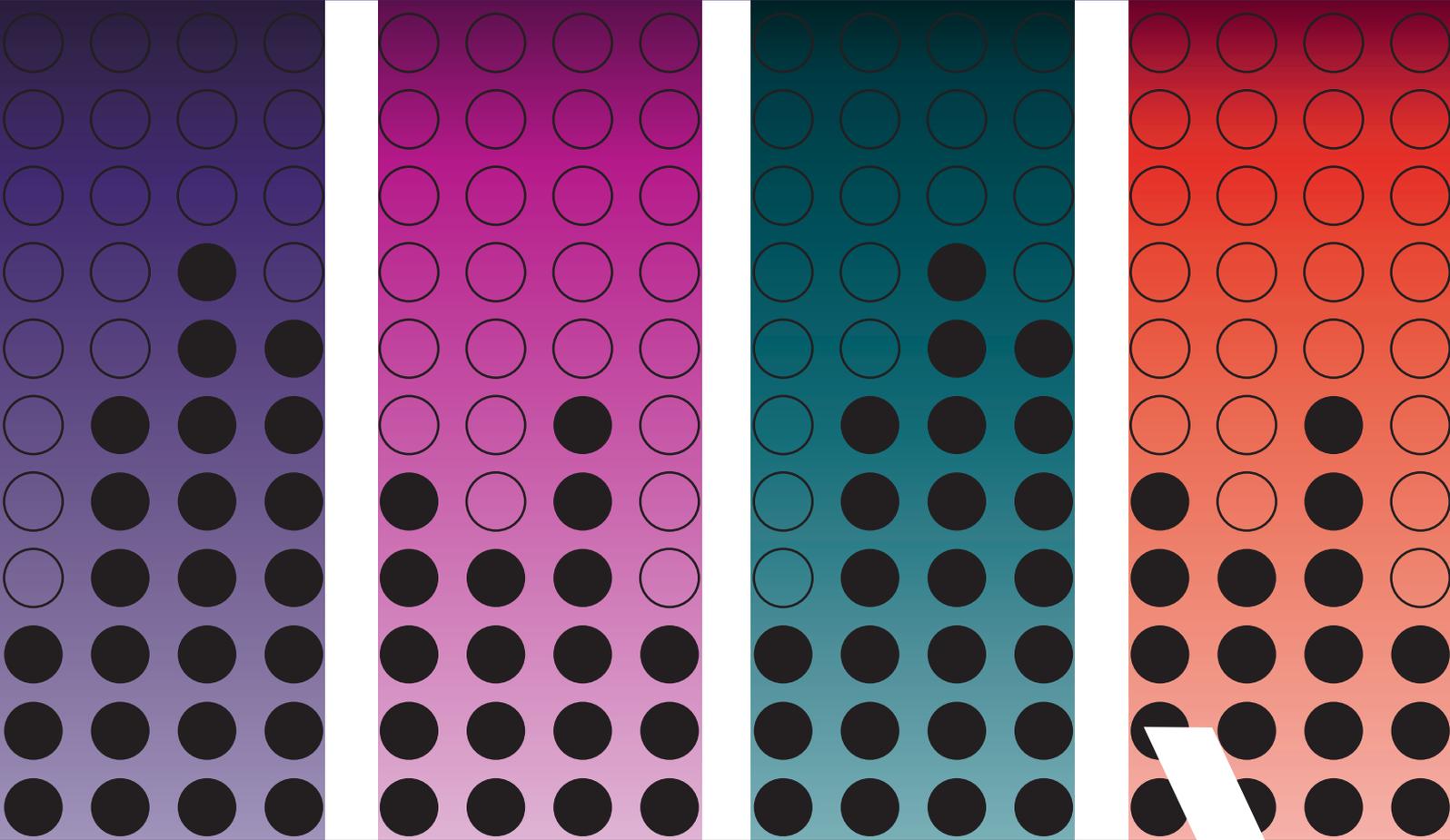


# Report and Financial Statements

for the year ended 5 April 2020



*Your journey*



# **PRUDENTIAL STAFF PENSION SCHEME**

## **Report and Financial Statements for the year ended 5 April 2020**

Scheme Registration No: 10011362X



3rd Floor, Priory Place, New London Road, Chelmsford, Essex CM2 0PP

XPS Administration is a trading name of XPS Administration Limited  
Registered No. 9428346. Registered Office: Phoenix House, 1 Station Hill, Reading RG1 1NB

**Part of XPS Pensions Group**

# PRUDENTIAL STAFF PENSION SCHEME

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# PRUDENTIAL STAFF PENSION SCHEME

## TRUSTEE AND ADVISERS

<b>Trustee:</b>	Prudential Staff Pensions Limited 10 Fenchurch Avenue London EC3M 5AG	
<b>Trustee Directors:</b>	Keith Bedell-Pearce CBE – Chairman Wolfgang Bauer *** Stephen Cunningham ** David Green Simon Iversen John Paino * William Rutherford **** Andrew Swan Jo Waldron	(Company Appointed) (Member Nominated) (Member-Nominated) (Company Appointed) (Company Appointed) (Member-Nominated) (Member-Nominated) (Company Appointed) (Company Appointed)
	* To serve until 16 July 2021 ** To serve until 17 April 2022 *** To serve until 30 April 2023 **** To serve until 11 April 2024	
<b>Actuary:</b>	Colin Singer FIA Willis Towers Watson Limited	
<b>Administrators:</b>	<u>Defined Benefit Section (DB Section):</u> XPS Administration Ltd  <u>Defined Contribution Section (DC Section):</u> The Prudential Assurance Company Limited - MPP Service Centre	
<b>Auditor:</b>	KPMG LLP 2 Forbury Place 33 Forbury Road Reading Berkshire RG1 3AD	
<b>Bankers:</b>	Barclays Bank plc	
<b>Communications Advisers:</b>	Concert Consulting Limited	
<b>Covenant Adviser:</b>	Ernst & Young LLP	
<b>Legal Adviser:</b>	Mayer Brown International LLP	
<b>DB Section External AVC Provider:</b>	The Prudential Assurance Company Limited	
<b>DB Section Investment Consultant:</b>	Willis Towers Watson Limited	

# PRUDENTIAL STAFF PENSION SCHEME

<b>Investment Managers:</b>	BlackRock Advisors (UK) Limited BlueBay Asset Management LLP GreenOak Europe Secured Lending SLP M&G Investment Management Limited Putnam Investments Limited Orchard Global Capital Group Silverfleet Capital Limited	(Until June 2019)
<b>DB Section Custodians for Cash and Securities:</b>	JPMorgan Chase Bank N.A.	
<b>DC Section Adviser and Investment Consultant:</b>	Hymans Robertson LLP	
<b>DC Section Investment Provider:</b>	The Prudential Assurance Company Limited	
<b>Secretary to the Trustee:</b>	M&G Management Services Limited	
<b>Pensions Manager:</b>	Marion Steel	
<b>Contact Addresses:</b>	<u>Defined Benefit Section:</u> Prudential Staff Pension Scheme XPS Administration Limited 3rd Floor Priory Place New London Road Chelmsford Essex CM2 0PP  <u>Defined Contribution Section:</u> Prudential Staff Pension Scheme MPP Service Centre Ground Floor C Block South 121 King's Road Reading Berkshire RG1 3ES	

# PRUDENTIAL STAFF PENSION SCHEME

## TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2020

### To members of the Prudential Staff Pension Scheme for the year ended 5 April 2020

The Demerger from Prudential plc took place on 21 October 2019 and the Scheme and Trustee were transferred to the new listed Company M&G plc. There were no changes to the Scheme or the Principal Employer, The Prudential Assurance Company Limited, whose ultimate owner is now M&G plc.

As a result of the demerger, Eastspring Investment (Luxembourg) S.A. and Prudential Services Limited ceased to be a participating employers with effect from 1 July 2019 and 1 October 2019 respectively.

Defined Benefit (DB) Section assets increased over the year by £423.4m (5.5%), after taking into account Employer contributions, benefit payments, expenses, investment income and the change in market value of investments. The Defined Contribution (DC) Section assets decreased by £40.3m, as a result of all equity funds experiencing significant negative absolute returns as a result of the worldwide impact of COVID 19 in March and early April 2020. Some recovery was seen in Q2 and it is hoped this will continue for the remainder of 2020.

After allowing for income, capital gains and movements in market values, the return on the DB Section's assets for the 12 months to 31 March 2020 was slightly under benchmark. Performance details for all fund managers can be found on pages 16.

As at 5 April 2020 the membership of the DC section had increased to 8,644, but as described above, funds under management decreased to £408.7m. The performance of the DC Section's funds was mixed and dependent on the investment type. Details of the performance of the funds are shown on page 19 of this report.

During the Scheme year there were two changes to the Trustee Board as David Martin, a Company appointed Trustee Director resigned on November 2019 and I was appointed as his replacement on 9 December 2019.

After the year end, William Rutherford was re-elected as a Member Nominated Trustee Director with effect from 11 April 2020, Annabel Gillard, a Company appointed Trustee Director, resigned on 30 April 2020 and was replaced by Jo Waldron on 01 September 2020. John Paino the Pensioner Elected Trustee Director's term of office was due to end on 16 July 2020. The Trustee Board agreed in view of COVID19 to extend his term of office for an additional year.

After many years of service Michael Abrahams, the former Chairman retired from the Trustee Board on 23 July 2020 and I was elected as Chairman on the same date.

I would like to thank all former Trustee Directors for their valued contribution to the Scheme and especially to Michael for his leadership and stewardship of the Scheme for the last 29 Years. I am looking forward to working with my fellow Trustee Directors, the Pensions Team and advisers.

As usual, the Scheme year under review was a busy one for everyone involved in administering and managing the Scheme. Michael has asked me to extend his thanks to the Pensions Team, the Scheme administrators, the Scheme advisers and fellow Trustee Directors for their continued hard work and support throughout the year.

Keith Bedell-Pearce CBE

# PRUDENTIAL STAFF PENSION SCHEME

## **Introduction**

The Trustee of the Prudential Staff Pension Scheme (the 'Scheme') is pleased to present the annual report together with the audited financial statements for the year ended 5 April 2020. The Scheme is comprised of two sections:

- the Defined Benefit Section (DB Section) which provides benefits based on a member's salary and length of service; and
- the Defined Contribution Section (DC Section) which provides benefits based upon the value of a member's accumulated fund.

The Defined Benefit Section is administered by XPS Administration Limited and the Defined Contribution Section by the Prudential Assurance Company Limited in accordance with the establishing documents and rules, solely for the benefit of its members and other beneficiaries.

The Scheme provides retirement and death in service benefits for eligible employees of Prudential UK Services Limited, Prudential Distribution Limited, M&G Limited, M&G Real Estate Limited, Prudential Financial Planning Limited, Prudential Capital Plc, Prudential Portfolio Management Group and PGDS (UK ONE) Limited. The Scheme is legally and financially separate from the employing companies.

During the Scheme year, Eastspring Investment (Luxemburg) S.A and Prudential Services Limited withdrew from the Scheme on 30 June 2019 and 30 September 2019 respectively.

There has been no change to the Principal Employer, The Prudential Assurance Company Limited ("PACL").

## **Constitution of the Scheme**

The Prudential Staff Pension Scheme was established under Trust on 24 December 1918 to provide defined benefits and has been amended from time to time. A Defined Contribution Section was introduced by an amendment to the Trust Deed and Rules dated 1 August 2003. The Trustee holds Scheme funds on trust to apply them for the purpose of paying pensions and other benefits in accordance with the Trust Deed and Rules.

## **Alterations to the Scheme Rules**

On 11 September 2019 the Trustee signed a Deed of Variation adopting a further Consolidated Trust Deed and Rules, which updates the Current Trust Deed and Rules to reflect that certain Inland Revenue Limits are no longer relevant to the Scheme, to incorporate the amendments made by the Deed dated 27 March 2019 and to include a higher Child's pension payable on a member's death in Service on the basis that had already been communicated to members as an entitlement

## **Benefit / Scheme changes**

In line with proposals made by the Company, with effect from 1 October 2019 the basic salary used to calculate Final Pensionable Earnings for active DB Section members is capped at the level applicable on 30 September 2019. Pension benefits for active DB Section members will continue to relate to pensionable service accrued to the earlier of date of retirement or date of leaving service. This change will not impact the Death in Service Lump Sum of 4 times which will be based on a member's salary rather than Final Pensionable Earnings.

## **Covid-19**

The Trustee has considered the impact of the Covid-19 virus on the assessment of the Employer's ability to support the Scheme as a going concern. In particular, the Trustee considered the potential impact of Covid-19 on the Scheme's investment strategy, the Employer's business taking into account the Scheme's strong funding level, well diversified investment strategy and financial resources available to the Employer.

Having assessed the circumstances with independent advice and information from the employer, the Trustee has determined that there is not a material uncertainty as to the ability of the Scheme to continue as a going concern for the foreseeable future and therefore believes it remains appropriate to prepare the financial statements on a going concern basis.

# PRUDENTIAL STAFF PENSION SCHEME

## ***GMP Equalisation***

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee of the Scheme is aware that the issue will affect the Scheme and has discussed the issue several times with its advisers. As soon as all the outstanding matters have been finalised any benefit adjustments needed will be made with interest.

Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

## ***Management and governance of the Scheme***

As Trustee, Prudential Staff Pensions Limited, a trust corporation, is responsible for ensuring that the Scheme is administered in accordance with the Trust Deed and Rules.

The present Trustee Directors are listed on page 2. In accordance with the Occupational Pension Schemes (Member Nominated Trustees and Directors) Regulations 2006 and under the Articles of Association the Directors of the Trustee comprise Member Nominated Directors and Company Appointed Directors. Changes to Directors during the year are shown below.

Retirements and resignations from the Trustee Board during the Scheme year and to the date of signing of the Trustee's Report were as follows:

- Neville Swift resigned on 9 April 2019
- David Martin resigned on 7 November 2019
- Annabel Gillard resigned on 30 April 2020
- Michael Abraham resigned on 23 July 2020

Appointments to the Board were as follows:

- Wolfgang Bauer on 1 May 2019
- William Rutherford was re-elected as a Member Nominated Trustee Director with effect from 11 April 2020
- Keith Bedell-Pearce was appointed on 9 December 2019 and became Chairman on 23 July 2020
- Jo Waldron was appointed on 1 September 2020

The powers of appointment or removal of Trustee Directors are set out in accordance with the establishing documents of the Trustee other than the Member Nominated Directors who are appointed by the members.

There are ten Trustee Directors, six of whom are appointed by the Company (including the Chairman and a pensioner Trustee Director), three are chosen to serve for a four year term of office by active Scheme members and one for a four year term from the pensioner members. At the time of signing there is one Company appointed Trustee Director vacancy.

Trustee Directors meet regularly and in this year nine meetings took place. Any questions arising at a meeting are decided by a majority of Trustee Directors' votes and in the event of an equality of votes the Chairman has a second or a casting vote.

The Trustee Board has previously established six formally constituted Committees, these being the Asset and Liability Committee which reviews the assets and liabilities of the DB Section together with investment management policy; the Audit and Governance Committee which reviews and assesses risks to the Scheme and the Scheme accounts; a Disputes Committee which decides on disputes sent to the Trustee; the DC Section Committee which reviews the investments, communication and administration of the DC Section. All these Committees have delegated authority to take appropriate decisions on behalf of the Trustee Board in accordance with their Terms of Reference but report directly to the Trustee Board.

The DB Section Investment Committee considers the investment strategy for the DB Section and reports to the Asset and Liability Committee and the DC Section investment Committee considers the investment strategy and fund range for the DC Section and reports to the DC Section Committee.

# PRUDENTIAL STAFF PENSION SCHEME

The Asset and Liability Committee has established a Factor and Funding Working Party to review and consider the DB Section funding and valuation issues and to review the DB Section Scheme factors. During the second half of 2020 and part of 2021 the Factor and Funding Working Party will be working with the Scheme's Actuarial Team and the Company to complete the 5 April 2020 triannual valuation of the DB Section of the Scheme.

The Asset and Liability Committee has also established a Longevity Hedging Working Party to consider whether the Scheme should enter into a longevity swap.

A formal Trustee Board evaluation is carried out annually. Every third year, the review is undertaken by an independent third party. The latest review was carried in early March 2020 and was led by the then Chairman, Michael Abrahams. The overall conclusion was although there were some relatively minor process matters that should be addressed, the view of the Trustee Directors, Pensions Team and the Scheme's actuary was that there are no significant outstanding issues which require further attention.

Many of the aspects of administering the Scheme call for specialist help under the supervision of the Pensions Manager. The names of the Scheme advisers are given on pages 2 and 3.

## Membership

There were no major changes to the Scheme during the year ended 5 April 2020.

	Defined Benefit Section	Defined Contribution Section
<b>ACTIVE MEMBERS</b>		
Active members at the start of the year	396	4,148
New entrants in the year	-	707
New opt outs entitled to deferred pension	(27)	-
New leavers entitled to deferred pension	(51)	(1,087)
Members who retired	(9)	(2)
Members who took total commutation (ill health)	(1)	-
Members who died	-	(1)
Members who transferred out	-	(1)
Members who received a refund	-	(1)
Leavers – no money paid, record closed	-	(2)
<b>Active members at the end of the year</b>	<b>308</b>	<b>3,761</b>
<b>MEMBERS WITH DEFERRED BENEFITS</b>		
Deferred members at the start of the year	13,156	4,220
Active members who became deferred	78	1,087
Members who retired	(654)	(25)
Members retiring with serious ill health	(6)	-
Members who took total commutation (ill health)	(1)	-
Members who took trivial commutations	(10)	-
Members who transferred out	(224)	(393)
Members who died	(36)	-
Members who received a refund	-	(1)
Deferred members who elected to transfer benefits to active membership	-	(5)
<b>Members with deferred benefits at the end of the year</b>	<b>12,303</b>	<b>4,883</b>

# PRUDENTIAL STAFF PENSION SCHEME

<b>PENSIONERS</b>		
Pensioners at the start of the year	20,301	-
New retirements	669	-
New spouses & children's pensions	255	-
Members who died	(609)	-
Members who took trivial commutations	(2)	-
Cessation of children's pension	(5)	-
No liability	(5)	-
<b>Pensioners at the end of the year</b>	<b>20,604</b>	<b>-</b>

The pensioners figure at the year-end contains 3,714 (2019: 3,709) widows and 72 (2019: 75) dependants/child's pensions.

There are no pensioners in the DC Section of the Scheme, however, there are death in service lump sum benefit only members in the DC Section not included in the above Membership statistics and deferred members who have opted out but are still covered for a death in service lump sum benefit and are included in the table above.

There are 20 (2019: 11) deferred members and pensioners who opted out of the DB Section, but are still covered for a death in service lump sum benefit, but are included in the table as either a deferred member or pensioner.

These membership figures do not include movements notified to the Administrator after the completion of the annual renewals.

### **Untraced members with outstanding benefits**

Included in the total membership statistics for Pensioners and Deferred Pensioners of the DB Section are 675 (2019: 899) members who are entitled to receive payment of their benefits, but the Scheme's administrator has been unable to trace them to pay these benefits.

The administrator has attempted to trace these members via the Department for Work and Pensions tracing service and has included them in the audit of pensioners against the Registry of Deaths. If the members remain untraceable their benefits remain in the Scheme and are included within the Scheme's current liabilities. The outstanding benefits including arrears were £6.3m (2019: £7.3m) as at 5 April 2020.

### **Additional benefits provided under the Defined Benefit Section Scheme Rules 7.1.1 (2) and 7.3**

#### **a) Discretionary increases to pensions in payment awarded by the Company**

Increases to pensions accrued pre 6 April 1997 are discretionary and pensions accrued after 5 April 1997 are increased in line with statutory minimum requirements.

Pensions as at 1 April 2020 were increased as follows:

Element of pension	Increase (under GMP age)	Increase (over GMP age)
Pre 88 GMP	2.4%	Nil
Post 88 GMP	2.4%	1.7%
Pre 06/04/1997 Excess	2.4%	2.4%
Pension 06/04/1997 to 05/04/2005	2.4%	2.4%
Post 05/04/2005 pension	2.4%	2.4%

Any pensions that commenced payment on or after 1 April 2019 (other than as a result of the death of a pensioner whose pension started to be paid before 1 April 2020) received a pro rata increase of one twelfth of the above increase for each month that the pension came into payment before 1 April 2020.

# PRUDENTIAL STAFF PENSION SCHEME

In addition, pension attributable to AVCs that started to be paid before 6 April 2012 received a discretionary 2.5% increase. The total cost of the increases awarded on a discretionary basis was £60m on the assumptions adopted with regard to the long term funding of the Scheme.

Deferred pensions were increased in line with statutory requirements and the Scheme Rules. No discretionary increases were awarded to deferred pensions during the year.

## **b) Discretionary augmentation of benefits**

During the year from 6 April 2019 to 5 April 2020 discretionary augmentations of benefits were requested by companies participating in the Defined Benefit Section of the Scheme resulting in total augmentation contributions of £8K (2019: £8K) being received in the year.

## **c) Financing of additional benefits**

In accordance with the Defined Benefit Section Scheme Rule 7.1.1, and bearing in mind that an allowance for the pre-funding of the increases to pensions in payment referred to in a) above is made in the contribution rate being paid, the Actuary has certified that the full amount of the total expected cost under a) above could be met from the funding already agreed following the 2017 valuation for the Defined Benefit Section of the Scheme. The Company has agreed to pay additional contributions to cover the cost of future augmentations as noted above.

The Actuary will monitor the cost of future additional benefits provided under the Defined Benefit Section Scheme Rule 7.3 in order to certify the additional employers' contributions required.

## **Transfers out**

DB Section - All individual transfer values paid during the year represented the full cash equivalent of members' leaving rights and were calculated in accordance with the requirements of Section 97 of the Pension Schemes Act 1993.

All transfer values paid after 20 February 2019 included GMP equalisation.

DC Section - All transfer values paid during the year represented the value of the member's funds.

## **Expression of wish forms**

The Trustee reminds members that they can indicate to the Trustee the persons to whom they wish any lump sum benefits and pension benefits to be paid in the event of their death. The Trustee will then be able to take members' wishes into account, although they are not obliged to do so. Members are also urged to review their Expression of Wish form should their circumstances change.

Expression of Wish forms are available on request by writing to the address in the further information section on page 10.

## **Financial Development of the Scheme**

Changes in the Scheme's net assets during the year were as follows:

	£m
Net assets at 5 April 2019	7,739.1
Net withdrawals from dealings with members	(321.2)
Net returns on investments	<u>705.0</u>
Net assets at 5 April 2020	<u><u>8,122.9</u></u>

The financial statements for the year have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

# PRUDENTIAL STAFF PENSION SCHEME

## ***Tax and contracting out status***

The Scheme is a registered pension scheme under Section 150 of the Finance Act 2004 and continues to benefit from the favourable tax treatment afforded to previously exempt approved UK pension schemes.

Contracting out for all defined benefit occupational pension schemes, including the DB Section of the Scheme, ceased with effect from 6 April 2016.

The DB Section of the Scheme was contracted out for the period 6 April 1978 to 5 April 2016 (inclusive). The Defined Contribution Section is contracted in.

## ***Further information***

Further information about the Scheme is available, on request, to members and prospective members, their spouses and other beneficiaries together with all recognised trade unions. In particular, the documents constituting the Scheme, the Rules and a copy of the latest actuarial report and the Trustee's Statement of Funding Principles can be inspected at the addresses shown below.

Individual benefit statements are provided to active members annually. In addition to the information shown in these statements members can request details of the amount of their current transfer value. Such requests are available free of charge once a year.

If members have any queries concerning the Scheme or their own pension position, or wish to obtain further information, they should contact the appropriate address:

For Defined Benefit Section members:

Prudential Staff Pension Scheme  
XPS Administration Limited  
3rd Floor  
Priory Place  
New London Road  
Chelmsford  
Essex CM2 0PP

Email [pspsdb@xpsgroup.com](mailto:pspsdb@xpsgroup.com)

For Defined Contribution Section members:

Prudential Staff Pension Scheme  
Ground Floor C Block South  
121 King's Road  
Reading  
Berkshire RG1 3ES

Email : [PSPSDC.SC@Prudential.co.uk](mailto:PSPSDC.SC@Prudential.co.uk)

Website: [www.prudentialstaffps.co.uk](http://www.prudentialstaffps.co.uk).

In order to administer the Scheme, it is necessary for information about members and their dependants to be held and processed by the Trustee or other parties who act on behalf of the Trustee. The Trustee is the data controller under the Data Protection Act 1998.

As a result of changes to the legislation surrounding the collection and use of personal data, which came into effect from 25 May 2018, the Trustee has reviewed its policy and updated its Data Privacy Statement. In May 2018, all active, deferred and pensioner members of the DB Section of the Scheme active and deferred members of the DC Section were provided with a copy of the Trustee's Data Privacy Statement explaining how personal data will be collected and used to administer benefits within the Scheme, their legal basis for having this data and the rights members and beneficiaries have in relation to the data held.

# PRUDENTIAL STAFF PENSION SCHEME

All member information is kept secure and only disclosed in limited circumstances; for example, information may be disclosed to companies within the Prudential Group, Trustee advisers and other organisations in connection with the operation of the Scheme. Information may also be disclosed to any future potential employers and their advisers and, only if the Trustee is legally obliged to do so, to Government or regulatory organisations.

Full details of the Trustee's updated data privacy statement are available on the Scheme website [www.prudentialstaffps.co.uk](http://www.prudentialstaffps.co.uk).

## **Money & Pensions Service (MaPS)**

The MaPS is a new service which was introduced in 2019 combining pension guidance, money guidance and debt advice. These services were previously provided by three separate government entities; The Pensions Advisory Service (TPAS), Pension Wise and the Money Advice Service. MaPS can be contacted at:

Money & Pensions Service  
Holborn Centre  
120 Holborn  
London EC1N 2TD

MaPS Tel: 0115 965 9570  
Email: [contact@maps.org.uk](mailto:contact@maps.org.uk)  
Website: [www.moneyandpensionsservice.org.uk](http://www.moneyandpensionsservice.org.uk)

## **Pensions Ombudsman**

If a member has a complaint against the Scheme that has not been resolved to their satisfaction through the Scheme's Dispute Procedure, the Government appointed Pensions Ombudsman can investigate complaints of injustice caused by bad administration, either by the Trustee or Scheme administrators, or disputes of fact or law. The Pensions Ombudsman can be contacted at:

10 South Colonnade  
Canary Wharf  
London E14 4PU

Tel: 0800 917 4487  
Email: [enquiries@pensions-ombudsman.org.uk](mailto:enquiries@pensions-ombudsman.org.uk)  
Website: [www.pensions-ombudsman.org.uk](http://www.pensions-ombudsman.org.uk)

## **The Pensions Regulator (tPR)**

The Pensions Regulator can intervene if they consider that a scheme's trustees, advisers, or the employer are not carrying out their duties correctly. The address for the Pensions Regulator is:

Napier House  
Trafalgar Place  
Brighton BN1 4DW

Tel: 0345 600 0707  
Email: [customersupport@tpr.gov.uk](mailto:customersupport@tpr.gov.uk)  
Website: [www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk)

## ***The Pension Scheme Registry***

The Scheme is registered with the Pension Scheme Registry which is part of the Pensions Regulator's office. The registration number is 10011362X. The data held by the Registry is used by the Pension Tracing Service to assist former members of schemes to trace their scheme benefits. The Pension Tracing Service can be contacted at:

Pension Tracing Service  
The Pension Service 9  
Mail Handling Site A  
Wolverhampton WV98 1LU

Tel: 0800 731 0193

Website: [www.gov.uk/find-lost-pension](http://www.gov.uk/find-lost-pension)

# PRUDENTIAL STAFF PENSION SCHEME

## INVESTMENT REPORT

The Trustee determines its investment strategy after taking advice from the investment consultants. It has delegated the management of the investments to the investment managers listed on page 3.

### ***Employer Related Investments***

The Scheme does not directly hold any shares in M&G plc or any of its subsidiaries, or hold property of material value let to M&G plc or any of its subsidiaries. Shares of Prudential plc or any of its subsidiaries were not held in pooled investment arrangements prior to the Demerger during the year. The Trustee Directors believe the assets are invested in accordance with the Occupational Pension Schemes (Investment) Regulations 2005.

### ***Statement of Investment Principles***

A Statement of Investment Principles has been produced for each section as required under Section 35 of the Pensions Act 1995 and copies are available on the Scheme's website [www.prudentialstaffps.co.uk](http://www.prudentialstaffps.co.uk). All investments made during the year were in accordance with this Statement.

### ***Custodial Arrangements***

The Scheme's investments were held with the custodians shown on page 3.

The custodians are responsible for the safekeeping of share certificates and other documentation relating to the ownership of listed investments, settlement of trades and income collection.

The Trustee is responsible for ensuring that the Scheme's assets continue to be held securely. It reviews the custodian arrangements from time to time and the Scheme's auditor is authorised to make whatever investigations it deems necessary as part of the annual audit procedures.

## **Defined Benefit Section**

### **Investment policy and investment management arrangements**

The investment policy for the DB Section of the Scheme is determined by the Trustee in consultation with the Principal Employer and the Investment Consultant, Willis Towers Watson. The investment objective set by the Trustee is currently to seek to achieve a target level of investment return of 0.5% per annum in excess of the discount rate applicable to the liabilities, as well as an additional allowance for the Employer's future service contribution abatement, in as low a risk way as possible. In doing this, the nature and duration of the Scheme's liabilities are taken into account.

### **Corporate governance and socially responsible investments**

Corporate governance issues and the exercise of rights attaching to investments, including voting, are delegated to the Investment Managers as an integral part of the investment management function; voting rights will be exercised whenever practicable with the objective of preserving and enhancing shareholder value.

The extent to which social, environmental and ethical considerations are taken into account in investment decisions is left to the discretion of the Investment Managers subject to such social, environmental and ethical issues not having a prejudicial financial impact on the securities held.

The investment managers at the year-end for the DB Section are listed on page 3.

All Investment Managers are regulated by the Financial Conduct Authority (FCA) and have authority for the implementation of investment policy consistent with their respective mandates. The Scheme's investments are invested in accordance with section 40 of the Pensions Act 1995.

The investment managers are remunerated on the basis of a fee determined by the value of the funds under management. These fees are payable quarterly. A performance related fee is paid to Putnam (based on performance relative to a benchmark index), M&G Debt Opportunities Fund (based on performance above a certain hurdle rate), Orchard illiquid credit funds (based on performance above a certain hurdle rate) and the Greenoak real estate debt fund (based on performance above a hard cap).

# PRUDENTIAL STAFF PENSION SCHEME

## INVESTMENT REPORT (continued)

The Trustee considers a range of sustainable investment factors, such as, but not limited to, those arising from Environmental, Social and Governance (“ESG”) considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Trustee takes into account in the assessment.

Where relevant, the Trustee may take into account non-financial considerations in designing and implementing the investment strategy, including (but not limited to) the views of members and beneficiaries of the Scheme.

### Monitoring

The Trustee reviews the Scheme’s Investment Managers from time to time, considering the results of its monitoring of performance and process and the Investment Manager’s compliance with the requirements of the Pensions Act concerning diversification and suitability.

The independent Performance Measurer provides quarterly updates of performance to assist in the reviews of the Scheme’s and Investment Managers’ performance against the benchmarks.

The Trustee and its agents hold meetings with each Investment Manager to satisfy themselves that the Manager continues to carry out its work competently and has the appropriate knowledge and experience to manage the investments of the Scheme.

In the light of advice from the Scheme Actuary about the relative values of the Scheme’s assets and liabilities, the Trustee is applying a return target for the assets of the Scheme. As at the date of this report, the benchmark asset allocation of the Scheme was as set out below:

Asset Class	Benchmark %
Illiquid Credit	1.0
Distressed Debt Opportunities	1.7
Commercial Real Estate Debt	0.6
Multi-Strategy Credit	3.8
Liability Matching assets*	<u>92.9</u>
Total	<u>100.0</u>

\* *Liability matching assets consist of secure income assets, fixed interest gilts, index-linked gilts, corporate bonds, cash and swaps*

Over the year the Trustee continued with the implementation of the investment strategy agreed during 2019. As part of this process, M&G and BlackRock were appointed to manage secure income asset mandates on behalf of the Scheme. The Scheme also made additional investments in the Buy & Maintain credit portfolio to move the allocation towards the agreed long-term target level. The credit investments were made in two tranches, with the first tranche completed during December and the second in March 2020.

These changes reflect the Trustee’s intention to move the Scheme towards a cashflow-matching portfolio with a reduced return-seeking asset portfolio intended to fund the Employer’s future-service contribution abatement.

These investments were undertaken to help to ensure that the expected return of the portfolio is sufficient to meet the Trustee’s agreed target of 0.5% p.a. above liabilities, as well as an additional allowance for the Employer’s future service contribution abatement.

# PRUDENTIAL STAFF PENSION SCHEME

## INVESTMENT REPORT (continued)

### Investment Managers

The DB Section Investment Managers employed, together with the total market value of the portfolios under management as at 5 April 2020, are set out below:

Manager	Mandate	Market value of portfolio (£m)	Total % of Fund
Greenoak	Real Estate Debt (PIV)	21.4	0.3%
M&G	Companies' Financing (PIV)	0.0	0.0%
M&G	Debt Opportunities III (PIV)	73.3	0.9%
M&G	Debt Opportunities IV (PIV)	42.1	0.5%
M&G	Multi-Strategy Credit (PIV)	139.0	1.8%
Orchard	Elegantree Illiquid Credit (PIV)	22.2	0.3%
Orchard	Taiga Illiquid Credit (PIV)	61.1	0.8%
Putnam	Multi-Strategy Credit (PIV)	131.2	1.7%
BlackRock <sup>1</sup>	Cash (PIV)	120.9	1.6%
BlackRock <sup>2</sup>	Secure Income Assets (PIV)	7.0	0.1%
M&G	Secure Income Assets (PIV)	133.2	1.7%
M&G	Active Matched UK Corporate Bonds	419.6	5.4%
M&G	Buy & Maintain UK Corporate Bonds	848.9	11.0%
M&G	Active Index-Linked Gilts	1,610.4	20.8%
M&G	Active Gilts	284.8	3.7%
M&G <sup>3</sup>	Liability Matching	3,782.0	48.9%
M&G	Cash	15.9	0.2%
N/A	Other Cash	13.2	0.2%
<b>Total Investment Assets</b>		<b>7,726.3</b>	<b>100.0%</b>

Note:

The above table excludes Commercial AVCs and cash in transit. It includes the Trustee Bank balance.

1. BlackRock Cash Fund includes the cash held in the transition account.
2. BlackRock Secure Income Assets Fund valuation reflects the amount invested in units of the Fund during February 2020. A formal valuation at June 2020 is expected from the manager in September 2020.
3. M&G Liability matching assets include the collateral and passive matched portfolios.
4. "PIV" Pooled Investment Vehicle

### Investment performance and monitoring

Investment performance is measured by the Scheme's cash and securities custodian, JP Morgan Chase Bank. All performance numbers quoted in this report have been provided by JP Morgan Chase Bank, unless otherwise stated.

### Custody

JP Morgan is the Scheme's global custodian for the majority of the segregated assets. Silverfleet Capital is custodian for the Silverfleet assets. All custodians are independent of the Investment Managers and the Principal Employer. The Scheme's investments held by the custodians are identified in their books and records as belonging to the Scheme.

# PRUDENTIAL STAFF PENSION SCHEME

## INVESTMENT REPORT (continued)

### Investment performance

Allowing for income, capital gains, and movements in market values, the return on the Scheme's assets for the 12 months to 31 March 2020 was 8.5%. This was 0.6% below the benchmark return.

Returns for the year were dominated by market events during Q1 2020, when the global pandemic led to significant falls in growth assets, whilst UK government bonds rose in value. The Scheme's investment strategy, which is heavily biased towards high quality and low risk assets, delivered a robust performance during this period resulting in Scheme funding being very stable during the period.

The difference in performance date and accounting period will result in timing differences when compared to the net returns on the investments figure shown on page 34.

The absolute returns achieved over longer periods, together with the Scheme's benchmark returns, are shown below.

Period	Return (% p.a.)	
	Scheme	Benchmark
12 months to 31 March 2020	8.5	9.1
3 years to 31 March 2020	4.9	4.9
5 years to 31 March 2020	6.2	6.0

### Returns for 12 months to 31 March 2020

Manager	Mandate	Manager Performance %	Benchmark %
Greenoak <sup>4</sup>	Real Estate Debt (PIV)	10.9	2.6
M&G <sup>1,2</sup>	Debt Opportunity III (PIV)	5.7	0.8
M&G <sup>1,2</sup>	Debt Opportunity IV (PIV)	-11.4	0.8
M&G <sup>1</sup>	Multi-Strategy Credit (PIV)	-3.5	0.8
M&G <sup>1</sup>	Secure Income Assets (PIV)	4.3	5.6
Orchard <sup>1,2,3</sup>	Illiquid Credit Elegantree (PIV)	3.8	2.4
Orchard <sup>1,2,3,6</sup>	Illiquid Credit Taiga (PIV)	-4.3	2.4
Putnam	Multi-Strategy Credit (PIV)	-5.7	0.8
BlackRock	Cash (PIV)	0.7	0.8
BlackRock	Secure Income Assets (PIV)	N/A	N/A
M&G	Active Matched UK Corporate Bond	2.6	1.4
M&G	Buy & Maintain	5.0	-
M&G	Active Index-Linked Gilts	2.4	3.2
M&G	Active Gilts	13.2	13.0
M&G <sup>5</sup>	Liability Matching	14.5	-
Total Scheme		8.5	9.1

1. Performance sourced from Manager
2. Quarterly returns sourced from Manager, 12 month performance calculated by Willis Towers Watson
3. Performance in local currency (USD)
4. Performance in local currency (EUR)
5. M&G Liability matching portfolio includes the collateral and the passive matched portfolio

# PRUDENTIAL STAFF PENSION SCHEME

## INVESTMENT REPORT (continued)

### Defined Contribution Section

#### Investment policy and investment management arrangements

In respect of the DC Section, the Trustee has secured administration and investment services through an insurance policy with The Prudential Assurance Company Limited, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority. Under this arrangement contributions are invested in a range of pooled pension funds managed by a number of underlying managers including M&G Investments.

The investment charges associated with this policy depend on the fund selected by the member. All charges are calculated on a daily basis as a percentage of the underlying assets and are collected periodically through the sale of the relevant number of units. The only exception to this is that there is currently no additional charge on any investments in the Prudential With Profits Fund.

The Trustee has a duty to act responsibly with regards to the assets it owns on behalf of the Scheme's members. However, since the Scheme's assets are invested in a range of pooled funds, the Trustee has a limited ability to influence the Investment Managers' policies in the areas of corporate governance, voting and socially responsible investment.

The Trustee's strategy is to provide members with sufficient options to enable them to secure assets of appropriate liquidity and risk that will generate income and capital growth, which together with new contributions from members and the Employer, will provide a fund at retirement with which members can secure an income and, if required, draw a cash lump sum.

Members can choose their own customised asset mix from funds that invest in the following asset classes:

#### UK equities

Emerging market equities

Bonds

Cash

#### Overseas equities

Diversified assets

Property

With Profits

All the funds (except the Prudential With Profits fund) are 'white labelled', where the underlying managers and the allocations to their funds are decided by the Trustee. A range of specialist global equity, UK equity, emerging markets and diversified assets managers are currently utilised including M&G Investments (both passive and active funds).

The PSPS Multi-asset Lifestyle Option is the default Lifestyle option for members and invests in a diverse range of investments that are expected to provide significant real returns over long periods (such as equities and diversified growth funds) for much of the member's working life, then switches gradually into assets that are more consistent with members taking their retirement benefits more flexibly such as a combination of cash, income drawdown and annuity purchase during retirement, as illustrated below.

This strategy initially invests 100% in equities (25% PSPS Global Equity– active, 40% Overseas Equity– passive, 10% UK Equity– active, 10% UK Equity – passive , 10% Emerging Market Equity – active and 5% Responsible Investment Equities - passive) and gradually builds up exposure to the PSPS Diversified Growth Fund –active, until at a point 10 years before retirement it is invested 25% in equities and 75% in the PSPS Diversified Growth Fund –active. Then 10 years before retirement the strategy de-risks into PSPS Total Return Bonds – active and in the last 3 years before retirement, the PSPS Cash Fund – active. The final allocation at retirement is 10% equities, 40% diversified, 30% total return bonds and 20% cash.

# PRUDENTIAL STAFF PENSION SCHEME

## INVESTMENT REPORT (continued)

Following a review of the strategy in July 2017 in light of the introduction by the Government of flexibilities as to how retiring members are able to access their pension benefits, the amended Multi-asset Lifestyle targets a more balanced investment strategy at retirement. In January 2020, following a further review of strategy the Multi-asset lifestyle strategy was adjusted to introduce the Responsible Investment Equities – passive fund. In addition, the lifestyle glidepath was adjusted to retain an all equity composition up to a point 20 years before members' selected retirement age (previously 40 years).

In addition, two alternative lifestyle options are offered: an actively managed lifestyle, PSPS Active Lifestyle and a passively managed option, PSPS Passive Lifestyle.

The PSPS Active Lifestyle begins in the accumulation phase, investing 100% in Equities (70% PSPS Global Equity – active and 30% PSPS UK Equity – active). The PSPS Active Lifestyle switches into the consolidation phase 10 years before a members' Selected Retirement Age. The consolidation phase consists of an allocation to bonds (50% PSPS Corporate Bonds – active and 50% PSPS Index-Linked Gilts - active) which switches to PSPS Cash – active 4 years before Selected Retirement Age. The final allocation at a members' Selected Retirement Age will be 75% bonds and 25% cash.

The PSPS Passive Lifestyle initially invests 100% in Equities (70% PSPS Overseas Equity – passive and 30% PSPS UK Equity – passive). The PSPS Passive Lifestyle starts switching into the consolidation phase 10 years before a members' Selected Retirement Age. The consolidation phase consists of an allocation to bonds (50% PSPS Corporate Bonds – active and 50% PSPS Index-Linked Gilts -active) which also switches to PSPS Cash – active, 4 years before Selected Retirement Age. The final allocation at a members' Selected Retirement Age will be 75% bonds and 25% cash.

# PRUDENTIAL STAFF PENSION SCHEME

## INVESTMENT REPORT (continued)

### Investment performance

The table below details the performance of the DC Section of the Scheme's fund options to 31 March 2020:

Fund	Return for 12 months to 31 March 2020		Return for 3 years to 31 March 2020	
	Fund	Benchmark	Fund	Benchmark
PSPS Cash - active	0.7	0.5	0.5	0.4
PSPS Index Linked Gilts - passive	2.7	2.4	3.2	2.9
PSPS Index Linked Gilts - active	2.3	2.4	3.0	2.9
PSPS Fixed Interest Bonds - active	10.0	9.9	4.8	4.6
PSPS Long Dated Gilts - passive	17.8	17.6	8.0	8.0
PSPS Corporate Bonds - active	2.5	1.5	2.6	2.1
PSPS Property - active	-0.9	0.0	2.3	4.9
PSPS UK Equity - passive	-18.3	-18.5	-4.2	-4.3
PSPS UK Equity - active	-15.4	-18.5	-1.4	-4.3
PSPS Overseas Equity - passive	-9.2	-8.0	0.2	0.7
PSPS Global Equity - active	-3.0	-5.9	5.4	2.2
PSPS Emerging Markets Equity - active	-12.3	-13.2	0.5	-1.0
PSPS Total Return Bond Fund - active	-2.8	0.7	0.4	0.6
PSPS Diversified Growth - active	-6.4	5.7*	-1.7	6.0*
PSPS Responsible Investment Equity Fund***	n/a	n/a	n/a	n/a
Prudential With-Profits**	5.0	n/a	4.4	n/a

Note: The performance numbers are for the "white labelled" parent funds in which the members' underlying fund options are invested. Performance figures are shown gross of fees and may differ slightly from the actual returns achieved by members due to a one day delay in unit pricing and the deduction of management fees.

\* Estimate

\*\* Unitised returns for the Prudential With Profits fund are for the period from 6 April 2019 to 5 April 2020, and assuming that the contribution was invested without any allowance made for any explicit charges one or three years ago and realised to secure benefits at normal retirement age.

\*\*\* This fund was a new investment during the year, therefore no performance is available for the past 12 months.

# PRUDENTIAL STAFF PENSION SCHEME

## INVESTMENT REPORT (continued)

<b>Fund</b>	<b>Date Launched</b>	<b>Underlying Fund(s)</b>
PSPS Cash - active	2008	M&G Cash fund
PSPS Index Linked Gilts - active	2008	M&G Index Linked Bond Fund
PSPS Index Linked Gilts - passive	2008	M&G Index Linked Passive Fund
PSPS Fixed Interest Bonds - active	2008	M&G Fixed Interest Fund
PSPS Corporate Bonds - active	2008	M&G All Stocks Corporate Bond Fund
PSPS Property - active	2008	M&G Property Fund
PSPS UK Equity - passive	2008	M&G UK Equity Passive Fund
PSPS Overseas Equity - passive	2008	M&G International Equity Passive Fund
PSPS UK Equity - active	2008	Lindsell Train UK Equity Fund (30%) Baillie Gifford UK Equity Fund (30%) Schroders Life UK Equity Fund (40%)
PSPS Global Equity - active	2008	MFS Global Equity Fund (37.5%) Baillie Gifford Long Term Global Growth Fund (25%) Kleinwort Benson ACWI Fund (37.5%)
PSPS Emerging Markets Equity - active	2011	Trilogy Emerging Markets Equities Fund (50%) RBC Emerging Markets (50%)
PSPS Diversified Growth - active	2011	Schroders Dynamic Multi Asset Fund (33.3%) Invesco Global Targeted Returns Strategy (33.3%) M&G Episode Allocation Fund (33.3%)
PSPS Long dated Gilts - passive	2013	M&G Over 15 year Gilt Index fund
PSPS Total Return Bond - active	2016	M&G Total Return Credit Investment Fund
PSPS Responsible Investment Equities - 2020 passive		L&G Global Equity Ethical Index Fund

In January 2020, the Trustee added a new fund, PSPS Responsible Investment Equities – passive which invests in an underlying fund Legal & General Global Equity Ethical Index fund. At the same time, the Trustee implemented a change in the underlying funds for the PSPS Diversified Growth –active adjusting the weights of the Schroders Dynamic Multi Asset Fund and Invesco Global Targeted Returns Strategy to one third each and adding a third fund, the M&G Episode allocation Fund with an allocation of one third.

# PRUDENTIAL STAFF PENSION SCHEME

## INVESTMENT REPORT (continued)

### Market commentary

Q4 GDP numbers were broadly in-line with trend for the last 12 months - a modest slowdown year-on-year. The global spread of Coronavirus, and the impact on supply and demand from necessary containment measures, will inevitably impact the rate of global economic growth in 2020 and possibly beyond.

Falling domestic demand globally and steep oil price declines are deflationary. The slump in global demand for oil has been compounded by a price war between OPEC (led by Saudi Arabia) and Russia, Brent crude falling to its lowest level since 2002. Inflation, which was already below target in the major advanced economies, is forecast to slow in 2020, with some Eurozone countries and Japan expected to enter deflation.

The US Federal Reserve (Fed) and the Bank of England (BoE) have cut rates to record lows. The Bank of Japan and the European Central Bank have joined the Fed and BoE in restarting and expanding their quantitative easing programs. The Fed's now unlimited purchase program will, for the first time, include corporate debt.

Developed market sovereign bond yields have been pushed near record lows, though have not been immune to volatility as investors liquidated bonds in a dash for cash in March. Gilt yields, having already fallen during 2019, have fallen further in the first quarter of 2020. Implied inflation fell over the year as economic expectations worsened.

Currency markets have been typical of a period of increased risk in recent months. The haven appeal of the dollar and yen was apparent and, in line with their less defensive reputation, sterling and emerging market currencies fell. Sterling declined over the year.

Sterling investment grade spreads rose significantly in Q1 2020, more than offsetting any benefit from falling underlying government bond yields. Unsurprisingly, speculative grade credit spreads underperformed their investment grade counterparts with high yield energy bonds particularly hard hit in Q1 and resulting in sizeable declines over the year. Leveraged loans have underperformed within speculative-grade markets as a collapse in interest rate expectations weighed on floating-rate loans.

Global equity markets fell around 10% in local currency terms and 6% in sterling terms, as weakening sterling benefited unhedged investors. The UK equity market was the worst performer over the year with the FTSE 100 posting its biggest fall since 1987 in Q1, as its sectoral composition and exposure to oil & gas hurt performance. Global equities did recover some losses towards the end of March, as market sentiment improved on the back of fiscal and monetary support measures. Volatility levels, as measured by the VIX Index, hit levels not seen since the global financial crisis.

A number of UK property funds have suspended dealing as property valuers have been unable to accurately value the underlying assets with any certainty, inserting material uncertainty clauses into their valuations.

The DC Section unit linked funds are priced and traded daily by the investment managers. The Trustee regards the DC Section investments as readily marketable, although Prudential reserves the right to introduce a redemption deferral for the Property – active fund in certain market conditions.

The With Profits fund has a broad asset allocation of around 65-70% in "growth assets" (equities, private equity and property), with the remaining assets invested in various forms of conventional credit (e.g. investment grade corporate bonds) and specialised credit (e.g. high yield, loans, asset backed securities, etc.). Only a small amount is held in sovereign bonds (e.g. gilts or other government bonds).

The investment return on the assets within the With Profits fund benefited from the strong returns from equity and bond markets in the calendar year 2019. The 12 month (gross) return to 31 December 2019 on the underlying assets was c. 11.5%, 5 years c. 7.2% p.a. and 10 years c. 8.0% p.a. The returns produced by the fund sit below the long term returns achieved on equities but above the long term returns achieved on UK government bonds (the FTSE All World returned 11.5% p.a. and FTSE All Stock Gilts returned 5.4% p.a. over 10 years to 31 December 2019).

The Prudential declared an unchanged annual bonus rate of 1.75% in February 2020 for the DC Section's With-Profits fund. Terminal bonus rates for those retiring this year (which are not guaranteed and vary by year of investment) are also positive.

# PRUDENTIAL STAFF PENSION SCHEME

## **INVESTMENT REPORT (continued)**

Previously, Prudential did not apply any Market Value Reduction to terminal bonus rates to members surrendering early. However, since the introduction of the Pension Freedoms, which allows members to take 100% cash withdrawals, the application of Market Value Reduction has changed. Prudential has removed the concession applying to early and late retirement, meaning Market Value Reduction may apply to members who wish to access their fund before or after Normal Retirement Date.

However, Prudential has put in place a new concession where Market Value Reduction will not be applied to the first £25,000 withdrawn from the With-Profits fund in any rolling 12 month period, provided the monies have been invested for five years. If more than £25,000 is withdrawn, the Market Value Reduction will only apply to the amount in excess of £25,000. Please contact the Pensions Manager for further information.

Investments in With Profits funds are pooled just like other unitised funds. However, the value of each unit is not directly linked to the value of the underlying assets as a With-Profits fund aims to smooth out some of the ups and downs in performance over time. Over the long term, the intention is that the majority of investment returns are paid by regular, annual bonuses and the remainder as a final bonus. The smoothing means that any investment return kept back over the years will build up in the fund to provide the final bonus.

These regular bonuses are guaranteed if the fund is held to normal retirement date but reductions may be applied on transfer, early (and late) retirement or switching. A charge is levied on all investments in the With Profits fund to pay for guarantees. The charge is taken by making adjustments to regular and final bonuses. Early or late withdrawal values may be reduced by a Market Value Adjustment to reflect the value of the underlying assets.

### **Additional Voluntary Contributions (AVCs)**

The Scheme provides for members to pay AVCs to increase their benefit entitlement at retirement. Such contributions may attract tax relief and provide increased pension benefit.

DB Section members' AVCs are invested separately into the In House arrangement where they are managed as part of the normal investment operations of the Scheme's DB Section. Such AVCs will be used to purchase an initial pension on retirement. DB Section members can also decide to contribute to an additional AVC arrangement on a money purchase basis in which a fund range is offered similar to that under the DC Section.

AVCs for the DC Section are invested in the same manner as Employer contributions.

# PRUDENTIAL STAFF PENSION SCHEME

## REPORT ON ACTUARIAL LIABILITIES

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to, based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employers and set out in the Statement of Funding Principles, which is available to Scheme members on request.

For the Prudential Staff Pension Scheme, the Scheme Solvency Target forms the basis of the calculation of the DB Section's technical provisions. The Scheme Solvency Target considers the amount expected to be needed to provide the DB Section's accrued benefits assuming that the Trustee were to switch the investment strategy either to a closely matched portfolio of gilts of appropriate nature and duration, or a portfolio of cash and swaps where a more favourable return would be expected on such a portfolio. No allowance is made for future salary increases or for members to retire early (whether voluntarily or due to ill health) and no allowance is made for future discretionary pension increases to be awarded.

In addition to the statutory funding objective, the Trustee has agreed with the Employers to adopt a further funding target as part of the overall funding plan. This is referred to as the Ongoing Target. Under the Ongoing Target, the Trustee and the Employers aim for the Scheme to have sufficient assets to cover accrued benefits assuming that the Employers continue indefinitely, that the Employers are able to continue to award discretionary pension increases in line with their policy adopted from time to time and that the Trustee invests in such a way as to expect to be able to fund the accrued benefits (and the future discretionary pension increases) through a combination of the assets held, future contributions, and returns on those assets and contributions which are expected to exceed the returns on matching assets such as gilts.

The most recent full actuarial valuation of the DB Section of the Scheme was carried out as at 5 April 2017. This showed that on that date:

	<b>Scheme Solvency Target (technical provisions)</b>	<b>Ongoing Target</b>
	£m	£m
Assets	7,766	7,766
Amount needed to provide benefits	7,362	7,276
Surplus	404	490

# PRUDENTIAL STAFF PENSION SCHEME

## Method and significant actuarial assumptions at 5 April 2017:

The method and significant actuarial assumptions used to determine the funding targets are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

	<b>Scheme Solvency Target (technical provisions)</b>	<b>Ongoing Target</b>
<b>Actuarial method used in the calculation</b>	Defined accrued benefit method	Defined accrued benefit method
<b>Discount rate</b>	Term-dependent rates set by reference to the fixed interest gilt curve at the valuation date less a margin of 0.1% p.a. Equivalent to a single weighted average rate of around 1.5% p.a.	Term-dependent rates set by reference to the fixed interest gilt curve at the valuation date plus a margin of 0.7% p.a. over the period to 5 April 2032 and 0.4% p.a. thereafter. Equivalent to a single weighted average rate of around 2.2% p.a.
<b>Future Retail Price Index inflation (RPI)</b>	Term-dependent rates derived from the difference between fixed interest and index-linked gilt yields at the valuation date	Term-dependent rates derived from the difference between fixed interest and index-linked gilt yields at the valuation date
<b>Future Consumer Price Index inflation (CPI)</b>	0.8% p.a. below RPI	0.8% p.a. below RPI
<b>Pension increases in payment</b>	In line with the CPI assumption, subject to the relevant caps and floors that apply to pension increases under the Scheme Rules. No allowance for discretionary increases.	Guaranteed increases: in line with the Scheme Solvency Target assumptions. Discretionary increases: based on the projected margin of RPI (with a floor of 0% p.a. and a cap of 2.5% p.a.) over guaranteed increases with an allowance for inflation volatility of 1.5% p.a.
<b>Pension increases in deferment</b>	Statutory revaluation in line with inflation but capped at 5% p.a. is assumed to be in line CPI. The fixed 5% p.a. underpin is applied where appropriate.	Statutory revaluation in line with inflation but capped at 5% p.a. is assumed to be in line with CPI. The fixed 5% p.a. underpin is applied where appropriate.
<b>Post retirement mortality – base rates</b>	For males (female members) 95% (105%) of the mortality rates of the SAPS S2 Pensioner Amounts tables published by the Continuous Mortality Investigation Bureau. For female dependants, 89% of the mortality rates of the SAPS S2 Dependants Amounts tables. Mortality improvements to 2017 are based on the CMI 2015 Core Projections model with a 1.5% p.a. long-term trend.	
<b>Post retirement mortality – future</b>	Future improvements in mortality for males (females) are assumed to be in line with the CMI 2015 Core Projections model with a 1.75% p.a. (1.5% p.a.) long-term trend.	

# PRUDENTIAL STAFF PENSION SCHEME

## ACTUARY'S CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

### *Actuarial certification for the purposes of regulation 10(6) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005*

**Name of Scheme: Prudential Staff Pension Scheme – Defined Benefit Section**

#### **Adequacy of rates of contributions**

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 5 April 2017 to be met for the period for which the Schedule is to be in force.

#### **Adherence to statement of funding principles**

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the statement of funding principles dated 16 May 2018.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

C G Singer  
Fellow of the Institute and Faculty of Actuaries  
Towers Watson Limited

Watson House  
London Road  
Reigate  
Surrey RH2 9PQ

16 May 2018

# PRUDENTIAL STAFF PENSION SCHEME

## DEFINED BENEFIT SECTION – SCHEDULE OF CONTRIBUTIONS

### SECTION 1: INTRODUCTION

- 1.1 This Schedule of Contributions has been prepared by Prudential Staff Pensions Limited ("the Trustee"), the Trustee of the Prudential Staff Pension Scheme ("the Scheme").
- 1.2 This Schedule specifies, for the period of 5 years from the date of certification of the Schedule, the rates and due dates of Employers (as defined in the Scheme Rules) and employee contributions to the Defined Benefit Section of the Scheme. It is subject to review from time to time as required by legislation and by the Scheme's Rules and the following actuarial investigations.

### SECTION 2: EMPLOYERS' CONTRIBUTIONS

Contributions to the Defined Benefit Section

#### Contributions to provide for benefit accrual, risk benefits

- 2.1 During the period covered by this Schedule, normal Employer contributions shall be paid to the Defined Benefit Section of the Scheme in line with the minimum contributions as set out in DB Rule 2.4.1 of the Trust Deed and Rules. These contributions are as follows:

*DB Members:* For *DB Members* who are under the age of 62 or are entitled to accrue further pension in the Scheme:

- 12.5% of the *Salaries* and pensionable *Consolidation Payments* from time to time of the *DB Members*.

For *DB Members* in *Pensionable Service* who have attained the age of 62 and are not entitled to accrue any further pension but whose pension is increased prior to payment under the terms of DB Rule 3.1(5):

- 6% of *Salaries*.

*Opt-out Participants:* 2% of *Salaries*.

The terms in italics in this paragraph have the meanings as defined in the Trust Deed and Rules.

#### Contributions to provide for expenses

- 2.2 In addition to the contributions set out in paragraph 2.1 above, the Employers will pay contributions at the rate of £5 million per year to make provision for the expected management, administration and other expenses of running the Defined Benefit Section of the Scheme (including the payment of levies due to the Pension Protection Fund).

#### Contributions payable under any recovery plan

- 2.3. No Recovery Plan was required following the actuarial investigation as at 5 April 2017.

#### Payment of the Employers' contributions

- 2.4 The Prudential Assurance Company Limited ("the Company") will pay the above amounts on behalf of the Employers as a whole. The Employers agree that they are jointly and severally liable for the contributions set out in this Schedule

# PRUDENTIAL STAFF PENSION SCHEME

## SECTION 3: EMPLOYEE CONTRIBUTIONS

### Contributions to the Defined Benefit Section

#### Normal contributions

- 3.1 No compulsory contributions are payable by active members of the Defined Benefit Section of the Scheme.

#### Additional Voluntary Contributions

- 3.2 Members of the Defined Benefit Section of the Scheme may choose to pay additional voluntary contributions.
- 3.3 Where a member elects to pay his or her additional voluntary contributions via salary sacrifice, the Employers pay contributions in accordance with Rule 2.5.3.

## SECTION 4: MISCELLANEOUS

### Timing of contributions

- 4.1 Contributions are to be remitted to the Trustee no later than the 19th day of the calendar month immediately following the calendar month to which the contributions relate (or in which they have been deducted from members' salary).

### Augmentation costs

- 4.2 Contributions may need to be paid in addition to those set out in this Schedule if benefit improvements or augmentations are made. The amounts and timing of payment of such contributions will be determined in accordance with the Rules of the Scheme.
- 4.3 In particular, any contributions payable in relation to benefit improvements (including discretionary pension increases) or augmentations awarded to DB Members will be determined by the Scheme Actuary (after taking account of any surplus disclosed at the last actuarial valuation).

### Section 75 debts

- 4.4 An Employer shall pay any sum due under Section 75 of the Pensions Act 1995 as a result of its cessation of participation in the Scheme except to the extent that other arrangements are made in accordance with applicable legislation.

### Additional contributions from the Employers

- 4.5 Nothing in this Schedule shall preclude the payment of higher contributions than set out above. Such contributions can be treated as being covered by this Schedule.

# PRUDENTIAL STAFF PENSION SCHEME

## SECTION 5: AGREEMENT OF EMPLOYERS AND TRUSTEE

- 5.1 The Trustee confirms it has received advice from the Scheme Actuary concerning the contents of this Schedule.
- 5.2 The Principal Employer (on behalf of all the Employers) and Trustee confirm their agreement to the contents of this Schedule.

**C Bousfield (Signed)**

For and on behalf of  
The Prudential Assurance Company Limited

**W Rutherford (Signed)**

For and on behalf of  
Prudential Staff Pensions Limited

**Signed 16 May 2018**

# PRUDENTIAL STAFF PENSION SCHEME

## DEFINED CONTRIBUTION SECTION

### PAYMENT SCHEDULE FOR THE PRUDENTIAL STAFF PENSION SCHEME

#### Section 1 – INTRODUCTION

- 1.1 This payment Schedule has been prepared by Prudential Staff Pensions Limited ("the Trustee"), the Trustee of the Prudential Staff Pension Scheme ("the Scheme").
- 1.2 This Schedule specifies the rates and due dates of Employers' (as defined in the Scheme Rules) and employee contributions to the Defined Contribution Section of the Scheme. It is subject to review from time to time as required by legislation and by the Scheme's Rules.
- 1.3 The Schedule is effective from the earlier of 1 July 2019 and the date of agreement between the Employers and Trustee shown in Section 6 of this document.

#### Section 2 – EMPLOYERS' CONTRIBUTIONS

##### Contributions to the Defined Contribution Section

##### Employer contributions

- 2.1 The Employers shall pay an amount each month to the Defined Contribution Section calculated by reference to the appropriate part of each DC Active Member's Pensionable Pay and, if appropriate, to each DC Active Member's contribution deducted from Pensionable Pay for that month, as set out in the following table:

<b>DC Active Member's contribution as a whole percentage of the Pensionable Pay which is attributable to the appropriate month</b>	<b>Employer contribution as a whole percentage of the Pensionable Pay which is attributable to the appropriate month</b>
<b>%</b>	<b>%</b>
0	8
1	9
2	10
3	11
4	12
5 or more	13

- 2.2 For the period up to 30 June 2019 inclusive, Employers will also pay contributions to the DC Reserve Fund of the Defined Contribution Section equal to 1.25% of DC Active Members' Pensionable Pay. From 1 July 2019 to 31 December 2020 inclusive, Employers will pay contributions to the DC Reserve Fund equal to 0.75% of DC Active Members' Pensionable Pay. From 1 January 2021, the Employers contributions to the DC Reserve Fund will revert to 1.25% of DC Active Members' Pensionable Pay.
- 2.3 In addition, Employers will pay contributions to cover the cost of providing risk benefits, expenses and augmentations under Defined Contribution Section Rule 2.3, 2.4 and 2.5 where these are not met from the DC Reserve Fund (see Section 5).
- 2.4 Employers' contributions are also payable under Defined Contribution Section Rule 8.2.2 and under Defined Contribution Section Rule 8.3.2.
- 2.5 The Employers will also pay contributions as required under the Defined Contribution Section Rules 2.8 and 8.7 in respect of DC Active Members who participate in the Salary Sacrifice Arrangement.

# PRUDENTIAL STAFF PENSION SCHEME

## Section 3 - EMPLOYEE CONTRIBUTIONS

### Contributions to the Defined Contribution Section

#### *Normal contributions*

- 3.1 DC Active Members may choose to contribute to the Defined Contribution Section in accordance with the Scheme's Rules.

## Section 4 - MISCELLANEOUS

- 4.1 Contributions are to be remitted to the Trustee no later than the 19th day of the calendar month immediately following the calendar month to which the contributions relate (or in which they have been deducted from members' Pensionable Pay).
- 4.2 Nothing in this Schedule shall preclude the payment of higher contributions than set out above. Such contributions can be treated as being covered by this Schedule.

## Section 5 - FUNDING OF THE DC RESERVE FUND

- 5.1 The Principal Employer ( The Prudential Assurance Company Limited) directs the Trustee (until further reasonable notice in writing) to apply assets in the DC Reserve Fund, (subject to there being sufficient monies in the DC Reserve Fund for a particular purpose as determined by the Trustee) in accordance with DC Rule 13.2 as follows:

- 5.1.1 To apply as additional Employer credits under DC Rule 2.4 (but, for the avoidance of doubt, not DC Rules 2.2, 8.2.2, 8.3.2 and 8.7) amounts in respect of DC Members as notified to the Trustee by the Employers from time to time.

These credits include any amount required to be allocated to the Personal Account of a DC Member detailed below in (i) and (ii) in order to provide him or her with the same pension as would have applied had the annuity rates offered by Prudential Annuities Limited been guaranteed for a period of 2 months from the date of quotation.

- (i) a DC Active Member leaving DC Service and taking an immediate pension under DC Rule 6.3, or
- (ii) a DC Active Member who dies in service, for securing a pension under DC Rule 7.1(3) for a dependant.

- 5.1.2 To apply as the costs of securing Risk Benefits under DC Rule 2.3.

- 5.1.3 To pay any expenses under DC Rule 2.5.

- 5.2 The Actuary will, at least annually or more frequently if he or she so determines, certify the contributions to be paid by the Employers to the DC Reserve Fund which he or she estimates to be sufficient to fund the costs for which the DC Reserve Fund may be applied as set out in the paragraph above.

## Section 6 - AGREEMENT OF EMPLOYERS AND TRUSTEE

- 6.1 The Principal Employer (on behalf of all the Employers) and Trustee confirm their agreement to the contents of this Schedule.
- 6.2 The Schedule is effective from the earlier of 1 July 2019 and the date of signing below.

### **C Bousfield (Signed)**

For and on behalf of  
The Prudential Assurance Company Limited

### **W Rutherford (Signed)**

For and on behalf of  
Prudential Staff Pensions Limited

**Signed 20 June 2019**

# PRUDENTIAL STAFF PENSION SCHEME

## STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- (i) show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- (ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It is also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless it either intends to wind up the Scheme, or has no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which it should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

### For and on behalf of the Trustee

.....  
**David Green**  
**Chairman**  
**Audit & Governance Committee**

24 September 2020  
.....

Date

# PRUDENTIAL STAFF PENSION SCHEME

## INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE PRUDENTIAL STAFF PENSION SCHEME

### Opinion

We have audited the financial statements of the Prudential Staff Pension Scheme ("the Scheme") for the year ended 5 April 2020 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 5 April 2020 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

The Trustee has prepared the financial statements on the going concern basis as it does not intend to wind up the Scheme, and as it has concluded that the Scheme's financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Scheme will continue in operation.

# PRUDENTIAL STAFF PENSION SCHEME

## INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE PRUDENTIAL STAFF PENSION SCHEME (continued)

### Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions) the Governance Statement, the Schedule of Contributions, the Payment Schedule and the actuarial certification of the Schedule of Contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

### Trustee's responsibilities

As explained more fully in its statement set out on page 31, the Scheme Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to wind up the Scheme, or has no realistic alternative but to do so.

### Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Scheme Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme Trustee, for our audit work, for this report, or for the opinions we have formed.

**Gemma Broom**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

2 Forbury Place  
33 Forbury Road  
Reading  
Berkshire RG1 3AD

Date: .....24 September 2020.....

# PRUDENTIAL STAFF PENSION SCHEME

## FUND ACCOUNT

For the year ended 5 April 2020

	Note	2020 Defined Benefit Section £m	2020 Defined Contribution Section £m	2020 Total £m	2019 Defined Benefit Section £m	2019 Defined Contribution Section £m	2019 Total £m
<b>CONTRIBUTIONS AND BENEFITS</b>							
Employer contributions	4	8.1	43.9	52.0	9.1	45.0	54.1
Employee contributions	4	0.3	0.9	1.2	0.4	1.1	1.5
<b>Total contributions</b>	4	8.4	44.8	53.2	9.5	46.1	55.6
Transfers in	5	-	1.5	1.5	-	1.8	1.8
Other income	6	-	0.2	0.2	-	1.9	1.9
		8.4	46.5	54.9	9.5	49.8	59.3
Benefits paid or payable	7	238.5	1.0	239.5	240.1	3.2	243.3
Payments to and on account of leavers	8	92.1	34.5	126.6	139.7	16.8	156.5
Other payments	9	-	2.5	2.5	-	0.9	0.9
Administrative expenses	10	5.9	1.6	7.5	5.8	1.5	7.3
		336.5	39.6	376.1	385.6	22.4	408.0
<b>NET (WITHDRAWALS)/ADDITIONS FROM DEALINGS WITH MEMBERS</b>		(328.1)	6.9	(321.2)	(376.1)	27.4	(348.7)
<b>RETURNS ON INVESTMENTS</b>							
Investment income	11	122.2	-	122.2	122.5	-	122.5
Change in market value of investments	14	633.8	(47.0)	586.8	241.6	35.5	277.1
Investment management expenses	12	(4.0)	-	(4.0)	(4.1)	-	(4.1)
<b>NET RETURNS ON INVESTMENTS</b>		752.0	(47.0)	705.0	360.0	35.5	395.5
<b>NET INCREASE/(DECREASE) IN THE FUND FOR THE YEAR</b>		423.9	(40.1)	383.8	(16.1)	62.9	46.8
<b>TRANSFERS BETWEEN SECTIONS</b>	13	0.2	(0.2)	-	0.5	(0.5)	-
<b>OPENING NET ASSETS AT START OF YEAR</b>		7,289.9	449.2	7,739.1	7,305.5	386.8	7,692.3
<b>CLOSING NET ASSETS AT END OF YEAR</b>		7,714.0	408.9	8,122.9	7,289.9	449.2	7,739.1

The notes on pages 36 to 54 form part of these financial statements.

# PRUDENTIAL STAFF PENSION SCHEME

## STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

At 5 April 2020

	Note	2020 Defined Benefit Section £m	2020 Defined Contribution Section £m	2020 Total £m	2019 Defined Benefit Section £m	2019 Defined Contribution Section £m	2019 Total £m
<b>INVESTMENT ASSETS</b>	14						
Bonds		6,491.8	-	6,491.8	6,070.2	-	6,070.2
Pooled investment vehicles	15	749.6	408.5	1,158.1	984.0	448.9	1,432.9
Derivatives	16	1,950.6	-	1,950.6	1,885.5	-	1,885.5
Cash instruments		85.8	-	85.8	21.0	-	21.0
AVC investments	17	1.6	-	1.6	1.8	-	1.8
Cash deposits		113.5	0.2	113.7	10.3	0.1	10.4
Other investment balances	18	37.7	-	37.7	30.6	-	30.6
		<u>9,430.6</u>	<u>408.7</u>	<u>9,839.3</u>	<u>9,003.4</u>	<u>449.0</u>	<u>9,452.4</u>
<b>INVESTMENT LIABILITIES</b>							
Derivatives	16	(1,695.5)	-	(1,695.5)	(1,726.2)	-	(1,726.2)
Other investment balances	18	(19.7)	-	(19.7)	(1.3)	-	(1.3)
		<u>(1,715.2)</u>	<u>-</u>	<u>(1,715.2)</u>	<u>(1,727.5)</u>	<u>-</u>	<u>(1,727.5)</u>
<b>TOTAL NET INVESTMENTS</b>		7,715.4	408.7	8,124.1	7,275.9	449.0	7,724.9
<b>CURRENT ASSETS</b>	22	13.6	0.8	14.4	27.9	1.1	29.0
<b>CURRENT LIABILITIES</b>	23	(15.0)	(0.6)	(15.6)	(13.9)	(0.9)	(14.8)
<b>CLOSING NET ASSETS AT 5 APRIL</b>		<u>7,714.0</u>	<u>408.9</u>	<u>8,122.9</u>	<u>7,289.9</u>	<u>449.2</u>	<u>7,739.1</u>

The notes on pages 36 to 54 form part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations for the Defined Benefit Section, is dealt with in the Report on Actuarial Liabilities on pages 23 and 24 of the Annual Report and these financial statements should be read in conjunction with this report.

These financial statements were approved by the Trustee on ..... 24 September 2020 ..... (date)

Signed on behalf of the Trustee

.....  
Keith Bedell-Pearce

.....  
David Green

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 5 April 2020

### 1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pensions Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (Revised 2018).

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Scheme has adequate resources to realise its assets and meet pension payments in the normal course of affairs (continue to operate) for at least the next twelve months. . The Trustee considered the impact of the COVID-19 outbreak on the Scheme and the sponsoring employer's financial position as well as the regulatory capital position of the ultimate parent M&G plc. The Scheme as at 21 July 2020 continues to be in surplus on a technical provisions basis at 106%. The Trust Deed and Rules allows the Scheme to continue should the Sponsoring employer go into liquidation. The SCR ratio of M&G plc as at 30 June 2020 was 164% (unaudited) and 176% at 31 December 2019 (audited). M&G plc have published a range of sensitivity analysis of the Solvency II coverage ratio in its "M&G plc interim financial report" these covered a number of significant changes in market conditions, the minimum SCR as part of these ratios was 159%. The Trustee believes that the sponsoring employer will continue to support the Scheme and make contributions as they fall due. The Trustee is confident that the Scheme will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of these financial statements and therefore, have prepared the financial statements on a going concern basis.

### 2. IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The addresses for enquiries to the Scheme are as follows:

DB Section  
Prudential Staff Pension Scheme  
XPS Administration Limited  
3rd Floor  
Priory Place  
New London Road  
Chelmsford  
Essex CM2 0PP

DC Section  
Prudential Staff Pension Scheme  
Ground Floor C Block South  
121 King's Road  
Reading  
Berkshire RG1 3ES

### 3. ACCOUNTING POLICIES

#### (a) Accounting Convention

The financial statements are prepared on an accruals basis.

#### (b) Contributions

Employee Additional Voluntary Contributions (AVCs) are accounted for when they are deducted from pay by the employer.

Employer normal contributions which are expressed as a rate of salary are accounted for on the same basis as the employees' contributions, in accordance with the Schedule of Contributions or payment schedule in force during the year.

Employer augmentation contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, on a receipts basis.

Employer additional contributions are recognised on the due dates in accordance with the Schedule of Contributions or in the absence of a formal agreement on a receipts basis.

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 3. ACCOUNTING POLICIES (continued)

#### (c) *Payments to Members*

Pensions in payment are accounted for in the period to which they relate.

Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.

Individual transfers in or out are accounted for when the member liability is accepted or discharged which is normally when the transfer is paid or received.

Where the Trustee is required to settle tax liabilities on behalf of a member (such as when lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits this is shown separately within benefits.

Opt outs are accounted for when the Scheme is notified of the opt-out.

#### (d) *Expenses*

Expenses are accounted for on an accruals basis. The Scheme bears all the costs of administration.

#### (e) *Investment Income*

Dividends from equities are accounted for on the ex-dividend date.

Income from bonds and other interest receivable is taken into account on an accruals basis and includes interest bought and sold on investment purchases and sales.

Income from pooled investment vehicles is accounted for when declared by the fund manager.

Income arising on the underlying investments of accumulation funds is reflected within the change in market value.

#### (f) *Investments*

Investments are included at fair value as follows.

Quoted securities in active markets are usually valued at the current bid prices at the reporting date.

Accrued interest is excluded from the market value of bonds and is included in investment income receivable.

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

Exchange traded futures valued as the sum of the daily mark-to-market, which is a calculated difference between the settlement prices at the reporting date and the inception date.

Swaps are valued based on the current value of future cash flows arising from the swap, determined using discounted cash flow models and market data at the reporting date.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 3. ACCOUNTING POLICIES (continued)

#### (g) Foreign Currency Translation

Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction. Monetary items denominated in foreign currencies are translated into sterling, the Scheme's functional and presentational currency, using the closing exchange rates at the year end.

#### (h) Currency

The Scheme's functional and presentational currency is Pounds Sterling (GBP).

#### (i) Critical accounting estimates and judgements

The preparation of the financial statements requires the Trustee to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The Trustee confirms that no judgements have had a significant effect on amounts recognised in the financial statements.

### 4. CONTRIBUTIONS

	2020		Total
	Defined Benefit Section £m	Defined Contribution Section £m	£m
Employer contributions			
Normal	3.1	43.9	47.0
Additional	5.0	-	5.0
	<u>8.1</u>	<u>43.9</u>	<u>52.0</u>
Employee contributions			
Additional voluntary	0.3	0.9	1.2
	<u>8.4</u>	<u>44.8</u>	<u>53.2</u>
		2019	
Employer contributions			
Normal	4.1	45.0	49.1
Additional	5.0	-	5.0
	<u>9.1</u>	<u>45.0</u>	<u>54.1</u>
Employee contributions			
Additional voluntary	0.4	1.1	1.5
	<u>9.5</u>	<u>46.1</u>	<u>55.6</u>

With effect from 1 September 2014 members' AVC contributions are deducted via Pensions Plus, the Company's salary sacrifice arrangement, unless the member chooses to opt out.

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 5. TRANSFERS IN

	Defined Benefit Section £m	2020 Defined Contribution Section £m	Total £m
Individual transfers in from other schemes	-	1.5	1.5
		2019	
Individual transfers in from other schemes	-	1.8	1.8

### 6. OTHER INCOME

	Defined Benefit Section £m	2020 Defined Contribution Section £m	Total £m
Claims on term insurance policies	-	0.2	0.2
		2019	
Claims on term insurance policies	-	1.9	1.9

### 7. BENEFITS PAID OR PAYABLE

	Defined Benefit Section £m	2020 Defined Contribution Section £m	Total £m
Pensions	206.9	-	206.9
Commutation of pensions and lump sum retirement benefits	29.9	0.7	30.6
Purchase of annuities	-	0.1	0.1
Lump sum death benefits	0.5	0.2	0.6
Taxation where lifetime or annual allowance exceeded	1.2	-	1.3
	<u>238.5</u>	<u>1.0</u>	<u>239.5</u>
		2019	
Pensions	205.9	-	205.9
Commutation of pensions and lump sum retirement benefits	32.7	0.6	33.3
Purchase of annuities	-	0.1	0.1
Lump sum death benefits	0.2	2.5	2.7
Taxation where lifetime or annual allowance exceeded	1.3	-	1.3
	<u>240.1</u>	<u>3.2</u>	<u>243.3</u>

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 8. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2020		Total
	Defined Benefit Section £m	Defined Contribution Section £m	£m
State Scheme Premiums	(0.9)	-	(0.9)
Group transfers out to other schemes	-	12.5	12.5
Individual transfers out to other schemes	93.0	22.0	115.0
	<u>92.1</u>	<u>34.5</u>	<u>126.6</u>
	2019		
Individual transfers out to other schemes	<u>139.7</u>	<u>16.8</u>	<u>156.5</u>

During the year HMRC paid the Scheme £0.9m following the GMP reconciliation exercise.

During the year there was a group transfer out from the DC Section to Fidelity when certain members were moved to a new company as part of the de-merger. These members left company service on 30 June 2019, and a new scheme was set up for their ongoing contributions at Fidelity. Members were given the option to transfer their benefits as part of their leaver pack.

### 9. OTHER PAYMENTS

	2020		Total
	Defined Benefit Section £m	Defined Contribution Section £m	£m
Premiums on term insurance policies	-	2.5	2.5
	2019		
Premiums on term insurance policies	-	0.9	0.9

### 10. ADMINISTRATIVE EXPENSES

	2020		Total
	Defined Benefit Section £m	Defined Contribution Section £m	£m
Administration	1.9	1.1	3.0
Actuarial & consultancy fees	2.5	0.2	2.7
Legal fees	0.8	0.1	0.9
Communication fees	0.4	0.2	0.6
Audit fees	0.1	-	0.1
PPF levy	0.2	-	0.2
	<u>5.9</u>	<u>1.6</u>	<u>7.5</u>



# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 13. TRANSFERS BETWEEN SECTIONS

	2020		Total
	Defined Benefit Section £m	Defined Contribution Section £m	£m
Transfers between sections	0.2	(0.2)	-

	2019		Total
	Defined Benefit Section £m	Defined Contribution Section £m	£m
Transfers between sections	0.5	(0.5)	-

The figures above represent the investment of AVC funds into the Commercial AVC arrangement, the investments for which are held under the DB Section.

### 14. RECONCILIATION OF INVESTMENTS

	Value at 5.4.2019	Purchases at cost & derivative payments	Sales proceeds & derivative receipts	Change in market value	Value at 5.4.2020
	£m	£m	£m	£m	£m
<b>Defined Benefit Section</b>					
Bonds	6,070.2	6,769.6	(6,868.1)	520.1	6,491.8
Pooled investment vehicles	984.0	520.8	(731.5)	(23.7)	749.6
Derivatives	159.3	667.8	(709.8)	137.8	255.1
Cash instruments	21.0	10,755.7	(10,690.9)	-	85.8
AVC investments	1.8	0.3	(0.3)	(0.2)	1.6
	7,236.3	18,714.2	(19,000.6)	634.0	7,583.9
Cash deposits	10.3			(0.2)	113.5
Other investment balances	29.3			-	18.0
	7,275.9			633.8	7,715.4
<b>Defined Contribution Section</b>					
Pooled investment vehicles	448.9	46.0	(39.4)	(47.0)	408.5
Cash in transit	0.1				0.2
	449.0				408.7

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 14. RECONCILIATION OF INVESTMENTS (continued)

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty. The information in respect of direct transaction costs during the accounting period and prior year is unavailable. However, the transaction costs analysed by investment portfolio for the year to 31 December 2019 were as follows:

	£m
M&G Passive Matched	0.5
M&G Active Index-Linked	3.7
M&G Active Fixed Gilt	0.6
M&G Active Matched	0.4
M&G Collateral Portfolio	0.1
M&G Long Dated Buy & Maintain Credit	<u>0.2</u>
	<u>5.5</u>

In addition, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles.

For the Defined Contribution Section investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. The investment manager holds the investment units on a pooled basis for the Trustee. The Scheme administrator allocates investment units to members. The Trustee may hold investment units representing the value of employer contributions that have been retained by the Scheme that relate to members leaving the Scheme prior to vesting.

Defined Contribution assets are allocated to members and the Trustee as follows:

	2020 £m	2019 £m
Members	403.0	441.6
Trustee	<u>5.5</u>	<u>7.3</u>
	<u>408.5</u>	<u>448.9</u>

### 15. POOLED INVESTMENT VEHICLES

The Scheme's investments in pooled investment vehicles at the year end comprised:

	2020 £m	2019 £m
<b>Defined Benefit Section</b>		
Bonds	270.2	414.3
Property	140.2	132.7
Sterling cash liquidity	119.0	257.5
Private market funds	<u>220.2</u>	<u>179.5</u>
	<u>749.6</u>	<u>984.0</u>
<b>Defined Contribution Section</b>		
Equity	326.3	361.3
Bonds	41.6	40.9
Property	11.1	11.9
Sterling cash liquidity	19.3	17.5
Diversified Growth	<u>10.2</u>	<u>17.3</u>
	<u>408.5</u>	<u>448.9</u>

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 16. DERIVATIVES

#### Objectives and policies

The Trustee has authorised the use of derivatives by its investment managers as part of its investment strategy for the Scheme as follows.

Futures – the Trustee did not want cash held to be “out of the market” and therefore bought exchange traded index based futures contracts which had an underlying economic value broadly equivalent to cash held.

Swaps – the Trustee’s aim is to match as far as possible the fixed income portfolio and the Scheme’s long term liabilities, in particular in relation to their sensitivities to interest rate movements. Due to the lack of available long dated bonds the Trustee has entered into OTC interest rate swaps during the year that extend the duration of the fixed income portfolio to better match the long term liabilities of the Scheme.

Forward foreign exchange – in order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, a currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the currency exposure of these overseas investments to the targeted level.

At the year end the Scheme held the following derivatives:

	2020 Asset £m	2020 Liability £m	2019 Asset £m	2019 Liability £m
Futures	0.1	(0.6)	-	(0.2)
Swaps	1,949.7	(1,694.2)	1,885.1	(1,726.0)
Forward foreign exchange contracts	0.8	(0.7)	0.4	-
	<u>1,950.6</u>	<u>(1,695.5)</u>	<u>1,885.5</u>	<u>(1,726.2)</u>
	<u>255.1</u>		<u>159.3</u>	

#### Futures

Nature	Expiration	Asset £m	Liability £m
Long Gilt	June 2020	<u>0.1</u>	<u>(0.6)</u>
Total 2020		<u>0.1</u>	<u>(0.6)</u>
Total 2019		<u>-</u>	<u>(0.2)</u>

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 16. DERIVATIVES (continued)

#### Swaps

Nature	Expiration (years)	Notional principal £m	Asset £m	Liability £m
Currency swaps (OTC)	15-20	3.9	-	(2.4)
Total return swaps (OTC)	0-5	40.0	-	(3.7)
Inflation swaps (OTC)	0-5	586.7	13.4	(50.7)
	6-10	733.5	37.3	(84.8)
	11-15	652.2	87.4	(91.4)
	16-20	420.7	128.2	(197.3)
	21-25	296.9	166.4	(65.2)
	26-30	433.1	173.7	(315.5)
	31-35	117.2	164.5	(79.7)
	36-40	11.0	30.5	-
Interest rate swaps (OTC)	0-5	462.4	195.7	(44.1)
	6-10	425.2	134.4	(48.1)
	11-15	365.8	128.4	(95.1)
	16-20	676.1	183.3	(293.1)
	21-25	371.5	116.9	(163.2)
	26-30	505.2	221.9	(130.6)
	31-35	272.5	145.7	(25.7)
	36-40	27.5	22.0	(3.6)
Total 2020			<u>1,949.7</u>	<u>(1,694.2)</u>
Total 2019			<u>1,885.1</u>	<u>(1,726.0)</u>

Included in net assets is collateral of £604.4m (2019: £484.1m) which has been pledged to the counterparties.

At the year end the Scheme held £1,418.6m (2019: £1,134.3m) of collateral belonging to the counterparties. This collateral is not reported within the Scheme's net assets.

#### Forward Foreign Exchange

Contract	Settlement Date	Currency bought	Currency sold	Asset £m	Liability £m
Forward OTC	May 2020	EUR	GBP	0.3	(0.3)
Forward OTC	May 2020	GBP	EUR	0.1	-
Forward OTC	May 2020	USD	GBP	0.2	(0.4)
Forward OTC	June 2020	USD	GBP	0.2	-
Total 2020				<u>0.8</u>	<u>(0.7)</u>
Total 2019				<u>0.4</u>	<u>-</u>

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 17. AVC INVESTMENTS

All members who participate in AVC arrangements or have transfers-in on a money purchase basis will receive an annual statement made up to 5 April confirming the amounts held in their account and the movements in the year.

#### DB Section

With effect from 6 April 2006 members' AVCs can be invested through an insurance policy with The Prudential Assurance Company Limited or via the In House arrangement.

#### Policy with The Prudential Assurance Company Limited

From April 2006 the Trustee holds certain AVC assets, invested separately from the main fund, in the form of units in managed funds securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions.

At 5 April 2020 there were 27 (2019: 26) active members paying additional voluntary contributions under this arrangement and 4 (2019: 5) deferred members.

The aggregate amounts of AVC investments are as follows:

	2020 £m	2019 £m
Prudential	<u>1.6</u>	<u>1.8</u>

#### In House arrangement including transfers in

Included within the Defined Benefit section assets are AVCs with a value of £17.2m (2019: £19.5m). This value is split between DB AVC £16.0m (2019: £18.4m) and DB Money Purchase Transfer In ("MPTV") £1.2m (2019: £1.1m).

Details of the membership at the year end are as follows:

	Active	Deferred	Total
DB AVC	69	590	659
DB MPTV	5	55	60

#### DC Section

In accordance with the Scheme rules all member contributions are treated as additional voluntary contributions. At 5 April 2020 there were 3,556 (2019: 3,385) members paying additional voluntary contributions and the value of the AVC investments included in the DC Section investments was £133.1m (2019: £144.9m).

### 18. OTHER INVESTMENT BALANCES

	2020 £m	2019 £m
Amounts due from broker	6.1	0.6
Dividends and interest receivable	<u>31.6</u>	<u>30.0</u>
	<u>37.7</u>	<u>30.6</u>
Amounts due to broker	<u>(19.7)</u>	<u>(1.3)</u>
	<u>17.3</u>	<u>29.3</u>

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 19. FAIR VALUE DETERMINATION

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities fall within the above hierarchy as follows:

	At 5 April 2020			
<b>Defined Benefit Section</b>	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Bonds	-	6,491.8	-	6,491.8
Pooled investment vehicles	-	389.3	360.3	749.6
Derivatives	(0.4)	255.5	-	255.1
Cash instruments	85.8	-	-	85.8
AVC investments	-	-	1.6	1.6
Cash deposits	113.5	-	-	113.5
Other investment balances	17.3	-	-	17.3
	<u>216.2</u>	<u>7,136.6</u>	<u>361.9</u>	<u>7,714.7</u>
<b>Defined Contribution Section</b>				
Pooled investment vehicles	-	379.8	28.7	408.5
Cash deposits	0.2	-	-	0.2
	<u>0.2</u>	<u>379.8</u>	<u>28.7</u>	<u>408.7</u>
	<u>216.4</u>	<u>7,516.4</u>	<u>390.6</u>	<u>8,123.4</u>
	At 5 April 2019			
<b>Defined Benefit Section</b>	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Bonds	-	6,070.2	-	6,070.2
Pooled investment vehicles	-	671.8	312.2	984.0
Derivatives	(0.2)	159.5	-	159.3
Cash instruments	21.0	-	-	21.0
AVC investments	-	-	1.8	1.8
Cash deposits	10.3	-	-	10.3
Other investment balances	29.3	-	-	29.3
	<u>60.4</u>	<u>6,901.5</u>	<u>314.0</u>	<u>7,275.9</u>
<b>Defined Contribution Section</b>				
Pooled investment vehicles	-	424.3	24.6	448.9
Cash deposits	0.1	-	-	0.1
	<u>0.1</u>	<u>424.3</u>	<u>24.6</u>	<u>449.0</u>
	<u>60.5</u>	<u>7,325.8</u>	<u>338.6</u>	<u>7,724.9</u>

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 20. INVESTMENT RISK DISCLOSURES

#### (a) Investment Risks

FRS 102 requires the disclosure of information in relation to certain investment risks to which the Scheme is exposed to at 5 April 2020. These risks are set out by FRS 102 as follows:

1. Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
2. Market risk: this comprises currency risk, interest rate risk and other price risk.
  - Currency risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
  - Interest rate risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market interest rates.
  - Other price risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines its investment strategy after taking advice from its Investment Consultant. The Scheme has exposure to the above risks due to the investments it makes. The Trustee manages investment risks, including credit risk and market risk, by taking them into account when setting the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee via regular reviews of the investment portfolio. The investment objectives and risk limits of the Scheme are further detailed in the Statement of Investment Principles. The following sections summarise the various financial risks to which the Scheme's investments are exposed.

#### (b) Defined Benefit Section

##### Credit risk

The Scheme is subject to direct credit risk because the Scheme invests in investment grade and sub investment grade bonds, over the counter ('OTC') derivatives and cash. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to those pooled investment vehicles with the pooled managers. The Scheme is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles ("PIVs").

##### Analysis of direct credit risk

2020	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Bonds	6,432.6	59.2	-	6,491.8
OTC Derivatives	255.1	-	-	255.1
Cash and cash instruments	199.3	-	-	199.3
PIVs	-	-	749.6	749.6
Accrued investment income	30.9	-	-	30.9
Total	6,917.9	59.2	749.6	7,726.7

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 20. INVESTMENT RISK DISCLOSURES (continued)

2019	Investment grade £m	Non-investment grade £m	Unrated £m	Total £m
Bonds	6,000.8	61.1	8.3	6,070.2
OTC Derivatives	159.3	-	-	159.3
Cash and cash instruments	31.3	-	-	31.3
PIVs	-	-	984.0	984.0
Accrued investment income	30.0	-	-	30.0
Total	6,221.4	61.1	992.3	7,274.8

*The above tables exclude AVC investments, cash in transit and amounts due to and from brokers*

Credit risk is managed by the Scheme's Investment Managers through several methods. The Trustee reduces credit risk through investment in a range of bond managers, who perform detailed credit analysis and diversify their portfolios across a number of securities; daily collateralisation of derivatives; investment in cash funds with a high credit quality or requiring all counterparties to be rated at least investment grade.

OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC derivatives is reduced by collateral arrangements to back the liability matching portfolio. Credit risk also arises on forward foreign currency contracts (within both the pooled funds and segregated portfolios). The forward foreign currency contracts in place with M&G have collateral arrangements in place. Within the pooled funds it is expected that all counterparties will have been evaluated and meet required standards.

Cash is held within financial institutions which are at least investment grade credit rated.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring fenced from the pooled manager, the regulatory environments in which the pooled managers operate, and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the regulatory and operating environment of the pooled manager.

A summary of pooled investment vehicles by type of arrangement is as follows:

	2020 £m	2019 £m
Authorised unit trusts	250.3	397.5
Open ended investment vehicle	83.3	194.9
Shares of limited liability partnerships	161.6	159.9
Irish Section 110 Company	115.4	87.5
Dublin registered QIAIF <sup>1</sup>	139.0	144.2
Total	749.6	984.0

<sup>1</sup> QIAIF refers to Qualifying Investor Alternative Investment Fund

Indirect credit risk arises in relation to underlying investments held in the bond and liquidity pooled investment vehicles. This risk is mitigated by investing in pooled funds which are actively managed by skilled investment managers and ensuring that the range of investments is well diversified.

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 20. INVESTMENT RISK DISCLOSURES (continued)

#### Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets which are denominated in a non-sterling currency. The Trustee has considered the impact of currency risk by investing in sterling hedged share classes where possible and appropriate.

The table below provides gross overseas currency exposure for both segregated and pooled investment vehicles.

	2020	2019
	£m	£m
<b>Currency</b>		
US Dollar	253.0	208.6
Japanese Yen	-0.1	1.9
Euro	206.3	305.4
Other	3.1	12.2
<b>Total</b>	<b>462.3</b>	<b>528.1</b>

#### Interest rate risk

The Scheme is subject to interest rate risk because a significant proportion of the Scheme's investments are held in the liability matching portfolio (gilts, index linked gilts, corporate bonds, swaps and cash), secure income assets, active gilt mandates, and multi strategy bond funds.

In relation to the growth assets, the Scheme has interest rate risk from exposures across the multi strategy credit mandates (Putnam and M&G Alpha Opportunities Fund), the illiquid credit mandates (M&G Companies Financing Fund, the M&G Debt Opportunities Funds, Greenoak Real Estate Debt Fund and the Orchard illiquid credit funds), M&G Secured income property fund, Blackrock Sterling Liquidity Fund and Blackrock UK Strategic Alternative Income Fund.

The majority of interest rate sensitive assets are held in the liability matching portfolios with M&G (around 90% of the Scheme's assets). Under this strategy, if interest rates fall, the value of liability matching assets will rise to help hedge the increase in the value placed on the Scheme's liabilities from a fall in the discount rate. Similarly, if interest rates rise the investments will fall in value as will liabilities because of an increase in the discount rate.

	2020	2019
	£m	£m
<b>Direct</b>		
Bonds	6,491.8	6,070.2
Swaps	255.5	159.1
<b>Indirect</b>		
PIVs <sup>1</sup>	749.6	984.0
<b>Total</b>	<b>7,496.9</b>	<b>7,213.3</b>

<sup>1</sup> Indirect PIVs relate to multi strategy credit mandates, illiquid credit mandates (Bond PIV), M&G Secure Property Income Fund, BlackRock UK Strategic Alternative Income Fund and BlackRock Sterling Liquidity Fund.

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 20. INVESTMENT RISK DISCLOSURES (continued)

#### Other price risk

Other price risk arises principally in relation to the Scheme's growth portfolio which includes equities and property, both held in pooled vehicles, and the private equity mandate. The Trustee manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

At the year end, the Scheme's exposure to investments subject to other price risk was:

	2020	2019
	£m	£m
<b>Indirect</b>		
Property PIV <sup>1</sup>	140.2	132.7
Private Market PIV <sup>2</sup>	220.2	179.5
Total	360.4	312.2

1. *1 Property PIV relates to the M&G Secure Property Income and the BlackRock UK Strategic Alternative Income funds*
2. *Exposure classified as 'Private Market PIV' is invested in Orchard; Greenoak; M&G Debt Opportunities Fund (DOF) III and M&G DOF IV; M&G UK Companies Financing Fund (CFF).*

#### (c) Defined Contribution Section

##### Investment risks

The following is a summary of the key risks associated with the funds in which members of the Defined Contribution Section ("DC Section") of the Scheme ("Scheme") invest.

##### Interest rate risk

The DC Section is subject to indirect interest rate risk through investment in cash, bonds and gilts. However, since all investments are currently held through pooled investment vehicles, members and the DC Section's assets are only indirectly exposed to interest rate risk through the underlying investments in cash, bonds and gilts.

##### Other price risk

Other price risk arises from growth asset funds (e.g. equities) that are available to members of the DC Section. The Trustee manages other price risk by offering access to a range of funds that invest in a diverse portfolio of investments across various markets. The members and the DC Section's assets are indirectly exposed to these 'other price risks' since all investments are currently held through pooled investment vehicles.

##### Credit risk

The DC Section invests in pooled investment vehicles. Therefore, the DC Section and members are both directly and indirectly subject to credit risk. Direct credit risk arises with Prudential who provide the pooled investment vehicles for the DC Section and indirect credit risk arises from any holdings of bonds, gilts, and cash balances within these funds. In addition, any cash holdings held in the Trustee bank accounts (on members' behalf) will also be subject to credit risk.

The pooled investment vehicles are all unit linked or unitised insurance contracts and are unrated.

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 20. INVESTMENT RISK DISCLOSURES (continued)

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled fund manager, the regulatory environments in which the pooled fund managers operate, and the diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager. Prudential is regulated by the Financial Conduct Authority. The Trustee manages the indirect credit risk by offering access to a range of funds that invest in a diverse portfolio of investments across various markets.

#### Currency risk

Similar to the other risks, the DC Section's assets are only indirectly exposed to currency risk through the Scheme's investment in pooled investment vehicles. Some of the fund options available to members are subject to currency risk through investment in equities and other overseas financial instruments. The Trustee does not hedge this risk, but instead manages it by offering access to funds that invest in a diverse portfolio of investments across various global markets.

The extent to which funds on offer to members of the DC Section are subject to the above indirect risks are shown in the following table:

Fund	Credit risk	Interest rate risk	Currency risk	Other risk
PSPS Cash	Yes	Yes	No	No
PSPS Index-Linked Gilts – passive	Yes	Yes	No	No
PSPS Index-Linked Gilts - active	Yes	Yes	No	No
PSPS Fixed Interest Bonds - active	Yes	Yes	No	No
PSPS Long-dated Gilts - passive	Yes	Yes	No	No
PSPS Corporate Bonds - active	Yes	Yes	No	No
PSPS Property - active	No	No	No	Yes
PSPS UK Equity - passive	No	No	No	Yes
PSPS UK Equity - active	No	No	No	Yes
PSPS Overseas Equity - passive	No	No	Yes	Yes
PSPS Global Equity - active	No	No	Yes	Yes
PSPS Emerging Markets Equity - active	No	No	Yes	Yes
PSPS Diversified Growth - active	Yes	Yes	Yes	Yes
PSPS Total Return Bond - active	Yes	Yes	Yes	No
PSPS Responsible Investment Equities - passive	No	No	Yes	Yes
Prudential With-Profits	Yes	Yes	No	Yes

### 21. CONCENTRATION OF INVESTMENTS

There were no investments that accounted for more than 5% of the Scheme's assets at 5 April 2020 (2019: Nil).

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 22. CURRENT ASSETS

	2020		Total £m
	Defined Benefit Section £m	Defined Contribution Section £m	
Bank balance	13.2	0.8	14.0
Contributions receivable - employer	0.4	-	0.4
	<u>13.6</u>	<u>0.8</u>	<u>14.4</u>
	2019		
Bank balance	27.5	1.1	28.6
Contributions receivable - employer	0.4	-	0.4
	<u>27.9</u>	<u>1.1</u>	<u>29.0</u>

Included in the Defined Contribution bank balance is £0.7m (2019: £0.8m) which is not allocated to members. All contributions receivable relate to the month of March 2020 and were paid in full to the Scheme within the timescale required by the Schedule of Contributions and Payment Schedule currently in force.

### 23. CURRENT LIABILITIES

	2020		Total £m
	Defined Benefit Section £m	Defined Contribution Section £m	
Accrued expenses	4.4	0.6	5.0
Unpaid benefits	7.6	-	7.6
Tax payable	3.0	-	3.0
	<u>15.0</u>	<u>0.6</u>	<u>15.6</u>
	2019		
Accrued expenses	2.6	0.5	3.1
Unpaid benefits	8.2	0.4	8.6
Tax payable	3.1	-	3.1
	<u>13.9</u>	<u>0.9</u>	<u>14.8</u>

### 24. CAPITAL COMMITMENTS

At the year end the Scheme had capital commitments with Orchard, amounting to £50.7m (2019: £85.8m), with M&G amounting to £2.8m (2019: £36.0m), with GreenOak, amounting to £27.3m (2019: £23.6m) and with BlackRock amounting to £193.0m (2019 : £NIL).

# PRUDENTIAL STAFF PENSION SCHEME

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2020

### 25. RELATED PARTIES

The Scheme received employer contributions in respect of four Directors of the Trustee Company who are active members. There are four Trustee Directors who are pensioner members of the Scheme, and one Trustee Director who is classed as a deferred member as at the Scheme year end date. During the year the Company paid Trustee fees of £42K (2019: £30K) of which £8K was payable at year end (2019: £2K).

The Scheme holds assets managed by M&G Investment Management Limited, M&G Real Estate Limited and Prudential Assurance Company Limited which form part of the M&G Group. Fees are payable to these companies as disclosed in Note 12.

### 26. TAXATION

The Scheme is a registered pension scheme within the meaning of Section 153 of the Finance Act 2004.

### 27. GMP EQUALISATION

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The Trustee of the Scheme is aware that the issue will affect the Scheme and will be considering this at a future meeting and decisions will be made as to the next steps.

Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

# PRUDENTIAL STAFF PENSION SCHEME

## INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE PRUDENTIAL STAFF PENSION SCHEME

### Statement about contributions

We have examined the summary of contributions payable under the Schedule of Contributions and Payment Schedules to the Prudential Staff Pension Scheme in respect of the Scheme year ended 5 April 2020 which is set out on page 56.

In our opinion contributions for the Scheme year ended 5 April 2020 as reported in the summary of contributions and payable under the Schedule of Contributions and Payment Schedules have in all material respects been paid at least in accordance with the Payment Schedules dated 25 March 2015 and 20 June 2019 and at least in accordance with the Schedule of Contributions certified by the Actuary on 16 May 2018.

### Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions and Payment Schedules. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions and Payment Schedules.

### Respective responsibilities of Trustee and Auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 56, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions and Payment Schedule showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions and Payment Schedule.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions and Payment Schedules to the Scheme and to report our opinion to you.

### The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Scheme's Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee for our work, for this statement, or for the opinions we have formed.

**Gemma Broom**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

2 Forbury Place  
33 Forbury Road  
Reading  
Berkshire RG1 3AD

Date: .....24 September 2020.....

# PRUDENTIAL STAFF PENSION SCHEME

## Statement of Trustee's Responsibilities in respect of Contributions

The Scheme's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Payment Schedule and Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Scheme's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the Schedules.

## SUMMARY OF CONTRIBUTIONS PAID IN THE YEAR

During the year, the contributions paid to the Scheme by the employer under the Schedule of Contributions and Payment Schedules were as follows:

	Defined Benefit Section £m	Defined Contribution Section £m	Total £m
Employer normal contributions	3.1	43.9	47.0
Employer additional contributions	<u>5.0</u>	<u>-</u>	<u>5.0</u>
Total contributions payable under the Schedule of Contributions and Payment Schedules (as reported on by the Scheme auditor):	<u>8.1</u>	<u>43.9</u>	<u>52.0</u>
Reconciliation to the financial statements:			
Contributions payable under the Schedule of Contributions and Payment Schedules	8.1	43.9	52.0
Members' Additional Voluntary Contributions	<u>0.3</u>	<u>0.9</u>	<u>1.2</u>
Contributions receivable per the financial statements	<u>8.4</u>	<u>44.8</u>	<u>53.2</u>

This summary was approved by the Trustee on ..... 24 September 2020 ..... (date)

Signed on behalf of the Trustee

.....  
Keith Bedell-Pearce

.....  
David Green

# PRUDENTIAL STAFF PENSION SCHEME

## CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2020

This Statement has been prepared by Prudential Staff Pensions Limited as the Trustee of The Prudential Staff Pension Scheme (the Scheme) to demonstrate how the Scheme has complied with the governance standards introduced under the Occupational Pension Schemes (Charges and Governance) Regulations 2015 effective from 6 April 2015. This Statement covers both the Defined Contribution (DC) Section and the defined contribution assets held within the Defined Benefit (DB) Section. The defined contribution assets held in the DB Section are arising from Additional Voluntary Contributions (AVCs) and transfers in from other schemes.

This statement covers four key areas:

1. The PSPS Multi-asset Lifestyle, which is classed as the DC Section's default arrangement;
2. The processing of the Scheme's core financial transactions;
3. Charges and transaction costs within the Scheme;
4. The Trustee's compliance with the statutory knowledge and understanding (TKU) requirements.

### **1. The DC Section investment strategy relating to the PSPS Multi-asset Lifestyle**

The Trustee has prepared a Statement of Investment Principles for the DC Section of the Scheme which governs decisions about investments including:

- a. The Trustee's aims and objectives.
- b. The Trustee's policies in relation to the:
  - Types of funds available to members;
  - Fees;
  - Investment Risk & Governance;
  - Monitoring of Performance;
  - Member Communications;
  - Responsible Investment.
- c. An explanation of the Lifestyle options including the PSPS Multi-asset Lifestyle.

### **PSPS Multi-asset Lifestyle**

With the introduction of Auto Enrolment Regulations, the Trustee needed to introduce a default investment strategy to cater for the investment needs of members who do not wish to select their own investments from the fund range on offer. The Trustee, with the help of its DC Section Investment Consultant, designed and made available to members the PSPS Multi-asset Lifecycle, in May 2013, the Employer's Auto Enrolment effective date.

In July 2017 changes were made to the PSPS Multi-asset Lifecycle to reflect the expectations of members to take their retirement benefits as a combination of cash, income drawdown and annuity purchase during retirement. At the same time, it was renamed as the PSPS Multi-asset Lifestyle.

The investment strategy of the Multi-asset Lifestyle option is to invest in a diverse range of investments which are expected to provide significant real returns over long periods (equities and diversified growth funds) for much of the member's working life, then switches gradually into assets that are more consistent with members taking their retirement benefits as a combination of cash, income drawdown and annuity purchase, as illustrated below.

In 2018 and 2019 the DC Section Investment Committee on behalf of the Trustee reviewed the PSPS Multi-asset Lifestyle and in particular as to whether an ESG (Environmental, Social and Governance) fund should be included, whether changes were required in the strategy, and the underlying managers in the PSPS Diversified Growth Fund ("DGF"). Agreed changes were implemented on 10 January 2020. Prior to the implementation announcements to members and changes to the communications and the Scheme's website were made.

# PRUDENTIAL STAFF PENSION SCHEME

From 10 January 2020, this strategy initially invests 100% in equities (25% PSPS Global Equity – active, 40% Overseas Equity – passive, 10% UK Equity – active, 10% UK Equity – passive, 10% Emerging Market Equity – active and 5% PSPS Responsible Investment Equity Fund) and between 20 years and 10 years from retirement gradually builds up exposure to the PSPS Diversified Growth Fund –active, until at a point 10 years before retirement it is invested 25% in equities and 75% in the PSPS Diversified Growth Fund –active. Then 10 years from retirement the strategy also de-risks into PSPS Total Return Bonds – active and also, in the last 3 years before retirement, the PSPS Cash Fund – active. The final allocation at retirement is 10% equities, 40% diversified, 30% total return bonds and 20% cash.

Prior to 10 January the strategy initially invests 100% in equities (25% PSPS Global Equity–active, 40% Overseas Equity–passive, 15% UK Equity–active, 10% UK Equity–passive and 10% Emerging Markets Equity–active). It gradually built up exposure to the PSPS Diversified Growth Fund–active between 40 and 10 years from retirement until at a point 10 years before retirement it was invested 25% in equities and 75% in the PSPS Diversified Growth Fund –active. The strategy in the last 10 years was the same as set out above,

Full details of the PSPS Multi-asset Lifestyle and the other two lifestyles can be found in the Lifestyle Profile Guide available from the DC Section of Scheme’s website [www.prudentialstaffps.co.uk](http://www.prudentialstaffps.co.uk)

The Trustee and the DC Section Investment Consultant, Hymans Robertson LLP, review the performance of all the defined contribution funds against their investment managers’ objectives and benchmarks on a quarterly basis via the DC Section Investment Consultant’s quarterly investment performance monitoring report.

On an annual basis the Trustee conducts a high level review of all funds, with a formal review every three years, or following significant changes to governance requirements. In the meantime, the Trustee will monitor members’ decisions at retirement to ensure that the PSPS Multi-asset Lifestyle option remains appropriate as a default option for members who do not make a decision on where to invest their contributions.

The Trustee is satisfied that the PSPS Multi-asset Lifestyle profile remains appropriate for the majority of the DC Section members because:

- Its design continues to meet its principal investment objectives;
- The demographic profile of the membership has not changed materially;
- Members’ needs and likely benefit choices at retirement have not changed materially; and
- Its investment performance has been consistent with its investment objectives

The next review will be undertaken in Scheme year 2020/21.

A copy of the Statement of Investment Principles for the DC Section and DB Section of the Scheme is available on the Scheme’s Website <http://www.prudentialstaffps.co.uk>.

The Statement of Investment Principles for the PSPS Multi-asset Lifestyle (which is classed as the DC Section default arrangement) is available on the DC Section of the Scheme Website/Documents Library/Formal Documents.

Please note that the Statement of Investment Principles covers all the Scheme’s investments – the principles guiding the design of the PSPS Multi-asset Lifestyle profile are set out in Section 3 and Appendix 3.

## 2. The processing of the Scheme's core financial transactions

The Trustee regularly monitors core financial transactions and financial record keeping of the DC Section of the Scheme on a quarterly basis via the Scheme's Administrator, The Prudential Assurance Company, quarterly administration report. These core financial transactions include the investment of contributions, transfers in and out of the Scheme, fund switches and member payments and analysis of the DC Section of the Scheme's running costs.

These activities are monitored against a Service Level Agreement ("SLA") which generally imposes a requirement on the Administrator to process transactions within 5 working days. The SLA imposes more stringent requirements than required by the regulations and the Trustee and its advisors consider these to be in line with, or more stringent than, market practice. The Administrator's report is reviewed at quarterly Trustee meetings where the Administrator reports specifically on performance versus the SLA. The Administrator has regularly evidenced a high level of achievement versus the SLA of 95% or greater.

Contributions are monitored monthly, reconciled and recorded. All discrepancies are investigated and reconciled to data and contributions received from the Employer's payroll department. The Trustee and the Pensions Team are informed of any discrepancies not resolved and contributions not received in time.

The Trustee's Annual Report and Accounts, including the core financial transactions for all defined contribution assets, is subject to statutory audit.

A Payment Schedule exists between the Trustee and Principal Employer and was signed on 20 June 2019 and the Administrator confirms to the Trustee on a quarterly basis whether contributions were received in accordance with the Payment Schedule. The Trustee also receives and reviews a copy of the Report on Internal Controls provided by the Administrator. These Reports have been reviewed and audited by an externally appointed party, who evaluates the effectiveness of control procedures having regard to the Institute of Chartered Accountants in England and Wales Technical Release AAF 01/06.

Based on the above, the Trustee is satisfied that the Scheme's core financial transactions have been processed promptly and accurately during the Scheme year 6 April 2018 to 5 April 2019.

## 3. Charges and transaction costs

The Trustee, with the assistance of the DC Section Investment Consultant, undertakes an annual exercise to confirm that the Annual Management Charges (AMC) incurred by DC Section members invested in funds subject to the regulations do not exceed the Charge Cap (currently 0.75%) and that the AMCs paid by members for other funds are reasonable.

In the review of the DGF strategy and underlying funds of the PSPS Multi-asset Lifestyle profile there were some changes to charges applying at certain points in the lifestyle glidepath during the Scheme year (6 April 2019 to 5 April 2020) but there were no changes to PSPS fund charges. The charges are not expected to change in the coming Scheme year (6 April 2020 to 5 April 2021) as a result of any known planned changes at the current time.

# PRUDENTIAL STAFF PENSION SCHEME

As at 31 March 2020 the charges were as follows:

## **PSPS Multi-asset Lifestyle (classified as the DC Section default arrangement)**

The level of member-borne charges applying to the components of the PSPS Multi-asset Lifestyle are as set out in the table below:

Fund	Annual Management Charge (p.a.) 31 March 2019	Annual Management Charge (p.a.) 31 March 2020	Transaction Cost average up to the last 5 years
PSPS Global Equity - active	0.60%	0.60%	0.29%
PSPS Overseas Equity - passive	0.15%	0.15%	0.00%
PSPS UK Equity - active	0.35%	0.35%	0.07%
PSPS UK Equity - passive	0.15%	0.15%	0.03%
PSPS Emerging Markets Equity - active	1.00%	1.00%	0.60%
PSPS Diversified Growth - active	0.65%	0.65%	0.46%
PSPS Cash Fund - active	0.10%	0.10%	0.00%
PSPS Total Return Bond Fund	0.35%	0.35%	0.00%
PSPS Responsible Investment Equity added January 2020		0.35%	

The Annual Management Charge is also known as a fund's "Total Expense Ratio" (TER) and is the sum of a fund's AMC and other operating costs and expenses. It excludes transaction costs on the fund's underlying assets which are reflected in the unit price of each fund. Transactions costs information is shown as a percentage average up to the last 5 years. Any negative transaction costs are shown as zero.

Transactions costs occur when a fund buys or sells investments. They are not separate charges as transaction costs have already been taken account of in the investment returns of the fund. Due to the movement of prices transaction costs can be positive or negative. The impact of a positive transaction cost is that it will reduce potential investments returns, while a negative transaction cost will increase potential investment returns.

The Annual Management Charges for the PSPS funds have not changed over the year to 31 March 2020.

As shown in the table below during the year covered by this Statement the member-borne charges for the PSPS Multi-asset Lifestyle arrangement were in a range from 0.38% p.a. to 0.58% p.a. of the amount invested:

Period to retirement (years)	Annual Management Charge (p.a.)
40	0.38
35	0.38
30	0.38
25	0.38
20	0.38
15	0.48
10	0.58
9	0.58
8	0.57
7	0.57
6	0.56
5	0.56
4	0.55
3	0.52
2	0.49
1	0.46
0	0.42

# PRUDENTIAL STAFF PENSION SCHEME

The Multi-asset Lifestyle option was revised in January 2020 and the figures above assume the new strategy applying throughout the year. Had the previous strategy applied, charges would still have been significantly below the charge cap, with the maximum charge of 0.58% p.a. at 10 years to retirement. Charges between 40 and 20 years would have been modestly higher than shown above due to an allocation to the PSPs Diversified Growth - active Fund during those periods. The charges would have been as follows:

Period to retirement (years)	Annual Management Charge (p.a.)
40	0.38
35	0.41
30	0.45
25	0.48
20	0.51

## An Illustration of the Potential Effect of Charges and Costs on Investment Return if invested in the PSPS Multi-asset Lifestyle

### Projected pension pot in today's money

£

Growth rates *	3.43%	
Yearly Cost	0.56%	
End of Year	Before Charges	After Charges
1	20,600	20,500
5	23,500	22,900
10	27,700	26,200
20	38,600	34,500
30	53,600	45,300
40	74,500	59,500
47	93,800	72,000

\*Growth rates for the funds have allowed for the effects of inflation

### Basis for the calculation

Projected pension pot values are in today's money which means they have been adjusted for inflation. The calculation has used:

- A starting pot size of £20,000.
- No regular contributions
- The term of the investment is from 18 to age 65

Other Illustrations can be found at [www.pru.co.uk/trustees/search-schemes/#/M001](http://www.pru.co.uk/trustees/search-schemes/#/M001)

### PSPS Multi-asset Lifestyle charges

The total charges borne by members in the new and previous version of the Multi-asset Lifestyle option would not be expected to exceed the Charge Cap at any point in the member's lifecycle.

The Trustee is satisfied that, taking into account the membership profile of the Scheme, the charges for the PSPS Multi-asset Lifestyle are reasonable, and help deliver good outcomes for members relative to the objectives of the default strategy.

# PRUDENTIAL STAFF PENSION SCHEME

## Alternative Lifestyle Profiles

There are two alternative lifestyle Profiles available to members; the Active Lifestyle and the Passive Lifestyle Profiles. Further information on the two alternative profiles can be found on the Lifestyle Profile Guide available from the DC Section of Scheme's website [www.prudentialstaffps.co.uk](http://www.prudentialstaffps.co.uk).

The level of member-borne charges applying to the components of the two alternative lifecycle profile were as set out in the table below:

Fund	Annual Management Charge (p.a.) 31/3/2019	Annual Management Charge (p.a.) 31/3/2020	Transaction Cost average up to the last 5 years
PSPS Active Lifestyle			
PSPS Global Equity – active	0.60%	0.60%	0.290%
PSPS UK Equity – active	0.35%	0.35%	0.07%
PSPS Corporate Bonds – active	0.15%	0.15%	0.00%
PSPS Index-Linked Gilts- active	0.15%	0.15%	0.00%
PSPS Cash Fund – active	0.10%	0.10%	0.00%
PSPS Passive Lifestyle			
PSPS Overseas Equity – passive	0.15%	0.15%	0.00%
PSPS UK Equity – passive	0.15%	0.15%	0.03%
PSPS Corporate Bonds – active	0.15%	0.15%	0.00%
PSPS Index-Linked Gilts- active	0.15%	0.15%	0.00%
PSPS Cash Fund – active	0.10%	0.10%	0.00%

As explained above the Annual Management Charge is also known as a fund's "Total Expense Ratio" (TER) and is the sum of a fund's AMC and other operating costs and expenses. It excludes transaction costs on the fund's underlying assets.

Transactions costs information is shown as a percentage average up to the last 5 years. Any negative transaction costs are shown as zero.

Transactions costs occur when a fund buys or sells investments. They are not separate charges as transaction costs have already been taken account of in the investment returns of the fund. Due to the movement of prices transaction costs can be positive or negative. The impact of a positive transaction cost is that it will reduce potential investments returns, while a negative transaction cost will increase potential investment returns.

The Annual Management Charges for the all of the PSPS funds have not changed over the year to 31 March 2020.

On average, the Annual Management Charges ranges from 0.14% p.a. (at retirement) to 0.525% p.a. (up to 10 years to retirement) for the PSPS Active Lifestyle and from 0.14% p.a. (at retirement) to 0.15% p.a. (up to 10 years to retirement) for the PSPS Passive Lifestyle.

## Alternative PSPS Lifestyle Profiles

The Trustee is satisfied that, taking into account the membership profile of the Scheme, the charges for the alternative lifestyle strategies are reasonable, and help deliver good outcomes for members relative to their objectives.

# PRUDENTIAL STAFF PENSION SCHEME

## Self-Select fund range

The level of member borne charges (expressed as an “Annual Management Charge”) applying to all the self-select funds are shown in the table below:

Fund	Annual Management Charge (p.a.) 31/3/2019	Annual Management Charge (p.a.) 31/3/2020	Transaction cost average up to the last 5 years
PSPS Cash - active	0.10%	0.10%	0.00%
PSPS Index-Linked Gilts - passive	0.15%	0.15%	0.00%
PSPS Index-Linked Gilts - active	0.15%	0.15%	0.00%
PSPS Fixed Interest Bonds - active	0.15%	0.15%	0.00%
PSPS Long-Dated Gilts - passive	0.15%	0.15%	0.00%
PSPS Corporate Bonds - active	0.15%	0.15%	0.00%
PSPS Property - active	0.35%	0.35%	0.53%
PSPS UK Equity - passive	0.15%	0.15%	0.03%
PSPS UK Equity - active	0.35%	0.35%	0.07%
PSPS Overseas Equity - passive	0.15%	0.15%	0.00%
PSPS Global Equity - active	0.60%	0.60%	0.29%
PSPS Emerging Markets Equity - active	1.00%	1.00%	0.60%
PSPS Diversified Growth - active	0.65%	0.65%	0.46%
PSPS Total Return Bond Fund	0.35%	0.35%	
PSPS Responsible Investment Equity with effect from 10 January 2020		0.35%	
Prudential With-Profits	1.00% <sup>[1]</sup>	1.00% <sup>[1]</sup>	0.05%]

<sup>[1]</sup> The 1% deduction is an implicit charge made before declaration of the bonus rate.

Transactions costs information is shown as a percentage average up to the last 5 years. Any negative transaction costs are shown as zero.

Transactions costs occur when a fund buys or sells investments. They are not separate charges as transaction costs have already been taken account of in the investment returns of the fund. Due to the movement of prices transaction costs can be positive or negative. The impact of a positive transaction cost is that it will reduce potential investments returns, while a negative transaction cost will increase potential investment returns.

As explained above the Annual Management Charge is also known as a fund’s “Total Expense Ratio” (TER) and is the sum of a fund’s AMC and other operating costs and expenses. It excludes transaction costs on the fund’s underlying assets which are reflected in the unit price of each fund.

The Property Fund invests directly in property. As a result, in addition to the fund’s Total Expense Ratio, members also bear the cost of items such as property management and maintenance.

The Annual Management Charges for the PSPS funds have not changed over the year to 31 March 2020.

## Self-select fund charges

The Trustee is satisfied that, taking into account the membership profile of the DC Section of the Scheme, the charges for most funds are within the Charge Cap and those that exceed are still reasonable, and help deliver good outcomes for members relative to their objectives.

# PRUDENTIAL STAFF PENSION SCHEME

## DB Section defined contribution assets

The charges associated with the assets held through the “commercial” AVC policy are:

Fund	Annual Management Charge (p.a.) 31/3/2019	Annual Management Charge (p.a.) 31/3/2020	Transaction Costs average up to the last 5 years
PSPS Cash – active	0.20%	0.20%	0.00%
PSPS Index-Linked Gilts – passive	0.15%	0.15%	0.00%
PSPS Index-Linked Gilts – active	0.20%	0.20%	0.00%
PSPS Fixed Interest Bonds – active	0.20%	0.20%	0.00%
PSPS Long-Dated Gilts – passive	0.15%	0.15%	0.00%
PSPS Corporate Bonds – active	0.20%	0.20%	0.00%
PSPS Property – active	0.40%	0.40%	0.53%
PSPS UK Equity – passive	0.15%	0.15%	0.00%
PSPS UK Equity – active	0.55%	0.55%	0.07%
PSPS Overseas Equity – passive	0.15%	0.15%	0.00%
PSPS Global Equity – active	0.70%	0.70%	0.29%
PSPS Emerging Markets Equity – active	1.05%	1.05%	0.60%
PSPS Diversified Growth - active	0.80%	0.80%	0.46%
PSPS Total Return Bond Fund	0.35%	0.35%	0.0%

As explained above the Annual Management Charge is also known as a fund’s “Total Expense Ratio” (TER) and is the sum of a fund’s AMC and other operating costs and expenses. It excludes transaction costs on the fund’s underlying assets which are reflected in the unit price of each fund.

The Property Fund invests directly in property. As a result, in addition to the fund’s Total Expense Ratio, members also bear the cost of items such as property management and maintenance.

Source: Prudential

The assets held through the DB Section In House AVC arrangement are not subject to any charges.

### Transaction Costs

- Transaction costs information is shown as a percentage average up to the last 5 years. Any negative transaction costs are shown as zero.
- Transaction costs occur when a fund buys or sells investments. They are not separate charges as transaction costs have already been taken account of in the investment returns of the fund. Due to the movement of prices transactions costs can be positive or negative. The impact of a positive transaction cost is that it will reduce potential investments returns, while a negative transaction cost will increase potential investment returns.

# PRUDENTIAL STAFF PENSION SCHEME

## An Illustration of the Potential Effect of Charges and Costs on Investment Return if invested in the PSPS Global Equity - active

### Projected pension pot in today's money

£

Growth rates *	4.29%	
Yearly Cost	0.89%	
End of Year	Before Charges	After Charges
1	20,800	20,600
5	24,500	23,400
10	30,100	27,500
20	45,400	38,000
30	68,400	52,300

\*Growth rates for the funds have allowed for the effects of inflation

### Basis for the calculation

Projected pension pot values are in today's money which means they have been adjusted for inflation. The calculation has used:

- A starting pot size of £20,000.
- No Regular contributions
- The term of the investment is for 30 years

Other Illustrations can be found at [www.pru.co.uk/trustees/search-schemes/#/M020](http://www.pru.co.uk/trustees/search-schemes/#/M020)

### Value for money considerations

During the year to 5 April 2020 in accordance with The Pensions Regulator current DC Code of Practice and the relevant legislation available at the time of this Statement, the DC Section Committee, on behalf of the Trustee concluded that the DC Section of the Scheme overall benefits and options represent value for money for the following reasons:

- Charges borne by members in the Multi-Asset Lifestyle and the other two Lifestyle Profiles as well as the majority of the funds on offer to members are below the Charge Cap of broadly 0.75% a year;
- Members have access to various asset classes, all of which have competitive fund management charges;
- Members do not pay for the costs of the DC Section of the Scheme's administration, professional advisers costs or indeed any costs (other than fund management) associated with the running of the DC Section of the Scheme;
- The Company since 1 April 2019 has had the following contribution structure a Company core 8%, matching 1 for 1 up to 5% (there is a default member contribution of 1% which member can elect not to pay); The Company does encourage members to save;
- Information about the DC Section of the Scheme is available on the Scheme's website [www.prudentialstaffps.co.uk](http://www.prudentialstaffps.co.uk) ;
- The quality of communications issued to members on a regular basis provides an understanding of all legislative changes.

The Trustee Directors are also satisfied that the charges for the DB Section defined contribution assets represent value for money. However, the charges for some of the funds within the "commercial" AVC policy are higher than for the equivalent funds within the DC Section as the Company does not subsidise the administration costs.

# PRUDENTIAL STAFF PENSION SCHEME

## Assessment

Each year the Trustee carries out an assessment of whether the charges and transaction costs for the PSPS Multi-asset Lifestyle (which is classed as the DC Section's default arrangement) and other investment options, which are borne in full or in part by members, represent good value for members.

Value is not simply about low cost – the Trustee also considers the quality of the services for which members pay.

In particular, for the Investment category of the assessment, being the only area which DC Section members pay a share of the cost, the Trustee noted in their assessment.

### **Charges for PSPS Multi-asset Lifestyle** (which is classed as the DC Section default arrangement)

- Charges for the PSPS Multi-asset Lifestyle were competitive for a Scheme of this size compared to the Department for Work and Pensions average and in relation to evidence of charges compiled by the DC Section Investment Consultant.
- Charges compare favourably with other schemes especially when considering the Scheme employs active management and specialised funds (Diversified Growth and Absolute Return Bonds) in the PSPS Multi-asset Lifestyle. The Trustee believes that the use of active management and specialised funds will improve member outcomes (and performance of the active options utilised by the Scheme to date would evidence outperformance).

### **Charges for Other Investment Options**

- Charges were competitive for a Scheme of this size in relation to evidence of charges compiled by the DC Section Investment Consultant.

The Trustee acknowledges that at this point, limited data is available on industry wide comparisons and the Trustee has therefore relied heavily on the market knowledge of its advisers.

Benchmarking of transaction costs is limited at this time but the transaction costs shown in the sections above are reasonably competitive compared to other Schemes. As would be expected, higher transaction costs are associated with property and diversified funds and some overseas markets such as Emerging Markets. Most PSPS funds have transaction costs less than 10bps (0.1%). Based on the knowledge of the DC Section Consultant and recognising that transactions do vary by asset class, this would seem to be in line with average.

The DC Section Investment Consultant also undertakes the Pensions Regulator's "Overall Value for Money" which considers the services that are paid by the Company. Under this assessment the Scheme Management and Governance, Communications, Administration and Investment is rated using the following rating:

- Above Average
- Average
- Below Average

The DC Section was rated Above Average.

# PRUDENTIAL STAFF PENSION SCHEME

## 4. Trustee Directors Knowledge and Understanding (TKU)

Trustee Directors understand their legal obligations and the Pensions Regulator expectations in relation to Trustee Knowledge and Understanding. This, together with advice available to them, allows them to properly exercise their functions as Trustee Directors of the Scheme. The Trustee's approach to meeting the TKU requirements are as follows:

- The Pensions Team keeps a Training log for each Trustee Director and Trustee Directors are asked to review the contents annually to ensure it is correct;
- Trustee Directors are encouraged to attend training and seminars organised by the Scheme's Advisers, Providers and Fund Managers and are welcome to attend paid courses if they feel they would be beneficial, and which support their work as Trustee Directors ;
- The Scheme's Actuary and Legal Advisers produce pensions updates for the quarterly Trustee Board meetings and twice a year the Scheme's Auditors provide updates to the Trustee Board;
- Bespoke training is arranged by the Pensions Team during the year;
- On appointment Trustee Directors are required to attend the Trustee's legal adviser's Foundation Course for new trustees;
- Due to the nature of the Company's business Trustee Directors have a mixture of skills and competencies, which they share with each other;
- Training is provided if gaps in knowledge are identified and no decision will be taken without receiving appropriate training and advice.

In particular:

- Trustee Directors are expected to have a working knowledge of the Scheme Trust Deed and Rules;
- Trustee Directors are expected to have a working knowledge of the Scheme Statement of Investment Principles as well as the investment concepts relevant to the Scheme;
- Trustee Directors are expected to have a working knowledge of the law and legislation relating to pension schemes;
- The Pensions Manager working with the Scheme advisers have a plan in place for ongoing Trustee Directors' training appropriate to their duties;
- The effectiveness of these practices and the training received are reviewed annually.

The Trustee has appointed suitably qualified and experienced actuarial consultants, legal advisers, investment consultants and communications consultants to provide advice on the operation of the Scheme in accordance with its Trust Deed and Rules, legislation and regulatory guidance.

The Trustee reviews the effectiveness of its advisers and periodically reviews the appointment of advisers.

Trustee Directors believe based on the combination of their knowledge and understanding together with professional advice from appointed advisers they have properly exercised their duties and met relevant legislative requirements for the Scheme year ending 5 April 2020.

Signed by the Chairman on behalf of the Trustee of the Prudential Staff Pension Scheme.

**Keith Bedell-Pearce**

**Chairman:**

Date: 24 September 2020