Prudential Independent Governance Committee Report 2023

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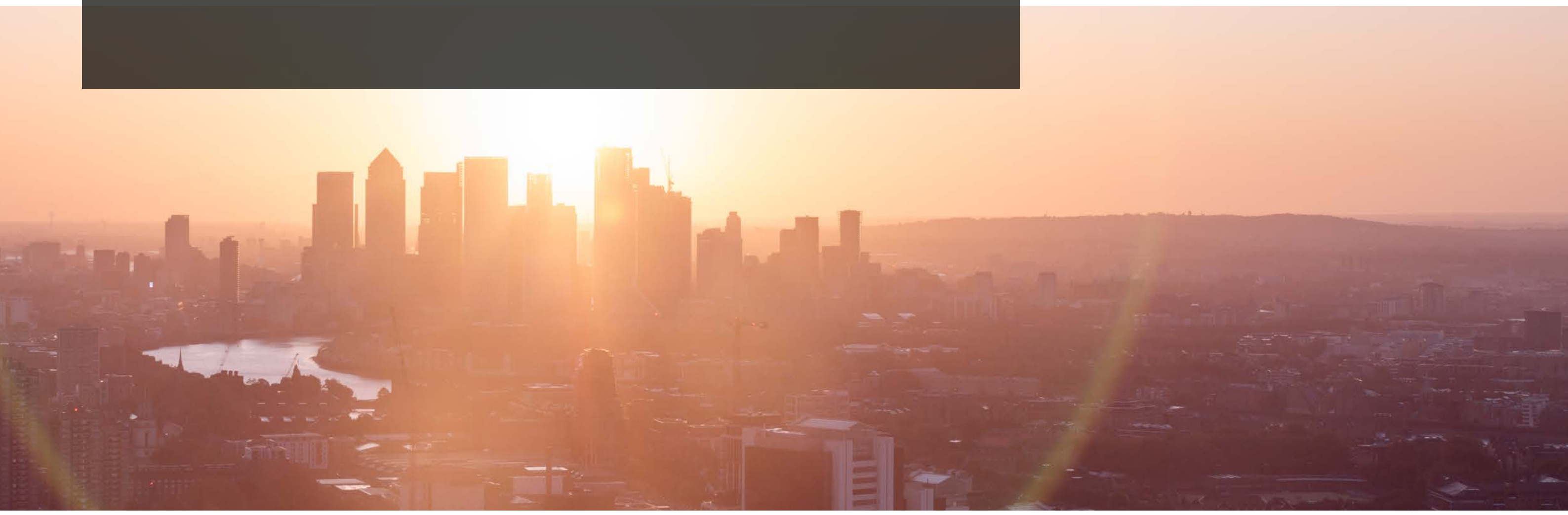


Summary

Pat Healy, Independent Chair

"2023 was a year of recovery for Investments, however relatively high inflation continued to have an impact on the level of return earned by our customers. Service quality also improved materially"

2023 was a year of solid recovery for investment markets after the losses experienced in 2022. The Prudential Dynamic Growth Fund IV (PDG IV) in which most members are invested increased in value after charges by 7.8% in 2023 and by 4.8% p.a. over the last five years. The second most popular fund, With Profits, returned 4.5% after charges in 2023 and 4.9% p.a. over five years. These results were satisfactory relative to our benchmarks and against competitors but they did not meet our long-term target of returning 3% p.a. over inflation. The IGC strongly welcomes the introduction of an element of real assets in the main default fund, Prudential Dynamic Growth IV.

Charges are an important element in assessing value for money and the IGC is comfortable that these again met regulatory obligations and were fair and reasonable relative to competitors.

The quality of service that our customers receive is important in assessing value for money. I am happy to report that there has been a material improvement in service quality in 2023 and this trend is continuing into 2024. However, some elements of service do not yet consistently meet Prudential's or the IGC's desired standard and further work is on-going to improve service quality.

The IGC has continued to work with Prudential on improving its Environmental, Social and Governance footprint. This is an area of increasing focus.

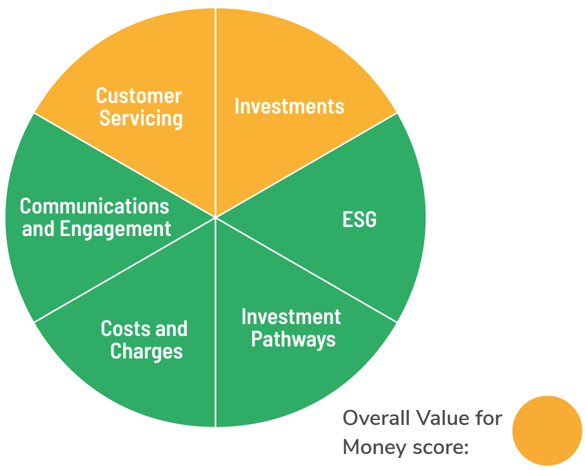
The IGC continues to participate in independent external benchmarking of Prudential and Competitor offerings in order to support our assessment of value for money and I am happy to report again that the comparisons are satisfactory.

In summary, the IGC believes that you continue to receive value for money for your pension. Our red/amber/green scores (RAG) for the different components of the offering are set out in the following diagram.

While Customer Service is rated as amber, this is a material improvement on the previous position and the IGC is pleased to note the on-going positive trend in this area. Investments are rated as amber because of the relatively weak performance against inflation in the last two years but the IGC notes that this is largely a market phenomenon and is not unique to Prudential.

While the overall rating of amber is the same as last year, this should not disguise a material improvement in performance across a number of key areas. The IGC acknowledges Prudential's strenuous efforts to improve performance and welcomes the improving trend.

IGC's VFM framework and Scores for 2023:



Members Under IGC Review updated as of end Dec 2023

FUM **£5.03bn**

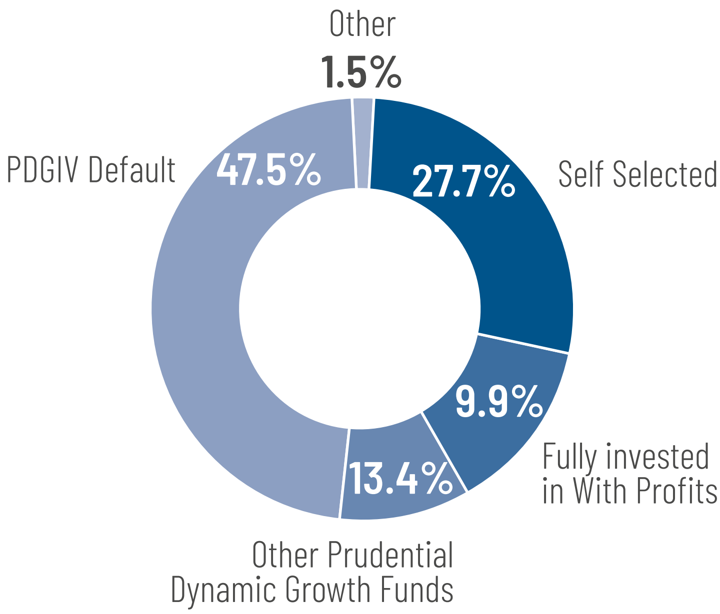
215k Policies

177k Customers

Total FUM for active members **£1.03bn**
(11% of our members make regular contributions)

50% of customers are using a default strategy

Where our members are invested:



2. Chairman's Introduction

After serving on the Independent Governance Committee for almost four years, Bruce Rigby stepped down as Chair in September 2023 and I was appointed to succeed him. I would like to thank Bruce for his excellent leadership of the IGC since 2020. This was a difficult period for everyone given the pandemic and successive lockdowns and the IGC and Prudential had to find innovative ways of working together, ably led by Bruce.

I am delighted to have been appointed as Chair and I look forward to continuing the work on behalf of members represented by the IGC.

There have been some changes to the IGC membership due to Bruce's retirement and to changes in individuals' roles within Prudential. However, there has been no change to the commitment of the IGC to ensuring value for money for the customers we represent. Biographies of the IGC members can be found here

I would also like to thank Prudential and its staff who have helped and supported the IGC through the year. While there have been a number of areas where the IGC has challenged Prudential, it is apparent to me that Prudential takes its obligations to customers seriously and our engagement with them is generally constructive and positive.

The key areas on which the IGC focuses in assessing value for money for members are investment strategy and performance, costs and charges, scheme administration and communications. For each fund in which members invest, we monitor whether:

- Rolling 5-year net investment performance exceeds Consumer Price Inflation (CPI)
- Investment strategy for default funds is appropriate
- Annual management charges (AMC) for default funds are within the charge cap
- Direct and indirect costs, including transaction costs, are appropriate
- Core scheme financial transactions are processed promptly and accurately
- Administration service levels meet expectations
- Member engagement and communications are fit-for-purpose

To monitor all of the above, the IGC splits its work over a number of key work streams, each led by one of the Committee's members. These work streams are described in more detail in the following sections.

3. Investments

Overall rating: Amber

Mary Kerrigan, Independent Member

"Returns improved during 2023, resulting in low positive returns for most members' investments. However the majority of funds have not kept pace with inflation over the last 5 years"

The IGC continues to assess the investment performance of the funds in which members are invested relative to individual fund benchmarks, accounting for the level of investment risk taken and the amount of fees charged. We also look at performance relative to the Consumer Price Index (CPI) and relevant industry comparators. The performance metrics analysed over a 1, 3 and 5 year period are:

- Fund net return vs fund benchmark
- Tracking error vs fund benchmark
- Net information ratio
- Client share of outperformance
- Fund net return vs UK CPI
- Quartile ranking within ABI sector.

The IGC assigns a Red, Amber or Green (RAG) rating to each of these performance metrics in order to highlight whether there are any material issues, concerns or major concerns in relation to each fund being assessed.

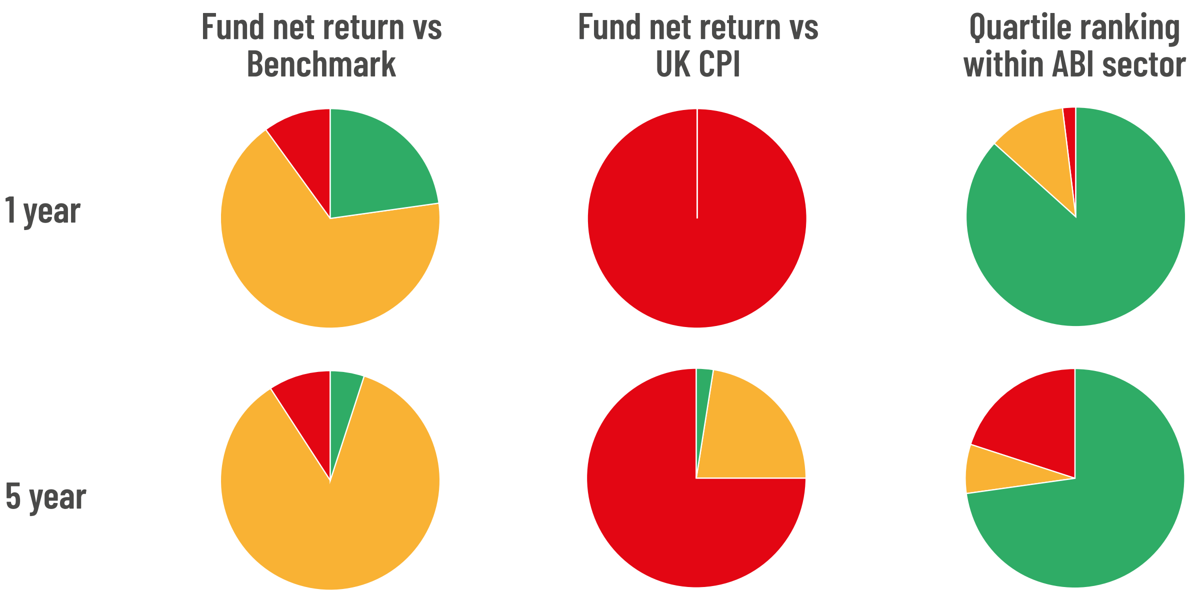
3.1 Overall investment performance

A summary of the key investment performance criteria for the 1-year and 5-year periods to 31 December 2023 is set out in the pie charts below.

The IGC's key concern is that the default funds retain their value in real terms as a minimum. Following negative returns across most markets, almost all funds in which members were invested reduced in value during 2022. Improved returns in 2023 resulted in positive low single digit returns for the majority of members' investments over the year.

We would ideally also like to see average additional growth of 3% per year above inflation. However as the UK and other global economies have experienced a sustained period of higher inflation in recent years, the majority of funds have not kept pace with the increase in the CPI over the last 5 years. This is true across the industry as a whole. However over 10 years, the majority of the funds in which members are invested have achieved returns in excess of CPI, albeit not an additional 3% per year as we would like to see.

Most of the assets were invested in funds which performed relatively well compared to benchmarks and other funds across the industry over 1 year and 5 years, as can be seen from the charts below.



Note: These investment performance charts are an aggregated assessment of all funds available to IGC members, weighted by % of Assets Under Management (AUM). The rating can differ depending on which asset class the fund belongs to. Full details on the RAG rating (colours applied) for each of these three performance metrics (vs benchmark, vs UK CPI and within ABI sector) can be found in Appendix 1.

3.2 Investment performance of the main funds used in default strategies

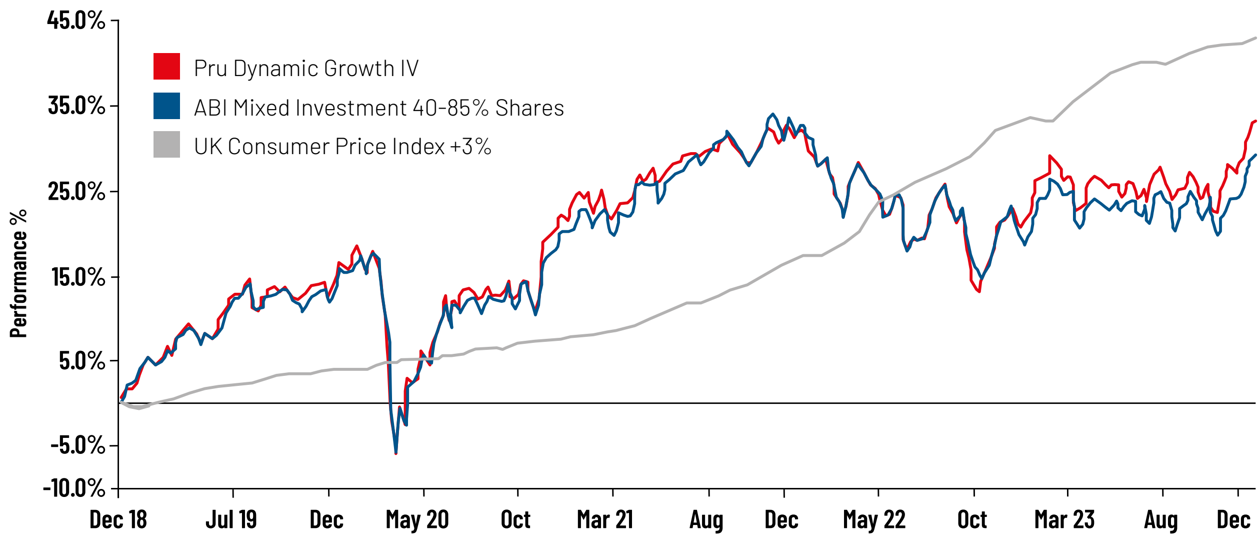
Prudential's default lifestyle strategy – Prudential Dynamic Growth IV – Targeting Retirement Options – uses three different funds as building blocks:

1. Prudential Dynamic Growth Fund IV (PDGIV)
2. Prudential Dynamic Growth Fund II (PDGII)
3. Prudential Cash Fund

Customers' investments are shifted gradually from higher to lower risk assets as expected retirement approaches.

Prudential Dynamic Growth IV (PDGIV) increased in value by 7.8% after charges during the year to December 2023 and has grown at an average annual rate of 1.5% over the last three years and 4.8% over the last five years. Consequently, over 1 and 5 years, performance for the flagship default fund is above the industry median for those type of funds. However, as noted above, given the recent emergence of increased inflation rates, the fund has underperformed against our inflationary (CPI+3%) performance measure as shown below.

5 year Gross Performance of Prudential's Dynamic Growth Fund IV



The table below shows the performance of the funds within the largest default lifestyle strategies for the period to 31 December 2023. In general, 1-year returns have been weaker than 5 year returns when compared to benchmark.

		5 year (ann.)		1 year (ann.)	
Fund name	AUM (£m)	Net Performance vs Benchmark *	ABI ranking	Net Performance vs Benchmark *	ABI ranking
Dynamic Growth IV S3	£1,859	-1.00%	2	-2.23%	2
Managed Ser A	£336	-0.76%	4	-0.04%	3
Dynamic Growth II S3	£406	-0.58%	1	-1.52%	1
Prudential Long Term Bond S3	£6	-0.39%	2	-0.55%	2
Prudential Cash S3	£86	-0.85%	1	-0.56%	1
Prudential M&G Gilt and Fixed Interest Income Ser A	£43	-0.66%	3	-0.26%	3
Prudential Cash Ser A	£26	-0.63%	3	-1.32%	4

* To reflect Consumer Duty rules the performance as at the end of Q4 2023 above, incorporates the maximum AMC a customer is paying in these funds. Previously a weighted average was used.

Over £1 billion of workplace pension funds are invested in the Prudential With Profits Fund. It is designed to be more resilient in turbulent markets and returned 4.5% (net) during 2023. The longer-term results are also strong, averaging growth of 6.9% (net) per year over 3 years and 4.9% over 5 years.

3.3 Investment Strategy for default funds

Prudential periodically carries out reviews of investment strategy for the main default funds, with the results of these reviews shared with the IGC. The methodology used to conduct these reviews focuses on four key customer outcomes, whilst also considering Prudential's target market. The key customer outcomes are:

- Right solution
- Clear, timely and relevant information
- Good value
- Trusted provider

The reviews concluded that the lifestyle strategies remained broadly appropriate whilst identifying actions to further improve the proposition and customer outcomes.

During 2022, Prudential investigated how additional real assets could be introduced to the key default funds to improve asset diversification and provide enhanced outcomes for members. This would also contribute to reducing risk, particularly during what are expected to be future periods of longer-term uncertainty in asset returns and the likelihood of prolonged high inflation.

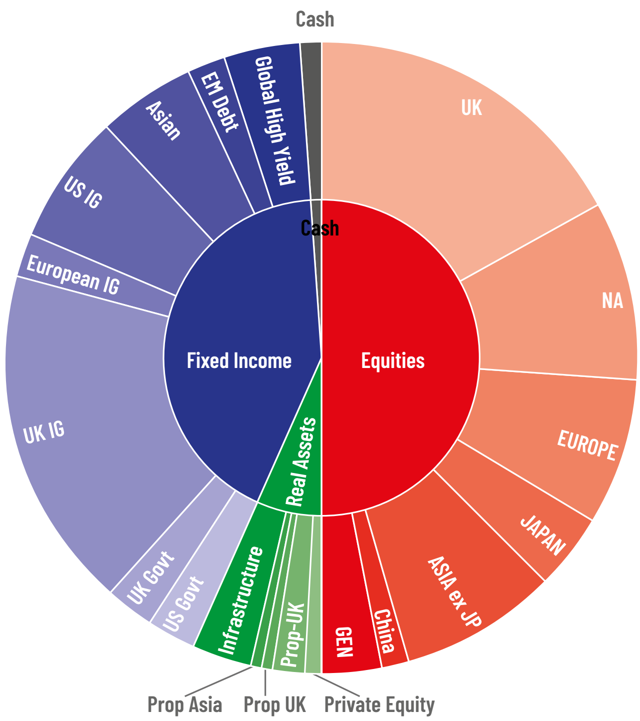
We were pleased to see this work completed during 2023 and the key default funds now have a 6.5% allocation to real assets split across holdings in infrastructure, real estate and private equity with a comparable 6.5% reduction in overall equity allocation. The amended structure of PDGIV is set out in the pie chart on this page.

Another action identified in recent reviews was to consider introducing higher risk funds in the early years of Prudential Dynamic Growth IV – Targeting Retirement Options. This could potentially improve members' retirement outcomes by delivering increased returns for an appropriate increase in risk in the early years of their journey.

We were pleased that this change has also now been agreed for implementation and planning is underway by Prudential to agree how this change can and will be implemented.

Prudential is also considering the transition of existing equity sub-funds within the main default funds to ESG Equity Index funds managed by BlackRock. The purpose of the transition would be to ensure that assets managed on behalf of members appropriately take account of Environmental, Social and Governance (ESG) factors. Work is ongoing, supported by analysis by BlackRock, to better understand the most cost-effective route to implementation of ESG equity funds for the key default funds. The following section, Environmental, Social and Governance, goes into some more detail on Prudential's and the Committee's position on ESG.

In addition to the internal reviews above, Prudential and the IGC participate in an industry benchmarking study which provides an external assessment of the investment strategy of the key default funds relative to a number of comparators in the industry. The overall conclusion was that the funds compared relatively favourably to the peer group, although it was noted that a number of the peer group funds have a higher allocation to both alternative assets and ESG-tilted assets. These issues were raised by the IGC and are being addressed as set out above. The IGC will continue to monitor these during 2024 and beyond.



4. Environmental, Social and Governance (ESG)

Overall rating: Green

Gareth McQuillan, Company Appointed Member

"Prudential's approach to sustainability and stewardship has evolved further in 2023, and the IGC continues to monitor its progress closely"

As in previous years, the IGC has been asked by the Financial Conduct Authority (FCA) to comment on Environmental, Social and Governance (ESG) policies, practices, and stewardship at Prudential, and how the IGC takes account of the concerns of members in relation to these factors.

In addressing this requirement, the IGC is informed by research on customers' attitudes to their investments, and how they want providers to communicate with them on these issues.

This research indicated limited consideration of ESG-related issues by customers in the context of their pension, and that the relative importance of sustainability to customers varies significantly depending on their life stage. In particular, whereas most customers believed that pension and investment providers should prioritise achieving the best return, a much smaller proportion were happy to pay higher fees in order to invest in an environmentally and socially responsible way.

However, most customers would expect their asset managers to consider ESG aspects alongside traditional investment analysis in making decisions and constructing portfolios, and that principles would be in place to guide pension companies to avoid "unscrupulous" investments. This research has led the IGC to focus on the default investment solutions, and ensuring that passive members benefit from an approach to managing ESG issues that reflects these views.

4.1 How ESG matters are managed in Prudential/M&G Group

M&G Group's strategy for managing ESG within its business is outlined in its Sustainability Report 2023/24, which is available at the link below. The strategy prioritises two areas for action – climate change and diversity & inclusion – and includes specific commitments which are summarised below:

Climate commitments

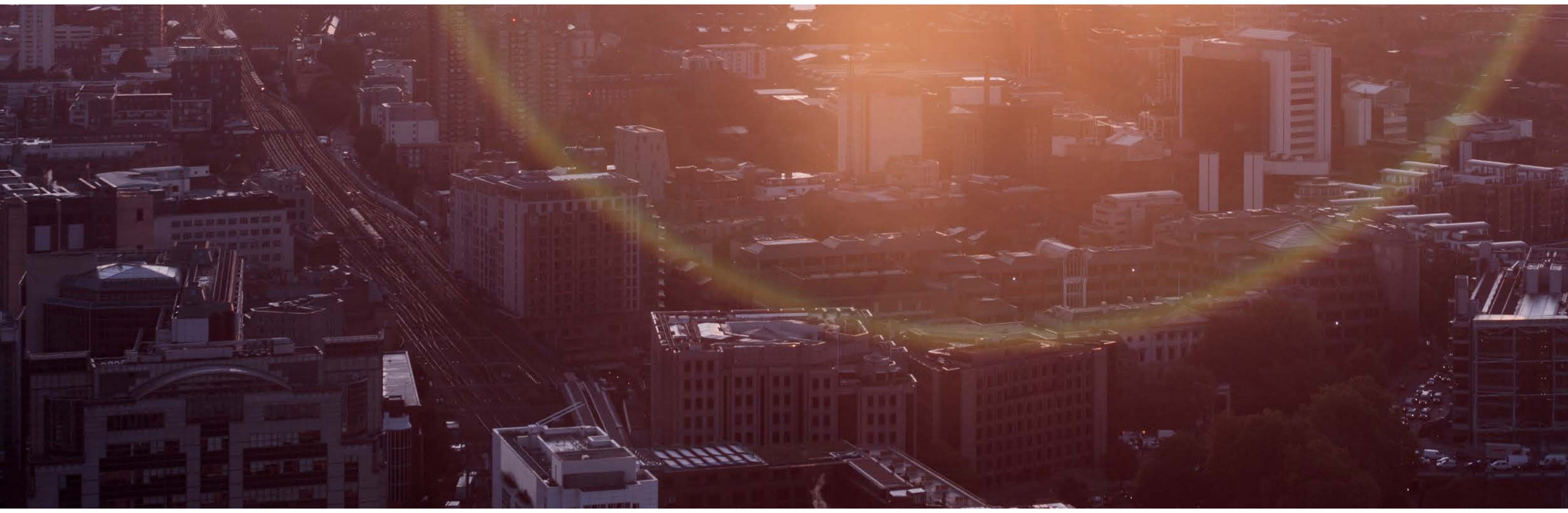
Net zero by 2050 across operations and investment portfolio

Supported by the following interim targets:

Operations	Asset Manager	Asset Owner
46% reduction in Scope 1 and 2 emissions by 2030*	50% reduction in emissions intensity (tCO2e/$m invested) for in-scope public equity and corporate debt by 2030*†.	50% reduction in emissions intensity (tCO2e/$m invested) for in-scope public equity and corporate debt by 2030*†.
46% reduction in Scope 3 business travel emissions by 2030*.	36% reduction in emissions intensity (kgCO2/m2) for in-scope real estate assets by 2030*†	36% reduction in emissions intensity (kgCO2/m2) in our directly owned real estate portfolio by 2030*†.
Engaging with suppliers to encourage them to set ambitious carbon reduction targets aligned with climate science, covering at least 67% of our operational supply chain emissions by 2030.	Further details on these targets,including assets in scope, are on page 12.	Engagement and sector-level decarbonisation targets can be found on page 13.

* 2030 refers to end of 2029. Target against 2019 baseline.
† The interim decarbonisation targets for public assets and real estate cover Scope 1 and 2 financed emissions.

[1] https://www.mandg.com/~/media/Files/M/MandG-Plc/documents/Sustainability/2023/2023-sustainability-accessible-report.pdf



4.2 Progress in 2023

During 2023, the IGC continued to receive presentations, progress updates and further evidence of the deployment of the ESG policies and processes of those organisations which manage the investments of our customers.

The presentations and updates from the business to the IGC during the year included general updates on the integration of ESG within investment mandates, activities as part of industry initiatives (including Task Force on Climate Related Financial Disclosures, UK Stewardship Code, Institutional Investors Group on Climate Change and Accountability for Sustainability), as well as specific updates on topics including Decarbonisation, Modern Slavery and ESG Optimised Funds. As part of its benchmarking research, the IGC received useful information on how Prudential compares to other providers which will be used to ensure that the IGC's oversight on ESG matters is in line with best practice.

Specific ESG-related developments for Prudential during 2023 include the following:

- Following the appointment of a new Chief Sustainability Officer, M&G has conducted a Group-wide assessment of sustainability themes, based on discussion with a wide range of internal stakeholders. From this, it has created a shortlist of areas mapped against both their potential effect on M&G and the Group's impact on the issue. Areas of high strategic significance included climate change, diversity and inclusion, and financial resilience. The assessment also identified themes likely to become more significant to M&G, including natural capital and digital innovation.
- In July 2023, Prudential published its first report that aligns with the recommendations of the Taskforce on Climate Related Financial Disclosures (TCFD), including disclosures that cover a number of the key funds invested in by Prudential's workplace pensions customers (e.g. the Prudential Dynamic Growth series of funds). This reporting has been produced again in 2024, and will continue to be enhanced to make it useful and helpful for customers in future years.
- The M&G 2023 Annual Report and Accounts contains a section on climate related disclosures, including those recommended by the Financial Stability Board's Task Force on Climate Related Financial Disclosure (TCFD). It also contains a detailed sustainability information statement, and further information on the topic of "Natural Capital", and how M&G is making a difference in this area (for example through its investment in Biobest, which supports sustainable crop management in South America).
- Finally, in its 2023 Stewardship Report – which was published in May 2024 and is produced as part of its commitments under the Financial Reporting Council's Stewardship Code – Prudential continued to provide information relating to how it has incorporated sustainable thinking into its business practices. This Report forms an important source of information to the IGC in its assessment of ESG within Prudential.

5. Costs and Charges

Overall rating: Green

Gareth McQuillan, Company Appointed Member

"The IGC is satisfied that Prudential's charges are generally fair to customers and represent value for money. Nevertheless, the IGC continues to press Prudential to make its offerings as competitive as possible"

The IGC's primary role is to ensure that customers get Value for Money from their pension products provided by Prudential. This section of the report considers a key element of the Value for Money proposition, namely the costs and charges associated with your pension products.

The IGC monitors all the costs and charges applied to all products under its remit including annual management charges and transaction costs. In addition, the IGC is required by the FCA to benchmark Prudential's charges against other providers in order to assess whether comparable schemes benefit from lower charges. The IGC's findings on these matters are set out in the following paragraphs.

5.1 Rules on publishing and disclosing costs and charges

The FCA has had rules in place since 2020 in relation to the disclosing and publishing of costs and charges for workplace pension scheme members. We are happy to report that Prudential continues to fully meet these requirements and the relevant information is available to you here.

5.2 Benchmarking of costs and charges

In 2022 we reported in some detail on the further steps the FCA has taken in relation to benchmarking of pension charges against other providers' schemes. The IGC, together with Prudential, now commissions an external independent firm to carry out this detailed benchmarking against a range of other pension providers' offerings. This study compares the charges on schemes of similar size across the market. The conclusions from the most recent study, which were presented in May 2024, are similar to last year and are as follows:-

1. Most of Prudential's actual policyholders are in charge bands 0.30% to 0.60% which means that these customers are charged between £3 and £6 per £1,000 of fund value per annum. The proportion of customers in these charge bands is slightly higher than the average across the study, suggesting that these products are competitively priced.

2. Prudential does not have any customers in the lowest charge band (0% to 0.30%) whereas many of the other participants in the study do. Larger schemes within the Prudential book appear to be charged slightly higher than others within the study.

3. Unlike some providers, Prudential does not apply tiered charging structures (i.e. higher charges for customers with lower fund values) nor exit charges

The IGC has considered these findings in detail, and is satisfied that where there are lower cost offerings from other providers, there is usually a less comprehensive investment or service offering and that the higher charge from Prudential in these cases is justified by the specific benefits of the Prudential offering.

5.3 Annual Management Charges

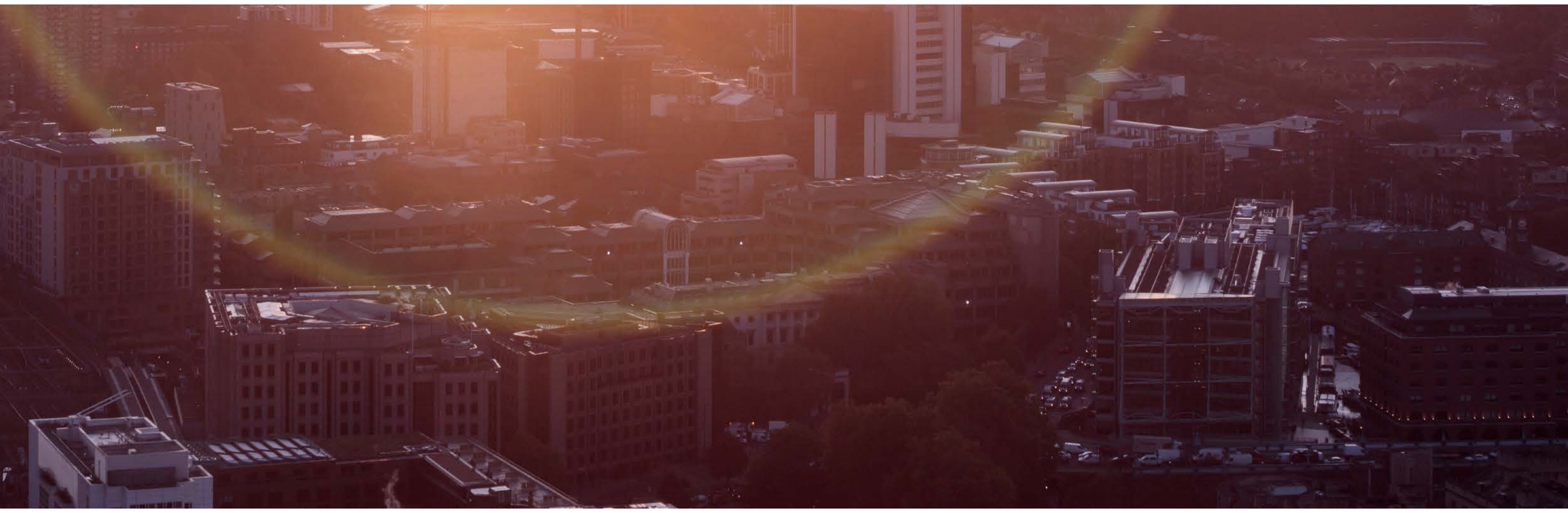
Based on the data provided and on the results of the benchmarking study, the IGC is satisfied that the annual management charges remain appropriate and the charges for default funds are within the charge cap.

5.4 Transaction charges

Transaction charges occur when investments in customer funds are purchased or sold. They vary from fund to fund depending on the nature of the underlying assets and on the level of activity that is required. The IGC receives and reviews comprehensive quarterly reports on the transaction charges applied to all funds in scope. In the vast majority of cases transaction charges are low and the IGC is satisfied that they are completely appropriate. Any deviations are challenged by the IGC and we are satisfied with their appropriateness following discussions with Prudential.

5.5 Breakdown of charges for investment and administration

In addition to the overall level of charges, the IGC put considerable focus during 2023 on the amount of the charge allocated to investment costs as compared to administrative costs. This was based on the IGC's belief that the inclusion of a more diversified range of assets, including alternatives – which typically carry higher charges – could enhance overall returns for customers. As highlighted in Section 3, the funds in which the majority of IGC customers are invested do now benefit from greater diversification into alternative real assets. The IGC will continue to press Prudential to ensure that the level of its administrative costs are managed to an appropriate level, and that these costs do not limit the delivery of investment strategies that can enhance overall value for money.



6. Communications and Engagement

Overall rating: Green

Paul Bucksey, Independent Member

"Customer satisfaction has improved during 2023 reflecting Prudential's focus on improving its servicing position. Prudential has also undertaken a number of customer engagement activities and more is planned for 2024".

6.1 Voice of the customer feedback

Customer Satisfaction performance and how Prudential compares against its competitors is regularly reviewed by the Committee. Prudential use this information to assess potential problem areas and identify areas for remedial action and focus.

2023 saw an increase in the Customer Satisfaction measures following a period of operational stability, ending the year at 54% compared with 42% at the end of 2022. Work continues reviewing and monitoring customer journeys related to satisfaction on such things as "completing the request in a timely manner" and "keeping the customer informed." Section 7 of this report goes into more detail on the quality of customer servicing.

6.2 Improvements to customer communications

During 2023, Prudential has been focusing on more targeted activity regarding digital adoption, engagement and education. This work included communications to encourage customers to register for on-line services and to remind those already registered what they can manage on-line. Newsletters have been produced for both employers and customers with useful information about pensions. The information on the company website, pru.co.uk, has also been enhanced to include videos on the journey to taking pension benefits. The Committee welcomes this increased emphasis on communication with customers.

For 2024, plans are in place to continue to provide proactive education through further newsletters.

6.3 Customer vulnerability programme updates

During 2023, Prudential continued to implement against their Vulnerable Customer Strategy, embedding the frameworks and actions delivered as part of the 2023 Consumer Duty programme. The Committee has reviewed the positive actions taken by Prudential in this important area and continues to engage with evolution of the programme.

Specific areas of focus included improvement to how vulnerable customers are identified and how their needs are recorded. The Committee is satisfied that Prudential responds appropriately to all forms of customer vulnerability at key touchpoints and interactions and in propositional developments.

7. Customer Servicing

Overall rating: Amber

Pat Healy, Independent Chair

" Service delivery has been improving materially over the last two years but there is still some further improvement required to consistently deliver the standards our customers should expect"

Service delivery fell well short of expectations in 2021, and while it materially improved in 2022, the IGC continued to rate service delivery as red on our RAG scale. I am happy to report that in 2023 service delivery improved again over the 2022 position as a result of the continued focus by Prudential on this key area. It is also helpful to note that service delivery was consistently good over the latter part of 2023 and that this has continued into 2024 to date. Despite the general improvement, there was a dip in service standards during the summer period and the IGC is pressing Prudential to ensure more consistent standards throughout the year. There is still work to be done to consistently achieve the service standards customers should expect, but the IGC recognises the considerable progress over the last two years and we assess the RAG status as amber with an improving trend.

Servicing is split into 3 areas: (1) Back Office, dealing with processing of the necessary administrative tasks, (2) Voice, providing the direct interface with customers, and (3) Complaints, where customers have been unhappy with the service provided.

7.1 Back Office

Service improved materially during 2023, with a further reduction in the time taken to respond to customer requests. This reflected a strong focus on improving "the customer journey". While the average processing time for the various aspects of customer servicing is well below the target, the targets are designed as the longest duration a process should take and there are still some customer journeys outside the target. Having stabilised the service, the focus for 2024 is to continue to improve performance.

Performance of Individual Service Areas:

Customer Journey Measures	Actual days (av)	% closed within target		Target (days)
New Business	7	97.2%		43
Claims	9	97.9%		43
Customer Servicing	3	99.7%		48
Bereavements	12	98.2%		154

7.2 Voice

Key Telephony Measures	Achieved		Targets
Call abandon rate	4.5%		<=5%
Average speed to answer	2m 51s		<=2min 9 sec

The beginning of the year saw a marked improvement in the time taken to answer and handle customer calls and during the first Quarter results were ahead of target in that the number of customers abandoning their call was below the 5%. However, during the following months the service deteriorated somewhat and in June/July the abandon rate just exceeded 10% due to unacceptably long average speed to answer.

Determined action by Prudential to restore service standards saw a material improvement in August and very acceptable performance for the remainder of the year. The overall call abandon rate for the year was 4.5%, just inside the target of 5%.

This improvement is largely due to the fact that the average speed to answer has been cut by some two thirds, and while it slightly exceeds the target the IGC strongly welcomes the improvement.

The table shows a detailed breakdown of the monthly performance in Voice across 2023.

Month [2023]	Abandon rate [target <=5%]
January	0.7%
February	2.5%
March	3.8%
April	5.7%
May	8.2%
June	10.2%
July	11.5%
August	6.4%
September	1.2%
October	1.8%
November	1.6%
December	1.0%

7.3 Complaints

The improvement in service performance has led to a reduction in complaints. The level of complaints in the second half of 2023 was down some 15% on the same period of the previous year. There has been a greater reduction in the numbers of outstanding complaints, i.e. those not dealt with at the end of the period. Outstanding claims have fallen on average by some 28% in the second half of 2023, compared with the same period of 2022.

The IGC recognises that there will always be complaints from customers and our main concern is that these are dealt with speedily and that the trends do not indicate deterioration in performance.

8. Investment Pathways

Overall rating: Green

Mary Kerrigan, Independent Member

"The IGC believes that Prudential's Pathways are a good tool for customers in their transition towards full drawdown of retirement income and we are keen to see more customers availing of them"

Following the FCA Retirement Outcomes Review, Investment Pathways were introduced by Prudential in February 2021. Investment Pathways are structured around generic approaches to how customers might view their future drawdown needs in retirement. The FCA defined four different customer objectives as follows:-

Pathway 1: I have no plans to touch my money in the next five years

Pathway 2: I plan to use my money to set up a guaranteed income (annuity) within the next five years

Pathway 3: I plan to start taking my money as a long-term income within the next five years

Pathway 4: I plan to take out all my money in the next five years

8.1 The Role of the IGC

The role of the IGC in Investment Pathways is similar to its role in relation to workplace pensions in general. The IGC is required to ensure:-

1. That each Pathway option is clearly communicated to customers to enable them to select the appropriate option

2. That the investment solution underlying each Pathway is appropriate to the timeline and risk profile inherent in that Pathway

3. That the total charges associated with each Pathway solution meet regulatory requirements and are reasonable in the context of the specific solution

8.2 Take-up of Investment Pathways by customers

Investment Pathways are available to non-advised customers in Prudential's Retirement Account and in the Pension Choices Plan. The number of customers availing of Pathways is still very small, although the number increased in 2023. A significant number of customers availed of the online and voice journeys but most chose to remain with their existing product.

Where customers selected specific Pathway options in 2023, the most popular options were Pathway 1—I have no plans to touch my money in the next five years and Pathway 3 – I plan to start taking my money as a long-term income within the next five years.

The IGC believes that Prudential's Pathways offer a good route to decumulation for customers and continues to have discussions with the company in relation to the reasons for low take-up.

8.3 Value for Money Assessment

The IGC role set out above is largely about assessing the Value for Money of the Pathway options and this is considered under the following headings.

8.4 Communications and Service

The IGC has reviewed the communications material presented to customers considering Pathways and is satisfied that the material is useful, clear and easily understandable.

Prudential's Risk Function carries out a detailed annual review of the performance of the voice and online journeys for customers availing of Pathways. This assessment has been provided to the IGC and we are satisfied that, with a small number of exceptions, the servicing performance has been effective and satisfactory. The servicing difficulties for other products referred to elsewhere in this report have not been generally experienced in relation to Pathways.

8.5 Investment Solutions

In this section we consider the appropriateness of the investment solutions offered under Pathways and the specific performance of those solutions.

Prudential carried out a detailed review of the investment proposition supporting each Pathway a couple of years ago and discussed its findings with the IGC. Prudential's review concluded that the current investment solution continues to be appropriate and, following careful consideration, the IGC fully supports this view.

The funds underlying the two most popular Pathway options are the PruFund 2 and PruFund 3. These funds have continued to perform well against their benchmarks due to their broad asset base and their exposure to growth assets. They have however performed badly against the inflation target because of the strong surge in inflation experienced recently. The IGC is monitoring this closely and is in regular communication with Prudential's asset managers to ensure the best outcome for customers.

Fund Name	Annualised Performance 31/12/2022 to 31/12/2023	Annualised Performance 31/12/2020 to 31/12/2023	Annualised Performance 31/12/2018 to 31/12/2023
	1 year	3 years	5 years
PruFund Risk Managed Fund 2 Pn Ser A	1.54%	4.66%	4.67%
PruFund Risk Managed Fund 3 Pn Ser E	3.94%	5.82%	4.66%

8.6 Costs and Charges

The IGC receives regular reports from Prudential on the total costs and charges applied to Pathway products. The IGC also has access to independent costs comparisons with other providers. The IGC is satisfied that the charges on Prudential Investment Pathways meet regulatory requirements.

It is important to note, as we pointed out in last year's report, that the most relevant Prudential investment products supporting Pathways have valuable features such as smoothing and multi-asset investment structures that are costly to provide. Because of this, Prudential's charges are sometimes at the higher end of the range of available products but the IGC believes that the charges are appropriate for the product features involved.

Products with lower charges are available from other providers but these do not generally provide the same range of benefits as the Prudential products. The IGC continues to challenge Prudential on its charges and particularly for those associated with administration costs.

8.7 Summary

As was the case last year, the IGC is comfortable that Pathway customers are receiving value for money. The IGC is comfortable that communications and service, investment solutions and costs and charges are of an appropriate standard. The IGC believes this is a good product for customers and would like to see higher volumes of customers availing of Pathways.

9. Other governance items and plans for 2024

As part of its oversight of Prudential, the IGC has confirmed that it is comfortable with the financial strength of the company, details of which can be found in the publicly available Annual Report and Accounts for M&G plc. The IGC has also received a report on Prudential's cyber security arrangements, including an attestation from management confirming the adequacy of those arrangements.

The IGC workplan for 2024 includes the following:-

- **Investment and Investment proposition:** work on the potential to invest further in real assets, private assets and more diversified portfolios generally in order to improve the risk/reward profile of customer funds and to enhance their ability to produce returns ahead of inflation. We are also looking at the potential to achieve a more optimised investment profile as customers approach retirement.
- **ESG:** Environmental Social and Governance considerations are increasingly important from an investment perspective and in the way Prudential carries out its activities. Section 4 of this report sets out a number of evolving areas and the IGC is actively engaging with Prudential on these issues.
- **Industry Comparison:** The IGC and Prudential continues to engage in benchmarking studies to compare your proposition with the best available
- **Consumer Duty and Regulatory change:** The implications of Consumer Duty regulations are being incorporated into the IGC's oversight framework and we continue to monitor potential changes in the regulatory view of how value for money for customers is assessed.

Appendix 1 : How do we measure Value for Money (VfM)?

The IGC's current approach to VfM takes account of a range of factors, including investment performance, costs and charges, and service and communications. These have been weighted to reflect our view that what ultimately matters is the outcome for Members.

On the basis that good financial outcomes lead to higher retirement income, we prioritise investment returns and charges as being the most important elements of VfM. We then look at a number of secondary service quality features, placing particular emphasis on the swift and accurate processing of contributions, the level of performance in dealing with complaints, and the quality of communications. With regard to the primary financial components of VfM, it is important to note that:

a) for investment returns the IGC believe it is appropriate to not only look at investment returns compared with CPI (Consumer Price Inflation), but also performance relative to industry benchmarks, the level of risk taken and fees charged. The performance metrics analysed over 1, 3 and 5 year periods are:

- Fund net return vs benchmark
- Tracking error vs benchmark
- Net information ratio
- Client share of outperformance
- Fund net return vs UK CPI
- Quartile ranking within ABI sector.

b) For charges, we have continued to use the following reference points to identify where VfM concerns might arise:

- 0.75% per year for default strategy charges in schemes used for auto enrolment (or the equivalent limits set by DWP for schemes with combination charges)
- 1.00% per year for unit-linked schemes not used for auto-enrolment
- 1.25% per year for With Profits investments where the benefits of smoothing and guarantees bring extra value to Members. We review both the cost of the investment and the cost of these guarantees separately, scrutinising the value offered by both. Our reference point represents the combined cost of both elements.

The IGC's VfM framework:

Red Amber Green

	Acceptable	No material issues. Performance is in line with expectations. However, there may still be some areas for further improvement.
	Requires Closer Monitoring	Some concerns. There may be a group of customers for whom improvements are required or specific areas that require attention.
	Take Action	Major concerns. Performance is at a level below which the IGC feels is appropriate, or below alternatives available in the market. Urgent action will be considered.

Investment Performance – Retrospective

Return Metric			
Net return vs benchmark	Varies by fund type / asset class (ref below)		
Client share of outperformance	>60%	30-60%	<30%
Tracking error	Varies by fund type / asset class (ref below)		
Net information ratio	>0.2	-0.67 to 0.2	<-0.67
Net return vs UK CPI	>=3%	0 to 3%	<0%
ABI Sector Quartile Ranking	1, 2	3	4

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Investment Pathways

Does each Investment Strategy have a clear statement of aims and objectives?

Yes No

Are Default Fund Glide Paths consistent with Pensions Freedoms?

Yes Materially No

Are the Risks/Implied Volatility of the strategy made clear

Yes Materially No

Are the Risk/returns of the strategy close to the Efficient Frontier?

Yes Reasonably Close No

Has the Default Fund Strategy been stochastically modelled?

Yes No

Investment Strategy Design

Are Default Fund Glide Paths consistent with Pensions Freedoms?

Yes Materially No

Are the Risks/Implied Volatility of the strategy made clear?

Yes Materially No

Are the Risk/returns of the strategy close to the Efficient Frontier?

Yes Reasonably Close No

Has the Default Fund Strategy been stochastically modeled?

Yes No

Environment and Social Governance

The IGC will review three key areas of focus, these being Environment/Climate, Social Impact and Stewardship. IGC will select a rating for each key area based on the following:

Are ESG financial considerations fully embedded within the management of the in scope propositions?

Yes Materially No

Is there active engagement with companies by asset managers to help drive corporate change and encourage better ESG practices?

Yes Materially No

Are Prudential's ESG and Stewardship policies appropriate to the needs of the customer?

Yes Materially No

Annual Management Charges

- Most frequent charge applied less than 0.5%
- All Member borne charges less than or equal to reference points
- Between 0% and 5% FUM above reference point
- More than 5% of funds under management are above reference point

Transaction Costs

- Default fund less than 0.2%

  80% of Funds under management incur costs of less than 0.2%
- 80% of Funds under management incur costs between 0.2 – 0.5
- More than 20% of Funds under Management incur costs of more than 0.5%

Communication and Engagement

Are relevant communications (off line and on-line) provided at an appropriate point (e.g. key life stage/ key event)?

Yes Materially No

Are these communications useful, clear and easy to understand?

Yes Materially No

Do Prudential provide quality self-service and additional support material to suit member's needs and objectives?

Yes Materially No

Service Levels

- All service levels met
- Between 50% – 100% of Service levels met
- More than half Service levels not met

Appendix 2: Jargon Explained

ABI Sector – The 'Association of British Insurers '(ABI) Fund Sectors is a system for the classification of unit-linked life and pension funds with similar investment strategies. It is designed to group together funds that are similar, so that they can be compared on a like-for-like basis.

AMC – Annual Management Charge: the charge made over the year by fund managers and product providers to cover the expenses associated with running the investment fund and administering the pension plan. Although shown as an annual percentage figure, the charge is usually taken from the fund daily.

Asset Diversification – A strategy that mixes a wide variety of investments within a portfolio in order to better manage investment risk.

AUM – Assets under Management. Total Market Value of the assets managed by the investment firm for their investors.

CPI – The Consumer Prices Index: CPI is the official measure of inflation of consumer prices of the United Kingdom.

ESG – Environmental, Social and Governance (ESG) refers to the three key factors when measuring the sustainability and ethical impact of an investment in a business or company.

FCA – The Financial Conduct Authority.

Glide Path – A formula that defines the asset allocation mix of an investment fund. The mix is based on the number of years left until a customer's target retirement date.

Guarantees – An investment guarantee is a special provision designed to protect investors from incurring overall losses.

Growth Funds – Funds that invest in equities, multi assets or property

IGC – Independent Governance Committee.

Investment Pathway – An initiative from the FCA aimed at providing customers with an investment solution to match a particular objective in drawdown.

Prudential – "Prudential" is a trading name of The Prudential Assurance Company Limited, the provider of the workplace pensions.

Net Information Ratio – The information ratio (IR) is a measurement of portfolio returns beyond the returns of a benchmark.

Client share of outperformance – A financial metric that measures the portion of investment returns exceeding a benchmark's performance, which is attributable to the client's investment performance. It reflects the value added by the client's strategy or manager selection.

Net Zero – Refers to the balance between the amount of greenhouse gas produced and the amount removed from the atmosphere. We reach net zero when the amount we add is no more than the amount taken away.

Reference Point – A level of charge for a fund above which IGC believes Value for Money concerns might arise.

Smoothing – The use of accounting techniques to level out fluctuations in investment returns from one period to the next (aiming to 'smooth' the peaks and troughs of market movements).

Tracking Error – The tracking error identifies the level of consistency in which a portfolio "tracks" the performance of an index. A low tracking error means the portfolio is beating the index consistently over time. A high tracking error means that the portfolio returns are more volatile over time and not as consistent in exceeding the benchmark.

Transaction Costs – Expenses incurred when buying or selling a good or service. Costs include broker charges and spreads, which are the differences between the price the dealer paid and the price the buyer pays.

VfM – Value for Money, see appendix 1 for more information.

Value Style – An investment approach that aims to identify stocks & shares trading below their estimated 'fair value' and then profit as the share price adjusts.

Watch List – Funds are added to this watch list if they are under performing or if there are additional causes for concern (e.g. significant unexpected changes in the market). These funds are then monitored closely and reviewed on a regular basis.

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