

Principles & Practices of Financial Management

(Applicable to PruFund With-Profits business issued by
Prudential Assurance Company to UK policyholders)

Contents

Introduction	4
A Purpose of the PPFM	4
B Principles and Practices	5
C Structure of M&G plc	5
C1 Company Structure	5
C2 Structure of PAC	5
C3 Information about relevant Companies (other than PAC)	8
D With-profits policyholders profit sharing	8
E Conduct of Business Sourcebook (COBS) – operation of with-profits business	8
F Policyholder and shareholder interests in the WPSF	10
G Risk management of PAC	10
H Governance arrangements for with-profits business	12
Principles and Practices of Financial Management	13
Section 1 – Determining With-Profits Policy Values	13
1.1 Introduction	13
1.2 Principles	13
1.3 Practices	14
Section 2 – Investment strategy	16
2.1 Introduction	16
2.2 Principles	16
2.3 Practices	17
Section 3 – Business Risks	19
3.1 Introduction	19
3.2 Principles	19
3.3 Practices	19

Section 4 – Charges and Expenses	21
4.1 Introduction	21
4.2 Principles	21
4.3 Practices	21
Section 5 – Management of the Inherited Estate	22
5.1 Introduction	22
5.2 Principles	22
5.3 Practices	22
Section 6 – Volumes of new business and arrangements on stopping new business	24
6.1 Introduction	24
6.2 Principles	24
6.3 Practices	25
Section 7 – Equity between with-profits policyholders and shareholders	26
7.1 Introduction	26
7.2 Principles	26
7.3 Practices	26
Appendix A	28
Summary of Abbreviations	28
Glossary	29

Introduction

A Purpose of the PPFM

In managing with-profits business, firms rely on their ability to use discretion, particularly in relation to the investment strategy adopted, and the smoothing and bonus policies used. The purpose of Prudential Assurance Company Limited (PAC)'s Principles and Practices of Financial Management (PPFM) document is to give a knowledgeable observer (e.g. a financial adviser) an understanding of the material risks and rewards from starting and continuing an investment in a with-profits policy with PAC.

This includes:

- explaining the nature and extent of the discretion available; and
- detailing how competing or conflicting interests or expectations of
 - different groups and generations of policyholders, and
 - policyholders and shareholders,are managed so that policyholders and shareholders are treated fairly.

PAC is committed to providing open and honest communications and we believe that the PPFM will help with that aim.

This PPFM covers all with-profits policies investing in PruFund issued in the UK by companies in M&G plc (i.e. by The Prudential Assurance Company Limited (PAC) and Prudential International Assurance plc (PIA))

The Principles and Practices set out in the PPFM do not apply to the overseas business written prior to 1 January 2019 in PAC's branches in Poland, France and Malta which on 1 January 2019 were transferred to PIA and reinsured into PAC, nor the PIA Poland business written from 1 January 2019 which is reinsured into PAC. They do, however, apply to off-shore business reinsured into PAC by PIA and Canada Life Assurance Europe Limited (CLE).

To fully understand the risks and rewards of effecting or holding a PAC with-profits policy, the reader should read this document in conjunction with product literature and read the whole PPFM and not just selected sections. In particular, Principles should be read with their associated Practices (see section B below). However, the PPFM is not a comprehensive explanation either of the management of the with-profits business of PAC or of every matter which may affect that business.

None of the contents of this document forms part of, or varies, the terms or conditions of any policy issued by any member of M&G plc. In the event of any inconsistency between the contents of this document and any policy, the terms and conditions of the policy prevail.

Statements within the PPFM are by their nature forward-looking statements that are subject to a variety of uncertainties; this document should be read in that context. In addition, no part of the document should be read as a recommendation to policyholders or potential policyholders or their advisers in relation to effecting or maintaining a with-profits policy. Accordingly, any person considering whether to effect or maintain a with-profits policy with any member of M&G plc should seek financial advice.

B Principles and Practices

In the PPFM we define the Principles and Practices used in managing PACs UK with-profits business.

- The Principles define the overarching standards adopted in managing PAC's with-profits business to maintain the long-term solvency of the fund for current and future policyholders and describe the approach used:
 - in meeting our duty to with-profits policyholders, and
 - in responding to longer-term changes in the business and economic environment.
- The Practices describe the approach used:
 - in managing PAC's with-profits business, and
 - in responding to changes in the business and economic environment in the shorter-term.

The contents of the PPFM are normally reviewed at least annually. The contents of the PPFM may be amended following such a review, either as the circumstances of M&G plc change or business or economic environments alter, or to reflect new product launches, or to reflect changes in the management of the with-profits business. Any proposed changes are reviewed by PAC's With-Profits Committee (WPC) (details of which are given in section H below) and are subject to approval by the Board. PAC will retain a record of each version of its PPFM for five years as per the requirements set out in the Financial Conduct Authority (FCA) Conduct Of Business Sourcebook (COBS).

In normal circumstances we would expect to give affected policyholders written notice at least 3 months in advance of the effective date of any material change to the Principles. There may be circumstances when changes

will be made without notice with the agreement of our regulators, the FCA and Prudential Regulatory Authority (PRA), or their successors.

We expect our Practices to be revised from time to time as both circumstances and the business environment change. We will notify affected policyholders in a reasonable period after the effective date of any such change, generally in their next annual statement and a summary of the changes is available at pru.co.uk.

The most important aspects of the PPFM have been summarised in customer friendly form called a Consumer Friendly PPFM (CFPPFM). We have a small number of different versions, each appropriate to particular products. CFPPFM's can be found at pru.co.uk/funds/ppfm.

C Structure of M&G plc

C1 Company Structure

The ultimate parent company of Prudential Assurance Company Limited (PAC) is M&G plc. M&G plc also owns, directly or indirectly, various investment management companies including Prudential Portfolio Management Group, M&G Group, and M&G Real Estate. A large part of PAC's assets are managed by these companies.

C2 Structure of PAC

PAC's principal activities are with-profits and non-profit life and pensions insurance business. For with-profits business, there are two sub-funds, the With-Profits Sub-Fund (WPSF) & the Defined Charge Participating Sub-Fund (DCPSF) described in paragraphs C2.1 and C2.2, which are collectively referred to as the With-Profits Fund throughout this document. PAC also conducts some general insurance business outside the With-Profits Fund.

The Prudential Assurance Company Limited (PAC)				
With-Profits Fund		Non-Profit Sub-Fund (NPSF)	General Insurance Fund	Other
With-Profits Sub-Fund (WPSF)	Defined Charge Participating Sub-Fund (DCPSF)			

This diagram does not indicate relative sizes.

PAC's life and pensions business is transacted mainly in the UK and is predominantly with-profits.

With-profits business is written in the With-Profits Fund and consists of with-profits policies which share in the amount of profit available for distribution among with-profits policyholders or shareholders, the divisible profit of PAC, as determined each year in accordance with the company's Articles of Association. The constituents of the divisible profit and the proportion attributable to policyholders may vary by product type; the proportion attributable to policyholders in the With-Profits Sub-Fund (see paragraph C2.1 below) may be varied by the company over time. The With-Profits Fund is divided into sub-funds to facilitate the management of the various risk-bearing and profit-sharing arrangements that apply.

The profits (if any) available to policyholders and/or shareholders vary between the sub-funds as described below.

C2.1 With-Profits Sub-Fund (WPSF)

The With-Profits Sub-Fund (WPSF) consists mainly of with-profits business, which is/was written by:

- PAC, both Ordinary Branch (OB) and Industrial Branch (IB),
- SAL, and transferred into PAC,
- PANL, and transferred into PAC, and
- SALAS, and transferred into PAC

The WPSF also contains a significant amount of non-profit business, which consists of:

- non-profit annuity business that has arisen from with-profits pension policies that were originally written in the WPSF,
- non-profit immediate and deferred annuities originally written by Prudential Annuities Limited (PAL) and transferred into the WPSF,
- other non-profit (including unit-linked) business written by PAC that is not allocated by the Board to the Non-Profit Sub-Fund (see paragraph C2.3 below), and
- non-profit life business and unit-linked life business originally written by SALAS

The WPSF contains the PAC inherited estate. This is the amount of money in the sub-fund in excess of that which the Board expect to be paid out to meet obligations to existing policyholders (see sections E and F below). The business written by PAC's Polish and Maltese branches and PIA Poland, are all treated on equal terms with PAC's UK business in relation to the support it receives from the PAC inherited estate.

With the exception of former SALAS policyholders, the divisible profit arising in the WPSF, including profit that arises on the non-profit business, is divided between with-profits policyholders and shareholders. The Articles of Association permit up to 5% of the divisible profit to be transferred to a contingency fund before the balance is divided between policyholders and shareholders. The proportion of divisible profit attributable to with-profits policyholders in the WPSF is defined by the Articles of Association as being at least 90%, with the balance attributable to shareholders. For the majority of business, the policyholders' proportion is currently 90%. Thus the WPSF is a "90:10" sub-fund. The shareholder does not receive any of the divisible profits shared with former SALAS policyholders.

C2.2 Defined Charge Participating Sub-Fund (DCPSF)

The Defined Charge Participating Sub-Fund (DCPSF) consists of two types of business.

The first type of business is the accumulated investment content of premiums paid (i.e. the accumulation of premiums less explicit charges) in respect of the Defined Charge Participating business, which is either:

- reinsured into PAC from PIA or other companies, or
- written through PAC's French branch (between 1 January 2001 and 31 December 2003), which was transferred from PAC to PIA on 1 January 2019 and reinsured back to PAC.

This business is defined as with-profits business on which policyholders incur only the charges stated explicitly in the policy (which include an annual management charge on the assets held within the DCPSF). The charges on the reinsured PIA business accrue to PIA, which bears all of the corresponding expenses. The charges on the

PAC France Branch business accrue to the Non-Profit Sub-Fund (NPSF), which bears all of the corresponding expenses. Hence, the shareholders receive any profits or losses arising from the difference between the charges and expenses on this business.

Bonus smoothing accounts for business reinsured in from PIA, and for business written by the French branch, are maintained in the inherited estate within the WPSF. These bonus smoothing accounts are credited or debited as appropriate with any difference between claim payments made from the DCPSF and the relevant policies' underlying asset shares. Separate bonus smoothing accounts are maintained for PIA products invested in the PruFund Range of Funds as described in paragraph 1.3.2.4. It is intended that these smoothing transfers should generate no net gain to either sub-fund over the long term.

The second type of business in the DCPSF is the with-profits annuities business transferred from ELAS on 31 December 2007.

For this business, the charges taken are defined within the ELAS Scheme of transfer. There is a 1% per annum deduction from the gross investment return credited to asset shares. This charge accrues to the NPSF, which bears all expenses; hence the shareholders receive any profits or losses arising from the difference between this charge and the expenses (including the capital charge payable by the NPSF to the WPSF) on this business. In addition, there is a maximum deduction of 0.5% per annum from the gross investment return per annum for the expected cost of guarantees. This charge accrues to the inherited estate within the WPSF, which bears the cost of the guarantees; hence the inherited estate within the WPSF receives any profits or losses arising from the difference between this charge and the actual cost of guarantees.

A separate bonus smoothing account for this business is maintained in the inherited estate within the WPSF. It is intended that transfers to and from this account should generate no net gain or loss to either the WPSF or DCPSF over the long term.

The profits allocated to the transferring ELAS annuities arise from the investment returns earned on the underlying asset shares (less the charges described above).

The profit in the DCPSF arises solely from investment performance and is entirely attributable to DCPSF policyholders (i.e. the DCPSF is a "100:0" sub-fund). DCPSF policyholder have no interest in the estate other than through the normal process of smoothing and meeting guarantees in adverse investment conditions. Therefore DCPSF policyholders have no interest in any possible distribution or reattribution of the PAC Inherited Estate.

C2.3 Non-Profit Sub-Fund (NPSF)

The NPSF consists of such non-profit and unit-linked business as has been explicitly allocated to this sub-fund by the Board.

It also includes non-PIA Defined Charge Participating business, excluding the business which was transferred from ELAS. The investment content of the Defined Charge Participating business held in the NPSF is allocated to the DCPSF. All charges for the Defined Charge Participating business held in the NPSF are credited to the NPSF, which bears all of the expenses of this business.

For the business transferred from ELAS (and which is allocated to the DCPSF), including that which on 1 January 2019 was transferred from PAC to PIA and reinsured back to PAC, the NPSF is credited with the value of a 1% per annum deduction from the gross investment return credited to the ELAS asset shares and bears all the expenses of this business. The NPSF pays an annual charge to the PAC inherited estate within the WPSF for the use of the economic capital supporting the business transferred from ELAS. This charge is calculated as 0.14% per annum of asset shares.

All the profit of the NPSF is attributable to shareholders (i.e. the NPSF is a "0:100" sub-fund).

C3 Information about relevant Companies (other than PAC)

C3.1 Scottish Amicable Life plc (SAL)

SAL was a wholly owned subsidiary of PAC until it was liquidated in 2011. SAL wrote unit-linked, non-profit and with-profits business from 1 October 1997 until 31 December 2002. At 31 December 2002, its business was transferred into the NPSF with the with-profits element allocated to the WPSF. All references in this PPFM to WPSF with-profits business apply to SAL with-profits business unless there is a specific reference to SAL business.

C3.2 Prudential (AN) Limited (PANL)

PANL was a wholly owned subsidiary of PAC until it was liquidated in 2012. PANL wrote new with-profits life business from 10 December 2002 to 11 August 2004 and wrote unit-linked pensions business until 31 October 2010. At 31 October 2010 its with-profits business was transferred into the WPSF and its non-profit business was transferred into the NPSF. Prior to the transfer, its with-profits business was wholly reinsured to the WPSF and its policies shared in the divisible profits of the WPSF alongside PAC policies. All references in this PPFM to the WPSF business also apply to the transferred PANL with-profits business.

C3.3 Prudential International Assurance plc (PIA)

PIA is a wholly owned subsidiary of PAC which has transacted Defined Charge Participating business since March 2002. In addition, on 1 January 2019 PIA accepted the business originally written by PAC's branches in Poland, Malta and France and the former ELAS business, that had been originally written in Germany and Ireland which was transferred from ELAS to PAC on 31 December 2007. From 1 January 2019, PIA has also written business through a branch in Poland. All of PIA's with-profits policies are reinsured into PAC. The with-profits business written by the PAC and PIA branches in Poland and the PAC Malta branch are reinsured into the WPSF, while the ELAS business is reinsured into the DCPSF. For the business written in PAC France and the Defined Charge Participating business written directly by

PIA, the investment content is reinsured in the DCPSF. For the Defined Charge Participating business written directly by PIA (including those policies written in Germany which were transferred to Canada Life Assurance (Europe) Ltd with effect from 1 January 2003), PIA and CLE pay an annual charge to the PAC inherited estate within the WPSF for the use of the economic capital supporting this business.

C3.4 Prudential Annuities Limited (PAL)

Prior to 1 October 2014, the WPSF owned PAL, a subsidiary company writing non-profit annuity business. PAL was established in 1992, but closed to new business in July 2004. The long-term insurance business of PAL was transferred to the WPSF on 1 October 2014.

D With-profits policyholders profit sharing

PruFund policyholders receive their fair share of divisible profits by means of an increase in the unit price at the Expected Growth Rate applicable to the selected fund, subject to adjustments when the unit price moves outside of specified limits.

E Conduct of Business Sourcebook (COBS) – operation of with-profits business

The operation of with-profits business is regulated by the rules and guidance set out in Chapter 20 of the Conduct of Business Sourcebook (COBS) of the FCA Handbook (formerly the Financial Services Authority (FSA) Handbook). With effect from 1 April 2012, the FSA (our regulator at that time) made certain changes to the rules and guidance set out in Chapter 20 of COBS in relation to protecting with-profits policyholders. PAC sought clarification from the FSA following these changes and received Individual Guidance in relation to the factors it is required to take account of on two specific issues:

- the writing of new business; and
- setting the risk appetite of its With-Profits Fund.

Following handover from the FSA to the FCA, the FCA confirmed during 2013 that the Individual Guidance previously issued by the FSA remained valid.

On the first issue of factors relevant to the writing of new business, the FSA confirmed that PAC is not generally constrained in its use of the inherited estate to support the writing of new business by any requirement to take into account the prospect that existing policyholders may otherwise have of receiving a distribution, or a greater distribution, from the inherited estate. The FSA, however, identified the following as constraints on the use of an inherited estate by a with-profits firm such as PAC:

- writing new business that is priced on terms that are unlikely to allow the products to be self-supporting over their duration;
- writing new business that at the time it is written is self-supporting but will not foreseeably be sold in sufficient quantities, such that the economic value of the future margins expected to emerge is not enough to cover the costs incurred in acquiring the business; and
- writing new business in volumes that increase at such a rapid rate that in the long term it has an adverse effect on a firm's financial strength.

In applying the above constraints on the use of an inherited estate for writing new business, the FSA noted that a proprietary with-profits fund such as PAC's is not required to take account of the tax liability arising on transfers to shareholders from the fund. The FSA further clarified that new business is not required to be self-supporting in the period temporarily following a material change in the business environment that is outside of a firm's control.

On the second issue, the FSA confirmed that in setting risk appetite and determining its approach to the cost of guarantees for its with-profits fund, PAC is generally not required to take into account the prospect of existing policyholders receiving a distribution out of the inherited estate. However, the FSA identified the following factors as relevant to the setting of a with-profits fund's risk appetite in this context:

- risk appetite should be understood to mean a firm's long term target position for the strength of its with-profits fund, underpinning its bonus and investment policy, which in conjunction with its available working capital, defines its ability to take risk from time to time;
- the risk appetite of a with-profits fund such as PAC's has to have regard not only to the financial strength of the fund, but also to representations that have been made by a firm to policyholders;
- whilst there is no requirement to take account of any interest of policyholders in a distribution of excess surplus when setting the risk appetite of a with-profits fund such as PAC's, a firm should not deliberately set or change its approach to risk appetite in order to prevent the emergence of excess surplus; and
- if a policy contains a guarantee, the pricing of the product should make proper allowance at the time it is written for the foreseeable cost of the guarantee(s).

Taking into account the Individual Guidance received from the FSA referred to above, PAC believes that its With-Profits Fund complies with the rules and guidance in Chapter 20 of COBS. PAC will therefore interpret the COBS rules and guidance, and operate the With-Profits Fund, having regard to the Individual Guidance. The comments made in sections F and G below take into account the Individual Guidance, and the discussions that accompanied it.

F Policyholder and shareholder interests in the WPSF

PAC is, and always has been, a proprietary company, and the whole of the WPSF is legally and beneficially owned by PAC.

PAC's WPSF includes an inherited estate. This is the amount of money in the sub-fund in excess of that which PAC expects to pay out to meet its obligations to existing policyholders.

The inherited estate represents the major part of the working capital of the WPSF. It is available to support both current and future new business in PAC's with-profits sub-funds and is used to provide solvency support, to allow investment freedom for policyholders' asset shares, and to provide the smoothing and guarantees associated with with-profits business. The Board seek to manage the PAC inherited estate so that it continues to provide adequate working capital for the future security and ongoing solvency of PAC's with-profits business. There is no specific target for the size of the PAC inherited estate.

Whilst the WPSF remains open and the inherited estate remains fully utilised in supporting current and expected future new business, PAC believes that policyholders' reasonable expectations, and the fair treatment of policyholders, requires that:

- (i) policyholders should receive benefits in line with asset shares (as defined in section 1) after the application of smoothing, or guaranteed benefits if higher, and
- (ii) PAC should seek to manage its with-profits business in such a way as to maintain a strong enough inherited estate in the WPSF to help protect the security of policyholders' contractual benefits, and to allow the continuation of investment freedom, smoothing and the meeting of guarantees. It should be noted that, although PAC seeks to maintain a strong inherited estate through the prudent management of the risks that it takes on, a reduction in the size of the inherited estate as a proportion of the WPSF could nevertheless occur, for example as a result of adverse market conditions.

In the circumstances where the inherited estate is fully utilised in supporting current and expected future new business, PAC does not consider that policyholders have any expectation of a distribution of the inherited estate, other than through the normal process of smoothing and meeting guarantees in adverse investment conditions. In addition, and as is set out in more detail in sections 5 and 6, in such circumstances PAC is not:

- (i) required to take into account in setting risk appetite, and in its approach to the costs of guarantees, the prospect of existing policyholders receiving a distribution out of the inherited estate; or
- (ii) constrained in the use of the inherited estate to support the writing of new business by a requirement to take into account the prospect that existing policyholders might otherwise have of receiving a distribution, or a greater distribution, from the inherited estate.

The approach taken by PAC in relation to conflicts of interest between policyholders and shareholders in relation to the management of the inherited estate is described in section 7.

The WPSF exists for the purpose of writing new with-profits business, and managing the risks inherent in this business for the benefit of both policyholders and shareholders. On this basis, PAC continues to write new with-profits business, and to manage the associated risks within the with-profits sub-funds, providing that the Board are satisfied that the new business is properly priced, the risks are properly managed, and the new business is likely to have no adverse impact on the reasonable benefit expectations of the company's in-force policyholders.

G Risk management of PAC

In managing risk, the Board is responsible for:

- (i) determining the company's risk appetite which, in conjunction with the available working capital, determines the company's risk capacity from time to time,
- (ii) determining the financial management framework within which the overall risk level of the company is managed, having regard to that risk capacity, and

(iii) managing the overall risk level of the company and the With-Profits Fund, including its sub-funds, having regard to that risk capacity and the financial management framework.

The WPSF's risk appetite defines the range of acceptable levels for the sub-fund's financial strength, and, together with the financial management framework, underpins how PAC manages its with-profits business, including setting bonus and investment policy (as described in sections 1 and 2) and the maximum limits, if any, which may be placed on new business volumes (as described in section 6). The risk appetite and financial management framework therefore provide the context within which decisions in relation to the management of PAC's with-profits business, including those which may involve conflicts of interest between policyholders and shareholders, are taken. Since, as discussed in section C, the DCPSF relies on the WPSF's inherited estate for capital support, decisions taken by the Board regarding the WPSF's risk appetite, risk capacity and risk level may affect all of PAC's with-profits policyholders.

The WPSF's risk appetite is set having regard to policyholders' reasonable expectations, based on PAC's policy documents, marketing information and other relevant materials. As noted in section F, whilst the WPSF remains open and the inherited estate continues to be fully utilised in supporting current and expected future new business, PAC does not consider policyholders' reasonable expectations to extend to any expectation of a distribution of the inherited estate, other than through the normal process of smoothing benefits and meeting guarantees in adverse investment conditions. Consequently, when setting the WPSF's risk appetite, PAC is not required to take into account the prospect of existing policyholders receiving a distribution out of the PAC inherited estate. Although the firm's risk appetite is not set having regard to policyholders' contingent interest in any possible distribution, or greater distribution, of the inherited estate, neither is it set so as to deliberately prevent any possibility of such a distribution being made.

The WPSF's risk appetite may be amended in response to significant changes in the company's long-term financial strength or business environment (such as following a change in the WPSF's regulatory solvency requirements).

However, the Board would consider with-profits policyholders' reasonable expectations at the time of making any change.

With-profits policyholders may be exposed to a range of business and investment risks specific to the type of product held; further details are provided in various sections of the PPFM as follows:

- The overall risk level of the With-Profits Fund reflects both investment risk and business risks, which are described in sections 2 and 3 respectively.
- The level of investment-related risk for all business depends on the extent to which the future asset and liability cash flows may differ, including the extent to which the capital value of assets may differ from the value of the underlying policy guarantees when those assets are realised to pay policy benefits. For with-profits business, this risk is closely inter-related with the bonus distribution policy which is described in section 1.
- The risk capacity of the With-Profits Fund depends on the amount of working capital available, which is provided primarily by the PAC inherited estate as described in section 5.
- The amount of working capital required is affected by the type and volume of new business written, as described in section 6.

The key risk for the With-Profits Fund results from holding a high proportion of real assets (e.g. equities and property) to back smoothed liabilities which incorporate guarantees (mainly in the form of basic sums assured and the accumulated regular bonus additions).

As discussed in section 5, the PAC inherited estate provides capital support for both UK and overseas business, and the risk level of the WPSF thus reflects the aggregate risk level of all of the sub-fund's with-profits business. The Board seek to ensure the fair treatment of policyholders in each territory, including that:

- (i) the business written in each territory has a similar aggregate level of risk, and
- (ii) an appropriate proportion of the inherited estate (which will generally be held in the UK) is denominated in the currency of the relevant territory.

H Governance arrangements for with-profits business

In addition to its other responsibilities, the Board is responsible for the management of the company's with-profits business, including investment and bonus distribution policy.

In line with industry-wide regulatory requirements, the Board has appointed:

- a Chief Actuary that provides the Board with certain actuarial advice, and fulfils various statutory duties under the new regulatory reporting regime introduced on 1 January 2016,
- a With-Profits Actuary, who reviews material relevant to the operation of the with-profits business, with the specific duty to advise the Board on the reasonableness of how discretion has been exercised in applying the PPFM and how any conflicting interests have been addressed, and
- a With-Profits Committee (WPC), comprising at least three members, all of whom are independent of PAC, which provides an independent assessment of the way in which PAC manages its with-profits business and how PAC balances the rights and interests of policyholders and shareholders in relation to its With-Profits Fund. The WPC terms of reference can be found at pru.co.uk/pdf/PRUAG01216.pdf

The company prepares an annual report to with-profits policyholders setting out how it has complied with the PPFM. This report, which is available on request and at pru.co.uk/ppfm, includes details of how discretion has been exercised, how any conflicts of interest between different groups or generations of policyholders, and between policyholders and shareholders, have been addressed and a report from the With-Profits Actuary which states whether he or she considers that the report and the discretion exercised by the company in the year may be regarded as taking policyholders' interests into account in a reasonable and proportionate manner.

The WPC has the duty to report to the Board, providing an assessment of compliance with the PPFM and how any conflicting rights have been addressed. If the WPC wishes to make a statement to with-profits policyholders in addition to the company's report described above, the company will make that report available. In addition, under the Scheme that transferred ELAS business to PAC, the WPC has responsibility for the application of some elements of discretion as defined by the Scheme.

Principles and Practices of Financial Management

Section 1 – Determining With-Profits Policy Values

1.1 Introduction

1.1.1 This section sets out the Principles and Practices we use to work out the pay-out values:

- the methods we use to work out the amount to pay to with-profits policyholders,
- the approach we take when we set Expected Growth Rates for PruFund business, and
- the approach we take for PruFund when the unit price moves out-with specified limits.

1.2 Principles

1.2.1 The company seeks to treat all with-profits policyholders fairly. We aim to provide:

- pay-out values on death or maturity that are fair between different policy types and different generations of policyholder, and
- pay-out values on surrender, transfer or retirement (other than at the selected retirement date) that are also fair between those policyholders leaving and those remaining in the sub-fund.

The company aims:

- to give each with-profits policyholder a return on the premiums paid reflecting the return on the underlying investments over the time the policyholder has held the policy, smoothing the peaks and troughs of investment performance, and
- to ensure that with-profits policyholders in each sub-fund receive a fair share of the profits distributed from that sub-fund to their policies.

1.2.2 To retain flexibility in our investment policy and to protect the With-Profits Fund, for most types of with-profits product we aim to keep a substantial proportion of pay-out values in non-guaranteed form (i.e. payable as final bonus) and determine regular bonus rates accordingly.

1.2.3 We set pay-out values by reference to the earnings of the underlying investments, except where guaranteed minimum benefits increase the total amount payable.

1.2.4 Our intention is that smoothing profits and losses should balance out over time, so that in the long run with-profits policyholders in each sub-fund, or within a product group with a specific smoothing account, neither gain nor lose as a result of our smoothing policy. The cumulative cost of smoothing is monitored. The short-term cost of smoothing is constrained only by the impact that smoothing costs have on the risk level of the sub-fund and hence on the security and reasonable benefit expectations of continuing policyholders.

1.2.5 Any change to the company's objectives and the methods used to achieve them, or any material change to the historical assumptions or parameters relevant to those methods (for example, previously applied investment returns, charges, or allocations of miscellaneous surplus), will be made as and when they are considered to be appropriate and compatible with treating customers fairly, and only with the approval of the Board. Certain changes in respect of the with-profits annuities transferred from ELAS would require review and approval by the With-Profits Committee, and in certain circumstances court approval may be needed.

1.3 Practices

1.3.1 Pay-out values

1.3.1.1 PruFund

The pay-out value for PruFund policies is the product of the number of units held and the unit price, less any deductions specified in the policy conditions, as at the date of the transaction. The unit price (before charges) changes on a daily basis at the relevant Expected Growth Rates (EGR) unless the unit price moves outside specified limits (see below). EGRs are annualised rates which are set quarterly by the Board, having regard to the investment returns expected to be earned on the assets of the funds over the long-term.

The difference between the unit price and the net asset value per unit is monitored and is adjusted in the following manner:

- On or between investment dates if the net asset value per unit and the 5 working day rolling average net asset value per unit are outside the daily smoothing limit, the unit price is adjusted so that it is within a defined gap (referred to as the gap after adjustment in policy literature).
- In addition on an investment date if the net asset value per unit is above or below the monthly/quarterly smoothing limit the unit price is repeatedly increased/ decreased by half of the difference until the difference is within the monthly/quarterly smoothing limit.

Each PruFund has its own daily smoothing limit, monthly/quarterly smoothing limit and gap after adjustment. These are detailed in policy conditions.

(i) Switches, transfers and withdrawals

Any cancellation of units as a result of switches, transfers or withdrawals from the PruFund Range of Funds may be subject to a delay of up to 28 days from the date of receipt of a request to cancel units. The unit price on the final day of the delayed period will be used as the price of the units for these purposes.

(ii) Unit Price Adjustments

As mentioned above if the unit price moves outside specified limits as detailed in the policy conditions a unit price adjustment will be applied. Additional unit price enhancements may be applied to eligible PruFund funds if the Board determines that there is an excess surplus in the WPSF as described in paragraph 5.3.2.

The company may reset the unit price of a fund to protect the With-Profits Fund, and the interests of all our With-Profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, but thereafter the unit price will continue to grow in line with the EGR of that fund.

The company may also suspend the smoothing of the unit price for a period of consecutive days to protect the With-Profits Fund, and the interests of all our With-Profits policyholders. In this situation the unit price would be adjusted to be the same as the net asset value per unit on that working day, and thereafter will continue to move in line with the net asset value per unit until the suspension of smoothing is lifted.

1.3.2 PruFund net asset value

1.3.2.1 Overview of PruFund net asset value

Net asset value is calculated as the accumulation of all items of income and outgo that are relevant to each policy type:

Income comprises credits for:	Premiums (purchase units) Investment return (including unrealised gains) Past excess surplus distributions of the inherited estate
Outgo comprises charges for:	Tax, including an allowance for tax on unrealised gains Guarantees and smoothing Mortality and morbidity Shareholders' profit transfers Expenses (net of any tax relief) Charges and/or commission (deducted by units or unit price) Payments (including regular withdrawals, full or partial surrenders or switches)

Further detail on the components of the income and charges is included below.

1.3.2.2 Investment Return

For PruFund policies, in accordance with policy provisions, the net asset value is credited with the investment return (including unrealised capital appreciation or depreciation) earned on the pool over each month. Hence, net asset value is not credited with any part of the investment return earned on the inherited estate. The range of asset pools is described in paragraphs 2.1 and 2.3.5. Within the remainder of this section net asset value is referred to as asset shares interchangeably.

1.3.2.3 Tax

For life assurance business, tax is payable on investment income and capital gains but is partially offset by tax relief on relevant expenses. Tax is charged to asset shares for life assurance product lines in the same way.

For approved pensions business, investment income and gains are not subject to UK taxation and likewise expenses are not relieved (except to the extent that they form part of the shareholders' profit on that business). However, there may be some with-holding tax paid on overseas investment income the impact of which can be reduced by tax relief.

PAC is assessed for tax as a single shareholder owned entity and the tax apportioned to sub-funds fairly, subject to the requirements that the amounts charged to each of the WPSF and DCPSF are not greater than those which would be charged if each sub-fund individually comprised the entire with-profits fund of a UK proprietary life insurance company.

Where applicable tax is charged to PruFund net asset value, through the net investment return, i.e. a deduction is made from the gross investment return in respect of the expected tax payable. This approach requires assumptions to be made about the deferral of realisation. These assumptions are reviewed on an annual basis or more regularly if required. Any difference between the assumed tax and the actual tax payable will be paid by the estate.

The tax rates assumed in calculating asset shares will be those applicable at the point the investment return is earned. However, should a significant change in tax rates

or the tax regime occur which would result in a material and unfair transfer of value between policyholders and the estate or between different generations of policyholder then we may make an adjustment to tax charged to asset shares historically.

1.3.2.4 Guarantees and Smoothing

For new WPSF business, an analysis is carried out from time to time to determine charges for smoothing and guarantees that the Board believe are reasonable and fair for each type of product. The charges deducted for smoothing and guarantees are credited to the inherited estate, which bears the costs of smoothing and guarantees as they emerge.

For in-force business, the company keeps the level of charges under review and may alter these if necessary to protect the solvency of the With-Profits Fund or to ensure the continued fair treatment of customers.

For each of the PruFund Range of Funds, except PIA products invested in PruFund, a smoothing account is maintained within the inherited estate of the WPSF. The account is credited with the charge taken to cover the cost of smoothing and is credited or debited as appropriate with any difference between the unit price and the net asset value per unit when units are created or cancelled as a result of premiums being received or claims being paid. For PIA products invested in PruFund, a separate business smoothing account is maintained within the inherited estate of the WPSF.

1.3.2.5 Shareholder Profit

For a WPSF with-profits policy (excluding former SALAS policies), the amount, or expected amount, transferred to shareholders in respect of the profit credited to the policy is deducted in calculating asset shares. The basis of determining the amount to be transferred to shareholders is described in paragraph 7.3.1. There is no such charge for a DCPSF, or former SALAS policy.

Additional tax is payable as a consequence of the transfer of shareholder profits out of the WPSF. This has always been charged to the inherited estate and it is expected that this will continue subject to the security of the sub-fund remaining satisfactory when the tax is paid (see paragraph 5.3.5).

1.3.2.6 Expenses and Commission

As described in paragraphs 1.3.2.5 and 3.3.3, certain costs allocated to the WPSF are charged to the inherited estate and not to asset shares.

All other expenses, including commission, allocated to the WPSF are split into acquisition and administration expenses, and expressed as some or all of a rate per policy, a rate per cent of premium, a rate per cent of sum assured and as a reduction in the investment return. The relevant combination of these expense rates is normally deducted in calculating asset shares.

However, the net impact of the charges to asset shares for expenses and for items 1.3.2.5 and 1.3.2.7 is limited as follows:

- for all new business since 1997, the aggregate projected deductions equals the aggregate projected policy-specific charges used when illustrating benefits at point of sale, while

for many pension contracts, the net impact of these deductions has been limited to 1% p.a. since April 2001; this level of charge is not guaranteed to apply in future.

1.3.2.7 Mortality and Morbidity

For with-profits business, a mortality charge is deducted in calculating asset shares. This charge is calculated by applying a mortality rate to the excess of the benefit on death over the current value of the policy. Any difference between the aggregate mortality charge and the cost of death claims each year accrues to the inherited estate. A similar approach applies for morbidity costs.

Section 2 – Investment strategy

2.1 Introduction

In this section we describe the significant aspects of our investment strategy, including the use of asset pools, which may consist either of physically separate assets or of notionally separate assets (also known as “hypothecated” asset pools), consisting of a different mix of the classes of assets held in a sub-fund.

Recent and historical information on the asset mix of the with-profits sub-funds is available from our website pru.co.uk.

2.2 Principles

2.2.1 The Board is responsible for setting the investment strategy of the company, and manages this strategy as part of the management of the overall risk level of the company and the With-Profits Fund. It determines investment policies for each asset pool that are compatible with the overall strategy and with maintenance of the ongoing solvency of the With-Profits Fund. The overall risk management procedure is described in section G.

2.2.2 The company’s investment strategy is to seek to secure the highest total return (allowing for the effect of taxation and investment expenses) whilst:

- maintaining an acceptable overall risk level (having regard to the currency, nature and outstanding duration of the liabilities) for the With-Profits Fund,
- maintaining an appropriate and broad mix of suitable investments, and
- protecting appropriately the relative interests of all groups of policyholders.

2.2.3 The company’s investment strategy permits the use of any investment instrument, including derivatives, provided the type has been approved by the Board, as recorded in the Investment Management Agreements between the company and its investment managers applicable from time to time.

2.2.4 The company seeks to include all with-profits policies in a common asset pool wherever it is appropriate for them to share a common investment policy. For the majority of products a single common asset pool is appropriate but the Board may decide that certain products require a separate pool, for example:

- to generate a different asset mix,
- to support a specific product feature,
- to support a product expressed in a different currency, or
- where required by legislation.

2.2.5 No investment strategy relies on assets outside of the asset pool unless their utilisation has been formally agreed by the Board.

2.2.6 All assets of the WPSF and the Defined Charge Participating Sub-Fund (DCPSF), other than any investments identified in paragraph 2.3.3, would normally be available to be traded.

2.3 Practices

2.3.1 The company reviews investment practices and policies at least annually and the Board approves any changes. The documentation supporting investment practices include:

- a list of approved types of investment (including types of derivatives),
- benchmark asset mixes for each asset pool,
- permitted variations (typically 5% of the asset pool) in asset mix as a result of tactical asset allocation decisions (i.e. if it is considered that investment returns over the shorter term are likely to differ significantly from the expected long-term returns),
- limitations on credit risk, and
- limitations on counterparty exposures.

The limits are set in accordance with the sub-fund's risk appetite as agreed by the Board. The risk appetite is determined on the assumption that the with-profits sub-funds are managed on a stand-alone basis, and do not rely on shareholder resources with the exception of the specific circumstances described in paragraph 5.3.6.

If the WPSF was operating materially outside of its risk appetite, the Board may exercise its discretion to address this. Increasing the proportion of lower risk assets such as fixed interest stocks and cash would typically be one of the actions that would be taken. An increase in lower risk assets up to a combined proportion of 100% of each sub-fund's assets may be made to protect the with-profits sub-funds in extreme investment conditions.

Derivatives are used for the purposes of Efficient Portfolio Management or reduction in investment risk. The main use is of:

- exchange traded futures to implement changes in asset mix, including tactical deviations from the strategic asset mix,
- options and futures to help match the liabilities arising from guarantee costs, and
- currency forwards to reduce the exchange rate exposure arising from holding overseas assets.

Investment in any appropriate new or novel investment instruments, or in any new country, which is proposed by the investment managers, requires Board approval prior to implementation.

2.3.2 The investment policy for with-profits business is to invest in a highly diversified portfolio of UK and overseas assets. This policy aims to avoid large losses connected with default or bankruptcy of an individual company and also generates country diversification. The assets may include any available assets which enhance the risk/return balance; they will consist mainly of exchange-traded equity and bond investments, but also include less liquid investments such as direct property or private equity and debt. The mix of assets held also takes account of the need to maintain adequate liquidity within the sub-funds. Liquidity is monitored on an ongoing basis to ensure the cash-flow requirements of the funds are met. The investments will not contain shares in M&G plc, but may contain shares in subsidiary companies of the M&G Group.

2.3.3 There are no assets of the WPSF or the DCPSF which would not normally be traded.

2.3.4 In setting the investment policies for the with-profits asset pools, the Board does not rely on assets held outside the pool except that:

- the investment policy for the WPSF with-profits pools have regard to the availability of shareholder resources as described in paragraph 5.3.6, and
- the DCPSF investment policy relies on capital support from an appropriate proportion of the inherited estate.

2.3.5 A separate asset pool will be established when there is a legal requirement or when the company identifies policies for which achievement of its overall acceptable risk level requires a significantly different asset mix. Any with-profits policyholder whose policy is not credited with the returns on the main WPSF asset pool has been informed of the asset pool backing the policy

Separate asset pools are usually maintained for each sub-fund. Within each sub-fund separate asset pools are held as appropriate to the different nature of the liabilities (e.g. with-profits, non-profit, unit-linked) and, usually, for liabilities in each different currency.

- For most WPSF policies assets are held within the main WPSF asset pool; however separate asset pools are operated for:
 - certain with-profits products which have a more cautious investment policy than the main WPSF asset policy (e.g. the PruFund Cautious Funds from the PruFund Range of Funds),
 - certain with-profits retirement annuity contracts expected to reach their vesting date in the near – to medium-term, where the guaranteed benefits significantly exceed asset shares and the likelihood of any final bonus becoming payable is regarded as remote*,
 - non-profit non-annuity liabilities within the WPSF, which are backed by a combination of government and corporate bonds of approximately the same overall duration as the liabilities,

- non-profit annuity liabilities within the WPSF, backed mainly by government, corporate and other bonds whose cash flows match the annuity liability cash flows as they emerge,

- assets backing the cost of guarantees and other liabilities on with-profits products, and

- assets backing the inherited estate.

- * The asset shares for this business continue to be credited with the return earned on the main WPSF asset share pool, but, for risk management purposes, the assets backing the policies are held in a separate asset pool to allow investment in assets that will closely match the expected liability cashflows.

For the non ELAS business in the DCPSF, there are two asset pools relating to liabilities denominated in the Euro and the US Dollar. DCPSF liabilities denominated in Sterling are backed by assets hypothecated from the WPSF.

The WPSF and DCPSF contain some 'Hypothecated' asset pools. The reason why we may use hypothecated asset pools is that where an asset pool is relatively small, the difficulties in obtaining a suitably diversified portfolio of actual assets, and the disproportionately high costs of administering a separate pool, mean that it is beneficial to hypothecate these assets as part of the main WPSF/DCPSF pool rather than hold them separately. However, investment returns for a hypothecated asset pool are calculated based on the asset mix that would apply if these assets were actually a separate pool.

2.3.6 A model is used to identify the range of asset mixes that would be consistent with the risk appetite of the WPSF (see section G) which has been set by the Board. The model allows for all significant types of investment risk, including mis-matching risk, market risk and credit risk.

2.3.7 There are significant variations in the practice for Risk Managed PruFund Funds where the asset mix is determined primarily with the aim of maximising the returns over the medium to long term for a pre-determined risk profile. The risk profile of these funds is managed by the company using long term volatility limits.

Section 3 – Business Risks

3.1 Introduction

The With-Profits Fund is exposed to business risk, which is defined as all risks (and rewards) of the long-term business other than those connected to investment returns (which are addressed in section 2). Business risks associated with new business volumes are detailed in section 6.

Business risks may arise from a range of factors, including changes in the economic and/or regulatory environment, demographic changes, product design features (e.g. guarantees), selling and marketing practices and currency and geopolitical risks. Material or significant business risks for the With-Profits Fund are set out in this section, along with the actions that are taken to manage and control these risks to protect the security of the With-Profits Fund and to limit any adverse impact on with-profits policies. The extent to which with-profits policies are exposed to these risks will inevitably change over time.

3.2 Principles

3.2.1 The Board is responsible for the control of business risks within the management of the overall risk level of the company and for the maintenance of the ongoing solvency of the With-Profits Fund. The overall risk management procedure is described in section G.

3.2.2 The Board seeks to ensure that:

- all material or significant risks are identified,
- an appropriate charge is made for all significant risks, and
- the sub-fund bearing a particular business risk receives such charges and any profits or losses arising from that business risk.

3.2.3 For products which are exposed to business risks, allowance will be made for all relevant profits and losses arising from business risks when determining pay-out values unless the Board has decided that specific losses will be borne by the inherited estate.

3.3 Practices

3.3.1 The Board considers the following when deciding on whether to accept a business risk in the With-Profits Fund:

- the risk capacity of the With-Profits Fund (as described in section G),
- the potential rewards to policyholders and shareholders,
- the possible impacts on different groups of policyholders; and
- regulatory requirements

3.3.2 The Board determines whether profits and losses from business risks are to be allocated to the inherited estate or to with-profits policyholders. Where they are attributed to with-profits policyholders they are generally allocated in accordance with where the relevant risk arises.

3.3.3 Some with-profits policies normally share in the profits or losses from business risks arising within the With-Profits Fund through the allowance for miscellaneous surplus or through the allowance for expenses included in the calculation of asset shares (see below for further details).

Profits and losses from business risks are managed to limit the impact on the inherited estate/ policyholders. The With-Profits Fund is currently exposed to the following key business risks;

- Market movements due to holding a high proportion of real assets to back smoothed liabilities which impact smoothing profits and losses. For PruFund business this is managed through Unit Price Adjustments and the ability to suspend smoothing of unit prices as described in section 1.3.1.1.
- Mortality risk arising from WPSF with-profits business. This is managed through the new business underwriting process and through regular investigations of mortality trends. Profit and losses arise from any difference between the amount charged to asset shares and the actual mortality cost incurred.

- Cost of guarantees from WPSF as well as DCPSF business transferred from ELAS. Profits and losses arise from any difference between the amount charged to asset shares and the actual cost of guarantees. The With-Profits Fund currently has a modest exposure to:
 1. guaranteed annuity rates although derivatives have been purchased to reduce the impact of any substantial reduction in fixed interest yields on the cost,
 2. guaranteed minimum bonus rates on some group cash accumulation business at 4.75% p.a., 2.5% p.a. or 0.01% p.a. depending on when premiums were paid, and
 3. guaranteed minimum bonus rates on former SALAS business of 0.1%p.a. or 4%p.a. depending on when units were purchased.
- Expense risk which is controlled as part of the budgetary process, but may also increase as a result of poor persistency or where fewer new policies are written compared to those claiming.
- UK Non Profit business written in the WPSF (mainly immediate annuities and term assurance, but also some whole of life, endowment assurance and deferred annuity business). This risk is managed through the selection of assets that closely match the nature of liabilities. The main risks from non-profit annuity business are:
 1. a higher than anticipated increase in life expectancy for annuitants, or
 2. a higher than anticipated default rate on the associated assets (mainly bonds), or
 3. a widening of credit spreads on the associated assets
- Regulatory breaches and operational risks including product mis-selling or the issue of misleading literature. A Parental Support Arrangement (see paragraph 3.3.4 below) is in place to allow PAC to meet its obligations under the PAC personal pensions mis-selling review without impacting the pay-out values of certain WPSF policies.
- Group Risk to which exposure is limited because the with-profits funds are administered in many respects in isolation from other business in PAC.

Profits and losses arising from smoothing, guarantees and any difference between the amount charged to asset shares for mortality risk and the actual mortality cost incurred for with-profits business accrue to the inherited estate.

3.3.4 As part of the management of PAC's risks in respect of pension mis-selling costs, PAC and M&G plc have entered into a legally enforceable Parental Support Arrangement (PSA) under which M&G plc has committed to provide PAC with capital support in the event of the solvency of either of PAC's with-profits or shareholder fund falling to 105% of its Solvency II capital requirement, with each fund being assessed on an internal stand-alone basis. The capital support is intended to allow PAC to meet its obligations under the PAC Pension mis-selling cost assurance for with-profits business (see paragraph 5.3.6) and is partially secured against collateral held elsewhere in M&G plc's group of companies. The secured element of the support commitment can also be drawn upon to support PAC's shareholder business if certain triggers are met (in which case, PAC would be expected to demonstrate it can still meet its obligations under the Pension mis-selling cost assurance). The PSA does not place any obligation on PAC to repay any support it receives from M&G plc, however, support could potentially be returned to M&G plc provided this did not prevent PAC from meeting its obligations under the PAC Pension mis-selling cost assurance, or result in a trigger for drawdown of the support being breached.

The aggregate amount of support under the PSA mirrors the PAC Pension mis-selling cost assurance for with-profits business, and both the secured and unsecured elements increase or run-off in line with the PAC Pension mis-selling cost assurance. The PSA would terminate if PAC ceased to be part of the same group as M&G plc. In this event, PAC and M&G plc would be obliged to use best endeavours to secure replacement capital support arrangements, so that PAC was reasonably satisfied that appropriate capital support will be available or that it will be appropriately capitalised, such that it could reasonably be expected to meet its obligations under the PAC Pension mis-selling cost assurance.

Section 4 – Charges and Expenses

4.1 Introduction

In this section we describe the way in which we allocate expenses and apply charges to our with-profits business.

4.2 Principles

4.2.1 The overall aim of the expense charging and allocation methodology is to seek to ensure that all expense allocations are fair between policyholders and shareholders, between different sub-funds and between different groups of policyholders.

4.2.2 The principle underlying the company's expense allocation methods is that all expenses should be allocated on a consistent basis according to the nature of the activity or where the resulting benefit is expected to arise.

4.2.3 Any significant change to our bases and methods of expense allocation and apportionment, or of exercising discretion to apply expenses to particular categories of business, would be made only if consistent with the above Principles.

4.3 Practices

4.3.1 Total PAC costs are allocated to sub-funds and product groups using methods that ensure that each sub-fund and product group receives all of its direct expenses and an appropriate share of all other expenses, including overhead expenses. Any significant change to our expense allocation methods would be approved by the Chief Actuary, the With-Profits Actuary and the Chief Financial Officer of PAC.

4.3.2 Paragraphs 1.3.2.6 and 5.3.5 set out how (if at all) charges for expenses affect pay-out values.

4.3.3 All but a small volume of services are provided under formal intra-group or contractual third party outsourcing arrangements. External arrangements are provided at market prices. Intra-group arrangements are provided at cost, or subject to a profit margin or target profit level that is appropriate for the risks taken by, and the capital requirements of, the service provider. Fees for investment management services are subject to a profit margin.

4.3.4 All outsourcing arrangements, whether intra-group or with third parties, are reviewed regularly to confirm that they remain appropriate and are operating in accordance with the relevant agreement between PAC and the service provider. Fees are re-negotiated when appropriate. The two most significant intra-group arrangements (for investment management and policy administration) can be terminated at 12 and 6 months notice respectively.

4.3.5 The Chief Actuary and the With-Profits Actuary review each year the fairness to each category of with-profits policy of the expense allocation and associated practices, including intra-group and external servicing and reinsurance agreements. This review also considers the fairness to with-profits policyholders of any intra-group asset transfers (e.g. of infrastructure) and the exercise of discretion to apply expenses to particular categories of policy.

4.3.6 The With-Profits Committee considers the costs incurred in operating the with-profits fund (including an annual review of the cost apportionment methodology and results) and any other costs associated with current or future operational, transformational or investment project supported by the assets of the with-profits fund.

Section 5 – Management of the Inherited Estate

5.1 Introduction

5.1.1 An inherited estate is the amount of money in a with-profits fund in excess of the amounts that a company expects to pay out (as described in section 1) to meet its obligations to existing policyholders. The inherited estate, like the whole of the With-Profits Fund, belongs to the company, and the Board decide how it is used to support the with-profits business.

5.1.2 The inherited estate has arisen over many years from a number of sources. PAC believes that no group of in-force policyholders has made any contribution to the inherited estate.

5.1.3 This section describes the inherited estate in the WPSF, and describes how it is managed and the uses to which it may be put.

5.2 Principles

5.2.1. The company seeks to manage the inherited estate held in the WPSF so that it continues to provide adequate working capital for the future security and ongoing solvency of the With-Profits Fund.

5.2.2. The Board manages the overall business having regard to the size of the inherited estate. This reflects the inherited estate's role as the working capital of the With-Profits Fund which largely determines the risk capacity of the fund. The inherited estate absorbs, at least in the short term, the impact of any substantial changes affecting the With-Profits Fund. There is no specific target for the size of the inherited estate.

5.3 Practices

5.3.1. Whilst the With-Profits Fund remains open and the inherited estate remains fully utilised in supporting current and expected future new business, PAC does not consider that policyholders have any expectation of a distribution of the inherited estate, other than through the normal process of smoothing and meeting guarantees in adverse investment conditions.

Accordingly, PAC is not constrained in its use of the inherited estate to support new business written on the basis described in section 6 by a requirement to take into account the prospect that existing policyholders might otherwise have of receiving a distribution, or a greater distribution, from the inherited estate. In setting risk appetite and in its approach to the cost of guarantees, PAC is similarly not required to take into account the prospect of existing policyholders receiving a distribution out of the inherited estate.

5.3.2. If, in the opinion of the Board, the WPSF's inherited estate was no longer fully utilised in supporting current and expected future new business, then an "excess surplus" would exist in the sub-fund. In such circumstances, the Board would comply with the insurance company regulations regarding the treatment of excess surplus that were in force at the time the excess surplus arose. The current regulations state that if a firm has a with-profits fund containing an excess surplus, and to retain that surplus would be a breach of the FCA's and PRA's Principle 6 (Customers' interests), then the firm should make a distribution from that with-profits fund. Whilst former SALAS policyholders are invested in the WPSF they are not eligible for distributions from the PAC inherited estate. Any distribution could be permanent or subject to clawback. If the WPSF was operating materially outside of its risk appetite, the Board may exercise its discretion to address this. The clawback of excess surplus previously distributed to non PruFund with-profits policyholders would be one of the actions that could be taken. Whilst former SALAS policyholders are invested in the WPSF they are not eligible for distributions from the PAC inherited estate.

If the With-Profits Fund were to close to new with-profits business then this is unlikely to lead to any immediate reduction in the requirement to maintain the inherited estate as, in such circumstances, it is likely that it would be fully utilised as working capital to support the in-force business. If the With-Profits Fund were to close to new with-profits business, we would review our practices to ensure the continuing fair treatment of remaining with-profits policyholders.

5.3.3. The inherited estate currently supports the with-profits business in-force, and the new with-profits business being written in the With-Profits Fund on the basis described in section 6, by:

- providing the benefits associated with smoothing and guarantees,
- permitting investment flexibility for the sub-fund's assets, and
- meeting the regulatory capital requirements, which demonstrate solvency.

Transfers to or from the inherited estate occur every year as part of the normal process of smoothing pay-out values; larger transfers from the inherited estate may occur as a result of meeting guarantees in adverse investment conditions.

In return for the support the DCPSF receives from the inherited estate (see C2.2) the DCPSF pays the inherited estate an annual charge.

5.3.4 The inherited estate may also be used for any other purposes as considered appropriate by the Board. This may include implementing inter-fund transactions with the other sub-funds which are appropriately priced and absorbing the costs of significant events, such as a fundamental change in its long-term business. The costs of fundamental change may include investment in new technology, redundancy and restructuring costs, regulatory and legal change and the funding of other appropriate activities related to long-term insurance, including acquisitions.

5.3.5 Currently, the inherited estate bears the following costs:

- the additional tax payable as a result of the distribution to shareholders of their part of the WPSF divisible profit, as permitted by insurance company regulations, (see paragraph 1.3.2.5), and
- in respect of business issued by Scottish Amicable Life plc, any cost of shareholder transfer in excess of the difference between the level of charge deducted and the level of expenses incurred, and

- any difference between the assumed tax and the actual tax payable will be paid by the estate. (See paragraph 1.3.2.3)

These items will continue to be charged to the inherited estate only for as long as the security of the sub-fund remains satisfactory at the time the cost is paid.

5.3.6 The Board decided that the costs associated with the PAC personal pensions mis-selling review should be met from the inherited estate. As these costs were deemed unusual the Board determined that they should not impact the pay-out values of WPSF policyholders. This led to the company providing assurances that the resulting reduction in the inherited estate would not impact the bonus or investment policy for WPSF policies. If pay-out values were impacted, the company would make available support to the WPSF from shareholder resources for as long as the situation continued so as to ensure that WPSF policyholders were not disadvantaged.

The assurance was designed to protect both existing WPSF policyholders at the date it was announced, and policyholders who subsequently purchased policies while the pension mis-selling review was continuing. Therefore the assurance will continue to apply to any WPSF policy in force as at 31 December 2003, both for premiums paid before 1 January 2004 and for subsequent regular premiums (including future fixed, retail price index or salary-related increases and Department for Work and Pensions rebates).

The assurance does not apply to new WPSF business issued since 1 January 2004. New business in this context consists of new policies, new members to existing pension schemes plus regular and single premium top-ups, transfers and switches to existing arrangements.

The amount of capital support available under the terms of the assurance will reduce over time as the company pays claims on the policies covered by the assurance.

The bonus and investment policy for each type of WPSF with-profits policy is currently the same irrespective of whether or not the assurance applies. Hence removal of the assurance for new business has had no impact on policyholder returns and this is expected to continue for the foreseeable future.

5.3.7 The investment strategy for the inherited estate, excluding any assets which would not normally be traded (see paragraph 2.3.3), is determined in accordance with the overall investment strategy (see section 2).

The inherited estate currently has a different asset mix to that of the assets backing with-profits policies. This is to help meet guarantees and maintain regulatory solvency in adverse market conditions. The asset mix of the inherited estate is regularly reviewed to ensure it remains appropriate.

5.3.8 There is no specific target for the size of the inherited estate. However, a significant reduction in the size of the inherited estate as a proportion of the With-Profits Funds, or a significant increase in the With-Profits Funds' regulatory capital requirements as a proportion of the inherited estate, would be likely to result in the WPSF being materially outside of its risk appetite. The Board may choose to exercise its discretion to address this. For example:

- Vary the smoothing limits or suspend smoothing as described in paragraph 1.3.1.1
- Reduce regular and/or final bonuses for non PruFund business
- In determining the MVR for non PruFund business
- Review the surrender basis for non PruFund business
- Increase the charges for guarantees on in force business as described in paragraph 1.3.2.4
- Alter the arrangement whereby additional tax payable as a consequence of the transfer of shareholder profits out of the WPSF is charged to the inherited estate as described in paragraph 1.3.2.5
- Retain miscellaneous surplus normally credited to non PruFund business
- Increase the proportion of fixed interest stocks and cash as described in paragraph 2.3.1
- Clawback previously distributed excess surplus as described in paragraph 5.3.2
- Restrict new business volumes as described in paragraph 6.3.4

Section 6 – Volumes of new business and arrangements on stopping new business

6.1 Introduction

6.1.1. PAC is currently open to new with-profits business, which may be written in the UK or overseas in either the WPSF or the DCPSF.

6.1.2. In this section we describe the principles and practices that we adhere to when writing new with-profits business which includes the way in which we review limits on the quantity and type of new business accepted and the actions we would take if we ceased to take on a significant amount of new business.

6.2 Principles

6.2.1. The Board manages the types and volumes of new business accepted as part of its management of the overall risk level of the company and for the maintenance of the ongoing solvency of the With-Profits Fund.

6.2.2. In the event that the With-Profits Fund became closed to with-profits business or the volume of new with-profits business became negligible, it would be necessary to review the position and put in place a plan for the management of the inherited estate over the long term. Any proposal for the reattribution, or the ultimate distribution, of any part of the inherited estate between policyholders and shareholders would need to take into account all the relevant factors and claims on the estate.

6.3 Practices

6.3.1 PAC seeks to write new with-profits business in the WPSF which is expected to be financially self supporting over the lifetime of the contracts at the point the pricing assumptions are set. PAC performs an annual test to ensure that this is the case. However, new business may temporarily not be self supporting following a material change in the business environment which is outside of the firm's control. This reflects the fact that business cannot necessarily be re-priced immediately, and that the change in business environment (for example a market fall) may, in good faith, be believed to only be temporary.

6.3.2 Where the business is not expected to be financially self-supporting at the point the pricing assumptions are set, shareholders will make an appropriate contribution to the WPSF. PAC follows an approach to the minimum technical pricing of open product lines to ensure that the interests of its policyholders and shareholders are protected at the point of sale. Given this approach, when writing new business, PAC is not constrained by any requirement to take into account the prospect that existing policyholders might otherwise have of receiving a distribution, or a greater distribution, from the inherited estate in the event of an excess surplus arising in the WPSF.

6.3.3 In considering whether new business is self supporting, it should be noted that as the tax liability on shareholder transfers is paid by the Inherited Estate (see paragraph 5.3.5) this is excluded from the test to determine the supportability of new business.

6.3.4 As explained in section G, the Board manages the types and maximum volumes of new business accepted by the company and its subsidiary, PIA, having regard to the WPSF's risk appetite. If the WPSF was operating materially outside of its risk appetite, the Board may exercise its discretion to address this. Reviewing the types and volumes of new business being accepted by the with-profits sub-funds would typically be one of the actions that would be taken.

6.3.5 There is no immediate prospect of the company closing the WPSF to new with-profits business. Although it is not easy to predict the circumstances under which such a decision would become appropriate, it might occur if the volume of new business declined to a negligible level and there was no apparent prospect of the volume recovering. However, as detailed in section 5 if the WPSF were to close to new with-profits business we would review our practices to ensure the continuing fair treatment of remaining with-profits policyholders. The closure of the WPSF to new with-profits business is unlikely to lead to any immediate reduction in the requirement to maintain the inherited estate as, in such circumstances, it is likely that it would be fully utilised as working capital to support the in-force business.

6.3.6 The Board may impose a limit on the size of investments held by one individual, if necessary to protect the With-Profits Fund.

Section 7 – Equity between with-profits policyholders and shareholders

7.1 Introduction

7.1.1 As with all proprietary with-profits sub-funds, the normal operation of the WPSF results in conflicts of interest arising between policyholders and shareholders, and between different groups of policyholders, and PAC seeks to resolve these conflicts of interest fairly. While the company remains open, and the inherited estate remains fully utilised in supporting current and expected future new business, PAC recognises the following interests:

- (i) policyholders' interests in relation to the maintenance of their reasonable benefit expectations, including the security of their guaranteed benefits; and
- (ii) shareholders' interests in the continuing operation of the business, including writing new business, and managing the market, credit, insurance and other risks associated with that business.

7.1.2 This section of the PPFM describes how the Board balance the interests in the WPSF of with-profits policyholders and shareholders. Further information on how the Board manage conflicts of interest in relation to the inherited estate, and the writing of new business in the WPSF, is given in sections 5 and 6 respectively.

7.1.3 In managing conflicts of interest between with-profits policyholders and shareholders, PAC's philosophy is that policyholders' reasonable expectations are created and influenced primarily by policy documents and other relevant materials that are published by PAC. Policyholders' reasonable expectations may therefore evolve over time but, once created, the Board consider that the WPSF should be operated in a way that has regard to those expectations.

7.1.4 As set out in section C, profits of the DCPSF are attributable wholly to DCPSF policyholders, and profits of the NPSF are wholly attributable to shareholders. Therefore, issues of equity between policyholders and shareholders for these sub-funds are largely confined to the equity of the expense apportionment (see section 4).

7.2 Principles

7.2.1 The company seeks to treat all customers fairly at all times, balancing any conflicting interests that arise between the various groups and generations of policyholders or between policyholders and shareholders.

7.2.2 The proportion, or minimum proportion, of the relevant divisible profit (as defined in section C2) to be allocated to each type of with-profits policy is specified via the sub-fund structure, as described in section C. The actual proportion applicable in the WPSF may be varied from year to year, any substantial overall reduction in the policyholders' proportion being subject to specific regulatory requirements.

7.3 Practices

7.3.1 Bonuses and pay-out values are determined as set out in section 1 and the divisible profits are calculated, after any transfer to a contingency fund, as an amount equal to the cost of bonuses on the regulatory reporting basis plus the associated shareholder transfer. For this purpose:

- the cost of regular bonuses is the amount added to policyholders' accounts, or in the case of conventional with-profits business, the change in guaranteed liability on the statutory reporting basis as a result of the bonus addition, reduced by the cost of guaranteed bonuses on Group Cash Accumulation business,
- the cost of final bonuses is determined from the amount paid on claims, net of any market value reduction,
- the cost of bonus for PruFund business is the difference between the smoothed claim value and the premiums invested, and
- the cost of bonus is adjusted for any difference between the actual cost and the expected cost of the previous year's bonuses, including the amount of final bonus allowed for in paid-up policy, surrender and transfer values after the application of any MVR.

Taxation on all With-Profits Fund assets is provided for (and in due course paid from) the appropriate sub-fund before determination of the divisible profit.

The distribution to shareholders of their part of the WPSF divisible profit is determined based on the cost of bonus above. The additional tax payable by the With-Profits Fund as a result of the distribution of profit to shareholders is paid from the inherited estate (see paragraph 1.3.2.5).

7.3.2 If the regulators change the statutory reporting basis, which is used to calculate the cost of bonus, the impact would need to be assessed at that time. A change in the basis for calculating the cost of bonus would not normally lead to any change in the division of profits between policyholders and shareholders; however, the allocation would be reviewed on any major change in the valuation approach.

7.3.3 PAC's governing body will take the interests of both policyholders and shareholders into account in decisions it takes in relation to the operation of PAC's with-profits business.

7.3.4 As part of treating with-profits customers fairly the Board has determined that:

- it may change the allocation of new non-profit business between the WPSF and the NPSF; any such amendments will not adversely affect the rights of WPSF with-profits policyholders at the time of the amendment to share in the profits from existing non-profit business then within the WPSF;
- any transfer of assets or business out of the With-Profits fund or between sub-funds which might affect with-profits policyholders must be at fair value (i.e. on market related terms);
- it will consider the suitability for the With-Profits Fund of any investment proposed for the benefit of the company as a whole and only accept into the With-Profits Fund:
- investments which, by the nature of the asset, could be a natural part of the investment portfolio (e.g. an initial investment in a new unit trust); these investments are made subject to any additional costs or risks being compensated for appropriately, or

- investment in a subsidiary where the underlying business has similar risks to insurance business which the With-Profits Fund might write directly. The aggregate size of such subsidiaries is limited by the constraints implied by the management of the overall risk level of PAC.
- PAC will seek to price new with-profits business in the WPSF such that it is expected to be financially self supporting (as described in section 6) over the lifetime of the business at the point the pricing assumptions are set. As is further described in section 6, where the business is not expected to be financially self-supporting at the point the pricing assumptions are set, shareholders will make an appropriate contribution to the WPSF.

7.3.5 PAC recognises that, while the consideration of investment returns and costs and charges are key factors when assessing value for money for customers, there are other factors that also need to be considered. For example, customer experience and the strength of our control environment are also key factors that we take into account when assessing, from a customer's viewpoint, whether the overall proposition is delivering value for money for customers.

Appendix A

Summary of Abbreviations

Abbreviation	Definition
ABR	Anticipated Bonus Rate (applicable to With-Profits annuity only)
CFPPFM	Consumer Friendly Principles and Practices of Financial Management
CLE	Canada Life Assurance Europe Limited
COBS	Conduct of Business Sourcebook
DCPSF	Defined Charge Participating Sub-Fund
ELAS	Equitable Life Assurance Society
FCA	Financial Conduct Authority
FSA	Financial Services Authority (replaced by PRA and FCA in 2013)
GIR	Guaranteed Interest Rate (applicable to ELAS annuity only)
IRR	Interim Rate of Return (applicable to ELAS annuity only)
NPSF	Non-Profit Sub-Fund
ORR	Overall Rate of Return (applicable to ELAS annuity only)
PAC	The Prudential Assurance Company Limited
PAL	Prudential Annuities Limited
PANL	Prudential (AN) Limited
PFM	Principles of Financial Management (for ELAS)
PIA	Prudential International Assurance plc
PPFM	Principles and Practices of Financial Management
PRA	Prudential Regulation Authority
SAA	Scottish Amicable Account
SAL	Scottish Amicable Life plc
SALAS	Scottish Amicable Life Assurance Society
WPSF	With-Profits Sub-Fund
SAIF	Scottish Amicable Insurance Fund
SAL	Scottish Amicable Life plc
SALAS	Scottish Amicable Life Assurance Society
WPSF	With-Profits Sub-Fund

Glossary

Term/Phrase	Definition
Accumulating with-profits	A form of with-profits fund where the investor buys units whose value increases in line with any declared regular bonuses and to which a final bonus may be added when the units are cashed in.
Aggregate asset share	Total asset share for the specified product line.
Asset share	The premiums paid, less deductions for partial encashment of benefits, expenses, guarantees, tax and other charges, plus any allocations of miscellaneous profits accumulated at the investment return achieved on the relevant assets of the with-profits fund.
Benchmark (asset mix)	The target fund investment position, typically expressed as the target percentages of the total asset holdings to be invested in certain asset classes such as equities and fixed interest. Often used to measure fund performance or set investment limits.
Board	The Prudential Assurance Company Limited Board of Directors is the group of individuals elected by its shareholders to represent them in overseeing management of the company. They are responsible for ensuring the company manages the With-Profits Fund in line with the Principles and Practices set out in this document.
Bonus year	Bonus rates are calculated or applied according to a Bonus year rather than a calendar year – for most products the Bonus year runs from 1st April to 31st March (for PruBond products the Bonus year runs from 1st March to 28th February).
Cash claim value	The amount of transfer value required to support the annuity where policyholder benefits are expressed as an annuity per annum.
Chief Actuary	The Chief Actuary is a Fellow of the Institute and Faculty of Actuaries appointed by a company to provide certain actuarial advice to the company's Board, and fulfil various statutory duties under the new regulatory reporting regime introduced on 1 January 2016.
Conventional with-profits	Conventional with-profits contracts have a basic sum assured to which bonuses are added. The basic sum assured is the minimum amount paid out on a claim.
Counterparty exposures	The risk to each party of a contract that the counterparty will not live up to its contractual obligations.
Defined Charge Participating	Business with explicit defined charges that are invested in the 100:0 Defined Charge Participating Sub-Fund (DCPSF). This includes with-profits annuity business originally transferred from ELAS.
Divisible profits	Profits arising that can be distributed to policyholders and, if applicable, shareholders.

Term/Phrase	Definition
Efficient portfolio management	This is the construction of an asset portfolio so as to achieve the maximum expected return for a given level of risk.
Endowment assurance	A life assurance policy that pays out a lump sum after a specific period of time or on the earlier death of the policyholder. An endowment assurance can be used as a vehicle for saving or as a way to repay a mortgage.
Excess Surplus	When we have more than we need in the inherited estate and decide it would be fair to share some of it with some of our plan holders.
Final Bonus (also known as Terminal or Additional Bonus)	A bonus which may be applied on exit from the fund. Final bonus is not guaranteed and can be removed at any time.
Individual Guidance	Specific guidance from the regulator that applies to a particular individual or company, reflecting their particular circumstances, rather than general guidance relating to all (relevant) individuals or companies
Industrial Branch (IB) Business	Business sold door-to-door by agents who collected the premium in cash. Generally whole of life or endowment plans. These products are no longer sold.
Inherited estate	An inherited estate is the amount of money in a with-profits fund in excess of the amounts that a company expects to pay out to meet its obligations to existing policyholders. In respect of with-profits policyholders, these latter amounts are equal to the policyholders accumulated asset shares, plus any additional payments that may be required by way of smoothing or to meet guarantees.
Interim Bonus	A bonus added when maturity of a with-profits policy or death of the assured occurs between normal bonus declaration dates.
Investment Return	The return achieved (profits and losses) from an investment used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments.
Longevity risk	The risk to which the company could be exposed as a result of customers living longer than expected.
Market Value Reduction (MVR)	When money is taken out of an accumulating/unitised with-profits policy, an adjustment may be made to the value of the withdrawal if the value of the underlying assets (asset share) is less than the value of the policyholder's plan including bonuses (claim value). This adjustment is known as a market value reduction.
Mortality costs	The cost of providing life cover. The face amount of the policy multiplied by the probability that it will have to be paid out as a claim on death.

Term/Phrase	Definition
Net asset value	The unsmoothed fund value for PruFund investments
Net asset value per unit	The unsmoothed unit price for PruFund investments.
Ordinary Branch (OB) Business	Business for which premiums are paid by cheque, direct debit or other banking means and not with a cash payment (as opposed to Industrial Branch business).
Principles	The Principles define the overarching standards adopted in managing PAC's with-profits business to maintain the long-term solvency of the fund for current and future policyholders and describe the approach used: <ul style="list-style-type: none"> • in meeting our duty to with-profits policyholders, and • in responding to longer-term changes in the business and economic environment.
Practices	The Practices describe the approach used: <ul style="list-style-type: none"> • in managing PAC's with-profits business, and • in responding to changes in the business and economic environment in the shorter-term.
PruFund	The PruFund range of funds aim to grow your money over the medium to long term, while protecting you from some of the 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.
Regulatory Solvency	The required minimum level of assets in excess of liabilities including any required regulatory buffer.
Reversionary / Regular bonus	A bonus applied on a regular basis to the policy which, once added, cannot be removed.
Risk appetite	PAC's long term target position for the strength of its With-Profits Fund, underpinning its bonus and investment policy, which in conjunction with its available working capital, defines its ability to take risk from time to time;
Risk capacity	The financial ability to take on risk.
Risk level	Measure of how much risk a firm has taken on.
Smoothed return	Bonus rate declared for Income Choice Annuity business
Smoothing	Process used to dampen, insofar as possible, the impact of volatile experience (such as market movements) on claim values, with the aim that pay-out values progress smoothly from one year to the next.

Term/Phrase	Definition
Sourcebook (COBS)	A handbook setting out the FCA rules that apply to a firm with respect to 1) designated investment business and 2) long-term insurance business in relation to life policies.
Surrender	The early termination of an insurance product by the policyholder.
Unitised with-profits	Another term for accumulating with-profits business, as defined above.
With-Profits Actuary (WPA)	Under the supervisory regime introduced on 1 January 2005, the WPA is appointed by a company to review material relevant to the operation of the with-profits business, with the specific duty to advise the Board on the reasonableness of how discretion has been exercised in applying the PPFM and how any conflicting interests have been addressed.
With-Profits Committee (WPC)	A committee comprising at least three members, all of whom are independent of the company, which provides an independent assessment of the way in which the company manages its with-profits business and how the company balances the rights and interests of policyholders and shareholders in relation to its With-Profits Fund.
With-Profits Fund	<p>The With-Profits Fund is the fund where PAC's with-profits business is written. This is divided into 2 sub-funds, the With-Profits Sub-Fund (WPSF), and the Defined Charge Participating Sub-Fund (DCPSF).</p> <p>With-Profits policyholders are eligible to participate in the profits of the With-Profits Fund through discretionary distributions.</p>
Working capital	The capital of a business which is used in its day-to-day trading operations. For a with-profits fund, the working capital is also known as the inherited estate.