



PRUDENTIAL

Staff Pension Scheme

Defined Contribution Section

Chairman's Annual Governance Statement for the Defined Contribution Section of the Prudential Staff Pension Scheme



For the year ended 5 April 2023

Your journey

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 2023

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 five 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 Scheme's net investment returns; and
5. 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 Lifestyle, in May 2013, the Employer's Auto Enrolment effective date.

In July 2017 changes were made to the PSPS Multi-asset Lifestyle 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 PSPS Multi-asset Lifestyle option is to invest in a diverse range of investments which are expected to provide significant real returns over long periods (including 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.

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CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2023 (continued)

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 twenty years and ten years from retirement gradually builds up exposure to the PSPS Diversified Growth Fund – active, until at a point ten years before retirement it is invested 25% in equities and 75% in the PSPS Diversified Growth Fund – active. Then ten years from retirement the strategy also de-risks into PSPS Total Return Bonds – active and also, in the last three 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.

With effect from 10 May 2023, the Trustee has made changes to the PSPS Multi-asset Lifestyle and the underlying funds and has introduced two new PSPS Multi-asset Lifestyles being the PSPS Cash at Retirement Lifestyle and Annuity at Retirement lifestyle.

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

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 3 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

A review of the PSPS Multi-asset Lifestyle profile was undertaken in Scheme year ending 05 April 2023 and the results of this review were implemented after the end of the Scheme Year on 10 May 2023. As well as introducing two alternative versions of the multi-Asset lifestyle for members to select specifically designed to be consistent with members taking their retirement benefits as cash or by annuity purchase, the main changes to default Multi-asset lifestyle are to reduce the length of the period of de-risking from equities from 20 to 15 years, introducing a new Diversified Liquid Alternatives fund and altering the composition of the equity mix.

From 10th May 2023, the strategy initially invests 100% in equities (30% PSPS Global Equity – active, 7.5% PSPS UK Equity – active, 57.5% PSPS Sustainable Equity – passive and 5% PSPS Impact Equity – active funds) and between 15 years and 10 years from retirement gradually builds up exposure to the PSPS Diversified Growth – active and PSPS Diversified Liquid Alternatives – active funds, until at a point 10 years before retirement it is invested 63% in equities and 32% in the PSPS Diversified Growth – active and 5% in the PSPS Diversified Liquid Alternatives – active funds. Then 10 years from retirement the strategy also de-risks into PSPS Total Return Bond – active Fund and also, in the last 3 years before retirement, the PSPS Cash – active Fund. The final allocation at retirement is 13% equities, 32% Diversified Growth, 5% Diversified Liquid Alternatives, 30% Total Return Bond and 20% cash.

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CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2023 (continued)

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 DC Section Statement of Investment Principles covers all the DC Section'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 Limited, 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.

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 is subject to statutory audit.

A Payment Schedule exists between the Trustee and Principal Employer and was signed on 20 June 2019. 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 2022 to 5 April 2023.

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.

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 2023 (continued)

As at 31 March 2023 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 2023	Annual Management Charge (p.a.) 31 March 2022	Transaction Cost average up to the last 5 years
PSPS Global Equity – active	0.64%	0.64%	0.26%
PSPS Overseas Equity – passive	0.15%	0.15%	0.06%
PSPS UK Equity – active	0.47%	0.47%	0.11%
PSPS UK Equity – passive	0.09%	0.09%	0.04%
PSPS Emerging Markets Equity - active	1.00%	1.00%	0.07%
PSPS Diversified Growth – active	0.45%	0.45%	0.33%
PSPS Cash Fund – active	0.10%	0.10%	0.00%
PSPS Total Return Bond Fund	0.35%	0.35%	0.08%
PSPS Responsible Investment Equity added January 2020	0.35%	0.35%	Currently not available

Source: Prudential (Prudential Assurance Company Limited (PACL)).

A fund's "Total Expense Ratio" (TER) is the sum of a fund's AMC and other operating costs and expenses. These other operating costs and expenses are rebated by PACL the platform provider and members only pay the AMC. The TER excludes transaction costs on the fund's underlying assets which are reflected in the unit price of each fund. 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 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.

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 2023 (continued)

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 0.34% p.a. to 0.44 p.a. of the amount invested:

Period to retirement (years)	Annual Management Charge (p.a.) %
40	0.39
35	0.39
30	0.39
25	0.39
20	0.39
19	0.40
18	0.40
17	0.41
16	0.41
15	0.41
14	0.42
13	0.42
12	0.43
11	0.43
10	0.44
9	0.43
8	0.43
7	0.43
6	0.43
5	0.43
4	0.42
3	0.40
2	0.38
1	0.36
0	0.34

Source: Prudential

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 2023 (continued)

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 *	4.55%	
Yearly Cost	0.51%	
End of Year	Before Charges £	After Charges £
1	31,400	31,300
5	38,200	37,200
10	48,600	46,200
20	78,900	71,300
30	127,000	110,000
40	207,000	169,000
47	291,000	229,000

*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 £30,000;
- No regular contributions;
- The term of the investment is from 18 to age 65;
- The illustration takes statutory guidance into consideration.

Other Illustrations can be found at 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 lifestyle.

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.

Alternative Lifestyle Profiles

There are two alternative lifestyle Profiles available to members; the PSPS Active Lifestyle – Annuity at Retirement and the PSPS Passive Lifestyle – Annuity at Retirement (formerly known as PSPS Active Lifestyle and PSPS Passive Lifestyle). 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.

As mentioned above, two new alternative lifestyles will be made available to members from 10 May 2023, the PSPS Cash at Retirement Lifestyle and Annuity at Retirement lifestyle details of which can be found on the Lifestyle Profile Guide available from the DC Section of Scheme's website www.prudentialstaffps.co.uk.

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 2023 (continued)

The level of member-borne charges applying to the components of the two alternative lifestyle profiles which were available during the Scheme Years are as set out in the table below:

Fund	Annual Management Charge (p.a.) 31 March 2023	Annual Management Charge (p.a.) 31 March 2022	Transaction Cost average up to the last 5 years
PSPS Active Lifestyle			
PSPS Global Equity – active	0.64%	0.64%	0.26%
PSPS UK Equity – active	0.47%	0.47%	0.11%
PSPS Corporate Bonds – active	0.15%	0.15%	0.05%
PSPS Index-Linked Gilts- active	0.15%	0.15%	0.12%
PSPS Cash Fund – active	0.10%	0.10%	0.00%
PSPS Passive Lifestyle			
PSPS Overseas Equity – passive	0.15%	0.15%	0.06%
PSPS UK Equity – passive	0.09%	0.09%	0.04%
PSPS Corporate Bonds – active	0.15%	0.15%	0.05%
PSPS Index-Linked Gilts- active	0.15%	0.15%	0.12%
PSPS Cash Fund – active	0.10%	0.10%	0.00%

Source: Prudential

A fund's "Total Expense Ratio" (TER) is the sum of a fund's AMC and other operating costs and expenses. These other operating costs and expenses are rebated by PACL the platform provider and members only pay the AMC. The TER excludes transaction costs on the fund's underlying assets which are reflected in the unit price of each fund. 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 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 ranges from 0.14% p.a. (at retirement) to 0.59% p.a. (up to 10 years to retirement) for the PSPS Active Lifestyle and from 0.14% p.a. (at retirement) to 0.13% 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.

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CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2023 (continued)

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 March 2023	Annual Management Charge (p.a.) 31 March 2022	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%	0.12%
PSPS Fixed Interest Bonds – active	0.15%	0.15%	0.02%
PSPS Long-Dated Gilts – passive	0.15%	0.15%	0.00%
PSPS Corporate Bonds – active	0.15%	0.15%	0.05%
PSPS UK Equity – passive	0.09%	0.09%	0.04%
PSPS UK Equity – active	0.47%	0.47%	0.11%
PSPS Overseas Equity – passive	0.15%	0.15%	0.06%
PSPS Global Equity – active	0.64%	0.64%	0.26%
PSPS Emerging Markets Equity - active	1.00%	1.00%	0.07%
PSPS Diversified Growth – active	0.45%	0.45%	0.33%
PSPS Total Return Bond Fund	0.35%	0.35%	0.08%
PSPS Responsible Investment Equity with effect from 10 January 2020	0.35%	0.35%	Currently not available
Prudential With-Profits	1.00% ^[1]	1.00% ^[1]	0.10%

^[1] The 1% deduction is an implicit charge made before declaration of the bonus rate.

Source: Prudential

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 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.

A fund's "Total Expense Ratio" (TER) is the sum of a fund's AMC and other operating costs and expenses. These other operating costs and expenses are rebated by PACL the platform provider and members only pay the AMC. The TER excludes transaction costs on the fund's underlying assets which are reflected in the unit price of each fund.

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

CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2023 (continued)

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 March 2023	Annual Management Charge (p.a.) 31 March 2022	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%	0.12%
PSPS Fixed Interest Bonds – active	0.20%	0.20%	0.02%
PSPS Long-Dated Gilts – passive	0.15%	0.15%	0.00%
PSPS Corporate Bonds – active	0.20%	0.20%	0.05%
PSPS UK Equity – passive	0.15%	0.15%	0.04%
PSPS UK Equity – active	0.55%	0.55%	0.11%
PSPS Overseas Equity – passive	0.15%	0.15%	0.06%
PSPS Global Equity – active	0.70%	0.70%	0.26%
PSPS Emerging Markets Equity – active	1.05%	1.05%	0.07%
PSPS Diversified Growth – active	0.80%	0.80%	0.33%
PSPS Total Return Bond Fund	0.35%	0.35%	0.08%

Source: Prudential

A fund's "Total Expense Ratio" (TER) is the sum of a fund's AMC and other operating costs and expenses. These other operating costs and expenses are rebated by PACL the platform provider and members only pay the AMC. The TER excludes transaction costs on the fund's underlying assets which are reflected in the unit price of each fund. 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 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.

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CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2023 (continued)

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 *	5.73%	
Yearly Cost	0.78%	
End of Year	Before Charges £	After Charges £
1	42,200	41,900
5	52,500	50,400
10	68,900	63,700
15	90,400	80,400
20	118,000	101,000
22	132,000	111,000

*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 £40,000;
- No Regular contributions;
- The term of the investment is from age 43 to age 65;
- The illustration takes statutory guidance consideration.

Other Illustrations can be found at www.pru.co.uk/trustees/search-schemes/#/M020

Value for money considerations

During the year to 5 April 2023 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 members 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;
- The quality of communications issued to members on a regular basis provides an understanding of all legislative changes.

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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.

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 this 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 (Equity, 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 Inadvertent Defaults

During the Scheme year 2020/2021, two other funds became defaults under the charge cap regulations; the PSPS Cash fund and PSPS Total Return Bond fund. These funds became defaults due to member's PSPS Property fund's investments having to be re-directed to the Cash fund (initially) then to the Total Return Bond fund when the Property fund was closed.

The charges for these funds are below the 0.75% p.a. charge cap (PSPS Cash fund = 0.10% p.a.; PSPS Total Return Bond fund = 0.35% p.a.) and would not be expected to exceed the charge cap at any point over the next Scheme year.

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 the Diversified Growth Fund and some overseas markets such as Global Equities. Most DC section funds have transaction costs less than 10bps (0.1%).

Full transaction cost information is available to the Trustee and industry comparable data is available from the Department for Work and Pensions 2020 average charge survey. The Scheme's DC Section consultant believes that the transaction costs on the funds offered to members appear reasonable given their understanding of likely costs of those type of funds and evidence from the DWP Survey.

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CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2023 (continued)

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:

Excellent

Good

Average

Poor

The DC Section of the Prudential Staff Pension Scheme was rated Good for the year to 05 April 2023.

4. The Scheme's net investment performance.

The presentation of the investment performance takes into account the statutory guidance issued by the Department for Work and Pensions. The Trustee has followed the statutory guidance in all areas.

Performance data below is shown for periods ending 31 March 2023 (Scheme year end is 5 April 2023).

Investment conditions

When looking at the following figures it should be borne in mind that major stock markets fell by -0.9% over the period (12 months to 31 March 2023), as measured by the FTSE All World Index. Bonds also produced negative returns. Corporate bonds, as measured by the iBoxx Non-Gilts Index returned -10.2% over 12 months and UK Gilts (FTSE British Government All Stocks Index) returned -16.3%. Index-linked gilts (FTSE British Government Index-Linked All Maturities) returned -26.7%.

Over the year, the funds used in the Scheme saw investment returns of between a rise in value of 3.0% or, put another way, a rise of £30 for every £1,000 invested for the PSPS UK Equity -active Fund to a fall in value of 30.0%, or a fall of £300 for every £1,000 invested for the PSPS Index-Linked Gilts -passive Fund.

Fund Name	1 Year (%)	3 Years (% p.a.)	5 Years (%p.a.)	Since Inception (% p.a.)
PSPS Cash Active	2.2	0.7	0.7	0.2
PSPS Corporate Bond Active	-9.5	-1.6	0.1	5.6
PSPS Fixed Interest Bonds Active	-15.8	-8.4	-2.6	3.3
PSPS Index-Linked Gilts Active	-29.6	-8.0	-3.4	4.7
PSPS Index-Linked Gilts Passive	-30.0	-9.1	-4.0	3.8
PSPS Overseas Equity Passive	1.0	14.8	7.9	9.1
PSPS UK Equity Passive	2.7	13.4	4.8	6.5
PSPS Global Equity Active	-2.8	14.7	10.2	11.0
PSPS UK Equity Active	3.0	12.5	5.2	8.8
PSPS Emerging Markets Equity - active	1.6	8.6	2.8	3.0
PSPS Diversified Growth - active	1.0	5.1	1.3	3.0
PSPS Long Dated Gilts - passive	-29.5	-16.4	-6.4	0.3
PSPS Total Return Bond	1.9	5.9	3.0	3.5
PSPS Responsible Investment Equity	0.5	n/a	n/a	8.9

Source: Prudential as at 31 March 2023

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 2023 (continued)

As the default arrangement uses a lifestyle strategy, the investment return varies depending on your age and how far you are from your retirement age.

Age of member in years	1 Year (%)	3 Years (% p.a.)	5 Years (%p.a.)
30	0.5	14.0	7.4
50	0.5	12.2	5.2
60	1.0	7.1	2.8

Source: Prudential as at 31 March 2023

The Trustee is satisfied that most funds used by the default arrangement have performed in line with their longer-term objectives.

More information:

Further information on the funds, how they are invested and their investment performance during the year, can be found on the Scheme's website at: <https://prudentialstaffps.co.uk/>

5. The Trustee's compliance with the statutory knowledge and understanding (TKU) requirements.

Trustee Directors Knowledge and Understanding (TKU)

Trustee Directors understand their legal obligations and the Pensions Regulator's 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;

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 2023 (continued)

- The Pensions Manager, working with the Scheme advisers, has 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 2023.

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

Chairman:

Date: 21 September 2023