

# Your guide to investing in With-Profits

Investing in the PAC With-Profits Funds  
through the International Prudence Bond

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## › International Prudence Bond

This guide aims to introduce you to the with-profits concept. We discuss the way with-profits funds work, how investors participate in the investment returns generated and explain some of the terms commonly used.

Where appropriate, we describe the features which are specific to the International Prudence Bond and the funds linked to Prudential Assurance Company's (PAC's) With-Profits Fund.

Prudential International is part of the prudential group, one of the UK's foremost financial services organisations.

### **International Prudence Bond offers:**

- › Dublin-based funds that benefit from largely tax-free growth<sup>#</sup>
- › With-Profits Fund investment giving access to the stockmarket without some of the risks of investing directly in shares
- › The added benefit that the PAC With-Profits Funds are backed by the AA rated\* Prudential With-Profits Fund.\*\*

- › The Prudential With-Profits Fund is the largest With-Profits fund in the UK with assets of over £68.7 billion<sup>##</sup>.
- › The potential for enhanced returns with an Annual Growth Reward
- › Access to the value of your Bond at any time
- › The reassurance of investing with the Prudential Group – a financially strong and familiar brand name with a long and successful track record in the UK With-Profits bond market.

<sup>#</sup> There is no tax deducted from the Funds, apart from withholding tax (applied to dividends on some of the assets within the Funds)

\* Standard & Poor's, May 2013

\*\* Investments into Prudential International's PAC With-Profits Funds are fully reassured into the Defined Charge Participating Sub-Fund within the long term fund of The Prudential Assurance Company Limited which has a AA rating. Where we refer to the Prudential With-Profits Fund this means that part of the long term fund of The Prudential Assurance Company Limited which relates to With-Profits business.

<sup>##</sup> Prudential, as at 31 December 2012

## › Product features

### Premium

You make a single payment. The Bond is a whole of life policy and has no set term. You can hold the Bond for as long as you wish, although it is designed to be held for at least five years.

With International Prudence Bond you can tailor your investment to suit your needs. You can choose to leave your investment to grow, or withdraw money from your Bond. Cash-ins can be taken at any time, subject to an Early Cash-In Charge and recovery of any outstanding Establishment Charges in the first five years of any initial or additional investment and/or any Market Value Reduction that may apply.

### Boosting your growth potential

To further boost your investment, you may benefit from the addition of an Annual Growth Reward. Each and every year (starting at the end of the sixth year) that you don't take any cash-ins, we will refund part of our Annual Management Charge and this will be added to your Bond automatically.

Again, remember that your eligibility for the Annual Growth Reward is reviewed each year – so after year six – if you take regular cash-ins and then stop, you could still benefit in the following year. Your Financial Adviser can explain this in more detail.

### Your flexible cash-in options

You can withdraw money from your Bond at any time. When you opt for a cash-in you can choose to receive:

- › A fixed amount
- › A percentage of your fund value
- › A percentage of the amount you invested

If you take a cash-in there may be income tax implications for you. As well as choosing how much you wish to cash-in, you can also choose how often:

- › Every month
- › Every three months
- › Every six months
- › Every year.

All the while you have the knowledge that although International Prudence Bond is a medium to long-term investment – you do have access to the full value of your Bond at any time, subject to any Early Cash-In Charge and recovery of any outstanding Establishment Charges and any MVR that may apply.

### What you might get back

The amount you'll receive on cashing in your Bond will depend on:

- › how much you've paid in,
- › the length of time your money has been invested,
- › whether or not you've made any withdrawals,
- › performance over the time you've invested, and
- › our charges.

## › With-Profits explained

### **Risk versus reward – finding a balance that's right for you**

As an investor, you want to know that your money is being managed to give you the best potential for growth at an acceptable level of risk.

Of course "high interest" savings accounts are sensible homes for "ready cash". But they're not necessarily the best place for maximising your potential wealth, because the returns – even on "high interest" accounts – aren't always particularly impressive.

It's the classic scenario of investing too much cash – in cash. It feels safe, but poorer returns – in real terms – can eat away at your ultimate wealth. So where is there potential for more attractive returns?

### **The stockmarket offers greater potential – but at what risk?**

For investors looking for medium to longer-term growth, the better results have usually come from stockmarket investments. Given time, they have consistently outperformed returns from higher interest savings accounts although with a volatility which presents a real risk for those who may need to cash-in at the wrong time.

With-Profits funds give you access to the stockmarket, while reducing some of the risks of direct investment in shares – in other words, they lessen volatility. So, you could benefit from a greater return in the long run than you could achieve with a deposit-based account – still at an acceptable level of risk.

Remember, however, With-Profits funds are not like deposit accounts. They are designed to work best over the medium to long term. You should consider keeping money that you might need over the shorter term in a bank or building society account, which are generally secure and readily accessible.



## › Principals of With-Profits

### The PAC With-Profits funds

When you invest in our PAC With-Profits Funds, your investment is pooled with other investors' money in part of the Long Term Fund of The Prudential Assurance Company Ltd (PAC) called the Defined Charge Participating Sub-Fund (DCPSF). We do this through a reinsurance arrangement which means that all of the benefits payable from our funds are provided by PAC. The DCPSF invests in a mix of company shares, property, government bonds, company bonds and deposits. The proportion that is put into each of these different investments, which are also known as assets, will vary from time to time.

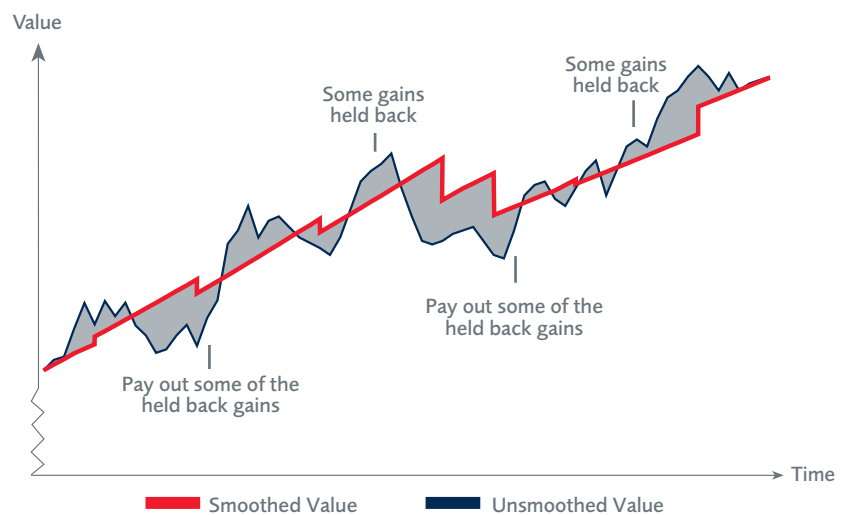
By combining your savings with those of other investors, you can get a better spread of assets than you could achieve by investing on your own. Your share of the performance of this With-Profits fund investment will be paid to you through a system of bonuses which are described later in this document.

Because our PAC With-Profits funds are reassured into The Prudential Assurance Company, the Board of PAC is responsible for setting the level of bonuses that apply to the units in your Bond. The value of your policy depends on how much PAC makes in its With-Profits Fund and how it decides to distribute this.

You may not get back the full amount of your premium.

### "Smoothing"

Shares in companies and property are higher risk than some other types of investment. Their value tends to fluctuate more, but over the longer term they have historically produced higher returns. Because of this, the With-Profits Fund currently aims to keep a significant part of its investments in shares and property. PAC might revise this position if its view on the relative performance of the various asset classes changes.



This graph is not representative of any particular Prudential fund, product or specific time period. Its sole aim is to explain the smoothing concept.

The challenge is that, while PAC believes shares and property will generally rise more in value than fixed interest investments and deposits over a long period such as 20 years, the return is also much more volatile. One year the investment may do very well, but the next could see a slump. So instead of simply sharing out what the With-Profits Fund makes – or loses – each year, smoothing reduces some of the fluctuations in performance over the time you hold your Bond.

Although smoothing means that profits can be spread from one year to the next, the aim is to pay out all of the profits earned by the Fund over the long term. This means that PAC With-Profits Fund holders as a whole neither gain nor lose as a result of the smoothing policy. Smoothing is applied so that the actual amounts payable (known as claim values) change only gradually over time. This means that the investment risk of a PAC With-Profits Fund is lower than many other ways of investing in shares.

## Asset share payouts

There are a number of different factors that influence the bonus rates under With-Profits and PAC decides how to take account of these factors when it sets the bonuses.

It does this by tracking the asset share of the assets of the With-Profits Fund. The asset share is determined by accumulating, over the lifetime of the Bond, the Investments made, less an allowance for charges, at the actual rate of return earned on the relevant assets in the With-Profits Fund.

The asset share is the level that PAC targets for payouts before "smoothing". The asset share is then adjusted to allow for smoothing, to determine the actual payment to be paid.

## Guarantees on death

International Prudence Bond offers guarantees about the amount of money payable if you die. In this circumstance, the Regular Bonus added to your Bond each year cannot be taken away (see 'What are the bonuses?').

So, if the stockmarket crashes before you die, we'll pay at least the guaranteed amount at that time. In all other circumstances the amount you might get back isn't guaranteed.

The minimum value increases the longer you hold the Bond because we take into account the Regular Bonuses that have already been added to your Bond.



## › What are the bonuses?

Bonuses are the way you get your share of the investment profit of the With-Profits Fund. There are two types.

### Regular bonus

- › The Regular Bonuses are added throughout each year to Bonds in order to gradually increase the guaranteed benefits payable on death.
- › PAC usually decides the Regular Bonus once a year. However, it reserves the right to change Regular Bonus at any time.

### Final bonus

Final Bonuses make up the difference between the guaranteed benefits and the overall smoothed claim value. These bonuses help to return to each policyholder a fair share of the profits of the Fund, whilst reducing the impact of short-term investment market changes.

Final Bonuses will not be known in advance of the time the claim value is paid.

- › You may receive a Final Bonus to increase the value of your investment on death.
- › You may also get a Final Bonus in certain circumstances if you move out of With-Profits at other times, but this is not guaranteed.
- › PAC decides the Final Bonus at the end of each year for the coming year and may change it at any other time during the year if investment conditions change significantly.

Final Bonus may vary or be removed at anytime and is therefore not guaranteed.

The overall bonus you receive will depend on the date on which you made your investments in With-Profits. Different levels of bonus are applied to different groups of investors.

The investment performance will depend on the mix of assets in the Fund. The profits which have not been paid out as Regular Bonuses will build up to provide the Final Bonus. In the meantime, these profits increase the flexibility, when appropriate, to invest in higher risk but potentially higher return assets such as shares.



## › How are the bonuses decided?

The main aims of PAC's bonus policy are:

- › To give With-Profits policyholders a return on the payments which they have made that reflects the earnings of the underlying investments, whilst smoothing the peaks and the troughs of investment performance, and
- › To ensure that With-Profits policyholders receive a fair share of the profits distributed from the With-Profits funds by way of bonus additions.

### Regular Bonus

The Regular Bonus rates declared represent a prudent proportion of the expected future investment return (after any tax and charges). Therefore the long-term view of future investment returns is very important in deciding how much to pay out each year. If PAC expects investment returns to fall, it will reduce the Regular Bonus to bring it in line with its expectations for the future, even if actual returns in recent years have been higher.

The guaranteed minimum value payable on death will increase as Regular Bonuses are added. This means that PAC has to limit the Regular Bonus, so that the assets in the Fund can support the increased level of guarantees.

If it didn't do this, the guarantees in the Fund could become large enough to require an increase in the percentage of the Fund's assets invested in lower risk assets such as deposits. PAC would then expect to achieve a lower total return over the long term on your investment, even though the Regular Bonus could be higher. While Regular Bonuses once added cannot be taken away, the amount you get back may be reduced if a Market Value Reduction (MVR) has to be applied (see "What if I decide to move out of With-Profits?"). An MVR is never applied on death.

### Final Bonus

This section describes how the Final Bonus on death or cash-in is calculated. PAC expects the profits not paid out as Regular Bonus to build up. It would then pay a Final Bonus from these profits.

There are a number of factors considered when deciding the Final Bonus, to determine the total benefits to be paid when your Bond comes to an end:

- › Your asset share of the total fund value
- › Expected investment returns for the coming year. PAC aims to avoid making changes to the Final Bonus during the coming year, and does so only if investment conditions change significantly from those expected.

The way that smoothing works means that in any one year the amount paid out may be more, or less, than the asset share at that time. The aim is that any smoothing of profits or losses should balance out over time, so that in the long run, PAC With-Profits Fund holders as a whole neither gain nor lose as a result of the smoothing policy. The investment performance of the assets in the Fund can vary considerably over time. Although PAC aims to smooth some of the effects of the fluctuations, bonuses can still vary quite a bit over different investment periods.

Your asset share of the Fund, after any allowance for smoothing, could be less than the value of your investment including Regular Bonuses. If this is the case, then there would be no Final Bonus added.

## › What affects how much I might get?

A number of factors affect the total level of profits or losses earned by the Fund and different companies will use different ways of calculating how much of the total profits will be used to pay bonuses on their With-Profits policies.

The biggest factor determining how much you'll get is the performance of the investments in the Fund, after any tax. Other important factors are:

- › The smoothing of investment returns
- › Any difference between the amount actually paid to policyholders moving out of With-Profits and the asset share of the total fund value at the time
- › The cost of the guarantees provided to you and other policyholders
- › International Prudence Bond charges, which are described in the Statement of Charges document, Key Features Document and Personal Illustration.

### **The mix of assets in the fund**

The investment performance will depend on how much of the Fund is invested in the different types of assets. For example, PAC believes that a fund which invests a higher proportion of its assets in shares will, over the long-term, achieve greater returns. This is because shares generally provide a higher return than fixed interest or deposit assets.

However, there are restrictions concerning how much of the Fund's assets PAC can put into the stockmarket. This is because PAC has to make sure the Fund is big enough to cover all liabilities to policyholders at any time. If the value of the assets falls below a certain level, PAC would need to put more money into low risk assets such as deposits. The performance of different types of asset varies considerably over time. So PAC may change the balance of the assets in the Fund to:

- › Improve long-term performance
- › Maintain the financial security of the Fund.



## › What if I decide to move out of With-Profits?

This section describes what happens if you choose to move out of a PAC With-Profits fund.

This may happen if you:

- › Switch into another Fund.
- › Cash in some or all of your Bond.

The way that Regular and any Final Bonuses work may mean that the value of your Bond when you move out of a PAC With-Profits Fund is quite different to the value of the underlying assets at that time. If PAC were to pay an amount significantly above the value of the underlying assets, it would impact on the amounts it could eventually pay to continuing policyholders.

Because of this, if you move out of a PAC With-Profits Fund, PAC may apply a Market Value Reduction (MVR) to the PAC With-Profits unit value (including Regular and Final Bonuses) to bring the value closer to the value of the underlying assets.

PAC reserves the right to review the approach used to determine MVRs over the terms of Bonds in the light of a significant fall in the investment market or in the event of a significant increase in the level of cash-ins.

It is PAC's current practice to apply an MVR on switches, cash-in or partial cash-in if the value of the underlying assets is less than the value of the policy including bonuses.

Any change made in current practice would be applied without prior notice and would apply to Bonds existing at the time the change was made, as well as to subsequent new Bonds.

The way that PAC applies smoothing depends on the period of your investment in the fund. This means:

- › If you've been invested in a PAC With Profits Fund for less than five years when you move out of the fund, you won't normally get any smoothing benefit. For example, if there is a large drop in share prices during this period, you should expect the full effects of this fall to be taken into account when the payout value is calculated.
- › PAC applies a gradually increasing smoothing benefit for longer terms of investment.



## › 9 Key Facts about International Prudence Bond

### 1. Your money is in safe hands

Investments in the PAC With-Profits Funds are backed by the Prudential With-Profits Fund – a Fund that has a AA\* rating for financial strength. This financial strength means PAC can smooth the ups and downs of investment markets and allows the Fund Manager to optimise the Fund's growth potential through his management of its investment strategy.

### 2. You benefit from PAC's proven with-profits bond experience

As a Group, Prudential has been in the UK With-Profits Bond market since 1991 and is recognised as a UK market leader.

### 3. Growth potential

International Prudence Bond can offer potential for a better return on your money than a deposit style product. And after year 6, an automatic Annual Growth Reward is added to your Bond when you leave your investment to grow without taking a withdrawal.

### 4. Added bonuses

When your money is invested in a PAC With-Profits Fund you will receive a Regular Bonus. You may also qualify for a Final Bonus when you die or cash-in part or all of your Bond.

### 5. Tax-efficient funds

Your money is managed from Prudential International's Dublin base, so your investment funds grow largely tax-free. There is no tax deducted from the Funds, apart from withholding tax (applied to dividends on some of the assets within the Funds). Please speak to your Financial Adviser for clarification on your personal tax situation.

### 6. You can always access the value of your bond if you need it

Although International Prudence Bond is a whole of life policy it can be considered as a medium to long-term investment, certainly over five years – there is no fixed term. So if you want to access all or part of the value of your Bond you can – (subject to any Early Cash-In Charge and recovery of outstanding Establishment Charges and/or MVR that may apply.) You decide how much to withdraw, and when. You should, however, consult your Financial Adviser before taking a cash-in.

### 7. A choice of funds

Your premium is invested into funds which you can choose with the help of your Financial Adviser. Each of the Funds is divided into "units" of equal value. The premium you pay buys units. The actual sum that goes into the Fund(s) you have picked will depend on the allocation rate. We multiply the

amount you are paying by the Allocation rate percentage and this is shown on your Personal Illustration. You may invest in up to 10 different Funds, including one PAC With-Profits Fund, throughout the time you keep your Bond. You can obtain details of the full range of Unit Linked Funds from your Financial Adviser.

### 8. You can add to your investment

You may top up your Bond. The minimum top up is £15,000, US \$22,500, or Euro €22,500. For all other currencies, the minimum top up payment is equivalent in your chosen currency to at least £15,000.

### 9. Unit prices

Unit prices are quoted in "Lecho" and "De Tijd". These are the unit prices including Regular Bonus which are used for unit purchases and as such will never fall. However when units are cashed-in, an MVR which would reduce the value of your investment, together with any applicable Surrender Charge and recovery of outstanding Establishment Charges may apply. The quoted unit prices will increase in line with any Regular Bonuses declared by PAC and are guaranteed to be the minimum prices used for death claims. If units are switched or cashed in then the price used will be further increased by any Final Bonus and/or reduced by any MVR applicable at that time.

\* Standard & Poors, May 2013

## › Confidence in Prudential International

Dublin-based Prudential International is part of the Prudential Group, a company name that you are probably already familiar with.

### **Strong roots**

The Prudential Group is one of the UK's largest financial services providers with funds under management of over £427 billion\* .

Its roots stretch back over 160 years – providing retail financial products and services – and fund management expertise – in Europe, the US and Asia.

Prudential Group looks after the financial interests of around 24 million people worldwide\* .

\* As at 30 June 2013

### **Financial strength**

It's widely recognised that the financial strength of a With-Profits fund is a critical factor for consideration.

Strong funds are in a better position to smooth stockmarket ups and downs and allow the Fund Manager the option to invest in assets that have potential for greater long-term returns.

Your PAC With-Profits Fund investment with Prudential International goes into the Prudential With-Profits Fund – a Fund that has an AA# rating for financial strength.

# Standard & Poor's, May 2013

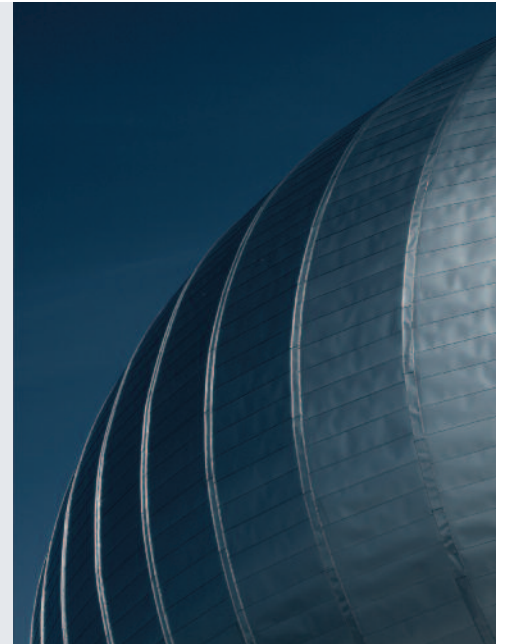
## ➤ Additional information you should be aware of

Your Financial Adviser will give you a personal illustration showing how International Prudence Bond could work for you. You'll also be given a Key Features booklet, which will explain the main features of the Bond, including its charging structure.

Past performance is not necessarily a guide to the future. You may not get back the full amount of your investment.

Final Bonus may vary or be removed at any time and is therefore not guaranteed. If you withdraw your money within the first five years of any initial or additional investment an Early Cash-In Charge will apply and any balance of outstanding Establishment Charges will be recovered. These charges may apply on death depending on the age of those covered by the Bond when a payment is made into the Bond.

Full terms and conditions of International Prudence Bond are available on request.







[www.prudential-international.com](http://www.prudential-international.com)

The registered office of Prudential International is in Ireland at Montague House, Adelaide Road, Dublin 2. Prudential International is a marketing name of Prudential International Assurance plc, a life assurance company operating from Ireland. Registration No. 209956. Telephone number + 353 1 476 5000. Prudential International Assurance plc is authorised by the Central Bank of Ireland.