Your guide to

The PruFund range of funds

Balancing risk and potential reward

The PruFund funds aim to grow your money over the medium to long-term (5 to 10 years or more), while protecting you from some of the extreme short-term ups and downs of direct stockmarket investments, using an established smoothing process.

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.

This guide provides information on the PruFund range of funds, for investments in:

- Prudential Investment Plan
- Prudential ISA
- Prudential International Investment Bond
- Prudential Trustee Investment Plan
- Prudential Flexible Retirement Plan
- Prudential Retirement Account

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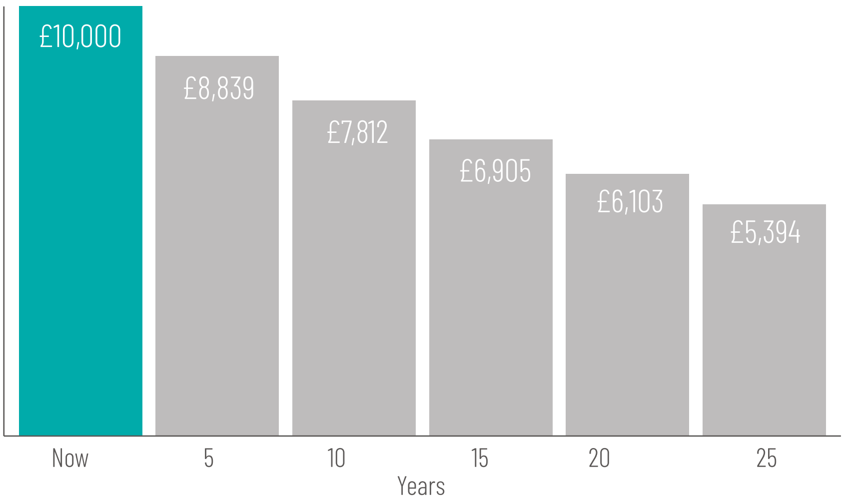
The value of investing

Saving and investing is about putting plans in place for your long-term goals while making sure you have enough money set aside to cover regular expenses and emergencies.

Investing puts your money to work, so that it's active on your behalf – but it does carry risks. And different types of investments have different levels of risk. Generally speaking, there's a link between the amount of risk you're prepared to take, and the potential rewards you're looking to gain.

Money may be more secure in a lower-risk investment, but it has a lower growth potential. And the value of money left in a low interest cash account for example, could be eroded by the effects of inflation.

The effect of inflation



Inflation could have a significant impact on the purchasing power of your money and it's important to consider this carefully when looking at investment options.

The graph shows that if we assume 2.5% inflation each year, the purchasing power of £10,000 today could be worth just £5,394 in 25 years' time.

This example also assumes that the sum has not grown over time as no interest has been added.

Investing in a higher-risk investment, over the medium to long-term (5-10 years or more) offers greater potential rewards but also a higher potential loss. And there are no certainties with investments, so taking a higher risk does not guarantee a higher return.

Finding the right balance between potential reward and risk is the key to successful investing.

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

Where to invest

There are four broad categories of investment, often described as 'asset classes'.

Shares – also known as equities or stocks, where you can 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, a bond represents a loan made by an investor to a borrower (typically corporate or government). UK government bonds are referred to as Gilts.

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

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

Asset allocation explained

Asset allocation is an investment strategy that aims to balance risk and reward by apportioning a portfolio's assets according to an individual's goals, risk tolerance and investment horizon.

The volatility factor

To help decide what's the 'best fit' type of investment for you, it's important to consider the behaviour and volatility of asset classes, over time. For example, if an asset class rises and falls rapidly over the short-term, it's considered to be more volatile.

You may feel that the volatility which can result from investing in a single asset class is unacceptable. But at the same time, you're looking to achieve returns that offer the potential to outstrip inflation. So spreading your money over a variety of asset classes with the potential to gain some exposure to higher performing assets, without the risks that come from 'putting all your eggs in one basket', or in one asset class, could be an option for you.

Multi-asset funds

A fundamental premise of our investment advice is that spreading an investment across a variety of asset types can lead to a more consistent investment performance. 'Multi-asset' funds invest across a variety of asset classes.

By investing in a multi-asset fund, your investment is spread over a range of investment asset types making them diversified. The mix of assets is determined by the objectives of each fund. Some multi-asset funds will offer higher risk opportunities for investors more comfortable with taking higher risks, whereas other funds will offer lower risks for the lower-risk investor.

Assuming you're willing to accept some degree of risk for your investments and are prepared to invest over the medium to long-term (typically 5-10 years or more), we have a range of multi-asset funds that may suit your needs.

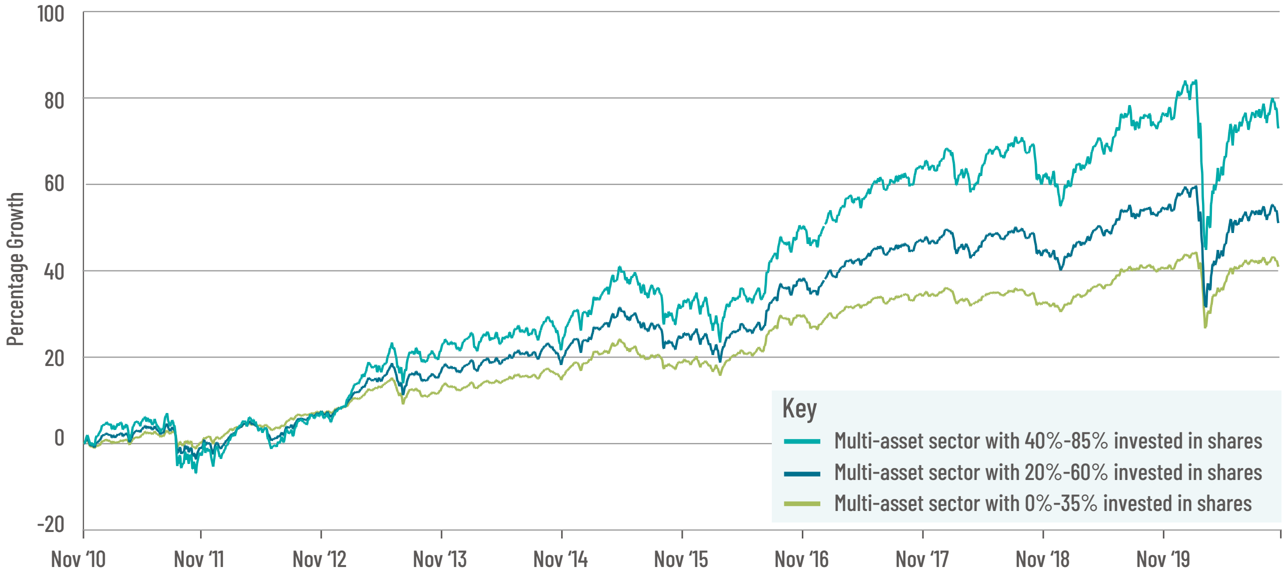
! Multi-Asset explained

A multi-asset fund typically invests in many different types of investments, including UK and international shares (equities), cash, property and fixed-interest securities, such as corporate bonds. Each type of investment (asset class) has its own level of risk and return and by spreading your investment across different asset classes, it can help to reduce the extreme ups and downs that you get when investing in a single asset class.

Some examples of multi-asset funds over a 10-year period

The graph below shows examples of how some multi-asset funds have behaved over a 10-year period. All the sectors shown invest in a mix of asset classes, with each having a different level of investment in shares.

This graph demonstrates that while multi-asset funds can experience some volatility, the diversification can help avoid some of the highs and lows experienced by single asset classes.



Source: FE fundinfo. The graph shows gross returns from 29 October 2010 to 30 October 2020, from the Investment Association (IA) sectors, and are rebased in Pounds Sterling. This graph shows Investment Association sectors, which group together funds with similar investment strategies. Please remember that past performance should not be considered a reliable indicator of future performance.

Investing in PruFund

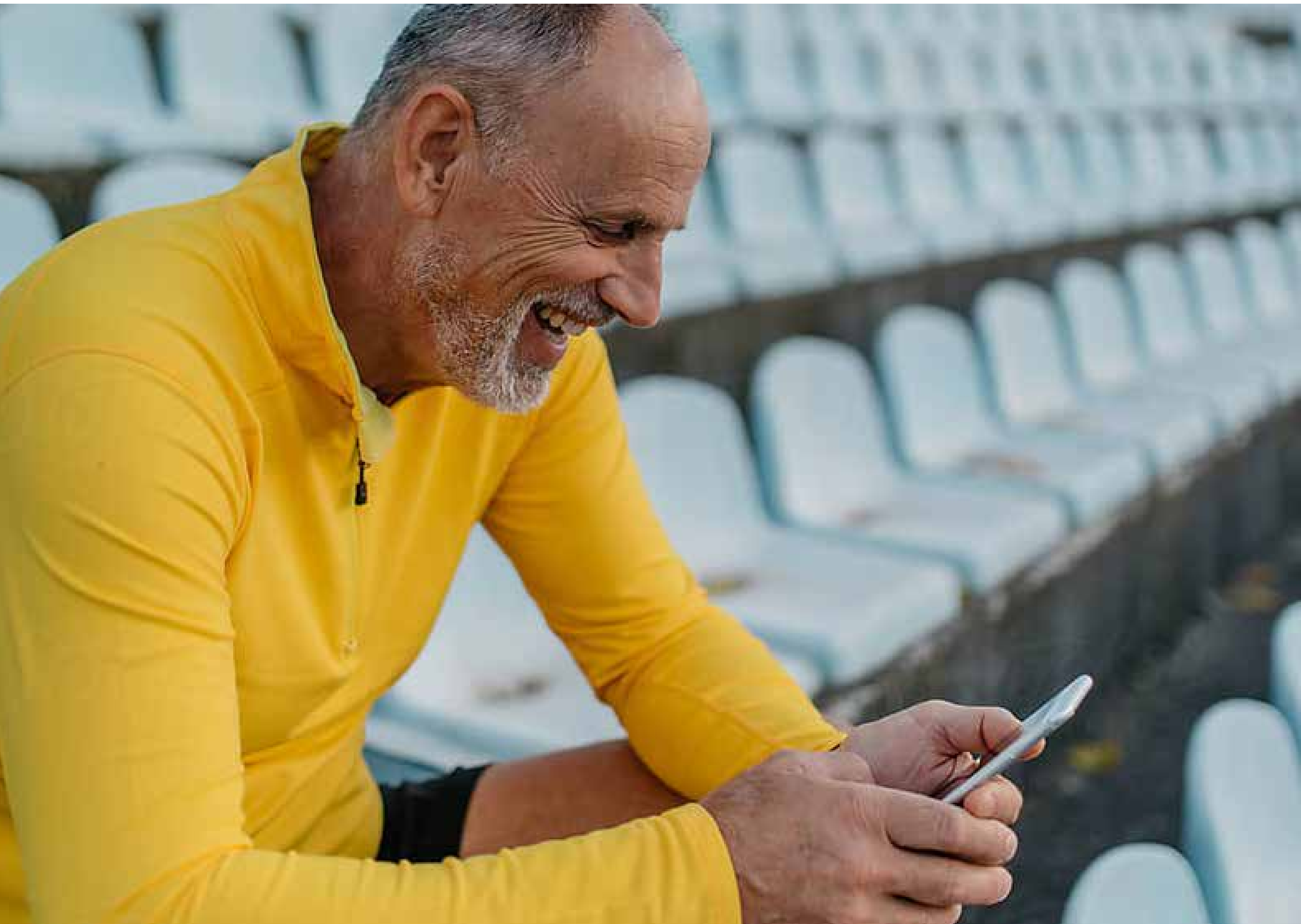
As we mentioned earlier in this guide, investing is about balancing the potential reward you could achieve with the level of risk you are prepared to accept.

Our PruFund funds aim to grow your money while giving you a smoothed investment experience.

Here's a summary of the features of the PruFund funds:

- The PruFund range of funds are with-profits investments which spread your money across a range of asset types. Importantly, they also have a smoothing process designed to protect investors from some of the extreme short-term ups and downs of investing directly in the stockmarket.
- A spread of diversified investments – so you are not fully exposed to dramatic falls in one investment area.
- Access to a wide range of investments – including some which individual investors may not be able to access directly.
- An established smoothing process to help protect you from some of the day-to-day fluctuations associated with direct investment. However, on occasion this smoothing process can be subject to a Unit Price Reset or be suspended. Please refer to page 12 for more details on the PruFund smoothing process.
- Actively managed by skilled experts in asset allocation – the M&G Treasury and Investment Office (T&IO).
- A choice of funds to help suit different attitudes for risk.

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



How do PruFunds work?

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).

Reducing risk by investing in a diversified mix of asset classes

The PruFund funds aim to grow your money over the medium to long term (5 to 10 years or more), while protecting you from some of the extreme short-term ups and downs of direct stockmarket investments by using an established smoothing process. This means that while you won't benefit from the full upside of any potential stockmarket rises you won't suffer from the full effects of any downfalls either.

PruFund funds are invested in the Prudential With-Profits Fund, which is the largest and one of the financially strongest with-profits funds in the UK. It is worth approximately £136bn as at 30 June 2020 which means 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-Profits business. This means the returns received by investors will vary by fund choice.

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.

! With-Profits Fund explained

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.

This diversification aims to balance the performance of the various different assets, so "your eggs aren't all in one basket". In essence this aims to offset poor performance in one asset type with good performance in another.

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 the future.
- Withdrawals from the fund can exhaust the investment. Therefore it's important to try to ensure that invested money needs to last for as long as is intended.
- Inflation will affect the buying power of the money you get back.

! How we manage your money

The PruFund funds are managed by M&G's multi-asset team, Treasury & Investment Office (T&IO) – one of the largest and most well resourced in the UK.

T&IO manages over £170 billion across a growing range of highly competitive multi-asset investment solutions and annuities, on behalf of Prudential UK and Europe.

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.

Source: T&IO, 30 June 2020

You'll find more information on Prudential's Treasury & Investment Office (T&IO), and their approach to managing PruFund, on page 17.

The smoothing process and how it works

The PruFund range of funds has an established smoothing process which uses Expected Growth Rates (EGRs) and, where required, Unit Price Adjustments (UPAs), to deliver a smoothed investment journey.

The aim of the smoothing process is to provide you with some protection from the extreme short-term ups and downs of direct investment. The smoothing process sets out an EGR for each PruFund fund and then compares that rate to how each fund is actually performing, making adjustments where necessary.

Expected Growth Rate (EGR)

Prudential sets EGRs; these are the annualised rates your investment would normally grow at. The EGRs reflect our view of how we think each PruFund fund will perform over the long term (up to 15 years).

Each PruFund fund has its own EGR and your investments in a PruFund will normally grow daily by the relevant EGR. EGRs are reviewed every 3 months, and may be higher, the same, or lower than they were at the start of your investment.

Unit Price Adjustment (UPA)

Although we use a long term view of performance to set EGRs, we also have to take into account shorter-term performance. On a daily basis, if the shorter-term performance differs too much from our current Expected Growth Rate, we'd have to amend the value of your fund up or down to ensure we are not returning too much or too little. We call these Unit Price Adjustments (UPAs).

Your financial adviser will be able to give you more information on our smoothing process, EGRs and UPAs, for our PruFund funds.

The PruFund investment dates* are:

- **25** February
- **25** May
- **25** August
- **25** November

(or the next working day if the investment date falls on a weekend or a Bank Holiday)

** For the Prudential Retirement Account Series E fund, the PruFund investment date is the 25th of each month.*

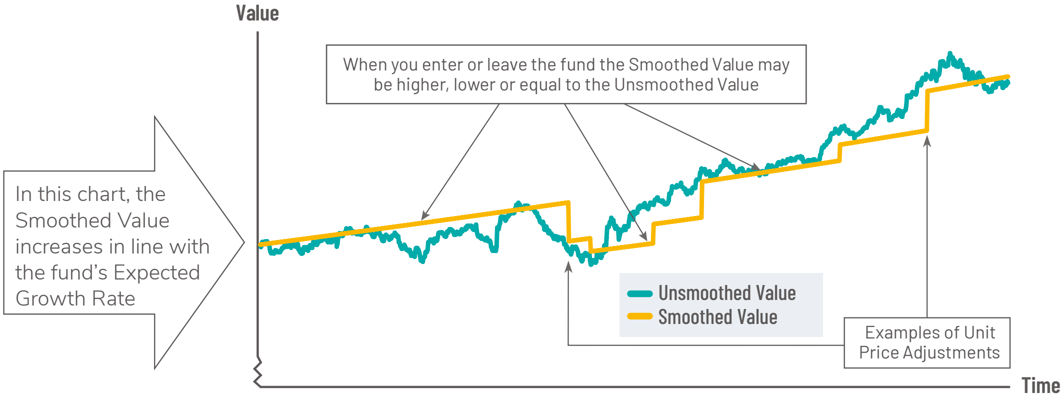
EGRs reflect our long-term view of the fund growth and UPAs allow us to make any necessary adjustments to help keep the fund growth on track, in line with the EGR. EGRs and UPAs are part of the smoothing process. You'll find the latest EGRs at: **pru.co.uk/investments/investment-fund-range/prufund-range**

What happens when I first invest?

Your investment is initially invested in a holding fund called a PruFund Account, where it will increase daily in line with the EGR applicable to that account. During this time product charges will be applied, but the investment will not be subject to any smoothing adjustments such as UPAs or Unit Price Resets, before it is switched into your chosen fund at the next investment date invested in your chosen fund, the EGR will be applied daily to the unit price of your fund over the duration of the quarter.

Combined with the spread of investments in the well-diversified funds, the smoothing process means that the risks associated with a PruFund investment can be lower than those found from investing directly in one asset class, such as equities.

An illustration of how PruFund smoothing works



This chart is for illustrative purposes only – it's not representative of any particular time period or investment performance. Its sole aim is to explain how smoothing works.

Unit Price Reset – explained

We may decide to reset the smoothed price of a PruFund fund on a particular day, to protect the With-Profits Fund. If we do, the smoothed price of the affected fund would be adjusted to be the same value as the unsmoothed price on that working day. This adjusted smoothed price will then continue to grow in line with the EGR from the working day after this reset. This is known as a Unit Price Reset.

Suspension of smoothing – explained

There may be occasions where we have to suspend the smoothing process for one or more PruFund funds for a period of consecutive days, to protect our With-Profits Fund and those invested in it. When this happens, the smoothed price for the affected fund(s) is set to the unsmoothed price for each day until the smoothing process in reinstated.

Moving out of PruFund

You can leave a PruFund fund at any time. There is no fixed term, but there is a 28-day delay if you are moving out of a PruFund to another fund. Currently there is no delay on moving out of PruFund if you are leaving the product, but we could introduce one if we needed to do so to protect all those within the fund.

Please see 'Your With-Profits Plan – a guide to how we manage the fund (PruFund range of funds)' (WPGB0031) for more information. Full details of how the PruFund smoothing process works, including when and by how much we will adjust the smoothed prices of the PruFund funds, along with some examples, can be found in 'A step by step guide to the PruFund smoothing process' (PRUF1098101), available from your financial adviser.

Introducing our PruFund range

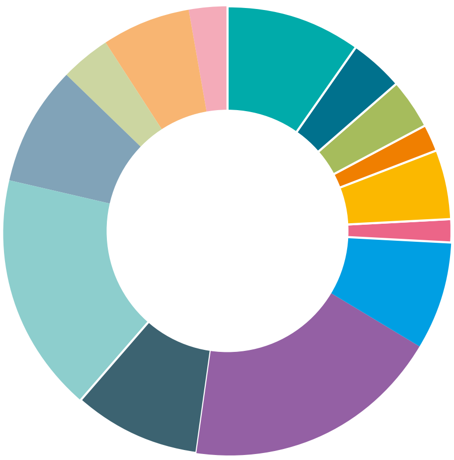
Our investment strategy aims to secure the highest total return over the time you have your Plan, consistent with the objectives of the individual PruFund Fund, while maintaining an acceptable level of risk to our Fund. We have 7 funds available in our PruFund range of funds. So let's take a look at them.

The PruFund Cautious Fund

The PruFund Cautious Fund aims for steady and consistent growth over the medium to long term (5-10 years or more) through a cautious approach to investing.

The PruFund Cautious Fund invests in a range of international equities, property, fixed interest securities, cash and other specialist investments, by investing in the Prudential With-Profits Fund. This gives you the advantages of a well balanced mix of investment with some smoothing of investment returns. The fund will aim to invest 50-75% in fixed interest securities and cash, although we may occasionally move outside this range to meet the fund objectives.

Asset allocation



UK Equities	9.9%
North American Equities	3.8%
European Equities	3.6%
Japanese Equities	1.9%
Pacific Market Equities	5.1%
Global Emerging Markets Equities	1.8%
Property	7.7%
UK Fixed Interest	18.7%
Euro Fixed Interest	9.1%
US Fixed Interest	17.2%
Asia Fixed Interest	8.7%
Other Fixed Interest	3.4%
Other Investment Assets	6.4%
Cash	2.7%

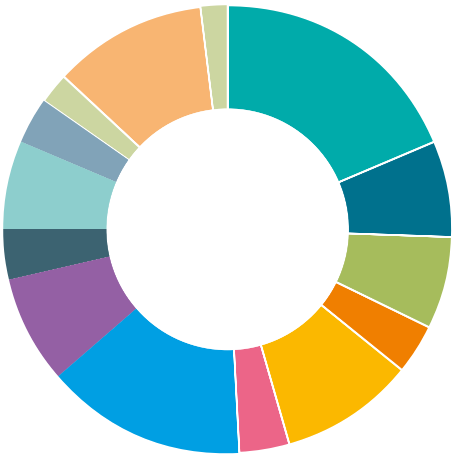
Source: Prudential as at 30 September 2020. Asset allocations are regularly reviewed and may vary from time to time, but will always be consistent with the fund objective.

The PruFund Growth Fund

The PruFund Growth Fund aims to maximise growth over the medium to long term (5-10 years or more), while helping to smooth the ups and downs of investment performance.

The PruFund Growth Fund invests in a range of international equities, property, fixed interest securities and other specialist investments, by investing in the Prudential With-Profits Fund. This gives you the advantage of a well balanced mix of investments, with some smoothing of investment returns.

Asset allocation



UK Equities	18.8%
North American Equities	6.9%
European Equities	6.8%
Japanese Equities	3.6%
Pacific Market Equities	9.6%
Global Emerging Markets Equities	3.5%
Property	14.6%
UK Fixed Interest	7.6%
Euro Fixed Interest	3.8%
US Fixed Interest	6.3%
Asia Fixed Interest	3.4%
Other Fixed Interest	2.2%
Other Investment Assets	11.0%
Cash	1.9%

Source: Prudential as at 30 September 2020. Asset allocations are regularly reviewed and may vary from time to time, but will always be consistent with the fund objective.

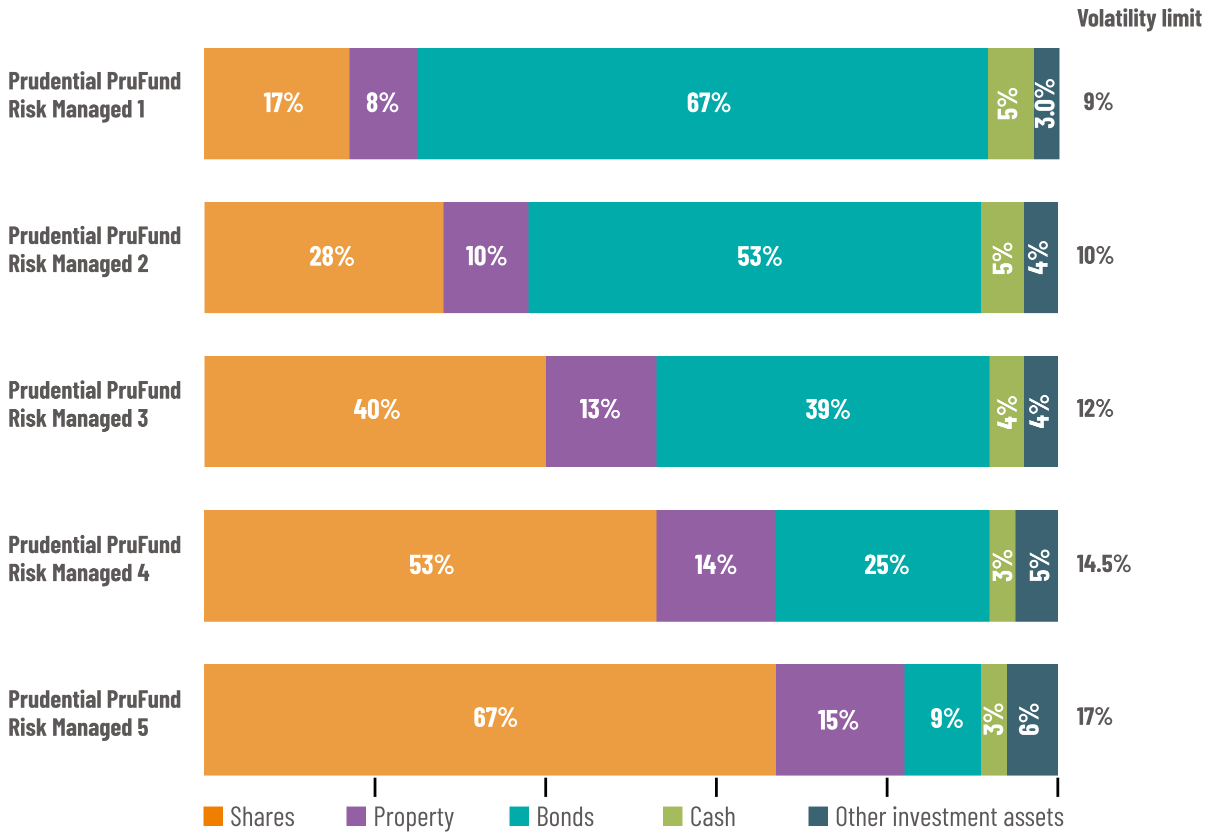
Risk Managed PruFunds

We have five Risk Managed PruFunds, designed to suit different attitudes to risk and reward. They all benefit from our established smoothing process – explained on page 12 – and are aimed at investors looking to invest for 5 to 10 years or more.

These funds 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 are likely to be more volatile as you can see below (with 17% invested in shares, as at September 2020).

Prudential Risk Managed PruFund 5 on the other hand, has the highest volatility limit of 17% after smoothing, and has the highest amount invested in assets that are likely to be more volatile (67% invested in shares, as at September 2020).

Please note: The Prudential Risk Managed PruFund 5 is not available for investment in the Trustee Investment Plan, or for existing investors in the Flexible Retirement Plan.



Source: Prudential as at 30 September 2020. Asset allocations are regularly reviewed and may vary from time to time, but will always be consistent with the fund objective.

PruFund funds – in summary:

- A spread of diversified investments – so you are not fully exposed to dramatic falls in one investment area
- Access to a wide range of investments – including some which individual investors may not be able to access directly
- An established smoothing process to help protect you from some of the day-to-day fluctuations associated with direct investment
- Actively managed by experts in asset allocation – M&G Treasury and Investment Office (T&IO)
- A choice of funds to help suit different attitudes to risk

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.

The Treasury & Investment Office (T&IO) – experts in diversified investment

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. This is why we use Prudential's expert investment strategists at T&IO to make our strategic investment decisions.

Prudential's investment strategist

T&IO's main objective is to ensure that they optimise the asset allocation of funds. This is core to their investment approach. Importantly, they regularly keep the asset allocation under control. To achieve the right mix of assets at any given time, they have a regular process of monitoring and adjusting the mix for any market or fund changes.

The T&IO approach to asset allocation

Most financial professionals agree that asset allocation is one of the most important decisions that investors make. To help inform their asset allocation decisions, T&IO analyses the information available to them on the performance of assets over both the long and the short term. They look backward at historical information and they also look forward to consider how each asset is likely to perform. And at the core of any long-term asset allocation decision is a process that has been in place – and successful – for nearly two decades

Access to a global range of funds

Investors have access to other high-quality M&G Group investment companies like M&G Investment Management and M&G Real Estate and a number of external fund managers.

Team-based approach

T&IO use a team-based approach to reach a consensus house view. As part of the M&G group, T&IO draws upon the experience of hundreds of investment professionals both in the UK and around the world. And these investment teams are supported by experienced information and risk monitoring teams.

Governance framework

Governance and controls are particularly important for T&IO, and as such they work within a thorough and effective governance framework, so that each part of the investment process is reviewed and controlled at all times.

Demonstrable success

PruFund Growth's 15-year track record provides clear evidence of T&IO's ability to produce investment returns that help meet investor expectations over long periods and through difficult market conditions. The scale and breadth of assets under management means that T&IO is often a preferred counterparty in the marketplace, able to negotiate competitive terms and ensure a premium service is always provided.

Please remember that past performance should not be considered a reliable indicator of future performance.

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.

Commodities

These are raw materials and foodstuffs that can be divided into five main categories: Agriculturals (eg wheat and potatoes), Softs (eg coffee and cocoa), Precious Metals (eg gold and silver), Non-Ferrous Metals (eg copper and lead) and Energies (eg oil and gas).

Corporate Bond

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

CPI (Consumer Prices Index)

Measures the prices of a fixed 'basket of goods' bought by a typical consumer. Used as a measurement of inflation.

Deposit Account

A savings account from a bank or building society that pays interest on the amount of money held in it.

Diversification

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

Equities

Another name for shares held in a company or companies.

Fixed Interest Securities

More commonly known as 'bonds' these are loans issued by companies or by governments in order to raise money. Bonds issued by companies are called corporate bonds, those issued by the UK government are called gilts and those issued by the US government are called treasury bonds. In effect all bonds are IOUs that promise to pay a sum on a specified date and pay a fixed rate of interest along the way.

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 that account. 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.

Index-linked

The linking of a payment such as a pension to an inflation index – for example the Retail Prices Index (RPI) – with the aim of keeping pace with inflation.

Inflation

The rate of increase in the price of commodity products over time. This can affect the buying power of investments when cashed in at a future date.

Managed Fund

Usually a fund choice within a unit-linked policy. Managed funds are generally made up of units from a wide spread of other specialist funds or investments, thereby spreading the risk of volatility.

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.

Shares

See Equities.

Stockmarket

A place where shares or other securities are bought and sold, eg 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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