ISA is captured by MiFID II which requires ex-ante disclosure.		

Document	Product	How is document provided	Fund charges disclosed		
			Ongoing costs		Transaction costs
			AMC	Further costs	
Fund factsheet	M&G Wealth Platform	Available through Fund Reporting Tool on PruAdviser	**Yes** This shows the split between the AMC and the further costs.		**No** This disclosure document is not impacted by MiFID II.
	Retirement Account	Available through Fund Reporting Tool on PruAdviser			
	Prudential ISA	Available through Fund Reporting Tool on PruAdviser			
Periodic disclosure e.g. Quarterly / Annual Benefit Statement	M&G Wealth Platform	Quarterly statement issued to customer	**No** Not required as these are accounted for within the fund price of the PruFund fund and the statement only shows charges deducted from the Cash Account of the SIPP.		**No** This disclosure document is not impacted by MiFID II.
	Retirement Account	Annual Benefit Statement issued to customer	**Yes** These costs are disclosed in monetary terms in the statement and are split between Yearly costs and Further Costs.		
	Prudential ISA	Quarterly statement issued to customer	**Yes** This cost is disclosed in monetary terms as it is taken as an explicit deduction of units from the PruFund funds.	**No** Accounted for in setting of the PruFund EGR and therefore accounted for within the smoothed fund price.	

<table>
<tr><th rowspan="3">Document</th><th rowspan="3">Product</th><th rowspan="3">How is document provided</th><th colspan="3">Fund charges disclosed</th></tr>
<tr><th colspan="2">Ongoing costs</th><th rowspan="2">Transaction costs</th></tr>
<tr><th>AMC</th><th>Further costs</th></tr>
<tr><td rowspan="3">Ex-post Yearly Cost and Charges Statement</td><td>M&G Wealth Platform</td><td>Yearly statement issued to customer</td><td colspan="3">Yes
The M&G Wealth SIPP is on Platform and therefore captured by MiFID II ex-post disclosure requirements which requires disclosure of all costs and charges.</td></tr>
<tr><td>Retirement Account</td><td>Not applicable</td><td colspan="3">No
Retirement Account is a SIPP only product and not impacted by MiFID II rules.</td></tr>
<tr><td>Prudential ISA</td><td>Yearly statement issued to customer</td><td colspan="3">Yes
The ISA Manager, Link Financial Investments Limited, is a MiFID firm. The Prudential ISA is therefore captured by MiFID II requiring the ISA manager to issue ex-post disclosure. The disclosure details all costs and charges incurred for all funds held under the client's Prudential ISA, PruFund and WS Prudential Risk Managed OEIC funds.</td></tr>
</table>

Frequently Asked Questions

What are transaction costs?

Explicit costs of trading underlying investments in a fund; including Broker commission, research commission and taxes such as stamp duty

- Implicit costs of trading underlying investments in a fund; including arrival costs and spread based costs
- Transaction costs of underlying funds (e.g. fund of funds)

Are transaction costs a new cost?

No. The transaction costs disclosed under MiFID II and PRIIPs are NOT a new additional cost. They have always been involved in managing a fund and are already fully reflected in net returns. It is also important to remember that, as with all other additional expenses, these are included in the declared Expected Growth Rates and are not additional costs applied to clients.

Does a low transaction cost indicate a better investor outcome?

Assessing the outcome from investing in a fund requires looking at its performance net of charges. A fund that trades infrequently may have low transaction costs but its strategy may be focused on achieving only modest returns. However, another fund with a more active trading strategy may incur higher transaction costs in order to generate higher long-term returns. Transaction costs (and other charges) must always be considered in the context of a fund's strategy and the return being achieved

Why has there been a change to transaction costs within the PruFund Range?

As a reminder, two pieces of EU legislation came into force at the start of 2018 – the second Market in Financial Instruments Directive (MiFID II) and the Packaged Retail and Insurance-based Investment Products (PRIIPs) regulation.

Additional changes to the PRIIPs regulation came into force in January 2023 and as a result of legislative evolution post-Brexit, there is now a divergence between the EU and UK PRIIP regulations.

EU vs UK Divergence

Following amendments to the PRIIPs regulation by the European Supervisory Authorities, revised EU transaction cost methodologies apply to all UCITs and Non-UCITs funds held by EU investors from 1st January 2023. Following amendments to the PRIIPs regulation by the Financial Conduct Authority (possible post Brexit), new UK transaction cost methodologies apply to all Non-UCITS funds held by UK investors from 25th March 2022 with a transitional period to 31st December 2022.

It is these, UK specific, PRIIP rules that have led to the change in Transaction Costs being shown, as they are now being calculated on a different basis from before.

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