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S1 2021 Earnings Call

Company Participants

- Clare Bousfield, Chief Financial Officer, Board of Directors & Executive Committee
- John Foley, Chief Executive, Board of Directors & Executive Committee
- Luca Gagliardi, Director of Investor Relations

Other Participants

- Andrew Baker
- Andrew Crean
- Andrew Sinclair
- Ashik Musaddi
- Dominic O'Mahony
- Farooq Hanif
- Larissa Van Deventer
- Louise Miles
- Rhea Shah
- Steven Haywood
- Trevor Moss

Presentation

Operator

Good morning, everyone, and welcome to the M&G PLC Half Year 2021 Result Q&A. I will now hand over to Luca Gagliardi to begin.

Luca Gagliardi {BIO 21290241 <GO>}

Good morning and welcome. I'm here today with John Foley, our Chief Executive and Clare Bousfield, our Chief Financial Officer. John will be giving a short introduction and then we'll be happy to take your questions. Over to you, John.

John Foley {BIO 4239156 <GO>}

Thanks, Luca. Good morning, everybody, thanks for joining the call. Today's result having show very good progress on our actions to reposition the business for sustainable growth, while we continue to generate strong capital. Institutional assets under management, reached a record GBP89.7 billion, following net client inflows of GBP2.2 billion, mostly from Europe, and we're very happy about that.

In retail Asset Management, net client outflows more than halved as investment performance improved with 63% of funds in the top two quartiles over one year. In July, we launched PruFund Planet, the UK's first smoothed savings proposition that offers positive societal and environmental outcomes. Today, we are announcing an interim dividend of 6.1 pence per share taking our cumulative payouts since listing in October 2019 to 40.1 pence per share. And thanks to that dividend policy and share price performance we have delivered total shareholder returns of over 30%, since demerger versus 6% for the FTSE100 index. We still have much work to do to set up the business for sustainable growth, but I do believe these results show, we are making good progress.

So I'm happy now, to hand over to Lucas to take the questions.

Questions And Answers

Operator

(Question And Answer)

A - Luca Gagliardi {BIO 21290241 <GO>}

We had a couple of questions submitted from online before the start of the conference. So the first two are for you, John. How comfortable are you that the action that you have taken on Retail Asset Management and what the outflow and what the -- would expect those flows to return to positive. The second one is whether we can have an update on PruFund in Europe, and expectations around launch.

A - John Foley {BIO 4239156 <GO>}

So, on the retail asset management side, obviously we made good progress there and we are -- in this for the long-term. So it's about shaping the activity. So that we've got long-term sustainable capable performance in the front. So there will inevitably be a little bit of volatility.

So, if the question is around, specific date. When will we be sort of be definitively in with all of our funds in the up two quartiles, obviously that will depend on the market and performance. But generally, we are heading in the right direction. This has already had an impact on flows. Some of those flows out, flows being one off, so the picture from my perspective looks even a little better than you've said today.

So I guess, I would be a bit choppy as we go through the period towards the end of the pandemic, but directionally we're going in the right place and actually, more importantly from a organizational perspective from a management perspective it is absolutely the right, I think, I would characterize it as it is working.

On PruFund in Europe, so we continue to talk to the regulators on this. As I've said before, we are operationally ready to do this, our clients came to -- have this proposition certainly. The partner banks in Europe are very keen to be selling this product to their customers. So, but I think from a regulatory perspective, it's how I'd say it is a potentially, a very large

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opportunity. We certainly see it that way and I think quite rightly the regulators want to be very clear about what the growth rates of this product might be, what the impacts might be in their environment. So, it's reasonable that they are taking their time to analyze this product. So I'm not going to give time scales, I've done that before. But we're working hard on the proposition.

A - Luca Gagliardi {BIO 21290241 <GO>}

Thank you, John. And, here I'd leave two for you Clare coming before the session. The first one is with regards our annuity capital generation, the underlying one. So noticing that there was a little bit of possibly miss versus consensus, I'm trying to understand what drove that, how is the longer-term expectations?

The second one is about our total capital generation target 2.2 billion and the question is, why didn't we simply revise the target rather than being a new in the 2.6 billion target for 2021 to 2023. And then the position mean anything for how we think about, short-term dividends, such it is more like three questions on there.

A - Clare Bousfield {BIO 16746072 <GO>}

Thank you, Luca. So on the first question, around the underlying capital, you are absolutely right. The key driver in terms of why, the underlying capital is bound driven by the annuity book. And there were two reasons why that underling capital is lower than prior year and in terms of consensus. So firstly, we looked to basically pass all of the excess capital up from the operating company up to M&G Plc, and so there were significant dividends up from the insurance company up to M&G Plc as part of the strong returns in 2020.

And as a result, the portfolio that we operated M&G sales level is basically on a more conservative basis, so the returns are lower, in terms of, so that is one of the key drivers. The second one is driven by the way Solvency II effectively operates. So if you think about the opening yields that is the position that we basically put into the underlying capital return in terms of, so the yields is low at the beginning of the year. If you look at the yield now and it is obviously higher, that has quite big impact in terms of actually assets returns on the surplus and the annuity portfolio.

So those are the two drivers. Obviously, when you look at where yields are today, we're in a much stronger position. So, in terms of actually thinking about that going forward, but obviously also depending on where yields are at the year-end. The second question around operating capital generation, so as part of that long-term incentives that are basically delivered in, at the end of this year. What we do is positive, is one of the key measures is capital generation.

Historically, we basically view total capital generations as one of the key measures and that's because we want to be completely aligned with our shareholders. For the years '21 to '23 predominantly driven by the pandemic and the fact that it's very difficult to basically say that market moves over a three-year period, we've gone with an operating capital generation target 21 to 23. So every year that we basically issue another tranche of long-

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term incentive plan, what we will have is another capital generation target for the next three-year period.

What that basically does is drive to sustainable capital generation for us from a management team perspective in terms of how we incentivize. So that is how we think about it rather than actually adjusting the original target because they are obviously linked to the original issuance of a long-term plan.

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As far as the capital position guidance, yes, balance sheet is very strong. We're very pleased in terms of the financial position, and from when we stand back and look at that in terms of how we think about capital management, excessively have to remember that we are still in a pandemic. The government is still providing a lot of support to the economy and therefore there is uncertainty around volatility.

We've only got to look back at what happened in the first half of 2020, verses what happens in the first half of this year. You've got two very different periods in terms of volatility, so from that perspective we are mindful of that, and we need to make sure that we've got a strong balance sheet and we've retained flexibility.

Secondly, we're obviously looking to basically invest in the business to generate growth, but also to drive an operate model in terms of the -- in terms of what we are doing. And you can see that in terms of seeing price point in terms of what we are expecting to do around the 2022 capital target. We have no interest in keeping excess capital and cash in this business, we've said that consistently, but we also need to maintain a degree of prudence and we're thinking about the current situation in terms of pandemics.

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A - Luca Gagliardi {BIO 21290241 <GO>}

Thank you, very much Clare. Now we can move on to the live Q&A from sell-side analyst. The first one on the list is Dominic O'Mahony from Exane

Q - Dominic O'Mahony

Hi folks. Hope you can hear me?

A - John Foley {BIO 4239156 <GO>}

Yes. And we can see you as well.

Q - Dominic O'Mahony

Very good. Nice to see you. And thank you for making the time to answer our questions. Three for me, if that's okay. And first you just want institutional asset management, you showed a chart on Page 12, with a very nice trajectory upwards of the revenue margins, albeit with a small blip this half. I think because of the mix of the business. Are you confident that that trajectory will continue? I mean, as you continue to emphasize the real assets where you see a lot of growth in the market? And I suppose, the other part of that question is, a lot of asset managers would like to be big in real assets and maybe you have an advantage there. But you might have thought that there would be competition

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there which then puts pressure on the margins that you can achieve. Is that something you recognize or would you disagree?

And second question on management actions. Page 27 shows an extraordinary track record of delivering these and you are being very confident about delivering these going forwards. If you provide some of the categories of types of management action on the right hand side of this slide, I was curious what proportion would you say is down to the asset trading and the reason I ask is, it strikes me that that's a bit that actually should have created lifetime cash, while it sort of accelerates it. So if you can give me some sense of what proportion comes from that'll be very helpful.

And the third question on PruFunds UK. In the press release, you reiterate the point about the economic environment for the lockdown by making it difficult for advisors to operate on a business as usual basis. Basically, you also point to a shift towards platforms and consolidation amongst the advisory firm as being a factor that might sort of weigh on flows. I wonder if you could flush that out and then the future the other thing you can address that. So, for instance, maybe consider the offering -- on third party platform and it's not a one-off? Thank you.

A - John Foley {BIO 4239156 <GO>}

Okay, thank you for those. I'll take first, Clare will second and then we'll do a combo for the third, I think. So, on the institutional business, confidence remains strong, because we've talked about the pipeline of new business. And we've talked about that consistently, since we've been a separate company. So, we talked about the pipeline of new business, for which we're looking for assets, is in the range of 4 billion to 5 billion that's -- that remains the case.

And I talked about this funnel type of approach, where it gets topped up with the assets, are found and the capital deployed, the other thing is the medium sized wins. So those if you are like slightly further out, wins that we have yet to see sort of in the contracts time, so, there's a good pipeline and that is still strong. We've also won more mandates just as we are very pleased about. So again, all the size -- in terms of the competition. Yeah of course, I mean we are not complacent on this business, we're very strong. We happen to be strong in private assets. We have a very good network of people around the world looking for these types of assets, for these strategies, that you cannot be complacent.

The thing is though, this comes back to the combination of being asset manager and asset owner, where we deploy these sorts of techniques for the asset owners and that then gives confidence to our institutional clients to more just mandate because they've seen the track record that we've been able to achieve over a very long period of time.

I think that, again, I'm definitely not complacent, but if you are somebody who is seeing that, this is a good opportunity. You want to get and you do have to put quite a bit of capital in. And you do have to establish a track record. So it's isn't that easy to do. So that would be our answer for that question. And then, you also ask that pressure on margins. And we've talked about margins before in this business where, we bring on the new client, new products and sometimes typically as we get to know them, that's certainly more vanilla strategies, so we can't charge the sort of things that we would hope to charge later on, when we're doing more interesting things for that.

So we would see that this was the wave effects, but generally going up and again pressure on margin, in that world, it's all about that negotiation, there is kind of a market stand so. And if we are good at what we do, people will -- for doing, I think I've covered that question Clare you want to pick the second one..

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A - Clare Bousfield {BIO 16746072 <GO>}

So on the management action, in terms of the proportion of asset trading, so I think we've talked about -- in terms of assets trading, think of some sort of range 50 million to 100 million in terms of what we would expect generate on an annual basis. If you look at the numbers for 2021, it's just over a 100 million. It basically gets that trading and that's a combination of where we are buying higher yielding assets, and in terms of maximizing that return versus the capital and leveraging private asset capability.

But also, sales of real estate, which I think you'll notice, we sold one of the properties that generated a positive result in terms of that asset trading. The other thing, I would say is in terms of those management actions, so treat, has an exhaustive list. There are also other areas that we would love to drive rather than they're just good examples of what has been historically in terms of the track record in terms of where we are at. So, other than but we would necessarily say that asset trading would be only one that basically talks about changes in terms of long-term of the total timing aspect. But you're right that is one of the core strengths in terms of that asset trading and leveraging private asset capability.

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A - John Foley {BIO 4239156 <GO>}

Along first part -- yeah, so we talked to you before about the impact of pandemic on Page 5, that is a clients -- in talking to our colleagues in the channels. It's clear that -- that's still the case. And that we're finding, it's difficult to go to do it to clients. Obviously, the PruFund product itself, is still the MG product. I mean, almost it has been outstanding.

And we have, as you've seen launch PruFund Planet that we think will be -- will really resonate with parts both here and overseas. And it will be interesting to see how that I mean, we haven't got any sales that's just yet and we only launched it last week, but that will be a very interesting proposition because again, that proposition, it's got all the sort of the hallmark characteristics of the conventional PruFund.

So, we wait to see, still good inflows. I mean 5 billion on an annual run rate is still, is still strong. I think it's 2.1 or 2.2 in the first half, but, there is still an impact on the IFA channels and we know that we have our own group and that's what causing the issue.

A - Clare Bousfield {BIO 16746072 <GO>}

Your price -- platform and platform consolidation, so that was the big driver to the Ascentric acquisition, is effectively being able to effectively leverage that platform both in terms of all the -- but also in terms of PruFund and today we do offer a PruFund on that platform although what we're working to integrate that further in terms of the solution.

When you look at PruFund in Europe that is actually absolute PruFund on some other people platforms in Europe that's how it works in terms in institutional side. So, absolutely we have known and there's nothing here about saying that it's specific to us in terms of our platform. But one of the things that's really important when you get a platform play linked into an advisors business, is you naturally get flows. So it does take longer, because you're firstly embedding that platform into business. So it's important in terms of how you get those flows.

Historically, we've been really successful especially a transactional process, because the proposition is so strong. But what we're seeing is that gradual shift towards platforms and that is definitely putting a bit of pressure on flows from a PruFund perspective.

A - Luca Gagliardi {BIO 21290241 <GO>}

Thank you very much. Next, one up is Andrew Sinclair from Bank of America.

Q - Andrew Sinclair {BIO 3232978 <GO>}

Thanks, hi, good morning. I want to ask -- three from me if that is okay. Firstly with on annuities going again to asset trading, not citation, but this time on the IFRS side, I know you gave it, this was going to be lower this year, but I think 4 million was quite exceptionally low. And in your script, I think you mentioned an accounting loss of property disposal, just why don't you give us some color on, how much was that accounting loss and if any color on what we should look at from the IFRS, so it's going forward.

Secondly, sorry to go back to capital deployment but I mean, you've got 1.7 billion of cash of holding which is somewhat you euphemistically said, is more than one year of central outgoing. But I think it about 1 billion, more than one year central out going, not to mention the strong solvency, I get prudence, but it kind of looks excessive. And we have seen more companies across Europe, putting capital to work, as we emerge from the pandemics, really fought those to trigger, to start putting that capital to work.

And third question for me, is on the asset management cost-to-income ratios in creeping up a bit. I realized about it seems like the cost to income ratio has been creeping up. When will your cost management action see that, that peak in and potentially come back down again? Thanks.

A - Clare Bousfield {BIO 16746072 <GO>}

So on the annuity product and in terms of the property. So this is a -- new -- with the our way accounting works in terms of the liability and what basically -- we basically sold a property pretty much at market value and if you can see that from capital benefit that we've got in terms of the asset traded in optimization. Then on an IFRS basis, you end up taking an accounting hit as a result of that. So that's the reason why you get this loss that basically net stands at 4 million in terms of the other.

From a capital deployment perspective,

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Q - Andrew Sinclair {BIO 3232978 <GO>}

So yeah, just check, how much was that property loss?

A - Clare Bousfield {BIO 16746072 <GO>}

Yeah. I was going to say it was around 20 million. Luca is telling me it is 17 million in terms of loss. So on the - on the capital deployment, in terms of the strength of the balance sheet absolutely rigorously in terms of the strengths of that. I think it is important and they take it back to the press conference 2020, when we had about 700 million loss with results of volatility in the market versus what is being in the first half of '21, I think anybody would say that you've got to acknowledge that, that volatility is still out there in terms of the context of where we're sitting in the pandemic and the fact that the government is still supporting the economy.

So, we need to make sure we think about the balance sheet over the medium and long term, rather than necessarily purely the short-term, absolutely are we committed in terms of investing in the business in terms of generating growth and you can see in terms of the strength of the institutional composition in terms of what we've been able to deliver. We've also repatriated about 25 billion of assets under management, and built teams in Asia and the U.S. in terms of actually what we've built out.

So, there's some examples in terms of actually where we are putting money to work. We're also being investing in terms of actually improving the efficiency of the business of generating the right operating model, leveraging technology and that's been a big focus in terms of investment over the last two to three years.

So that is fundamentally what we're looking to do. It is capital light that strategy that's how we operate so, we're not expecting to deploy significant volumes of capital, but it is important in terms of actually making sure that we're driving growth across the business but also efficiency in terms of what we're doing.

So, I wouldn't describe it as overly cautious or overly prudent. I would say right now we are taking the right approach but we're very much on a wait and see in terms of and constantly monitoring and thinking about what do we believe have to position the business should be. In terms of the cost-to-income ratio, you'll see in terms of the Slide on Page 33, you can see in terms of the cost base on what we're expecting the cost number to -- what was delivered in the first half of '21. And you can see that we have delivered significant cost savings across the business.

You need to recognize that on the asset management side, there are number of places where we are investing. So as talked about the two teams in the Asia and U.S., but also, we've added capability on the private asset side. So, what you're seeing in that, so the bottom green, asset management cost base is efficiency, but also investment in terms of future business. So, yes we are very focused on the cost income ratio, but it's also a reflection of the revenue -- as much it is the cost, and we do need to think about effective driving growth at the same time as driving, scalable efficiency.

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A - Luca Gagliardi {BIO 21290241 <GO>}

Okay, thank you very much, Clare. Thank you, Andy. The next question should be Andrew Crean from Autonomous.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning, everyone. I've got three questions. Firstly, the coverage ratio today , there is clearly, there has been a significant move in revs since June? And secondly, I think in terms of deployment capital, you say that you want to deleverage that -- with 300 million debt from June 2024. By the end of 2022, do you want to a fully cater to that or just pro rata amount?

And then thirdly coming back really to add to these questions -- and companies can really see where we are -- capital in the future, are you really saying that you will not make any decisions about capital returns until you hit -- December 2022. Well, there any marketing conditions as we recover for the pandemic where you prepared to take a slightly more closer bridge. Thank you.

A - Clare Bousfield {BIO 16746072 <GO>}

. So, you are right, interest rates have dropped a bit than June. If you then see these in the appendix, the fact that will give you a reasonable property in terms of what's happened to us on this -- just dropped off a little bit, but it's not, it's not significant, The second question, I didn't really fully capture all of it -- so you're talking about because it's the tranche, you've set, that it comes up to call it, 300 million in 2024.

And clearly, in terms of, when we hit that 24 days, that gives us an opportunity in order to be able to actually deleverage but ahead of that would depend on economic conditions and the commercial position in terms of whether we did anything. But can I just check what was the remainder of the questions that you are asking on leverage?

Q - Andrew Crean {BIO 16513202 <GO>}

It was really -- you've got to pay down 300 million in 2024. At the end of 2022, do you want to be holding 300 million over -- couple ready to do that. All of the pro rata alright say, 200 million and then you will build up to 300 million in the yield.

A - Clare Bousfield {BIO 16746072 <GO>}

Okay. I mean, I think what we need to I think certainly from my perspective, the way I look at the capitol position is, I'm looking at it overall and I'm looking at the sensitivities in terms of market movements to make sure that we're in a position that we can actually take advantage of that call option at that relevant point in time.

But I'm certainly not building up on that and holding it and put the marketing it in terms of what we're doing. We're just looking at the overall cap number in terms of that fact. And then in terms of market uncertainty, and absolutely, I think there is market uncertainty, and that's why, I get back to 2020, compared to '21. I don't think we're adjusting, that we're basically going to hold till the end of '22.

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I think what we're saying is, basically, we need to recognize that short-term volatility in terms of things in the balance sheet but continue to monitor it in terms of the context of the sensitivities we have hedging, is also an element in terms of this. But also thinking about the investment opportunities that we have, in terms of investing in the business, obviously, generated return in terms of those opportunities.

And then post that, we then say, right have we got excess capital when you thought removal of that and that is something that we're doing on a in a day-to-day, monthly basis in terms of -- the reason some kind of trigger point at a future day, it's really just looking at all of those elements for macros, the opportunities and then saying, right what do we want to do from a capital perspective. But as I said, we have no interest in retaining excess capital, excess liquidity and improvement. Doesn't make any sense in terms of where you go, but we need to take into account all the different elements.

Q - Andrew Crean {BIO 16513202 <GO>}

I'll take your point in terms of volatility of market, so obviously in the normal cycle those volatility of markets, managements teams and boards need to make up their mind around what they can do to deploy capital that will affect the strategy or find some mechanism due to share holders. And that debate, of course we have, but I would take the issue with you that, this is a pandemic we are coming out of and it is an unusual time. And I think that our shareholders would expect to serve a degree of caution around it both in terms of what we do -- and that's the strategy we are deploying. So we can maybe agree to disagree on that. Okay. Thank you.

A - Luca Gagliardi {BIO 21290241 <GO>}

Thank you Andrew. So next question is from Ashik from JP Morgan.

Operator

Luca , I'm so sorry. We're actually experiencing some technical difficulties at the moment. So, we're going to have to pause the webcast for a little bit. We will be back shortly. Thank you very much.

A - Luca Gagliardi {BIO 21290241 <GO>}

Okay, everyone, we are off to see if you.

Operator

Thank you very much for bearing with us. We experienced a small technical difficulty we can resume to where we left. It was Ashik's turn to ask a question. So, Ashik from JP Morgan, over to you.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you, Luca. And good morning, John. Good morning, Clare. Just two, three questions from me and thanks a lot for giving me opportunity to ask the questions. Sir,

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first of all, this 2.6 billion capital generation guidance for next three years. I mean, it's good that it is clean of macros, as at least visibility is there, let's say, 2.1 billion over three years. So that's 700 million a year. I mean, is that a simple way that you are thinking as well, is 700 million is what you're trying to do deliver year-after-year. Or would you say that it includes lots of, okay. There are some one-offs which you have planned for there are some recurring item within that. So what's your thinking process in summing up with this 2.6 billion pre-tax or let's say 700 million a year post that number? That's the first one.

Second thing again. Sorry to go back on the capital point, I mean, your solvency ratio is around 200%. If I look at the peers like Lego and Aviva which are have much higher asset when compared to yours, they are running at about 180, if I look at peers like Phoenix and Just Group who are a bit more similar to your business model, they are running at about 160. So you have about 30, 40 points of extra capital compared to your peers set.

That's about 2 billion of extra capital. If I look at the asset risk, you have versus others. I mean annuity is in the only a place, where you have asset risk because your risk profits, I would say is pretty, pretty much protected from like even extreme macro scenarios. So what macro scenario should we worry about from your annuities business perspective. I mean that, would make you hold this much capital for more than 6 months to 12 months. So any thoughts on that? Would be very helpful.

And third question would be if, if I think about the underlying capital generation, Clare you mentioned, very clearly partly, because of the way, Solvency II mechanic work is we need to take into account the beginning of the year Solvency II interest rates or macro. Where would that number be, if we are talking about current rates current macro, I mean, would it go up again 20%, 30% or would it be maybe like what you reported in first half plus, minus 5%? Is it like a small difference or what do you say? The numbers will go back again up to a reasonably higher member. Thank you.

A - Clare Bousfield {BIO 16746072 <GO>}

So Ashik on the capital generation in terms of the way that we think about that is and this is partly why we originally had tonnes of custom generation? Because one of the things that's really important for us is to make sure that the balance sheet is robust. So, if you look back, 2020 particularly in the first half of 2020, you pulled the lever on management actions in order to compensate some of the volatility that we saw in the market in that first half of the year. And that's why we saw slightly higher than normal, kind of capital generation through the first half 2020, and to a certain extent in 2020.

So, you've got to think about we're not thinking about just managing the capital in terms of --. What we're thinking about is it holistically in terms of making sure that we've got a robust balance sheet. Clearly, the overlying capital generation is much more driven by the underlying business performance in terms of what we're doing. And that is -- it's pretty easy to predict in terms of actually what we're looking at in terms of the -- but when we get management action and the market movements, we're obviously looking at the overall solid position in terms of what we're doing.

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So, we don't necessarily think about it 700 million per year, what we're thinking about is just like - back to the position we're trying to get to. And to a certain extent, the hedging strategy plays into that and how are you -- your own rule managing the balance sheet? The second question you had around the capital position. So the one thing that I would say that, was missing from your analysis was on the shareholder transfer with profit loans. So we have got an annuity portfolio, but it position us relatively conservatively but the position that we've taken as a clear strategy that we've had.

So yes, there is volatility from interest rates, I guess there is exposure to credit and sand grades and diesel. But as I said it can put it conservatively position portfolio. But the with profit share all the transfers they contain underlying asset risk basically based off the underlying assets that are in that portfolio. We do hedged some of that exposure through the hedging but the profit fund is investing in a very, very wide range of assets. Now does that create diversification, but it was a great volatility. So that's quite different to our peers in terms of the companies that you quoted.

So when we look at the overall -- position, what we've talked about is 170% at the point in time that we went through the merger and being at solvency level in those market conditions that we felt comfortable with. What we're saying today is we're at a pandemic and basically that they've been a lot of volatility over the last 12 to 18 months and that we need to make sure that we see through that in the short to medium term before we're in a position. So right, this is where we want to be that's all we are saying nothing more than that.

In terms of, in terms of underlying capital generation, so the difference between the yields at the beginning of the period and the yields, were basically flow in the market movement. So whatever the market portfolio is the difference between what you put in these, underlying capital generation the difference goes into market movements, that's how it works in terms of it. But in some ways, those have blown up, if we are taking yields, on an average monthly basis in terms of the opening position if that makes sense.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Just perfect. Thanks a lot for the detailed answers.

A - Luca Gagliardi {BIO 21290241 <GO>}

Thank you, Ashik. Next one, the loop is Steven Haywood from HSBC.

Q - Steven Haywood {BIO 15743259 <GO>}

Good morning. Thank you for taking the questions. I've got three questions, if you don't mind. I think you mentioned that 4 billion pipeline of the institutional AUM. And you said there was 5.5 billion of mandates through principles. For me if I don't understand how long it takes for it to be coming to your invested AUM. Could you give us a bit more color on when this is coming to your AUM that would be very helpful.

Secondly, on the UK PruFund business, obviously it might be a bit disappointing in the first half, but have been using - certainly improved in the last couple of months and economies

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have opened up, and some of your peers have obviously had a fund fact, let's say six to nine months in terms of getting -- demand and high level of deposits in bank savings account. And then finally from the -- on your operating capital generation targets of 2.6 billion. And, confirm this is a pre-tax target. And is not tax and therefore, she might be looking at the 309 million or 309 minus 8 as future tax rate. Thanks.

A - John Foley {BIO 4239156 <GO>}

Steven thanks for those. On the institutional question. I'm afraid I can't be precise. It depends on the strategy that we are working on parts and it depends on where we can source the assets. We have -- we had deployed more resource internationally to find assets in other markets, private assets in other markets. And when we talk to potential or existing or potential institutional clients about their portfolios and about the strategies, we have brought into the computation much more about international opportunities to acquire assets. So it depends, is the long and short of it and it could be a couple of months. It could be a year and as I say it will depend on the strategy, but we're talking private assets, it is a public asset transaction and obviously quickly.

So and that really whether it's the, I mean, the teams are low in the sense that if they're talking to clients and the signs are positive, then of course, we're looking for the assets almost immediately. But, if they're not available, that could be. On the UK PruFund, the economy has opened up a bit. Absolutely, agree with that. But in terms of the target market for that product, it's still people who are making kind of right decisions in retirement. And we haven't really seen that come to life so to speak.

We know there's pent-up demand there, but I think to your suggestion that others are the jump on us. I don't think that's right. It's a different segment of the market and there's a different requirement of customer capital which you are looking at. So my view is that, this is still a very strong proposition and particularly, so now we've got PruFund Planet of being available, but I'm not going to sort of hold out for storms on that.

Clare do you want to take these?

A - Clare Bousfield {BIO 16746072 <GO>}

So on the operating capital generations target, pre-tax and 309 million is obviously from that. In terms of, so those are comparative numbers.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Thank you.

A - Luca Gagliardi {BIO 21290241 <GO>}

Now we've got Deutsche Bank with Rhea and if may ask in general maybe to keep it to two questions, or speed up a little bit just--

Q - Rhea Shah {BIO 20971663 <GO>}

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Sure Luca. I will keep it to two then. And so my first one is on the crew money. So you captured about 25 billion of assets for prudential, how much assets under management is left to win back and what assets classes are these tent to be invested in. And then my second question is around expenses. So firstly, how much of the GBP145 million of annualized cost savings target you have to deliver and can you remind us that this is gross or net organization.

A - John Foley {BIO 4239156 <GO>}

Your first question is the bulk of the assets sort of moved. So there's pockets of small pockets between the two companies but not at all significant. So I think of the 25 billion to -- that is a significant shift, those assets were deployed into various, which is why we have teams in North America and in Indonesia. So, Asian equities and fixed income, multi-asset, North America into predominantly fixed income and some equity.

A - Clare Bousfield {BIO 16746072 <GO>}

The only expenses we're around about two-thirds of the way, we are in terms of actually delivering against the 145. One of the things we've always said, is that the cost savings were very back-ended, just by the nature of what we were doing, for a lot of it is about investing in technology and infrastructure. And really driving the under investments that have been in the business over the last 10 to 15 years.

So, we were always expecting that it would be a much more back-ended deliberate than front ended. And the 145 is growth and inflation in terms of, in terms of the target that we that we set, I think there's a chart that we included a couple of investor presentations that that's show you the plans of how you get to the 145 -- inflation --

A - Luca Gagliardi {BIO 21290241 <GO>}

Perfect. Thank you very much Rhea. Given that -- I believe Deutsche which was also asked question here online, wonder whether we should take also Oliver's question yet to. The first one is looking at future management actions and how do we expect these to split between genuine value accretion versus acceleration of future cash flow. And the second one is -- of the black movement in the first half of the year and to what extend these translate into future cash --

A - Clare Bousfield {BIO 16746072 <GO>}

So in terms of the management actions, there are is very difficult to give a kind of like in terms of whether their acceleration or pure value creation. Obviously, the ones that -- pure value creation is the more attractive opportunities, and we certainly need to prioritize those in terms of the opportunity. But also what we're trying to do is manage ultimately, what the type of cash flow is across the book.

And make sure that we've got fairly consistent earnings and a reasonable view in terms of the best estimates. So, that's what we are ultimately trying to do in terms of over those, four, but what does it generate -- we could clearly apparently. And then in terms of, in terms of market movements, the vast majority of the market movements, arise in the insurance company. And in terms of actually the ability to basically dividends up so those

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cash flows up to M&G plc. There's no issues around the cash and the capital that comes up in terms of from the insurance company up to M&G plc.

Obviously what we're looking at is both capital and liquidity in the insurance company making sure that we're comfortable with both of those, but the philosophy is that we get the excess up into M&G plc and so that we've got maximum flexibility across the business.

And then should the markets go again there isn't sufficient, within the insurance company than what we would look to pay back down to the insurance company to make share that look at the capital position. And that is how we think about it in terms of the philosophy around cash and capital.

A - Luca Gagliardi {BIO 21290241 <GO>}

Thank you, Clare. And next on line would be Louise Miles with Morgan Stanley.

Q - Louise Miles {BIO 20765435 <GO>}

Hi. Good morning, everyone. Thanks for taking my questions. I'll just take two as well Luca. My first one is on the capital position as well. I'm not sure if you can say too much, but I believe you've got the hearing for there and then I need to transfer because I would say in November if this is successful would we expect the -- there could be about a GBP100 million of capital relief by the end of 2020. While, I think that's what you guided to before, I'd come and check if that is still correct. I think that's about six points of the capitol and if you'd just confirm that would be great. And then just another question on PruFund, and I mean, it seems like you're trying to kind of shift the distribution channel mix a little bit as well. And by going all digital and moving it onto the platforms in Europe as well. I mean longer-term I mean presuming there to be some costs increases shorter-term but longer-term, would you expect the cost base of PruFund to actually decrease because of this. And also should we expect any shifts in the -- shift in mix and -- i.e. should there be a 20 bps shift towards -- more than that have been previously. Thanks.

A - Clare Bousfield {BIO 16746072 <GO>}

So on behalf of the position around the annuity trends. You're absolutely right, there was the courts or the court case to lead -- and for the transfer in November and yes, the release capital if you remember 100 million which is, which is around about six percentage points in terms of solvency condition.

So on this PruFund, I think, the first thing I would say, Louise, is that for the UK proposition, this shareholder base we gets one ninth of the impact of performance. So it's actually that with profit funds that is basically taking the expense risk in terms of the ongoing cost of delivery of PruFund in the UK, subject to one new business, actually making sure that the product is profitable. So what we are releasing in Europe, we're writing that on EUR100 basis, so just like any other asset management product.

So absolutely, it's been part of that that it's relevant. The scale is obviously important without any one of these propositions in terms of what we're looking to do, but certainly we still see a significant opportunity across Europe and to be able to drive that scale, it

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terms of what we're able to deliver. Yes we are looking at digital technology, that's what we've been effectively putting through in the UK solution, based in terms of to improve the customer experience, the buying experience, but also as an -- in terms of what we're trying to deliver. And we will be leveraging that in the delivery of PruFund in Europe.

A - Luca Gagliardi {BIO 21290241 <GO>}

Thank you very much, Clare. Thank you Louise. Next question is from Andrew Baker, Citi.

Q - Andrew Baker {BIO 3694545 <GO>}

Hi, guys. Thanks for taking my question. So two from me. First from capital generation and really it's goes back to the slide that you showed at the full year showing 10 billion of underlying capital generation over the life of the annuity broken with profits book. Obviously the return on surface points created, some volatility being laid out, has that view on this, whatever the amount over the life of the book is that 10 billion changed materially based on what we've seen in the first half. And then, secondly, just on expenses. And you mentioned in your comments that the asset management expenses were roughly in-line with 2019 after adjusting for someone one offs? 2019 saw second-half expenses significantly higher than first half. Should we expect that to be the same as well in 2021? Thank you.

A - Clare Bousfield {BIO 16746072 <GO>}

So, in terms of the capital generation no, I wouldn't expect the 10 billion to materially change Andrew in terms of the profile. Because obviously, that's over the long-term, and obviously interest rates do have a potential impact, but it wouldn't see the need for it to being materially, seeing that thoroughly fundamentally changing in terms of that 10 billion. And in terms of the asset management expenses, yes, historically, we have typically seen lower expenses in the first half of the year and higher expenses in second half of the year, largely driven by some of the -- in terms of how they operate? That clearly that links into revenue because that's one of the key drivers in terms of where the revenue is stronger, what typically then happened is obviously the bonuses and incentives, but that for the net-net practices actually informative in terms of where we go.

So we have been doing a lot more work to affect to try to make sure that we get the in kind of a corporate credit balance between two periods, in terms of half one and half two. So, I wouldn't expect to see the same level of disparity between first and the second half of the year, but it obviously, does depend on what happens to the revenue in the second half of the year.

A - Luca Gagliardi {BIO 21290241 <GO>}

Thank you very much. Next question is from Trevor Moss, Agency Partners.

Q - Trevor Moss {BIO 1741504 <GO>}

Hello, can you hear me, okay?

A - Luca Gagliardi {BIO 21290241 <GO>}

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Yep.

A - Clare Bousfield {BIO 16746072 <GO>}

Yeah we can.

Q - Trevor Moss {BIO 1741504 <GO>}

Okay. This is three questions, three questions, one very long question depending on how you like it. It strikes me Clare that within the 2.6 of capital generation target, the new target, there's probably about a billion of other capital generation kind of management action stuff, which will take the total management action, capital generation to about 3 billion on a six-year view.

Sorry 3 billion on the six year view out of a portfolio of about 20 billion on annuity side which strikes me is a lot. Okay. So I'm not quite so sure that you're going to reach a cliff edge in terms of not be underlying cap, in terms of the operating capital generation from management actions but you're certainly coming to a conclusion where there's not much left. So it strikes me, you're going to be much more reliant on the underlying performance of the business to generate capital beyond that point and to satisfy given the expectations now.

Coming back to one of Andy's original questions. On the asset management side, which is clearly going to need to be one of the big drivers, for the last three years since 2018. The revenues were down a 150 million and your costs were up 30, taking your cost-to-income ratio from 58 to 71. I think, we need to start thinking about what that trajectory looks like and I quite, I'd be quite interested in any guidance you might be willing to give on that trajectory over a three-year view on the cost to income ratio on revenues or on costs.

A - Clare Bousfield {BIO 16746072 <GO>}

Yes. So, one of the things Trevor that I think is important, is the track record that we've built up in terms of management action is strong, as you can see from that, from Slide 27. It's not purely about M&G plc portfolio, those there are management actions there that we're driving around and chat, will be transformed with profit funds. And so I think that we do in terms of what we're doing in terms of how we look at an important components around together with some of the underlying assumptions around that book. So, so I wouldn't not necessarily say it's purely about your new portfolio. So, one thing I would say though, is you newest portfolio have a long run-up. So, in terms of actually being able to manage and managing cyber assets illiquidity premium, that also some of the assumption changes were sometimes, mortality, is also an important incentive that context. So yes, they're not, they're not going to be infinite because the book has been run-off, but I still would challenge your premise that they're going to run off any time soon in terms of, in terms of our ability to kind of drive that piece?

Absolutely, in terms of core underlying results, is a strong focus. And you look at what we've done in terms of the institutional broken stones of continued growth, good steady margin again, very long term business 60% typically pension schemes and insurance

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companies in terms of what we're delivering. Retail Asset Management, we've obviously shown really good green shoots in terms of flows, but also the core underlying performance in terms of what we're doing.

We are creating more efficient business model in terms of what we're driving across business, but we are also investing in terms of growth, in terms of expansion of the institutional book across Europe, talk about the Asian and U.S. capability that we build now in terms of where we're at. So, I'm not going to give you any kind of you future view around cost-to income ratios or revenue, but some of what you will have seen over the last 18 months is a combination of our -- driving clear value and addressing the size and sustainability in terms of what we're doing. But also in terms of broadening out the product, in terms of what we're offering, so we've now got a lot of what I would say new sustainable innovative product, that basically allows us to diversify in terms of some of the big funds that we draw.

So from my perspective we are on that route to growth, in terms of where we're going and you're right, we will then end-up less for management actions in terms of where you go. But that is our key focus, that's what we're trying to drive.

A - John Foley {BIO 4239156 <GO>}

And importantly performance is a key area in that and we know we've been over the period you talk about. We've been in the -- on performance and that's why we've had to address that since -- with a company. That's why, we see doors open the wrong way, in terms of the cost to income ratio. So that is something, we really had to address, but again is no quick-fix because you clearly are set against the market that judges by one, three and give five year time period. So this time periods that we have to show that we have improved performance trajectory, is the right one to grow.

A - Luca Gagliardi {BIO 21290241 <GO>}

Thanks John.

Q - Trevor Moss {BIO 1741504 <GO>}

Okay. The one thing -- if I could come back on that. On the cost side is very difficult to get a clear view of how much investment cost has gone into that costs line for the asset management side. So, I mean it's obvious when you look at all the narratives and you talk as you do, that in a lot of things going on. So, the challenge I think, for me is understanding, whether the door is opening in the future, is going to be from holding the cost line relatively flat from this level, or whether it's going to be driven by revenues. You may say, well it is kind of both, but clearly on the costs would be, will be a starting point because I have no idea how much is better than going into that cost money.

A - Clare Bousfield {BIO 16746072 <GO>}

Yeah. So, I am going to give you the answer that's a bit of both Trevor because fundamentally what we're trying to do is generate growth across both kind of books of business, recognizing the margin dynamics quite different and even within the institutional book, you have obviously got public fixed income and private but you've not quite different dynamics and the mix of business is also relevant in terms of that. But it's also relevant in total cost basis. Well, because private assets during -- more costs, just by the nature of, in terms of value add and the quality in terms of what we're doing. So yes, we have put in a fair degree of investment in terms of building our capability in the U.S. and Asia, but we have also invested quite significantly and generated efficiencies in terms of the operating model in terms of how we deliver.

So, it is very difficult to say, it's all costs and it's all revenues -- we wouldn't expect us to do that because you want us to grow the business. But also, what you want to be able to do is grow the business without a cost base growing incrementally on the same basis.

A - Luca Gagliardi {BIO 21290241 <GO>}

Thanks Clare. Thank you, Trevor. Moving on Farooq from Credit Suisse. We should be heading straight to you.

Q - Farooq Hanif {BIO 4780978 <GO>}

Yeah. Hi, everybody. Thanks very much. Personally just a quick one on the 2.6 billion of underlying capital generation. Can we just assume that the vast majority of that can be remitted and that's what we should be expecting now given your capital position? And then secondly, going to retail performance of quick, I suppose the retail performance, you talked about that you are going to be judged now one to three-year basis. I know from my own history, as working the -- it tends to be more three to five on the institutional side, but on the retail side, how quickly do you expect that to respond? And what can you say has been driving the outperformance. So what would you between luck and process, what can you tell us about that? Thanks.

A - John Foley {BIO 4239156 <GO>}

Our process and marketing -- so they are working over that one. Look the sent -- the one year is very important in European market, so when you're looking at the, so we don't have to wait three to five year performance metrics to come through. If you're looking for inflows in Europe -- the European market responds to the one-year, the one-year number. So that's the heading in the right direction through three and five years will obviously take time to more the UK market.

On institutional, yep and as you rightly point out it is a these are fairly sticky asset classes and they just they just tend to feel. So demand I should say, and they just tend to build. So, we remain positive about those. Otherwise, I think that, what, we're trying to say here is that within these markets and directionally we're making progress. Clearly, we've taken some fairly bold actions in terms of how we address the management of funds. So, whether that's more of a team-based approach, we do risk based deep-dives on a number of things that others may do.

But we then do you perhaps not as before so we've inculcated these sort of disciplines into the group which is come down extremely well. The fund manager is obviously a person who at the end of the day makes calls on his funds. But it is a lot more tools at his

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disposal to make those calls, make those decisions but it will be -- it will be a fluctuating picture, but we hope to see that fluctuations on a rising trend so to speak.

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much.

A - Luca Gagliardi {BIO 21290241 <GO>}

Thank you very much Farooq. Thank you, John. Last of the analysts on video is Larissa from Barclays.

Q - Larissa Van Deventer {BIO 21570130 <GO>}

Good morning, just two quick questions from me. The first one, obviously is the recent changes in the fee charging structure in the last year. Are those done or are we in a move that we should consider coming up? And then the last one, very big picture, but you just on sustainability in your wording in today's release, three years from now, how do you believe you were able to differentiate yourself from your competitors as just very hot space at the moment?

A - Clare Bousfield {BIO 16746072 <GO>}

Thank you. So yeah, so on the free structure Larissa when we basically, we've done three separate risk changes in fee around the portfolio, one in '18, one in '19 and then again in 2021. The 2021 was the only range and what we have tried to position with the changes that we've made is a possibly a long-term sustainable price that would be kind of underlying strategy in philosophy. And you can never say there will never ever be more, but that was our underlying philosophy, is that we want to address this head-on rather than necessarily have a continual reduction in fee.

A - John Foley {BIO 4239156 <GO>}

On the sustainability, there is couple of things. And I don't want to give you a try answer. Because in one sense, it is in the competitive thing at all. When you look at what's happening around the globe today, we want everybody to be moving sort of sustainable solution because that's what planning obviously means not just from a environmental perspective but also from a societal perspective. So we actually, really believe this. And we believed in it, which is why we watch carefully, which we've talked about in the previous session. We've launched PruFund Planet, we're moving our seek out range to assess.

Yes, these are all very important things, we've joined any number of groups that are moving powering against coal, for example. Because we want to send out that very strong message to the whole organization with them due but also to the wider universe as well that of course, we're in a competitive and dynamic environment and we want to have a sustainable funding in the next, but actually it is like that we all have really good sustainable funds because that's where we need to go as an environment, another planet.

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So, I don't really consider this from a competitive perspective. It's more about what we really have to do. And all of us have to do. That said I do like to see a sustainable funds performing well and to be good in close because they are doing. So, that's a positive by-product.

Q - Larissa Van Deventer {BIO 21570130 <GO>}

Thank you.

A - Luca Gagliardi {BIO 21290241 <GO>}

I think that's it is a perfect ending to our sessions that are slightly longer than the hour that we budgeted at the beginning, but we made up for the time that lost with the technical interruption. So, thank you very much for watching listening and joining us. Thank you.

A - Clare Bousfield {BIO 16746072 <GO>}

Thank you.

A - John Foley {BIO 4239156 <GO>}

Thank you.

Operator

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

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