



# Statement of Investment Principles

## For the DC Section of the Prudential Staff Pension Scheme

### 1 Introduction

#### 1.1 Background

This Statement of Investment Principles sets out the principles governing investment decisions for the DC Section of the Prudential Staff Pension Scheme (the “Scheme”).

The Scheme is a defined contribution (DC) pension arrangement. It is a qualifying scheme for auto-enrolment purposes.

#### 1.2 Statutory Information

This Statement has been prepared in accordance with the requirements of sections 35, 36 and 56 of the Pensions Acts 1995 and 2004. The Trustee of the Scheme has considered written advice from the Trustee’s investment consultant and has consulted with the Principal Employer (The Prudential Assurance Company Limited) in producing this Statement.

The Trustee will review this Statement, in consultation with the investment consultants and the Principal Employer, at least every three years and without delay after any significant change in investment policy or demographic profile of the Scheme’s membership.

## 2 Investment Beliefs

### 2.1 Investment principles

The Trustee has considered a set of guiding principles to provide an objective and transparent framework for consistent decision making. These principles act as a guide to enable effective delivery of all investment functions.

The principles are that:

- Understanding the Principal Employer's intentions with respect to the Scheme and its attitude towards pension provision for its employees is important to developing and maintaining an appropriate investment strategy.
- Understanding member characteristics, circumstances and likely attitudes is also important to developing and maintaining an appropriate investment strategy.
- Different members have different attitudes to risk and needs for investment returns, necessitating access to a range of investment options.
- Taking investment risk is usually rewarded in the long term.
- Asset allocation (i.e. choice between asset classes such as equities, bonds and property) is the key tool for managing risk and return.
- In some markets, passive management can deliver better returns (net of fees) than active management.
- Some asset classes and investment strategies necessarily involve active management as passive alternatives are not readily available.

### 2.2 Investment Risks

In determining which investment options to make available, the Trustee, with advice from its Investment Consultant, has considered the investment risk associated with defined contribution pension investment. This risk can be defined as the uncertainty in the ultimate amount of savings available on retirement. There are a number of factors which contribute to this uncertainty. Some of these factors (such as the amount of contributions paid and the length of time these contributions are invested) cannot be managed by the investment options made available to members.

The Trustee recognises that uncertainty in the following factors can be managed, to some extent, by the choice and allocation of investments. The list below is not exhaustive but covers the main risks that the Trustee faces and how they can be managed:

#### Principal risks

The principal investment risks which most members face are:

**Inflation risk** – The risk that the investment returns over members' working lives will not keep pace with inflation and do not produce adequate retirement benefits.

The Trustee invests in a diversified range of assets in the Lifestyle Options which are likely to produce returns significantly in excess of inflation over the long term. The Trustee also provides access to a range of funds, many of which (those dominated by equities and property in particular) are likely to provide returns significantly in excess of inflation over the long term.

**Benefit conversion risk** – The risk that market movements in the period just prior to retirement lead to an increase in the cost of turning members' fund values into retirement benefits.

In the switching phase of the Lifestyle Options, the Trustee increases the proportion of assets which are expected to be broadly suitable for members planning to take their retirement benefits as a combination of cash, income drawdown and annuity purchase during retirement (the Multi-asset lifestyle option) or in the case of the alternative lifestyle options more closely track annuity prices and/or cash. For non-lifestyle members, the Trustee makes available bond funds that will more closely track annuity prices.

**Volatility/Market risk** – The risk that adverse movements in investment market values in the period prior to retirement lead to a reduction in the anticipated level of benefits.

For members approaching retirement, the Lifestyle Options increasingly invest in funds which are expected to be subject to lower levels of volatility. These funds are also included in the self-select fund range. The Trustee manages market risk primarily through investing in pooled funds that invest in a diversified range of assets.

#### **Other investment risks**

Other potentially material investment risks which members may face include:

**Counterparty risk** – The risk that counterparties holding derivative based assets may default leading to a reduction in a fund's value.

The Trustee, in conjunction with their Platform provider, manages counterparty risk by investing in pooled funds that offer suitable counterparty protection.

**Active management risk** – The risk that an investment manager will not deliver investment returns in line with investment markets generally or other investment managers.

The Trustee recognises that an actively managed fund may not deliver performance in line with the fund's objectives/agreed benchmarks. The Trustee regularly monitors fund performance in order to monitor this risk.

**Liquidity risk** – The risk that funds which invest in more illiquid assets will not be able to accept investments or disinvestments requested by the Trustee and/or members.

The Trustee is satisfied that, with the exception of the PSPS Property – active fund, the pooled funds in which they invest usually have sufficient liquidity and may be realised quickly if required. Member communications will warn members where funds, such as those investing in property, may occasionally impose constraints on liquidity.

#### **Managing investment risks**

The Trustee believes that taking investment risk is usually rewarded in the long term, while asset allocation (i.e. the choice between asset classes, such as equities and bonds) is the key tool for managing the balance between risk and return.

To help mitigate the principal investment risks, the Trustee offers the Lifestyle Options, which automatically move members from higher risk investments to lower risk investments as they approach retirement.

The Trustee believes that the investment options available are appropriate for managing these risks.

### **2.3 Expected returns on investments:**

The expected returns on the principal asset classes and fund types within the Scheme are:

- **Equities** - should achieve a strong positive return relative to inflation over the longer-term, but tend to be the most volatile asset class over the shorter-term;
- **Property** – should achieve a positive return relative to inflation over the longer-term which is lower than that for equities, but with a lower level of shorter-term volatility than equities;
- **Corporate Bonds** – should achieve a positive return relative to inflation over the longer-term which is lower than that for equities and property, but with a lower level of shorter-term volatility than equities or property;
- **Fixed Interest Government Bonds (Gilts)** – should deliver a positive return relative to inflation over the longer-term which is lower than that of equities, property and corporate bonds, but with a lower level of shorter-term volatility than equities, property and corporate bonds;
- **Index-linked Government Bonds (Index-Linked Gilts)** – should deliver a return in line with inflation over the longer-term, but with a lower level of shorter-term absolute volatility than equities, property and corporate bonds;
- **Cash** – should deliver a positive return which may not always keep pace with inflation, while normally providing a minimal level of volatility and high degree of capital security;
- **Long-dated Government Bonds (Gilts) and long-dated Corporate Bonds** – values should move broadly in line with the financial factors influencing annuity rates;
- **Diversified Growth Funds** – invest in a varying mix of asset classes with an objective of delivering a target level of positive returns relative to inflation over the longer-term, with a target level of shorter-term volatility lower than equities.

## 2.4 Investments held

The Scheme invests through pooled investment vehicles considered appropriate for tax-exempt approved occupational pension schemes.

The Trustee has appointed The Prudential Assurance Company Limited (Platform Provider) to provide secured administration and investment services through an insurance policy. Prudential provide an appropriate range of pooled funds in which to invest the Scheme's assets. Each fund has a defined benchmark or objective. The underlying managers of the funds (which are set out in Appendix 3) within the pooled funds are responsible for the choice of individual stocks and are expected to maintain a diversified portfolio within each fund.

These funds may invest in: quoted and unquoted securities of UK and overseas markets including equities, fixed interest and index-linked bonds, cash, commercial and residential property; infrastructure and commodities through collective investment vehicles; and derivatives to facilitate changes in the fund's portfolio of assets or help mitigate investment risks or to enhance investment returns.

The funds used are provided through an insurance company based investment platform and so must comply with the FCA's "Permitted Links" rules, which place limits on the degree of leverage which a fund can use.

The Lifestyle Options use funds across asset classes and across the risk/reward spectrum. The self-select fund range offers members a choice of funds across asset classes and across the risk/reward spectrum.

The Trustee believes that both active and passive management have a place in defined contribution arrangements. Some asset classes or investment approaches (such as property, cash, “absolute” or “total” return bonds and diversified growth strategies) are only available as actively managed funds.

For funds managed on a passive (index-tracking) basis, the investment manager seeks to match, rather than exceed, the performance of each fund’s benchmark index. For each passive fund, the investment manager invests in individual stocks in such a way as to replicate, as closely as possible, the composition of that fund’s benchmark index.

For funds managed on an active basis, the investment manager has discretion (within limits) to build a portfolio, consistent with objectives of the fund and its benchmark. The Trustee expects an active portfolio to be broadly diversified across investments.

The Trustee considers that all of the stated asset classes are suitable investments for the Scheme, while the use of pooled funds enables a balance of investments to be held at a security level within each asset class or fund.

## **2.5 Realisation of investments**

Funds need to be sold to make payments of benefits and to undertake fund switches either in accordance with the lifestyle investment strategies or as requested by individual members. The Trustee normally expects the Platform Provider to be able to realise the Scheme’s funds within a reasonable timescale. The Trustee recognises that the investment managers may at times need to impose restrictions on the timing of purchases and sales of funds (most notably investing in property) in some market conditions to protect the interests of all investors in a fund.

## **2.6 Diversification**

Given the size and nature of the Scheme, the Trustee invests on a pooled fund basis undertaken through a Platform Provider. The investment managers are expected to maintain diversified portfolios. Subject to the Funds’ benchmarks and guidelines, the investment managers are given full discretion over the choice of securities and, for multi-asset funds, of asset classes.

The Trustee is satisfied that the range of funds used by the Scheme provide adequate diversification within and across asset classes.

## **2.7 Member attitude to risk**

The Trustee recognises that:

- Members have differing investment needs and that these needs change during the course of their working lives; and
- Attitudes to investment risks, and the need for investment returns, will vary from member to member and will also vary for each member over time, in particular as they approach retirement.

As a result, the Trustee believes that a range of investment options should be offered to members. Members are offered a range of self-select fund choices from which they can build and alter their own investment strategy over time. Three Lifestyle Options are also available offering members an investment strategy that systematically changes over time through to the member’s selected retirement date. The Trustee has a “Default Option” for auto enrolment purposes which manages the principal investment risks members face during their membership of the Scheme, known as the PSPS Milt-asset Lifestyle. This fund is a lifestyle strategy which the Trustee believes is broadly appropriate to the needs of a majority of the membership.

## 2.8 Member benefit choices at retirement

Members potentially now have a choice at retirement of:

- Taking cash at retirement;
- Taking Uncrystallised Funds Pension Lump Sums (“UFPLS”) for several years into retirement;
- Using Flexible Access Income Drawdown (“FAD”) during their retirement; or
- Buying an annuity at retirement or several years into their retirement.

The Trustee has considered which of these flexibilities will be offered to members. Currently cash and annuity purchase at retirement together with a single UFPLS prior to retirement will be provided within the Scheme. Members wanting to use FAD and perhaps buy an annuity at a later date need to transfer the value of their Personal Account to an arrangement outside the Scheme.

The Trustee believes that members’ choices of benefits at retirement will be strongly influenced by:

- The size of their Personal Account in the Scheme.
- The size of their deferred benefits from previous occupational pension schemes (especially defined benefits) and workplace group personal pension plans.
- Other sources of income including non-pension savings and partner’s pension provision.

In practice, the Trustee can only reliably take the likely value of members’ Personal Account in the Scheme into account. The Trustee believes that a typical member, without significant sources of income outside the Scheme, could be expected to act mostly as follows:

- Small pots – would be taken as cash or UFPLS over a few years in retirement.
- Medium sized pots – would be taken as UFPLS over several years in retirement or buy an annuity at retirement.
- Larger pots – would be taken partly as cash at retirement and then FAD income drawdown during retirement although some may use part of their Personal Account to buy an annuity at, or some years into, retirement.

## 3 Investment Objectives

### 3.1 Overall objectives

The main investment objective of the Trustee is to provide a range of suitable investment options into which members can choose to invest their contributions to provide benefits for themselves (and their dependants) at retirement.

The Trustee believes that understanding the demographics and likely attitudes to risk/reward of the members are essential to developing and maintaining an appropriate investment strategy. It is also believed that members typically seek to optimise the value of their retirement benefits from a given level of contributions, while aiming to protect the value of those benefits in the years approaching retirement against market falls and fluctuations in the costs of turning fund values into retirement benefits/retirement income streams.

The Trustee recognises that it is impractical to take account of each member's individual objectives and therefore attempts to provide investment options that fit the general characteristics of the membership and offer a wide enough range of investment options to cater for most members' needs.

### 3.2 Investments

The Scheme's assets, representing the total value of all the investments held in respect of the Scheme's members are invested in the best interests of the Scheme's members and dependants. In the event of a potential conflict of interest (e.g. between the Trustee and the members), priority is given to the interests of members and dependants.

The Trustee's policy for ensuring that the assets of the Scheme are invested in members' and dependant's best interests is 1) to provide a Lifestyle Option designed to provide appropriate outcomes targeted at the member's selected retirement date, for members who do not wish to self-select their investment funds, and 2) to provide members who do not wish to invest in the Lifestyle Option with a suitable choice of other investment options.

On joining the Scheme, members are automatically invested into the Multi-asset Lifestyle strategy until they make a decision to make employee contributions at which point they must make an active decision to remain in the multi-asset lifestyle strategy, switch into an alternative lifestyle strategy or self-select their investments from the individual funds available.

### 3.3 PSPS Multi-asset Lifestyle (Lifestyle Option)

The Scheme has this Lifestyle Option because:

- The Scheme is a qualifying scheme for auto-enrolment purposes and is required by Regulations to have a default option.
- The Trustee believes that the presence of an effective Lifestyle Option will help deliver good outcomes for members at retirement.
- It is believed that a significant proportion of the membership are either unengaged in or unable to decide where their Personal Account should be invested;
- A significant proportion of the membership are expected to have broadly similar investment needs.

The current Multi-asset Lifestyle Option reflects the expectation that the majority of new members and members who joined recently will be expected to take their retirement benefits as a combination of

cash, income drawdown and annuity purchase during retirement. The Multi-asset Lifestyle (the Default Option) has therefore been designed to reflect this.

Full details of the Multi-asset Lifestyle Option are provided in appendix 3.

### **3.4 Investment options**

In addition to the Multi-asset Lifestyle Option, the Trustee believes that the following investment options are appropriate to achieve the overall objectives of the Scheme:

#### **Alternative Lifestyle Options**

Alternative Lifestyle Options are offered for those members who believe that the risk profile/target retirement benefits of the Lifecycle Option are not appropriate to their needs, but otherwise do not want to take an active part in selecting where contributions are invested. The alternative Lifestyle Options have been designed specifically for members who wish the asset allocation of their investment strategy to be managed for them and who intend to purchase an annuity on retirement.

The alternative Lifestyle Options manage the principal risks faced by members during their membership, but offer a choice of different levels of investment risk.

The Multi-asset Lifestyle Option and the alternative Lifestyle Options are designed to cater for investment needs of members who do not wish to self-select their investment funds and are designed to deliver a significant (after inflation) investment return throughout most of the working life of the member and reduce the risk to the member of the investment strategy towards their selected retirement date.

#### **Self-select funds**

The self-select fund range is provided for members who want to take an active part in choosing where their Personal Account is invested and complements the Multi-asset Lifestyle Option and the alternative Lifestyle Options. The self-select fund range covers a spectrum of investment risk levels and investment approaches, so that members can tailor the investment of their Personal Account more closely to their personal needs and attitude to risk – although it cannot be expected to cover all the investment needs of all members.

Full details of the investment options are provided in Appendix 3.

### **3.5 AVC arrangements**

All members Contributions are classed as additional voluntary contributions (AVCs) and can be paid to enhance their benefits at retirement. At retirement, or on earlier death, the accumulated value of a member's AVCs is used to provide additional benefits in accordance with Scheme rules and HM Revenue and Customs requirements.

The AVC investment options consist of the same investment options available for Employer Credits contributions. The options are reviewed on a regular basis by the Trustee, having taken written advice on their continued suitability as required by Section 36 of the Pensions Act 1995.

## 4 Governance

### 4.1 Trustee's Powers

The Trustee will always act in the best interests of the members and will assess the suitability of different types of investments to meet the needs of members.

### 4.2 Responsibilities

The parties principally responsible for the governance and operation of the Scheme are:

- **The Employers** – who pays the Employer's Credits and provides membership data.
- **The Trustee** – who runs the Scheme in accordance with its Rules and chooses the providers.
- **Platform Provider** – provide access to a range of funds.
- **Fund managers** - undertake the day-to-day investment management of the underlying funds' assets.
- **Administrator** – maintains records of members' funds and calculates benefits.
- **Custodians** – are appointed by the investment manager(s) and look after the assets of the funds.
- **Investment Consultant** – advises the Trustee on the Scheme's investments and preparation of this statement.
- **Members** – should choose the investment option(s) in which contributions are invested and likely benefits at retirement.

The Trustee does not give advice to individual members on their fund selections. Members are encouraged to take independent financial advice when making their individual investment choices.

In preparing this Statement, the Trustee has taken into account current guidance from the Pensions Regulator.

Having taken advice from the Scheme's investment consultant, the Trustee is satisfied that the selected investment managers have sufficient experience and expertise to carry out their role. The Trustee has delegated all day-to-day investment management decisions to the Platform Provider /Fund Managers authorised under the Financial Services & Markets Act 2000.

The responsibilities are described in greater detail in Appendix 1.

### 4.3 Conflicts of interest

The Trustee maintains a register of interests of each of the Trustee Directors and their advisers. This register is reviewed if Trustee Director declare a change. At each Trustee meeting Trustee Directors are asked to declare any new potential conflicts. Any identified potential conflicts between stakeholders are identified in a timely manner and dealt with appropriately.

In the event of a conflict of interests, the Trustee will need to ensure that contributions for the Multi-asset Lifestyle Option are invested in the sole interests of members and beneficiaries.

#### **4.4 Communication**

The Trustee communicates regularly with all stakeholders. This includes the following:

- Consulting the Principal Employer on the content of this Statement;
- Providing communications to Scheme members;
- Producing the Annual Report and Accounts which includes the Chairman's statement;
- Completing an annual return to the Pensions Regulator;
- Meeting regularly with the investment platform provider, investment consultants, and the administrator;
- Providing a range of literature/media to assist members in making their investment decisions. In addition, members have access to factsheets for each fund.

#### **4.5 Service Providers**

Details of the current service providers and investment managers to the Scheme are set out in Appendix 2 to this Statement.

#### **4.6 Fees**

Details of the current fees for the Scheme's service providers and funds are set out in Appendix 4 to this Statement.

## 5 Monitoring

### 5.1 Investment Performance

The Trustee regularly reviews the performance of each fund in which the Scheme invests against its stated performance objective. The Trustee recognises that past performance is not a good indicator of future performance and therefore takes advice from their investment adviser as to the suitability of the investment manager.

The Trustee receives an independent investment performance monitoring report on a quarterly basis.

### 5.2 Default Option

The Trustee monitors the suitability of the objectives for the Multi-asset Lifestyle Option and the performance (after the deduction of charges) of the Multi-asset Lifestyle Option against these objectives at least every three years and without delay after any significant change in: (i) investment policy; or (ii) the demographic profile of the membership.

### 5.3 Alternative Lifestyle Options

The Trustee monitors the suitability of the objectives for the alternative Lifestyle Options and the performance (after the deduction of charges) of the alternative Lifestyle Options against these objectives at least every three years and without delay after any significant change in: (i) investment policy; or (ii) the demographic profile of the membership.

### 5.4 Charges

The charges for the investment options borne by members (expressed in terms of each fund's "Total Expense Ratio") are monitored by the Trustee annually to ensure that they represent "value for money" relative to the needs of the membership.

The Scheme is a qualifying scheme for auto-enrolment purposes. The Trustee monitors the compliance of the Multi-asset Lifestyle Option with the charge cap introduced by the Pensions Act 2014, which applies from April 2015.

Details of the current charges are set out in Appendix 4 to this Statement.

### 5.5 Transaction costs

The Trustee reviews the performance of the funds and to the extent that the funds' performance is impacted by the transaction costs, the Trustee considers the impact of transaction costs. The Trustee is awaiting guidance from the Pensions Regulator before undertaking further work to assess and disclose transaction costs. The Trustee is in dialogue with the Platform Provider to obtain details of transactions costs.

### 5.6 Investment process

The Trustee monitors the processes whereby contributions in respect of members are invested in and money is disinvested from the investment options to pay benefits.

### 5.7 Chairman's statement

The Chairman's statement included in the Annual Report and Accounts confirms the results of the monitoring during the preceding year.

## 6 Stewardship

### 6.1 Members' financial interests

The Trustee has requested that the platform provider and investment managers have the financial interests of the members as their first priority when choosing investments.

### 6.2 Ethical, Social and Environmental Issues

The platform provider and investment managers may take social, environmental or ethical considerations into account only when these factors do not conflict with the financial interests of members.

The Trustee periodically reviews the platform provider's and investment managers' policies in respect of socially responsible investing. The Trustee is satisfied that the platform provider's and investment managers' policies are consistent with the above approach.

### 6.3 Voting Rights

The Trustee's policy is to delegate responsibility for the exercising of rights (including voting rights) attaching to investments to the platform provider/investment managers and to encourage them to exercise those rights on behalf of members' interests when they believe there could be a potential financial impact on the funds. The Trustee periodically reviews the platform provider's and investment managers' governance policies.

## 7 Review of Statement

This Statement of Investment Principles was completed in March 2018. It will be next reviewed no later than 2020.

**Signed on behalf of the Trustee of the Scheme:**

Name	Signature	Date
D. G. GREEN		25.4.2018

## Appendix 1 - Responsibilities

The responsibilities outlined in section 4 are as follows.

Stakeholder	Key Responsibilities
<b>Trustee</b>	<p>Operating the Scheme in accordance with its Trust Deed and Rules.</p> <p>Reviewing the suitability of the investment funds available to the members.</p> <p>Having regard to the need for diversification and suitability of investments.</p> <p>Considering potential new asset classes for use within the Scheme.</p> <p>Appointing investment consultant and other advisors as necessary for the good stewardship of the Scheme.</p> <p>Appointing the platform provider and selecting the investment managers who invest the Scheme's assets.</p> <p>Assessing the performance, charges and processes of the Platform Provider and investment managers by means of regular, but not less than annual, reviews of investment performance and other information, with the investment consultants.</p> <p>Consulting with the Principal Employer when reviewing investment policy issues.</p> <p>Appointing, monitoring and dismissing professional advisers.</p> <p>Preparation of the Statement of Investment Principles and reviewing the content of the Statement and modifying it if deemed appropriate, in consultation with the Principal Employer and the investment consultants.</p> <p>Monitoring compliance of the investment arrangements with this Statement on a regular basis.</p> <p>Preparing an annual Chairman's statement for inclusion in the Annual Report and Accounts.</p>
<b>Investment managers</b>	<p>Responsible for the day-to-day investment management of the underlying funds' assets.</p> <p>Informing the provider of any material change in the internal objectives and guidelines of any pooled funds used by the Scheme and managed by the relevant Investment Manager.</p> <p>For Investment Managers providing an "actively" managed portfolio they, at their discretion, may implement changes in the asset mix and select securities in each asset class. Their responsibility is to deliver performance (relative to their benchmark) in line with their target performance objective.</p> <p>For Investment Managers of "passively" managed funds, they are responsible for tracking the relevant benchmark return within an appropriate tracking error.</p> <p>Exercising voting rights on share holdings in accordance with their general policy.</p>

<p><b>Provider</b></p>	<p>The Funds are accessed through an investment platform provider. The Platform Provider is responsible for investing contributions with the fund managers selected by the Trustee while ensuring that the funds are priced correctly, maintain sufficient liquidity and meet regulatory requirements. It is also responsible for the creation and ongoing running of white labelled and blended funds.</p> <p>Providing the Trustee with quarterly statements of the assets and factsheets on the underlying funds.</p> <p>Ensuring that the underlying funds are priced correctly.</p> <p>Reviewing the continued structural suitability of the underlying funds.</p> <p>Informing the Trustee of any material changes in the internal objectives and guidelines of any pooled funds used by the Scheme.</p> <p>Ensuring that investment of the Scheme's assets is in compliance with prevailing legislation and within the constraints detailed in this Statement.</p>
<p><b>Custodian</b></p>	<p>For pooled funds in which the Trustee invests, custodial duties are undertaken by the appointee of the relevant Investment Manager. The Custodians' principal responsibilities may include:</p> <ul style="list-style-type: none"> <li>• The safekeeping of the assets of the funds;</li> <li>• Processing the settlement of transactions;</li> <li>• Providing statements of the assets and associated cashflows;</li> <li>• Processing dividends and tax reclaims in a timely manner; and</li> <li>• Dealing with corporate actions.</li> </ul>
<p><b>Investment Consultant</b></p>	<p>The role of the Investment Consultant is to give advice to the Trustee in the following areas:</p> <ul style="list-style-type: none"> <li>• The development of a clear investment strategy for the Scheme;</li> <li>• The construction of an overall investment management structure and fund offering that meets the objectives of the Trustee;</li> <li>• The regular updating of the Statement of Investment Principles;</li> <li>• The selection and appointment of appropriate investment managers;</li> <li>• The Investment Consultant's current views of the Investment Managers employed by the Scheme;</li> <li>• Potential new areas or tools of investment;</li> <li>• Training or education on any investment related matter as and when the Trustee sees fit;</li> <li>• Monitoring and commentary on investment performance and risk taken by the Investment Managers; and</li> <li>• General advice in respect of the Scheme's investment activities.</li> </ul>
<p><b>Members</b></p>	<p>Select funds consistent with:</p> <ul style="list-style-type: none"> <li>• The objectives they have for funding an income in retirement (and their contribution level);</li> <li>• Their tolerance for risk; and</li> <li>• Their level of understanding and ability to take investment decisions.</li> </ul>

<p><b>Employer</b></p>	<p>Providing clear objectives to the Trustee to enable the Trustee to effectively govern the Scheme.</p> <p>Paying contributions.</p>
<p><b>Administration</b></p>	<p>The Administrator is responsible for passing contributions to the Platform provider and ensuring that members are allocated the correct number of units in the funds. It is also responsible for operating the lifestyle strategies and general administration, including record-keeping, providing members with annual benefit statements and paying benefits when they become due.</p> <p>The Administrator's main investment related responsibilities include:</p> <ul style="list-style-type: none"> <li>• The prompt investment and reconciliation of contributions.</li> <li>• Undertaking switches between funds as required.</li> <li>• Operating the Multi-asset Lifestyle Option and other Lifestyle Options.</li> <li>• Maintaining records of the members' investments.</li> <li>• Realising investments to pay benefits.</li> </ul>

## Appendix 2 – Service Providers

The Trustee has appointed the following service providers:

### **Investment Consultant**

The investment consultant is Hymans Robertson LLP.

### **Platform Provider**

The investment platform through which the investment options are operated is provided by The Prudential Assurance Company Limited.

### **Investment Managers**

The investment managers accessed through the investment platform are M&G, MFS, Baillie Gifford, Kleinwort Benson, Lindsell Train, Schroders, Trilogy, RBC, and Invesco.

### **Custodians**

The Funds' custodians are appointed by the investment managers.

### **Administration**

The administration of the Scheme is carried out by The Prudential Assurance Company Limited.

## Appendix 3 – Investment Options

### Lifestyle Options

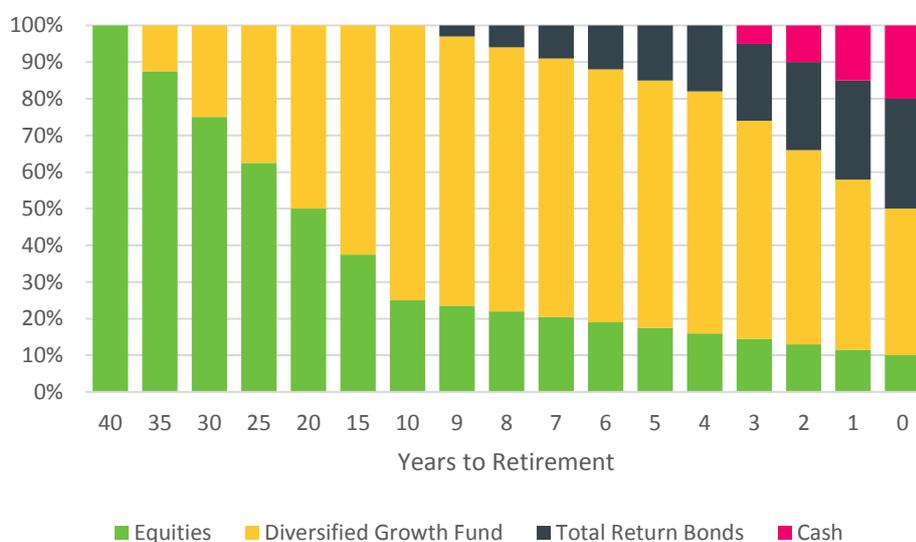
In delivering the overall investment objective of the Lifestyle Options, the Trustee adheres to the following supporting objectives:

- The strategy should seek to maximise the pension income and any cash lump sum at retirement by taking appropriate risk.
- Investment risk should gradually reduce throughout a member’s working life.
- The investment strategy should aim for significant growth, in real terms, in members’ Accounts over the accumulation phase.
- The strategy should seek to reduce the risk to the member’s retirement income of a significant adverse market movement as the member approaches retirement

### PSPS Multi-asset Lifestyle Option (Lifestyle Option)

The PSPS Multi-asset Lifestyle Option 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 as a combination of cash, income drawdown and annuity purchase during retirement, as illustrated below.

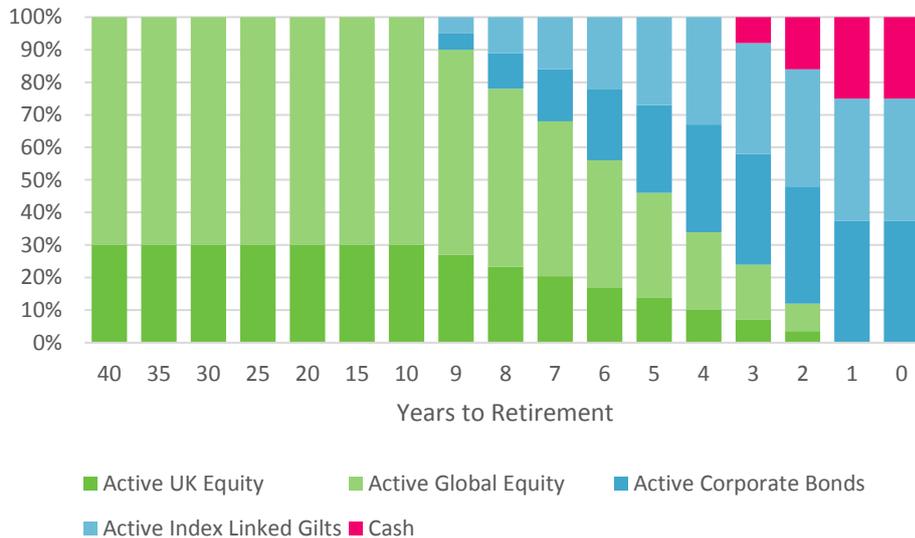
This strategy initially invests 100% in equities (25% PSPS Global Equity – active, 40% Overseas Equity – passive, 15% UK Equity – active, 10% UK Equity – passive and 10% Emerging Market Equity – active) and gradually builds up exposure to the PSPS Diversified Growth Fund –active, until at a point 10 years before retirement it is invested 25% in equities and 75% in the PSPS Diversified Growth Fund –active. Then 10 years 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.



**Alternative Lifestyle option: PSPS Lifestyle - Active**

The PSPS Active Lifestyle option invests in two actively-managed UK and global equity funds for much of the member’s working life, then switches gradually into assets that are more consistent with generating an income in retirement (such as bonds and cash) towards the member’s selected retirement date, as illustrated below.

This strategy invests 100% in equities (70% PSPS Global Equity – active, 30% UK Equity – active) until 20 years before retirement. 20 years from retirement, the strategy gradually de-risks into PSPS Corporate Bonds – active and PSPS Index-Linked Gilts – active. The PSPS Cash Fund – active is introduced 4 years before retirement. The final allocation at retirement is 25% cash, 75% bonds.

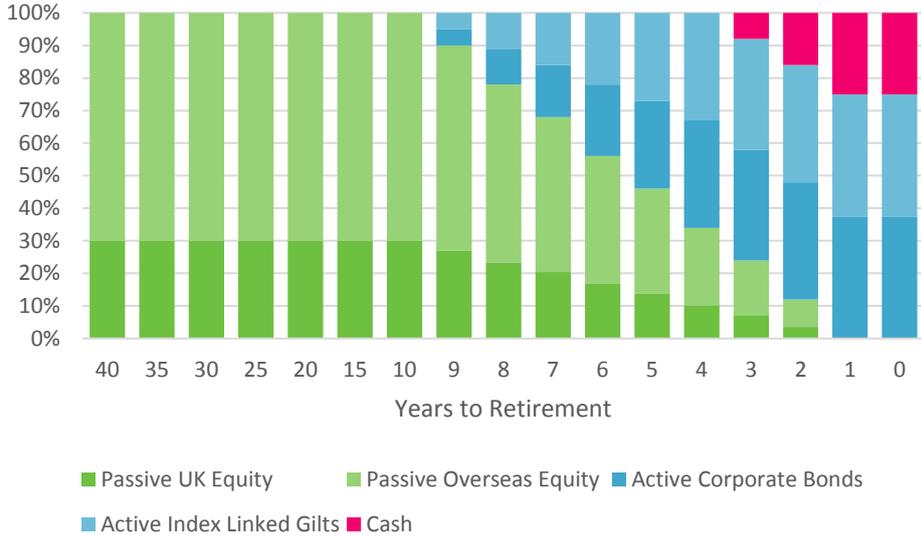


**Alternative Lifestyle Option: PSPS Lifestyle - Passive**

The PSPS Passive Lifestyle option invests in two passively-managed UK and global equity funds for much of the member’s working life, then switches gradually into assets that are more consistent with generating an income in retirement (such as bonds and cash) towards the member’s selected retirement date, as illustrated below.

This strategy invests 100% in equities (70% PSPS Global Equity – passive, 30% UK Equity – passive) until 20 years before retirement. 20 years from retirement, the strategy gradually de-risks into PSPS Corporate Bonds – active and PSPS Index-Linked Gilts – active. The PSPS Cash Fund – active is introduced 4 years before retirement. The final allocation at retirement is 25% cash, 75% bonds.

DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME



Members can select their own target retirement age for the Default Option and alternative Lifestyle Options, failing which the target age of the option defaults to age 65.

### Funds Options

All the funds used by the Default Option, alternative lifestyle strategies and self-select funds are provided through an investment platform operated by Prudential.

Members cannot invest concurrently in self-select funds and a lifestyle strategy or more than one lifestyle strategy.

Fund	Benchmark	Active / Passive
<b>PSPS Cash</b>	Overnight GBP LIBID	Active
- <i>M&amp;G Pooled Pensions Cash fund (100%)</i>		
<b>PSPS Passive Index-Linked Gilts</b>	FTSE A British Government Over 5 Years Index-Linked Index	Passive
- <i>M&amp;G Pooled Pensions Index-Linked Passive fund (100%)</i>		
<b>PSPS Active Index-Linked Gilts</b>	FTSE A British Government Over 5 Years Index-Linked Index	Active
- <i>M&amp;G Pooled Pensions Index-Linked fund (100%)</i>		
<b>PSPS Fixed Interest Bonds</b>	FTSE A British Government All Stocks Index	Active
- <i>M&amp;G Pooled Pensions Fixed Interest fund (100%)</i>		
<b>PSPS Passive Long-Dated Gilts</b>	FTSE A British Government Over 15 Years Gilts Index	Passive
- <i>M&amp;G Long-Term Gilt fund (100%)</i>		
<b>PSPS Active Corporate Bonds</b>	iBoxx Sterling Non-Gilts Index	Active
- <i>M&amp;G Pooled Pensions All Stocks Corporate Bond fund (100%)</i>		
<b>PSPS Active Property</b>	CAPS Pooled Fund Property Median	Active
- <i>M&amp;G Pooled Pensions Property fund (100%)</i>		
<b>PSPS Passive UK Equity</b>	FTSE All-Share Index	Passive
- <i>M&amp;G Pooled Pensions UK Equity Passive fund (100%)</i>		
<b>PSPS Active UK Equity</b>	FTSE All-Share Index	Active
- <i>Lindsell Train UK Equity fund (30%)</i>		
- <i>Baillie Gifford UK Equity (30%)</i>		
- <i>Schroders Life UK Prime Equity Fund (40%)</i>		

DEFINED CONTRIBUTION SECTION OF THE  
PRUDENTIAL STAFF PENSION SCHEME

<b>PSPS Passive Overseas Equity</b>	Composite FTSE and MSCI regional indices	Passive
- <i>M&amp;G Pooled Pensions Overseas Equity Passive fund (100%)</i>		
<b>PSPS Active Global Equity</b>	FTSE All-World Index	Active
- <i>MFS Meridian Global Equity fund (37.5%)</i>		
- <i>Baillie Gifford Long Term Global Growth fund (25%)</i>		
- <i>Kleinwort Benson Investors ACWI Equity fund (37.5%)</i>		
<b>PSPS Active Emerging Markets Equity</b>	MSCI Emerging Markets Index	Active
- <i>Trilogy Emerging Markets Equity fund (50%)</i>		
- <i>RBC Emerging Markets Equity fund (50%)</i>		
<b>PSPS Active Diversified Growth</b>	Composite of underlying benchmarks	Active
- <i>Schroders Life Diversified Multi-Asset fund (50%)</i>		
- <i>Invesco Global Targeted Returns (50%)</i>		
<b>PSPS Total Return Bond Fund</b>	3 month LIBOR	Active
- <i>M&amp;G Total Return Credit Investment Fund (100%)</i>		
<b>Prudential With-Profits</b>	FTSE All-World Index	Active

### Reverse switching

If a member who is invested in the Multi-asset Lifestyle Option or one of the other Lifestyle Options decides to change their target retirement age, their investment strategy will be amended in line with the new retirement date.

If the relative short-term performance of the funds used in the Multi-asset Lifestyle Option or alternative Lifestyle Options is such that the proportions invested in each fund have drifted from the target asset allocation, reverse switching into the fund is undertaken to avoid the asset allocation at that point moving too far from its target.

## Appendix 4 – Fees and Charges

### Investment Consultant

The Scheme's Investment Consultant is paid for on a fixed fee basis. The Trustee believes that this approach ensures that all advice is impartial and independent.

### Investment Management

The overall level of the expected fees, as well as alignment of interest with the Scheme, has been considered when selecting the fee structure. Fees are paid by members via an AMC based on fund value each month which is deducted from their Personal Account.

The platform provider applies the following charges for investing in the funds selected by the Trustee:

#### Default Option

Fund	Total Charge **
PSPS Cash – active	0.10%
PSPS UK Equity – passive	0.15%
PSPS UK Equity – active	0.35%
PSPS Overseas Equity - passive	0.15%
PSPS Global Equity - active	0.60%
PSPS Total Return Bond Fund	0.35%
PSPS Diversified Growth – active	0.65%

Source: Prudential

The Trustee monitors the total charges of the funds used in the default option on an annual basis. The total charges borne by members in the Lifecycle Option over a rolling 12 month period comply with the charge cap.

#### Self-select fund range

Fund	Total Charge **
PSPS Cash – active	0.10%
PSPS Index-Linked Gilts – passive	0.15%
PSPS Index-Linked Gilts - active	0.15%
PSPS Fixed Interest Bonds – active	0.15%
PSPS Long-Dated Gilts – passive	0.15%
PSPS Corporate Bonds – active	0.15%
PSPS Property – active	0.35%
PSPS UK Equity – passive	0.15%
PSPS UK Equity – active	0.35%
PSPS Overseas Equity - passive	0.15%
PSPS Global Equity - active	0.60%
PSPS Emerging Markets Equity – active	1.00%
PSPS Diversified Growth – active	0.65%
PSPS Total Return Bond Fund	0.35%
Prudential With-Profits	1.0% <sup>[1]</sup>

Source: Prudential

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

\* Additional expenses are all the other operating costs and expenses (OCEs) within the fund, including the known fixed cost of operating the funds (fund administration, custody and professional fees), but excludes transaction costs. These costs can vary from fund to fund and from time to time, but are accurate as at [date].

\*\* The Total Charge is also known as a fund's "Total Expense Ratio" (TER) and is the sum of a fund's annual management charges and other operating expenses. It excludes transaction costs on the fund's underlying assets. It includes the platform provider's charges. It excludes the additional property management costs for the PSPS Property – active fund.

The charges for the investment options are borne by the members.

The charges for the routine administration of the Scheme are borne by the participating employers

The Custodians are paid through a combination of transaction based fees and ad-valorem fees. This is consistent with market practice. Custodial fees are paid by Members via an adjustment to unit prices of the pooled funds in which the assets are invested.

The funds' total charges and transaction costs are monitored by the Trustee. The results of this monitoring are set out in the annual Chairman's Statement which is included in the Trustee's annual report and accounts.

### **Administration**

The administration costs are met by the participating employers.

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**PRUDENTIAL**

Staff Pension Scheme

