

Prudential Update

26 March 2021

We are closing the Prudential UK property S3 fund - further details for you

Further to our letter in December when we informed you of our decision to close the Prudential UK Property S3 fund (the "property fund"), we can now confirm this will take place with an effective date of 22 June 2021.

As mentioned in the earlier letter, we propose to move investments in the property fund to a multi-asset fund, the Prudential Dynamic Growth I S3 fund ("PDGI"). This would also mean all regular contributions made since 3 June 2019 that were reallocated to the Prudential Cash S3 fund, and any future contributions that would otherwise be invested in the property fund, will be redirected to PDGI from 22 June 2021.

A summary of changes

- We will be closing the Prudential UK Property S3 fund with an effective date of 22 June 2021 and we are proposing PDGI as the alternative fund.
- If you have members who invest in the property fund we will write to let them know about this change.
- If members are not happy with PDGI as the alternative fund for their investments they can choose a different fund. We will ask them to let us know in writing by **1 June 2021** if they want to do this.
- The property fund remains in deferral, which means certain types of withdrawals continue to be delayed at this time.

Why have we chosen PDGI as the alternative fund

We have chosen PDGI as the alternative fund as, of the funds available to your plan, it is the most similar to the property fund in terms of expected risk and return. It is a multi-asset fund, currently investing mainly in equities and bonds with no more than 30% of the fund in equities. The fund has the ability to invest in other assets, should the manager wish to do so. You can find the latest information on the fund at pru.co.uk/factsheets

The enclosed 'Closing fund and alternative fund' information sheet sets out the key information for the property fund and PDGI, including charges and costs. If it is not already part of it, we will add PDGI to your fund range on the closure date.

The value of any investment can go down as well as up so members might get back less than they put in.

"Prudential" is a trading name of The Prudential Assurance Company Limited, which is registered in England and Wales. Registered Office at 10 Fenchurch Avenue, London EC3M 5AG. Registered number 15454. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

There will be costs to members of moving their investments

While there is no switch charge for moving members' investments there are other costs linked to this change that will reduce the value of their pension pots. These are associated with out of market risk and the possibility that the fund manager may apply a price adjustment to protect other investors in the alternative fund.

We estimate that these would result in a one-off transition cost of approximately 0.5% of their investment in the property fund. You can read more about this in the frequently asked questions section.

The next steps - we will ask affected members to let us know by 1 June 2021 if they want to choose a different fund

We will ask members who invest in the property fund to let us know in writing if they wish to choose a different alternative fund. If we do not hear from them we will use PDGI as the alternative fund.

However, members can always choose to switch funds at a later date.

When the property fund closes on 22 June 2021 we will switch any remaining investments held by members into PDGI, unless we have been told to use a different alternative fund.

We will apply a guarantee to the value of regular contributions redirected to the Prudential Cash S3 fund

As you are aware, we gave members a guarantee on any regular contributions that would have usually been paid into the property fund since 3 June 2019 and which were redirected to the Prudential Cash S3 fund. We will calculate this guarantee on the closure date, and will add additional units where required, to members' holdings. This will ensure no-one has suffered any financial detriment as a result of having been redirected to cash. This guarantee will end once the switch to the alternative fund has taken place.

A recap on the current position with the property fund

As previously communicated the property fund remains in deferral. This means certain types of withdrawals continue to be delayed at this time.

You can read more on that at pru.co.uk/property which we will update as the closure progresses.

We are here to help

If you have any questions, or you would like more information, please get in touch by calling our Corporate Pensions team on **0800 151 3941**.

Alastair Hogg

Head of Corporate Pensions

Additional pages

- [Closing fund and alternative fund](#)
- [Our Workplace Pensions fund range \(Employers only\)](#)
- [Frequently asked questions](#)

For large print, braille or audio, please call us on 0800 151 3941.

Additional page

Closing fund and alternative fund

Prudential will move members' investments from the property fund to PDGI with effect from 22 June 2021. Please keep this information for your records. Prudential's fund charges and costs may vary in future. You can find more information on both funds, including fund factsheets, at pru.co.uk/cpfundchanges. Detailed information on the closure itself is available at pru.co.uk/property

Closing fund: Prudential UK Property S3

Objective: The investment strategy of the fund is to buy units in the M&G PP UK Property fund – the underlying fund.

Underlying Fund Objective: The fund invests in the M&G UK Property fund ("UKPF"), an open-ended Luxembourg FCP investing solely in UK property assets, including the retail, office, industrial and alternative sectors. The UKPF is actively managed against its IPD benchmark, seeking to deliver returns through a combination of rental income and capital growth. At times the fund may have significant levels of short term cash deposits in advance of purchasing units in the UKPF. This may lead to lower than expected returns.

Performance Objective: To outperform the benchmark by 1.05% per year (gross of annual management charges) over rolling 3-year periods.

Prudential Risk Rating: Medium

Management Style: Active

Annual Management Charge: 0.65%

Further Costs: 0.53%

Yearly Total: 1.18%

Alternative fund: Prudential Dynamic Growth I S3 (PDGI)

Objective: The fund aims to deliver long term growth through investing in a diversified range of assets both in the UK and globally. At any time, the fund will invest a maximum of 30% of its assets in equities. Investments are managed across asset classes and across world markets with a focus on long run investment potential as forecast on a rolling 10 years basis. The fund may invest in a range of permitted assets which include equities, bonds, property and cash accessed directly or indirectly via appropriate fund vehicles. The fund may include other assets as deemed appropriate by both the manager and current regulations.

Underlying Fund Objective: This is a multi-asset fund investing in a number of underlying funds.

Prudential Risk Rating: Lower to Medium

Management Style: Active/Passive

Annual Management Charge: 0.62%

Further Costs: 0.01%

Yearly Total: 0.63%

Transition Cost

Members' investment return will be reduced by a one-off transition cost. We have estimated the effect to be approximately: 0.5% or £5 for every £1,000 invested in the closing fund.

The transition cost provided is based on Prudential's current understanding, and best analysis, but may be subject to change. It is only known on the date of the transition and may be higher or lower than estimated. Fund Charges and Further Costs above are correct as at 17 March 2021. You can find background information on the data above for these and other funds in your existing range in your fund guide at pru.co.uk/pdf/AVCK0512.pdf

Additional page

Our Workplace Pensions fund range

The following information is just for employers – it is not for use with employees

Following the closure of the property fund the list below details our available fund range. You can choose to make any of these funds available to your members at any time. You can find our fund factsheets at pru.co.uk/factsheets. Once there, click on the Workplace Pensions fund prices tool and filter the fund series to view Series 3 funds. The With-Profit fund's factsheet is available at pru.co.uk/pdf/BTBQ00068.pdf

- BlackRock Aquila Emerging Markets Equity S3
- Prudential Fixed Interest S3
- BlackRock Aquila UK Equity Index S3
- Prudential Global Equity S3
- BlackRock Aquila World ex-UK Index S3
- Prudential Index-Linked S3
- BlackRock Ascent Pacific Rim Equity S3
- Prudential Index-Linked Passive S3
- HSBC Islamic Global Equity Index S3
- Prudential International Equity S3
- LGIM Ethical Global Equity Index S3
- Prudential Japan Equity Passive S3
- LGIM Ethical UK Equity Index S3
- Prudential Long Dated Corporate Bond S3
- Prudential All Stocks Corporate Bond S3
- Prudential Long Term Bond S3
- Prudential Cash S3
- Prudential Long-Term Gilt Passive S3

"Prudential" is a trading name of The Prudential Assurance Company Limited, which is registered in England and Wales. Registered Office at 10 Fenchurch Avenue, London EC3M 5AG. Registered number 15454. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

- Prudential Discretionary S3
- Prudential Long Term Growth Passive S3
- Prudential Dynamic Global Equity Passive S3
- Prudential North America Equity Passive S3
- Prudential Dynamic Growth I S3
- Prudential Overseas Equity Passive S3
- Prudential Dynamic Growth II S3
- Prudential Positive Impact Fund S3
- Prudential Dynamic Growth III S3
- Prudential UK Equity S3
- Prudential Dynamic Growth IV S3
- Prudential UK Equity Passive S3
- Prudential Dynamic Growth V S3
- Prudential UK Smaller Companies S3
- Prudential Europe Equity Passive S3
- Prudential With-Profits

Frequently asked questions

Why is the property fund being closed?

The decision to close the fund was due to significant liquidity pressures and the medium-term performance outlook. As a result, we have decided to close the Prudential UK Property fund (the "property fund").

The fund has been in deferral since June 2019, why has it taken so long to come to this decision?

When a fund goes into deferral it does this to protect customers remaining in the fund and to ensure the value of the underlying assets within the fund are managed appropriately. We have seen periods in the past where the fund has been deferred for a short period of time and then re-opens once short-term liquidity pressures are alleviated.

On this occasion the deferral has been prolonged due to a larger number of withdrawals in the underlying fund creating more significant liquidity pressures. As the situation has developed, we consider that the impact of these pressures, and the poorer medium-term performance outlook for the fund meant a decision on the longer-term suitability of this fund in our workplace fund range was required. These decisions are never taken lightly but the longer-term outcome for our customer is a key priority and we decided this fund should be closed.

The operational challenges presented by a fund closure also add to the time it takes to complete the process. While we will proceed as quickly as possible we also want to make sure no member suffers financial detriment as a result of any extended delay related to the closure of the fund. With that in mind we will review every member's plan and, where necessary, we will make a goodwill payment to ensure they do not lose out.

Why isn't another property fund being offered as an alternative?

We have concerns over the significant costs to your members of accessing an alternative property fund. In addition, the cost to a member of moving their savings from one property fund to another would be prohibitively high and would not represent good value for money.

Are there costs being linked to this change that could reduce the value of members' pension pots?

Yes, there will be costs. When money moves from one asset to another, there may be a short time when the money is not invested, and members would not benefit from any investment growth during this period. This is called 'out of market risk'.

"Prudential" is a trading name of The Prudential Assurance Company Limited, which is registered in England and Wales. Registered Office at 10 Fenchurch Avenue, London EC3M 5AG. Registered number 15454. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Also, when we buy or sell units, the fund manager may sometimes adjust the price to protect other investors. Where this applies, it will affect the price we can buy and sell units for and means there may be an investment cost to those members whose property fund investment is being switched.

Members can find more information on these costs in their plan documents including the plan's fund guide, which can be found at pru.co.uk/pdf/AVCK0512.pdf

We will not apply any charges outside of those already mentioned. That means we will use all the money a member has in the property fund to buy units in the alternative fund. We will sell the units in the property fund at the market price on 22 June 2021 and buy units in the alternative fund at the price offered by the fund manager at that time. As different funds have different prices the number of units a member buys in the alternative fund will be different to the number they held in the property fund. We have concerns over the significant costs to your members of accessing an alternative property fund. In addition, the cost to a member of moving their savings from one property fund to another would be prohibitively high and would not represent good value for money.

What about members' regular contributions that have been reallocated since June 2019 to the Prudential Cash fund? Does the guarantee still apply to those contributions when they are moved, even though that won't be to the property fund?

Yes, it will be applied, even though contributions will not be re-invested in the property fund. We'll take the number of units that members have in the cash fund through reallocated contributions, and check what the value of these units is at the closure date.

If necessary, we will add units to members' plans to make sure that the value of the redirected contributions will be the greater of:

- the equivalent investment return had members been invested in the Prudential UK Property S3 fund; or
- the return from the Prudential Cash S3 fund; or
- the contributions paid.

The number of units members have in the cash fund may have been reduced accordingly during the reallocation period if any withdrawals are made – this includes any withdrawals to cover Ongoing Adviser Charges or Policy Charges where appropriate. The guarantee will be applied to the unit values after these withdrawals.

The guarantee itself ends once the reallocated contributions have been moved out of the cash fund.

What is this change going to mean for a member's savings longer term?

The value of their pension pot depends on the performance of the funds they invest in. Their new fund could perform in a different way to the old fund. While the alternative fund we have selected is the closest of the funds available to customers from a risk and return perspective no-one knows how funds will perform, so it is hard to say what this change means for their savings longer term.

Please remember that the value of any investment can go down as well as up so your members might get back less than they put in.

Is PDGI going to cost more?

Based on what we charge now, PDGI's yearly charge will not be more than that of the property fund. You can find information on the fund's further costs and charges in the enclosed sheet, 'Closing fund and alternative fund'. If you have any questions about this, please speak to us. Please bear in mind charges might change in the future. Where your plan previously didn't have access to PDGI, this will be added in time for the closure.

Can members decide to stay invested where they are now?

No, the Prudential UK Property S3 fund is closing. Members can choose another alternative fund if they wish but they need to tell us about these requests in writing by 1 June 2021.

A member is retiring soon - will you write to them before then with information?

Yes, we will. As members approach their retirement dates, we will write to them to explain what their options are.

A member is making a claim - can these be completed at this time?

Yes, certain withdrawals out of the property fund continue to be allowable at this time. These are:

- taking retirement benefits, including contractual regular withdrawals and income payments
- any claims on death or serious ill-health
- pension sharing on divorce

Other transactions will be delayed by up to six months, or until the effective closure date if sooner.

Can members take advice?

Of course. If a member doesn't already have a financial adviser they can find details of those in their area at unbiased.co.uk. Financial advisers may charge for advice.

For large print, braille or audio, please call us on 0800 151 3941.