S1 2020 Earnings Call

Company Participants

- Bernie Hickman, Chief Executive Officer of Legal & General Insurance Division
- Chris Knight, Chief Executive Officer of Legal & General Retail Retirement
- Jeff Davies, Chief Financial Officer
- Kerrigan Procter, Chief Executive Officer of Legal & General Capital
- Laura Mason, Chief Executive Officer of Legal & General Retirement, Institutional
- Michelle Scrimgeour, Legal & General Investment Management
- Nigel Wilson, Chief Executive Officer

Other Participants

- Abid Hussain, Analyst
- Andrew Baker, Analyst
- Andrew Crean, Analyst
- Andy Sinclair, Analyst
- Ashik Musaddi, Analyst
- Dominic O'Mahony, Analyst
- Jon Hocking, Analyst
- Oliver Steel, Analyst
- Steven Haywood, Analyst
- Trevor Moss, Analyst

Presentation

Nigel Wilson {BIO 1535703 <GO>}

Good morning. Welcome to our first ever Virtual Results Presentation, delivering value through Inclusive Capitalism. Let me say at the outset that I hope you and your families have come through COVID and lockdown healthy. This has been a difficult time for many people and many businesses, with more economic and social dislocation to come. I am incredibly proud of the way Legal & General has risen to the operation and market challenges.

We have continued to do good business, to serve our customers and look after our people. We paid around GBP1 billion in gross insurance claims and we didn't miss a beat paying annuities and pensions. Paying out in bad times as well as good is imply what we are here to do. We've also paid all of our people 100% of their salaries. We took no government funding. On the contrary, we supported communities and laid the groundwork to be a key part of the investment led reconstruction that our economy so badly needs. This includes planning approval for sky studios Street, the UK's new state of the art film and TV studio, as well as GBP150 million commitment to Sheffield city center regeneration project.

Our purpose and our strategy are aligned. L&G is both socially and economically useful. Today is about the economic part of that. But first, the usual disclaimers apply to forward-looking statements. In the first half of this year, L&G demonstrated that our balance sheet is robust, our operational earnings, our resilience and our strategy with its six growth drivers highly relevant, both to weather the storm of a health pandemic, and to help build back better.

While in lockdown, we secured plus several planning permissions to take forward housebuilding, affordable, there's a life living built around and urban regeneration. While more than 90 colleagues worked together to innovate a commercial project to counter the next crisis, climate change.

The first two hours of robustness and resilience are shown in these financial highlights. Operating profits from divisions were GBP1.1 billion down by only 2%. This is H1 2019, even as UK GDP shrank by 24%. Three out of our five divisions, LGRI, LGRR and LGN delivered increased operating earnings.

The balance sheet showed itself once again to be robust, once again, no defaults. The esteemed coverage ratio at 30th of June was 173%, slightly up against the prior years 171% and 72 operations surplus generation was GBP0.8 billion. This H1 performance has enabled us to announce an interim dividend of GBP0.493. Setting the interim dividend this level, flat to the interim dividend for H1 2019 is prudent, consistent with treating all shareholders and stakeholders responsibly as well as playing our part in the wider pensions landscape.

Jeff will take us through results division-by-division. What you see here is the specific impact of COVID on our business. Two divisions LGC and LGI, each saw reduced operating profits, and impact of 60 million from site closures for LGC and GBP80 million from higher claims and indeed future provisions from LGI. In addition, GBP21 million of extra expenses were incurred group wide, including a massive acceleration of plans to enable IT to adapt very fast to home based working.

Stripping out these COVID specifics, underlying operating profit rose by 7%. The outlook at an operational level for the second half of the year is resilience and robust. Our ambition is for a similar performance in H2 compared to H1. LGRI saw a minimal impact from COVID and has a significant pipeline of GBP18 billion. GBP675 million was completed in July, and a further GBP2.7 billion is in exclusive negotiations.

Volumes in LGR are already coming back. Our ambition is for 2020 individual annuity volumes to be similar to last year's GBP970 million. Belgium performed well and is expected to continue on that consistent path. LGI grew GDP during COVID and likewise is expected to continue growing. LGC sites are now all open and building again. Performance in H2 depends on a sustained recovery of the housing market.

Looking forward, we see a total of over GBP525 million of offsetting positive items from the disposal of mature savings and potential mortality releases.

Turning now to dividend coverage. Here, you can see the sustained strength of dividend coverage under both IFRS and certainty too. Over the past five years, including 2020 consensus, we have built GBP3.6 billion of cumulative IFRS surplus not the dividend and GBP2.5 billion of 72 surplus.

Our aim over the longer term is to maintain our progressive dividend policy. This reflects the underlying strength and growth of our businesses. The clarity of our strategy and structure, with its lack of trapped capital and cash, and of course, our rigorous focus on execution.

Having kept the 2020 interim dividend flat to give ourselves flexibility against an uncertain economic backdrop, we'll update you through a Capital Markets Day in November, when we should have greater clarity.

Having successfully come through H1 with profits resilience, the balance sheet robust and our products more relevant than perhaps they've ever been. Our outlook for the second half of the year is positive and realistic.

I'll now like to hand over to Jeff to take us through the numbers in more detail.

Jeff Davies {BIO 20023574 <GO>}

Thank you, Nigel, and let me add my own best wishes to you and your families at this time. In my presentation, I'm going to cover the financials in the first half of the year, on both a group and divisional basis, the management about traded credit and direct investment portfolio and lastly, our capital position and surplus generation.

The first half of the year has been challenging for global markets. And Legal & General was not immune to this. However, our focused diversified and resilient business model as seen limited real economic impact, and has continued to deliver value to our shareholders.

Operating profit from continuing divisions was GBP1.1 billion, with growth in three of our five businesses. LGRI, LGRR and LGIM delivered solid new business flows, while also benefiting from continued profits from their respective portfolios.

In the first half of 2020, group investment spend was GBP72 million. As previously indicated, we are continuing to make measured investments into our business in order to improve efficiency, drive growth and meet evolving regulatory demands.

Over the near term, this primary relate to augment and cybersecurity, upgrading the IT infrastructure and preparation for IFRS 17. We expect this to reduce as these projects complete and move to BIU.

Additionally, the group incurred approximately GBP21 million of exceptional COVID related costs, reflecting for example, the deployment of hardware to facilitate remote working for our people and adapt in our workplaces. Including these costs, group operating profit was down 6% to GBP946 million. The negative investment variants of GBP661 million in the first half was largely due to the formulaic impact of discounting reserves at lower rates in LGI, as we've seen in previous periods, and unrealized market impacts within LGCs traded equity portfolio, where we are long term investors and can absorb the volatility.

Finally, the group's solvency to coverage ratio at the end of June was 173%. And currently is broadly unchanged. I will cover our capital position in more detail later.

Turning toward divisions, LGR delivered strong operating profit growth in the first half, up 10% to GBP721 million. This performance was driven by the ongoing delivery of potential margin releases from our growing backlog. New Business surplus generated from a steady flow of UK PRT, the evidence heavier mortality experience and positive variance arising from routine updates to our modeling assumptions.

Our institutional business grew operating profit by 12% to GBP585 million. In the UK PRT, we maintain pricing discipline, achieving a solvency to New Business margin of 10.6%, reflecting longer duration transactions in the period compared to prior year and the capital strain of just 4%.

Our retail business delivered operating profit of GBP136 million, up 4%. Individually individual annuity and lifetime mortgage volumes were down year-on-year as they were temporarily impacted by the lockdown measures.

To counter this, we accelerated technology innovation across our retail product offerings and have recently seen a recovery. Compared to me, annuity sales in June are up 27% and lifetime mortgage applications more than doubled.

We are considering very carefully the current and longer term impacts of COVID-19 both direct and indirect on the mortality of our annuitants. Alongside this, we continue to analyze the impact of income cooperating the next actuarial table CMI 18 in our year end reserving. In isolation, this would imply a release of around GBP200 million.

LGRI had a good first half right in GBP3.4 billion in global PRT across 29 transactions at attractive margins. The uptick in deal counts illustrates the continued demand for PRT and smaller transactions allowed us to manage credit sourcing in volatile times.

In the UK, we wrote GBP3.2 billion on a wide range of deals, including a ninth spine with ICI another example of where we are able to leverage one of many long standing client relationships.

In the first half, 76% of UK PRT deals were with Belgium clients, demonstrating the resilience provided by our unique position in the market. We are continuing to make progress in the US PRT market, with premiums up 11% compared to the prior year.

During lockdown, we undertook the first international transaction securing benefits for IHS markets UK and US pension plans at the same time. The PRT market remains very active. 2020 is anticipated to be the second largest on record, with GBP20 billion to GBP25 billion of UK PRT expected to transact.

Our intention remains to right GBP40 billion to GBP50 billion of new UK PRT over the next five years. As always, we will be disciplined in our pricing and deployment of capital, weighing the interests of all our stakeholders when making new business decisions.

Our LGR bond portfolio, which is a source of long term captivate AUM for LGN has now grown to GBP76.4 billion. The portfolio is defensively positioned and has not been materially impacted by COVID. We have kept lower rated cyclical exposures to a minimum, including those directly impacted by COVID-19. For instance, airlines, hotels and leisure, which together constitute less than 1% of our portfolio.

We have been proactive in our risk management and continually review our BBB exposures, which remain well diversified. Over the last year, where appropriate, we've taken the opportunity to improve credit quality at attractive pricing levels, and did so actively in H1. As a result, we event performed the downgrade experience of the market with just 0.6% of our traded credit assets downgraded to sub investment grade compared to around 1.5% for the total market.

As further protection, we continue to hold a substantial credit default reserve of GBP3.5 billion and experience no defaults across the portfolio in the first half. We have maintained high credit quality, with two-thirds of our bond portfolio rated a better and 18% in sovereign like assets.

Going forward, we recognize the economic impact of COVID-19 is still developing, and we will continue to monitor and safeguard our portfolio. LGR has a diversified and high quality direct investment portfolio with stable income from high quality counterparties often additionally collateralized or secured, making it resilient to market stresses.

The GBP23.6 billion LDI portfolio experienced no defaults in the first half, and 99% of shedule cash flows were paid. Additionally, all assets are independently internally rated and, as with the traded credit portfolio, downgrades to sub investment grade have been minimal.

During H1, 1.4% of our UK DI downgraded to sub investment grade. These downgrades relate to assets under construction, where we have experienced temporary delays. Upon completion, we expect these to be upgraded to investment grade.

As we show here in the chart on the left, the primary exposure and DI portfolio is counterparty risk to high quality institutions such as HMRC. This constitutes 70% of the portfolio as shown by the light gray circle.

Our ability to self manufacture attractive long-term assets the back annuities, such as bill to rent or affordable housing, or through lifetime mortgages is a differentiating feature of LGRS business and remains a key competitive advantage.

Moving on to LGM, operating profit was up 2% year-on-year to GBP196 million, reflecting increased revenues, partly offset by continued investment in the business as part of LGM's growth strategy. Higher revenues were driven primarily by LGMs resilient AUM.

As indicated at our full year results, GBP29 million of annual LGM related project expenditure, previously reflected in group has been allocated to the LGM results from 2020. This and LGMs continued investment in data, analytics and our investment platforms has led to a cost income ratio of 58%.

Totally AUM reached GBP1.2 trillion with international assets accounting for 31% at GBP385 billion. We remain a market leader in UK DC where we now have 3.7 million workplace members and AUM of GBP97 billion.

Despite significant market volatility, total retail AUM stands at GBP39 billion. And we are top three in gross UK sales in H1. Our diversified asset base has been resilient during a period of significant market volatility, with AUM of 4% from the end of 2019. We maintain positive external net outflows of GBP6.2 billion, with good growth in UK DC, driven by 41 new scheme wins and the half and ongoing demand from our UK DB clients for LGI solutions.

Following its strong performance in 2019, Asia continue to show good growth potential. The positive net flows of GBP5.2 billion. However, this was offset by outflows in the US where we saw some DB pension clients, rebalance their portfolios away from fixed income towards other asset classes based on preset asset allocation thresholds.

Despite the short term volatility, we remain confident in our international growth strategy over the medium term. We continue to be a global leader on ESG with more than GBP170 billion in responsible investment strategies.

In LGC, operating profit decreased 29% to GBP123 million, primarily due to a pause in traditional house building activities during the UK lockdown. Karla [ph] was the most operationally impacted of our build to sell businesses. Since June, we've seen an improvement in the housing market. If conditions remained similar today, we estimate a 30% reduction in sales across the year with the majority of the impact already reflected in the first half result.

Profit before tax was down due to the unrealized losses in the traded equity portfolio, and some less significant valuation reductions, primarily our two DI retail assets that we've previously highlighted.

Our diversified direct investment portfolio now stands at GBP3 billion up 15% on the prior year. In the first half, we continue to deploy cash to support the growth of our businesses, in particular making good progress in our affordable housing and later living activities.

Over the next three to five years, we continue to expect to build our diversified direct investment, up to approximately GBP5 billion with a target blended portfolio return of 8% to 10%.

Now moving on to our Protection Division, LGI. Operating profit was GBP88 million due to higher COVID related claims and provisions. The overall impact was partly insulated by the high proportion of reinsurance used in the UK retail protection. Profit before tax was down largely due to the formulaic impact on reserves the falling interest rates as seen in previous periods.

Despite market competition and the temporary disruption from COVID, total gross premiums were up 5%. The business continues to grow at good levels of profitability with solvency to new business value, up 19% to GBP138 million, driven by business mix and cost savings. We anticipate continued premium growth across our UK and US businesses, as technological innovation makes our products more accessible to customers and supports further product and pricing enhancements.

Moving on to our capital position. Despite recent market volatility, our balance sheet remains well capitalized, with the group's solvency to surplus at GBP7.3 billion and the coverage ratio of 173% at the end of June. The quality of our capital remains strong. 74% of our own funds is Tier one. And we remain confident in the resilience and capacity of our balance sheet to withstand further shocks.

We have bridged the solvency to surplus to help explain the movements since the year end. Operational surplus generation from the growing back book was GBP0.8 billion. As in previous years, we paid by far the larger the two dividend payments of the year in the first half, GBP0.8 billion versus GBP0.3 billion.

The main impact on solvency surplus in the half relates to market movements of GBP0.9 billion. There is a positive GBP0.3 billion mostly from inflation and FX related movements. These are offset by GBP0.6 billion relating to interest rates, reflecting the non-economic impact of lower interest rates on the valuation of our balance sheet. GBP0.2 billion relating to lower equity market returns, and GBP0.4 billion reflecting the impact of spreads with the positive impact of spread widening more than offset by the effect of dispersion.

We use the term dispersion when spreads on lower rated assets widen more than those with higher ratings. This increases our muddled cost of trading those assets after projecting downgrades in a range of scenarios. Under solvency II, the main impact comes from some investment grade assets widening. And so our full disclosure includes a new sensitivity to help those of you that model our balance sheet.

We wrote new business very efficiently with total new business strain of just GBP100 million. During the first half, debt markets for investment grade issuers were especially attractive and we took the opportunity to successfully raise GBP0.5 billion of sub debt and

GBP0.5 billion restricted to Tier one debt. This gives us additional buffers and optionality should there be further material market shocks.

We will of course remain disciplined in the deployment of our surplus capital to ensure we meet or exceed our target returns and remain within our risk tolerances as market uncertainty continues.

And so to conclude, it's been a challenging period for our customers, for our people and for society at large, where we've been able to we've continued to execute our long term strategy effectively with three out of our five businesses delivering growth. Our rigorous approach to risk management has ensured the balance sheet is strong, well capitalized and continues to generate surplus and our credit portfolio is positioned defensively.

In the second half, we will remain extremely vigilant and will continue to monitor and manage the impact of COVID-19 across our businesses. We firmly believe that our synergistic business model is well placed to execute on opportunities in the second half with all our businesses competitively positioned in growing and profitable markets. We intend to be a leader in the post-pandemic economic recovery, supporting our society, shareholders and customers.

As Nigel said, we are resilient, robust and highly relevant, and our ambition is for similar performance in H2. Thank you.

Questions And Answers

Operator

Ladies and gentlemen, welcome to today's Legal & General Half Year Results Conference Call. My name is Jordan. And I'll be coordinating your call today. (Operator Instructions) I'm now going to hand over to Nigel Wilson, to begin. Nigel, please go ahead.

A - Nigel Wilson {BIO 1535703 <GO>}

Thank you, Jordan, and Thank you, all, for joining this Q&A session this morning. Sorry for the slight delay. We've had the highest number of attendees we've ever had, so we're expecting some tough questions. I hope you've all had an opportunity to watch our virtual results presentation. If you haven't and would like to, you can find the link on the webcast. As I said in the presentation, Im incredibly proud of the way Legal and General has risen to the operational market challenges presented COVID. I'm actually excited and enthused about our prospects in H2 and beyond. Levelling up, build back better, the planning changes, all play to Legal and General's narrative and people can see the importance of being an asset manager, but also increasingly an asset creator.

As you've seen in the results, we've demonstrated that our balance sheet is robust, our operational earnings are resilient and our strategy is highly relevant, probably more relevant than it's ever been, as both to weather the storm of the health pandemic but also to help build back better and investment-led growth.

I'm here, joined at Coleman Street by my colleagues, and we're ready and looking forward to answering your questions, as normal, trying not to ask more than three sub questions within your questions, but we'll give you some grace time. Thank you. And the first question is from Andy Sinclair.

Q - Andy Sinclair {BIO 17749036 <GO>}

Thanks, Nigel. I've got three questions, of course. The first one. You've held the divided flat today. I can understand the backdrop but it is a divergence from your policy of interims being 30% of the prior year. Can you tell us a little bit more about the rationale for that decision, given that it only saves about GBP20 million?

Secondly, within LGI, just wondered if you could give us a little bit more colour about the experience variances. How much was COVID specific? How much attributable to each, the UK and the US?

And the third question being on the fixed income portfolio. You've got a little bit more BB today than previously, though still only about 2% of the portfolio, and clearly hasn't had too much of an impact on Solvency, given the capital beat. You gave a bit of colour in the presentation on some of this being assets under construction, but do you have a cap level in mind for what you'd like to keep sub-investment grades below, or does it just depend on the backdrop? That's my three questions.

A - Nigel Wilson {BIO 1535703 <GO>}

Thank you, Andy. Those were more thought-provoking questions than we get from you usually. So I'll answer the first one. I'm going to ask Bernie to answer the second one if Jeff picks up the third one. The dividend was a very good discussion with our board. And really, there were two options, either 0% or 7%. And we came down on 0%. We thought that was the right thing to do for the right reasons at the right time. It was a very measured response. It also gives us flexibility over the rest of the year because although we've been robust and resilient, you can't tell what's really going to happen with COVID. The science is very imprecise.

We're delighted with our results. The point you make is a relevant one. It was not much incremental costs from paying the extra amount of the dividend, a mere GBP20 million, as you've said. We could've easily afforded it. But we thought we had to be relevant to the times.

And that's what we've done with the divided decision, recognised that lots of people are going through difficult times. And although we've done incredibly well, we think we're rewarding shareholders fairly by paying the same dividend as last year, and being aware of the wider societal issues that are going on right now, and actually, it is the right thing to do. Bernie?

A - Bernie Hickman {BIO 19334629 <GO>}

Yes, sure. So on the experience variances, yes, we've given you the biggest one, obviously, which is claims. We're here to pay out when tragedy strikes, and that's exactly what we're here to do in a pandemic. And so, yes, we've seen a number of claims, particularly in the US, but also as some small amounts in our group protection business.

It's GBP80 million overall from claims which is the vast majority of the experience variances. It's about roughly a quarter in the UK, three quarters US, would be where it is. And it's fair to say we've had about half of that already and another half is provisions. Just slightly more than half is provisions. So we're hopeful that we've already provided for claims coming through in the second half.

Clearly, we don't know how things are going to pan out, so there's some uncertainty there. But we hope we've provided for enough there. Hopefully that's the colour you're looking for, Andy.

A - Nigel Wilson {BIO 1535703 <GO>}

Jeff?

A - Jeff Davies {BIO 20023574 <GO>}

Yes, sure. And just on the fixed income portfolio, as you say, Andy, we've had good experience to date. There are a small number of downgrades to sub-investment grade and there are some very good reasons for some of those in the direct investment portfolio, as I said in the presentation, and we do anticipate, on completion of those, would upgrade again. We obviously would ultimately have a limit of concentration around this, but we look very much on a case-by-case basis. We will trade when we economically think it makes sense. We're never a forced seller. And we also are looking in a more holistic sense of, well, what do BBs mean going forward? Is there a different dynamic around that?

And we will weigh that up against the economic or almost non-economic, if you like, impact that it has on the Solvency II ratio versus what is the best thing for us to be doing. We have trimmed slightly a couple of those that have downgraded. We've thought that has made sense. And we'll continue to look at it, as I say, on a case-by-case basis. I think those credit meetings have gone to weekly now from daily. So we constantly look at that and speak to the traders, speak to LGIM around what makes sense to look at those assets.

A - Nigel Wilson {BIO 1535703 <GO>}

Thank you, Andy. And just in terms of qualifications from Bernie's answer, we've provided about GBP44 million for H2 in our LGI and we hope that's a good number. But clearly, given that we've already provided that, that won't influence the level of profits, and therefore, what Bernie was telling you is he's going to do much better in H2 than he's done in H1.

And on the rating, obviously we have a lot of assets under construction and they naturally upgrade when the construction is finished. And some of those are starting, achieving practical completion in the next few weeks. So thank you. The next questions, gosh, Andrew Crean. So we're sticking with the As to start with. Andrew.

Q - Andrew Crean {BIO 16513202 <GO>}

Morning, all. Yes, I have three questions. Firstly, LGIM. At the full year, you dodged the question about whether you were sticking with the 8% to 10% growth rate. I just wonder whether that is your commitment and when that starts, because obviously it's a little bit behind this year. Secondly, on LGR, GBP81 billion portfolio, trying to grow the book by GBP8 billion to GBP10 billion a year in terms of -- not grow the book but grow new business. What kind of growth in cash profits does that allow you to achieve while maintaining a decent Solvency provision? And finally, you've talked about a GBP3.5 billion credit provision under IFRS. How does that provision play into Solvency II? And if you do get defaults in Solvency II, is there a provision sitting there which can be deployed, or will it hit the capital generation?

A - Nigel Wilson {BIO 1535703 <GO>}

Okay. Thanks, Andrew. I don't think we dodge questions, Andrew. I think that's a bit harsh to say we dodge questions.

Q - Andrew Crean {BIO 16513202 <GO>}

Well, I think Michelle had a broken leg, didn't she? Which it was her department

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. She's just about recovered from her broken leg and she'll be joining us on the call so I'll pass to her to just answer in a second. I think what we've said was that we would update you on a lot of strategic issues at the November capital markets day. And that really hasn't changed. Clearly, in the first half of the year, we saw good revenue growth from LGIM and assets went up as well, but costs went up by a higher percentage. And so the rate of growth of profits is a lowish number. But it's unusual at the moment to get growth in profits in the fund management industry. And again, the robustness and resilience of the business has shone through. Michelle, would you like to add to that?

A - Michelle Scrimgeour {BIO 16159715 <GO>}

Look, it's a great question, Andrew. As I said, as Nigel has just said, we'll definitely come back to this at the capital markets day. I didn't deliberately break my leg, I promise you. I would just echo what Nigel has said for it is a tough environment for asset managers. We talk about looking to deliver positive net flows as a percentage of opening AUM. That's something I think that we will continue to talk about. And then clearly, there's a market return that goes with that. I would love to come back to this at the capital markets day.

Q - Andrew Crean {BIO 16513202 <GO>}

Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Okay. Thanks. Jeff, can you answer questions two and three?

A - Jeff Davies {BIO 20023574 <GO>}

Yes, sure. To some extent, the second question would also be a core element of our capital markets day because clearly the growth we achieve on LGR will be a big driver of what's possible, where we've talked before about this sustainable portfolio. And at that level of GBP8 billion to GBP10 billion per annum, the capital base deals with that and the business becomes self-financing, you still get significant growth, as we say, in cash earnings that comes from that.

There's a lot of surplus thrown off the back for prudence, whether that be on an IFRS basis or Solvency II. And we'd be confident of continuing to deliver growth of the sort of scale that we've seen to date. But we'll be more specific around that, does it alter by plus or minus a few percent as we move to a more steady state on LGR which will then depend what other businesses are doing and how much growth we get in the US.

The GBP3.5 billion on the credit default reserve, yes, that's the IFRS basis. Interestingly, there's almost as much embedded in the best estimates in Solvency II because the fundamental spread is a deduction over 50 basis points, and that's slightly less, in fact, than we get deducted, or we hold for IFRS to get to the 3.5 billion. So even in your base balance sheet, you have prudence of 3.5 billion or so in a similar way in Solvency II. And then you hold capital on top of that.

There isn't the same loss absorbency because they're not seen as margin. But of course, unless you get a jump to default from a higher-rated asset, then this would tend to be an asset that is on its way down, probably being downgraded. We'll do something about trading it. At the point it would default, we'd naturally be replacing that or probably already have replaced it in the portfolio with a higher-rated asset. So the marginal impact on the Solvency II balance sheet would, therefore, be reduced. Nigel.

A - Nigel Wilson {BIO 1535703 <GO>}

Okay. Thanks, Jeff. We're obviously incredibly pleased with the performance of the people within both LGR divisions. Under these really extraordinary times, they've produced fantastic sales numbers. I'm just looking at H2 again. Why are we positive about H2? LGR has already completed nearly GBP700 million of PRT deals and has GBP2.7 billion in exclusives and a pipeline of GBP18 billion just in the UK alone.

And people have really risen to the challenges across all of the divisions of L and G and delivered a great outcome for H1. And we're very positive about H2. The next question, it's another A. It's Andrew Baker. And look forward to a B or a C coming up in the future.

Q - Andrew Baker {BIO 20402705 <GO>}

Hi, Nigel. Thank you, guys, for taking my questions. Three again, keeping with the theme. So the first, I guess just a quick one, just returning to the dividend. Appreciate that it's flat year-on-year and the answer that you gave there. Can I assume there's no change to your underlying progressive divided policy?

And then, second, on the COVID-19 impact. So specifically, as I look at LGR had a positive GBP32 million impact, LGI, the negative GBP80 million that you've talked about, GBP44 million of which was from future claims, should we expect greater positive variance from LGR in H2? I guess what I'm getting at is your overweight longevity but it seems like, so far at least, mortality has had a larger impact on your results.

And then the third one is on the bulk annuity pipeline. So you disclosed in June GBP25 billion. It was GBP18 billion today but I think that is UK only. So what is your overall bulk annuity pipeline? Is it materially different to that 25 billion that was announced previously? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Thank you. I mean, on the dividend, the message we're trying to give is we thought we were being appropriate in these times with 0%. And if you'd listened to the brilliant virtual presentation that Jeff and I have given, we've said and reiterated that there's no change to our progressive dividend policy. On the LGR questions, I'm going to pass you over to Laura Mason who can talk both about the pipeline and the COVID impact and maybe the longer term impact on mortality that we're seeing.

A - Laura Mason {BIO 20420360 <GO>}

Yes. Thank you. Thank you, Andrew. On the mortality, we're continuing to monitor this on a regular, weekly basis in terms of the impact on COVID as we do with many other impacts on mortality. As you may be aware, recently, actually the impacts of mortality have been less than usual, taking the average over the last five years and comparing to mortality in the UK. So we're just continuing to monitor.

In terms of your question on the pipeline, yes, you're quite right, the GBP25 billion is referring to the UK. I think that was Hymans Robertson's estimate and that's something that we consider about right, given what we can see in both the wider market pipeline and our LGIM pipeline.

The US market is picking up. It's been a good market over the first half of the year. Q4 is always a busy time in the US and there are certainly some larger deals coming through, larger than we'd expected actually in the US, which isn't included in the 25 billion. Thank you. Back to you, Nigel.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. In big picture terms, last year was a record year and this year will be probably the second best year ever. We expect to get our normal market share in the UK and gradually keep edging up in a very measured way in the United States. And we're now moving away, exciting this, moving away from the As. And Jon Hocking is next up to ask a question.

Q - Jon Hocking {BIO 2163183 <GO>}

Thanks, Nigel. Morning, everyone. I've got three questions, please. Firstly, on the mortality within LGR, Jeff, on the presentation, mentioned the GBP200 million guidance for the CMI

18. Is it reasonable to assume that, given there's been an acceleration in the first half, that the net number is likely to be lower than that? That's the first question.

Second question on new business strain. It was very low in the first half. Should we assume that normalizes somewhat in the second half? And then the final question on LGC, below the line, in a release I think it mentions that the majority of the below-the-line write-down is on the equity portfolio and not on the two retail assets. But could you give some idea of the split there, please? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. I'm going to ask Jeff first, and then maybe Laura, to back up the answer to the first questions. And then I'll pass the first one on to Kerrigan who can talk not just about -- he can talk in general about the investment markets in the UK for the assets in his portfolio.

A - Jeff Davies {BIO 20023574 <GO>}

Hey, Jon, on the LGR mortality, certainly the GBP200 million I gave, that was simply for moving to CMI 18 for year-end reserving. That's irrespective of COVID impacts, etc. within the year. That would be more in the base table. So that's where we're looking today. We are, at the same time, looking at the medium to long-term impacts of COVID and whether there will be a change of funding, whether there'll be changes in what flu does because people wash their hands, they're more conscious, et cetera.

And there's numerous other effects. Who knows where unemployment might go, delays in treatment around cancer? And we will also feed that into our view. But those are independent of first-half experience. You saw the 32 come through in LGR. That was the experience to date around COVID that has already been allowed for. So there is no offset between the two.

New business strain was around 4%. We continue to be very efficient. It's a slightly longer duration business, a third business, so we work harder to keep the strain down on that. And so we'd be reasonably positive for the second half around new business strain. No reason to think it would be fundamentally different. As ever, it will depend. If there's one or two lumpy schemes with slightly different features, then that can change. But it's broadly in line with where we expect it to be, ongoing.

A - Nigel Wilson {BIO 1535703 <GO>}

I think what Jeff said is it's 4% for the H2 as well. And thank you, Jon, for your questions. We'll now move on to --

A - Laura Mason {BIO 20420360 <GO>}

Kerrigan?

A - Nigel Wilson {BIO 1535703 <GO>}

Oh sorry, Kerrigan. Gosh.

A - Kerrigan Procter {BIO 15093363 <GO>}

I'll first make a comment on the below-the-line LGC comments. As you quite rightly pointed out, the majority of the impact is public market equities. Then we mentioned a couple of our retail assets. And then there's some noise there. Probably, I'd describe that as noise in terms of some other assets there. But those are the main two themes.

To be helpful, just trying to do the figures in my head, I think it's roughly 55% to 60% of that would be the public market equities. And then, in terms of the two retail assets, so we're talking about Bracknell, the Lexicon and The Springs, at least Thorpe Park really, are the ones that have. The independent valuations came in lower for those. Again, as we'd expect them, obviously in context.

We have a just over GBP3 billion direct investment portfolio. Less than 10% of that is in these two retail assets. Yes, they are more experience and destination-focused, modern retail, but they've had, as we all know, a very short, sharp impact that's exacerbated the ongoing trend in retail that we're seeing. So we've taken a sensible valuation on those, we think.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay. Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Thank you, Kerrigan. And we will now move on to Oliver.

Q - Oliver Steel {BIO 6068696 <GO>}

Good morning. I knew having a name at the end of the alphabet never helped. So three questions. First of all, the capital requirements have pushed up by GBP1.2 billion in the first half. Okay, obvious reasons behind that. But I'm just wondering what can you envisage from a market perspective, or indeed any other perspective, that brings that capital requirement down anytime soon. And I guess I'm looking for a breakdown of how much of that was caused by rating downgrades and so on.

Second question is the flows within LGIM appeared to drop away quite sharply in June, from 11.3 billion at the end of May to GBP6.2 billion. Is that the US business that you're talking about? And if so, what's the outlook for that particular segment? And then third question is a bit of a simple question. But, Nigel, you talk about a similar second half performance in terms of operating profit. Are you talking here of the underlying GBP1.075 million in the second half as being the aim?

A - Nigel Wilson {BIO 1535703 <GO>}

Okay. Jeff takes the first question. I'll take the second one and the third.

A - Jeff Davies {BIO 20023574 <GO>}

Sure, yes. There's two different things. I think there, you're talking obviously the SCR increase and what does that do on coverage ratio. We're very happy with the GB{173 million. There's different things we can do to improve the coverage ratio versus SCR falling. Clearly, a big impact in that SCR growth is the fall in interest rates. And everyone will have their view on where the yield curve is going. But we won't be relying on it increasing anytime soon and we'll be well set up, by the way.

Those of you that have got to our sensitivities will see that we're now slightly less sensitive to rates, which is helpful. Obviously the recovery in equity markets and the other LGC investments that Kerrigan talked about would increase certain funds, increase the ratio in particular spreads as well moving. So some of that impact will also have been the dispersion that I talked about in my presentation where, if we see those BB assets, in particular, coming back in over time, that again flows through.

There hasn't really been a material impact from any credit downgrade migration, etc. That hasn't been an impact. It's really those movements, as I talked about. We continue to have management actions available. Obviously the longevity releases would increase our Solvency position. So very comfortable where we are and, ongoing, being able to use capital to write new business versus managing the overall position.

A - Nigel Wilson {BIO 1535703 <GO>}

Thanks, Jeff. On LGIM's assets, we had one very large outflow from one specific client of about 6 billion. They're a very large client of ours and they simply took some of the assets in-house. We'd been discussing it with them for a very long period of time to make sure the transition worked well. And it was a pretty (inaudible) mandate.

The second part of your question, I think, is a fair one, that in the US, we had net outflows, which we've had an amazing track record for a number of years. And again, that was just really because of various trigger points in certain mandates where they were switching their assets out of our business and into others because of the trigger points in the mandates. It wasn't part of natural and long-term outflow. And we're very pleased, at a macro level, that we had 6 billion of inflows in the first half of the year.

In terms of similar, in the first half, I would say we had a similar level of profit to last year's first half. We were down 2% but I think that's fair, to call that similar. In the second half of the year, I think we've guided to the fact that we expect LGI to do better. I think Kerrigan has just articulated why LGC should do a little bit better.

And we expect the other three divisions to continue on the course that they've been on in the first half of the year. And therefore, that's how we think of similar in that context. So, thank you. We're now going to move back onto the As, having briefly disappeared from the As. Is Ashik, can you come forward next with your question or questions?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, thank you, Nigel, and good morning, everyone. So just a couple of questions. First of all, can we get some clarity on your debt leverage capacity? You have raised about GBP1 billion of debt this year. How much more debt can you issue, be it to capture the growth or be it to absorb macro shock? So that would be the first one.

The second one is just going back to Oliver's question about operating profit. Clearly, you reported only 2% drop but then there was a big, around GBP200 million, GBP230 million of positive one-off in operating profit from assumption changes and some non-cash items.

So how should we think about that number? How much of that number should be recurring in future? How much should not be? Because there is a material difference. GBP585 million, sorry, GBP720 million is your reported operating profit in annuities, but then GBP200 million, GBP220 million, could be, say, one-off, non-cash items and model changes. So just trying to get a better sense of how much we should start taking in on an ongoing basis.

And third would be, again, going back on dividend. I'm sure like you have this is that earlier as well. But how should we think about the full year dividend? It could be a decision that I'm pretty sure you'll make at the end of the year. But any thoughts on full year dividends at the moment? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Jeff, The first two questions and I'll take the third question.

A - Jeff Davies {BIO 20023574 <GO>}

Yes. Oh, excuse me, sorry. Yes. On, yes, debt leverage, certainly one of the positives, if you like, that have come out of the market volatility is a lot greater interaction with rating agencies. We've been talking to them a lot to help them understand our balance sheet and the movements. Clearly, we're talking around the leverage ratios. Generally, the RT1 was positive for Moody and Fitch, and also, it was a good conversation with S&P. We've looked at those.

We continue to deliver and grow our balance sheet, which gives us the headroom. We potentially have expensive debt next year that we will consider, and whether that would be kept on the balance sheet. So at that point, we would certainly have more headroom.

And within RT1, on a pure metrics basis, there is plenty of headroom. So we're very conscious of the rating agency metrics. Some have improved. Some, we're getting closer to the AA limit. But

We constantly improve that metric as the balance sheet grows and all parties are comfortable on that. So we're happy we have enough headroom to manage that on an ongoing basis.

On the second one, I don't quite recognise the number you talk about. Clearly there was a release in LGR. But generally, this is ongoing management of the bases. As Tim likes to say, we have lots of simplifications in our model in that, over time, they become more material. They're always set up, we hope, on a prudent basis, given their simplification. And we get to these on a list and we

Slowly update them.

Luckily, on an ongoing basis, they're positive because that's the way they're set up. And so there's an underlying level of maintenance of your methodology and assumptions that leads to these on an ongoing basis, I would say, as you've seen in our results over many years. It's not that there's suddenly a dip away from them.

A - Nigel Wilson {BIO 1535703 <GO>}

Thank you. And the Tim that he was referring to is Tim Stedman. And please call him up with any really, really difficult questions afterwards. On the dividend, we think zero is just the right signal at this time. It's an appropriate signal, not an inappropriate signal for us to make. It's a very measured one. It gives us flexibility around it. It's meant to demonstrate our long-term commitment to a progressive dividend policy which we're not changing away from. And we thought zero was the best way of signaling that, given all of the circumstances that exist right now. Okay, thank you. We're going to move on to another A. Abid, please.

Q - Abid Hussain {BIO 20229932 <GO>}

Oh, hi. Morning. Thanks for taking my questions. I've also got three questions. The first one is coming back, actually just following on from a previous question on mortality. I still am not quite clear on the mortality release, the size of the release on the annuity business in LGR versus the negative on LGI, and the quantum seems odd, given the annuity book is much larger. And so the question really is, is that just a case that you're being really conservative on the annuity book? And I'm just thinking about that from the ONS. They're suggesting that deaths so far this year in the UK are about 50% above the past five-year average. So just any additional color on that would be helpful.

And the second question is on lower interest rates. Could you just share your thoughts on, if we do start to see the interest rates lower from here, I know there's not much room to go to zero, but potentially got lower or even negative from here, how does that impact the affordability and demand for PRT business?

And then the final question is on superfunds. And I think you've said in the past that superfunds are complementary to you. And indeed, I think the legislation that's come out requires them to offload the business to insurers before they can extract any earnings, any profits. So from that sense, it clearly is complementary.

But I also recall that there were plans that you may be setting up under a similar structure, a similar structure under the Pensions regulation to benefit from the lower capital position there. And I'm just wondering if you can update us on your thoughts there, please.

A - Nigel Wilson {BIO 1535703 <GO>}

Okay. If Jeff just goes through the structure of the leases for LGR and LGI, and then I'm going to ask Laura to comment on the PRT affordability and other questions. But I'm also going to ask Chris to comment on that for his business, as both for the individual annuities, lifetime mortgages. And indeed, if you want to make some passing comments on your digital care business, that will be great to hear.

A - Jeff Davies {BIO 20023574 <GO>}

Yes. And we can, offline, take people through the dynamics of what leads to this for the deaths that you see. But at a very basic level, of course, don't forget you might be paying out half a million or a million pounds for a death claim, whereas on an annuity, the reserves that you would be holding would be maybe a multiple of 12, 14 times the actual annuity per annum, and so you wouldn't

Necessarily get to the same sort of quantum, even if it was the same lives, if you like.

Clearly, we did see a lot more older deaths in the population, but that's very much what's reflected there. We tried to reflect the COVID deaths in the period in what we've done for the annuity release. And, as I say, we could explain the dynamics on that and what that leads to.

But this 32 is very clearly the answer here. We don't believe we've been prudent and conservative either way on that. We believe that's what our data is telling us for the COVID deaths in the period. We have paid out and put IBNR away for the group life business, in particular in the UK and the US mortality business, as Bernie talked about. And then we do believe we've been prudent in setting aside GBP44 million for the second half on the mortality claims, in particular focused on what the uncertainty in the US may lead to.

A - Nigel Wilson {BIO 1535703 <GO>}

Thanks Jeff. Laura?

A - Laura Mason {BIO 20420360 <GO>}

Yes, thank you. And on the impact of lower rates, most of the clients in our pipeline have been preparing for buy out or buy in for a long period of time and will have a relatively sophisticated LGR program in place which means that they'd be relatively immune to rates moves in terms of their de-risking journey. And I think just noting that a lot of our pipeline this year has been for buyouts which tend to be longer duration, and we've seen no real change to that pipeline, even due to the recent moves.

I'll just quickly comment on superfunds, in fact, before handing over to Chris on the rates question for his business. Yes, you're quite right to point out that the guidance has been helpful to us. And we'll wait to see how. It is only guidance at the moment.

We continue to work through a number of different solutions within L and G that will be directly competing with those super funds, our ISS and APP products, which will be directly competing and have the added benefit of being insurance contracts too. So, as you say, it's definitely complementary in terms of what the guidance has come out with. But we will be continuing to work under the insurance regulations in the short to medium term, that's for sure. Thanks. Chris.

A - Chris Knight {BIO 18966542 <GO>}

Thanks, Laura. Yes, we saw quite a brief drop in annuity sales, individual annuity sales earlier in the year but it came back quite quickly. I think, on the one hand, people are having mixed thoughts about whether this is a good time or a bad time to retire. But, in fact, we've seen volumes come back quite strongly. And in a way, this has proved our case.

If you're comparing an annuity with a drawdown product, for most normal people, they've now had a lesson in what happens when you're invested in the equity market and you see your pension funds drop. So I think, in the long run, that will be really supportive for the product. And remember, there's a secular increase at the moment in numbers of people reaching age 65 each year, which is going to go up from about 200,000 this year to about 900,000 by the end of the decade. So that's just a good long-term growth driver for us.

Lifetime mortgages was very slow in Q2 because of applications. And that would've been felt across the market. And probably, we'll see that coming through in completions in Q3. But, in fact, we're also seeing a big bounce-back there with the reopening of the housing market, and applications in July were back where they were in February, which is a positive time for us, going forward.

And Nigel mentioned care. And obviously, care is a huge issue for lots of people and our customers. And we're doing more work digitally, on the website and other channels to help people understand, find and fund the care that they need for themselves and their loved ones.

And we've made some good investments in recent years in companies like Care Sourcer and Current Health, who are really coming into their own now in this crisis, and helping both individuals and society to help fix the care conundrum, so to speak. Nigel.

A - Nigel Wilson {BIO 1535703 <GO>}

Thanks, guys. On individual annuity sales, I think that's another one that we can put in the bucket, similar and resilient. We would expect sales this year to be similar to last year, given the current trends that Chris and Emma and the team are seeing. We'd now like to hand over to Dom to ask his questions.

Q - Dominic O'Mahony

Oh, hello. Can you hear me?

A - Nigel Wilson {BIO 1535703 <GO>}

Yes, we can hear you very loud.

Q - Dominic O'Mahony

Great. Thank you so much. Oh, right. Well, I'll whisper. Thank you for taking my questions. A lot of them have been answered already. But I still have three, if that's all right. Laura, you spoke a bit about the impact of rates, or the lack of impact of rates on demand from your customers. At the same time, lower rates makes it more capital intensive to write bulk annuities. Is that impacting the way that you're thinking about pricing and capacity?

And I suppose notwithstanding that, I notice that your Solvency II margins have improved really strongly, from 7.8 to 10.6, clearly getting a lot more bang for buck for your capital deployment this period. I assume that's to do with the fact that these are buyouts and so longer duration. Is that right? And so, should we expect that to normalise?

Just one more question on bulk. So, Nigel, as you indicated, the 675 done in July plus the 2.7 in exclusive, that suggests actually 3.4, already a good line of sight. Is this going to be a normal year then for bulks? Would it be reasonable to expect GBP8 billion to GBP10 billion for the year?

And then, final question. You've got an awful lot of cash. You raised GBP1 billion of -- I mean cash, not capital. You raised a billion of cash through debt. I notice you've got, I think, about GBP1.8 billion more cash on the shareholder account than you did at the end of the year. If you put that to work in LGC and into direct investments, that would clearly be very accretive. I recognise you can't deploy that all in one go. But does this give you the firepower to accelerate your allocations to direct investments and to grow LGC? Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

And thank you for those questions. You sound like me at the management meetings. Why are we not going to do that? So I am going to be very interested in my colleagues' answers here. Kerrigan can answer the question of why he's being lazy in deploying the capital and earning better returns for shareholders. And Laura can tell us why we're going to get a similar performance, year over year, in the PRT business.

A - Laura Mason {BIO 20420360 <GO>}

Thanks, Dom. I thought you would pick up on the increase in Solvency II new business value. I think the first two bits of your question are quite linked in terms of the rates and the 10%. As well as what Jeff talked about, and you alluded to, yes, we have been seeing longer duration buyouts in the market, which again played well to the -- Or is evidence really that these schemes are very well hedged and are able to execute in these types of market environments.

As well as being slightly longer duration, we have been able to work with the markets and invest in assets, particularly in March and April, at very good values in the credit markets which helped both pricing from customers' perspectives and our metrics. And I think it's those two combinations that really give you the answer of both your (inaudible) and your value.

And just picking up again on the GBP8 billion to GBP10 billion, yes, we've talked a little bit about the pipeline already. We think the UK will be about GBP25 billion. The US, there's some really large deals coming through in the US and as you know, Dom, we won't be necessarily playing on those large deals, for those large deals, but it will hopefully give us some room for the slightly smaller deals. We were fifth in terms of total sales in the US in Q1 and expect to be fairly similar in half one. So definitely, the GBP8 billion to GBP10 billion guidance certainly still stands. Over to you, Kerrigan.

A - Kerrigan Procter {BIO 15093363 <GO>}

Just on the point about cash, just in terms of balance, of course, we remain enthused by our strategy. And I'll just talk about that in a few minutes. But of course, of course, we're thoughtful in the current environment.

So just in terms of the strategy, housing in future cities, SME investing, we think those are all the right areas on housing. It's everything as you recall, everything by 10 year, houses to sell, houses to rent, everything by affordability and also by life stage. We think, strategically, that's a long-term positive. And, of course, we'll be investing more there. But thoughtful as we go through the second half of the year.

Similarly, future cities, all those themes remain of science and technology focus, real estate, things like data centers and that much-needed urban generation. And, yes, we have continued to invest partly in that, as Nigel's mentioned on the video in Sheffield over the lockdown period. So we remain enthused by that strategy. Of course, thoughtful again.

And yet again, SME investing, we know there'll be a huge need for equity and debt in portfolios of SMEs. So again, we think we're on the right strategy there, but again, thoughtful. So that's probably the color that I'd want to give you.

Q - Dominic O'Mahony

Yes. Thank you.

A - Nigel Wilson {BIO 1535703 <GO>}

Thanks. It was good of you to highlight the improvement in margin in LGR. But to give Bernie some credit, which we infrequently do on these calls, we saw new business value for his business go up by 19%, year over year, in the first half, and the margin go up from 7.6 to 9.4%, which is really as a result of all the digital initiatives that Bernie and the team have executed absolutely brilliantly well in both the UK and the US. We'll now pass on to Steven.

Q - Steven Haywood {BIO 15743259 <GO>}

Oh, hi. Thank you for taking the question. I only had one question, actually. It was on your credit migration sensitivity. Now, that's nearly doubled year to date, from GBP800 million to GBP1.5 billion impact, but your credit portfolio hasn't really doubled in size in the first half of this year. Can you tell me exactly what's going on and why your credit migration sensitivity has increased so massively despite still only applying 20% downgrade to your portfolio, and your ratings don't seem to have moved that much over the six months either? Thanks.

A - Bernie Hickman {BIO 19334629 <GO>}

Yes. That's a reasonably simple one. It's simply that the spreads are wider on the BB assets in particular. The biggest impact of that is that we assume, this isn't what we actually do all the time, but what we assume in the model is that, as a BBB is downgraded to BB, that we sell it and rebalance. We do that across the whole portfolio but that's where you get the most material impact.

Because the starting point of the BB spreads is so much wider than it was at year-end, when you simply do the maths and say, okay, the same amount have downgraded, you're selling them at a bigger loss, then that flows through in the sensitivity. So it's just the maths that flows through on that because of your starting point of spreads.

A - Nigel Wilson {BIO 1535703 <GO>}

On a third note, I never agreed to this methodology, as you can imagine. But my actuarial colleagues tell me I'm wrong and it's extraordinarily prudent, given our 20-year track record of what has happened under Simon's leadership, Kerrigan's leadership and Laura's leadership of the business. We've had nothing like this as the real outcome. Can we now pass on to Trevor, please? We've got time for two more questions, actually. So, Trevor, can you be one of those last two?

Q - Trevor Moss {BIO 1741504 <GO>}

Yes, I can try. I can try, Nigel, if you like. Actually, they were quite straightforward really.

A - Nigel Wilson {BIO 1535703 <GO>}

You are trying. You're always trying, Trevor

Q - Trevor Moss {BIO 1741504 <GO>}

Yes. Well, it's good to see your banter and enthusiasm has not waned in this period, Nigel. Right, the first question. You referenced in your descriptions earlier on the cross-border, or I call it cross-border, the US/UK PRT deal with market. I wondered if you might want to talk a little bit more about the potential that that may have to do these kind of deals when you're the only player in town really, as far as I can see, for a US/UK deal.

The second thing really was just relating to LGC. Given the economy will need more investment capital than ever before, I suspect, in the next year or two, I wonder whether there won't actually be more opportunity for you to direct money towards direct investments within LGC than you've already targeted. Because it does seem to me there's going to be lots of demand for your capital and probably some reasonable returns on offer.

A - Nigel Wilson {BIO 1535703 <GO>}

Trevor, I absolutely agree with your second question. But I'm going to get Kerrigan to answer it in more detail. And if Laura, could you pick up the first one?

A - Laura Mason {BIO 20420360 <GO>}

Yes, sure. So thanks for noticing that one, and something that we're really quite excited about. As you say, Trevor, we're the only direct PRT writer at the moment that operates both in the UK and US and there are a number of global multinationals who are clients of both LGIM and LGIMA. And we are working on a pipeline at the moment where we'll be hoping to execute more of these types of transactions simultaneously in the UK and US. So, yes, so something that's pretty exciting for us.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. Quite a few years ago where we ended up winning the UK leg and not the US leg, in part because of brand recognition in the United States. But our brand recognition now is way, way higher today in America, thanks to all the good work of our various US teams. Kerrigan?

A - Kerrigan Procter {BIO 15093363 <GO>}

Great, Trevor, couldn't agree with you more in terms of the opportunities or the themes of build back better, or green economy with enough clean energy assets. And then, of course, things like affordable housing, or rental more broadly, these are all areas that will need new investment, the talk about shovel-ready projects across the country, to steal some of Nigel's phrases from a decade ago. These are all things that are reality now and we're absolutely excited by the opportunities there.

A - Nigel Wilson {BIO 1535703 <GO>}

Thank you.

Q - Trevor Moss {BIO 1741504 <GO>}

Do you think that might imply, Kerrigan, that your -- oh no, sorry, Nigel, carry on.

A - Nigel Wilson {BIO 1535703 <GO>}

No. Go on Trevor.

Q - Trevor Moss {BIO 1741504 <GO>}

No, I was just thinking whether it implies that your targeted level might be a little bit low. Or maybe that's something you're going to address in your CMD in November.

A - Nigel Wilson {BIO 1535703 <GO>}

Yes. I agree.

A - Kerrigan Procter {BIO 15093363 <GO>}

Nigel is agreeing with you, Trevor. But -- There's the statement that we gave with the GBP5 billion, up to GBP5 billion, 8% to 10%. And of course, we continue to think about that.

Q - Trevor Moss {BIO 1741504 <GO>}

Yes, okay. No, that's good.

A - Nigel Wilson {BIO 1535703 <GO>}

Thank you, Trevor.

Q - Trevor Moss {BIO 1741504 <GO>}

Thanks, Nigel.

A - Nigel Wilson {BIO 1535703 <GO>}

Thank you, Trevor for your continued enthusiasm and energy towards the sector. And thank you to everyone for dialling in for this call, and your questions. It was good to see the variety. It's the first time we didn't get three questions off everyone. I think there were a couple of twos and one one. And we really value and appreciate your continued interest and support in Legal and General.

What we've tried to demonstrate, and I think what we have demonstrated, is that Legal and General is robust and resilient and its strategy and business model are the most relevant that it's ever been. And we are optimistic, ambitious and realistic about the future. We look forward to meeting with many of our investors who are on this call in the next few weeks and to updating you all at our capital markets event on 12th November. So be safe, be healthy, both yourselves and your families. And we look forward to seeing some of you physically, in person, as you come to the ghost town which is the city of London. So take care. Bye.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect your lines.