PRUDENTIAL

Fund Guide

Local Government AVC Scheme

This document may also be referred to as 'A guide to fund options' or ' Key Features Appendix'

Fund Guide

Local Government AVC Scheme

The pension fund that you build up to provide for your retirement will depend on factors including the amount of contributions put in and what funds they are invested in.

This booklet provides useful and important information to help you decide which funds you would like to invest in.

The initial areas to consider are:

- How do I understand investment risk?
- What type of investments do I favour?

Followed by:

- What funds are available?
- Fund descriptions

Finally we provide:

- Other important information
- Further information
- A glossary of some investment terms

Prudential is committed to providing a broad range of investment funds. We have funds managed by M&G, our UK and European fund management business, and other leading fund managers. These funds have been selected for your scheme by your trustee or employer and should offer a varied choice for you. If you are unsure as to the suitability of a fund, you may wish to seek financial advice.

Your Key Features Document contains all the main features, benefits and risks of the Plan. It is important that you read this document before making a decision. As this is an investment-based product the value of your investment can go down as well as up and you may not get back the amount invested.

The information included in this guide is correct at the time of production in October 2017.

Where to find some more information

You can find details of how we manage our unit-linked funds at **pru.co.uk/ppfm/ul** You will also find there a shortened version, our "Customer Guide", which explains briefly how the Prudential unit-linked funds work, our current approach to managing them, and the standards and practices we use to manage the funds. Principally, this Customer Guide will explain:

- the nature and extent of the decisions we take to manage the funds, and
- how we treat customers and shareholders fairly

We reserve the right to make changes at any time to the funds we make available, subject to certain restrictions. We will write to you if this affects you. We may also introduce new funds from time to time.

To get up-to-date information on the funds we make available, including changes to funds, please visit **pru.co.uk/funds/prudential-corporate-pension-factsheets/**

For more detailed information and help on choosing your pension funds, please visit **pru.co.uk/interactiveguide/**

How do I understand investment risk?

Trying to understand and decide on the level of risk you are willing to take with your investment can be a difficult task. Understanding some of the risks that an investment could be exposed to can help you assess how much risk you are willing to take.

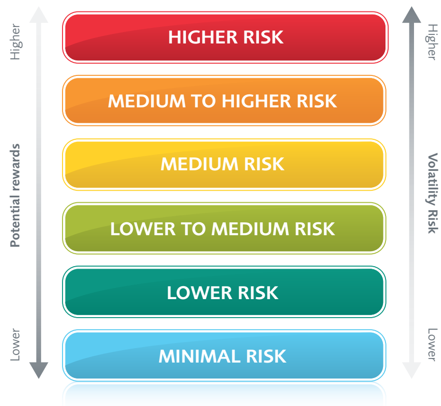
Growth from your investment can't be achieved without exposure to some risk. Being too cautious can also put your investment at risk, for example it may not grow enough to keep up with inflation, so getting the balance right is key to meeting your own objectives.

Some funds are more risky than others so how do you decide which fund or funds are most suitable for you? One rule of thumb is that the more risk you take, the greater the potential return over the long-term – but also the greater the potential loss.

To help you choose the right fund for you we have given each fund a risk rating

Important points to understand about Prudential's risk ratings.

- Our risk ratings are based on our expectation of future volatility (the chance of short-term fluctuations up and down in the value of a fund). They do not take into account other types of investment risks you may face such as the effects of inflation.
- Risk ratings are reviewed by Prudential and may change in the future.



Volatility Risk – the chance of short-term fluctuations up and down in the value of funds, as events in financial markets cause the value of investments to rise and fall. While this can happen at any time, we believe it is likely to be most important when you're planning changes to your funds or close to taking your benefits.

These risk ratings have been developed by Prudential. Our explanations of each of these risk categories can be found in the 'What funds are available?' section.

Other companies may use different descriptions and as such these risk rating categories should not be considered as generic to the fund management industry. We recommend that before making any fund choice you ensure you understand the risk rating and relate that to your personal circumstances before making a decision.

It is important to understand the risks involved. You need to consider the amount of risk you are taking against the potential performance of the fund. The value of investments can go down as well as up. You could get back less than you invest.

In addition to Volatility Risk, other risks you may face (shown alphabetically) include:

Conversion Risk – when you retire, there is a risk that the amount of income you can buy with your pension savings will fall.

Default Risk – the risk that a company or government may not honour payments due to an investor.

Exchange Rate Risk – changes in exchange rates may cause the sterling values of overseas investments to rise or fall.

Inflation Risk – the risk that the value of investments doesn't grow enough to keep up with inflation and so the buying power of your pension savings is eroded. We believe this risk is likely to be important to you most of the time.

Liquidity Risk – some assets can be more difficult to value and can take longer to buy or sell.

Manager Risk – the risk that an investment manager may fail to meet the objectives set for a fund.

You need to balance the importance of each of these risks to you. While inflation is likely to be important throughout, volatility and conversion risks may become even more important as you approach retirement.

What type of investments do I favour?

You can choose to spread your investment across assets to reflect your own attitude to risk.

What does the fund invest in?	Risk Rating
Typically invests more in: Equities	HIGHER RISK
	MEDIUM TO HIGHER RISK
Typically invests more in: Corporate Bonds, Government Bonds (Gilts), Multi-Asset, Property	MEDIUM RISK
	LOWER TO MEDIUM RISK
Typically invests more in: Deposits, Money Market Instruments	LOWER RISK
	MINIMAL RISK

What is diversification?

If you invest entirely in one type of asset or region of the world, then the value of all your pension savings will be subject to the changes in the performance of that type of asset or region. To help manage this risk, you could consider choosing funds that spread the risk by investing:

- in several assets, e.g. Equities, Bonds and Property, either through a number of funds or with a Multi-Asset fund
- by geography, e.g. different countries and regions

This approach, known as diversification, may help protect your investment from feeling the full effects from a fall in value of one asset area. However, there may be occasions when most types of investments fall in value. It should be noted too that diversification means your investment may not feel the full effects of a rise in value of any one asset.

What funds are available?

In this section you will find details of the funds you can invest in. Where available, you can choose a combination of up to a maximum of 10 funds from the funds listed.

The funds are separated by risk rating as explained in the earlier 'How do I understand investment risk?' section. We set these risk ratings for all our funds to help you choose the most appropriate funds for your needs and circumstances.

Further detail covering the objectives of the funds and where they invest can be found later in this booklet in the 'Fund descriptions' section.

Charges and property expenses, where applicable, are shown next to each fund in this section.

- Our charges may vary in the future and may be higher than they are now. We will write to you if this affects you.
- For funds that invest directly or indirectly in property, there are additional expenses incurred for the development, maintenance, operation and renovation of the properties held. These are known as property expenses, are shown separately in this section and are paid for out of the overall performance of the fund.
- In addition to the charges and property expenses shown, there are costs which impact the overall performance of the fund. These costs are known as trading or dealing costs (including transaction related custody costs). When a fund manager trades the investments in your fund (for example, makes a decision to sell one holding and buy another) there are associated costs, for example taxes, which the fund pays. These costs are paid for out of the overall performance of the fund.
- There are other additional costs, such as those incurred to hold the underlying assets, which are paid from the fund but which are rebated back by Prudential to the fund and therefore will not impact the performance of the fund.

Default Investment Option

If you do not actively choose investment funds your payments will be invested in your plan's Default Investment Option. The Default Investment Option for your plan is the Prudential With-Profits Fund. It is the responsibility of your trustee or employer to select the Default Investment Option with guidance from their adviser. You can change your mind and switch out of the Default Investment Option.

This doesn't represent a recommendation on behalf of Prudential and you should consider and choose funds or lifestyle options to suit your needs.

What funds are available?

Fund Name	% each year		
	Charges	Property Expenses	Total of Charges & Property Expenses
Medium Risk – These funds may invest in multi-asset strategies with a higher weighting in equities (or with significant derivative use), while funds investing mainly in property, high yield or government bonds (such as UK Gilts) are also in this category.			
Prudential Discretionary Fund	0.75	0.02	0.77
Lower to Medium Risk – These funds may invest in corporate bonds or multi-asset strategies with a higher weighting in corporate bonds (and other comparable strategies).			
Prudential With-Profits Fund	†	–	–
Minimal Risk – These funds may invest in a combination of deposits, money market instruments and other types of interest bearing securities.			
Prudential Cash Fund	0.55	0.00	0.55

† For further information on the Prudential With-Profits Fund please see 'Other important information'.

Closed funds

The following list shows funds that are now closed to new members. Members who are already invested in these funds can continue to invest and make additional payments.

Fund Name	% each year			Date Closed
	Charges	Property Expenses	Total of Charges & Property Expenses	
Prudential Deposit Fund	N/A*	0.00	N/A	31/05/2017

* For further information on the Prudential Deposit Fund please see the 'Fund descriptions' section.

Fund descriptions

All of the available funds are Prudential funds managed on our behalf by the fund manager stated. These funds should not be confused with the same or similarly named fund offered independently by this fund manager.

Fund Name and Manager	Asset Class, Active or Passive	Objective
Medium Risk		
Prudential Discretionary Fund Prudential	Multi-Asset, Active	The investment strategy of the fund is to purchase units in the M&G PP Discretionary Fund. That fund provides a multi-asset approach to investment, holding a mix of UK and overseas company shares, bonds, property and cash via other M&G PP funds. It is actively managed against an internal composite benchmark asset allocation set by the Prudential Portfolio Management Group. It is a "fund of funds" where both active stock selection, within the underlying sector funds, and asset allocation decisions are used to add value. Performance Objective: To outperform the internal composite benchmark by 1.15% - 1.40% a year (before charges) on a rolling three year basis.
Lower to Medium Risk		
Prudential With-Profits Fund Prudential	Multi-Asset, Active	The fund offers the prospect of competitive long-term real returns whilst smoothing the peaks and troughs of day-to-day market movements. Investment returns are passed to policyholders through bonuses. The fund is invested in a diversified portfolio of UK and overseas shares, bonds, property and cash. A significant proportion of the fund is invested in shares and property which can be expected to produce attractive long term returns, but the return on these assets can be volatile and so the fund is actively managed to optimise the returns while controlling risk.

Fund descriptions (continued)

Fund Name and Manager	Asset Class, Active or Passive	Objective
Minimal Risk		
Prudential Cash Fund Prudential	Deposits, Active	The investment strategy of the fund is to purchase units in the M&G PP Cash Fund. That fund invests in both secured (reverse repurchase agreements) and unsecured interest bearing deposits, as well as short-term UK Government bonds and Certificates of Deposit. It is actively managed against its benchmark, the London Interbank LIBID 7 Day Deposit rate. Performance Objective: To outperform the benchmark before charges on a rolling three year basis.
Prudential Deposit Fund Prudential	N/A, Active	The current practice, which we can review at any time, is to set and declare the interest rate on the first of each month, in line with the Bank of England base rate. Any interest is declared monthly and there are no explicit charges. The assets of this fund are part of the With-Profits Fund which is a multi-asset fund. The capital you hold in the Prudential Deposit Fund will not decrease.

Other important information

With-Profits

For With-Profits investment, the rate of future bonuses cannot be guaranteed. Final bonus may vary and is not guaranteed.

For investments in the With-Profits Fund, the value of the Policy depends on how much profit the Fund makes and how we decide to distribute that profit. Policyholders usually receive their shares of any profits as bonuses but we may use other methods to distribute profits.

Charges for With-Profits investment will vary, and latest charges can be found on your Annual Benefits Statement.

If you move money out of the With-Profits Fund a Market Value Reduction may be applied, which would cause the value of your pension savings to fall.

For further information on With-Profits please refer to your Key Features Document or visit **pru.co.uk/funds/ppfm/**

Switching between funds

- When switching between different unit-linked investment funds, the sale of existing units and the purchase of new units will not normally take place on the same date. There will be a lead-time involved in making unit prices available and where external companies are involved this lead-time may be longer than for funds managed by Prudential. The prices of units can go up or down during that time: this is a risk to you. The exact time lapse between sale and purchase will depend on the investment funds involved in the switch. No interest is due for the period between the sale and purchase of units.
- For any fund, there may be a delay in buying, selling or switching of units. These delays will only apply in exceptional circumstances and we will let you know if they apply to you. There may, for example, be circumstances outside our control which prevent us, from acting upon an instruction to buy, sell or switch units. For example, where, due to restrictions imposed by an external fund manager, we are unable to sell units in an externally-managed fund. Equally we may need to delay acting upon an instruction where we believe that will protect remaining investors in the fund from suffering an unfair reduction in the value of their investment in the fund or some other form of unfair treatment.
  - Other than in very exceptional circumstances we would not expect delays to be longer than six months for investments in property and land and one month in the case of units in other funds.
  - While we will not delay buying, selling or switching units for longer than reasonably required, we cannot guarantee that we will never delay acting upon your instructions beyond the timescales set out above.

– If we do delay, we will use the unit prices that apply on the day we actually sell, buy or switch units after the delay has ended, unless, again, we believe that in the particular circumstances that would not be fair to investors in general.

Changes to our funds

We reserve the right to make changes at any time to the funds we make available, subject to certain restrictions. We may also introduce new funds. To find out about changes to our range of funds, please go to **pru.co.uk/factsheets/corporate_pension_fund_updates/**

Can I change my mind?

You can switch your money between funds at any time. We won't charge you for this though, as noted earlier, there is a risk to you as the prices of units can go up or down during the lead-time involved in making those prices available. If this changes in the future we will let you know. For further information please see the earlier 'Switching between funds' section.

Further information

Some background information on how our funds work

- Investment funds are legal arrangements which pool together the contributions of numerous individuals (such as members of schemes like you) to collectively buy assets like shares and bonds. These funds are then divided into units of equal value. In return for their contributions, each individual receives ownership of their share of the fund in the form of these units.
- These funds – known as 'unit-linked' investment funds – have a single price, based on the valuation of the assets held by the fund. Each unit will have this price.
- The unit-linked investment funds are "forward priced". This means that the unit price you receive is the next available price after you have invested money in or taken money out of a fund.
- When calculating the unit price of a fund it is important to consider how much money is either going into or being taken out of the fund.

  If more money is being paid into the fund than is being taken out, then the fund will need to purchase assets. If this is the case then the purchase price (or "offer" price as it is sometimes known) will be relevant in determining the unit price of the fund.

  If more money is being taken out of the fund than is being paid in then the fund will need to sell assets. If this is the case, the sale price of the underlying assets will be more relevant when calculating the unit price.
- Sales prices are generally lower than purchase prices so a switch from a purchase price to a sales price will result in a lower unit price. Conversely, a switch from a sales price to a purchase price will result in a higher unit price.

  In both cases the movement in unit price can be significant and will occur immediately.

  This is known as a "single swinging price". It is done to protect the interests of those customers who remain in the fund and means that the costs of buying and selling assets are borne by those customers who are trading in and out of the fund. The difference between the purchase and sales price reflects these costs which tend to be largest for funds investing in property, smaller companies and developing markets. The costs can include stockbroker commission and withholding taxes (such as stamp duty in the UK) and are outside Prudential's control.

  It also means that, whenever you switch funds, there may be an investment cost to you if you switch from a fund where the sales price applies that day to a fund where the purchase price applies on the day the switch is completed.

- Some of the Prudential funds listed in this guide may gain all or part of their investment exposure by investing in collective investment schemes (e.g. Unit Trusts, Open Ended Investment Companies (OEICs)), derivatives or other investment vehicles. These Prudential funds may hold an element of cash due to the short delay between new investments being received by the Prudential fund and being placed in the underlying investment(s). This is known as a fund's dealing cycle and varies between fund managers. The dealing cycle can be several days and may have an impact on the performance of the Prudential fund when compared to the underlying investment(s).

You can find more details of how we manage our unit-linked funds at **pru.co.uk/ppfm/ul**

You will also find there a shortened version, our "Customer Guide", which explains briefly how the Prudential unit-linked funds work, our current approach to managing them, and the standards and practices we use to manage the funds.

Financial Services Compensation Scheme

The Prudential Assurance Company Limited (PACL) and other UK authorised and regulated firms in the Prudential Group are subject to the Financial Services Compensation Scheme. You may be able to make a claim if Prudential is unable to meet its financial obligations.

However, it is important to know that any compensation will depend on your eligibility, the type of financial product or service involved, the investment funds selected and the circumstances of the claim.

Find out more about Prudential and the FSCS at: **www.pru.co.uk/about_us/fscs** or you can call us.

A glossary of some investment terms

This glossary is not intended to be a definitive reference document and you should consider contacting a financial adviser for further assistance where necessary.

Alternative Assets – These are alternatives to more traditional assets such as Equities, Bonds and Property. These can range from hedge funds and venture capital to fine wines, rare stamps and other collectibles. Due to their nature some of these assets can be difficult to value and to trade.

Bonds – These are loans or IOUs issued by companies or by governments in order to raise money. Bonds issued by companies are called corporate bonds while those issued by governments are generally known as government bonds. Bonds issued by the UK Government are known as Gilts.

Bonds can provide fixed or index-linked amounts of income based on their initial price, in addition to repaying that initial sum on a specified later date. The market value and the interest rate on a bond can both go down and up. On the whole, over the longer-term, investing in bonds is considered to be lower-risk than investing in equities.

Certificates of Deposit – These are a money market investments that are generally issued by banks. A certificate of deposit usually pays interest (which can vary) and entitles the bearer to receive a set interest rate up until a set maturity date and can be issued in any currency or denomination.

Collective Investment Schemes – A way of pooling investment with others as part of a single investment fund, such as those offered here by Prudential. This allows investors to participate in a wider range of investments than would normally be feasible if investing individually and to share the costs and benefits of doing so.

Commodities – These are raw materials and foodstuffs that can be divided into categories such as: Agriculturals (e.g. wheat and potatoes), Softs (e.g. coffee and cocoa), Precious Metals (e.g. gold and silver), Non-Ferrous Metals (e.g. copper and lead) and Energies (e.g. oil and gas).

Deposits – Money that is placed with banks, building societies and other organisations to earn interest.

Deposits can be considered to be minimal risk, but there are exceptional circumstances where they can fall in value.

Derivatives – These cover products such as futures and options which are generally an arrangement to buy or sell a standard quantity of a specified asset on a fixed future date at a price agreed today.

Equities – Also known as shares or stocks, these represent a share of the ownership of a company. Shares can provide regular payments, known as dividends, and share price changes as the value of the company changes.

Over the longer term, equities can offer greater growth potential than many other asset types. But the value of equities can go up and down a lot and tend to carry a higher risk than corporate or government bonds or money market instruments.

Hedging – Aims to reduce the risk of an asset. Currency hedging is a specific example – where an investment is 'hedged back to sterling' a fund manager is trying to protect that investment from an unwanted move in sterling exchange rates. Whilst hedging can reduce potential risk it also reduces potential returns.

High Yield Bond – This is a type of bond that offers higher interest payments due to the increased risk of default by the company issuing the bond. It can also be known as a "junk" bond. These bonds will have low credit ratings of BB or below.

Investment Grade – A credit rating given to a government or corporate bond that indicates that the agency giving the rating believes that the issuer has a relatively low risk of default. Bonds with credit ratings of AAA, AA, A or BBB are considered investment grade.

Liquidity – This is how quickly an asset, such as equities, corporate bonds or property, can be traded within a market and turned into cash.

London Interbank Bid Rate (LIBID) – This is the interest rate at which banks bid for cash deposits from each other.

Market Capitalisation – This is the total value of a company's issued securities at their current market prices. This figure should include all the different types of security issued by the company, such as shares and bonds, but is often used in relation to the equity or stock market capitalisation. The market capitalisation of a company is the market price per share multiplied by the number of shares in issue. Companies are often referred to as large cap (an abbreviation for large market capitalisation), mid cap (an abbreviation for a medium-sized company by market capitalisation) or small cap (an abbreviation for small market capitalisation).

Maturity – This is the length of time until an asset becomes due for repayment. For example with a Corporate Bond this is the length of time until the initial sum is repaid.

Money Market Instruments – These include bank deposits, certificates of deposits or fixed interest securities.

The return achieved from money market instruments is a combination of interest and any changes in the value of the instruments.

Money market instruments can be considered to be very low risk, but there are circumstances where they can fall in value.

Multi-Asset – A fund that invests in a range of assets, such as equities, bonds, property and alternative assets, is known as a Multi-Asset fund. By investing in a range of assets the fund is not relying on the performance of assets of the same type. This helps to provide diversification of risk.

Options – Legal agreements that give the holder the right (but not the obligation) to buy or sell the underlying asset at an expiration date, at a price determined at the time of dealing.

Passive or active – The funds available to you are either actively or passively managed.

- **Passively managed fund** – Aims to track the movements of an index or indices, such as the FTSE 100* . It is not possible for a passively managed fund to track its benchmark exactly because of the costs it incurs buying and selling its underlying assets. The managers of the fund tend to have lower expenses than active fund managers, and the charges to investors therefore also tend to be lower.
- **Actively managed fund** – Active funds are those that are managed with the aim of generating returns greater than the market, as measured by a benchmark or an index.

Private Equity – This is money invested in private companies (those companies that are not publicly traded on a stock exchange, such as the London Stock Exchange) or which is used to buyout publicly traded companies in order to make them private companies.

Property – Investment in commercial property (such as retail, office and industrial properties). This can be done either by investing directly (eg owning physical property) or indirectly (eg owning shares in a property company as part of a diversified range of assets). The return achieved from investing in property is a combination of rental income and changes in the value of the property; which is generally a matter of a valuer's opinion rather than fact. It should also be noted that property can be difficult to sell, which can delay withdrawing money from a fund that invests in property. Property can be considered to be lower risk than equities, but higher risk than bonds over the long-term.

Prospectus – The legal document which sets out what a fund's investment objectives are and how it will operate. It is provided by the managers of the funds Prudential invest in.

Repurchase Agreements (also known as Repo) – An agreement in which one party sells securities to another party and agrees to repurchase those securities on a specified later date at a specified price.

Shares – see Equities.

Smaller Companies – Companies quoted on a recognised exchange that have a market worth below that of the largest companies. In the UK, smaller companies are typically defined as those with market capitalisations below the 350 largest companies.

Tracking error – This is the extent to which a fund's return differs from that of its benchmark.

Transferable Securities – These are assets which are traded on capital markets. The term is probably most commonly known and used in association with Undertakings for Collective Investments in Transferable Securities (UCITS) in UK and Europe. Examples include depositary receipts and some types of warrants which are derivatives giving the right to buy or sell assets like equities at a set price on or before a future date.

Unit – Unit-linked investment funds are divided into units of equal value. When investing, an individual's contribution is used to buy units. The value of these units will fall or rise in line with the underlying investments.

PRUDENTIAL

www.pru.co.uk

AVCK0441 10/2017