

# Pension Overview

For active members of the Defined Contribution  
Section of the Prudential Staff Pension Scheme

JANUARY 2018



**PRUDENTIAL**  
Staff Pension Scheme



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The Defined Contribution Section

*Your journey*

## Chairman's welcome



It gives me great pleasure to welcome you to this year's edition of 'Pension Overview'.

The Scheme's assets increased in value by £794 million during the Scheme year ended 5 April 2017.

The Defined Contribution (DC) Section's assets increased by £90 million, as a result of additional contributions and investment growth. The DC Section's membership also continues to grow. As at 5 April 2017 the funds under management had increased to £341 million and the

membership to 7,194. I am also delighted to say that the performance of the majority of DC Section funds was in excess of their benchmark for the year to 31 March 2017. Details of the performance of the funds are shown on page six of this report.

The Trustee Directors of the Scheme are responsible for running the Scheme in accordance with the Scheme's Trust Deed and Rules and Statutory Regulations. The Trustee is working with the Scheme's Communications adviser to update the Scheme's website. Hopefully DC Section members will have noticed the refreshed and easier to navigate pages. Improvements to the DB Section pages are scheduled for summer 2018.

During the Scheme year the only changes to the Trustee Board were the appointment of William Rutherford (Director, Prudential Capital plc) who was appointed on 12 April 2016 by the active membership and John Paino who

was appointed on 17 July 2016 by the pensioner membership.

Since the year end, Karen Robinson, a Company Appointed Trustee Director resigned on 31 July 2017. The Company is yet to appoint a replacement. Deborah Webb, a Member Nominated Trustee Director, resigned on 6 December 2017. An election will be held in early 2018 to fill this vacancy. I would like to thank both Karen and Deborah for their contribution to the Trustee Board.

As usual, the year has been a busy one for all of us involved in administering and managing the Scheme. I would like to extend my thanks to the Pensions Manager and her team, the Scheme's Administrators, the Scheme's advisers and my fellow Trustee Directors for their continued hard work and support throughout the year.

**Michael Abrahams CBE DL**  
Chairman of the Trustee of the Prudential Staff Pension Scheme

## The Trustee Board

The Board of Prudential Staff Pensions Limited is made up of ten Trustee Directors, six of whom are appointed by the Company and four who are elected by the members. The current Board members are:

**Michael Abrahams CBE DL**  
Company Appointed Chairman

**David Green**  
Company Appointed Trustee Director

**David Higgins**  
Company Appointed Trustee Director

**David Martin**  
Company Appointed Trustee Director

**Andrew Swan**  
Company Appointed Trustee Director

**John Paino**  
Member Nominated Trustee Director  
(to serve until 16 July 2020)

**William Rutherford**  
Member Nominated Trustee Director  
(to serve until 11 April 2020)

**Neville Swift**  
Member Nominated Trustee Director  
(to serve until 8 April 2019)

*Deborah Webb resigned her position as a Member Nominated Trustee Director on 6 December 2017.*

*The Trustee will be seeking nominations for a replacement from the active membership early in 2018.*

*The Company is yet to appoint a replacement following the resignation of Karen Robinson on 31 July 2017.*

## Trustee election

Deborah Webb's term as Member Nominated Trustee Director ends on 8 April 2018. The Trustee will be seeking nominations from the active membership of the Scheme to fill this role. Look out for further communications regarding this in early 2018.



# Summary of the Scheme's Annual Report & Financial Statements

Each year the Trustee produces the Scheme's Annual Report & Financial Statements.

A summary of the financial highlights and membership for the 12 months to 5 April 2017 is shown below. You can view the full Report & Financial Statements in the 'Document library' section of the Scheme's website.

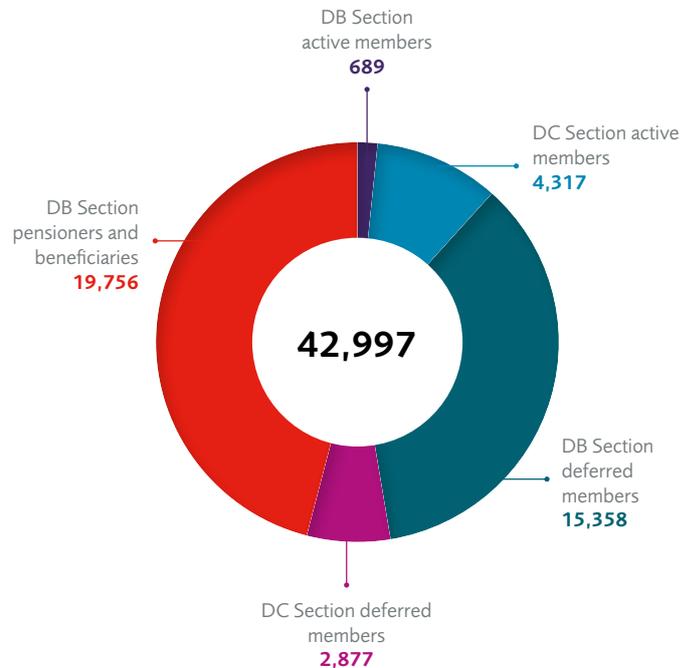
## FINANCIAL HIGHLIGHTS

| <b>Net assets at 6 April 2016</b>   |  | <b>£7,312.5m</b> |
|---|--|------------------|
| Income (including Company and additional member contributions, transfer-ins and other income including insurance policy income) |  | £55.2m           |
| Benefits and payments payable (including pensions, related benefits and administration expenses)                                |  | (£354.6m)        |
| Net return on investments   |  | £1,093.9m        |
| <b>Net assets at 5 April 2017</b>   |  | <b>£8,107.0m</b> |

Figures in brackets are negative

## MEMBERSHIP

The total membership of the Scheme at 5 April 2017 was 42,997 of which 7,194 are members of the DC section:



A summary of the DC Section of the Scheme's Annual Report & Financial Statements can be found on page three.

## Trustee advisers

The Trustee appoints professional advisers to assist with the running of the Scheme. A full list is available in the Scheme's Annual Report & Financial Statements, but a number of them are listed below:

| <b>Role</b>                                   | <b>Provider</b>   |
|---|---|
| Actuarial adviser                             | Willis Towers Watson Limited                                  |
| DC Section Administrator                      | The Prudential Assurance Company Limited - MPP Service Centre |
| Auditor                                       | KPMG LLP  |
| Communications adviser                        | Concert Consulting (UK) Limited                               |
| Legal adviser                                 | Mayer Brown International LLP                                 |
| DC Section consultant (including investments) | Hymans Robertson LLP  |

## The DC Section Committee

The Trustee has delegated some of the day-to-day responsibilities for managing the Scheme to various Committees made up of smaller groups of Trustee Directors. Each Committee has terms of reference which detail its responsibilities and any delegated authority.

The role of the DC Section Committee is to oversee the investments, communications and administration. The Committee has delegated authority to make appropriate decisions on behalf of the Trustee Board and, like other Committees, will report back to the Trustee Board with updates of meetings and decisions taken, or it will make recommendations, where Trustee Board agreement is required.

The DC Section Committee is made up of the following Trustee Directors:

**David Green**

Company Appointed Director (Chairman of the DC Section Committee)

**Andrew Swan**

Company Appointed Director

**Neville Swift**

Member Nominated Director

## Meet David Green

We caught up with David to discuss his role as a Trustee Director and his career with the Prudential which spans 50 years.

David joined the Prudential in 1967; he is a qualified Solicitor, gaining his qualifications whilst working for Prudential. He has held a number of roles, working both in the UK and overseas. His current role includes him being responsible for the use of 'Prudence' – one of the most recognisable company logos in the world. As well as being a member of the main Trustee Board, David is also the Chairman of the DC Section Committee, which oversees both administration and investments.

David is keen on sport, in fact Prudential's excellent sports facilities heavily influenced him deciding to join the Company 50 years ago.

**For the full interview please visit the 'Trustee' section of the Scheme website.**

## Summary of the DC Section of the Scheme's Annual Report & Financial Statements

A summary of the DC Section's financial highlights for the 12 months to 5 April 2017 is shown below. You can view the full Scheme Annual Report & Financial Statements in the 'Document library' section of the website.

| <b>Net assets at 6 April 2016</b>  | <b>£251.5m</b> |
|--|----------------|
| Contributions received<br>(including Company contributions and additional member contributions)                | £40.7m         |
| Transfers received   | £2.2m          |
| Other income<br>(including insurance policy income)  | £1.1m          |
| Benefits and payments payable<br>(including payments to and on account of leavers and administration expenses) | (£15.8m)       |
| Net return on investments  | £62m           |
| Transfers between Sections   | (£0.2m)        |
| <b>Net assets at 5 April 2017</b>  | <b>£341.5m</b> |

*Figures in brackets are negative*

### CHAIRMAN'S STATEMENT ON GOVERNANCE

The Chairman's Statement has been prepared to demonstrate how the Scheme has complied with the new governance standards that were introduced from 6 April 2015. It covers both the DC Section and the DC assets held within the DB Section arising from Additional Voluntary Contributions (AVCs) and Transfers-in from other pension arrangements.

In summary, the Statement covers four key areas:

1. The Scheme's investment strategy for the DC assets and the PSPS Multi-Asset Lifecycle, 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; and
4. The Trustee's compliance with the statutory Trustee Knowledge and Understanding (TKU) requirements.

You can view the full Statement in the Annual Report & Financial Statements, which can be found in the 'Document library' section of the website.

## Interview with the Chairman

Michael's connection with Prudential began in 1981 when he was appointed a non-executive Director of Prudential Pensions Limited. In 1984 he became a non-executive Director of Prudential Corporation. In 1991 he became Deputy Chairman. The same year he became Chairman of Prudential Staff Pensions Limited.

**Overview:** *May I begin by asking you to share with us your view of the role of workplace pensions generally and how that role may have changed over the last 36 years?*

**Michael:** The whole culture of pensions has changed. In the 1960s, 1970s and 1980s, people would join Prudential and expect to stay there for their entire career but now people require portability to mirror the simple fact that people change jobs more frequently. As a consequence successive governments have provided greater flexibility for this purpose. However, the combination of low interest rates, tax changes and other legislative changes have diminished the overall value of pensions to the individual and made them more costly for companies to provide.

**Overview:** *What advice would you give to someone just starting out in an occupational pension scheme?*

**Michael:** Because pensions are now less valuable I think people need to think very carefully and perhaps consider other investments as well to

supplement their pensions.

We have, in Prudential, an Employer who is really keen to provide proper benefits, so the DC Section with its matching contributions by the Company is an attractive proposition.

**Overview:** *Can I ask what in your view are the guiding principles of the Scheme?*

**Michael:** Well of course that's a fundamental question.

The Trustee has an absolute duty to run the Scheme in accordance with the Scheme Rules, that's the first thing. Secondly the Trustee has a duty to run the Scheme in the best interest of the members. We must always remember that we're dealing with people's savings and in many cases with almost their entire life savings.

**Overview:** *How would you describe your role as Chairman?*

**Michael:** Well my role is to see that the Scheme is well run and properly managed and to see that it adopts best practice in everything it does, to promote harmony and teamwork

amongst the Trustees and to maintain a good working relationship with the Employer.

**Overview:** *Could you please summarise the governance principles?*

**Michael:** Governance is at the very heart of what we're doing. Good governance means always putting the interests of the Scheme and the members above any personal interests. It means eliminating potential conflicts, so when a Trustee Director enters the Boardroom all other matters are subordinated - that's the essence of governance and good practice.

**Overview:** *What in your opinion are the major challenges that the Scheme, both DB and DC, faces going forward?*

**Michael:** The challenges to the DC Section are simple - members have to invest in the right funds to achieve a good return. They have to really go with the best fund managers and the right mix of investments. A further complexity is to manage the investment strategy which needs to change as you get nearer to retirement.

**Overview:** *What are the key qualities that you'd be looking for in a potential Trustee Director?*

**Michael:** What we look for in the Board is to have balance and diversity with a blend of knowledge and experience. So we want some people with knowledge of pensions, some with investment knowledge and experience, some with general business experience and some with financial skills.

Potential Trustee Directors must understand that when they join the Board there is a lot of work involved and a lot of papers to read.

**A more detailed version of the interview can be found on the 'Trustee' page of the Scheme website.**



# Investments

## INVESTMENT OPTIONS

Choosing the right investment fund(s) is very important. The Trustee's long-term strategy is to provide members with access to sufficient investment options to enable them to invest in funds of appropriate levels of liquidity and risk that can generate income and capital growth. The aim being that these funds, together with new contributions from members and the Employer Credits, will provide a fund which members can use at retirement in accordance with the new pension freedoms.

## LIFESTYLE PROFILES

There are three Lifestyle Profiles to choose from within the Scheme. Each of the Lifestyle Profiles is designed with specific retirement outcomes in mind. Further details can be found on the Scheme website.



## SELF-SELECT FUNDS

Alternatively, members can use the Self-Select funds to manage their own investment strategy. The Self-Select funds available invest in the following asset classes:

- UK Equities;
- Bonds;
- Overseas Equities;
- Property;
- Emerging Market Equities;
- Cash;
- Diversified Assets; and
- With-Profits.

Apart from the Prudential With-Profits fund, all the funds are 'white labelled'. This means that the underlying fund managers, and the allocation to their funds, are decided by the Trustee. The Fund Factsheets provide details of the underlying fund managers and the most recent versions are available in the 'Document Library' section of the website.

## Lifestyle Profile and investment fund changes

Earlier in the year, the Trustee carried out a review of the funds and the investment strategies (Lifestyle Profiles) available within the DC Section of the Scheme. As a result, in July 2017, changes were made to the Lifestyle Profiles, and some of the underlying funds in which members are invested.

In addition, an alignment of the default Selected Retirement Age (SRA) for all members to age 65 was implemented. This will only impact members who previously had a default SRA of 60, have not yet reached age 50 and have not subsequently selected another age as their SRA.

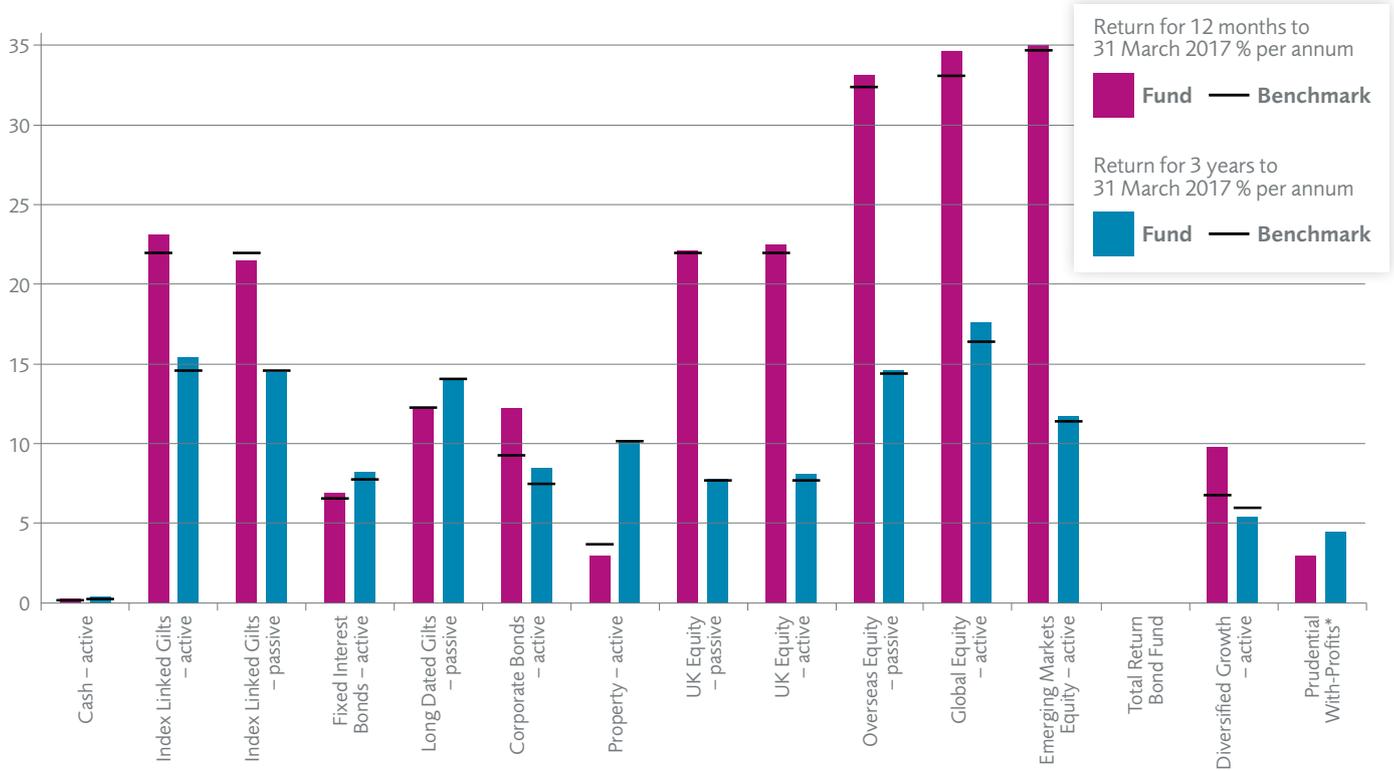
You should have received a letter with an explanatory booklet detailing all of the changes to your current Lifestyle Profile (or in respect of the Self-Select funds if this is the investment strategy you have chosen). Copies of the booklets can be found in the 'Document library' on the Scheme's website.

## Fund manager changes

The Trustee regularly reviews the fund managers that make up each of the individual investment funds. Following the latest review there will be a change in the underlying managers of the **PSPS Global Equity – active fund**, with Kleinwort Benson replacing M&G Global Leaders. This change improves the balance of manager styles in the fund. There will be an increase in the fund's annual charge from 0.50% per annum to 0.60% per annum. There will also be an increase to the annual charge for both the Active Lifestyle Profile and Multi-asset Lifestyle Profile. The communications issued in July last year (see above) have been updated to reflect this change and are available from the Scheme website. In addition, the annual charge on the **PSPS Property fund** is being increased from 0.15% to 0.35% per annum, which is very competitive when compared to the annual charge for other property funds. These changes will happen automatically in February 2018 and you do not need to take any action.

# Performance of DC funds

Fund Factsheets are produced for each of the investment funds, providing you with performance and general information. These are updated quarterly and are available from the 'Document library' on the Scheme website.



Notes: 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. The PSPS Total Return Bond - active fund was launched in April 2016; performance data is therefore unavailable for the last 12 months and three year period.

\* Unitised returns for the Prudential With-Profits fund are for the period 6 April 2016 to 5 April 2017 and assume that the contribution was invested, without any allowance made for any explicit charges, one or three years ago and realised to secure benefits at Selected Retirement Age.

In August 2016, a change was implemented to the underlying funds for the PSPS UK Equity – active fund. The change reduced the allocations to Lindsell Train UK Equity fund and M&G Pooled Pension UK Recovery fund from 37.5% to 30.0% and increased the allocation to Schroders Life UK Equity fund from 25.0% to 40.0%.

Political uncertainty was prominent over the year to 31 March 2017. The most significant sustained reaction was a fall in the value of sterling after the EU referendum vote.

Economic developments had a more lasting influence on markets. Global economic growth was a little disappointing, but momentum increased towards the end of 2016 and into 2017.

Quantitative easing programmes in Europe and Japan were extended. UK rates were cut to 0.25% per annum in anticipation of post-referendum economic weakness. The second half of the period brought two interest rate rises in

the US and recognition that a further UK rate cut wasn't required. There was a growing view that further easing in the Eurozone and Japan was becoming less likely.

Government bonds took their cue from interest rate expectations. Yields were flat drifting down in the early part of the period, but moving higher later on. In general, non-government bonds outperformed government bonds.

Equity markets had dipped in advance of the US presidential election. But initial doubts were quickly replaced by growing optimism and markets rallied strongly. The FTSE All-World Index returned 18.0% over the period in local currency terms; currency weakness meant this was boosted to 33.0% in sterling terms. UK commercial property values fell in the wake of the EU Referendum. Values recovered towards the end of the period, but still finished a little lower than they started. Total return on the Index was positive, as income was sufficient to offset the modest capital falls.

The investment return on the assets within the With-Profits fund benefited from the strong returns from equity markets, property and corporate bonds.



“ **Political uncertainty was prominent over the year to 31 March 2017.** ”

## Digital Annual Benefit Statements

Each year you receive your Annual Benefit Statement in the post. Now you can elect to view your Statement electronically in 'My account', the secure area of the Scheme's website. To elect to view your Statement electronically, as opposed to receiving a paper copy, go to the Scheme website [www.prudentialstaffps.co.uk](http://www.prudentialstaffps.co.uk) and follow the link to 'My account'.

## Boost your Personal Account with Matching Employer Credits

If you choose to pay contributions, the Company will pay additional contributions to match them up to a maximum of 6%.

So if you decide to pay 6% of your Pensionable Pay into the Scheme, the Company will match this on top of the 6% Employer Credits you already receive. This means your total contributions will be 18% of Pensionable Pay.

To find out more why not visit the Scheme website and use the Contribution Calculator.

Please note there is a limit to the maximum tax efficient pension contribution you can make. This limit is called the Annual Allowance. For further information please visit the Scheme website.



## Current issues

To keep up to date on current issues and pensions in general, visit the 'News' page on the Scheme website. It is updated regularly to keep you informed of all the latest developments.

## Useful information

### HERE TO HELP

If you have any questions about any of the topics discussed in this edition of 'Pension Overview', or the Scheme in general, please visit the website.

If you have a question that is personal to you and can't be answered by the website, help is available Monday to Friday (9am to 5pm) from the Administration Team.

Write to:

**PSPS DC Service Centre**  
**Prudential**  
**121 Kings Road (Ground Floor C)**  
**Reading**  
**RG1 3ES**

Helpline: **+44 (0) 345 300 2637**

Email: **PSPSDC.SC@prudential.co.uk**

### PENSIONS MANAGER

If you have any questions which cannot be answered by the Administration Team, or you have any other comments, you can contact the Pensions Manager, Marion Steel at the address below.

**Prudential Staff Pension Scheme**  
**3 Sheldon Square**  
**Paddington**  
**London**  
**W2 6PR**

Email: **hrstaffpensions@prudential.co.uk**

SmartPhone users can scan here for a direct link to the website using an appropriate QR reader app.

