Fund Guide

Prudential Personal Pension

PRUDENTIAL

Contents

Fund Guide Introduction 4

1. Using this Fund Guide – Potential Reward and Risk 5

- A. Risk Types 6
- B. Association of British Insurers (ABI) Sector Definitions 10
- C. Potential Reward and Risk Indicator 13

2. Fund Information

- Important Explanations 14
- Funds, ABI Sectors, Risk Types, Risk Indicators and Fund Charges 15
- Investment Strategies 16

3. Lifestyle options 19

Glossary of Investment Terms 20

The information included in this guide is correct as at 1 January 2013 unless other wise stated.

Fund Guide Introduction

In this guide you will find information on our funds, including where they can invest and their aims.

This guide also aims to help you and your Financial Adviser understand the potential reward and risks associated with each of our funds. It's very important that you clearly understand the risks associated with any fund you may wish to invest in.

The funds listed in this guide are available, unless otherwise indicated, through our –

- Prudential Personal Pension

We would recommend that you discuss fund selection with your Financial Adviser.

Using this Fund Guide

1. Potential Reward and Risk (pages 6 to 13)

The types of assets a fund invests in will have a significant effect on the performance of your investment. Generally, the higher the potential returns, the higher the risk.

Please remember that the name of a fund is not indicative of the risk that it may take. To help you and your Financial Adviser assess the potential level of risk and reward of our funds we've included in this guide:

A. Risk Types – information on the risks applicable with different types of assets (pages 6-9)

B. Association of British Insurers (ABI) Sector Definitions – details on industry recognised fund categories (pages 10-12)

C. Potential Reward and Risk Indicator – a Prudential view on the potential reward and risk that different asset types might offer (page 13)

2. Fund Information (pages 14 to 18)

By offering a wide selection of funds we aim to give you a number of choices that may help you meet your investment goals.

3. Lifestyle Options (page 19)

Lifestyling is an investment strategy which aims to provide long-term growth, but with automatic switching into funds with lower risk profiles as you approach retirement.

Please note

The information in this guide aims to help you and your adviser understand the potential level of risk and potential reward that is attributable to our funds. However, these are Prudential views based on the type of assets which may be held within the fund.

The information in this guide may not take account of current market conditions or other short-term fund specific changes. Up to date information on each of our funds can be found on **www.pru.co.uk/funds**

A. Risk Types

Different funds invest in different types of assets. In this section we explain the risks associated with those different types of assets. There are many types of risks, and we have grouped some that are not covered by the main headings as "Other". Generally, the higher the potential returns, the higher the risk.

Some funds may invest in more than one asset type to try and reduce the risk of losing money. This means that an investor is not relying on the performance of an individual asset or assets of the same type. This investment approach is known as diversification.

See page 15 to see how the following Risk Types relate to individual funds.

Equity

Equities are commonly known as "shares". When a fund buys a company share, it is investing in a company and, in exchange, receives a share of the ownership of that company. Shares give two potential investment benefits:

- share prices increase as the value of the company increases
- companies pay dividends – regular payments made to shareholders based on how well the company is doing.

Over the longer-term, equities are considered by many investment experts to offer greater growth potential than many other asset types. But over the short term, the value of equities can go up and down a lot. Funds investing in equities tend to carry a higher risk of capital loss than funds investing in fixed interest securities or money market investments (see below). The financial results of other companies and general stock market and economic conditions can all affect a company's share price, and consequently the value of any fund investing in that company.

Where a fund invests significantly in equities, we have rated the fund as having a risk type of "Equity".

Fixed Interest and Index-Linked Securities

Fixed interest securities, more commonly known as "bonds", are loans issued by companies or by governments in order to raise money. Bonds issued by companies are called Corporate Bonds, those issued by the UK government are often called Gilts or UK Government bonds and those issued by the US government are called Treasury Bonds. In effect all bonds are IOUs that promise to pay you a sum on a specified date and pay a fixed rate of interest along the way.

Index-linked securities are similar but the payments out are normally increased by a price index e.g. for UK government index-linked securities, payments out are increased in line with the UK Retail Price Index.

On the whole, investing in bonds is seen as lower-risk than investing in equities. Gilts are often considered very low-risk. To date, no UK government has ever failed to pay back money owed to investors. But with corporate bonds there is a risk that the company may not be able to repay its loan or that it may default on its interest payments.

The risks related to investing in bonds can be reduced if you invest through a bond fund. Where a fund manager selects a range of bonds, you are less reliant on the performance of any one company or government. If bond income generated is reinvested by the fund, bond funds can be used to provide attractive levels of growth. However, there is a risk you might not get back the amount you invest and the income you receive is neither fixed or guaranteed.

Corporate and Government bonds are sensitive to interest rate trends. An increase in interest rates is likely to reduce their value, and hence the value of any fund investing in them.

Where a fund is exposed to this risk, we have rated the fund as having a risk type of "Fixed Interest".

A. Risk Types (continued)

Commercial Property

Commercial property investment generally means the fund is sharing in the returns from the ownership of some buildings (for example, offices and shopping centres). The value of the property may increase and tenants may pay rent to the owners of the building.

However, commercial properties can be difficult to buy and sell quickly. Fund managers may have to delay withdrawal of money by customers from a property fund until they can sell some of the buildings the fund invests in.

The actual value of a property is what someone is prepared to pay for it – an actual sale value. As sales are infrequent, interim valuations are based on a valuer's opinion and may be revised up or down from time to time. This can affect the value of a fund invested in commercial property, with the value possibly fluctuating significantly.

This leads to a number of risks for funds investing in property:

- Cash could remain uninvested as property assets can be difficult to buy, leading to lower returns than expected.
- The value of the fund may be reduced if a large number of withdrawals are requested and it is necessary for properties to be sold at reduced prices.
- There may be delays removing your money from the fund if property cannot be sold.
- Property fund valuations may be revised periodically, upwards or downwards.
- Rental income is not guaranteed. Defaulted rent and unoccupied properties could reduce returns.
- If the size of the fund falls significantly, the fund may have to hold fewer properties, and this reduced diversification may lead to an increase in risk.

Where a fund is exposed to these risks, we have rated the fund as having a risk type of "Property".

Currency Risk and Overseas Investments

Overseas investments allow you to take advantage of the growth potential of markets outside of the UK, but currency changes can affect the value of overseas investments. Because the value of overseas investments is converted from local currency into pounds (Sterling), the Sterling value can fall if the local currency weakens against Sterling, independent of the performance of the asset itself.

Where a significant proportion of a fund is invested in non-Sterling assets, we have rated the fund as having a risk type of "Currency".

Smaller Companies and Developing Markets

In comparison to larger companies, shares of smaller companies may be harder to trade and short-term performance may be more volatile. There may also be more chance the companies will become insolvent. Funds which invest in small companies can have volatile returns and a greater risk of capital loss.

Some investments are in markets which are less developed than the UK market. In such markets, the ability to trade, and the safe keeping of assets on behalf of the fund, and especially regulation may all be poorer than in well developed markets. This means increased risk for your investment.

Where a fund has these types of risk, we have rated it as having a risk type of "Smaller Companies and Developing Markets".

A. Risk Types (continued)

Financial Instruments

There are several financial arrangements that fund managers can use to improve fund performance. Some of the most common are:

Derivatives: These cover products such as futures and options which are generally an arrangement to buy or sell a standard quantity of a specified asset on a fixed future date at a price agreed today. This type of investment may carry a higher risk of capital loss than funds investing in other assets. Sometimes in the event of a counterparty to a derivative (the party with which the fund manager has made the agreement about future deals) being in financial difficulties, it may be difficult to obtain a price for valuations or for the investment manager to dispose of the asset – that creates risk to the value of the fund. There is a risk of capital loss in the event of the counterparty to the derivative becoming insolvent or suffering other financial difficulties. In such circumstances the derivative may have no value.

Geared Assets: Funds that are geared or borrow assets or which use short-selling are likely to be more volatile than other funds and there is a higher risk of capital loss.

Where a fund could be exposed to these types of risk, we have rated it as having a risk type of "Financial Instruments".

Alternative Investments

Alternative Investments includes non-traditional, complex or specialist investments. Examples include hedge funds, private equity and complex derivative based strategies. Alternative investments can be less liquid than traditional assets.

Where a fund could be exposed to these types of risk, we have rated it as having a risk type of "Alternative Investments".

A. Risk Types (continued)

Other

We have rated a number of funds as having a risk type of “Other”.

- In addition to the risks and characteristics of the individual asset types, specialist investments have other features that are unique to where they invest.

Specialist funds invest in particular markets or geographical areas. Because they invest in a smaller range of asset types, they tend to be more risky than non-specialist funds, but can deliver greater returns.

- Ethical funds are restricted from investment in certain companies due to the criteria used to select investments for the fund. This may mean that the returns from the fund are more volatile than funds which do not have these restrictions.
- The fund may have investment concentrated in relatively few individual assets. Therefore, returns from the fund can be significantly influenced by the performance of a small number of individual holdings and may be more volatile than funds with a wider spread of underlying assets.
- Some funds keep a proportion of your money in cash deposits and other money market investments. Over the long-term, money market investments usually offer the lowest risk of all asset types but also the lowest potential returns. Some funds hold money market investments because they are aiming for security more than substantial growth. Others hold just enough in cash deposits to make sure money is available for customer withdrawals. Over the long term, money market investments can be a low risk asset type but may also produce low returns compared to other asset types.

A money market investment is at risk if any of the banks, building societies or other financial institutions with whom the fund's money is deposited becomes insolvent or suffers other financial difficulties. In such circumstances, the money deposited with that institution may not be returned in full. Some money market investments will be affected if interest rates rise, leading to a drop in value of any fund holding them.

- The fund may offer some form of protection from downside risks for which there will be a charge and which will normally have an impact on long-term returns. The protection may be provided through the use of derivative contracts and this may give rise to counterparty risk and liquidity problems. The provision of the guarantees may result in a significant proportion of the fund being invested in cash and other lower risk investments.

Where a fund could be exposed to these types of risk, we have rated it as having a risk type of “Other”.

B. Association of British Insurers (ABI) – Sector Definitions

On page 15 we have matched each of our funds against an Association of British Insurers (ABI) sector. We hope this can help you see, in broad terms, the type of assets that may be held by that fund.

The ABI is a trade body that represents the insurance industry. It maintains ranges of investment fund sectors (see below) to facilitate comparisons between similar unit-linked funds. These sectors allow advisers and investors to make like-for-like comparisons between unit-linked funds which invest in, or can potentially invest in, broadly comparable assets.

Asia Pacific excluding Japan Equities

- Funds which invest at least 80% of their assets in Asia Pacific equities, but which normally hold no equities quoted on the Japanese stock market.
- Asia Pacific includes all countries in the FTSE World Asia Pacific index.

Deposit & Treasury

Funds in this sector must meet the following conditions:

1. The primary investment objective of the fund is to maintain capital and aim to provide a return in line with money market rates, before charges.

2. Invest 100% of the fund in Sterling denominated permitted Instruments

3. Permitted instruments are:

- Current account cash
- Time Deposits (including call accounts)
- Certificates of Deposit
- UK Treasury Bill
- UK Short Gilts
- Reverse repurchase agreements (with collateral limited to Gilts)

4. Comply with selected paragraphs of the European Securities and Markets Authority (ESMA) guidelines on money market funds.

Europe excluding UK Equities

- Funds which invest at least 80% of their assets in equities quoted on European stock markets, but which normally hold no equities quoted on the UK stock market.
- Europe includes all countries in the FTSE World Europe/MSCI Europe indices.

Flexible Investment

- The funds in this sector are expected to have a range of different investments. However, the fund manager has significant flexibility over what to invest in. There is no minimum or maximum requirement for investment in company shares (equities) and there is scope for funds to have a high proportion of shares. The manager is accorded a significant degree of discretion over asset allocation and is allowed to invest up to 100% in equities at their discretion.
  - No minimum equity requirement
  - No minimum fixed income or cash requirement
  - No minimum currency requirement

Global Equities

- Funds which invest at least 80% of their assets in equities.
- Funds must be invested in more than one equity region.
- Not to include funds which would otherwise qualify for the Global Emerging Markets Equity sector.

Japan Equities

- Funds which invest at least 80% of their assets in equities quoted on the Japanese stock market.

B. Association of British Insurers (ABI) – Sector Definitions (continued)

Mixed Investment 40-85% Shares*

- Funds in this sector are required to have a range of different investments. However, there is scope for funds to have a high proportion in company shares (equities). The fund must have between 40% and 85% invested in company shares.
  - Maximum 85% equity exposure (including convertibles)
  - Minimum 40% equity exposure
  - No minimum fixed income or cash requirement
  - Minimum 50% investment in established market currencies (US Dollar, Sterling & Euro) of which 25% must be Sterling
  - Sterling requirement includes assets hedged back to Sterling.

North America Equities

- Funds which invest at least 80% of their assets in equities quoted on United States and Canadian stock markets.

Sterling Fixed Interest

- Funds which invest at least 80% of their assets in Sterling-denominated (or hedged back to Sterling) broad investment grade fixed interest securities.
- Fixed Interest securities defined as Government sovereign bonds, local authority bonds, supranational bonds and corporate bonds. Preference shares, permanent interest bearing shares (PIBs) and convertibles are not treated as broad investment grade fixed interest investments.

UK All Companies

- Funds which invest at least 80% of their assets in equities quoted on the UK stock market.
- Funds have the primary objective of achieving capital growth or total return.

UK Direct Property

- Funds that normally invest at least 80% of their assets in UK property. Managers may occasionally use Property Index Certificates or other property instruments for up to 20% property investment.
- UK property defined as real estate located within the UK.

UK Equity Income

- Funds which invest at least 80% of their assets in equities quoted on the UK stock market.
- Net of tax yield on the underlying portfolio of at least 110% of the FTSE All-Share yield.
- It is not normally possible to derive income from life and pension funds as they are not income-generating assets. However, there is clearly a distinct style evident in funds invested in this way and the parameters for the UK Equity Income Sector aim to group these in a comparable way.

* The definition for the sector shows how much flexibility the fund manager has over the range of investments in a fund. Funds in this sector can hold a mix of investments which typically include company shares, bonds, "cash" and commercial property. Managers may use a range of different investment strategies.

The sector is not designed to reflect the risk of individual funds.

The name of this Mixed Investment sector shows the maximum and minimum amount that funds within this sector may invest in company shares. This includes investments that give an exposure to shares, for example, a derivative that gives exposure to the FTSE100 index.

The sector groups together funds that are broadly similar, in line with the definition. The criteria for the different Mixed Investment sectors overlap, to give managers flexibility. This means that a fund may sometimes meet the requirements of more than one of the Mixed Investment sectors.

B. Association of British Insurers (ABI) – Sector Definitions (continued)

UK Gilts

- Funds invest at least 95% of their assets in:
  - UK Government securities (Gilts),
  - UK Government backed securities
  - Sterling denominated (or hedged back to Sterling) AAA rated, overseas government backed securities.
- At least 80% of the fund must be invested in UK Government securities (Gilts).

UK Smaller Companies

- Funds which invest at least 80% of their assets in equities quoted on the UK stock market which form the bottom 10% by market capitalisation.

Unclassified

- This sector is for funds that do not provide sufficient data to be monitored, and consequently cannot be compared on a like-for-like basis.

C. Potential Reward and Risk Indicator

Investing is about balancing the risk you are comfortable with alongside the potential rewards that you want to achieve. Your attitude to investment risk is personal to you and may change in the future.

The table below can help illustrate this concept. It's not exhaustive, but covers a wide range of funds and investments and shows the general principle that, as the level for potential higher returns increases so does the level of risk. On page 15 you can see how these Potential Risk and Reward Indictor numbers relate to our funds.

Some key considerations:

- The value of our funds may fluctuate. You may not get back the full amount of your original investment.
- These risk rating categories have been developed by Prudential to help provide an indication of the potential level of risk and reward that is attributable to a fund based on the type of assets which may be held within the fund.
- Other companies may use different descriptions and as such these risk rating categories should not be considered as generic to the fund management industry.
- Prudential will keep the risk rating categories under regular review and as such they may be subject to change in the future.
- Where a risk rating is amended as a result of a material change in our view of the level of risk for the fund, for example due to a significant change to the assets held by the fund or in the way the fund is managed, information will be provided on the new risk rating.
- We recommend that before making any fund choice in the future you ensure you understand the appropriate risk ratings at that time. You will find this information in our Fund Guides, along with further information, at **www.pru.co.uk/funds**.

You should also consider discussing your decision with your Financial Adviser. It is important to also note that your adviser may make their own assessment of the risk rating of funds when considering your needs and objectives, and this may differ from Prudential's own internal assessment. They may charge you for advice.

The information included in this guide is correct as at 1 January 2013 unless other wise stated.

Potential Reward and Risk Indicator	Potential Rewards	Types of Fund*	Risks
6	Higher	Single Country Equity Funds, International Equity Funds, Specialist Funds	Higher
5		Flexible Investment Funds, Global Property Funds	
4		Mixed Investment 40-85% Shares Funds, Direct Property Funds, Global High Yield Funds	
3		Mixed Investment 20-60% Shares Funds, Distribution Managed Funds, Sterling High Yield Funds, Global Fixed Interest Funds, With-Profits Funds	
2		Mixed Investment 0-35% Shares Funds, Sterling Fixed Interest Funds, Corporate Bond Funds, Protected/Guaranteed Funds	
1	Lower	Deposit & Treasury Funds, Money Market Funds	Lower

* These are predominantly based on sector classifications by the Association of British Insurers (ABI). The description used may match an individual ABI sector name or be a Prudential suggested description for a grouping of similar sectors. The only exception to this is "With-Profits" which is not classified by the ABI. Where a fund is classified by the ABI then we will use the sector it is in as a starting point to consider its appropriate position in the scale above, however each fund is considered individually and membership of an ABI sector does not automatically imply a particular Potential Reward and Risk Indicator number.

2. Fund Information

Important Explanations

› Unit Pricing Basis

When determining the basis to be used for calculating the unit price, it is important to consider how much money is either going into the fund or is being taken out. The unit price is then used to determine the value of individual policyholders' investments in the fund.

If more money is being paid into the fund than is being taken out, then the fund will need to purchase assets. If this is the case then the amount that is needed to buy assets for the fund (i.e. the purchase price) will be more relevant than the amount obtained for selling the assets (i.e. the sale price) in determining the unit price of the fund.

If more money is being taken out of the fund than is being paid in then the fund will need to sell assets. If this is the case, the sale price of the underlying assets will be more relevant when calculating the unit price.

Sales prices are generally lower than purchase prices. The size of the difference depends on the cost of either purchasing or selling the assets the fund invests in. These costs tend to be largest for funds investing in property, smaller companies and developing markets so will have the largest impact on the change in price. If there is a switch from a purchase price to a sales price then the unit price will reduce. If there is a switch from a sales price to a purchase price then the unit price will increase. In both cases the movement in price can be significant and will occur immediately.

Please see your Member's Explanatory Booklet for further information.

› The Fund Value

The value of an investment can go down as well as up and the value in future may be less than the amount invested.

For investments in the With-Profits Funds, the value of the Policy depends on how much profit the Funds make and how we decide to distribute it.

› How Funds Invest

Some of the Prudential funds listed in this guide may gain all or part of their investment exposure by investing in collective investment vehicles (e.g. Unit Trusts, Open Ended Investment Companies (OEICs)), derivatives or other investment vehicles, for which the aims and underlying assets are consistent with the objectives of the fund. These Prudential funds may hold an element of cash due to the short delay between new investments being received by the Prudential fund and being placed in the underlying investment(s), and this may have an impact on the performance of the Prudential fund when compared to the underlying investment(s).

› Fund Charges

Annual Management Charge

We take an Annual Management Charge (AMC) from each of the funds you invest in. These are shown on page 15.

If the AMC exceeds the return earned, the fund will go down in value. In general the AMC is taken by the deduction of 1/365th of the applicable Annual Management Charge, from the daily unit price of the relevant unit linked fund.

This differs slightly for With-Profits.

The AMC, and charges to cover the cost of guarantees, are already taken into account when we calculate the bonus rates for our With-Profits Fund. For further details of the charges for this fund, please refer to your Key Features document.

Additional Fund Charges

Within the funds, additional investment expenses (which include trustee fees, custodian charges and registrar fees) may be incurred in relation to any underlying Unit Trust, Open Ended Investment Company or Qualified Investor Scheme holdings. It is our current practice to rebate these additional charges for the funds included in this guide. While we do not currently charge for these, in addition to our Annual Management Charge, we reserve the right to explicitly charge for them in future. Some of the externally managed funds may also apply a "dilution levy". We do not currently apply this charge directly to your plan, however we reserve the right to pass on any dilution levy that applies. We will let you know if we plan to do this.

Charges may vary in future and may be higher than they are now.

The Fund Charges listed in this guide are correct as at 28 January 2013.

Further Information

If the taxation treatment of the funds changes, we reserve the right to change the arrangements for the investment of the underlying assets of the fund.

You should consider that the effect of inflation would be to reduce what you could buy in the future with your pension. If investment returns are sufficiently low, inflation could cancel out returns that you make on your pension investment.

If you are in any doubt about this product option, your fund choice or the charges applicable then we recommend you speak to your Financial Adviser.

For any fund, there may be a delay in buying, selling or switching of units. These delays will only apply in exceptional circumstances and if this applies to you, we will let you know. For more information, please refer to your Member's Explanatory Booklet.

Funds, ABI Sectors, Risk Types, Risk Indicators and Fund Charges

Funds	Association of British Insurers (ABI) Sector	Risk Types									Fund Charges (%)		
		Equity	Fixed Interest	Property	Currency	Smaller Companies and Developing Markets	Financial Instruments	Alternative Assets	Other	Potential Reward and Risk Indicator	Base AMC	Additional Charges	Total Charges
Prudential Cash	Deposit & Treasury		✗						✗	1	1.00	–	1.00
Prudential Corporate Bond	Sterling Fixed Interest		✗							2	1.00	–	1.00
Prudential Equity	UK All Companies	✗								6	1.00	–	1.00
Prudential European	Europe ex UK Equities	✗			✗					6	1.00	–	1.00
Prudential Fixed Interest	UK Gilts		✗							2	1.00	–	1.00
Prudential International	Global Equities	✗			✗					6	1.00	–	1.00
Prudential Invesco Perpetual Income	UK Equity Income	✗			✗	✗	✗		✗	6	1.25	–	1.25
Prudential Invesco Perpetual Managed Growth	Flexible Investment	✗	✗		✗	✗	✗		✗	5	1.25	–	1.25
Prudential Japanese	Japan Equities	✗			✗					6	1.00	–	1.00
Prudential M&G Global Managed Growth	Flexible Investment	✗			✗					5	1.25	–	1.25
Prudential M&G Smaller Companies	UK Smaller Companies	✗				✗				6	1.00	–	1.00
Prudential M&G UK Equity Income	UK Equity Income	✗								6	1.25	–	1.25
Prudential Managed	Mixed Investment 40-85% Shares	✗	✗		✗					4	1.00	–	1.00
Prudential North American	North America Equities	✗			✗					6	1.00	–	1.00
Prudential Pacific Markets	Asia Pacific ex Japan Equities	✗			✗					6	1.00	–	1.00
Prudential Property	UK Direct Property			✗						4	1.00	–	1.00
Prudential With-Profits*	Unclassified	✗	✗	✗	✗	✗	✗	✗	✗	3	*		

* The Annual Management Charge of this fund and charges to cover the cost of guarantees are already taken into account when we calculate the bonus rates for our With-Profits Fund. For further details of the charges for this fund please refer to your Key Features document.

For the latest information on the funds available please visit **www.pru.co.uk/funds**.

Investment Strategies

The following funds have been selected and made available to you by Prudential.

The choice of funds covers a range of different assets and types of funds which could be right for you at different times. Some of the funds are managed by Prudential whilst others are managed by external fund managers.

The following funds are all Prudential Pension Funds. For the externally managed funds the Prudential fund will invest in the fund manager's own fund or collective investment scheme, as explained in the following investment strategies, unless otherwise stated.

Prudential Cash

The investment strategy of the fund is to provide a return consistent with investing in interest bearing deposits and/or short-term UK government bonds.

This Fund has a guarantee that the bid value of units in the Fund will not fall.

Prudential Corporate Bond

The investment strategy of the fund is to purchase units in the M&G Corporate Bond Fund. That fund aims to achieve a higher total return (the combination of income and growth of capital) from investment than would be obtainable in UK government fixed interest securities (ie gilts) of similar maturities. The fund invests mainly in sterling denominated corporate debt instruments. Any currency exposures within the fund may be managed by currency hedges into sterling.

Prudential Equity

The investment strategy of the fund is to purchase units in the Prudential Unit Trust Limited UK Growth Qualified Investor Scheme Fund. That fund aims to achieve capital growth over the longer term from a range of mostly UK investments (up to 20% of the property of the Scheme may be invested overseas) including both equities and fixed interest securities. The Scheme's portfolio is broadly based and well balanced with a significant part invested in the shares of 'blue chip' companies.

Prudential European

The investment strategy of the fund is to purchase units in the PUTL European Qualified Investor Scheme Fund. That fund aims to achieve long-term capital growth by investing mainly in the shares of continental European companies quoted on the stockmarkets of Europe in all economic sectors.

Prudential Fixed Interest

The investment strategy of the fund is to purchase units in the M&G Gilt & Fixed Interest Income Fund. That fund aims to provide a secure income with stability of capital consistent with investment in gilts. The fund invests mainly in short, medium or long-dated gilts according to M&G's view at any given moment of the likely course of interest rates and trend of the gilt-edged market.

Prudential International

The investment strategy of the fund is to provide long term capital growth by investing mainly in a spread of equity markets throughout the world, predominantly through collectives managed by Prudential Group companies.

Prudential Invesco Perpetual Income

The investment strategy of the fund is to purchase units in the Invesco Perpetual Income Fund. That fund aims to achieve a reasonable level of income together with capital growth by investing primarily in shares of companies listed in the UK, with the balance invested internationally.

Investment Strategies (continued)

Prudential Invesco Perpetual Managed Growth

The investment strategy of the fund is to purchase units in the Invesco Perpetual Managed Growth Fund. That fund aims to achieve capital growth from a portfolio primarily of Qualifying Funds. In pursuing this objective, the fund managers may include investments that they consider appropriate which include transferable securities, money market instruments, warrants, collective investment schemes, deposits and other permitted investments and transactions.

Prudential Japanese

The investment strategy of the fund is to purchase units in the PUTL Japanese Qualified Investor Scheme Fund. That fund aims to provide high long-term growth through actively managing a portfolio consisting wholly or mainly of companies, the securities of which are listed in, or the operations of which are based mainly in, Japan.

Prudential M&G Global Managed Growth

The investment strategy of the fund is to purchase units in the M&G Managed Growth Fund. That Fund is an actively managed fund investing predominantly in collective investment schemes in order to provide a well diversified exposure to global equities. The Fund may also invest in other collective investment schemes and directly in securities, fixed income assets, warrants, money market instruments, deposits, cash, near cash, and derivatives for the purposes of efficient portfolio management.

Prudential M&G Smaller Companies

The investment strategy of the fund is to purchase units in the M&G Smaller Companies Fund. That fund aims to achieve capital growth by investing in smaller companies, where good management can have most impact on earnings. Investment in such shares can offer prospects of above average capital growth. Income is not a major factor and the yield can be expected to be less than that of the FTSE All-Share Index.

Prudential M&G UK Equity Income

The investment strategy of the fund is to purchase units in the M&G Dividend Fund. That fund invests mainly in a range of UK equities with the aim of achieving a steadily increasing income stream. The fund will target a yield higher than that of the FTSE All-Share Index. Subject to this, the aim will be to maximise total return (the combination of income and growth of capital).

Prudential Managed

The investment strategy of the fund is to provide medium to long-term growth (the combination of income and growth of capital) by investing mainly in a broad spread of Prudential's investment-linked funds and collective investment schemes. The fund will typically have exposure to a range of asset types, including UK and overseas equities, fixed interest and commercial property.

Prudential North American

The investment strategy of the fund is to purchase units in the PUTL North American Qualified Investor Scheme Fund. That fund aims to provide total long-term growth (the combination of income and growth of capital) by investing in an actively managed portfolio of investments consisting wholly or mainly of companies which are mainly based in the USA, but with the scope to invest in Canada and Latin America.

Prudential Pacific Markets

The investment strategy of the fund is to provide total long-term growth (the combination of income and growth of capital) by investing in an actively managed portfolio of investments consisting wholly or mainly of companies which are mainly based in the Asia Pacific region (excluding Japan).

Investment Strategies (continued)

Prudential Property

The investment strategy of the fund is to purchase units in the M&G Property Portfolio. That portfolio aims to maximise long-term total return (the combination of income and growth of capital) through investment mainly in commercial property. The portfolio invests in a diversified portfolio of commercial property mainly in the UK, seeking to add value through strategic asset allocation, stock selection and asset management. The portfolio may also invest in other property related assets, including collective investment schemes, securities, derivatives and debt instruments, as well as government debt, money market instruments and cash.

Prudential With-Profits*

The fund aims to maximise growth over the medium to long term by investing in shares, property, fixed interest and other investments. The fund currently invests in UK and international equities, property, fixed interest securities, index-linked securities and other specialist investments.

* The Funds aim to protect investors against some of the ups and downs of investment performance using "smoothing" mechanisms.

There are currently two types of bonus:

Regular bonus – This is added during the term of your plan. When we decide the rates of regular bonus, one of the main things we consider is the return we expect our investments to earn in future. We hold back some of this return with the aim of paying a proportion of the proceeds as final bonuses. We can change the rate of future regular bonus at any time without prior notice.

Final bonus – This is an additional bonus, which we expect to pay when you take money from your plan. If the investment return has been low over the lifetime of your Plan, a final bonus may not be paid. Final bonus may vary and is not guaranteed.

If all, or any part of your Plan is invested in the With-Profits Fund, and the pension is transferred, switched to another fund or early retirement is taken, we may apply an adjustment called a Market Value Reduction (MVR). If an MVR applies you may not receive any final bonus, or the full value of the regular bonus. However, the amount you get back from your Plan will not be less than the value of the underlying investments relating to your share of the Fund. MVRs are designed to protect investors not taking their money out of the Fund.

Full details of our current practice of applying an MVR can be found in the Key Features document.

3. Lifestyle Options

Lifestyling is an investment strategy which aims to provide long-term growth, but with automatic switching into funds with lower risk profiles as you approach retirement. To begin with all your contributions would be invested in a fund with a higher risk profile. Then 8 or 10 years before your Selected Retirement Date, we will gradually start to move your money into funds with a lower risk profile. The switches are free of charge.

Funds and fund managers	Objective	Where does the fund invest?	Risk rating
Lifestyle Option 1	Aims to achieve long-term growth, but with automatic switching into lower risk funds as you approach retirement	Initially in your choice of funds then between 10 and 5 years before your Selected Retirement Date (SRD) your investments are automatically switched in pre-set proportions at monthly intervals to the Prudential Fixed Interest Fund. Over the final 5 years, the investment is switched into a mixture of the Fixed interest and Cash funds and then all into the Cash fund.	This will vary depending on the funds you choose
Lifestyle Option 2	Aims to achieve long-term growth, but with automatic switching into lower risk funds as you approach retirement	Initially in your choice of funds then between 10 and 5 years before your Selected Retirement Date (SRD) your investments are automatically switched in pre-set proportions at monthly intervals to the Prudential Managed Fund. Over the last 5 –3 years, the investment is switched from the Managed Fund into the Fixed Interest Fund. Then over the last 3 years, from the Fixed Interest fund, to a mixture of the Fixed Interest and Cash funds and then all into the Cash fund.	This will vary depending on the funds you choose
Lifestyle Option 3	Aims to achieve long-term growth, but with automatic switching into lower risk funds as you approach retirement	Initially in your choice of funds then between 8 and 3 years before your Selected Retirement Date (SRD) your investments are automatically switched in pre-set proportions at monthly intervals to the Prudential Managed Fund. Over the final 3 years, the investment is switched into a mixture of the Fixed interest and Cash funds and then all into the Cash fund in the final year.	This will vary depending on the funds you choose

Prudential reserves the right to change the terms of the Lifestyle Option, subject to certain restrictions in respect of existing investments in the Lifestyle Option. When switching an existing investment to the Lifestyle Option, 100% of the savings invested (excluding savings invested in the With-Profits Fund) will automatically be switched. Completion of an additional form will be required to authorise the switch of savings from the With-Profits Fund to the Lifestyle Option. Prudential reserves the right to withdraw or change the funds available at any time, subject to certain restrictions. New funds may also be made available.

Glossary of investment terms

This glossary is a high-level guide to some of the technical terminology that may appear in our Fund Guide. It is not intended to be a definitive reference document and you should contact your adviser for further assistance where necessary.

Basic Materials Sector

A category of stocks covering companies involved with the discovery, development and processing of raw materials. The basic materials sector includes the mining and refining of metals, chemical producers and forestry products.

"Blue Chip" Companies

These are large, reputable companies which are thought to be financially sound.

Bonds

See Fixed Interest Securities.

"Boutique Managed" Funds

Investment funds that are specialised in some way either through the expertise needed to manage the portfolio or because it has an unusual theme or a collection of funds under one house. These "boutique" funds are typically offered by smaller, specialist firms as opposed to large investment management companies.

Broad Investment Grade

This is a term used to describe a listing of bonds and fixed income instruments on an index. It is used to measure the overall value of a collective group of bonds and represents the characteristics of these types of securities. It is a grading level that can be used by certain types of funds for determining assets that are suitable for investment into a fund.

Certificates of Deposit

These are a money market investments that are generally issued by banks against a security. A certificate of deposit usually pays interest (which can vary) and entitles the bearer to receive a set interest rate up until a set maturity date and can be issued in any currency or denomination.

Closed Ended Funds

This describes a collective investment scheme which has a limited number of shares (or units). The shares are then traded on an exchange or directly through the fund manager to create a secondary market subject to market forces.

Collective Investment Schemes

A way of pooling investment with others as part of a single investment fund. This allows investors to participate in a wider range of investments than would normally be feasible if investing individually and to share the costs and benefits of doing so. Collective Investment Schemes, OEICs, Unit Trusts, Mutual funds, usually either target geographic regions (like emerging market countries) or specific themes (like technology or property).

Convertible Bonds (can also be called Deferred Equity)

These are corporate bonds that are exchangeable for a set number of another form of investment (for example, common shares) at a pre-stated price. Convertible bonds typically pay a lower income than is normally available from common bonds.

Corporate Bonds

These are loans to companies where the purchaser of the corporate bond lends money to the company in return for regular interest payments and the promise that the initial sum will be repaid on a specified later date.

Default Risk

This is the possibility that the issuer of a bond will be unable to make payments when they are due.

Derivatives

These cover products such as futures and options which are generally an arrangement to buy or sell a standard quantity of a specified asset on a fixed future date at a price agreed today. Also considered to be a financial instrument whose value is dependent upon the value of an underlying asset.

Equities

These are also known as shares or stocks and represents a share of the ownership of a company. Shares give two potential benefits – the share prices increase as the value of the company increases and regular payments, known as dividends, may be made to shareholders based on how well the company is doing.

Eurobonds

A Eurobond is an international bond that is denominated in a currency not native to the country where it is issued. It can be categorized according to the currency in which it is issued. For example, a British company may issue a Eurobond in Germany, denominating it in U.S. dollars.

Exchange-Traded Fund

This is an investment vehicle the units of which are traded on a stock exchange. An exchange traded funds can hold a range of assets such as stocks, bonds or even commodities. Most track an index, such as the FTSE All share or the S&P 500.

Fixed Interest Securities

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

Floating Rate Notes

These are basically short-term loans to financial organisations, such as banks, under which the investor receives interest payments from that financial organisation. At the end of an agreed period the financial organisation has to repay the loan. The interest payment rates are linked to a specified "floating" rate typically the London Interbank Offered Rate (LIBOR). This means that interest rate payments may go up or down.

Forwards Contract (or Forwards)

These are agreements between two parties to buy or sell an asset at a fixed future date for a price determined at the time of dealing.

Government Bonds

These are loans to the government where the purchaser of the government bond lends money to the government in return for regular interest payments and the promise that the initial sum will be repaid on a specified later date.

Government Sovereign Bond

Is a government debt issued in a foreign currency

Hedging

A strategy employed in order to reduce or mitigate risk. Hedging involves making an offsetting transaction in one market in order to protect against possible losses in another.

Hedged Back to Sterling

This is a specific example of hedging where the trader is trying to protect an existing or anticipated position from an unwanted move in sterling exchange rates.

Index-Linked Securities

Are similar to fixed interest securities but the payments out are normally increased by a price index e.g. for UK government index-linked securities, payments out are increased in line with the UK Retail Price Index.

Investment Grade

A credit rating given to a government or corporate bond that indicates that the agency giving the rating (e.g. Standard & Poors) believes that the issuer has a relatively low risk of default. Bonds with credit ratings of AAA, AA, A or BBB are considered investment grade. Low rated bonds with ratings of BB or below are often called Junk Bonds.

LIBOR (London Interbank Offered Rate)

This is the interest rate that London banks charge when lending money to one another over a short period of time. LIBOR is often used as a benchmark when setting other short term interest rates.

Money Market Investments

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

OEIC

This is an Open Ended Investment Company, which is the British version of a European SICAV (Société d'Investissement a Capital Variable) or Irish VCIC (Variable Capital Investment Company). Like all open collective Investment Schemes, an OEIC has no fixed amount of capital.

The total value of the OEIC is equally divided into shares which will vary in price and in the number issued. Each time that new money is invested, new shares or units are created to match the prevailing share price; each time shares are redeemed, the assets sold match the prevailing share price.

Options

Legal agreements that give the holder the right (but not the obligation) to buy or sell the underlying asset at an expiration date, at a price determined at the time of dealing.

Permanent Interest Bearing Shares (usually referred to as PIBS)

These are fixed-interest securities issued by building societies. Building societies use them in the way public limited companies would use preference shares (see below). Although similar to bonds, PIBS typically exist as long as their issuer does. They typically offer better interest rates than bonds although unlike bonds have no fixed redemption date and so redemption value will be determined by market values at the time of sale.

PIBS are not covered by UK government compensation schemes. If the building society is in financial distress, amounts are paid to holders of PIBS only after depositors.

Preference Shares (also called Preferred Stock or Preferred Shares)

These are shares in a company which give their holders an entitlement to a fixed dividend payment and may or may not carry voting rights. These are a 'higher ranking' stock than common stock and usually have specific rights attached to them.

Preference shares mean that the holder may get preferred treatment over common share holders – and carry a dividend that is paid out prior to dividends to common share holders. In the event of bankruptcy preferred share holders will be paid out from assets before common share holders and after debt holders.

Primary Industry

The industrial sector of an economy involved in the extraction and collection of natural resources, such as copper and timber, as well as by activities such as farming and fishing. A company in a primary industry can also be involved in turning natural resources into products. Primary industries tends to make up a larger portion of the economy of developing countries than they do for developed countries.

Qualified Investor Scheme (QIS)

A qualified investor scheme is essentially a mixed asset type of scheme where different types of permitted asset may be included as part of the scheme property, depending on the investment objectives and policy of that scheme and within any restrictions in the rules.

Regulated

This means the portfolio or fund has to conform to the regulations laid down by the financial authority it is trading in (i.e. the FSA in the UK), financial service providers and markets.

Reverse Repurchase Agreement

A Reverse Repurchase Agreement is a legal contract with a bank, under which securities are purchased (for example, UK Government Bonds or Gilts) from the bank, with an agreement to sell them back to the same bank at a higher price at a specific date in the future.

Secondary Industry

The industrial sector of an economy that produces finished, usable products. Unlike a primary industry, which collects and produces raw materials for manufacture, a secondary industry makes products that are more likely to be consumed by individuals. Examples of secondary industry divisions include automobile manufacturing, steel production and telecommunications.

Shares

See Equities.

Short-Term Government Bonds

For the purposes of determining assets which the Prudential Cash Funds can invest in these are defined as government bonds with a repayment period of twelve months or less.

Smaller Companies

Companies quoted on a recognised exchange that have a market worth below that of blue chip companies. In the UK, smaller companies are typically defined as those with market capitalisations below the top 350 companies in the FTSE All Share Index.

Transferable Securities

This is a descriptor given to a type of financial security which is traded on capital markets. The term is probably most commonly known and used in association with UCITS in UK and Europe (examples would be UCITS/depositary receipts/some types of warrants).

Undertakings for Collective Investment in Transferable Securities (UCITS)

These are collective investments which can be sold across national borders within the EU having complied with regulations on investments and administration.

Unregulated

This means the portfolio or fund does not need to conform to regulations.

Warrants

A warrant is a security that entitles the holder to buy shares in the issuing company at a specified price and within a certain time frame.

Warrants are freely transferable and traded on major exchanges. Their value will go up or down as the price of the shares to which they relate goes up or down.

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