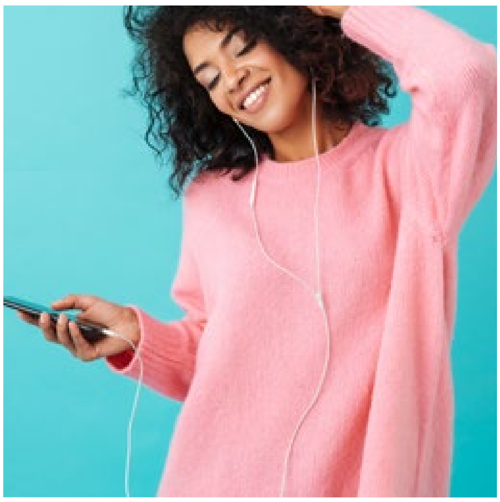
PRUDENTIAL

Staff Pension Scheme

TRUSTEE REPORT & ACCOUNTS

Report and Financial Statements
for the year ended 5 April 2021



Your Pension.
Your Future.

PRUDENTIAL STAFF PENSION SCHEME

Report and Financial Statements for the year ended 5 April 2021

Scheme Registration No: 10011362X

XPS Administration

3rd Floor, Priory Place, New London Road, Chelmsford, Essex CM2 0PP

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TRUSTEE AND ADVISERS

Trustee:	Prudential Staff Pensions Limited 10 Fenchurch Avenue London EC3M 5AG	
Trustee Directors:	Keith Bedell-Pearce CBE – Chairman	(Company Appointed)
	Wolfgang Bauer **	(Member Nominated)
	Stephen Cunningham *	(Member-Nominated)
	David Green	(Company Appointed)
	Simon Iversen	(Company Appointed)
	John Paino ****	(Member-Nominated)
	William Rutherford ***	(Member-Nominated)
	Gillian Starkie	(Company Appointed)
	Andrew Swan	(Company Appointed)
	Jo Waldron	(Company Appointed)
	* *To serve until 17 April 2022* ** *To serve until 30 April 2023* *** *To serve until 11 April 2024* **** *To serve until 16 July 2025*	
Actuary:	Colin Singer FIA Willis Towers Watson Limited	
Administrators:	<u>Defined Benefit Section (DB Section):</u> XPS Administration Ltd <u>Defined Contribution Section (DC Section):</u> The Prudential Assurance Company Limited - MPP Service Centre	
Auditor:	KPMG LLP 2 Forbury Place 33 Forbury Road Reading Berkshire RG1 3AD	
Bankers:	Barclays Bank plc	
Communications Advisers:	Concert, a Buck company (formerly Concert Consulting Limited)	
Legal Adviser:	Mayer Brown International LLP	
Covenant Adviser:	Penfida Limited	
DB Section External AVC Provider:	The Prudential Assurance Company Limited	
DB Section Investment Consultant:	Willis Towers Watson Limited	
Longevity contract Insurer:	*Pacific Life Re (*Scafell Insurance IC Limited)	(Appointed 5 November 2020)

TRUSTEE AND ADVISERS (continued)

Investment Managers:	BlackRock Advisors (UK) Limited GreenOak Europe Secured Lending SLP M&G Investment Management Limited Putnam Investments Limited Orchard Global Capital Group
DB Section Custodians for Cash and Securities:	JPMorgan Chase Bank N.A.
DC Section Adviser and Investment Consultant:	Hymans Robertson LLP
DC Section Platform Provider: ***("Platform Provider")***	The Prudential Assurance Company Limited
Secretary to the Trustee:	M&G Management Services Limited
Pensions Manager:	Marion Steel
Contact Addresses:	Defined Benefit Section: Prudential Staff Pension Scheme XPS Administration Limited 3rd Floor Priory Place New London Road Chelmsford Essex CM2 0PP Defined Contribution Section: Prudential Staff Pension Scheme Prudential (PSPS DC) LANCING BN15 8GB

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021

To members of the Prudential Staff Pension Scheme for the year ended 5 April 2021

The Defined Benefit (DB) Section assets decreased over the year by £507.7m (7%), after taking into account Employer contributions, benefit payments, expenses, investment income and the change in market value of investments.

Overall, after allowing for income, capital gains and movements in market values, the Scheme's 12 months showed a negative return of 1.2%. However, this was 0.5% above the Benchmark negative return of 1.7%. Further details can be found on page 18 and the performance details for all fund managers can be found on page 19.

The Trustee formally reviews the financial position of the DB Section at least every three years. The latest formal review, as at 5 April 2020, showed the DB Section to be in very good health. In November 2020, we took the decision to purchase a longevity insurance policy with Pacific Life Re. This policy covers the pensions that were already in payment in April 2019 and this plays an important role in protecting the Scheme against potential increased costs in providing pensions arising from potential further improvements to life expectancy.

As at 5 April 2021 the membership of the DC section had increased to 9,270. This increase was partly due to new members joining from Investment Funds Direct Limited. Funds under management increased to £584.1m. Details of the performance of the funds are shown on page 22 of this report.

During the Scheme year, two new Company appointed Trustee Directors joined the Trustee Board; Jo Waldron was appointed on 1 September 2020 and Gillian Starkie on 1 November 2020. The term of office of John Paino, the Pensioner Trustee Director, was due to end on 16 July 2020. The Trustee Board agreed, in view of the practical difficulties arising at that time from COVID restrictions, to extend his term of office for an additional year. In the Spring of 2021, nominations were sought for the Pensioner Trustee Director but none were received and John Paino was reappointed for a term of another four years.

It was another busy year and as a result of COVID, a very unusual time for those involved in administering and managing the Scheme. Everyone was working remotely and all Trustee meetings were held virtually. However, notwithstanding the COVID restrictions, the work of running the Scheme was and continues to be carried out effectively.

I would like to thank the Pensions Team, the Scheme administrators, the Scheme advisers and fellow Trustee Directors for their continued hard work and support throughout the year.

Keith Bedell-Pearce CBE

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021 (continued)

Introduction

The Trustee of the Prudential Staff Pension Scheme (the 'Scheme') is pleased to present the annual report together with the audited financial statements for the year ended 5 April 2021. The Scheme is comprised of two sections:

- the Defined Benefit Section (DB Section) which provides benefits based on a member's salary and length of service; and
- the Defined Contribution Section (DC Section) which provides benefits based upon the value of a member's accumulated fund.

The Defined Benefit Section is administered by XPS Administration Limited and the Defined Contribution Section by The Prudential Assurance Company Limited in accordance with the establishing documents and rules, solely for the benefit of its members and other beneficiaries.

The Scheme provides retirement and death in service benefits for eligible employees of Prudential UK Services Limited, Prudential Distribution Limited, M&G FA Limited, M&G Real Estate Limited, Prudential Financial Planning Limited, Prudential Capital Plc, Prudential Portfolio Management Group, PGDS (UK ONE) Limited, M&G Plc, M&G Corporate Services Limited and Investment Funds Direct Limited. The Scheme is legally and financially separate from the employing companies.

There has been no change to the Principal Employer, The Prudential Assurance Company Limited ("PACL").

Constitution of the Scheme

The Prudential Staff Pension Scheme was established under Trust on 24 December 1918 to provide defined benefits and the Trust Deed and Rules have been amended from time to time. A Defined Contribution Section was introduced by an amendment to the Trust Deed and Rules dated 1 August 2003. The Trustee holds Scheme funds on trust to apply them for the purpose of paying pensions and other benefits in accordance with the Trust Deed and Rules.

Alterations to the Scheme Rules

During the Scheme year ended 5 April 2021 there has been no changes to the Scheme's Trust Deed and Rules.

Post the year end the Trustee and the Principal Employer agreed and signed a Deed of Variation in respect of Equivalent Pension Benefits (EPBs) to amend the provisions applicable to DB Members that are entitled only to an Equivalent Pension Benefit ("EPB Only Members"), to allow for automatic commutation of the benefit where the DB Member has not yet reached State Pensionable Age.

Benefit / Scheme changes

There were no changes to benefits under the Scheme during the year.

COVID-19 & Going Concern

The Trustee has continued to monitor the impact of the COVID-19 virus on the assessment of the Employer's ability to support the Scheme as a going concern. In particular, the Trustee considered the potential impact of COVID-19 on the Scheme's investment strategy, the Employer's business taking into account the Scheme's strong funding level, well diversified investment strategy and financial resources available to the Employer.

Having assessed the circumstances with independent advice and information from the employer, the Trustee has determined that there is not a material uncertainty as to the ability of the Scheme to continue as a going concern for the foreseeable future and therefore believes it remains appropriate to prepare the financial statements on a going concern basis.

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021 (continued)

GMP Equalisation

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. On 20 November 2020, the High Court also ruled that pension schemes will need to revisit individual transfer payments made since May 1990. The Trustee of the Scheme is aware that the issue will affect the Scheme and has discussed the issue several times with its advisers. As soon as all the outstanding matters have been finalised any benefit adjustments needed will be made with interest.

Under the ruling schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

Management and governance of the Scheme

As Trustee, Prudential Staff Pensions Limited, a trust corporation, is responsible for ensuring that the Scheme is administered in accordance with the Trust Deed and Rules.

The present Trustee Directors are listed on page 2. In accordance with the Occupational Pension Schemes (Member Nominated Trustees and Directors) Regulations 2006 and under the Articles of Association the Directors of the Trustee comprise Member Nominated Directors and Company Appointed Directors. Changes to Directors during the year are shown below.

Retirements and resignations from the Trustee Board during the Scheme year and to the date of signing of the Trustee's Report were as follows:

- Annabel Gillard resigned on 30 April 2020
- Michael Abrahams resigned on 23 July 2020

Appointments to the Board were as follows:

- Keith Bedell-Pearce was appointed as Chairman on 23 July 2020
- William Rutherford was re-elected as a Member Nominated Trustee Director with effect from 11 April 2020
- Jo Waldron was appointed on 1 September 2020
- Gillian Starkie was appointed on 1 November 2020
- John Paino (Pensioner Nominated) was reappointed to the Trustee Board in 2021 to serve another term of office until 16 July 2025.

The powers of appointment or removal of Trustee Directors are set out in accordance with the establishing documents of the Trustee other than the Member Nominated Directors who are appointed by the members.

There are ten Trustee Directors, six of whom are appointed by the Company (including the Chairman and a pensioner Trustee Director), three are chosen to serve for a four-year term of office by active Scheme members and one for a four-year term from the pensioner members.

Trustee Directors meet regularly and in this year seven meetings took place. Any questions arising at a meeting are decided by a majority of Trustee Directors' votes and in the event of an equality of votes the Chairman has a second or a casting vote.

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021 (continued)

The Trustee Board has previously established a number of formally constituted Committees, these being the Asset and Liability Committee which reviews the assets and liabilities of the DB Section together with investment management policy; the Audit and Governance Committee which reviews and assesses risks to the Scheme and the Scheme accounts; a Disputes Committee which decides on disputes sent to the Trustee; the DC Section Committee which reviews the investments, communication and administration of the DC Section. These four Committees have delegated authority to take appropriate decisions on behalf of the Trustee Board in accordance with their Terms of Reference but report directly to the Trustee Board.

There are two other Committees, the DB Section Investment Committee which considers the investment strategy for the DB Section and reports to the Asset and Liability Committee and the DC Section investment Committee which considers the investment strategy and fund range for the DC Section and reports to the DC Section Committee.

The Asset and Liability Committee has established a Factor and Funding Working Party to review and consider the DB Section funding and valuation issues and to review the DB Section Scheme factors. During the second half of 2020 and part of 2021 the Factor and Funding Working Party worked with the Scheme's Actuarial Team and the Company to complete the 5 April 2020 triennial valuation of the DB Section of the Scheme. The 5 April 2020 Valuation has been completed and the formal documentation was signed by all parties on 26 April 2021.

A formal Trustee Board evaluation of the effectiveness of the Board is carried out annually. Every third year, the review is undertaken by an independent third party. The latest review was carried out in early March 2020 and was led by the then Chairman, Michael Abrahams. The overall conclusion, presented at the April 2020 Trustee Board Meeting, was although there were some relatively minor process matters that should be addressed, the view of the Trustee Directors, Pensions Team and the Scheme's actuary was that there are no significant outstanding issues which require further attention.

Many of the aspects of administering the Scheme call for specialist help under the supervision of the Pensions Manager. The names of the Scheme advisers are given on pages 2 and 3.

Longevity insurance transaction

On 5 November 2020, the Trustee entered into a longevity insurance transaction with Pacific Life Re to protect the DB Section of the Scheme ("Scheme") against the risk of its members living longer than expected and longer than has been assumed in actuarial valuations (the "Transaction").

If members live longer than is currently expected, the cost to the Scheme of paying pensions increases. The longevity insurance arrangement will form part of the Scheme's investment portfolio and will provide income to the Scheme in the event that members live longer than expected, offsetting the increased pensions outgoings.

The arrangement will provide long term protection to the Scheme against the costs associated with increases in life expectancy of its members. The arrangement covers some £3.5bn of liabilities, meaning that the Trustee has insured a significant portion of the Scheme's exposure to improvements in longevity.

The Scheme is transferring longevity risk to Pacific Life Re, a reinsurer. In order to facilitate the risk transfer to Pacific Life Re the Trustee has established a captive insurance company to give access to the reinsurance market. The Trustee pays the captive insurance company's costs and will closely monitor it.

During the life of the Transaction, collateral assets are posted by the Trustee and Pacific Life Re to provide security to each party in the event the other defaults. The amount of collateral that has to be posted by the parties depends on a number of factors including the value at risk at any given date. There are two types of collateral: fee collateral and experience collateral. As the Trustee does not pay an upfront premium for the longevity insurance transaction, fee collateral is posted by the Trustee equal to the present value of the future (unpaid) fees. The fee collateral remains an asset of the Scheme.

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021 (continued)

Membership

There were no major changes to the Scheme during the year ended 5 April 2021.

	Defined Benefit Section	Defined Contribution Section
ACTIVE MEMBERS		
Active members at the start of the year	308	3,761
New entrants in the year	-	876
New opt outs entitled to deferred pension	-20	-
New leavers entitled to deferred pension	-45	-715
Members who retired	-9	-3
Members who took total commutation (ill health)	-	-
Members who died	-	-
Members who transferred out	-	-1
Members who received a refund	-	-
Leavers – no money paid, record closed	-	-1
Active members at the end of the year	234	3,917
MEMBERS WITH DEFERRED BENEFITS		
Deferred members at the start of the year	12,303	4,883
Prior year adjustment	-2	-
Active members who became deferred	65	715
Members who retired	-619	-12
Members retiring with serious ill health	-	-
Members who took total commutation (ill health)	-1	-
Members who took trivial commutations	-7	-
Members who transferred out	-198	-222
Members who died	-18	-2
Members who received a refund	-2	-
Deferred members who elected to transfer benefits to active membership	-	-9
Members with deferred benefits at the end of the year	11,521	5,353
PENSIONERS		
Pensioners at the start of the year	20,604	-
New retirements	628	-
New spouses & children's pensions	282	-
Members who died	-739	-
Members who took trivial commutations	-1	-
Cessation of children's pension	-11	-
No liability	-2	-
Pensioners at the end of the year	20,761	-

The pensioners figure at the year-end contains 3,730 (2020: 3,714) widows and 70 (2020: 72) dependants/child's pensions.

There are no pensioners in the DC Section of the Scheme, however, there are death in service lump sum benefit only members in the DC Section not included in the above Membership statistics and deferred members who have opted out but are still covered for a death in service lump sum benefit and are included in the table above.

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021 (continued)

There are 34 (2020: 20) deferred members and pensioners who opted out of the DB Section, but are still covered for a death in service lump sum benefit, but are included in the table as either a deferred member or pensioner.

These membership figures do not include movements notified to the Administrator after the completion of the annual renewals.

Untraced members with outstanding benefits

Included in the total membership statistics for Pensioners and Deferred Pensioners of the DB Section are 757 (2020: 675) members who are entitled to receive payment of their benefits, but the Scheme's administrator has been unable to trace them to pay these benefits.

The administrator has attempted to trace these members via the Department for Work and Pensions tracing service (or similar) and has included them in the audit of pensioners against the Registry of Deaths. If the members remain untraceable their benefits remain in the Scheme and are included within the Scheme's current liabilities. The outstanding benefits including arrears were £7.0m (2020: £6.3m) as at 5 April 2021.

Additional benefits provided under the Defined Benefit Section Scheme Rules 7.1.1 (2) and 7.3

a) Discretionary increases to pensions in payment awarded by the Company

Increases to pensions accrued pre 6 April 1997 are discretionary and pensions accrued after 5 April 1997 are increased in line with statutory minimum requirements.

Pensions as at 1 April 2021 were increased as follows:

Element of pension	Increase (under GMP age)	Increase (over GMP age)
Pre 88 GMP	1.1%	Nil
Post 88 GMP	1.1%	0.5%
Pre 06/04/1997 Excess	1.1%	1.1%
Pension 06/04/1997 to 05/04/2005	1.1%	1.1%
Post 05/04/2005 pension	1.1%	1.1%

Any pensions that commenced payment on or after 1 April 2020 (other than as a result of the death of a pensioner whose pension started to be paid before 1 April 2020) received a pro rata increase of one twelfth of the above increase for each month that the pension came into payment before 1 April 2021.

In addition, pension attributable to AVCs that started to be paid before 6 April 2012 received a discretionary 1.1% increase. The total cost of the increases awarded on a discretionary basis was £60m on the assumptions adopted with regard to the long term funding of the Scheme.

Deferred pensions were increased in line with statutory requirements and the Scheme Rules. No discretionary increases were awarded to deferred pensions during the year.

b) Discretionary augmentation of benefits

During the year from 6 April 2020 to 5 April 2021 discretionary augmentations of benefits were requested by companies participating in the Defined Benefit Section of the Scheme resulting in total augmentation contributions of £8k (2020: £8k) being received in the year.

c) Financing of additional benefits

In accordance with the Defined Benefit Section Scheme Rule 7.1.1, and bearing in mind that an allowance for the pre-funding of the increases to pensions in payment referred to in a) above is made in the contribution rate being paid, the Actuary has certified that the full amount of the total expected cost under a) above could be met from the funding already agreed following the 2017 valuation for the Defined Benefit Section of the Scheme. The Company has agreed to pay additional contributions to cover the cost of future augmentations as noted above.

The Actuary will monitor the cost of future additional benefits provided under the Defined Benefit Section Scheme Rule 7.3 in order to certify the additional employers' contributions required.

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021 (continued)

Transfers out

DB Section - All individual transfer values paid during the year represented the full cash equivalent of members' leaving rights and were calculated in accordance with the requirements of Section 97 of the Pension Schemes Act 1993.

All transfer values paid included GMP equalisation.

DC Section - All transfer values paid during the year represented the value of the member's funds.

Expression of wish forms

The Trustee reminds members that they can indicate to the Trustee the persons to whom they wish any lump sum benefits and pension benefits to be paid in the event of their death. The Trustee will then be able to take members' wishes into account, although they are not obliged to do so. Members are also urged to review their Expression of Wish form should their circumstances change.

Expression of Wish forms are available on request by writing to the address in the further information section on page 11.

Financial Development of the Scheme

Changes in the Scheme's net assets during the year were as follows:

	£m
Net assets at 5 April 2020	8,122.9
Net withdrawals from dealings with members	(313.3)
Net returns on investments	(18.5)
Net assets at 5 April 2021	7,791.1

The financial statements for the year have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

Tax and contracting out status

The Scheme is a registered pension scheme under Section 150 of the Finance Act 2004 and continues to benefit from the favourable tax treatment afforded to previously exempt approved UK pension schemes.

Contracting out for all defined benefit occupational pension schemes, including the DB Section of the Scheme, ceased with effect from 6 April 2016.

The DB Section of the Scheme was contracted out for the period 6 April 1978 to 5 April 2016 (inclusive). The Defined Contribution Section is contracted in.

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021 (continued)

Further information

Further information about the Scheme is available, on request, to members and prospective members, their spouses and other beneficiaries together with all recognised trade unions. In particular, the documents constituting the Scheme, the Rules and a copy of the latest actuarial report and the Trustee's Statement of Funding Principles can be inspected at the addresses shown below.

Individual benefit statements are provided to active members annually. In addition to the information shown in these statements members can request details of the amount of their current transfer value. Such requests are available free of charge once a year.

If members have any queries concerning the Scheme or their own pension position, or wish to obtain further information, they should contact the appropriate address:

For Defined Benefit Section members:

Prudential Staff Pension Scheme
XPS Administration Limited
3rd Floor
Priory Place
New London Road
Chelmsford
Essex CM2 0PP

Email pspsdb@xpsgroup.com

For Defined Contribution Section members:

Prudential Staff Pension Scheme
Prudential (PSPS DC)
LANCING BN15 8GB

Email : PSPSDC.SC@Prudential.co.uk

Website: www.prudentialstaffps.co.uk.

In order to administer the Scheme, it is necessary for information about members and their dependants to be held and processed by the Trustee or other parties who act on behalf of the Trustee. The Trustee is the data controller under the Data Protection Act 2018 and the UK GDPR.

As a result of changes of recent case law and changes to the legislation surrounding the collection and use of personal data, which came into effect from the end of the transitional period on 31 December 2020, following the UK's withdrawal from the European Union, the Trustee will review its policy and update its Data Privacy Statement if necessary.

In May 2018, all active, deferred and pensioner members of the DB Section of the Scheme and active and deferred members of the DC Section were provided with a copy of the Trustee's Data Privacy Statement explaining how personal data will be collected and used to administer benefits within the Scheme, their legal basis for having this data and the rights members and beneficiaries have in relation to the data held. Following any necessary updates to the Data Privacy Statements the Trustee will provide the relevant members of the Scheme with the updated Data Privacy Statement.

All member information is kept secure and only disclosed in limited circumstances; for example, information may be disclosed to companies within the M&G Group, Trustee advisers and other organisations in connection with the operation of the Scheme. Information may also be disclosed to any future potential employers and their advisers and, only if the Trustee is legally obliged to do so, to Government or regulatory organisations.

Full details of the Trustee's updated data privacy statement are available on the Scheme website www.prudentialstaffps.co.uk.

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021 (continued)

MoneyHelper

MoneyHelper provides pension guidance, money guidance and debt advice. These services were previously provided by three separate government entities; The Pensions Advisory Service (TPAS), Pension Wise and the Money Advice Service. MoneyHelper can be contacted at:

MoneyHelper
Holborn Centre
120 Holborn
London EC1N 2TD

Tel: 0800 011 3797
Email: contact@maps.org.uk
Website: www.moneyhelper.org.uk

Pensions Ombudsman

If a member has a complaint against the Scheme that has not been resolved to their satisfaction through the Scheme's Dispute Procedure, the Government appointed Pensions Ombudsman can investigate complaints of injustice caused by bad administration, either by the Trustee or Scheme administrators, or disputes of fact or law. The Pensions Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
London E14 4PU

Tel: 0800 917 4487
Email: enquiries@pensions-ombudsman.org.uk
Website: www.pensions-ombudsman.org.uk

The Pensions Regulator (tPR)

The Pensions Regulator can intervene if they consider that a scheme's trustee, advisers, or the employer are not carrying out their duties correctly. The address for the Pensions Regulator is:

Napier House
Trafalgar Place
Brighton BN1 4DW

Tel: 0345 600 0707
Email: customersupport@tpr.gov.uk
Website: www.thepensionsregulator.gov.uk

TRUSTEE'S REPORT FOR THE YEAR ENDED 5 APRIL 2021 (continued)

The Pension Scheme Registry

The Scheme is registered with the Pension Scheme Registry which is part of the Pensions Regulator's office. The registration number is 10011362X. The data held by the Registry is used by the Pension Tracing Service to assist former members of schemes to trace their scheme benefits. The Pension Tracing Service can be contacted at:

Pension Tracing Service
The Pension Service 9
Mail Handling Site A
Wolverhampton WV98 1LU

Tel: 0800 731 0193
Website: www.gov.uk/find-lost-pension

INVESTMENT REPORT

The Trustee determines its investment strategy after taking advice from the investment consultants. It has delegated the management of the investments to the Investment Managers listed on page 3.

Employer Related Investments

The Scheme does not directly hold any shares in M&G plc or any of its subsidiaries, or hold property let to M&G plc or any of its subsidiaries. Shares of Prudential plc or any of its subsidiaries were not held in pooled investment arrangements prior to the Demerger of M&G from Prudential plc. The Trustee Directors believe the assets are invested in accordance with the Occupational Pension Schemes (Investment) Regulations 2005.

Statement of Investment Principles

A Statement of Investment Principles has been produced for each section as required under Section 35 of the Pensions Act 1995 and copies are available on the Scheme's website www.prudentialstaffps.co.uk . All investments made during the year were in accordance with this Statement.

Custodial Arrangements

Other than pooled investments the Scheme's investments were held with the custodians shown on page 3.

The custodians are responsible for the safekeeping of documentation relating to the ownership of investments, settlement of trades and income collection.

The Trustee is responsible for ensuring that the Scheme's assets continue to be held securely. It reviews the custodian arrangements from time to time and the Scheme's auditor is authorised to make whatever investigations it deems necessary as part of the annual audit procedures.

Defined Benefit Section

Investment policy and investment management arrangements

The investment policy for the DB Section of the Scheme is determined by the Trustee in consultation with the Principal Employer and the Investment Consultant, Willis Towers Watson. Following the actuarial valuation at 5 April 2020, the investment objective set by the Trustee is currently under review. In setting an appropriate return target, the nature and duration of the Scheme's liabilities together with the employer's discretionary increase policy are taken into account.

Corporate governance and socially responsible investments

Corporate governance issues and the exercise of rights attaching to investments, including voting, are delegated to the investment managers as an integral part of the investment management function; where applicable voting rights will be exercised whenever practicable with the objective of preserving and enhancing shareholder value.

The Trustee expects the Scheme's investment managers to take into account social, environmental and ethical considerations when managing the assets of the Scheme and monitors the policies adopted and actions taken by each manager on a regular basis.

The investment managers at the year-end for the DB Section are listed on page 3.

All investment managers are regulated by the Financial Conduct Authority (FCA) and have authority for the implementation of investment policy consistent with their respective mandates. The Scheme's investments are invested in accordance with section 40 of the Pensions Act 1995.

The investment managers are remunerated on the basis of a fee determined by the value of the funds under management. These fees are payable quarterly. A performance related fee is paid to Putnam (based on performance relative to a benchmark index), M&G Debt Opportunities Fund (based on performance above a certain hurdle rate), Orchard illiquid credit funds (based on performance above a certain hurdle rate) and the Greenoak real estate debt fund (based on performance above a hard cap).

The Trustee views consideration of Sustainable Investment factors, including those relating to climate change, as important for the development and implementation of the Scheme's investment strategy. Recognising this, the Trustee has incorporated the following policies into its Statement of Investment Principles:

INVESTMENT REPORT (continued)

- Although the Trustee has delegated responsibility for selection, retention and realisation of investments to the Investment Managers, within certain guidelines and restrictions the Trustee recognises its responsibilities as a shareholder and believes that good corporate governance enhances shareholder value. In exercising its fiduciary duty the Trustee's focus is explicitly on financially material considerations including where Environmental, Social and Governance ("ESG") and climate change factors have a financially material impact.
- The Trustee considers a range of sustainable investment factors, such as, but not limited to, those arising from ESG considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Trustee takes into account in the assessment.
- Where relevant, the Trustee may take into account non-financial considerations in designing and implementing the investment strategy, including (but not limited to) the views of members and beneficiaries of the Scheme.
- The Trustee has reviewed in detail and will continue to periodically review the policies operated by each of the investment managers in respect of corporate governance issues and in respect of ESG issues to the extent such policies are relevant in respect of each investment manager's mandate. Where an investment manager's processes are deemed insufficient by the Trustee and the investment manager does not take steps to improve their approach, the investment manager's position in the portfolio may be reviewed and/or a decision may be taken not to proceed with an investment.
- Having been satisfied as to the policies of each of the Investment Managers on these issues, the policy of the Trustee is that:
  - Corporate governance issues and the exercise of rights attaching to investments, including voting, be delegated to the investment managers as an integral part of the investment management function; voting rights will be exercised whenever practicable with the objective of preserving and enhancing shareholder value
  - Whilst noting that there may be limitations for each investment manager and asset strategy, the Trustee expects the investment managers to have ESG processes that align with Trustee expectations for the investment characteristics of the strategy.
- The Trustee expects the investment managers to report regularly on votes cast and other relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings, noting in particular those cases where resolutions have not been supported, on other shareholder actions and on any ESG issues arising from the operation of the portfolio.
- Alignment between a manager's management of the Scheme's assets and the Trustee's policies and objective are a fundamental part of the appointment process of a new manager. Before investing, the Trustee will seek to understand the manager's approach to sustainable investment (including engagement). When investing in a pooled investment vehicle, the Trustee will ensure the investment objectives and guidelines of the vehicle are consistent with its own objectives. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with its own policies.
- To maintain alignment, managers will be provided with the most recent version of the Scheme's Statement of Investment Principles, on an annual basis and will be required to explicitly confirm that the Scheme's assets are managed in line with the Trustee's policies as outlined in that statement.
- Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristic of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced.

INVESTMENT REPORT (continued)

- For most of the Scheme's investments, the Trustee expects the investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee invests in certain strategies where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Scheme's allocation to such mandates will be determined in the context of the Scheme's overall objectives.
- The Trustee appoints its investment managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team.
- Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement.
- Where available the Trustee will review the costs incurred in managing the Scheme's assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, where relevant the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate.

Monitoring

The Trustee reviews the Scheme's investment managers from time to time, considering the results of its monitoring of performance and process and the investment manager's compliance with the requirements of the Pensions Act concerning diversification and suitability.

The independent Performance Measurer provides quarterly updates of performance to assist in the reviews of the Scheme's and investment managers' performance against the benchmarks.

The Trustee and its agents hold meetings with each investment manager to satisfy themselves that the Manager continues to carry out its work competently and has the appropriate knowledge and experience to manage the investments of the Scheme.

In the light of advice from the Scheme Actuary about the relative values of the Scheme's assets and liabilities, the Trustee is applying a return target for the assets of the Scheme. As at the date of this report, the benchmark asset allocation of the Scheme was as set out below:

Asset Class	Benchmark %
Illiquid Credit	3.2
Multi-Strategy Credit	1.8
Liability Matching assets*	95.0
Total	100.0

* *Liability matching assets consist of secure income assets, fixed interest gilts, index-linked gilts, corporate bonds, asset backed securities, cash and swaps*

Over the year the Trustee made a number of changes to the Scheme's portfolio:

- The holdings in the Putnam and M&G multi-strategy credit mandates were reduced in order to decrease the overall level of risk in the portfolio.
- The proceeds from these sales were used to invest in two M&G asset backed securities funds with the aim of improving the overall level of cashflow matching within the Scheme.
- As part of the Trustee strategy to manage longevity risk, during the year the Scheme entered into a £3.5bn longevity hedge contract with Pacific Life Re using a Guernsey-based captive insurer, Scafell Insurance IC Limited.

These changes reflect the Trustee's intention to improve the level of cashflow match between the assets and liabilities of the Scheme.

INVESTMENT REPORT (continued)

Investment Managers

The DB Section Investment Managers employed, together with the total market value of the portfolios under management as at 31 March 2021, are set out below:

Manager	Mandate	Market value of portfolio (£m)	Total % of Fund
Greenoak	Real Estate Debt (PIV)	31.9	0.4%
M&G	Companies' Financing (PIV)	0.0	0.0%
M&G	Debt Opportunities III (PIV)	54.0	0.7%
M&G	Debt Opportunities IV (PIV)	43.5	0.6%
M&G	Multi-Strategy Credit (PIV)	82.4	1.1%
Orchard	Elegantree Illiquid Credit (PIV)	10.7	0.1%
Orchard	Taiga Illiquid Credit (PIV)	67.7	0.9%
Putnam	Multi-Strategy Credit (PIV)	72.6	1.0%
BlackRock[1]	Cash (PIV)	86.1	1.2%
BlackRock	Secure Income Assets (PIV)	73.8	1.0%
M&G	Secure Income Assets (PIV)	132.9	1.9%
M&G	Long Dated Asset Portfolio	44.4	0.6%
M&G	High Grade Asset Backed Securities (PIV)	50.0	0.7%
M&G	Senior Asset Backed Securities (PIV)	100.0	1.4%
M&G	Active Matched UK Corporate Bonds	442.6	6.2%
M&G	Buy & Maintain UK Corporate Bonds	847.7	11.8%
M&G	Active Index-Linked Gilts	1,611.9	22.3%
M&G	Active Gilts	254.1	3.5%
M&G[3]	Liability Matching	3,149.6	43.7%
JPM	Longevity Swap Collateral	70.2	1.0%
JPM	Longevity Insurance Contract	(17.0)	-0.2%
N/A	Other Cash	8.4	0.1%
Total Investment Assets		**7,217.5**	**100.0%**

INVESTMENT REPORT (continued)

Note:

The above table excludes Commercial AVCs and cash in transit. It includes the Trustee Bank balance.

1. BlackRock Cash Fund includes the cash held in the transition account.

2. M&G Liability matching assets reflects the passive matched portfolio. During the year M&G combined the collateral portfolio within the passive matched portfolio.

PIV - Pooled Investment Vehicle

Investment performance and monitoring

Investment performance is measured by the Scheme's cash and securities custodian, JP Morgan Chase Bank. All performance numbers quoted in this report have been provided by JP Morgan Chase Bank, unless otherwise stated.

Custody

JP Morgan is the Scheme's global custodian for the majority of the segregated assets. All custodians are independent of the Investment Managers and the Principal Employer. The Scheme's investments held by the custodians are identified in their books and records as belonging to the Scheme.

Investment performance

Allowing for income, capital gains, and movements in market values, the return on the Scheme's assets for the 12 months to 31 March 2021 was -1.2%. This was 0.5% above the benchmark return.

Following the volatility in capital markets over 2020 due to the global pandemic, in recent months the optimism around economic recovery has grown which led to a rise in bonds yields. Bond yields are now approaching levels they were trading at before the pandemic struck and are priced to rise further over the next few years. The Scheme's investment strategy, which is heavily biased towards high quality and low risk assets, delivered a robust performance during this period resulting in the Scheme funding being very stable during the period.

The difference in performance date and accounting period will result in timing differences when compared to the net returns on the investments figure shown on page 40.

The absolute returns achieved over longer periods, together with the Scheme's benchmark returns, are shown below.

	Return (% p.a.)	
Period	**Scheme**	**Benchmark**
12 months to 31 March 2021	-1.2	-1.7
3 years to 31 March 2021	4.0	3.9
5 years to 31 March 2021*	5.4	5.1

**Annual performance sourced from JPM, 5 year performance calculated by Willis Towers Watson*

INVESTMENT REPORT (continued)

Returns for 12 months to 31 March 2021

Manager	Mandate	Manager Performance %	Benchmark %
Greenoak[4]	Real Estate Debt (PIV)	2.7	-4.1
M&G[1,2]	Debt Opportunity III (PIV)	-17.4	0.2
M&G[1,2]	Debt Opportunity IV (PIV)	17.1	0.2
M&G[1]	Multi-Strategy Credit (PIV)	17.4	0.2
M&G[1]	Secure Income Assets (PIV)	3.8	4.5
Orchard[1,2,3]	Illiquid Credit Elegantree (PIV)	16.6	0.6
Orchard[1,2,3,]	Illiquid Credit Taiga (PIV)	10.1	0.6
Putnam	Multi-Strategy Credit (PIV)	10.6	0.2
BlackRock	Cash (PIV)	0.3	0.1
BlackRock	Secure Income Assets (PIV)	-0.2	-
M&G	Long Dated Asset Portfolio	N/A	N/A
M&G	High Grade Asset Backed Securities	N/A	N/A
M&G	Senior Asset Backed Securities Fund	N/A	N/A
M&G	Active Matched UK Corporate Bond	9.3	6.9
M&G	Buy & Maintain	4.6	-
M&G	Active Index-Linked Gilts	2.7	2.0
M&G	Active Gilts	-6.6	-9.0
M&G[5]	Liability Matching	-5.5	-
Total Scheme		-1.2	-1.7

1. *Performance sourced from Manager*
2. *Quarterly returns sourced from Manager, 12 month performance calculated by Willis Towers Watson*
3. *Performance in local currency (USD)*
4. *Performance in local currency (EUR)*
5. *M&G Liability matching portfolio includes the collateral and the passive matched portfolio*

INVESTMENT REPORT (continued)

Defined Contribution Section

Investment policy and investment management arrangements

In respect of the DC Section, the Trustee has secured administration and investment services through an insurance policy with The Prudential Assurance Company Limited, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority. Under this arrangement contributions are invested in a range of pooled pension funds managed by a number of underlying managers including M&G Investments.

The investment charges associated with this policy depend on the fund selected by the member. All charges are calculated on a daily basis as a percentage of the underlying assets and are collected periodically through the sale of the relevant number of units. The only exception to this is that there is currently no additional charge on any investments in the Prudential With-Profits Fund.

The Trustee has a duty to act responsibly with regards to the assets it owns on behalf of the Scheme's members. However, since the Scheme's assets are invested in a range of pooled funds, the Trustee has a limited ability to influence the Investment Managers' policies in the areas of corporate governance, voting and socially responsible investment.

The Trustee's strategy is to provide members with sufficient options to enable them to secure assets of appropriate liquidity and risk that will generate income and capital growth, which together with new contributions from members and the Employer, will provide a fund at retirement with which members can secure an income and, if required, draw a cash lump sum.

Members can choose their own customised asset mix from funds that invest in the following asset classes:

UK equities	Overseas equities
Emerging market equities	Diversified assets
Bonds	Property (removed February 2021)
Cash	With-Profits

All the funds (except the Prudential With-Profits fund) are 'white labelled', where the underlying managers and the allocations to their funds are decided by the Trustee. A range of specialist global equity, UK equity, emerging markets and diversified assets managers are currently utilised including M&G Investments (both passive and active funds).

The PSPS Multi-asset Lifestyle Option is the default Lifestyle option for members and 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 more flexibly such 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, 10% UK Equity– active, 10% UK Equity – passive , 10% Emerging Market Equity – active and 5% Responsible Investment Equities - passive) 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.

In January 2020, following a review of strategy the Multi-asset lifestyle strategy was adjusted to introduce the Responsible Investment Equities – passive fund. In addition, the lifestyle glidepath was adjusted to retain an all equity composition up to a point 20 years from members selected retirement age (previously 40 years).

INVESTMENT REPORT (continued)

In addition, two alternative lifestyle options are offered: an actively managed lifestyle, PSPS Active Lifestyle and a passively managed option, PSPS Passive Lifestyle.

The PSPS Active Lifestyle begins in the accumulation phase, investing 100% in Equities (70% PSPS Global Equity – active and 30% PSPS UK Equity – active). The PSPS Active Lifestyle switches into the consolidation phase 10 years from a members' Selected Retirement Age. The consolidation phase consists of an allocation to bonds (50% PSPS Corporate Bonds – active and 50% PSPS Index-Linked Gilts - active) which switches to PSPS Cash – active 4 years from Selected Retirement Age. The final allocation at a members' Selected Retirement Age will be 75% bonds and 25% cash.

The PSPS Passive Lifestyle initially invests 100% in Equities (70% PSPS Overseas Equity – passive and 30% PSPS UK Equity – passive). The PSPS Passive Lifestyle starts switching into the consolidation phase 10 years from a members' Selected Retirement Age. The consolidation phase consists of an allocation to bonds (50% PSPS Corporate Bonds – active and 50% PSPS Index-Linked Gilts -active) which also switches to PSPS Cash – active, 4 years from Selected Retirement Age. The final allocation at a members' Selected Retirement Age will be 75% bonds and 25% cash.

INVESTMENT REPORT (continued)

Investment performance

The table below details the performance of the DC Section of the Scheme's fund options to 31 March 2021:

	Return for 12 months to 31 March 2021 %		Return for 3 years to 31 March 2021 % p.a.	
Fund	Fund	Benchmark	Fund	Benchmark
PSPS Cash – active	0.1	-0.1	0.5	0.3
PSPS Index Linked Gilts - passive	2.0	2.6	3.5	3.6
PSPS Index Linked Gilts - active	3.4	2.6	3.8	3.6
PSPS Fixed Interest Bonds - active	-4.6	-5.5	2.8	2.5
PSPS Long Dated Gilts - passive	-10.4	-10.4	3.4	3.3
PSPS Corporate Bonds - active	9.5	7.0	4.9	4.0
PSPS Property - active	n/a	n/a	n/a	n/a
PSPS UK Equity - passive	26.5	26.7	3.3	3.2
PSPS UK Equity - active	31.7	26.7	6.4	3.2
PSPS Overseas Equity - passive	40.6	41.6	10.8	11.5
PSPS Global Equity - active	48.5	39.4	17.4	13.5
PSPS Emerging Markets Equity - active	43.8	42.8	9.7	7.5
PSPS Total Return Bond Fund - active	16.2	0.1	4.5	0.5
PSPS Diversified Growth - active	14.1	4.8	1.9	5.5*
Prudential With-Profits*	6.4	n/a	4.7	n/a

Note: 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.

** Unitised returns for the Prudential With-Profits fund are for the period from 6 April 2020 to 5 April 2021, and assuming that the contribution was invested without any allowance made for any explicit charges one or three years ago and realised to secure benefits at normal retirement age.*

INVESTMENT REPORT (continued)

Fund	Date Launched	Underlying Fund(s)
PSPS Cash - active	2008	M&G Cash fund
PSPS Index Linked Gilts - active	2008	M&G Index Linked Bond Fund
PSPS Index Linked Gilts - passive	2008	M&G Index Linked Passive Fund
PSPS Fixed Interest Bonds - active	2008	M&G Fixed Interest Fund
PSPS Corporate Bonds - active	2008	M&G All Stocks Corporate Bond Fund
PSPS Property - active	2008 (closed February 2021)	M&G Property Fund
PSPS UK Equity - passive	2008	M&G UK Equity Passive Fund
PSPS Overseas Equity - passive	2008	M&G International Equity Passive Fund
PSPS UK Equity - active	2008	Lindsell Train UK Equity Fund (30%)
PSPS Global Equity - active	2008	MFS Global Equity Fund (37.5%)
PSPS Emerging Markets Equity - active	2011	Trilogy Emerging Markets Equities Fund (50%)
PSPS Diversified Growth - active	2011	Schroders Dynamic Multi Asset Fund (33.3%)
PSPS Long dated Gilts - passive	2013	M&G Over 15 year Gilt Index fund
PSPS Total Return Bond - active	2016	M&G Total Return Credit Investment Fund
PSPS Responsible Investment Equities - passive	2020	L&G Global Equity Ethical Index Fund

In February 2021, the Trustee closed the PSPS Property - active Fund.

Market commentary (year to 31 March 2021)

Restrictions imposed to control the spread of COVID-19 saw global output reach a nadir in quarter 2 2020. Global GDP rebounded strongly in the second half of 2020 and, despite the quarterly pace of growth slowing at the end of 2020, the hit to activity from more recent restrictions has been less than initially feared.

Expectations of a re-acceleration of growth seem well-founded amid significant progress in vaccine rollouts and massive fiscal support in the US. Indeed, March 2021's global composite PMI rose to its highest level in over 6 years. Consensus forecasts for global GDP growth have continued to improve, to 5.6% in 2021, following a 3.6% contraction in 2020.

Lockdowns placed downwards pressure on inflation with UK headline CPI inflation slowing to 0.7% year-on-year. However, a resumption of activity and deferred consumption alongside rising oil prices is expected to lead to higher inflation in the short-term.

Having bottomed on 23 March 2020, the FTSE All World total return index rose 51.8% over the period. Due to the strength of sterling, this return in local currency was reduced to 39.6% in sterling terms. Technology, basic materials and industrials outperformed. The typically defensive utilities, telecoms and healthcare sectors all markedly underperformed, as did financials, consumer staples and energy. The US market, with its high exposure to technology, led the regional performance rankings. The UK markedly underperformed, weighed down by its above average exposure to financials and energy, and the impact of sterling strength on the overseas earnings in the index.

INVESTMENT REPORT (continued)

Bond markets, particularly gilts were resilient in the immediate wake of the COVID crisis but have since fallen back with UK gilts down 5.5% over the twelve month period and overseas government bonds down 9.8% in sterling terms. In contrast, corporate bonds which initially fell back have recovered strongly to return 10.1% over 12 months to 31 March 2021.

The DC Section unit linked funds are priced and traded daily by the investment managers. The Trustee regards the DC Section investments as readily marketable.

The With-Profits fund has a broad asset allocation of around 65-70% in "growth assets" (equities, private equity and property), with the remaining assets invested in various forms of conventional credit (e.g. investment grade corporate bonds) and specialised credit (e.g. high yield, loans, asset backed securities, etc.). Only a small amount is held in sovereign bonds (e.g. gilts or other government bonds).

The investment return on the assets within the With-Profits fund benefited from positive returns from overseas equities and from bonds but were offset by negative returns from UK equities and property. The 12 month (gross) return to 31 December 2020 on the underlying assets was c. 1.7%, 5 years c. 6.8% p.a. and 10 years c. 6.9% p.a. The returns produced by the fund sit below the long term returns achieved on equities but above the long term returns achieved on UK government bonds (the FTSE All World returned 11.2% p.a. and FTSE All Stock Gilts returned 5.5% p.a. over 10 years to 31 December 2020).

The Prudential Assurance Company Limited ("PACL") declared an annual bonus rate of 1.5% in February 2021 for the DC Section's With-Profits fund. Terminal bonus rates for those retiring this year (which are not guaranteed and vary by year of investment) are also positive. Market Value Reduction may apply to members who wish to access their fund before or after Normal Retirement Date.

PACL has put in place a new concession where Market Value Reduction will not be applied to the first £25,000 withdrawn from the With-Profits fund in any rolling 12 month period, provided the monies have been invested for five years. If more than £25,000 is withdrawn, the Market Value Reduction will only apply to the amount in excess of £25,000. Please contact the Pensions Manager for further information.

Investments in With-Profits funds are pooled just like other unitised funds. However, the value of each unit is not directly linked to the value of the underlying assets as a With-Profits fund aims to smooth out some of the ups and downs in performance over time. Over the long term, the intention is that the majority of investment returns are paid by regular, annual bonuses and the remainder as a final bonus. The smoothing means that any investment return kept back over the years will build up in the fund to provide the final bonus.

These regular bonuses are guaranteed if the fund is held to normal retirement date but reductions may be applied on transfer, early (and late) retirement or switching. A charge is levied on all investments in the With-Profits fund to pay for guarantees. The charge is taken by making adjustments to regular and final bonuses. Early or late withdrawal values may be reduced by a Market Value Adjustment to reflect the value of the underlying assets.

Additional Voluntary Contributions (AVCs)

The Scheme provides for members to pay AVCs to increase their benefit entitlement at retirement. Such contributions may attract tax relief and provide increased pension benefits.

DB Section members' AVCs are invested separately into the In House arrangement where they are managed as part of the normal investment operations of the Scheme's DB Section. Such AVCs will be used to purchase an initial pension on retirement. DB Section members can also decide to contribute to an additional AVC arrangement on a money purchase basis in which a fund range is offered similar to that under the DC Section.

AVCs for the DC Section are invested in the same manner as Employer contributions.

INVESTMENT REPORT (continued)

Trustee Policies

The Trustee's policies and practices in connection with the bullet point items below are set out in the Statement of Investment Principles which can be found on the Scheme's website www.prudentialstaffps.co.uk

- Financially material considerations
- Non-financial matters
- Exercise of rights (including voting rights)
- Stewardship
- How they monitor the investee company on capital structure;
- How targeted portfolio turnover or turnover range is to be defined and monitored;
- How they manage actual and potential conflicts of interest in relation to their engagement;
- Details of their arrangements with their investment managers; the duration of the arrangement, how the scheme incentivises the investment manager to align investment strategies and decisions, and how they monitor portfolio turnover costs incurred by the asset manager.

A summary of the relevant sections of the Statement of Investment principles is set out below:

Financially material considerations

The Trustee recognises that the consideration of financially material considerations over the appropriate time horizon of the investments, including ESG factors and climate risk, are relevant to the development, selection and monitoring of the Scheme's investment options. The Trustee further recognises that the financial materiality of any factor, including ESG factors, is context specific and that whilst some factors may be relevant to certain stocks/assets, they may not be relevant to others. The Trustee will consider such factors in the development and implementation of their investment arrangements, for the purposes of determining the selection, retention and realisation of investments, where there is sufficient data or evidence to allow them to systematically do so. Where there is not sufficient data or evidence, they will engage with their investment managers to ensure they take such considerations into account within their decision making.

Non-financial factors

The Trustee recognises that some members will have strong personal views that are not related to financial considerations but that influence where they believe their savings should, or should not, be invested.

To address non-financial factors, the Trustee may include self-select funds in the Scheme that are of a specialist nature with characteristics that take into account non-financial factors. The Scheme currently offers a fund managed on ESG principles for members who are likely to hold stronger personal views in ESG areas relative to the majority of members. The Scheme also includes a 5% allocation to this fund in the growth phase of the default lifestyle arrangement.

The Trustee notes that non-financial factors can affect various investment risks which are borne by members and recognises that the performance of these funds will be different relative to funds that only consider financial factors.

Fund managers are otherwise only expected to take non-financial factors into account when these do not conflict with the financial interests of members and the Scheme's investment objectives.

Voting and engagement

The Scheme invests via an investment Platform Provider, who in turn invest in funds which are pooled with other investors to keep costs down and ensure adequate diversification. As a result, the Trustee has adopted a policy of delegating voting decisions on stocks to the underlying fund managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The fund managers are expected to exercise the voting rights attached to individual investments in accordance with their own house policy.

INVESTMENT REPORT (continued)

Where relevant, the Trustee has reviewed the voting and engagement policies of the fund managers as well as the approach to governance of the Platform Provider and determined that these policies are appropriate. On an annual basis, the Trustee will request that the Platform Provider and fund managers provide details of any change in their house policy.

Where appropriate, the Trustee will engage with and may seek further information from the Platform Provider and fund managers on how portfolios may be affected by a particular issue.

The Trustee does not engage directly but believes it is appropriate for the fund managers to engage with key stakeholders which may include corporate management, regulators and governance bodies, relating to their investments in order to improve corporate behaviours, improve performance and mitigate financial risks. The Trustee aims to review engagement activity undertaken by the fund managers as part of its broader monitoring activity.

The Trustee expects the Platform Provider to adopt similar practices with regards to the inclusion and ongoing oversight of fund managers on their platform. The Trustee also expects the Platform Provider to be able to evidence their own governance practices on request.

Stewardship

The Trustee recognises that stewardship encompasses the exercise of voting rights, engagement by and with investment platform and fund managers and the monitoring of compliance with agreed policies.

How they monitor the investee company on Capital structure

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are investing in new issuance, the Trustee expects the investment manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

Portfolio Turnover

The Trustee does not expect investment managers to take excessive short-term risk and will monitor the investment manager's performance against the benchmarks and objectives on a short, medium and long terms basis.

For passively managed funds the turnover of holdings is driven by changes in the index a fund seeks to track and hence is outside the control of the investment manager except where a fund's total assets under management are relatively small where the investment manager does not fully replicate the index or where a fund invests in less liquid stocks.

When selecting actively managed funds, the Trustee will consider, with the help of their investment advisers, the expected level of turnover commensurate with a fund's investment objectives, the investment manager's investment processes and the nature of the fund's assets.

Whilst the Trustee expects performance to be delivered net of costs, including the costs of trading within the portfolio, the Trustee will ask the Platform Provider or investment managers on the Platform to report on at least an annual basis on the underlying assets held within fund with details of any transactions and turnover costs incurred over the Scheme's reporting year. The Trustee will seek to compare portfolio turnover and the resultant costs against peer groups or portfolio turnover and costs for an appropriate index.

Where a fund has significantly under or outperformed its benchmark, the Trustee will seek to ascertain where necessary whether higher or lower than normal turnover has been a contributory factor. The Trustee will challenge the Platform Provider and/or investment managers if there is a sudden change in portfolio turnover or if the level of turnover seems excessive.

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 Directors 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.

INVESTMENT REPORT (continued)

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.

When appointing Platform Providers and choosing investment managers' funds on the Provider's Platform, the Trustee will seek to establish that the Platform Provider and each investment manager has an appropriate conflicts of interest policy in place. This includes any provisions to disclose any potential or actual conflict of interest to the Trustee.

When given notice, the Trustee will consider the impact of any conflicts of interest arising in the management of the funds used by the Scheme.

Responsibility for investment decisions has been delegated to the investment managers which includes consideration of the capital structure of investments and the appropriateness of any investment made. Where managers are investing in new issuance, the Trustee expects the investment manager to engage with the issuer about the terms on which capital is issued and the potential impact on the rights of new and existing investors.

The Trustee will consider any conflicts of interest arising in the management of the funds used by the Scheme and will ensure that the Platform Provider and each investment manager has an appropriate conflicts of interest policy in place. The Platform Providers and investment managers are required to disclose any potential or actual conflict of interest to the Trustee.

Manager Incentives

The basis of remuneration of the investment managers by the Platform Provider may be subject to commercial confidentiality, however, the Trustee will seek transparency of all costs and charges borne by members. Nevertheless, the Trustee expects that it will be in the interests of both the Platform Provider and the investment managers on the Provider's Platform to produce growth in asset values in line with the funds' investment objectives. For passively managed funds this should be within an acceptable margin of the index the fund tracks. For actively managed funds the investment return should be commensurate with the level of investment risk implied by the fund's objectives.

When selecting funds, the Trustee will ask their investment advisor to consider the investment managers' remuneration strategies and appropriateness of each fund's investment guidelines to ensure that there is no inducement or scope to take an undue level of risk and that the investment managers will act in line with the interests of the Scheme's members.

In accordance with the 2015 Regulations, the Trustee conducts an annual Value for Members assessment and will take action should the providers be found to be giving poor value. In addition, in accordance with guidance from the Pensions Regulator, the Trustee will periodically review the Scheme's choice of providers to ensure their charges and services remain competitive. The Trustee believes that these steps are the most effective way of incentivising the providers to deliver Value for Members, of which investment management charges and investment performance are key considerations.

The Trustee also undertakes a review at least every three years in which the appropriateness of the investment options and the suitability of the Scheme's investment management arrangements are considered.

The Trustee monitors the investment managers against a series of metrics on a quarterly basis over a long-term time horizon including:

- Performance of their funds' respective benchmarks or performance targets;
- Relative tracking error where appropriate;
- The exercise of stewardship responsibilities (including engagement with issuers) through their Platform Provider; and
- The management of risks.

The Platform Provider or investment managers are expected to provide explanations for any significant divergence from a fund's objectives. A material deviation from performance and risk targets or approach to portfolio management is likely to result in the fund being formally reviewed.

REPORT ON ACTUARIAL LIABILITIES

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to receive based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employers and set out in the Statement of Funding Principles, which is available to Scheme members on request.

For the Prudential Staff Pension Scheme, the Scheme Solvency Target forms the basis of the calculation of the DB Section's technical provisions. The Scheme Solvency Target considers the amount expected to be needed to provide the DB Section's accrued benefits assuming that the Trustee were to switch the investment strategy either to a closely matched portfolio of gilts of appropriate nature and duration, or a portfolio of cash and swaps where a more favourable return would be expected on such a portfolio. No allowance is made for future discretionary pension increases to be awarded.

In addition to the statutory funding objective, the Trustee has agreed with the Employers to adopt a further funding target as part of the overall funding plan. This is referred to as the Ongoing Target. Under the Ongoing Target, the Trustee and the Employers aim for the DB Section to have sufficient assets to cover accrued benefits assuming that the Employers continue indefinitely, that the Employers are able to continue to award discretionary pension increases in line with their policy adopted from time to time and that the Trustee invests in such a way as to expect to be able to fund the accrued benefits (and the future discretionary pension increases) through a combination of the assets held, future contributions, and returns on those assets and contributions which are expected to exceed the returns on matching assets such as gilts.

The most recent full actuarial valuation of the DB Section of the Scheme was carried out as at 5 April 2020. This showed that on that date:

	Scheme Solvency Target (technical provisions)	**Ongoing Target**
	£m	£m
Assets	7,714	7,714
Amount needed to provide benefits	7,127	7,060
Surplus	587	654

Method and significant actuarial assumptions at 5 April 2020:

The method and significant actuarial assumptions used to determine the funding targets are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

	Scheme Solvency Target (technical provisions)	**Ongoing Target**
Actuarial method used in the calculation	Defined accrued benefit method	Defined accrued benefit method
Discount rate	Term-dependent rates set by reference to the fixed interest gilt curve at the valuation date less a margin of 0.1% p.a. Equivalent to a single weighted average rate of around 0.6% p.a.	Term-dependent rates set by reference to the fixed interest gilt curve at the valuation date plus a margin of 0.7% p.a. over the period to 5 April 2032 and 0.4% p.a. thereafter. Equivalent to a single weighted average rate of around 1.2% p.a.
Future Retail Price Index inflation (RPI)	Term-dependent rates derived from the difference between fixed interest and index-linked gilt yields at the valuation date	Term-dependent rates derived from the difference between fixed interest and index-linked gilt yields at the valuation date
Future Consumer Price Index inflation (CPI)	0.8% p.a. below RPI over the period to 2030 and 0.4% p.a. below RPI thereafter.	0.8% p.a. below RPI over the period to 2030 and 0.4% p.a. below RPI thereafter.
Pension increases in payment	In line with the CPI assumption, subject to the relevant caps and floors that apply to pension increases under the Scheme Rules. No allowance for discretionary increases.	Guaranteed increases: in line with the Scheme Solvency Target assumptions. Discretionary increases: based on the projected margin of RPI (with a floor of 0% p.a. and a cap of 2.5% p.a.) over guaranteed increases with an allowance for inflation volatility of 1.5% p.a.
Pension increases in deferment	Statutory revaluation in line with inflation but capped at 5% p.a. is assumed to be in line CPI. The fixed 5% p.a. underpin is applied where appropriate.	Statutory revaluation in line with inflation but capped at 5% p.a. is assumed to be in line with CPI. The fixed 5% p.a. underpin is applied where appropriate.
Post retirement mortality – base rates	For males (female members) 96% (111%) of the mortality rates of the SAPS S3 Pensioner Amounts (Middle) tables published by the Continuous Mortality Investigation Bureau. For female dependants, 97% of the mortality rates of the SAPS S3 Dependants Amounts tables. Mortality improvements to 2020 are based on the CMI 2019 Core Projections model with a 1.75% p.a. (1.5% p.a.) long-term trend for males (females), a smoothing parameter of 7.5 and an initial addition of 0.5%.	
Post retirement mortality – future	Future improvements in mortality for males (females) are assumed to be in line with the CMI 2019 Core Projections model with a 1.75% p.a. (1.5% p.a.) long-term trend, a smoothing parameter of 7.5 and an initial addition of 0.5%.	

ACTUARY'S CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

Actuarial certification for the purposes of regulation 10(6) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of Scheme: Prudential Staff Pension Scheme – Defined Benefit Section

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective could have been expected on 5 April 2020 to be met for the period for which the Schedule is to be in force.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the statement of funding principles dated 26 April 2021.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

C G Singer
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson company

Watson House
London Road
Reigate
Surrey RH2 9PQ

26 April 2021

DEFINED BENEFIT SECTION – SCHEDULE OF CONTRIBUTIONS

SECTION 1: INTRODUCTION

1.1 This Schedule of Contributions has been prepared by Prudential Staff Pensions Limited ("the Trustee"), the Trustee of the Prudential Staff Pension Scheme ("the Scheme").

1.2 This Schedule specifies, for the period of five years from the date of certification of the Schedule, the rates and due dates of Employers (as defined in the Scheme Rules) and employee contributions to the Defined Benefit Section of the Scheme. It is subject to review from time to time as required by legislation and by the Scheme's Rules and the following actuarial investigations.

SECTION 2: EMPLOYERS' CONTRIBUTIONS

Contributions to the Defined Benefit Section

Contributions to provide for benefit accrual, risk benefits

2.1 During the period covered by this Schedule, normal Employer contributions shall be paid to the Defined Benefit Section of the Scheme in line with the minimum contributions as set out in DB Rule 2.4.1 of the Trust Deed and Rules. These contributions are as follows:

DB Members: For *DB Members* who are under the age of 62 or are entitled to accrue further pension in the Scheme:

- 12.5% of the *Salaries* and pensionable *Consolidation Payments* from time to time of the *DB Members*.

For *DB Members* in *Pensionable Service* who have attained the age of 62 and are not entitled to accrue any further pension but whose pension is increased prior to payment under the terms of DB Rule 3.1(5):

- 3% of Salaries.

Opt-out Participants: 1% of Salaries.

The terms in italics in this paragraph have the meanings as defined in the Trust Deed and Rules.

Contributions to provide for expenses

2.2 In addition to the contributions set out in paragraph 2.1 above, the Employers will pay contributions at the rate of £5m per year prior to 1 April 2021, £7m per year commencing from 1 April 2021 to 31 March 2023 inclusive and £6.25m per year commencing from 1 April 2023 to make provision for the expected management, administration and other expenses of running the Defined Benefit Section of the Scheme (including the payment of levies due to the Pension Protection Fund).

Contributions payable under any recovery plan

2.3. No Recovery Plan was required following the actuarial investigation as at 5 April 2020.

Payment of the Employers' contributions

2.4 The Prudential Assurance Company Limited ("the Company") will pay the above amounts on behalf of the Employers as a whole. The Employers agree that they are jointly and severally liable for the contributions set out in this Schedule

2.5 The contributions for each Scheme year under paragraph 2.2 will be paid in equal monthly instalments and in accordance with paragraph 4.1, unless the Company decides to pay the monthly instalments in advance.

SECTION 3: EMPLOYEE CONTRIBUTIONS

Contributions to the Defined Benefit Section

Normal contributions

3.1 No compulsory contributions are payable by active members of the Defined Benefit Section of the Scheme.

Additional Voluntary Contributions

3.2 Members of the Defined Benefit Section of the Scheme may choose to pay additional voluntary contributions.

3.3 Where a member elects to pay his or her additional voluntary contributions via salary sacrifice, the Employers pay contributions in accordance with Rule 2.5.3.

SECTION 4: MISCELLANEOUS

Timing of contributions

4.1 Contributions are to be remitted to the Trustee no later than the 19th day of the calendar month immediately following the calendar month to which the contributions relate (or in which they have been deducted from members' salary).

Augmentation costs

4.2 Contributions may need to be paid in addition to those set out in this Schedule if benefit improvements or augmentations are made. The amounts and timing of payment of such contributions will be determined in accordance with the Rules of the Scheme.

4.3 In particular, any contributions payable in relation to benefit improvements (including discretionary pension increases) or augmentations awarded to DB Members will be determined by the Scheme Actuary (after taking account of any surplus disclosed at the last actuarial valuation).

Section 75 debts

4.4 An Employer shall pay any sum due under Section 75 of the Pensions Act 1995 as a result of its cessation of participation in the Scheme except to the extent that other arrangements are made in accordance with applicable legislation.

Additional contributions from the Employers

4.5 Nothing in this Schedule shall preclude the payment of higher contributions than set out above. Such contributions can be treated as being covered by this Schedule.

SECTION 5: AGREEMENT OF EMPLOYERS AND TRUSTEE

5.1 The Trustee confirms it has received advice from the Scheme Actuary concerning the contents of this Schedule.

5.2 The Principal Employer (on behalf of all the Employers) and Trustee confirm their agreement to the contents of this Schedule.

Paul Cooper (Signed)

For and on behalf of
The Prudential Assurance Company Limited

William Rutherford (Signed)

For and on behalf of
Prudential Staff Pensions Limited

Signed 26 April 2021

DEFINED CONTRIBUTION SECTION

PAYMENT SCHEDULE FOR THE PRUDENTIAL STAFF PENSION SCHEME

Section 1 – INTRODUCTION

1.1 This payment Schedule has been prepared by Prudential Staff Pensions Limited ("the Trustee"), the Trustee of the Prudential Staff Pension Scheme ("the Scheme").

1.2 This Schedule specifies the rates and due dates of Employers' (as defined in the Scheme Rules) and employee contributions to the Defined Contribution Section of the Scheme. It is subject to review from time to time as required by legislation and by the Scheme's Rules.

1.3 The Schedule is effective from the earlier of 1 July 2019 and the date of agreement between the Employers and Trustee shown in Section 6 of this document.

Section 2 – EMPLOYERS' CONTRIBUTIONS

Contributions to the Defined Contribution Section

Employer contributions

2.1 The Employers shall pay an amount each month to the Defined Contribution Section calculated by reference to the appropriate part of each DC Active Member's Pensionable Pay and, if appropriate, to each DC Active Member's contribution deducted from Pensionable Pay for that month, as set out in the following table:

DC Active Member's contribution as a whole percentage of the Pensionable Pay which is attributable to the appropriate month %	Employer contribution as a whole percentage of the Pensionable Pay which is attributable to the appropriate month %
0	8
1	9
2	10
3	11
4	12
5 or more	13

2.2 For the period up to 30 June 2019 inclusive, Employers will also pay contributions to the DC Reserve Fund of the Defined Contribution Section equal to 1.25% of DC Active Members' Pensionable Pay. From 1 July 2019 to 31 December 2020 inclusive, Employers will pay contributions to the DC Reserve Fund equal to 0.75% of DC Active Members' Pensionable Pay. From 1 January 2021, the Employers contributions to the DC Reserve Fund will revert to 1.25% of DC Active Members' Pensionable Pay.

2.3 In addition, Employers will pay contributions to cover the cost of providing risk benefits, expenses and augmentations under Defined Contribution Section Rule 2.3, 2.4 and 2.5 where these are not met from the DC Reserve Fund (see Section 5).

2.4 Employers' contributions are also payable under Defined Contribution Section Rule 8.2.2 and under Defined Contribution Section Rule 8.3.2.

2.5 The Employers will also pay contributions as required under the Defined Contribution Section Rules 2.8 and 8.7 in respect of DC Active Members who participate in the Salary Sacrifice Arrangement.

Section 3 - EMPLOYEE CONTRIBUTIONS

Contributions to the Defined Contribution Section

Normal contributions

3.1 DC Active Members may choose to contribute to the Defined Contribution Section in accordance with the Scheme's Rules.

Section 4 - MISCELLANEOUS

4.1 Contributions are to be remitted to the Trustee no later than the 19th day of the calendar month immediately following the calendar month to which the contributions relate (or in which they have been deducted from members' Pensionable Pay).

4.2 Nothing in this Schedule shall preclude the payment of higher contributions than set out above. Such contributions can be treated as being covered by this Schedule.

Section 5 - FUNDING OF THE DC RESERVE FUND

5.1 The Principal Employer (The Prudential Assurance Company Limited) directs the Trustee (until further reasonable notice in writing) to apply assets in the DC Reserve Fund, (subject to there being sufficient monies in the DC Reserve Fund for a particular purpose as determined by the Trustee) in accordance with DC Rule 13.2 as follows:

5.1.1 To apply as additional Employer credits under DC Rule 2.4 (but, for the avoidance of doubt, not DC Rules 2.2, 8.2.2, 8.3.2 and 8.7) amounts in respect of DC Members as notified to the Trustee by the Employers from time to time.

These credits include any amount required to be allocated to the Personal Account of a DC Member detailed below in (i) and (ii) in order to provide him or her with the same pension as would have applied had the annuity rates offered by Prudential Annuities Limited been guaranteed for a period of 2 months from the date of quotation.

(i) a DC Active Member leaving DC Service and taking an immediate pension under DC Rule 6.3, or

(ii) a DC Active Member who dies in service, for securing a pension under DC Rule 7.1(3) for a dependant.

5.1.2 To apply as the costs of securing Risk Benefits under DC Rule 2.3.

5.1.3 To pay any expenses under DC Rule 2.5.

5.2 The Actuary will, at least annually or more frequently if he or she so determines, certify the contributions to be paid by the Employers to the DC Reserve Fund which he or she estimates to be sufficient to fund the costs for which the DC Reserve Fund may be applied as set out in the paragraph above.

Section 6 - AGREEMENT OF EMPLOYERS AND TRUSTEE

6.1 The Principal Employer (on behalf of all the Employers) and Trustee confirm their agreement to the contents of this Schedule.

6.2 The Schedule is effective from the earlier of 1 July 2019 and the date of signing below.

C Bousfield (Signed)

For and on behalf of
The Prudential Assurance Company Limited

W Rutherford (Signed)

For and on behalf of
Prudential Staff Pensions Limited

Signed 20 June 2019

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

(i) show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and

(ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It is also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless it either intends to wind up the Scheme, or has no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which it should ensure is fair and impartial.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

The Trustee is responsible for the maintenance and integrity of the Scheme and the financial information included on the Scheme's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

For and on behalf of the Trustee

....	23 September 2021 ....
Chairman **Audit & Governance Committee**	Date

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF PRUDENTIAL STAFF PENSION SCHEME

Opinion

We have audited the financial statements of the Prudential Staff Pension Scheme ("the Scheme") for the year ended 5 April 2021 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 5 April 2021 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Trustee has prepared the financial statements on the going concern basis as it does not intend to wind up the Scheme, and as it has concluded that the Scheme's financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the Trustee's use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Trustee's assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Scheme will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Trustee as to the Scheme's high-level policies and procedures to prevent and detect fraud, as well as enquiring whether it has knowledge of any actual, suspected or alleged fraud.
- Reading Trustee, Audit and Risk committee, Investment committee and Operations Sub-committee minutes and the Scheme's breach register.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF PRUDENTIAL STAFF PENSION SCHEME (continued)

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Trustee's (or its delegates including the Scheme's administrators) may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the valuation of the longevity swap and Level 3 pooled investment vehicles. On this audit we do not believe there is a fraud risk related to revenue recognition because revenue in a pension scheme relates to contributions receivable as paid under an agreed schedule or pre-determined by the Trustee; there are no subjective issues or judgements required.

We did not identify any additional fraud risks.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted after the first draft of the financial statements have been prepared.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Trustee and its delegates (as required by auditing standards), and from inspection of the Scheme's regulatory and legal correspondence and discussed with the Trustee and its delegates the policies and procedures regarding compliance with laws and regulations.

As the Scheme is regulated by The Pensions Regulator, our assessment of risks involved gaining an understanding of the control environment including the Scheme's procedures for complying with regulatory requirements and reading the minutes of Trustee meetings.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Scheme is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related pensions legislation), and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Scheme is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation, or the loss of the Scheme's registration. We identified the following areas as those most likely to have such an effect: pensions legislation and data protection legislation, recognising the financial and regulated nature of the Scheme's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Trustee and its delegates and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We have reported separately on contributions payable under the Schedule of contributions and Payment Schedule in our statement about contributions on page 61 of the annual report.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF PRUDENTIAL STAFF PENSION SCHEME (continued)

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities, the Implementation Statement and the summary of contributions) the Schedule of Contributions, the Payment Schedule and the actuarial certification of the schedule of contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in its statement set out on page 36, the Scheme Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to wind up the Scheme, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Scheme Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme Trustee, for our audit work, for this report, or for the opinions we have formed.

Gemma Broom 23 September 2021
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
2 Forbury Place
33 Forbury Road
Reading
Berkshire RG1 3AD

FUND ACCOUNT

For the year ended 5 April 2021

	Note	2021 Defined Benefit Section £m	2021 Defined Contribution Section £m	2021 Total £m	2020 Defined Benefit Section £m	2020 Defined Contribution Section £m	2020 Total £m
CONTRIBUTIONS AND BENEFITS							
Employer contributions	4	7.5	47.0	54.5	8.1	43.9	52.0
Employee contributions	4	0.2	1.4	1.6	0.3	0.9	1.2
Total contributions	4	7.7	48.4	56.1	8.4	44.8	53.2
Transfers in	5	-	0.5	0.5	-	1.5	1.5
Other income	6	-	-	-	-	0.2	0.2
		7.7	48.9	56.6	8.4	46.5	54.9
Benefits paid or payable	7	237.0	0.8	237.8	238.5	1.0	239.5
Payments to and on account of leavers	8	102.2	18.5	120.7	92.1	34.5	126.6
Other payments	9	-	1.3	1.3	-	2.5	2.5
Administrative expenses	10	9.3	0.8	10.1	5.9	1.6	7.5
		348.5	21.4	369.9	336.5	39.6	376.1
NET (WITHDRAWALS)/ADDITIONS FROM DEALINGS WITH MEMBERS		(340.8)	27.5	(313.3)	(328.1)	6.9	(321.2)
RETURNS ON INVESTMENTS							
Investment income	11	119.0	-	119.0	122.2	-	122.2
Change in market value of investments	14	(282.4)	148.4	(134.0)	633.8	(47.0)	586.8
Investment management expenses	12	(3.5)	-	(3.5)	(4.0)	-	(4.0)
NET RETURNS ON INVESTMENTS		(166.9)	148.4	(18.5)	752.0	(47.0)	705.0
NET (DECREASE)/INCREASE IN THE FUND FOR THE YEAR		(507.7)	175.9	(331.8)	423.9	(40.1)	383.8
TRANSFERS BETWEEN SECTIONS	13	0.7	(0.7)	-	0.2	(0.2)	-
OPENING NET ASSETS		7,714.0	408.9	8,122.9	7,289.9	449.2	7,739.1
CLOSING NET ASSETS		7,207.0	584.1	7,791.1	7,714.0	408.9	8,122.9

The notes on pages 42 to 60 form part of these financial statements.

STATEMENT OF NET ASSETS (AVAILABLE FOR BENEFITS)

At 5 April 2021

	Note	2021 Defined Benefit Section £m	2021 Defined Contribution Section £m	2021 Total £m	2020 Defined Benefit Section £m	2020 Defined Contribution Section £m	2020 Total £m
INVESTMENT ASSETS							
Bonds		6,163.9	-	6,163.9	6,491.8	-	6,491.8
Pooled investment vehicles	15	803.6	582.0	1,385.6	749.6	408.5	1,158.1
Derivatives	16	1,587.0	-	1,587.0	1,950.6	-	1,950.6
Cash instruments		49.7	-	49.7	85.8	-	85.8
AVC investments	17	2.1	-	2.1	1.6	-	1.6
Cash deposits		14.5	1.6	16.1	113.5	0.2	113.7
Other investment balances	18	30.0	-	30.0	37.7	-	37.7
		8,650.8	583.6	9,234.4	9,430.6	408.7	9,839.3
INVESTMENT LIABILITIES							
Derivatives	16	(1,421.1)	-	(1,421.1)	(1,695.5)	-	(1,695.5)
Longevity insurance contract	16	(17.0)	-	(17.0)	-	-	-
Other investment balances	18	(1.5)	-	(1.5)	(19.7)	-	(19.7)
		(1,439.6)	-	(1,439.6)	(1,715.2)	-	(1,715.2)
TOTAL NET INVESTMENTS		7,211.2	583.6	7,794.8	7,715.4	408.7	8,124.1
CURRENT ASSETS	22	8.8	0.7	9.5	13.6	0.8	14.4
CURRENT LIABILITIES	23	(13.0)	(0.2)	(13.2)	(15.0)	(0.6)	(15.6)
CLOSING NET ASSETS		7,207.0	584.1	7,791.1	7,714.0	408.9	8,122.9

The notes on pages 42 to 60 form part of these financial statements.

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations for the Defined Benefit Section, is dealt with in the Report on Actuarial Liabilities on pages 28 and 29 of the Annual Report and these financial statements should be read in conjunction with this report.

These financial statements were approved by the Trustee on 23 September 2021 (date)

Signed on behalf of the Trustee

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Keith Bedell-Pearce

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David Green

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 5 April 2021

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pensions Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (Revised 2018).

The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Scheme has adequate resources to realise its assets and meet pension payments in the normal course of affairs (continue to operate) for at least the next twelve months. The Trustee considered the impact of the COVID-19 pandemic on the Scheme and the sponsoring employer's financial position as well as the Solvency II capital position of the M&G plc group, M&G plc being the ultimate parent. The Scheme as at 14 July 2021 continues to be in surplus on a technical provisions basis at 109%. The Trust Deed and Rules allows the Scheme to continue should the Sponsoring employer go into liquidation. The Shareholder Solvency II coverage ratio of the M&G plc group as at 30 June 2021 was 198% (unaudited) and 182% at 31 December 2020 (unaudited). M&G plc have published a range of sensitivity analysis of the Shareholder Solvency II coverage ratio in its "M&G plc interim financial report", this sensitivity analysis demonstrates the resilience of the M&G plc group's Solvency II capital position to significant adverse changes in market conditions. The Trustee believes that the sponsoring employer will continue to support the Scheme and make contributions as they fall due. The Trustee is confident that the Scheme will have sufficient funds to continue to meet is liabilities as they fall due for at least 12 months from the date of approval of these financial statements and therefore, have prepared the financial statements on a going concern basis.

2. IDENTIFICATION OF THE FINANCIAL STATEMENTS

The Scheme is established as a trust under English law. The addresses for enquiries to the Scheme are as follows:

DB Section	DC Section
Prudential Staff Pension Scheme	Prudential Staff Pension Scheme
XPS Administration Limited	Prudential (PSPS DC)
3rd Floor	LANCING BN15 8GB
Priory Place	
New London Road	
Chelmsford	
Essex CM2 0PP	

3. ACCOUNTING POLICIES

(a) Accounting Convention

The financial statements are prepared on an accruals basis.

(b) Contributions

Employee Additional Voluntary Contributions (AVCs) are accounted for when they are deducted from pay by the employer.

Employer normal contributions which are expressed as a rate of salary are accounted for on the same basis as the employees' contributions, in accordance with the Schedule of Contributions or payment schedule in force during the year.

Employer augmentation contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, on a receipts basis.

Employer additional contributions are recognised on the due dates in accordance with the Schedule of Contributions or in the absence of a formal agreement on a receipts basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

3. ACCOUNTING POLICIES (continued)

(c) Payments to Members

Pensions in payment are accounted for in the period to which they relate.

Benefits are accounted for in the period in which the member notifies the Trustee of their decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.

Individual transfers in or out are accounted for when the member liability is accepted or discharged which is normally when the transfer is paid or received.

Where the Trustee is required to settle tax liabilities on behalf of a member (such as when lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits this is shown separately within benefits.

Opt outs are accounted for when the Scheme is notified of the opt-out.

(d) Expenses

Expenses are accounted for on an accruals basis. The Scheme bears all the costs of administration.

(e) Investment Income

Dividends from equities are accounted for on the ex-dividend date.

Income from bonds and other interest receivable is taken into account on an accruals basis and includes interest bought and sold on investment purchases and sales.

Income from pooled investment vehicles is accounted for when declared by the fund manager.

Income arising on the underlying investments of accumulation funds is reflected within the change in market value.

(f) Investments

Investments are included at fair value as follows:

Quoted securities in active markets are usually valued at the current bid prices at the reporting date.

Accrued interest is excluded from the market value of bonds and is included in investment income receivable.

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

The longevity insurance contract has been valued by the Trustee based on professional advice from the Scheme Actuary. The value stated is based on the collateral value of the contract being the value taken from the collateral mechanism as defined in the longevity swap contract. Premiums paid in relation to the longevity insurance contract are accounted for within purchases. The longevity insurance contract covers pensioners in payment in the Defined Benefit Section as at 5 April 2019.

Exchange traded futures valued as the sum of the daily mark-to-market values, which is a calculated difference between the settlement prices at the reporting date and the inception date.

Swaps are valued based on the current value of future cash flows arising from the swap, determined using discounted cash flow models and market data at the reporting date.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

3. ACCOUNTING POLICIES (continued)

(g) Foreign Currency Translation

Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction. Monetary items denominated in foreign currencies are translated into sterling, the Scheme's functional and presentational currency, using the closing exchange rates at the year end.

(h) Currency

The Scheme's functional and presentational currency is Pounds Sterling (GBP).

(i) Critical accounting estimates and judgements

The preparation of the financial statements requires the Trustee to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The Trustee confirms that no judgements have had a significant effect on amounts recognised in the financial statements.

4. CONTRIBUTIONS

		2021	
	Defined Benefit Section £m	Defined Contribution Section £m	Total £m
Employer contributions			
Normal	2.5	47.0	49.5
Additional	5.0	-	5.0
	7.5	47.0	54.5
Employee contributions			
Additional voluntary	0.2	1.4	1.6
	0.2	1.4	1.6
	7.7	48.4	56.1

		2020	
Employer contributions			
Normal	3.1	43.9	47.0
Additional	5.0	-	5.0
	8.1	43.9	52.0
Employee contributions			
Additional voluntary	0.3	0.9	1.2
	8.4	44.8	53.2

With effect from 1 September 2014 members' AVC contributions are deducted via Pensions Plus, the Company's salary sacrifice arrangement, unless the member chooses to opt out.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 5 April 2021

5. TRANSFERS IN

	Defined Benefit Section £m	2021 Defined Contribution Section £m	Total £m
Individual transfers in from other schemes	-	0.5	0.5
		2020	
Individual transfers in from other schemes	-	1.5	1.5

6. OTHER INCOME

	Defined Benefit Section £m	2021 Defined Contribution Section £m	Total £m
Claims on term insurance policies	-	-	-
		2020	
Claims on term insurance policies	-	0.2	0.2

7. BENEFITS PAID OR PAYABLE

	Defined Benefit Section £m	2021 Defined Contribution Section £m	Total £m
Pensions	210.5	-	210.5
Commutation of pensions and lump sum retirement benefits	25.3	0.4	25.7
Purchase of annuities	-	0.1	0.1
Lump sum death benefits	0.6	0.3	0.9
Taxation where lifetime or annual allowance exceeded	0.6	-	0.6
	237.0	0.8	237.8
		2020	
Pensions	206.9	-	206.9
Commutation of pensions and lump sum retirement benefits	29.9	0.7	30.6
Purchase of annuities	-	0.1	0.1
Lump sum death benefits	0.5	0.2	0.7
Taxation where lifetime or annual allowance exceeded	1.2	-	1.2
	238.5	1.0	239.5

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

8. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

		2021	
	Defined Benefit Section £m	Defined Contribution Section £m	Total £m
Individual transfers out to other schemes	102.2	18.5	120.7

		2020	
State Scheme Premiums	(0.9)	-	(0.9)
Group transfers out to other schemes	-	12.5	12.5
Individual transfers out to other schemes	93.0	22.0	115.0
	92.1	34.5	126.6

9. OTHER PAYMENTS

		2021	
	Defined Benefit Section £m	Defined Contribution Section £m	Total £m
Premiums on term insurance policies	-	1.3	1.3

		2020	
Premiums on term insurance policies	-	2.5	2.5

10. ADMINISTRATIVE EXPENSES

		2021	
	Defined Benefit Section £m	Defined Contribution Section £m	Total £m
Administration	1.6	0.2	1.8
Actuarial fees	3.1	0.4	3.5
Legal fees	3.4	0.1	3.5
Other professional fees	0.9	-	0.9
Audit fees	0.1	-	0.1
PPF levy	0.2	-	0.2
Other fees	-	0.1	0.1
	9.3	0.8	10.1

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 5 April 2021

10. ADMINISTRATIVE EXPENSES (continued)

		2020	
Administration	1.9	1.1	3.0
Actuarial & consultancy fees	2.5	0.2	2.7
Legal fees	0.8	0.1	0.9
Communication fees	0.4	0.2	0.6
Audit fees	0.1	-	0.1
PPF levy	0.2	-	0.2
	5.9	1.6	7.5

11. INVESTMENT INCOME

		2021	
	Defined Benefit Section	Defined Contribution Section	Total
	£m	£m	£m
Income from bonds	102.2	-	102.2
Income from pooled investment vehicles	16.7	-	16.7
Interest on cash deposits	0.1	-	0.1
	119.0	-	119.0

		2020	
Income from bonds	103.8	-	103.8
Income from pooled investment vehicles	18.3	-	18.3
Interest on cash deposits	0.1	-	0.1
	122.2	-	122.2

12. INVESTMENT MANAGEMENT EXPENSES

		2021	
	Defined Benefit Section	Defined Contribution Section	Total
	£m	£m	£m
Fund size-related fees	4.7	-	4.7
Fee rebates	(1.6)		(1.6)
Investment custodian fees	0.4	-	0.4
	3.5	-	3.5

		2020	
Fund size-related fees	4.4	-	4.4
Fee rebates	(0.7)		(0.7)
Investment custodian fees	0.3	-	0.3
	4.0	-	4.0

Investment fees for the defined contribution section are incurred through the bid-offer spread on investment within pooled investment vehicles and as such are shown under change in market value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

13. TRANSFERS BETWEEN SECTIONS

	2021		
	Defined Benefit Section	Defined Contribution Section	Total
	£m	£m	£m
Transfers between sections	0.7	(0.7)	-

	2020		
	Defined Benefit Section	Defined Contribution Section	Total
	£m	£m	£m
Transfers between sections	0.2	(0.2)	-

The figures above represent the investment of AVC funds into the Commercial AVC arrangement, the investments for which are held under the DB Section.

14. RECONCILIATION OF INVESTMENTS

	Value at 05.04.2020	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 05.04.2021
Defined Benefit Section	£m	£m	£m	£m	£m
Bonds	6,491.8	4,759.8	(4,850.8)	(236.9)	6,163.9
Pooled investment vehicles	749.6	803.8	(761.4)	11.6	803.6
Derivatives	255.1	924.6	(972.7)	(41.1)	165.9
Longevity insurance contract	-	-	-	(17.0)	(17.0)
Cash instruments	85.8	16,774.5	(16,810.6)	-	49.7
AVC investments	1.6	0.7	(0.7)	0.5	2.1
	7,583.9	23,263.4	(23,396.2)	(282.9)	7,168.2
Cash deposits	113.5			0.5	14.5
Other investment balances	18.0			-	28.5
	7,715.4			(282.4)	7,211.2
Defined Contribution Section					
Pooled investment vehicles	408.5	48.4	(23.3)	148.4	582.0
Cash deposits	-				1.4
Cash in transit	0.2				0.2
	408.7				583.6

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

14. RECONCILIATION OF INVESTMENTS (continued)

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty. The information in respect of direct transaction costs during the accounting period and prior year is unavailable. However, the transaction costs analysed by investment portfolio for the year to 31 December 2020 were as follows:

	£m
M&G Passive Matched	0.2
M&G Active Index-Linked	2.4
M&G Active Fixed Gilt	0.8
M&G Corporate Bond	1.0
M&G Long Dated Buy & Maintain Credit	0.7
	5.1

In addition, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles.

For the Defined Contribution Section investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. The investment manager holds the investment units on a pooled basis for the Trustee. The Scheme administrator allocates investment units to members. The Trustee may hold investment units representing the value of employer contributions that have been retained by the Scheme that relate to members leaving the Scheme prior to vesting.

Defined Contribution pooled investment vehicles are allocated to members and the Trustee as follows:

	2021 £m	2020 £m
Members	576.9	403.0
Trustee	5.1	5.5
	582.0	408.5

15. POOLED INVESTMENT VEHICLES

The Scheme's investments in pooled investment vehicles at the year end comprised:

Defined Benefit Section	2021 £m	2020 £m
Bonds	155.0	270.2
Property	206.7	140.2
Sterling cash liquidity	84.2	119.0
Private market funds	357.7	220.2
	803.6	749.6

Defined Contribution Section		
Equity	491.5	326.3
Bonds	55.4	41.6
Property	-	11.1
Sterling cash liquidity	19.3	19.3
Diversified Growth	15.8	10.2
	582.0	408.5

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

16. DERIVATIVES

Objectives and policies

The Trustee has authorised the use of derivatives by its Investment Managers as part of its investment strategy for the Scheme as follows.

Futures – the Trustee did not want cash held to be "out of the market" and therefore bought exchange traded index based futures contracts which had an underlying economic value broadly equivalent to cash held.

Swaps – the Trustee's aim is to match as far as possible the fixed income portfolio and the Scheme's long term liabilities, in particular in relation to their sensitivities to interest rate movements. Due to the lack of available long dated bonds the Trustee has entered into OTC interest rate swaps during the year that extend the duration of the fixed income portfolio to better match the long term liabilities of the Scheme.

Forward foreign exchange – in order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, a currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the currency exposure of these overseas investments to the targeted level.

At the year end the Scheme held the following derivatives:

	2021 Asset £m	2021 Liability £m	2020 Asset £m	2020 Liability £m
Futures	-	-	0.1	(0.6)
Swaps	1,586.0	(1,421.0)	1,949.7	(1,694.2)
Forward foreign exchange contracts	1.0	(0.1)	0.8	(0.7)
	1,587.0	(1,421.1)	1,950.6	(1,695.5)
	165.9		255.1	

Futures

Nature	Expiration	Asset £m	Liability £m
Long Gilt	June 2021	-	-
Total 2021		-	-
Total 2020		0.1	(0.6)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

16. DERIVATIVES (continued)

Swaps

Nature	Expiration (years)	Notional principal £m	Asset £m	Liability £m
Currency swaps (OTC)	16-20	3,884	-	(0.8)
Total return swaps (OTC)	0-5	16.5	-	-
Inflation swaps (OTC)	0-5	735.9	18.5	(17.3)
	6-10	555.6	38.7	(77.9)
	11-15	670.1	87.4	(91.0)
	16-20	431.6	108.4	(213.6)
	21-25	308.7	139.5	(53.0)
	26-30	394.3	141.2	(252.7)
	31-35	117.3	153.7	(75.6)
Interest rate swaps (OTC)	0-5	454.8	146.4	(47.2)
	6-10	323.0	85.6	(47.5)
	11-15	567.8	138.6	(131.1)
	16-20	503.0	108.4	(167.8)
	21-25	562.1	160.1	(137.4)
	26-30	463.8	139.6	(79.8)
	31-35	287.0	117.4	(26.8)
	36-40	17.7	2.5	(1.5)
Total 2021			1,586.0	(1,421.0)
Total 2020			1,949.7	(1,694.2)

Included in net assets is collateral of £482.1m (2020: £604.4m) which has been pledged to the counterparties.

At the year end the Scheme held £1,159.9m (2020: £1,418.6m) of collateral belonging to the counterparties. This collateral is not reported within the Scheme's net assets.

Forward Foreign Exchange

Contract	Settlement Date	Currency bought	Currency sold	Asset £m	Liability £m
Forward OTC	May 2021	GBP	EUR	-	(0.1)
Forward OTC	May 2021	USD	GBP	0.7	-
Forward OTC	May 2021	EUR	GBP	0.3	-
Total 2021				1.0	(0.1)
Total 2020				0.8	(0.7)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

16. DERIVATIVES (continued)

Longevity contract

The Trustee has entered into a longevity hedging insurance contract designed to protect the Scheme and Employer against the risk of certain members living significantly longer than expected. The longevity hedging insurance contract is with Pacific Life Re and was signed in November 2020. Under this agreement, the Scheme agrees to make a series of cash flows (the premiums) to be paid over an agreed term (c.70 years from 2020) in exchange for Pacific Life Re paying the actual pension benefits paid to the members (the claims). Under the agreement, collateral was first posted in December 2020 and calculations will be undertaken quarterly thereafter. Under the terms of the agreement, collateral of nominal and index linked gilts has been pledged during the year (2020: £nil) and the collateral as at the year-end was £70m (2020: £nil). The valuation of the longevity hedging insurance contract is the collateral value being the value taken from the collateral mechanism as defined in the longevity swap contract.

17. AVC INVESTMENTS

All members who participate in AVC arrangements or have transfers-in on a money purchase basis will receive an annual statement made up to 5 April confirming the amounts held in their account and the movements in the year.

DB Section

With effect from 6 April 2006 members' AVCs can be invested through an insurance policy with The Prudential Assurance Company Limited or via the In House arrangement.

Policy with The Prudential Assurance Company Limited

From April 2006 the Trustee holds certain AVC assets, invested separately from the main fund, in the form of units in managed funds securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions.

At 5 April 2021 there were 29 (2020: 27) active members paying additional voluntary contributions under this arrangement and 3 (2020: 4) deferred members.

The aggregate amounts of AVC investments are as follows:

	2021 £m	2020 £m
Prudential	2.1	1.6

In House arrangement including transfers in

Included within the Defined Benefit section assets are AVCs with a value of £18.6m (2020: £17.2m). This value is split between DB AVC £17.7m (2020: £16.0m) and DB Money Purchase Transfer In ("MPTV") £0.9m (2020: £1.2m).

Details of the membership at the year end are as follows:

	Active	Deferred	Total
DB AVC	48	546	594
DB MPTV	1	53	54

DC Section

In accordance with the Scheme rules all member contributions are treated as additional voluntary contributions. At 5 April 2021 there were 3,831 (2020: 3,556) members paying additional voluntary contributions and the value of the AVC investments included in the DC Section investments was £188.1m (2020: £133.1m).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

18. OTHER INVESTMENT BALANCES

	2021	2020
	£m	£m
Amounts due from broker	-	6.1
Dividends and interest receivable	30.0	31.6
	30.0	37.7
Amounts due to broker	(1.5)	(19.7)
	28.5	18.0

19. FAIR VALUE DETERMINATION

The fair value of financial instruments has been estimated using the following fair value hierarchy:

Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities fall within the above hierarchy as follows:

	At 5 April 2021			
Defined Benefit Section	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Bonds	-	6,163.9	-	6,163.9
Pooled investment vehicles	-	339.2	464.4	803.6
Derivatives	0.9	165.0	-	165.9
Longevity insurance contract	-	-	(17.0)	(17.0)
Cash instruments	49.7	-	-	49.7
AVC investments	-	-	2.1	2.1
Cash deposits	14.5	-	-	14.5
Other investment balances	28.5	-	-	28.5
	93.6	6,668.1	449.5	7,211.2
Defined Contribution Section				
Pooled investment vehicles	-	549.0	33.0	582.0
Cash deposits	1.6	-	-	1.6
	1.6	549.0	33.0	583.6
	95.2	7,217.1	482.5	7,794.8

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

19. FAIR VALUE DETERMINATION (continued)

	At 5 April 2020			
Defined Benefit Section	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Bonds	-	6,491.8	-	6,491.8
Pooled investment vehicles	-	389.3	360.3	749.6
Derivatives	(0.4)	255.5	-	255.1
Cash instruments	85.8	-	-	85.8
AVC investments	-	-	1.6	1.6
Cash deposits	113.5	-	-	113.5
Other investment balances	18.0	-	-	18.0
	216.9	7,136.6	361.9	7,715.4
Defined Contribution Section				
Pooled investment vehicles	-	379.8	28.7	408.5
Cash deposits	0.2	-	-	0.2
	0.2	379.8	28.7	408.7
	217.1	7,516.4	390.6	8,124.1

20. INVESTMENT RISK DISCLOSURES

(a) Investment Risks

FRS 102 requires the disclosure of information in relation to certain investment risks to which the Scheme is exposed to at 5 April 2021. These risks are set out by FRS 102 as follows:

1. Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

2. Market risk: this comprises currency risk, interest rate risk and other price risk.

   - Currency risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

   - Interest rate risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market interest rates.

   - Other price risk: this is the risk that the fair value of future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines its investment strategy after taking advice from its Investment Consultant. The Scheme has exposure to the above risks due to the investments it makes. The Trustee manages investment risks, including credit risk and market risk, by taking them into account when setting the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee via regular reviews of the investment portfolio. The investment objectives and risk limits of the Scheme are further detailed in the Statement of Investment Principles.

The following sections summarise the various financial risks to which the Scheme's investments are exposed.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

20. INVESTMENT RISK DISCLOSURES (continued)

(b) Defined Benefit Section

Credit risk

The Scheme is subject to direct credit risk because the Scheme invests in investment grade and sub investment grade bonds, over the counter ('OTC') derivatives and cash. The Scheme is exposed to credit risk relating to the longevity insurance contract. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to those pooled investment vehicles with the pooled managers. The Scheme is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles ("PIVs").

Analysis of direct credit risk

2021	Investment grade	Non-investment grade	Unrated	Total
	£m	£m	£m	£m
Bonds	6,148.1	15.8	-	6,163.9
OTC Derivatives	165.9	-	-	165.9
Longevity insurance contract	-	-	(17.0)	(17.0)
Cash and cash instruments	64.2	-	-	64.2
Pooled investment vehicles	-	-	803.6	803.6
Accrued investment income	30.0	-	-	30.0
Total	6,408.2	15.8	786.6	7,210.6

2020	Investment grade	Non-investment grade	Unrated	Total
	£m	£m	£m	£m
Bonds	6,432.6	59.2	-	6,491.8
OTC Derivatives	255.1	-	-	255.1
Cash and cash instruments	199.3	-	-	199.3
Pooled investment vehicles	-	-	749.6	749.6
Accrued investment income	31.6	-	-	31.6
Total	6,918.6	59.2	749.6	7,727.4

The above tables exclude AVC investments, cash in transit and amounts due to and from brokers

Credit risk is managed by the Scheme's investment managers through several methods. The Trustee reduces credit risk through investment in a range of bond managers, who perform detailed credit analysis and diversify their portfolios across a number of securities; daily collateralisation of derivatives; investment in cash funds with a high credit quality or requiring all counterparties to be rated at least investment grade.

OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC derivatives is reduced by collateral arrangements to back the liability matching portfolio. Credit risk also arises on forward foreign currency contracts (within both the pooled funds and segregated portfolios). The forward foreign currency contracts in place with M&G have collateral arrangements in place. Within the pooled funds it is expected that all counterparties will have been evaluated and meet required standards.

Cash is held within financial institutions which are at least investment grade credit rated.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

20. INVESTMENT RISK DISCLOSURES (continued)

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring fenced from the pooled manager, the regulatory environments in which the pooled managers operate, and diversification of investments amongst a number of pooled arrangements.

The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the regulatory and operating environment of the pooled manager.

Credit risk arising from the longevity hedging contract is mitigated by the regulatory environment in which the reinsurer operates, the captive insurer (Guernsey Incorporated Cell) and the collateral arrangements required to back the longevity hedge contracts. The Trustee carries out annual monitoring of the financial strength of the reinsurer and any changes to the regulatory environment it operates within.

A summary of pooled investment vehicles by type of arrangement is as follows:

	2021	2020
	£m	£m
Authorised unit trusts	156.8	250.3
Open ended investment vehicle	178.4	83.3
Shares of limited liability partnerships	238.6	161.6
Irish Section 110 Company	97.4	115.4
Dublin registered QIAIF [1]	132.4	139.0
Total	803.6	749.6

1. *QIAIF refers to Qualifying Investor Alternative Investment Fund.*

Indirect credit risk arises in relation to underlying investments held in the bond and liquidity pooled investment vehicles. This risk is mitigated by investing in pooled funds which are actively managed by skilled investment managers and ensuring that the range of investments is well diversified.

Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets which are denominated in a non-sterling currency. The Trustee has considered the impact of currency risk by investing in sterling hedged share classes where possible and appropriate.

The table below provides gross overseas currency exposure for both segregated and pooled investment vehicles.

	2021	2020
	£m	£m
Currency		
US Dollar	234.3	253.0
Japanese Yen	0.0	-0.1
Euro	212.1	206.3
Other	3.5	3.1
Total	449.9	462.3

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

20. INVESTMENT RISK DISCLOSURES (continued)

Interest rate risk

The Scheme is subject to interest rate risk because a significant proportion of the Scheme's investments are held in the liability matching portfolio (gilts, index linked gilts, corporate bonds, asset backed securities, swaps and cash), secure income assets, active gilt mandates, multi strategy bond funds and the longevity hedging contract.

In relation to the growth assets, the Scheme has interest rate risk from exposures across the multi strategy credit mandates (Putnam and M&G Alpha Opportunities Fund), the illiquid credit mandates (M&G Companies Financing Fund, the M&G Debt Opportunities Funds, Greenoak Real Estate Debt Fund and the Orchard illiquid credit funds).

The majority of interest rate sensitive assets are held in the liability matching portfolios with M&G (around 95% of the Scheme's assets). Under this strategy, if interest rates fall, the value of liability matching assets will rise to help hedge the increase in the value placed on the Scheme's liabilities from a fall in the discount rate. Similarly, if interest rates rise the investments will fall in value as will liabilities because of an increase in the discount rate.

	2021	**2020**
	£m	**£m**
Direct		
Bonds	6,163.9	6,491.8
Swaps	165.0	255.5
Longevity insurance contract	(17.0)	-
Indirect		
Pooled Investment vehicles [1]	803.6	749.6
Total	7,115.5	7,496.9

[1.] Indirect PIVs relate to multi strategy credit mandates, illiquid credit mandates (Bond PIV), M&G Secure Property Income Fund, M&G Asset Backed Securities, BlackRock UK Strategic Alternative Income Fund and BlackRock Sterling Liquidity Fund.

Other price risk

Other price risk arises principally in relation to the Scheme's growth portfolio which includes equities and property, both held in pooled vehicles, and the private equity mandate. The Trustee manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

At the year end, the Scheme's exposure to investments subject to other price risk was:

	2021	**2020**
	£m	**£m**
Indirect		
Property Pooled investment vehicles [1]	206.7	140.2
Private Market Pooled investment vehicles [2]	357.7	220.2
Total	564.4	360.4

[1] Property PIV relates to the M&G Long Dated Asset Portfolio, the M&G Secure Property Income, and the BlackRock UK Strategic Alternative Income funds.

[2] Exposure classified as 'Private Market PIV' is invested in Orchard, Greenoak, M&G Debt Opportunities Fund (DOF) III and M&G DOF I, and the M&G UK Companies Financing Fund (CFF).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

20. INVESTMENT RISK DISCLOSURES (continued)

(c) Defined Contribution Section

Investment risks

The following is a summary of the key risks associated with the funds in which members of the Defined Contribution Section ("DC Section") of the Scheme ("Scheme") invest.

Interest rate risk

The DC Section is subject to indirect interest rate risk through investment in cash, bonds and gilts. However, since all investments are currently held through pooled investment vehicles, members and the DC Section's assets are only indirectly exposed to interest rate risk through the underlying investments in cash, bonds and gilts.

Other price risk

Other price risk arises from growth asset funds (e.g. equities) that are available to members of the DC Section. The Trustee manages other price risk by offering access to a range of funds that invest in a diverse portfolio of investments across various markets. The members and the DC Section's assets are indirectly exposed to these 'other price risks' since all investments are currently held through pooled investment vehicles.

Credit risk

The DC Section invests in pooled investment vehicles. Therefore, the DC Section and members are both directly and indirectly subject to credit risk. Direct credit risk arises with Prudential who provide the pooled investment vehicles for the DC Section and indirect credit risk arises from any holdings of bonds, gilts, and cash balances within these funds. In addition, any cash holdings held in the Trustee bank accounts (on members' behalf) will also be subject to credit risk.

The pooled investment vehicles are all unit linked or unitised insurance contracts and are unrated.

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled fund manager, the regulatory environments in which the pooled fund managers operate, and the diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new managers and on an ongoing basis monitors any changes to the operating environment of the pooled manager. Prudential is regulated by the Financial Conduct Authority. The Trustee manages the indirect credit risk by offering access to a range of funds that invest in a diverse portfolio of investments across various markets.

Currency risk

Similar to the other risks, the DC Section's assets are only indirectly exposed to currency risk through the Scheme's investment in pooled investment vehicles. Some of the fund options available to members are subject to currency risk through investment in equities and other overseas financial instruments. The Trustee does not hedge this risk, but instead manages it by offering access to funds that invest in a diverse portfolio of investments across various global markets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

20. INVESTMENT RISK DISCLOSURES (continued)

The extent to which funds on offer to members of the DC Section are subject to the above indirect risks are shown in the following table:

Fund	Credit risk	Interest rate risk	Currency risk	Other risk
PSPS Cash	Yes	Yes	No	No
PSPS Index-Linked Gilts – passive	Yes	Yes	No	No
PSPS Index-Linked Gilts - active	Yes	Yes	No	No
PSPS Fixed Interest Bonds - active	Yes	Yes	No	No
PSPS Long-dated Gilts - passive	Yes	Yes	No	No
PSPS Corporate Bonds - active	Yes	Yes	No	No
PSPS UK Equity - passive	No	No	No	Yes
PSPS UK Equity - active	No	No	No	Yes
PSPS Overseas Equity - passive	No	No	Yes	Yes
PSPS Global Equity - active	No	No	Yes	Yes
PSPS Emerging Markets Equity - active	No	No	Yes	Yes
PSPS Diversified Growth - active	Yes	Yes	Yes	Yes
PSPS Total Return Bond - active	Yes	Yes	Yes	No
PSPS Responsible Investment Equities - passive	No	No	Yes	Yes
Prudential With-Profits	Yes	Yes	Yes	Yes

21. CONCENTRATION OF INVESTMENTS

There were no investments that accounted for more than 5% of the Scheme's assets at 5 April 2021 (2020: Nil).

22. CURRENT ASSETS

		2021	
	Defined Benefit Section £m	Defined Contribution Section £m	Total £m
Bank balance	8.4	0.7	9.1
Contributions receivable - employer	0.4	-	0.4
	8.8	0.7	9.5

		2020	
Bank balance	13.2	0.8	14.0
Contributions receivable - employer	0.4	-	0.4
	13.6	0.8	14.4

Included in the Defined Contribution bank balance is £0.7m (2020: £0.7m) which is not allocated to members. All contributions receivable relate to the month of March 2021 and were paid in full to the Scheme within the timescale required by the Schedule of Contributions and Payment Schedule currently in force.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 5 April 2021

23. CURRENT LIABILITIES

	Defined Benefit Section	Defined Contribution Section	Total
	2021		
	£m	£m	£m
Accrued expenses	3.4	0.2	3.6
Unpaid benefits	6.7	-	6.7
Tax payable	2.9	-	2.9
	13.0	0.2	13.2
	2020		
Accrued expenses	4.4	0.6	5.0
Unpaid benefits	7.6	-	7.6
Tax payable	3.0	-	3.0
	15.0	0.6	15.6

24. CAPITAL COMMITMENTS

At the year end the Scheme had capital commitments with Orchard, amounting to £6.1m (2020: £50.7m), with M&G amounting to £3.5m (2020: £2.8m), with GreenOak, amounting to £15.7m (2020: £27.3m) and with BlackRock amounting to £175.5m (2020: £193.0).

The Scheme also has the obligation to pay premiums under the longevity insurance contract each quarter on the cashflows covered.

25. RELATED PARTIES

The Scheme received employer contributions in respect of five Directors of the Trustee Company who are active members. There are five Trustee Directors who are pensioner members of the Scheme, and one Trustee Director who is classed as a deferred member as at the Scheme year end date. During the year the Company paid Trustee fees of £44k (2020: £42k) of which £8k was payable at year end (2020: £8k).

The Scheme holds assets managed by M&G Investment Management Limited, M&G Real Estate Limited and The Prudential Assurance Company Limited which form part of the M&G Group. Fees are payable to these companies as disclosed in Note 12.

26. TAXATION

The Scheme is a registered pension scheme within the meaning of Section 153 of the Finance Act 2004.

27. GMP EQUALISATION

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. On 20 November 2020, the High Court also ruled that pension schemes will need to revisit individual transfer payments made since May 1990.

Under the rulings, schemes are required to backdate benefit and transfer out adjustments in relation to GMP equalisation and provide interest on the backdated amounts. Based on an initial assessment of the likely backdated amounts and related interest the Trustee does not expect these to be material to the financial statements and therefore has not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE PRUDENTIAL STAFF PENSION SCHEME

Statement about contributions

We have examined the summary of contributions payable under the Schedule of Contributions and Payment Schedule to the Prudential Staff Pension Scheme in respect of the Scheme year ended 5 April 2021 which is set out on page 62.

In our opinion contributions for the Scheme year ended 5 April 2021 as reported in the summary of contributions and payable under the Schedule of Contributions and Payment Schedule have in all material respects been paid at least in accordance with the Payment Schedule dated 20 June 2019 and at least in accordance with the Schedule of Contributions certified by the Actuary on 16 May 2018.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions and Payment Schedule. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions and Payment Schedule.

Respective responsibilities of Trustee and Auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 62, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions and Payment Schedule showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions and Payment Schedule.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions and Payment Schedule to the Scheme and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Scheme's Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee for our work, for this statement, or for the opinions we have formed.

Gemma Broom
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
2 Forbury Place
33 Forbury Road
Reading
Berkshire RG1 3AD

Date: 23 September 2021

Statement of Trustee's Responsibilities in respect of Contributions

The Scheme's Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Payment Schedule and Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Scheme's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Scheme and for monitoring that contributions are made to the Scheme in accordance with the Schedules.

SUMMARY OF CONTRIBUTIONS PAYABLE IN THE YEAR

During the year, the contributions payable to the Scheme by the employer under the Schedule of Contributions and Payment Schedule were as follows:

	£m
Employer normal contributions	49.5
Employer additional contributions	5.0
Total contributions payable under the Schedule of Contributions and Payment Schedule as reported on by the Scheme auditor	54.5
Reconciliation to the financial statements:	
Contributions payable under Schedule of Contributions and Payment Schedule	54.5
Members' Additional Voluntary Contributions	1.6
Total contributions per the financial statements	56.1

This summary was approved by the Trustee on 23 September 2021 (date)

Signed on behalf of the Trustee

. . . .

Keith Bedell-Pearce   David Green

CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2021

This Statement has been prepared by Prudential Staff Pensions Limited as the Trustee of The Prudential Staff Pension Scheme (the Scheme) to demonstrate how the Scheme has complied with the governance standards introduced under the Occupational Pension Schemes (Charges and Governance) Regulations 2015 effective from 6 April 2015. This Statement covers both the Defined Contribution (DC) Section and the defined contribution assets held within the Defined Benefit (DB) Section. The defined contribution assets held in the DB Section are arising from Additional Voluntary Contributions (AVCs) and transfers in from other schemes.

This statement covers four key areas:

1. The PSPS Multi-asset Lifestyle, which is classed as the DC Section's default arrangement;
2. The processing of the Scheme's core financial transactions;
3. Charges and transaction costs within the Scheme;
4. The Trustee's compliance with the statutory knowledge and understanding (TKU) requirements.

1. The DC Section investment strategy relating to the PSPS Multi-asset Lifestyle

The Trustee has prepared a Statement of Investment Principles for the DC Section of the Scheme which governs decisions about investments including:

a. The Trustee's aims and objectives.

b. The Trustee's polices in relation to the:
   - Types of funds available to members;
   - Fees;
   - Investment Risk & Governance;
   - Monitoring of Performance;
   - Member Communications;
   - Responsible Investment.

c. An explanation of the Lifestyle options including the PSPS Multi-asset Lifestyle.

PSPS Multi-asset Lifestyle

With the introduction of Auto Enrolment Regulations, the Trustee needed to introduce a default investment strategy to cater for the investment needs of members who do not wish to select their own investments from the fund range on offer. The Trustee, with the help of its DC Section Investment Consultant, designed and made available to members the PSPS Multi-asset Lifecycle, in May 2013, the Employer's Auto Enrolment effective date.

In July 2017 changes were made to the PSPS Multi-asset Lifecycle to reflect the expectations of members to take their retirement benefits as a combination of cash, income drawdown and annuity purchase during retirement. At the same time, it was renamed as the PSPS Multi-asset Lifestyle.

The investment strategy of the PSPS Multi-asset Lifestyle option is to invest in a diverse range of investments which are expected to provide significant real returns over long periods (equities and diversified growth funds) for much of the member's working life, then switches gradually into assets that are more consistent with members taking their retirement benefits as a combination of cash, income drawdown and annuity purchase, as illustrated below.

In 2018 and 2019 the DC Section Investment Committee on behalf of the Trustee reviewed the PSPS Multi-asset Lifestyle and in particular as to whether an ESG (Environmental, Social and Governance) fund should be included, whether changes were required in the strategy, and the underlying managers in the PSPS Diversified Growth Fund ("DGF"). Agreed changes were implemented on 10 January 2020. Prior to the implementation announcements to members and changes to the communications and the Scheme's website were made.

CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2021 (continued)

From 10 January 2020, this strategy initially invests 100% in equities (25% PSPS Global Equity – active, 40% Overseas Equity – passive, 10% UK Equity – active, 10% UK Equity – passive, 10% Emerging Market Equity – active and 5% PSPS Responsible Investment Equity Fund) and between twenty years and ten years from retirement gradually builds up exposure to the PSPS Diversified Growth Fund – active, until at a point ten years before retirement it is invested 25% in equities and 75% in the PSPS Diversified Growth Fund – active. Then ten years from retirement the strategy also de-risks into PSPS Total Return Bonds – active and also, in the last Three years before retirement, the PSPS Cash Fund – active. The final allocation at retirement is 10% equities, 40% diversified, 30% total return bonds and 20% cash.

Prior to 10 January 2020 the strategy initially invested 100% in equities (25% PSPS Global Equity–active, 40% Overseas Equity–passive, 15% UK Equity–active, 10% UK Equity–passive and 10% Emerging Markets Equity–active). It gradually built up exposure to the PSPS Diversified Growth Fund– active between forty and ten years from retirement until at a point ten years before retirement it was invested 25% in equities and 75% in the PSPS Diversified Growth Fund –active. The strategy in the last ten years was the same as set out above.

Full details of the PSPS Multi-asset Lifestyle and the other two lifestyles can we found in the Lifestyle Profile Guide available from the DC Section of Scheme's website www.prudentialstaffps.co.uk

The Trustee and the DC Section Investment Consultant, Hymans Robertson LLP, review the performance of all the defined contribution funds against their investment managers' objectives and benchmarks on a quarterly basis via the DC Section Investment Consultant's quarterly investment performance monitoring report.

On an annual basis the Trustee conducts a high level review of all funds, with a formal review every 3 years, or following significant changes to governance requirements. In the meantime, the Trustee will monitor members' decisions at retirement to ensure that the PSPS Multi-asset Lifestyle option remains appropriate as a default option for members who do not make a decision on where to invest their contributions.

The Trustee is satisfied that the PSPS Multi-asset Lifestyle profile remains appropriate for the majority of the DC Section members because:

- Its design continues to meet its principal investment objectives;
- The demographic profile of the membership has not changed materially;
- Members' needs and likely benefit choices at retirement have not changed materially; and
- Its investment performance has been consistent with its investment objectives

The next review will be undertaken in Scheme year 2021/2022.

A copy of the Statement of Investment Principles for the DC Section and DB Section of the Scheme is available on the Scheme's Website http://www.prudentialstaffps.co.uk.

The Statement of Investment Principles for the PSPS Multi-asset Lifestyle (which is classed as the DC Section default arrangement) is available on the DC Section of the Scheme Website/Documents Library/Formal Documents.

Please note that the Statement of Investment Principles covers all the Scheme's investments – the principles guiding the design of the PSPS Multi-asset Lifestyle profile are set out in Section 3 and Appendix 3.

CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2021 (continued)

2. The processing of the Scheme's core financial transactions

The Trustee regularly monitors core financial transactions and financial record keeping of the DC Section of the Scheme on a quarterly basis via the Scheme's Administrator, The Prudential Assurance Company Limited, quarterly administration report. These core financial transactions include the investment of contributions, transfers in and out of the Scheme, fund switches and member payments and analysis of the DC Section of the Scheme's running costs.

These activities are monitored against a Service Level Agreement ("SLA") which generally imposes a requirement on the Administrator to process transactions within 5 working days. The SLA imposes more stringent requirements than required by the regulations and the Trustee and its advisors consider these to be in line with, or more stringent than, market practice. The Administrator's report is reviewed at quarterly Trustee meetings where the Administrator reports specifically on performance versus the SLA. Unfortunately, the impact of changes to the Administrator IT Database, COVID 19 and homeworking has had a negative impact on service levels and the overall level dropped below the standard expected by the Trustee. Work is underway to improve the service levels.

Contributions are monitored monthly, reconciled and recorded. All discrepancies are investigated and reconciled to data and contributions received from the Employer's payroll department. The Trustee and the Pensions Team are informed of any discrepancies not resolved and contributions not received in time.

The Trustee's Annual Report and Accounts, including the core financial transactions is subject to statutory audit.

A Payment Schedule exists between the Trustee and Principal Employer and was signed on 20 June 2019 and the Administrator confirms to the Trustee on a quarterly basis whether contributions were received in accordance with the Payment Schedule.

The Trustee also receives and reviews a copy of the Report on Internal Controls provided by the Administrator. These Reports have been reviewed and audited by an externally appointed party, who evaluates the effectiveness of control procedures having regard to the Institute of Chartered Accountants in England and Wales Technical Release AAF 01/06.

Based on the above, the Trustee is satisfied that the Scheme's core financial transactions have been processed promptly and accurately during the Scheme year 6 April 2020 to 5 April 2021.

3. Charges and transaction costs

The Trustee, with the assistance of the DC Section Investment Consultant, undertakes an annual exercise to confirm that the Annual Management Charges (AMC) incurred by DC Section members invested in funds subject to the regulations do not exceed the Charge Cap (currently 0.75%) and that the AMCs paid by members for other funds are reasonable.

CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2021 (continued)

As at 31 March 2021 the charges were as follows:

PSPS Multi-asset Lifestyle (classed as the DC Section default arrangement)

The level of member-borne charges applying to the components of the PSPS Multi- asset Lifestyle are as set out in the table below:

Fund	Annual Management Charge (p.a.) 31 March 2021	Annual Management Charge (p.a.) 31 March 2020	Transaction Cost average up to the last 5 years
PSPS Global Equity – active	0.60%	0.60%	0.25%
PSPS Overseas Equity - passive	0.15%	0.15%	0.03%
PSPS UK Equity – active	0.35%	0.35%	0.09%
PSPS UK Equity – passive	0.15%	0.15%	0.03%
PSPS Emerging Markets Equity - active	1.00%	1.00%	0.00%
PSPS Diversified Growth - active	0.65%	0.65%	0.39%
PSPS Cash Fund – active	0.10%	0.10%	0.00%
PSPS Total Return Bond Fund	0.35%	0.35%	0.04%
PSPS Responsible Investment Equity added January 2020	0.35%	0.35%	Currently not available

The Annual Management Charge is also known as a fund's "Total Expense Ratio" (TER) and is the sum of a fund's AMC and other operating costs and expenses. It excludes transaction costs on the fund's underlying assets which are reflected in the unit price of each fund. Transaction costs information is shown as a percentage average up to the last 5 years. Any negative transaction costs are shown as zero.

Transaction costs occur when a fund buys or sells investments. They are not separate charges as transaction costs have already been taken account of in the investment returns of the fund. Due to the movement of prices transaction costs can be positive or negative. The impact of a positive transaction cost is that it will reduce potential investments returns, while a negative transaction cost will increase potential investment returns.

The Annual Management Charges for the PSPS funds have not changed over the year to 31 March 2021.

CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2021 (continued)

As shown in the table below during the year covered by this Statement the member-borne charges for the PSPS Multi-asset Lifestyle arrangement were in a range from 0.38% p.a. to 0.58% p.a. of the amount invested:

Period to retirement (years)	Annual Management Charge (p.a.) %
40	0.38
35	0.38
30	0.38
25	0.38
20	0.38
15	0.48
10	0.58
9	0.58
8	0.57
7	0.57
6	0.56
5	0.56
4	0.55
3	0.52
2	0.49
1	0.46
0	0.42

An Illustration of the Potential Effect of Charges and Costs on Investment Return if invested in the PSPS Multi-asset Lifestyle

Projected pension pot in today's money

Growth rates *	2.64%	
Yearly Cost	0.55%	
End of Year	Before Charges £	After Charges £
1	20,500	20,400
5	22,700	22,000
10	25,700	24,400
20	33,200	29,700
30	42,800	36,300
40	55,300	44,300
47	66,000	50,900

*Growth rates for the funds have allowed for the effects of inflation

CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2021 (continued)

Basis for the calculation

Projected pension pot values are in today's money which means they have been adjusted for inflation. The calculation has used:

- A starting pot size of £20,000.
- No regular contributions
- The term of the investment is from 18 to age 65
- The illustration takes statutory guidance into consideration.

Other Illustrations can be found at www.pru.co.uk/trustees/search-schemes/#/M001

PSPS Multi-asset Lifestyle charges

The total charges borne by members in the new and previous version of the Multi-asset Lifestyle option would not be expected to exceed the Charge Cap at any point in the member's lifecycle.

The Trustee is satisfied that, taking into account the membership profile of the Scheme, the charges for the PSPS Multi-asset Lifestyle are reasonable, and help deliver good outcomes for members relative to the objectives of the default strategy.

Alternative Lifestyle Profiles

There are two alternative lifestyle Profiles available to members; the Active Lifestyle and the Passive Lifestyle Profiles. Further information on the two alternative profiles can be found on the Lifestyle Profile Guide available from the DC Section of Scheme's website www.prudentialstaffps.co.uk.

The level of member-borne charges applying to the components of the two alternative lifecycle profile were as set out in the table below:

Fund	Annual Management Charge (p.a.) 31 March 2021	Annual Management Charge (p.a.) 31 March 2020	Transaction Cost average up to the last 5 years
PSPS Active Lifestyle			
PSPS Global Equity – active	0.60%	0.60%	0.25%
PSPS UK Equity – active	0.35%	0.35%	0.09%
PSPS Corporate Bonds – active	0.15%	0.15%	0.06%
PSPS Index-Linked Gilts- active	0.15%	0.15%	0.21%
PSPS Cash Fund – active	0.10%	0.10%	0.00%
PSPS Passive Lifestyle			
PSPS Overseas Equity – passive	0.15%	0.15%	0.03%
PSPS UK Equity – passive	0.15%	0.15%	0.03%
PSPS Corporate Bonds – active	0.15%	0.15%	0.06%
PSPS Index-Linked Gilts- active	0.15%	0.15%	0.21%
PSPS Cash Fund – active	0.10%	0.10%	0.00%

As explained above the Annual Management Charge is also known as a fund's "Total Expense Ratio" (TER) and is the sum of a fund's AMC and other operating costs and expenses. It excludes transaction costs on the fund's underlying assets.

CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2021 (continued)

Transaction costs information is shown as a percentage average up to the last 5 years. Any negative transaction costs are shown as zero.

Transaction costs occur when a fund buys or sells investments. They are not separate charges as transaction costs have already been taken account of in the investment returns of the fund. Due to the movement of prices transaction costs can be positive or negative. The impact of a positive transaction cost is that it will reduce potential investments returns, while a negative transaction cost will increase potential investment returns.

The Annual Management Charges for the all of the PSPS funds have not changed over the year to 31 March 2021.

On average, the Annual Management Charges ranges from 0.14% p.a. (at retirement) to 0.525% p.a. (up to 10 years to retirement) for the PSPS Active Lifestyle and from 0.14% p.a. (at retirement) to 0.15% p.a. (up to 10 years to retirement) for the PSPS Passive Lifestyle.

Alternative PSPS Lifestyle Profiles

The Trustee is satisfied that, taking into account the membership profile of the Scheme, the charges for the alternative lifestyle strategies are reasonable, and help deliver good outcomes for members relative to their objectives.

Self-Select fund range

The level of member borne charges (expressed as an "Annual Management Charge") applying to all the self–select funds are shown in the table below:

Fund	Annual Management Charge (p.a.) 31 March 2021	Annual Management Charge (p.a.) 31 March 2020	Transaction cost average up to the last 5 years
PSPS Cash – active	0.10%	0.10%	0.00%
PSPS Index-Linked Gilts – passive	0.15%	0.15%	0.00%
PSPS Index-Linked Gilts – active	0.15%	0.15%	0.21%
PSPS Fixed Interest Bonds – active	0.15%	0.15%	0.00%
PSPS Long-Dated Gilts – passive	0.15%	0.15%	0.00%
PSPS Corporate Bonds – active	0.15%	0.15%	0.06%
PSPS Property – active (closed 09/02/21)	0.35%	0.35%	0.23%
PSPS UK Equity – passive	0.15%	0.15%	0.03%
PSPS UK Equity – active	0.35%	0.35%	0.09%
PSPS Overseas Equity – passive	0.15%	0.15%	0.03%
PSPS Global Equity – active	0.60%	0.60%	0.25%
PSPS Emerging Markets Equity - active	1.00%	1.00%	0.00%
PSPS Diversified Growth – active	0.65%	0.65%	0.39%
PSPS Total Return Bond Fund	0.35%	0.35%	0.04%
PSPS Responsible Investment Equity with effect from 10 January 2020	0.35%	0..35%	Currently not available
Prudential With-Profits	1.00%[1]	1.00%[1]	0.10%

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

Source: Prudential

CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2021 (continued)

Transaction costs information is shown as a percentage average up to the last 5 years. Any negative transaction costs are shown as zero.

Transaction costs occur when a fund buys or sells investments. They are not separate charges as transaction costs have already been taken account of in the investment returns of the fund. Due to the movement of prices transaction costs can be positive or negative. The impact of a positive transaction cost is that it will reduce potential investments returns, while a negative transaction cost will increase potential investment returns.

As explained above the Annual Management Charge is also known as a fund's "Total Expense Ratio" (TER) and is the sum of a fund's AMC and other operating costs and expenses. It excludes transaction costs on the fund's underlying assets which are reflected in the unit price of each fund.

The Property Fund invested directly in property. As a result, in addition to the fund's Total Expense Ratio, members also bore the cost of items such as property management and maintenance.

The Annual Management Charges for the PSPS funds have not changed over the year to 31 March 2021.

Self-select fund charges

The Trustee is satisfied that, taking into account the membership profile of the DC Section of the Scheme, the charges for most funds are within the Charge Cap and those that exceed are still reasonable, and help deliver good outcomes for members relative to their objectives.

DB Section defined contribution assets

The charges associated with the assets held through the "commercial" AVC policy are:

Fund	Annual Management Charge (p.a.) 31 March 2021	Annual Management Charge (p.a.) 31 March 2020	Transaction Costs average up to the last 5 years
PSPS Cash – active	0.20%	0.20%	0.00%
PSPS Index-Linked Gilts – passive	0.15%	0.15%	0.00%
PSPS Index-Linked Gilts – active	0.20%	0.20%	0.21%
PSPS Fixed Interest Bonds – active	0.20%	0.20%	0.00%
PSPS Long-Dated Gilts – passive	0.15%	0.15%	0.00%
PSPS Corporate Bonds – active	0.20%	0.20%	0.06%
PSPS UK Equity – passive	0.15%	0.15%	0.03%
PSPS UK Equity – active	0.55%	0.55%	0.09%
PSPS Overseas Equity – passive	0.15%	0.15%	0.03%
PSPS Global Equity – active	0.70%	0.70%	0.25%
PSPS Emerging Markets Equity – active	1.05%	1.05%	0.00%
PSPS Diversified Growth – active	0.80%	0.80%	0.39%
PSPS Total Return Bond Fund	0.35%	0.35%	0.04%

As explained above the Annual Management Charge is also known as a fund's "Total Expense Ratio" (TER) and is the sum of a fund's AMC and other operating costs and expenses. It excludes transaction costs on the fund's underlying assets which are reflected in the unit price of each fund.

The Property Fund invested directly in property. As a result, in addition to the fund's Total Expense Ratio, members also bore the cost of items such as property management and maintenance.

CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2021 (continued)

The assets held through the DB Section In House AVC arrangement are not subject to any charges.

Transaction Costs

- Transaction costs information is shown as a percentage average up to the last 5 years. Any negative transaction costs are shown as zero.
- Transaction costs occur when a fund buys or sells investments. They are not separate charges as transaction costs have already been taken account of in the investment returns of the fund. Due to the movement of prices transaction costs can be positive or negative. The impact of a positive transaction cost is that it will reduce potential investments returns, while a negative transaction cost will increase potential investment returns.

An Illustration of the Potential Effect of Charges and Costs on Investment Return if invested in the PSPS Global Equity – active

Projected pension pot in today's money

Growth rates *	4.21%	
Yearly Cost	0.81%	
End of Year	Before Charges £	After Charges £
1	20,800	20,600
5	24,400	23,400
10	29,900	27,500
20	44,700	38,000
30	66,900	52,400

*Growth rates for the funds have allowed for the effects of inflation

Basis for the calculation

Projected pension pot values are in today's money which means they have been adjusted for inflation. The calculation has used:

- A starting pot size of £20,000.
- No Regular contributions
- The term of the investment is for 30 years
- The illustration takes statutory guidance consideration.

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

CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2021 (continued)

Value for money considerations

During the year to 5 April 2021 in accordance with The Pensions Regulator current DC Code of Practice and the relevant legislation available at the time of this Statement, the DC Section Committee, on behalf of the Trustee concluded that the DC Section of the Scheme overall benefits and options represent value for money for the following reasons:

- Charges borne by members in the Multi-Asset Lifestyle and the other two Lifestyle Profiles as well as the majority of the funds on offer to members are below the Charge Cap of broadly 0.75% a year;
- Members have access to various asset classes, all of which have competitive fund management charges;
- Members do not pay for the costs of the DC Section of the Scheme's administration, professional advisers costs or indeed any costs (other than fund management) associated with the running of the DC Section of the Scheme;
- The Company since 1 April 2019 has had the following contribution structure a Company core 8%, matching 1 for 1 up to 5% (there is a default member contribution of 1% which members can elect not to pay); The Company does encourage members to save;
- Information about the DC Section of the Scheme is available on the Scheme's website www.prudentialstaffps.co.uk ;
- The quality of communications issued to members on a regular basis provides an understanding of all legislative changes.

The Trustee Directors are also satisfied that the charges for the DB Section defined contribution assets represent value for money. However, the charges for some of the funds within the "commercial" AVC policy are higher than for the equivalent funds within the DC Section as the Company does not subsidise the administration costs.

Assessment

Each year the Trustee carries out an assessment of whether the charges and transaction costs for the PSPS Multi-asset Lifestyle (which is classed as the DC Section's default arrangement) and other investment options, which are borne in full or in part by members, represent good value for members.

Value is not simply about low cost – the Trustee also considers the quality of the services for which members pay.

In particular, for the Investment category of the assessment, being the only area which DC Section members pay a share of the cost, the Trustee noted in their assessment.

Charges for PSPS Multi-asset Lifestyle (which is classed as the DC Section default arrangement)

- Charges for the PSPS Multi-asset Lifestyle were competitive for a Scheme of this size compared to the Department for Work and Pensions average and in relation to evidence of charges compiled by the DC Section Investment Consultant.
- Charges compare favourably with other schemes especially when considering the Scheme employs active management and specialised funds (Diversified Growth and Absolute Return Bonds) in the PSPS Multi-asset Lifestyle. The Trustee believes that the use of active management and specialised funds will improve member outcomes (and performance of the active options utilised by the Scheme to date would evidence outperformance).

Charges for Inadvertent Defaults

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

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

CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2021 (continued)

Charges for Other Investment Options

- Charges were competitive for a Scheme of this size in relation to evidence of charges compiled by the DC Section Investment Consultant.

The Trustee acknowledges that at this point, limited data is available on industry wide comparisons and the Trustee has therefore relied heavily on the market knowledge of its advisers.

Benchmarking of transaction costs is limited at this time, but the transaction costs shown in the sections above are reasonably competitive compared to other Schemes. As would be expected, higher transaction costs are associated with property and diversified funds and some overseas markets such as Emerging Markets. Most DC section funds have transaction costs less than 10bps (0.1%).

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

The DC Section Investment Consultant also undertakes the Pensions Regulator's "Overall Value for Money" which considers the services that are paid by the Company. Under this assessment the Scheme Management and Governance, Communications, Administration and Investment is rated using the following rating:

- Excellent
- Good
- Average
- Poor
- Very Poor

The DC Section was rated Good.

Trustee Directors Knowledge and Understanding (TKU)

Trustee Directors understand their legal obligations and the Pensions Regulator expectations in relation to Trustee Knowledge and Understanding. This, together with advice available to them, allows them to properly exercise their functions as Trustee Directors of the Scheme. The Trustee's approach to meeting the TKU requirements are as follows:

- The Pensions Team keeps a Training log for each Trustee Director and Trustee Directors are asked to review the contents annually to ensure it is correct;
- Trustee Directors are encouraged to attend training and seminars organised by the Scheme's Advisers, Providers and Fund Managers and are welcome to attend paid courses if they feel they would be beneficial, and which support their work as Trustee Directors ;
- The Scheme's Actuary and Legal Advisers produce pensions updates for the quarterly Trustee Board meetings and twice a year the Scheme's Auditors provide updates to the Trustee Board;
- Bespoke training is arranged by the Pensions Team during the year;
- On appointment Trustee Directors are required to attend the Trustee's Legal Adviser's Foundation Course for new trustees;
- Due to the nature of the Company's business Trustee Directors have a mixture of skills and competencies, which they share with each other;
- Training is provided if gaps in knowledge are identified and no decision will be taken without receiving appropriate training and advice.

In particular:

- Trustee Directors are expected to have a working knowledge of the Scheme Trust Deed and Rules;

CHAIRMAN'S ANNUAL GOVERNANCE STATEMENT FOR THE DEFINED CONTRIBUTION SECTION OF THE PRUDENTIAL STAFF PENSION SCHEME FOR THE YEAR ENDED 5 APRIL 2021 (continued)

- Trustee Directors are expected to have a working knowledge of the Scheme Statement of Investment Principles as well as the investment concepts relevant to the Scheme;
- Trustee Directors are expected to have a working knowledge of the law and legislation relating to pension schemes;
- The Pensions Manager working with the Scheme advisers have a plan in place for ongoing Trustee Directors' training appropriate to their duties;
- The effectiveness of these practices and the training received are reviewed annually.

The Trustee has appointed suitably qualified and experienced actuarial consultants, legal advisers, investment consultants and communications consultants to provide advice on the operation of the Scheme in accordance with its Trust Deed and Rules, legislation and regulatory guidance.

The Trustee reviews the effectiveness of its advisers and periodically reviews the appointment of advisers.

Trustee Directors believe based on the combination of their knowledge and understanding together with professional advice from appointed advisers they have properly exercised their duties and met relevant legislative requirements for the Scheme year ending 5 April 2021.

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

Chairman:

Date: 23 September 2021

DB SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT)

This document is the Annual Implementation Statement (the "Statement") prepared by the Trustee of the Prudential Staff Pension Scheme (the "Scheme") covering the "Scheme Year" from 6 April 2020 to 5 April 2021 in relation to the Statement of Investment Principles ("SIP").

The purpose of this statement is to:

- set out the extent to which, in the opinion of the Trustee, the Scheme's Statement of Investment Principles ("SIP") required under section 35 of the Pensions Act 1995 has been followed during the year;
- detail any reviews of the SIP the Trustee has undertaken, and any changes made to the SIP over the Scheme year as a result of a review;
- describe the voting behaviour on behalf of the Trustee over the year.

A copy of this implementation statement is made available on the following website: www.prudentialstaffps.co.uk

The SIP was reviewed and updated once during the Scheme Year, with two relevant versions over the year:

1. October 2019 – this was the version in place as at the start of the Scheme Year.
2. September 2020 (adopted 16 September 2020) – material changes to the SIP included:

- As a result of Department for Work and Pensions (DWP) regulations under section 2.3 of the Occupational Pension Schemes Investment Regulations 2005 coming into force from 1 October 2020 – Section 6, 7, 9.1b and 9.1k were added and/or amended to provide detail regarding:

- How financially material considerations are taken into account over the appropriate time horizon of the investments, including in the selection, retention and realisation of investments.
- The extent (if at all) to which non-financial matters are taken into account in the selection, retention and realisation of investments.
- Policies in relation to stewardship, including engagement with firms and exercise of voting rights.
- Policies in relation to undertaking engagement activities in respect of the investments (including the methods by which, and the circumstances under which, trustees would monitor and engage with relevant persons about relevant matters).

  - Section 6.6 was amended to expand on the Trustee's policy with respect to the exercising of voting rights.
  - Changes to the appendices:
    - Appendix C: Minor change to the Scheme's strategic asset allocation.

The September 2020 SIP is the version referenced in the following Sections of this document, where we set out how the principles have been implemented. Where new Trustee policies have been added to the SIP that was in place at the start of the Scheme year, we have referenced how these have been implemented from the time of adoption to the end of the Scheme year.

In this section, we comment on how the Trustee has followed its policies with respect to engagement as set out in the SIP. The Trustee has delegated the day-to-day ESG integration and stewardship activities (including voting and engagement) to its Investment Managers. However, to monitor how the Scheme's investment managers integrate ESG and undertake stewardship activities on the Trustee's behalf, the Trustee undertakes an annual review via analysis provided by its Investment Consultant. This report contains information on each manager's policies and approach to sustainability and stewardship, including portfolio turnover and the ESG impact of portfolio holdings.

Overall, following the review carried out this year, the Trustee remained comfortable with the investment managers' approaches to ESG integration and noted no immediate cause for concern.

DB SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT) (continued)

The Trustee's policies on engagement, as stated in the SIP are as follows:

Section	Approach and actions taken over the Scheme Year
6.1	Policy: Although the Trustee has delegated responsibility for selection, retention and realisation of investments to the Investment Managers, within certain guidelines and restrictions the Trustee recognises its responsibilities as a shareholder and believes that good corporate governance enhances shareholder value. In exercising its fiduciary duty the Trustee's focus is explicitly on financially material considerations including where ESG and climate change factors have a financially material impact. Actions: This paragraph is a statement of fact setting out how the Trustee approaches ESG and climate risks.
6.2	Policy: The Trustee considers a range of sustainable investment factors, such as, but not limited to, those arising from Environmental, Social and Governance ("ESG") considerations, including climate change, in the context of a broader risk management framework. The degree to which these factors are relevant to any given strategy is a function of time horizon, investment style, philosophy and particular exposures which the Trustee takes into account in the assessment. Actions: This paragraph is a statement of fact setting out how the Trustee approaches ESG and climate risks.
6.3	Policy: Where relevant, the Trustee may take into account non-financial considerations in designing and implementing the investment strategy, including (but not limited to) the views of members and beneficiaries of the Scheme. Actions: The Trustee welcomes questions and comments from members, which it receives on a regular basis. Each is considered carefully and the Trustee seeks to provide a detailed response to the member on the query raised. To date, no broader exercise has been undertaken to seek the views of members. However, consideration is being given to whether such an exercise should be undertaken in the future.

DB SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT) (continued)

<table>
<tr><td>6.4</td><td>Policy:
The Trustee has reviewed in detail and will continue to periodically review the policies operated by each of the Investment Managers in respect of corporate governance issues and in respect of ESG issues to the extent such policies are relevant in respect of each Investment Manager's mandate. Where an investment manager's processes are deemed insufficient by the Trustee and the investment manager does not take steps to improve their approach, the investment manager's position in the portfolio may be reviewed and/or a decision may be taken not to proceed with an investment.

Actions:
The Trustee monitors developments at each Investment Manager alongside the performance of the mandates at its quarterly meetings through reporting provided by the Investment Consultant. In the event of a significant change at an investment manager, the Investment Consultant will provide an update to the Trustee outside of the regular meetings to allow more rapid action to be taken.

In relation to the policies of the Scheme's investment managers in relation to corporate governance and ESG:
• During the Scheme Year the Trustee made a new investment in two funds and a segregated portfolio managed by M&G plc. As an existing manager of the Scheme, the Trustee was familiar with its policies and therefore comfortable that they are consistent with the Scheme's SIP.
• On an annual basis, the Trustee receives reporting from the Scheme's Investment Consultant setting out in detail the policies of each investment manager and how these have been implemented over the previous year.

Following review of the annual report prepared by the Scheme's Investment Consultant, the Trustee has agreed that no changes are required to the Scheme's investment managers at the current time.</td></tr>
<tr><td>6.5</td><td>Policy:
Having been satisfied as to the policies of each of the Investment Managers on these issues, the policy of the Trustee is that:
• Corporate governance issues and the exercise of rights attaching to investments, including voting, be delegated to the Investment Managers as an integral part of the investment management function; voting rights will be exercised whenever practicable with the objective of preserving and enhancing shareholder value
• Whilst noting that there may be limitations for each investment manager and asset strategy, the Trustee expects the Investment Managers to have ESG processes that align with Trustee expectations for the investment characteristics of the strategy.

Actions:
This paragraph is a statement of fact setting out the Trustee's policy regarding the delegation of voting rights, where applicable.</td></tr>
</table>

DB SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT) (continued)

6.6	Policy: The Trustee expects investment managers to report regularly on votes cast and other relevant matters including capital structure of investee companies, actual and potential conflicts, other stakeholders and the ESG impact of underlying holdings, noting in particular those cases where resolutions have not been supported, on other shareholder actions and on any ESG issues arising from the operation of the portfolio. Actions: During the Scheme Year there were no holdings in listed equities and therefore the exercise of voting rights is less relevant. Notwithstanding this, the Trustee expects investment managers to exercise any votes where they do arise and to engage with the companies in which they invest where relevant to the mandate in question. As noted previously, the Trustee receives a report from the Investment Consultant on an annual basis setting out each manager's approach to Sustainable Investment, including engagement with companies in which the Scheme is invested and the ESG characteristics of the portfolio. This is considered in detail by the Trustee and any issues identified are raised with the relevant investment manager. Additionally, the Scheme receives updates from the Investment Consultant's manager research team with notable updates on managers and any changes of investment rating, which includes consideration of the integration of ESG factors within the rating. The Scheme's Investment Consultant also engages with managers on ESG issues on the Scheme's behalf, as well as policy makers and the industry as a whole.
7.1	Policy: Alignment between a manager's management of the Scheme's assets and the Trustee's policies and objective are a fundamental part of the appointment process of a new manager. Before investing, the Trustee will seek to understand the manager's approach to sustainable investment (including engagement). When investing in a pooled investment vehicle, the Trustee will ensure the investment objectives and guidelines of the vehicle are consistent with its own objectives. Where segregated mandates are used, the Trustee will use its discretion, where appropriate, to set explicit guidelines within the Investment Management Agreement to ensure consistency with its own policies. Actions: As noted above, during the Scheme Year the Trustee made a new investment in two funds and a segregated portfolio managed by M&G plc. As an existing manager of the Scheme, the Trustee was familiar with its policies and therefore comfortable that they are consistent with the Scheme's SIP. The Trustee is currently in the process of finalising a more detailed policy in relation to ESG matters. Once agreed, the Trustee's segregated Investment Management Agreements will be reviewed to determine whether any additions or amendments are required to ensure that this is fully reflected in the investment managers' approaches.

DB SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT) (continued)

7.2	Policy: To maintain alignment, managers will be provided with the most recent version of the Scheme's Statement of Investment Principles, on an annual basis and will be required to explicitly confirm that the Scheme's assets are managed in line with the Trustee's policies as outlined in that statement. Actions: Following the end of the Scheme Year, a copy of the latest SIP was provided to all the Scheme's managers who confirmed that their management of the Scheme's assets is consistent with the policies set out.
7.3	Policy: Should the Trustee's monitoring process reveal that a manager's portfolio is not aligned with the Trustee's policies, the Trustee will engage with the manager further to encourage alignment. This monitoring process includes specific consideration of the sustainable investment/ESG characteristic of the portfolio and managers' engagement activities. If, following engagement, it is the view of the Trustee that the degree of alignment remains unsatisfactory, the manager will be terminated and replaced. Actions: Please refer to the response to Section 6.4.
7.4	Policy: For most of the Scheme's investments, the Trustee expects investment managers to invest with a medium to long time horizon, and to use their engagement activity to drive improved performance over these periods. The Trustee invests in certain strategies where such engagement is not deemed appropriate, due to the nature of the strategy and/or the investment time horizon underlying decision making. The appropriateness of the Scheme's allocation to such mandates will be determined in the context of the Scheme's overall objectives. Actions: This paragraph is a statement of fact regarding the approach to investment to be taken by the Scheme's investment managers.
7.5	Policy: The Trustee appoints its Investment Managers with an expectation of a long-term partnership, which encourages active ownership of the Scheme's assets. When assessing a manager's performance, the focus is on longer-term outcomes, and the Trustee would not expect to terminate a manager's appointment based purely on short term performance. However, a manager's appointment could be terminated within a shorter timeframe due to other factors such as a significant change in business structure or the investment team. Actions: This paragraph is a statement of fact regarding the approach the Trustee takes to monitoring managers' performance.

DB SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT) (continued)

7.6	Policy: Managers are paid an ad valorem fee, in line with normal market practice, for a given scope of services which includes consideration of long-term factors and engagement. Actions: This paragraph is a statement of fact regarding the fees paid to the Scheme's managers.
7.7	Policy: Where available the Trustee will review the costs incurred in managing the Scheme's assets annually, which includes the costs associated with portfolio turnover. In assessing the appropriateness of the portfolio turnover costs at an individual manager level, where relevant the Trustee will have regard to the actual portfolio turnover and how this compares with the expected turnover range for that mandate. Actions: The Trustee receives annual reporting from the Investment Consultant setting out the investment costs and expenses incurred in running the Scheme, as required under the MiFID II regulations. In addition to this, on an annual basis as part of the review of the investment managers' ESG policies, the Trustee receives data from the Scheme's Investment Consultant setting out the level of turnover within each mandate compared to an expected level of turnover for the asset class/management style in question.

As set out in the SIP, the Trustee's policy is to delegate the day to day sustainable investment considerations (including environment, social and governance factors) and stewardship activities (including voting and engagement) to the Scheme's investment managers.

The Scheme's investment funds cover a range of asset classes, however during the Scheme Year no investments were held in listed equities with associated voting rights and therefore no voting data has been provided in this section of the Statement.

The Scheme holds investments in a small number of illiquid mandates, which invest directly in the debt or equity of private companies or assets. The Trustee has requested engagement and voting data from the investment managers of these vehicles and expects to be able to provide a report of their activities in future versions of this Statement.

The Trustee considers that all relevant SIP policies and principles were adhered to over the Scheme Year.

DC SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT)

Welcome to the Trustee's Statement of how the Trustee implemented the policies and practices in the Scheme's Statement of Investment Principles on behalf of DC Section members during the year ending 5 April 2021.

Why does the Scheme's DC Section investments matter to members?

The DC Section provides members with benefits on a defined contribution ("DC") basis (sometimes called money purchase benefits). This means that the size of the benefits paid when members retire will depend on how the funds where their contributions are invested grow over the years.

What is the Statement of Investment Principles (SIP)?

The SIP sets out the investment principles and practices the Trustee follows when governing the Scheme's DC Section investments. It describes the rationale for the investment options which members can choose (including the default arrangement if they don't make a choice), explains the risks and expected returns of the funds used and the Trustee's approach to financially material considerations including their approach to responsible investment and Environmental, Social and Governance (ESG) considerations (including climate change considerations).

The last review of the SIP was completed on 1 October 2020 and the next review will take place no later than October 2021.

The following changes were made to the SIP during the last Scheme year:

- Updates to reflect the Trustee's policies on manager incentives, portfolio turnover, portfolio duration, temporary default arrangements, conflicts of interest and monitoring fund managers' voting and engagement activity; and
- A further update in January to reflect the closure of the PSPS Property – active Fund and an update of the default arrangements under Charge Cap regulations.

You can find a copy of the Scheme's DC Section SIP (and the Scheme's Chairman statement) at Formal documents - Prudential Staff Pension Scheme DC (prudentialstaffps.co.uk)

What is this Implementation Statement for?

Each Scheme year from 2020, the Trustee is required to prepare this Implementation Statement, which sets out how they have complied with the provisions in the Scheme's DC Section SIP during the last year.

Overall, the Trustee is satisfied that:

- The Scheme's DC Section investments have been managed in accordance with the DC Section SIP; and
- The provisions of the DC Section SIP remain suitable for the needs of the Scheme's DC Section members.

How the Scheme's DC Section investments are governed

The Trustee has overall responsibility for how the Scheme's DC Section investments are governed and managed in accordance with the Scheme's Trust Deed and Rules as well as Trust Law, Pensions Law and Pension Regulations.

There have been no changes to the Trustee's governance process during the last year.

The Trustee has delegated day to day investment decisions, such as which investments to buy and sell, to the fund managers.

The Trustee undertook the following during the last year to ensure that their knowledge of investment matters remains current, that their investment beliefs remained relevant and that the aims and objectives for the default and self-select fund arrangements remained appropriate:

- The Trustee received and considered regular reports from the DC Section Investment Consultant reviewing the investment manager arrangements including performance of default and self-select funds;
- The Trustee received and considered regular governance updates from the DC Section Investment Consultant covering wider issues and regulatory developments for DC pension schemes and related this back to the Scheme's DC Section default investment strategy and self-select fund range;

DC SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT) (continued)

- The DC Section Investment Committee held additional meetings and received updates from the DC Section Investment Consultant to specifically consider the impact of COVID-19;
- The Trustee reviewed the PSPS Property – active Fund and decided to close the fund and move members to the PSPS Total Return Bond – active Fund or another PSPS fund or funds of members' choice; and
- The Trustee received training on ESG, Responsible Investment and the latest regulations.

The Trustee monitors how well their Investment Consultant meet the objectives agreed with them. Following the requirements from the Competition & Markets Authority (CMA) to establish investment adviser objectives, the Scheme's DC Section Investment Consultant have agreed objectives which cover demonstrating added value (including advice in relation to the default arrangements, lifestyles and self-select range for members), the delivery of specialist services, proactivity of advice, support with member communications and maintenance and delivery of high relationship and service standards.

The Trustee is satisfied that during the last year:

- The Scheme's DC Section governance structure remains appropriate;
- The Trustee has maintained its understanding of investment matters; and
- Their DC Section Investment Consultant met the agreed objectives.

How the default investment arrangement and other investment options are managed

The objectives and rationale for the default arrangement are set out in the DC Section SIP.

During the last Scheme year, the Trustee carried out its annual high-level review of the default arrangement and other investment options to ensure they remain suitable for most members. This involved:

- Ensuring that the default arrangement complies with the charge cap;
- Monitoring the investment performance of each fund (this is done on a quarterly basis);
- Monitoring the risk and return profile of each fund within the default investment strategy and the self-select fund range and ensuring that these remain suitable;
- Considering whether the funds still meet the investment objectives the Trustee has set for the default arrangement and other investment options;
- Checking whether there have been any significant changes in the demographic profile of the Scheme's membership, members' choices of investment options and members' choices of benefits when they retire. A check is also made as to how this affects the design of the Scheme's DC Section default glidepath.

During the last Scheme year, the Trustee decided to close the PSPS Property – active Fund. The Fund's rating was downgraded by the Scheme's DC Section investment advisers. It had experienced periods of suspension and also changes in the fund management team. The Trustee agreed with the downgrade in rating of the fund by the Scheme's DC Section investment advisers and that there was a risk to members in remaining in the fund which was experiencing significant investor outflow. Therefore, in February 2021 the fund was closed and existing member monies in the fund switched to the PSPS Total Return Bond – active Fund. As part of the full review of strategy planned for 2021 the Trustee will further consider whether a property fund should be offered as a self-select fund in future and consider possible alternatives.

Whilst satisfied that the default arrangements remain suitable for most members and other investment options also remain suitable the Trustee will undertake in 2021 an in-depth three-yearly review of the default arrangements and other investment options to ensure they remain suitable for most members.

Other default arrangements

During the last year the M&G pooled Property Fund which is the underlying fund for PSPS Property - active Fund was temporarily closed to the investment of new contributions and disinvestment by the fund manager because of difficulty in valuing properties during the coronavirus pandemic (and as a consequence the PSPS Property - active Fund was also suspended). The Trustee agreed that it was in the best interests of members to temporarily redirect contributions from this Fund to the PSPS DC Cash Fund. The Trustee contacted the members affected to explain the action being taken.

DC SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT) (continued)

Furthermore, as described above, the Trustee also decided to close the PSPS Property – active Fund and switch members monies in that fund to the PSPS Total Return Bond – active Fund (monies switched also included contributions that had been temporarily directed to the Cash fund due to the initial suspension). Again, the Trustee contacted the members affected to explain the action being taken and allowed members the option to choose another Fund.

Details of other default arrangements are outlined in the DC Section SIP. These are monitored and assessed as a default arrangement for the purposes of meeting DC pensions regulations.

The Trustee's investment beliefs

During the last Scheme year, the Trustee has developed a set of investment beliefs which are set out in the SIP and used as a guide when making investment decisions.

There have been no changes to these beliefs in the last year.

The expected risks and returns on your savings in the Scheme

The investment risks relating to members' benefits are described in the DC Section SIP.

The expected returns from each type of investment used by the Scheme's DC Section are set out in the DC Section SIP.

The Trustee believes that the main investment risks members face described in the DC Section SIP have not changed over the last year.

The Trustee is satisfied that the current expected rates of investment return for the main types of fund described in the DC Section SIP are still reasonable relative to the risks that members face.

The Trustee's views on expected levels of investment risks and returns inform decisions on the strategic asset allocation (i.e. what types of assets and areas of the world the DC Section invests in over the longer-term) for the Scheme's DC Section default lifestyle options (which gradually change the funds in which your savings are invested as you approach retirement) and the Scheme's DC Section bespoke multi-asset fund, the PSPS Diversified – active Fund (which invest in several types of assets such as equities, bonds and cash).

The Trustee's views on the long-term mix of investments for the Scheme's DC Section lifestyle options including the default arrangement and bespoke multi-asset funds did not change during the last year but a full review of the strategy will be completed in 2021.

Platform providers and fund managers

Choice of platform providers and funds

The Trustee monitors the service of the Platform Provider used by the Scheme's DC Section by:

- Receiving quarterly updates from the provider regarding service levels and standards; and
- Inviting the Platform Provider's Client Manager to present at four Trustee meetings a year.

The Trustee monitors the performance of the funds used by the Scheme's DC Section by:

- Receiving quarterly updates from the DC Section Investment Consultant regarding fund performance against their respective benchmarks; and
- Receiving quarterly updates from the DC Section Investment Consultant regarding fund suitability and any significant changes to the fund managers.

There have been no changes to the Platform Provider over the last Scheme year although the provider changed its administration system (to BaNCS).

The Trustee is satisfied that the Platform Provider and funds used by the Scheme's DC Section remain appropriate.

DC SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT) (continued)

Ability to invest/disinvest promptly

It's important that members contributions can be invested promptly in the default arrangement or the investment options they have chosen and that members investments can be sold promptly when they elect to change their personal account, request a transfer to another pension arrangement or retire.

The Trustee ensures this happens by monitoring the service levels and standards of the investment and disinvestment processes completed by the Platform Provider.

The Trustee is satisfied that money can be invested in and taken out of the Scheme's DC Section funds without delay as set out in the DC Section SIP.

There has been an issue during the last year affecting the PSPS Property - active Fund. In common with many funds which invest directly in commercial property (offices, shops, factories and warehouses), it has temporarily not been possible to take money in or out of this fund. In the meantime, members contributions were (until 9 February 2021) instead being invested in the PSPS Cash – active Fund and thereafter (unless they made an alternative choice) in the PSPS Total Return Bond- active Fund. In addition. monies invested in the Property Fund and those contributions made temporarily to the Cash Fund when the Property Fund was suspended were also switched to the PSPS Total Return Bond – active Fund on 9 February when the Property Fund was closed as a fund option unless they made an alternative choice. Also, during the last year, as a result of the migration to the new administration system of the Platform Provider there were some instances of delays in members accessing their monies.

The Trustee believes that these are temporary issues which have not affected members' interests over the longer term.

Security of your savings in the Scheme

In addition to the normal investment risks faced investing in the funds used by the Scheme DC Section, the security of members savings depends upon:

- The financial strength of the investment Platform Provider used by the Scheme's DC Section;
- The financial strength of the fund managers used by the Platform Provider; and
- The legal structure of the funds the Scheme's DC Section invests in.

The financial strength of the Platform Provider and the fund managers has a bearing on the risk of losses caused by the remote chance of one of these institutions getting into financial difficulties. The legal structure of the funds used has a bearing on the degree to which the funds' assets are "ring-fenced" from the rest of the provider's or fund managers' business in the unlikely event that the provider or manager becomes insolvent and the extent of FSCS (Financial Services Compensation Scheme) which may be available.

There have been no changes to the structure of the funds used by the Scheme's DC Section during the last year. The Trustee is not aware of any material changes in the financial strength of the investment Platform Provider or the fund managers used by the platform in the last year.

Changes in where funds are invested

The Trustee monitors the volume of buying and selling of the assets and the nature of those assets in which each fund is invested that is carried out by the funds' managers.

Short-term changes in the level of turnover of the assets in which a fund is invested may be expected when a fund manager alters its investment strategy in response to changing market conditions. However, a change in the level of portfolio turnover or the time the fund invests in an asset might indicate a shift in the amount of risk the fund manager is taking, which could mean that a fund is less likely to meet the objectives for which it was chosen by the Trustee.

DC SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT) (continued)

The Trustee is satisfied that the level of trading of the funds' assets carried out by the fund managers has been consistent with the funds' objectives and later in 2021 will ask the Platform Provider to report on the underlying assets held within the fund with details of any transactions and turnover costs incurred over the Scheme's DC Section reporting year. The Trustee will seek to compare portfolio turnover and the resultant costs against peer groups or portfolio turnover and costs for an appropriate index.

Conflicts of interest

As described in the DC Section SIP, the Trustee is mindful of potential conflicts of interest:

- When choosing fund managers;
- When monitoring the fund managers' investment performance and the fund managers' approaches to investment stewardship and responsible investing; and
- When the fund manager is making decisions on where each fund is invested.

The Trustee expects the fund managers to invest the Scheme's DC Section assets in the members' best interests. As the funds used by the Scheme's DC Section are held at arms-length from the Trustee via an investment platform, the Trustee will ask the Platform Provider to report on its own investment governance of the funds including potential conflicts of interest.

The Trustee is satisfied that there have been no material conflicts of interest during the year which might affect members' benefit expectations.

Manager incentives

As described in the DC Section SIP, the Trustee seeks to ensure that the fund managers are suitably incentivised to deliver investment performance in keeping with the funds' objectives.

The funds used by the Scheme's DC Section are held at arms-length from the Trustee via an investment platform. Nevertheless, the Trustee believes it is in the Platform Provider's best commercial interests to ensure that the fund managers are suitably incentivised to meet their funds' investment objectives.

The Trustee is satisfied that the fund managers are suitably incentivised to deliver good outcomes for the Scheme's DC Section members and as part of the full strategy review to be completed in 2021 manager incentivisation will be considered.

Responsible Investment

The Trustee believes that responsible investing covers both sustainable investment and effective stewardship of the assets the Scheme's DC Section invests in.

The Trustee's approach to responsible investing has not changed during the last year.

Investment stewardship

As stated in the DC Section SIP, the Trustee believes it is important that the fund managers, as shareholders or bond holders, take an active role in the supervision of the companies in which they invest, both by voting at shareholder meetings and engaging with the management on major issues which affect a company's financial performance (and in turn the value of the Scheme's investments).

As the Scheme's DC Section investments are held at arms-length from the Trustee and members through an investment platform operated by the Prudential Assurance Company Limited, the Trustee is not able to instruct the fund managers how they should vote on shareholder issues. The Trustee nevertheless:

- Chooses fund managers whose voting policies are consistent with the Scheme's DC Section objectives;
- Expects fund managers to vote in a way which enhances the value of the funds in which the Scheme invests; and
- Will monitor how the fund managers exercise their voting rights.

DC SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT) (continued)

How will the Trustee monitor this?

The Trustee periodically review the fund managers' approaches to stewardship including voting and engagement policies.

The Trustee will receive at least annually reports from the Platform Provider and/or fund managers on how the fund managers have voted at shareholder meetings and what topics fund managers have discussed with the companies in which they invest.

Sustainable Investment

The Trustee believes that investing sustainably is important to control the risks that environmental factors (including climate change), social factors and corporate governance behaviour can have on the value of the Scheme's investments and in turn the size of your retirement benefits.

The Trustee has considered the length of time members' contributions are invested in the Scheme's DC Section when choosing and reviewing the funds used in the investment options. The DC Section of the Scheme potentially has members joining from age 18 who could therefore have savings invested over a multi-decade time horizon.

The Trustee periodically reviews the Platform Provider's and fund managers' approaches to sustainable investing. The Trustee receives reports from the Platform Provider on how the fund managers have handled these risks.

The Trustee plans to review the Platform Provider's and fund managers' approaches to sustainable investing as part of the review of Strategy in 2021.

The Trustee is satisfied that during the last year the Scheme's DC Section investments were invested in accordance with the policies on responsible investing set out in the DC Section SIP.

Ethical Investing

The Trustee recognises that some members will have strong views on where their pension savings should be invested.

The Scheme offers members a fund, the PSSP Responsible Investment Equity – passive Fund which is managed against an ethically constructed benchmark index.

Nevertheless, the Trustee recognises that it is not possible to cater for everyone's views on non-financial/ethical matters.

The Trustee monitors the investments held by the Scheme's DC Section ethical investment option. The Trustee also monitors developments in ethical investing funds which could be appropriate to the Scheme's members.

The Trustee's approach to ethical investing has not changed during the last year.

The Trustee is satisfied that the Scheme offers ethical investment options for members in accordance with the SIP.

Communication and member engagement

The Trustee's approach to communicating the Scheme's investment options and investment governance has not changed during the last year.

The Trustee's current policy on member engagement is as follows:

- Effective member engagement will help develop suitable investment options; and
- Member engagement is actively encouraged through a variety of means.

During the last year the Trustee has undertaken the following to support member engagement and obtain member feedback:

- Providing communications to Scheme DC Section members;
- Providing a range of literature/media to assist members in making their investment decisions. In addition, members have access to factsheets for each fund; and
- In particular, providing a series of market updates including both market performance and estimated performance, initially in response to the impact of the COVID-19 crisis but now on an ongoing monthly basis to keep members informed and engaged.

DC SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT) (continued)

Looking forward

In the next Scheme year (year ending 5 April 2022), which will be covered by next year's Implementation Statement, the Trustee intends to undertake the following actions in relation to the SIP:

- Update the SIP to take into account any changes made under the review of strategy to be held in 2021.

More information

The Trustee hopes this Statement will assist members understanding how the Scheme's investment of their savings for retirement has been managed in the last year.

DC SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT) (continued)

Appendix: Voting and Engagement

The funds with voting rights attached that are available to members as part of the default fund range or the self-select fund range are listed below along with summary voting statistics for each fund.

- PSPS With-Profits Fund (1)
- PSPS UK Equity Active Fund (2)
- PSPS UK Equity Passive Fund (3)
- PSPS EM Equity Active Fund (4)
- PSPS Global Equity Active (5)
- PSPS Overseas Equity Passive Fund (6)
- PSPS Responsible Investment Equity Fund (7)
- PSPS Diversified Growth Fund (8)
- Prudential With-Profits Fund (9)

•	1	2	3	4	5	6	7	8	9
No. of resolutions eligible to vote	29,590	2,444	9,520	1,591	4,890	22,416	18,215	15,778	29,500
% resolutions voted	85%	98%	99%	99%	100%	51%	99.9%	99%	85%
% resolutions voted against management	6%	1%	2%	12%	6%	7%	16.0%	7%	6%
% resolutions abstained	1%	1%	1%	3%	0%	1%	0.3%	0%	1%

The Trustee also considers how the fund managers voted on specific issues. The Trustee considers 'significant votes' to be either companies with relatively large weightings in the funds members invest in, or where there were shareholder issues that members are expected to have an interest. Furthermore, particular attention is also paid to the holdings within the PSPS Responsible Investment Fund as it is expected that members invested in these funds will have a particular interest in the voting activities of the fund managers.

DC SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT) (continued)

The most significant shareholder votes and how the fund managers voted during the last year were:

Date	Associated Fund	Company	Subject	Manager's vote
21 April 2020	PSPS Diversified Growth Fund	Citigroup Inc.	Report on the lobbying payments and policy of the company.	The manager voted against this resolution, as they believe that the company is already disclosing adequate information for shareholders to assess political engagement and the management of related risks.
07 May 2020	PSPS Responsible Investment Equity Fund	Barclays	Approve Barclay's commitment in tackling climate change and setting out their long-term plans.	The manager voted in favour of this resolution.
19 May 2020	PSPS Diversified Growth Fund	JP Morgan Chase & Co	Report describing how JPMorgan Chase plans to respond to rising reputational risks for the Company and questions about its role in society relating to involvement in Canadian oil sands production, oil sands pipeline companies, and arctic oil and gas exploration and production.	The manager voted for this resolution, as they believe the report to be in shareholder interests.
27 May 2020	PSPS Diversified Growth Fund	Amazon.com Inc.	Elect Director Jonathan J Rubinstein.	The manager voted against this resolution as a result of ongoing concerns about labour standards of Amazon.com employees and company responsiveness to shareholder concerns.
03 June 2020	PSPS Global Equity Active Fund	Comcast Corporation	Require an independent board Chair.	The manager voted in favour of the resolution. The manager felt that the separation of the two roles would be in the best, long term interests of shareholders, due to the size and complexity of the organisation.

04 June 2020	PSPS Diversified Growth Fund	Booking Holdings Inc.	Provide shareholders with the right to act by written consent.	The manager voted in favour of this proposal, as this would make it possible for the holders of a majority of shares to take significant corporate actions without giving prior notice to the company or other shareholders.
11 September 2020	PSPS UK Equity Passive Fund	NextEnergy Solar Fund Ltd.	Approve change of fundamental investment policy.	The manager voted against the resolution as a result of concerns that the new policy allowed for investment in private equity assets.
30 September 2020	PSPS Emerging Markets Equity Active Fund	Alibaba	Election of directors – CFO on Board	The manager voted against management as they had concerns that the board may not be sufficiently independent.
13 October 2020	PSPS Responsible Investment Equity Fund	The Procter & Gamble Company	Report on effort to eliminate deforestation.	The manager voted in favour of the resolution. P&G uses forest pulp and palm oil as raw materials in its products and has fallen short of the goal of achieving 100% certification for sustainable palm oil production by 2020. Furthermore, some suppliers have even been linked to illegal deforestation. LGIM hope that this report will drive better practice going forward.
17 March 2021	PSPS Overseas Equity Passive	Samsung Electronics Co	Elect directors.	The manager voted against this resolution as the incumbent directors have collectively failed to remove criminally convicted directors from the board.

The Trustee is satisfied that the fund managers' voting record on the companies in which their funds invest was aligned with the stewardship policy described in the SIP.

DC SECTION IMPLEMENTATION STATEMENT (FORMING PART OF THE TRUSTEE'S REPORT) (continued)

How do fund managers implement their votes?

The managers often make use of proxy voting to inform their decision making. The managers use the following organisations as proxies for their voting activity:

Manager	Comment on approach
Baillie Gifford	All voting decisions are made in-house, however Baillie Gifford do consider research and recommendations from ISS and Glass Lewis & Co.
GW&K	GW&K have adopted voting guidelines developed by Glass Lewis & Co.
Invesco	Invesco may supplement internal research with information from ISS and Glass Lewis & Co for global securities and uses IVIS for UK securities.
KBI	KBI use proxy voting for all portfolios and all votes and outsource this to ISS as their provider of proxy voting services.
Lindsell Train	Lindsell Train do not outsource the proxy voting decision process or any Stewardship activities.
M&G	M&G use research provided by ISS and the Investment Association and use the ProxyEdge platform for managing their proxy activity.
MFS	MFS have their own proxy voting team, but use ISS and Glass Lewis & Co for proxy-voting related administrative processes and research.
RBC	RBC uses the services of ISS and Glass Lewis & Co to provide proxy research and issue custom voting recommendations based on their guidelines.
Schroders	Schroders utilise company engagement, internal research, investor views, governance expertise and external research (from ISS and IVIS) when considering voting decisions. Schroders make use of a third-party proxy voting service.