Pru
part of M&G plc

Your guide to

The Risk Managed PruFund range

For a smoother investment experience.

The Risk Managed PruFunds aim to grow your money while giving you a smoothed investment experience.

So if you want to benefit from the reduced level of risk a fully diverse fund offers, but are worried about the short term ups and downs associated with the stock market, the Risk Managed PruFund range has an established smoothing process which helps to reduce the impact of short term fluctuations of stock market investments.

We'll manage your money to achieve the best return we can for the level of risk you are willing and able to take.

The value of your investment can go down as well as up so you might get back less than you put in.

The market context

Keeping all your savings in a deposit account or cash investment can be secure and may be easy to access. However...

Returns can be low

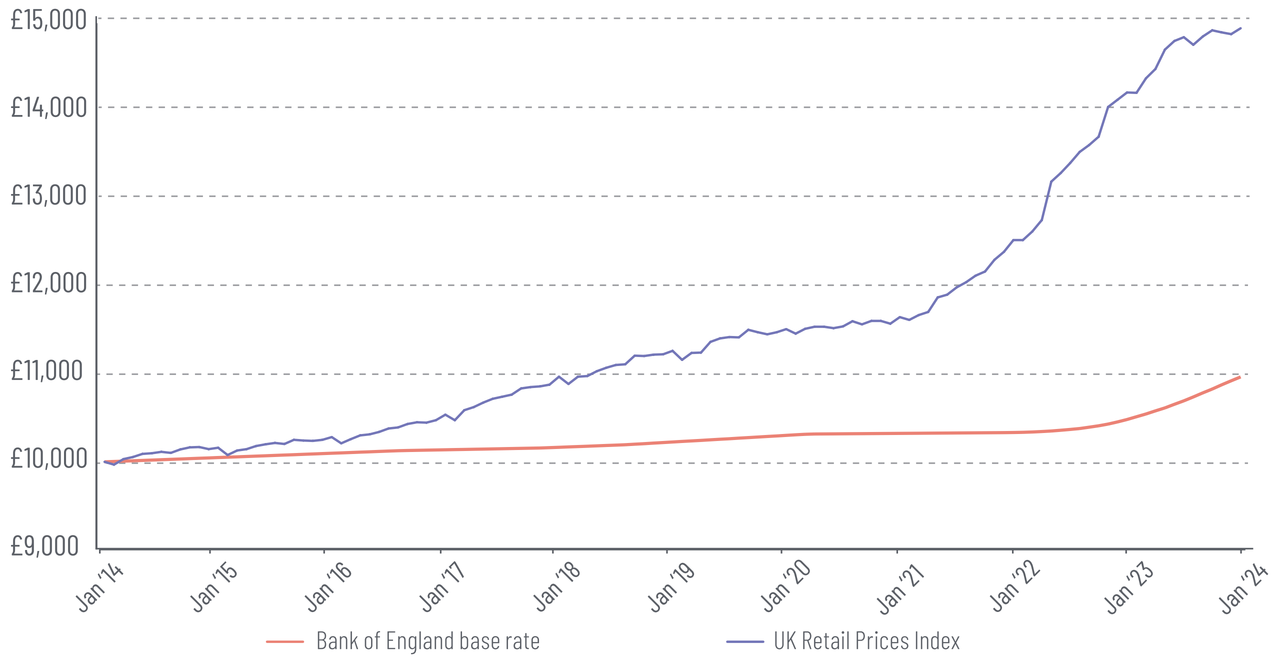
Of course a high interest deposit account or a Cash ISA is a sensible and secure home for what you might call your “ready” or “emergency cash”. For many, the offer of instant access, knowing your capital is secure, or the tax efficiencies of a Cash ISA has great appeal. And it’s always a good idea to have a cash safety net to help with any unexpected emergencies. However, over and above this emergency cash, it may not be the most appropriate place for any additional money you may have. Returns, even in so-called high interest accounts, can be low. Particularly in a low interest rate environment.

As long as you have enough to cover any unexpected emergencies, it might be timely to look again at whether your money is in the best place. That’s because if inflation is higher than your rate of return, it will eat away at the buying power of your money whether in cash-based savings such as deposit accounts or any other type of investment. The overall result is simply that at the end of the investment term, you can buy less with your money than you would have been able to at the beginning.

Inflation eats away at the buying power

An example of the effect of inflation on a bank account

Banks and Building Societies use The Bank of England base rate to help set the interest rates they offer customers on their savings accounts. The graph below shows the return on £10,000, using the Bank of England base rate to indicate what’s happened to interest rates over time. It also compares interest rates to the effect of inflation (as represented by the UK Retail Prices Index (RPI)). The graph shows the buying power of your money would have been declining during this time.



The graph shows the gross returns from 31 December 2013 to 29 December 2023.

Past performance is not a reliable indicator of future performance.

Where to invest

Different types of assets offer different levels of risk and potential reward so the most appropriate choice of assets for you would be those which are most in line with your attitude to risk and your financial goals.

There are four broad categories of investment, or 'asset classes'.

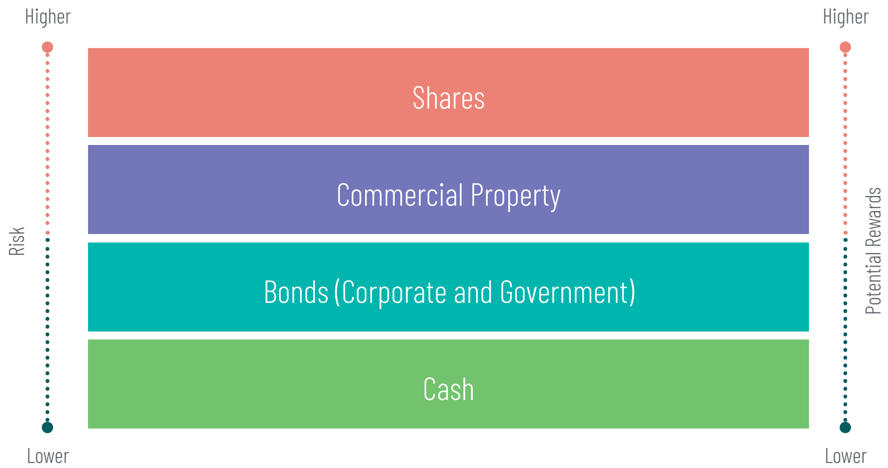
Shares – also known as equities or stocks, where you buy a 'share' in a company.

Commercial property – available in a variety of sectors including retail, office, and industrial.

Bonds – also known as fixed-interest investments, can be purchased from corporate entities or governments. UK government bonds are referred to as Gilts.

Cash – includes currency, deposit accounts and negotiable investments, for example, money orders, cheques and bank drafts

The risk and potential rewards of different asset classes



Please note this diagram is only intended to be a general indicator of the relationship between different asset classes in terms of risk and reward and may vary in certain circumstances. It's not intended to show examples of all types of asset classes.

You'll find more information about highlighted terms, in **'Some terms explained'** at the back of this guide.

How does PruFund invest?

Your money is pooled together with that of other PruFund investors. It is then used to buy a large spread of different types of investments (often described as **asset classes**). There are a number of benefits to this:

Reducing risk by investing in a diversified mix of asset classes

Each of the individual PruFunds invest in a spread of different types of asset classes. The four main asset classes are **Equities, Commercial Property, Bonds** (Corporate and Government) and **Cash**. By spreading the investment across these asset classes, the rises and falls (or volatility) associated with investing in a single asset class can be reduced.

Increasing the potential to benefit from higher performance and reducing the risk of exposure to poorer performance

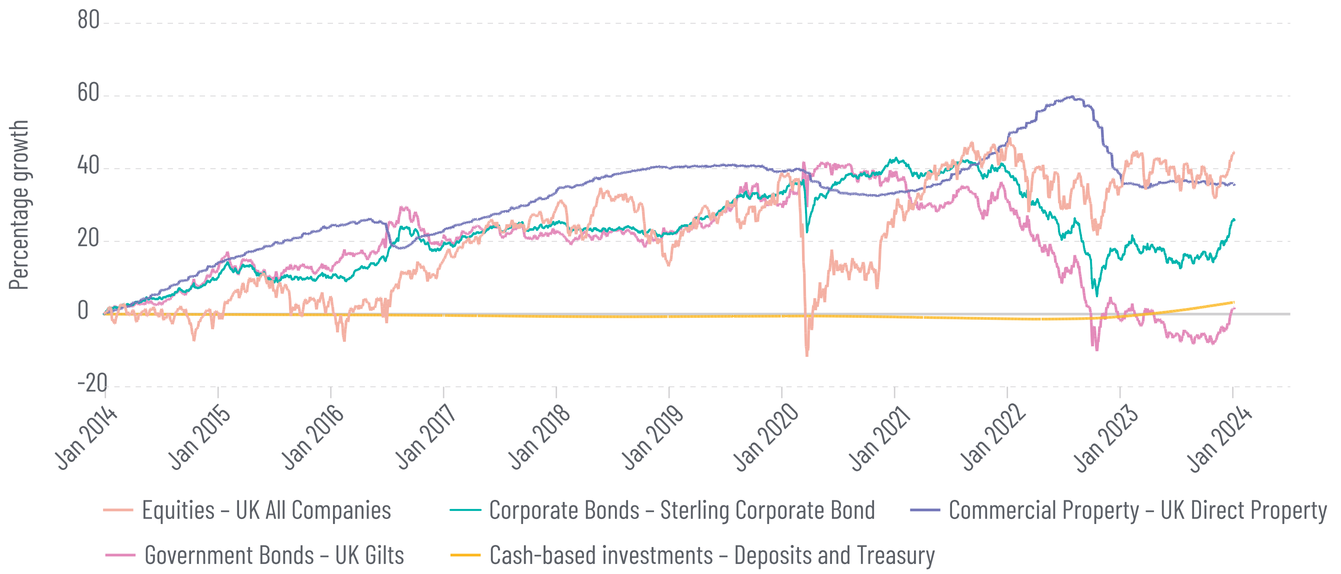
The graph below demonstrates that when one asset class is performing well, another may be performing less well, and their relative positions could be reversed in future years.

Investment in each PruFund is spread across a number of different asset classes, so there is a greater opportunity to benefit from potential investment growth and reduced risk of full exposure to lower performing asset classes. Of course, this also means that you might not benefit from all of the investment growth because you hadn't invested all your money directly in one of the strongly performing asset classes.

Access to investments a private investor may not normally have access to

Through the Prudential With-Profits Fund, PruFund gives you access to very specialist investments which add greater diversity to the funds. These include investments in the UK such as schools as well as a diverse range of Europe-wide developments, including investments in renewable energy, utility service providers and large, economically and socially important investments.

The graph shows an example of the volatile behaviours of different asset classes



Source: FE Fundinfo.

Important note: The graph shows gross returns for the sector averages from 31 December 2013 to 29 December 2023, from the Association of British Insurers (ABI) Pensions universe.

Please remember that past performance is not a reliable indicator of future performance.

Strong investment management and controls

A key benefit of the PruFund range of funds is the management of their asset allocation by M&G Treasury & Investment Office (T&IO). T&IO also monitor the underlying fund managers of the PruFunds range of funds. They are a team of experienced investment professionals with specialist expertise in capital markets research, manager research, investment strategy design, liability management and portfolio management.

Their role is to ensure that the funds are actively managed in a way that aims to deliver what investors expect. As well as setting and actively monitoring the investment strategy they have strong governance and controls around how the funds are managed. T&IO work closely with compliance and risk teams in M&G plc to ensure each fund is managed in a controlled and appropriate manner.

Economies of scale

Your money is combined with that of other investors. This means that the normal costs associated with investing (for example the costs of buying and selling equities, property or other investments) are spread over many, many investors rather than one individual investor.

The PruFund smoothing process

PruFund uses an established smoothing mechanism, and aims to grow your money while smoothing the short-term ups and downs of markets.

Like most investments, the value of the underlying funds change daily, up or down. The PruFund smoothing mechanism aims to reduce the impact of these movements over the short term.

This means that while you won't benefit from the full upside of any potential stock market rises you won't suffer from the full effects of any downfalls either.

Expected Growth Rates

With many funds there is little or no information on how they could perform in the future. PruFund is slightly different, as we publish how we think the assets of the funds will perform over the long-term (up to 15 years). We call this the Expected Growth Rate (EGR). And although it's how we expect the funds to perform, it isn't guaranteed.

Each PruFund has its own EGR and your investment will normally grow daily by the relevant EGR. Although we take a long-term view, we do review the rates every three months to allow for any changes, which may mean a change in EGR on a quarterly basis, up or down.

You can view current EGRs on our website **mandg.com/pru/customer/en-gb/funds/investment-fund-range/prufund/prufund-range**

Unit Price Adjustments

We also have to take into account shorter-term performance. On a daily basis, if the shorter-term performance differs too much from the current EGR, the value of your fund is amended to make sure neither too little nor too much is returned to you. These are called Unit Price Adjustments and they help to ensure all investors are treated fairly.

Suspension of smoothing

In certain circumstances we might need to suspend the smoothing mechanism to protect the With-Profits fund and those invested in it. There are two different ways we could do this:

- We may suspend the smoothing mechanism for a period of consecutive days, during this period the smoothed price for any affected PruFund will be set to the unsmoothed price for each day until the smoothing mechanism is reinstated
- We may reset the smoothed price of any affected PruFund to the unsmoothed price on a particular day. This is a Unit Price Reset.

We will use suspension of smoothing (including Unit Price Resets) to ensure continued fairness to our customers; this is expected to be in highly unusual circumstances.

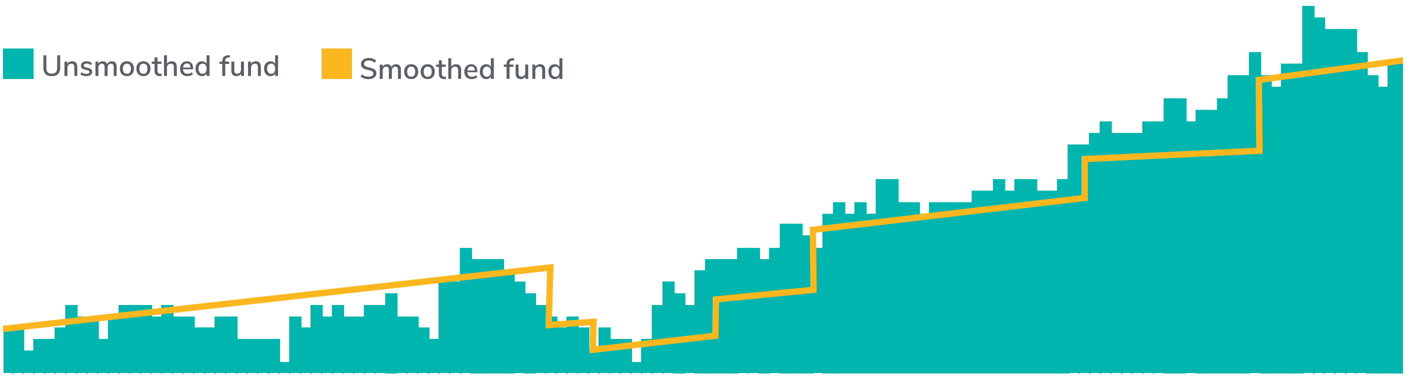
Remember, you'll find more information about highlighted terms, in **'Some terms explained'** at the back of this guide.

When you first invest

It is only possible to invest in PruFund on specific dates in the year (PruFund Investment Dates). Any investment we receive in between these dates will be put into a PruFund Holding Account until the next PruFund Investment Date.

While the investment is in a PruFund Account, it increases daily in line with the EGR applicable to that main PruFund. During this time, product charges will be applied, but the investment will not be subject to any smoothing adjustments, Unit Price Resets or suspension of smoothing. There is an associated PruFund Account for each fund in the PruFund range of funds.

An illustration of how PruFund smoothing could work



This chart aims to illustrate the concept of a smoothed fund, but it is not representative of any particular time period or investment performance. Its sole aim is to explain how smoothing works.

- 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.

Fore more information on smoothing, please see the Step by Step guide to the PruFund smoothing process.

Introducing our Risk Managed PruFunds – smoothed range

Our Risk Managed PruFunds, each designed to suit different attitudes to risk and reward, all benefit from our established PruFund smoothing process and are designed for medium to long-term investment (5-10 years or more).

PruFund funds are multi-asset funds which means you get access to a wide range of assets across different asset types and countries. This allows you to spread the risk of investment.

The funds have an objective to stay within certain volatility limits, which allows us to manage the fund risk profile over time and help align it to your own risk appetite.

The Risk Managed PruFunds are investing in the Prudential With-Profits Fund, one of the largest with-profits funds in the UK with assets under management of £153bn as at 31 December 2023.

Balancing risk and reward

Asset allocation is an investment approach that aims to balance risk and create diversification, by dividing investments across a range of asset classes, like those describe on page 11, and other alternative investments.

Each asset class has different levels of return and risk, so will behave differently over time. For example, a diversified portfolio that includes higher-risk investments such as equities as well as lower-risk investments such as bonds, will help to manage and lower your risk. If equities have dramatically decreased in value, the fixed interest from your bonds should still help to provide some balance and stability.

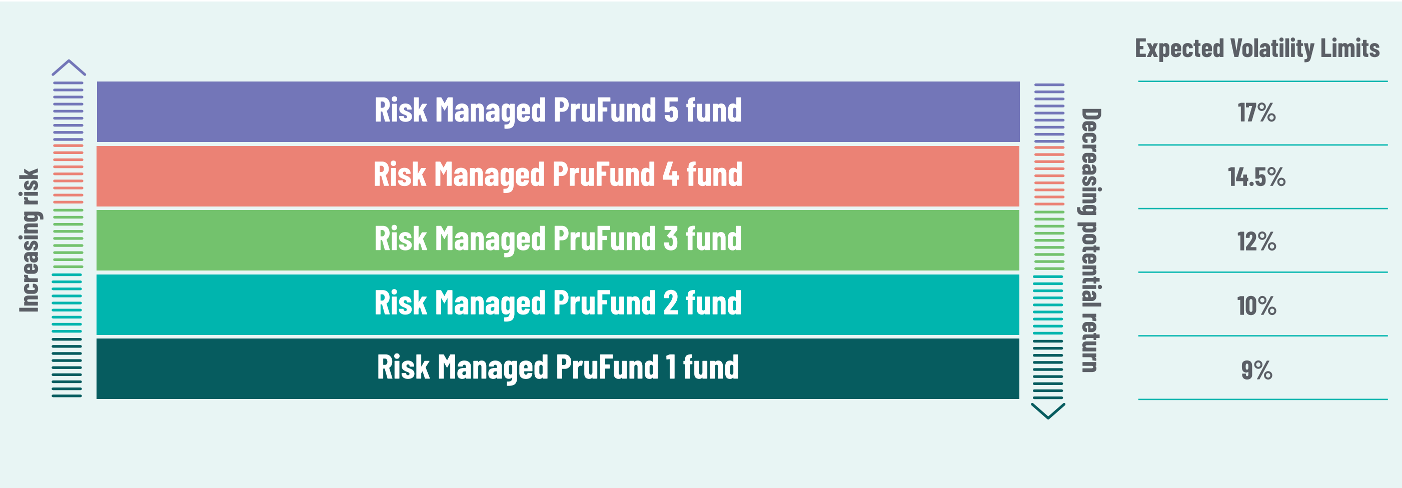
Our investment approach

Our investment strategy aims to secure the highest total return over the time you have your Plan, consistent with the objectives of the individual PruFund fund, while maintaining an acceptable level of risk to our fund.

Please remember that the value of your investment can go down as well as up and you may not get back what you put in.

Our risk profiles

Our Risk Managed PruFund range gives you a choice of five risk-managed multi-asset funds, each with its own risk profile.



The numbering of the funds i.e. Prudential Risk Managed PruFund 1 fund, up to Prudential Risk Managed PruFund 5, indicates the increasing level of investment risk – with 1 low and 5 high – and the higher level of investment risk, the greater the potential reward. There is no guarantee that the fund will stay within its expected volatility ceiling limit.

Please note: The numbers used within the fund names reflect the relative risk against the other funds in the fund range. They don't reflect the actual level of risk and aren't intended to match the risk and reward profile in the Key Investor Information Document. Other companies and risk rating agencies may rate risk differently.

Our investment strategy

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

When you invest in the Risk Managed PruFund funds, your money is pooled together with that of other investors within your chosen fund and used to buy a large spread of different types of investments – often described as asset classes.

As PruFund funds are invested in the Prudential With-Profits Fund, one of the largest With-Profits funds in the UK, we can buy a wide range of assets which may not be possible for someone to buy directly. However, there are differences across the range of PruFund funds in their objectives and mix of assets, and how PruFund delivers returns to investors when compared to other With-Profit business. This means the returns received by you will vary by fund choice.

Please remember that the value of your investment can go down as well as up and you may not get back what you put in.

What our Risk Managed PruFunds invest in

When you invest in our Risk Managed PruFund funds, your money is pooled together with that of other investors within your chosen fund and used to buy a large spread of different types of investments (often described as asset classes)

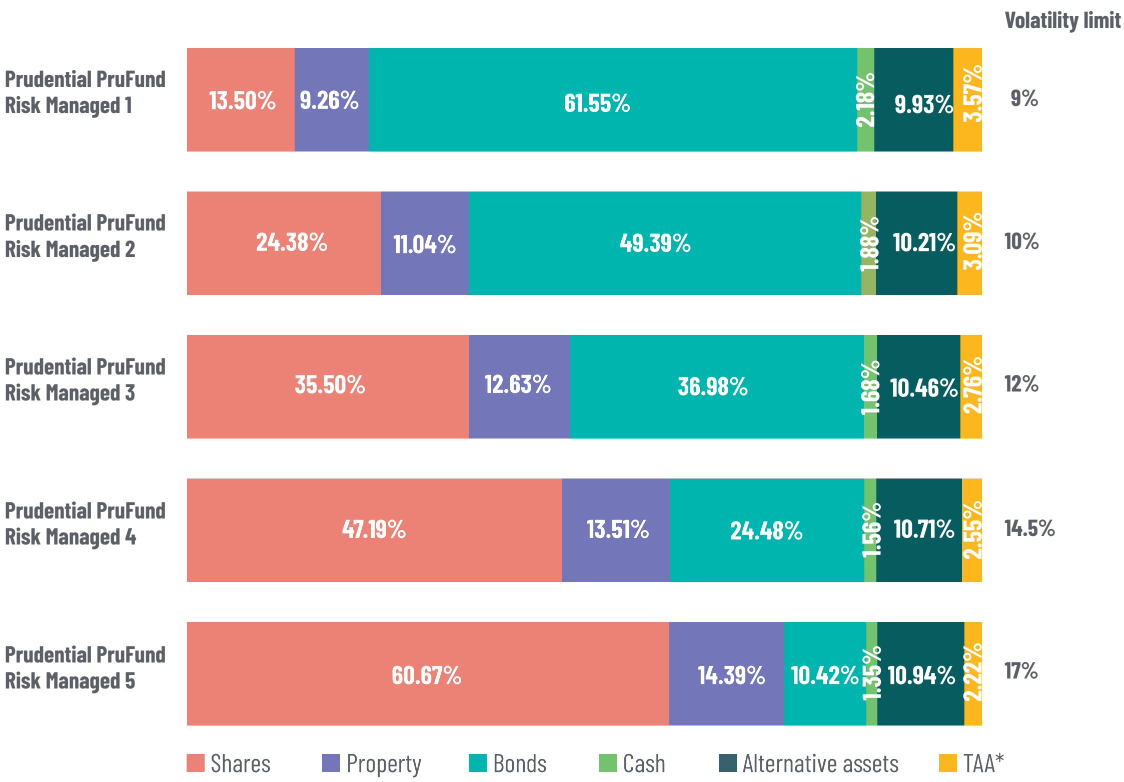
Our PruFunds are invested in the Prudential With-Profits Fund, one of the largest with-profits funds in the UK. Worth approximately £153bn as at 31 December 2023, this means we can buy a wide range of assets which may not be possible for someone to buy directly.

The types of funds used, and the asset allocation split of each Risk Managed PruFund will depend on the funds' objectives. Each Risk Managed PruFund has a different volatility objective which means your adviser can recommend a fund that's appropriate to your attitude to risk and reward.

Each fund has a different range of investment in shares, with the rest being invested in various amounts in bonds and cash, as you can see in the bar chart below.

As we mentioned earlier, the Risk Managed PruFunds are numbered one to five, based on how volatile we expect each fund to be, after smoothing has been applied. For example:

- Prudential Risk Managed PruFund 1 has the lowest volatility limit of 9% after smoothing, and therefore has the lowest amount invested in assets that may be more volatile (just over 13%* is currently invested in shares).
- Prudential Risk Managed PruFund 5, has the highest volatility limit of 17%, after smoothing, and has the highest amount invested in assets that may be more volatile (currently 60%* invested in shares).



The asset mix shown here for the PruFund funds are as at the end of December 2023. The asset allocations are regularly reviewed and may vary from time to time but will always be consistent with the fund objective.

*As at 31 December 2023

How our Risk Managed PruFunds are managed

We believe a well-diversified fund is more likely to achieve consistent returns and that value can be added through a sound and well-structured investment process. That's why we use M&G's expert investment strategists at T&IO to make our strategic investment decisions. They're the investment engine behind our multi-asset portfolios and experts in diversified investment.

Who is T&IO?

M&G's Treasury & Investment Office (T&IO) is one of the largest and most well resourced multi-asset teams in the UK.

Managing £153 billion* across a growing range of highly competitive multi-asset investment solutions and annuities, on behalf of Pru UK and Europe, T&IO is our in-house team and 'manager of managers' and independent of the various underlying asset management businesses with M&G plc. They are the team behind one of the UK's largest With-Profits fund – and many other Pru funds.

T&IO has great strength in depth, with access to a team that includes investment professionals with expertise in capital market research, investment strategy design, liability management derivatives and portfolio management.

Risk Managed PruFunds

Our Risk Managed PruFunds aim to grow your money while giving you a smoothed investment experience.

The funds benefit from the expertise of T&IO who:

- recommend the asset allocation for each Risk Managed PruFund.
- select the underlying funds which they believe best meet the portfolio asset mix requirements.
- are the team behind one of the UK's largest With-Profits funds.

We'll manage your money to achieve the best return we can for the level of risk you're willing to take.

* T&IO as at December 2023

Why choose PruFund?

As we mentioned earlier in this guide, investing is about balancing the potential reward you could achieve with the level of risk you're prepared to accept.

Our customers choose to invest in PruFund for a number of reasons:

- PruFund gives you access to a wide range of investments, so all of your eggs aren't in one basket
- Investment costs are spread over many investors
- PruFund uses an established smoothing process, which aims to smooth some of the short-term ups and downs of the market. This means that while you won't benefit from the full upside of any potential stock market rises you won't suffer from the full effects of any downfalls either
- A choice of funds designed to suit different attitudes to risk and reward
- Actively managed by skilled experts in asset allocation – the M&G Treasury and Investment Office (T&IO)
- Invested in by approximately 450,000 customers
- Around £62bn* currently invested in the PruFund range
- Available on a range of pensions, drawdown products, investments and ISAs

You'll find more information on T&IO, and their approach to managing PruFund, on page 12.

*As at 31 March 2024

Investing money can be rewarding, but it's not without risk...

- The value of an investment can go down as well as up, so you might get back less than you put in.
- Charges will reduce the value of the investment and they may increase in future.
- Withdrawals from the fund can exhaust the investment. Therefore, it's important to try to ensure that the investment money needs to last for as long as is intended.
- Inflation will affect the buying power of the money you get back.

! More information

Please refer to 'Your With-Profits Plan – a guide to how we manage the fund (PruFund range of funds)' WPGB0031 or WPG627603 for Prudential Retirement Account, for more information. You can also refer to the relevant Key Features Document and Funds Guides for more details on our range of funds. These are available from your financial adviser.

The value of your investment can go down as well as up so you might get back less than you put in. For the PruFund range of funds, what you receive will depend on the value of the underlying investments, the Expected Growth Rates as set by the Prudential Directors, our charges and the smoothing process.

Some terms explained

Active management

The traditional investment approach where fund managers actively build and change a portfolio of assets (eg stocks and shares) in order to take advantage of what they believe are the best opportunities.

Alternative assets

Alternative forms of investment can encompass a wide range of unconventional investments. In addition to direct investments in works of art and other collectables, such as coins and stamps, there is an expanding range of funds being offered to investors that invest in commodities, with themes that include agriculture, infrastructure and alternative energy.

Assets

Items that are owned by an individual such as property and investments. Money in a bank or building society account is known as a liquid asset. Assets may also be held in a fund.

Bond

Lower to medium-risk loans to the government or companies that pay you a fixed rate of interest.

Capital growth

Any money you receive in addition to the capital you've invested when you cash in your investment.

Corporate Bond

A loan to a company that earns you income in the form of interest. (See also Bond.)

Diversification

Spreading your investments to help reduce the risk within your portfolio.

FTSE100

An index of the share prices of the 100 largest companies (by market capitalisation) in the UK.

Fund Manager

An individual who is employed by a company to manage money. It is a fund manager's aim to buy shares or other assets such as property or bonds that they believe will increase in value or provide a level of income.

Holding Account

When you invest in one of our PruFund funds, your money will be put into a 'holding account' where it will stay until the next PruFund Investment Date. While your money is in a holding account, it increases daily in line with the Expected Growth Rate applicable to the main fund. During this time, we apply product charges but the investment will not be subject to any smoothing adjustments, Unit Price Resets or suspension of smoothing. There is an associated holding account for each PruFund fund.

Money Market Instruments

Defined as cash and near cash such as bank deposits, certificates of deposits, fixed interest securities or floating rate notes, with, where applicable, a maturity date of under a year.

Pooled Investment

Investments such as unit trusts, where a number of people put their money together to enable them to buy a wider range of investments, thereby spreading the risk of volatility.

Property

In the context of 'Property' as a type of asset, investment is usually in commercial property such as offices, shops and industrial premises.

Return

A measure of performance. It is the total of the increase in value and any income received over a given period, expressed as a percentage.

Stock market

A place where shares or other securities are bought and sold, for instance the London Stock Exchange.

Volatility

A measure of how much an investment's price is likely to fluctuate during a set period of time.

With-Profits Fund

Essentially a fund made up of shares, property, cash and fixed interest securities, which usually carries a medium risk. The products that use with-profits are typically regular and single premium savings plans and pensions. With-profits funds pool policyholders' investments, and the returns are smoothed to help reduce the volatility associated with direct equity investments.

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