M&G Prudential Ltd Investor and Analyst Conference

Company Participants

- Clare Jane Bousfield, CFO
- David Macmillan, Chief Customer & Distribution Officer
- John William Foley, Chief Executive
- Jonathan Daniels, CIO
- Jonathan Willcocks, Global Head of Asset Management Distribution
- Roddy Thomson, COO & MD of Heritage
- Spencer Horgan, Director of IR
- William Nicoll, Head of Institutional Fixed Income

Other Participants

- Abid Hussain, Research Analyst
- Andrew Baker, Analyst
- Andrew John Crean, Managing Partner, Insurance
- Andrew Sinclair, VP
- Ashik Musaddi, Executive Director and Co
- David White, Analyst
- Dominic Alexander O'Mahony, Research Analyst
- Gordon Aitken, Analyst
- Greig N. Paterson, MD, SVP and U.K. Analyst
- Johnny Vo, MD
- Jonathan Michael Hocking, MD
- Ming Zhu, Analyst
- Oliver George Nigel Steel, MD

Presentation

Spencer Horgan {BIO 4241901 <GO>}

Good morning, everybody. My name is Spencer Horgan. I'm the Director of Investor Relations at M&GPrudential. It's a real pleasure to welcome you here to our new offices at 10 Fenchurch Avenue. Today it's for the first time. But we look forward to meeting together with you here many more times in the future, as we head through demerger and into our new life as a public company.

Our ambition for today to give you a thorough insight into M&GPrudential, its business, its strategy, its unique capabilities and the opportunities we see in front of us. We'll also give you a deeper insight into our financials and the new segmentation we'll be using going forwards.

I know you'll be very keen also to hear about our future financial ambitions, our capital management framework and, of course, dividend policy. And here, we will have to ask you to be a bit patient with us. We won't be discussing those today. But closer to the time of demerger, be assured that we will go into these crucial topics in detail.

You'll see from your agendas we have a comprehensive schedule of speakers for you. And after the presentations, we'll have plenty of time to take your questions.

So at the moment, I'm going to hand it over to John Foley, our CEO. But before that, to get us warmed up, we'd like to show you a brief video.

(presentation)

John William Foley {BIO 4239156 <GO>}

Tells me 2 things. One, the rest of the day, we will keep our lips in sync with what we say. And the second thing is I need a haircut.

So ladies and gentlemen, welcome to the first-ever Analyst and Investor Conference for M&GPrudential. Welcome also to those watching on the webcast, including our colleagues in the U.K., Europe and beyond.

As Spencer said, the main purpose of today's event is to give you the opportunity to gain a better understanding of our business. Along the way, we will demonstrate that we are in great shape to use the freedom of demerger to grow our business. We will also share our view on the long-term growth opportunity and why M&GPrudential is ideally positioned to capture it. And we will explain how we will grow our customer base and assets under management so that we can deliver attractive returns for shareholders. You will hear from most of the executive team today as we set out why we believe we have the right capabilities and experience to grow this business at scale; how in the past 20 years we have built a series of new and highly profitable savings and investments franchises, both at home and internationally; how our investment in transformation and merger has given us strong and deep foundations for future growth as we head towards demerger; and how I think we have something very special in M&GPrudential and our unique business mix.

I want to start, though, by giving you a sense of what drives us at M&GPrudential. Now it's very fashionable to talk about the sustainable purpose of a business. The reality is that we've had the same purpose for more than a century. Put simply, we are here to help people manage and grow their savings so that they have the money they need to live the life they want. And we like to think we make the world a little better through how and where we invest our customers' savings. Our customers' money go into the real economy, not just in shares and bonds but also into hospitals, schools, ports, bridges, solar power, housing. Of course, many of our competitors could say the same. The difference at M&GPrudential, what makes us exceptional, in my view, is summed up by one word: care. Customers want us to care about their finances and to care about some of the same things they do: A retirement without financial worry, a high standard of living. They also increasingly care how and where their long-term savings are invested. What's the point of financial security if the planet is dying?

As an institutional investor of scale, we are in position to be a force for good. Today, our customers expect us to reflect their views on the environment and social values. Tomorrow, they will demand it. As Chief Executive of a business whose roots date back to the mid-19th Century, I am proud of our tradition of care and how all my colleagues at M&GPrudential strive to go the extra mile for customers.

The Man from the Pru still resonates today because he went above and beyond for his customers. M&GPrudential too has championed the interests of the small investor, introducing the first regular savings plans to mutual funds in the 1950s.

Our challenge today is to continue to show the same level of care but in a digital world that requires our business to act at scale and at pace and at an international level. Now if we get this right. And I have every confidence we will, then we can become the best loved and most successful savings and investments business. So that's what makes us tick at M&GPrudential.

Let's move on to our unique mix of businesses and why we describe ourselves as a fund manager with a balance sheet. The life insurance side of our business dates back to 1848. That's 30 years before the invention of the telephone. M&G is relatively young, having been founded in 1931 when it introduced the first mutual fund to U.K. savers. Today as a combined force, we are a leading provider of savings and investments, serving more than 5 million individual customers and 900 institutional clients with a focus on high value-add savings and investment solutions. We now have an international footprint, serving customers in 28 countries from 20 offices around the world. With assets of GBP 321 billion, we're also a major institutional investor with holdings spread across public and private markets, including major infrastructure.

The merger of these 2 great names in savings and investments requires a new financial structure. Later today, Clare will take you through the detail of our new financial segmentation. But let me give you a high-level snapshot.

Essentially, we have 2 business lines at M&GPrudential: a GBP 198 billion savings and asset management business, which is open and growing. That's everything under the M&G brand and the Prudential retail savings franchise anchored by PruFund. And David and Joffy will provide more detail on that later.

Now demerger gives us both opportunity and means to scale this business in our chosen markets, moving at pace but always with our customary discipline on capital and always focused on profitable growth. After all, that's what I've spent my life doing. And the reinvigorated GBP 123 billion heritage insurance business in the U.K., which, while it's closed to new customers, remains vital to our future growth.

Our strategy for the heritage business is optimization. Improved customer outcomes create efficiencies and maximize cash flow. Having these 2 businesses under the same roof working together and alongside each other is a source of competitive advantage. Capital from the heritage business underpins capability in the savings and investments business. It is also deployed selectively and carefully to grow this business. Without it, we could not offer PruFund and the smoothing of returns. It allows us to see new customer propositions in an agile and cost-effective way. And its stickiness, the long-term nature of the assets, enables us to develop new investment capabilities. As I say, we're a fund manager with a balance sheet.

The other point I want to make here is about profits. Of course, there is pressure on margin in some parts of asset management. But our move over the past decade into high value-add solutions has allowed us to preserve margins across the aggregate of our assets under management. Jack will talk to the resilience of profits in our savings and asset management business when he takes you through the breadth of our investment capabilities.

Now a little more detail on our successful record in growing new savings and investments franchises since Prudential acquired M&G 20 years ago. In the U.K., we have built a new retail savings franchise around PruFund with total assets of GBP 51 billion. PruFund has raised GBP 43 billion in assets in 15 years by delivering reliable, smooth returns. David will share his vision of a winning strategy in this sector later.

We have successfully internationalized our retail management business. Hiring locally and investing in brand, we have gathered GBP 37 billion of retail assets in Europe in little over a decade, almost half our total assets in this business segment. Joffy will explain how we have become a leading fund manager in Europe and how we are looking to take advantage of changing buying patterns among wholesale clients.

We have also grown a GBP 71 billion institutional business. Here, we design bespoke investment strategies for clients, often drawing on the expertise behind the GBP 57 billion of private assets. Our pitch conversion rate is 80%. Will will demonstrate the value of our patient and methodical approach to institutional business, which is characterized by sticky assets and high-margin propositions. We have achieved all of this without the benefits of transformation and merger. Imagine what we can do once demerger allows us to be truly masters of our own destiny.

And we already have the international footprint to leverage our capabilities at scale. Here, we capture our position by geography. Right now, the weight of our assets lies in our home market. Much of this is our heritage book. But it also includes the Prudential retail savings franchise anchored around PruFund and the bulk of our institutional business.

At the start of this decade, our U.K. mutual funds businesses grew rapidly. M&G was the best-selling retail house for 4 consecutive years. Since then, this part of the business has contracted because of a combination of a deliberate effort to slow funds into some best-selling fund -- sorry, to slow funds in some best-selling propositions to protect customer interests, changing buying patterns and frankly, some patchy performance. Thanks to the merger, we can start to attract new flows in this segment as we put M&G product on our proprietary Prudential platform for U.K. advisers. And David will cover this off.

In Europe, including institutional business, today we manage GBP 49 billion. Encouraged by our success in Europe, we've also been quietly building out our presence in other chosen international markets, opening up further avenues for growth. As well as a long-established South African business, we have had offices in Singapore and Hong Kong for almost a decade. More recently, we opened offices in Miami and New York to serve our clients in Latin America and institutional clients in the U.S. Now it's small scale at the moment. But these are important, early steps in scaling our business for the long term if we choose to expand here. Together with our creation of the Luxembourg SICAV platform, we have laid firm foundations for focused international growth.

I now want to talk more about transformation, merger and how we are organizing ourselves for demerger. Now I've said this before. But when Mike Wells, the Group CEO, asked me to run the U.K. insurance business three years ago, I agreed to do so on the condition that shareholders made a substantial investment to rejuvenate it. As you know, we have secured GBP 250 million of shareholder capital to do just that. This 5-year program will deliver cost savings of GBP 145 million by full year 2022.

Transformation is already yielding benefits for colleagues, customers and shareholders alike. Roddy will show how this work is reinvigorating our heritage business, cutting service time for customers and improving net promotion scores (sic) (Net Promoter scores).

Merger too has created many benefits. We now have a unified leadership team with a common purpose, joined-up distribution and combined support functions. The result is a more efficient decision-making, enhanced distribution strategies, better product design and, of course, cost savings. Transformation and merger have given us strong and deep foundations for future growth as we head towards demerger.

Now this slide shows the responsibilities of each of today's speakers. The point I want to stress here is the collaborative aspect of our business model. It is why we have chosen a circle to capture it. Each of the business leaders has to work with the other to achieve the best outcomes for customers and, ultimately, drive profitable, long-term growth.

So as we head towards demerger, I think we are in great shape. Of course, it helps that the structural market trends are so supportive. The demographics are on our side. We are all getting older. This won't be news to any of you. The typical retirement is now close to 20 years. Famously, when Otto von Bismarck introduced pensions for Prussian workers over 70, the average life expectancy was 45. Good one, Otto. It's taken a while for companies to adjust. Our political leaders have been even slower to respond.

If you were in any doubt about the future of defined benefit pensions, take a look at these charts. The key point here is that only 4 FTSE 100 companies still have such schemes and none are final salary. Even governments are moving on this issue. Across Europe, they are set to raise official retirement age by a year or 2. It all adds up to a retirement savings gap of a gargantuan scale.

The chart on the right-hand side is from the World Economic Forum and shows estimates of the retirement gap for major countries. Right now, the U.K. has an estimated retirement gap of $8 trillion. And it's growing. At the same time, people's expectations on living standards are rising. This gap between expectation and reality creates a huge opportunity for trusted providers of savings and investments.

Yet many savers continue to keep much of their money in cash. The left-hand chart shows the proportion of household wealth held in cash across Europe. In some countries, it's as much as 45% even though at current interest rate levels, individuals are often losing money in real terms. Across the European Union, there is an estimated EUR 10 trillion sitting in cash, much of which must surely be idle. Nudging a mere 10% of this cash into long-term savings products would result in a EUR 1 trillion inflow into the industry.

So why would anyone come to us rather than one of our rivals? Well aside from our rich heritage, 2 well-respected brands and a strong record of investment performance, we have the breadth and quality of investment capability and the diversification of savings solutions to attract assets at scale.

Now this slide shows how we mix and match our investment capabilities, calling on our balance sheet as appropriate to fulfill different customer needs. I want to make a few points here. First, in PruFund, we have the ideal proposition for savers who want to take the first step out of cash. Remember, there is EUR 10 trillion of money sitting in bank accounts across Europe.

Second, the breadth of our investment capability means we can pick and mix assets to design bespoke solutions. Institutional clients like our ability to blend private and public assets in a single portfolio.

Third, clients are happy to pay up for such propositions because they directly meet a need rather than offer a vague prospect of returns sometime in the future. Now this focus on high value-add solutions underpins the resilience of our profit margins in our savings and asset management business.

Now given that we already have most of the right capability under our roof and a large international footprint, our growth strategy is largely about execution. Demerger gives us both opportunity and means to broaden and scale our proposition in our chosen markets at pace, always focused on solving a customer need and always with our customary discipline on capital.

Here are the strategic priorities by geography. And let's start with the U.K. In the retail savings market, our priorities are to broaden our market-leading proposition and bring scale to the Prudential adviser platform. For institutional clients, we need to continue to evolve our bespoke solutions and improve our capacity for asset origination. And there will always be tactical opportunities perhaps in areas such as cash-driven investment strategies.

In Europe, our priority is to introduce our smoothing capabilities to the wholesale market to complement our range of mutual funds. We will also accelerate the development of our subadvisory business, collaborating with financial partners to deliver a specific customer outcome. We will expand our institutional franchise and build up our asset origination capacity.

And beyond Europe, we will accelerate the focused growth of our business in Asia by leveraging our existing relationships with global banks. We have laid the groundwork for expansion in North America with the new offices there. As in Asia, we have entered the markets to follow our clients.

And as we invest for growth, we will continue to take our disciplined and proactive approach to capital management, always in the knowledge that good customer outcomes lead to profitable growth and attractive returns for shareholders, using the capital investment in our business to transform the customer experience and to bring scale and efficiency to our business.

To sum up then. Our ambition is to become an international leader in savings and investments, achieving scale at pace in our chosen markets by always being relevant to customers, whether they are individuals or institutions, through the breadth and quality of our investment proposition and the differentiation of our savings solutions.

We will also continue to optimize our heritage business, improving customer outcomes, creating efficiencies and maximizing cash flow while deploying its balance sheet selectively to assist the growth of our savings and investments business; always taking a proactive and, above all, a disciplined approach to capital management supported by the demographic shifts in savings and financial self-reliance; creating opportunities for our colleagues to grow but, above all, to the benefit of customers and shareholders alike. And we must do all of this without losing sight of what makes us different: the care we show customers and clients; the care we show in how and where we invest on their behalf, always going above and beyond to become an exceptional savings and investments business because caring for the customer is not only the right thing to do, it also makes commercial sense for our business which wants to thrive for another 150 years.

To end then, M&GPrudential has a unique mix and compelling business proposition, a fund manager with a balance sheet. We have a proven track record for growing new savings and investment franchises, both at home and internationally.

Our move into high value-add solutions means we are more closely aligned to customer needs and underpins our resilient profitability. We are reinvigorating our heritage business. And we'll continue to optimize it, taking our customary proactive and disciplined approach to capital management. Demerger gives us both opportunity and means to grow at scale in our chosen markets in a focused way and so deliver attractive, profitable growth for our future shareholders.

Thank you. I'll now pass over to Jack who's going to talk about the investment engine.

Jonathan Daniels {BIO 4311715 <GO>}

So thank you, John. Good morning, everybody. My job today is to lift the bonnet on the M&GPrudential investment engine and let you all have a good look at what powers our business.

In this section, I'll cover the following: our approach to investing; the span of asset classes we cover; the market trends that play to our strengths; and along the way, we'll go a little deeper into the competitive advantage arising from M&GPrudential as asset owner and as asset manager.

But before we get stuck into the mechanics, I want to spend a little time explaining how the investment engine has evolved over the past 2 decades. When Prudential acquired M&G 20 years ago, it brought together an asset owner, the U.K. life and annuity funds. And an asset manager, a third-party funds business. And pretty quickly, it dawned on the 2 teams that collaboration would be to their mutual benefits and to the benefit of policyholders and investment clients. On the one side, the deep pockets and a long-term investment horizon of the asset owner has enabled the asset manager to develop and commercialize new capabilities. On the other, the expertise and external focus of the asset manager has brought fresh ideas and a keen awareness of competition to the asset owner.

So this is how the investment engine looks today. The combination of asset owner and asset manager and the collaboration that goes with it is, in our view, a source of huge competitive advantage. To set aside for one moment the investment firepower that comes with being an asset owner of scale, what's really important for the commercial development of our business is the client insight we derive from this arrangement. Many businesses look for a cornerstone client or investor. But we're lucky to have one within our own company. This means we can credibly claim to understand the needs of large and complex clients.

You can see the value that this generates at work in the next slide. This shows our European leveraged loans portfolio today tops GBP 8 billion of assets spread across more than 200 clients. The green represents the internal funds. And the purple is third-party investors. As you can see, the original investment 20 years ago was made by the life fund. Over the following years, we built up a track record in the asset class. And this gave us the credentials to market our capability to others, initially to pension funds, the first client making an investment in 2003. And then we launched the pooled fund version in 2005. Today, the third-party investor assets outnumber the internal investor by a factor of 10.

Let's move on to our approach to investing. There are 5 aspects to our approach. We always start with the customer needs. What are they trying to solve? What problem have they got? Do we understand their real needs? Second, we look to constantly diversify our active capabilities, often in combination with the strength of the With-Profits Fund. Third, we innovate all the time whether focused on high-value solutions or products for the wider market. Fourth, none of this is possible to do consistently over time without a stable and experienced team. And finally, we encourage our investments teams to act with conviction based on the identification of long-term value. And informing every aspect of our approach to investing is a sense of care, care in ensuring reliable outcomes for our customers and clients and care in the way we put their savings to work in the market.

Now a lot of competitors can make these claims. What I'm going to do today is to show you the evidence. Now our investment approach means we are genuine industry leaders in some asset classes. And that's just a few of our achievements and awards on the right-hand side of this slide. And what's really pleasing is recognition for our multiasset capability. Our With-Profits Fund is not only the largest such fund by some distance in the U.K., it's also one of Europe's largest multiasset portfolios for retail investors. Note too our standing in private assets, real estate and public fixed income in Europe.

Here, we provide more detail on the asset classes we cover and a breakdown of our multiasset portfolio. I'll talk a little more about our strategic approach to asset allocation shortly. But I just wanted to point out the contribution of private assets to the mix, which at GBP 57 billion is a little over 20% of the total. This exposure is vital to our diversification efforts and helps underpin the reliability of the returns we deliver for our customers. The breadth of our investment capability, the depth of our expertise, combined with the insights we gain from being an asset owner, mean we can remain relevant to our clients even when their needs change. And that's why right now, we think we're in all the right places given broad market trends.

The search for yield is driving cautious savers from cash to public fixed income. And it's driving the more adventurous investors with long-term horizons from public to private assets. And while as active investors we might think of volatility as our friend, many of our customers and clients view it as a foe. Growing demand for volatility management favors our capabilities in private assets and in multiasset. And the derisking of defined benefit pensions is creating strong demand for solutions to match cash flows. Again, this plays to our strengths in private assets and in public fixed income.

So let's take a deeper look now at M&GPrudential as asset owner. Let me quickly recap. Around GBP 174 billion of the assets we manage are held on behalf of Prudential policyholders. Some GBP 115 billion are managed by M&G, while the rest is managed by others. We tend to talk of these as our life fund assets. They back our annuity book as well as our with-profits and unit-linked savings solutions.

Overall responsibility for the management of the life fund assets rests with the Investment Office. You should think of it as the in-house fiduciary manager with the aim of providing policyholders and other clients with the best returns in the most efficient manner, in line with their risk appetite. In reality, this means the Investment Office is responsible for strategic asset allocation, fund manager selection and the implementation of strategy. All this happens within a governance framework where The Prudential Assurance Company Board is the independent body with ultimate accountability and oversight.

Now these are the 7 criteria we use in the investment process. You all know that we're a conviction-led active manager with a long-term investment horizon and an emphasis on valuation.

So I want to draw your attention to the last 3 columns. Again, here, our scale as an asset owner helps. We have one of the largest buy-side credit research teams in Europe. Our waterfront coverage of the fixed income markets means we are ideally placed to identify and evaluate opportunities in the credit markets, likewise when it comes to the premium available from illiquidity.

The final column captures our determination not to stand still. Our asset mix needs to evolve in line with markets or, better still, ahead of markets. Most recently, we've added a Chinese equities sleeve to the portfolio and exposure to African debt. And wrapped around this is a strategic investment process.

Now our approach to strategic asset allocation is critical to our success. It's dynamic, taking into account any material shifts in capital market valuations, which we review regularly.

On the left-hand side, the chart shows how the With-Profits Fund's strategic asset allocation has moved over time. Equities are in red, real estate in green, alternatives in yellow and fixed income in blue.

The graphic on the right-hand side shows how well diversified the current portfolio is both by asset class and by geography. You can see, for example, how we've moved away from developed market sovereign bonds to global credit and reduced exposure to the U.K. and increased it to Asian equity and real estate. Our aim is always to give ourselves the best chance to generate positive returns whatever markets do. And our size and diversity helps us to achieve this. And of course, this is all aimed at delivering superior outcomes for our customers. There has only been 1 5-year rolling period since the Second World War when the With-Profits Fund has failed to deliver a positive return. And that was in the depths of the 1970s oil crisis and bear market.

On the right-hand side of this slide, you can see the performance of PruFund since 2006. My point here is that it's done exactly what it says on the tin. It's delivered a smooth performance over time. The gray almost horizontal line is cash, the green represents inflation and the red shows the industry benchmark for similar multiasset growth funds. PruFund is comfortably ahead of all of them.

Before I move on to talk about our role as asset manager, I want to touch on our strategy to optimize the shareholder-backed annuity book. We have steadily derisked this GBP 25 billion portfolio, seen here without the assets transferred to Rothesay.

The chart on the left shows how the risk profile has changed over the past three years. Today, 79% of the portfolio is in risk-free or secured debt compared with 67% in 2016. And credit risk remains good too with 86% of the portfolio rated as A or higher. Note too the rising proportion of private assets, possible because our extensive fixed income coverage enables us to identify and value opportunities across the entire market. As well as derisking the portfolio, the changing profile has had a positive impact on our capital position.

Now let's look at M&GPrudential as an asset manager. Again, a quick recap. We are an asset manager specializing in active, high value-add solutions. Our GBP 265 billion of assets are held on behalf of retail, wholesale and institutional clients, including the life funds.

Now back in 1999 when Prudential acquired M&G, the overwhelming majority of our assets under management were from the life fund. Today, the majority of assets we manage are for third-party clients. Assets managed for third-party clients has grown from GBP 24 billion in 2003 to GBP 147 billion last year. That's a fivefold increase, entirely organic in its nature. Behind our success has been the breadth of our investment expertise, lots of product innovation always focused on customer needs and a consistent record of long-term investment performance.

Now this slide gives you an overview of our investment capabilities, their scale and how they align with differing customer needs. We've talked about our capabilities in public fixed income and private assets. But as this slide shows, we have critical scale in other asset classes such as equities and multiasset. While we're known in the institutional market for our fixed income capabilities, M&G's origins lie in equities. For much of its near 90-year history, M&G offered a range of equity strategies through mutual funds often directly to savers.

I think it's also worth highlighting the size and scale of our real estate capability. With assets of GBP 28 billion, we are one of the largest investors in property and either #1 or 2 in the U.K. depending on whose data you look at. The diversity of our investment capability allows us to manufacture a wide range of product for both retail customers and institutional clients.

Now here, you can see how we've successfully taken good investment ideas and turned them into a series of multibillion-pound funds and strategies. We have no fewer than 14 distinct strategies with at least GBP 2 billion of customer money in each. Now you're probably familiar with Optimal Income, a bestseller with our European retail customers. Less well known is the similar success that we've had with Alpha Opportunities, a multiasset fixed income strategy in the institutional market. Now while both have distinct investment strategies, both managers call on the expertise and insight of our large credit research team to inform their decision-making.

Now new ideas are the lifeblood of investment. And the truth is we are never short of ideas. On the right-hand side of this slide, you can see some of our recent launches. Most of them are solution-type products designed to meet a particular customer need. Some, we believe, are firsts. As far as we can tell, the Impact Financing Fund for institutional clients is the first social impact strategy applied to private assets. And because the recent crop of new launches are either solutions or invest in private assets, they come with decent profit margins.

Of course, you can have the best ideas in the world. But what really counts is your ability to commercialize them. Do they address a customer need? I'm pleased to say that the hit rate of our new launches is almost twice that of the industry as a whole. 60% of our mutual fund launches over the past decade have either been partially successful in that they've raised GBP 100 million or entirely successful in raising GBP 500 million within three years.

The Global Dividend Fund is a good example of this. Through company meetings, one of our fund managers realized that companies with progressive dividend strategies were much more disciplined about capital management. As a result, they have good total return profiles. So he set up a global portfolio of companies with long-term track records for dividend growth rather than the classic approach of a spread of high yielders. It's been a great success with European retail clients and today has GBP 5 billion of assets under management.

Now of course, performance is crucial for any active manager. More than half of our mutual funds have delivered top-quartile returns over the past three years and almost 3/4 are ahead of the average over the same period. In the segregated and pooled fund market, around 90% of our products achieve their objectives year in, year out.

Now as I mentioned at the outset, current market trends play to our investment strengths. Then combine this with a focus on innovation to meet customers' changing needs. And the result is that we have been in a far better position to protect our profit margins when so much of the industry is under pressure from low-cost passives. We've also been able to make the shift from being a provider of low-value building blocks for financial partners to also a provider of high-value investment solutions. Margins across our assets under management have actually risen over the past three years at a time when most active managers are being squeezed by the passives. Of course, we're not complacent about this. There is margin pressure on some of our funds. But it is evident that clients are willing to pay for solutions, particularly those which bring some form of volatility management.

And if you look at the forecast for global growth in asset management revenues, you can see that we're strong in all the right areas, particularly alternatives and solutions. This is industry data on forecast revenue growth. And I'd like to draw your attention to the bottom box in green. While passive houses are attracting vast inflows, their share of industry revenues will remain low and growth there is obviously slowing. Meanwhile, alternatives and solutions will continue to account for a larger and larger share of total revenues, 55% of the total. So that's a $60 billion growth in revenues over five years.

And that's one of the reasons why we are so confident about our growth prospects. First, we are expert where it matters. We have an established presence in segments where credible expertise is scarce and where the threat from passives is limited.

Second, our consistent track record. We have a reputation for meeting our clients' expectations and often going beyond those expectations.

Third, a focus on high-value solutions. While we still offer building blocks in terms of funds and strategies, more and more of our business is in high-value investment solutions.

Fourth, the market dynamics are supportive. Demand for our capabilities, particularly in multiasset and private assets, are growing.

So that was a quick look under the bonnet at the investment engine of M&GPrudential. And to sum up, I would like to ask a question. If you were running an asset management startup, what capabilities would you want for the first day of business? And I can tell you that my list would be pretty similar to the one we already have. I think we have the right investment capabilities with great access to customers and client insights, supported by market trends and a track record for commercial innovation in sectors where margins are healthy, all under one roof. Thank you.

I'd now like to hand over to Will Nicoll, who's going to give us a deep dive into the institutional business.

William Nicoll {BIO 2031697 <GO>}

Thank you. That's very useful. Morning, everybody. My name is William Nicoll, I run the institutional fixed income business here at M&GPrudential. I've been with M&G for about 15 years. So been working here for a while.

Now the institutional business has been a core part of M&GPrudential ever since Prudential bought M&G in 1999. Historically, this has mainly been focused on the property and fixed income markets as these were the growing areas of the institutional investment.

So today, I'm going to discuss how we built the business, with GBP 70 billion of third-party assets. And why this is going to remain a key focus for the current business and to growth prospects for M&GPrudential. I'll also go through some of the characteristics of the institutional market, which are highly attractive to us, including the large barriers to entry, the size of the market and clearly, the good growth prospects.

However, before we go on, I thought it would be useful to stop for a few moments just to agree on what we mean by institutional clients. Well we know that everyone defines segments of the markets slightly differently. And this is unlikely to be an exception.

So when talking about institutional clients, some of you might be thinking about pension funds, some insurance companies, some corporates. But rather than trying to draw a comprehensive list of what is and isn't an institutional client, what we decided to do is categorize them based on core characteristics that they all share.

So these characteristics matter because they affect the psychology of the buying process. You need a different approach to be successful. And the main features of institutional clients for us are: first, they look after their own assets; second, they're often looking at funding set liabilities, such as pension or insurance cash flows; and finally, there's usually a strong regulatory background with some sort of fiduciary duty to someone or something.

And these characteristics mean that institutional funds do not act in the same way as retail clients. The industry is set up to protect wealth and to make a small number of significant decisions, which means that we need to build relationships of trust with our clients given that we hope to be working for them -- with them for decades. Indeed, taking a couple of years to work to build up to a mandate is not in any way unusual for us. And all these characteristics mean that once you have a mandate from a large institution, it tends to stay and it tends to grow.

Now building such deep relationships takes a lot of effort. So why do we bother? And very simply, as shown here, it's because a relatively small number of institutions globally control an enormous amount of money. And this is growing strongly. Even if one were just to keep the same number of trusted relationships, then you've still got significant growth.

Now unfortunately, we're not the only people to have noticed that. So it's important to be able to offer a service that clients actually want and are willing to pay for. And to succeed, we believe, first, you need to be different. Asset managers tend to say that they are fundamentally driven with a top-down macroeconomic overlay. The idea being that they can achieve returns from all possible drivers within, say, the fixed income markets.

We tend to have a different approach for institutional clients. We have a fundamental bottom-up approach and that's it. We don't tend to use economists because they're not always right. We mostly build up portfolios asset by asset. For example, another way to think of us is, well, in the fixed income market especially, is there's an operation to build credit ratings, to define credit ratings on assets. Once you have credit ratings on the whole universe of assets and you know the price, then it's much easier for portfolio managers to build an appropriate portfolio for the clients' needs. And that's the care that John was talking about earlier. And what that's meant is it's meant that we've built up a very large team of credit analysts with highly detailed knowledge base and with a long experience in the markets, which is a fantastic barrier to entry for other -- for our peer group.

The discipline of building portfolios based on fundamental views for the long term is what has been at the heart of our success. And this is much easier to produce predictable results, which is generally what clients need. The other way to differentiate is to offer products that other people can't. And again, the large team of analysts allows us not to be scared of new markets and different asset classes. And that, in turn, means that we can innovate together with the sales team to offer novel products that produce solutions for clients.

Finally. And I don't think this should be particularly surprising, complete honesty works really well. We're happy to tell clients when we do not believe their strategy will work. That sometimes means that we do not get the mandate that they're offering. But we do tend to get them a few years later, especially if the strategy didn't work. At the very least, clients want to hear our opinion. And that's half the battle.

To be clear, all of this is vital. Investors need a reason to let you manage their money. Offering diversification of approach is a very good reason, whether it's from how we construct portfolios or because we have a wider asset pool to offer or even just because we can combine the assets in different ways.

Once you have something that is different from the rest of the industry, then the second condition for success is that you now need to know what your clients want and need. As you can see from this slide, from the outside, it looks like the consultants are the gatekeepers for all this money, especially in the U.K. because they are an integral part of the chain. However, it is quite clear that unless you've already worked out what the client actually wants, then you run the risk of producing products that clients don't actually buy, even when working closely with consultants. We found out the best way to do it is to find out what's needed by the clients and educate consultants if necessary. We have most success when we take ideas that we've worked out with a few clients to select consultants and then build the propositions together. You will never be successful in institutional fund management by telling people what they want.

So let's see that model at work. In 2014, we were the first people to set up dedicated multiasset private credit funds, an idea that came from client conversations. As I said before, in fixed income, we spend a lot of time to put credit ratings on all assets, whether public or private. And it's, therefore, relatively, relatively simple for us to start building pools of assets to produce the cash flows that pension funds need. So once we've worked out which pools of assets we were going to use, we spent six months discussing the idea with a few clients and consultants. And a further six months educating the market. Finally, we brought out a fund. And that took about six months to fund.

The second fund was much easier, with only a small amount of education and a short fundraising time. In both cases, the success rate from pitching, as John said earlier, was around 80%, which is extremely high. Putting this in context, most pitches rates for institutional investors will have between 3 to 5 participants. So you'd really expect a 20% to 30% natural success rate.

Now the next fund, which we hope will be stick -- quicker even still because we've got GBP 500 million in commitments already for a fund that does not yet exist. And this cumulative buildup of mandates through innovation is, we believe, a key competitive advantage for M&GPrudential. And this dynamic also explains why the external business has been able to grow so strongly over the past decades. We have a differentiated set of strategies with excellent long-term relationships that are growing faster than the market as we've been offering clients what they need.

This slide shows the progression of our relationship with one particular client over the past few years, just as a good example of what we're trying to achieve. As you can see, we start in 2011, '12 with standard benchmark-type products, which they performed well and allowed us to have a deeper conversation with the client about what they needed, which led to them adding some bespoke portfolios and more illiquid assets that better match their requirements. This also has the effect of tying in the clients for a long time. This chart is only for eight years. But some of these assets are not going to mature for decades.

I realize in this room that I'm talking to equity analysts in the main. But I am by training a credit analyst and a bond fund manager. So apologies. I'm going to go back to my comfort zone and describe what can go wrong with the approach. The 2 main threats that we find to this approach are: margin compression and irrelevance.

Now apart from showing a growth of trust between us and a client, this slide also shows how to combat margin compression. The more value that you add for a client, the better the margins. The more -- this explains the data you saw earlier from Jack, where we managed to maintain margins and in many cases, improve them, while the industry has seen margins, in general, fall.

The second problem is irrelevance and the way to attack this is through research and development. We have consistently allowed our investors access to markets before the majority of asset managers. This started with corporate credit and has continued to a wide range of investment areas, some of which have grown very large. And this means that consultants and clients want to talk to us about -- whether it's about impact investment or private credit or residential property.

As Jack said earlier, all of this is irrelevant if you can't produce the goods in terms of investment performance. So these charts show how we've done for our institutional clients. As you can see, we believe we've done well for our institutional clients. When we look at the charts, it's important to understand that the objective is not normally the same as a benchmark. And it normally includes the additional terms that the client would expect. These numbers are very high. But they're also consistent so we know we have a strong, repeatable process.

You can also see that we're consistently moving away from market-type funds to solutions, which has the dual effect of reducing turnover of clients but also means that we can take clients from market-oriented strategies to the next stage of their investment cycle. And thinking about margin compression, it's vital for you to appreciate that 95% of these strategies can't be replicated by ETFs. We do not have to be defensive against very low-margin funds.

So that's the business today. We work with our clients to build products that they need. We then do what we said we were going to do, which means that they give us more money to run. This builds the trusted relationship, that means they will do more things with us. We all understand this cycle and the interdependence of asset management and sales and so take the discipline required to follow our process very seriously. We have built our reputation slowly and carefully with clients and counterparties and have seen profits flow from that.

Now on this chart, slide -- point 3 is something that makes us very proud. There is no greater expression of trust from a client than when they give us money to run for a new strategy. We are fortunate to have a number of clients eager to participate alongside us in new markets as they develop and while they continue to offer supernormal returns.

But we're also here to talk about the future because that's where it gets properly exciting. And this slide shows how we continue to grow in the U.K. and how long-term trusted relationships have allowed us to grow the business. It's interesting that even after 15 years of uninterrupted growth, we are still seeing more business coming into the U.K. and coming to us as institutionals cycle out of equities into fixed income and from benchmarks to solutions. And this will remain a driver of growth.

However, we get more excited when we start thinking of the other markets where we're applying the same business model. You can see that we've been successfully building in the Netherlands, in Nordics, Sweden and are just starting in Japan. The fact that all these countries, areas show us the same sort of trajectory gives us cause for optimism that as we make our relationships deeper and more profitable, we'll end up with something that looks a bit like the U.K. The really striking thing is the limited additional resource that we had put into these countries. We're usually talking about putting a small office of local distribution personnel, who can represent the business and guide us to possible clients. As we look to scale the business, then we expect to and have begun to increase this coverage and step up investment.

Now when we start thinking about the places that we haven't even started to address, then it gets even more exciting and which the demerger now allows us to approach. For example, we've just added distribution coverage to the U.S. and Australia. And we've got really good reason to be confident these are good prospects. For example, the Australian market has strong similarities to the U.K.. And we know a lot of the consultants there already because they know us from the U.K. This means we've been able to generate a lot of interest in our products very quickly with only a small office in Melbourne. The U.S. is completely different. There, it's the deep specialisms that are likely to work best. But the size of the market means that this can still make a significant difference to our business. A disciplined, focused approach should give us good opportunities to attack several niches of this very large market.

So I hope that I've shown that we have built a strong base over the last few decades. But that we have plenty of room to grow with our existing clients and our current set of differentiated products. Our aim after the demerger is to expand that client base internationally and continue to innovate for a whole new set of clients with the same level of care. And that's what we're preparing for.

Thank you. I'd now like to hand over to David, who will then talk about some of the distribution activities.

David Macmillan {BIO 16195004 <GO>}

Thank you, Will. I've had 2 iWatch messages in the last 30 seconds. The first one is that my heart rate is apparently dangerously elevated. So we'll see how that pans out. And the second one said remember to smile, which must mean that my mother is either here or dialed into the Webex, which is disconcerting, to say the least.

Now my name is David Macmillan. I'm addressing you today in my role as Chief Customer and Distribution Officer. In this section of the presentation, I'm going to talk specifically about the U.K. savings business within the retail segment; PruFund, the unique investment solution that anchors our customer proposition; some of the early benefits that our customers are gaining from the combination of M&G and Prudential; and explain our strong conviction that exceptional customer care and experience will ultimately determine the winners and losers in this market. I'm also going to endeavor to tackle a few urban myths about our proposition along the way.

At the heart of our customer and distribution model is a clear and deliberate purpose: to become the best-loved and most successful savings and investment company. Now that sounds like a lofty and surprising goal for an asset gatherer and manager. But our customers are looking for something that feels genuinely different to everything else in this marketplace. Our heritage is founded on client engagement, products that solve real customers' problems and easy access to guidance and advice.

Today, we are carrying those same principles through into the design and execution of our M&GPrudential proposition. And at the heart of that proposition sits a proprietary manufacturing strategy that is focused clearly on utilizing our core capabilities to supply a broad range of savings and investment solutions to our chosen markets. As I will cover shortly, the merger of our 2 companies is already beginning to power a new chapter and a revolution as a customer-centric business.

Now by means of recap, we currently serve 700,000 retail investors; over 900 institutional clients, which Will has already covered; and a heritage book of over 4.8 million customers looking after a combined GBP 321 billion of assets under management. Now the retail business accounts for GBP 127 billion of those assets. And that business distributes insured and noninsured solutions through a wide array of financial advisers, wealth managers, platforms, discretionary intermediaries and smaller institutions across the U.K. and Europe. It's worth pointing out in the U.K., this distribution picture is further augmented by the in-house financial planning business that sits within Prudential U.K. In addition to those retail assets, we manage a further GBP 71 billion for institutional clients through both segregated and pooled mandates and GBP 123 billion in our heritage business through traditional with-profits, annuities and corporate pensions.

Now I'm going to cover very specifically the U.K. savings business. And after lunch, when you've had a good stretch, Joffy Willcocks. And believe you me, you'll need a good stretch when Joffy's up, will cover the asset management business within the retail segment and, therefore, touch much more on Europe as well.

Specifically to the U.K. then, in recent years, our market has evolved dramatically in response to such developments as the Retail Distribution Review and Pension Freedoms. More often than not, regulatory and legislative intervention has shaped the direction and pace of customer innovation. And rightly so. But it is time that our industry took much more of a lead on the delivery of exceptional outcomes for customers and frankly, got its head around how best to build products and services that protect customers by design as opposed to intervention. Customer outcomes, as I'll touch on, are at the heart of our transformation as a company. They are the fuel in our tank, in the tank story of our innovation agenda.

Now traditional outcome drivers like product design, pricing and returns, they're no longer sufficient to characterize the breadth and depth of what we must take into account to deliver a superior proposition. Vulnerability, fraud prevention, cybersecurity and advice play an increasingly powerful role in our design thinking. We see a significant opportunity to further differentiate our proposition by moving beyond the ordinary, with customer care and experience.

By way of example, any company in or entering our market today can develop and launch a personal pension product. But how many of them can also offer a customer with dyslexia, say, the support, usability, security and accessibility to deliver an exceptional and truly personal experience for that customer?

With that transformative investment in digital technology and design, this is exactly where we are headed as M&GPrudential. Just think for a minute about the many sources of customer vulnerability that we could use to inspire our people to build tailored customer journeys, products and services to the benefit of millions of our fellow citizens. Whilst we're actively expanding our products and our product choices, we regard experiential innovation as the defining characteristic of a winner in our market and unsurprisingly, we are transforming our business accordingly.

Returning to PruFund, our anchor solution. Jack's already covered the fact that it is a truly unique investment solution and a significant source of differentiation for our business. Customers in general don't like volatility, even those with good reason to seek it in their portfolio. But those with a lifetime of savings to protect or income to sustain are even less inclined to turbulence.

PruFund was designed and is clearly positioned to deliver good relative returns while smoothing out the short-term peaks and troughs of investment markets. It has driven significant growth in number of customers and assets into our business over the last few years powered in no small part by the annuitization -- sorry, the end of compulsory annuitization in the U.K. in 2014. As a result, our share of the decumulation drawdown market has grown from less than 10% in 2013 to 35% by 2018.

That said, one of the myths that's grown up around PruFund that it's only really a drawdown solution. Well whilst it's absolutely the case that we have a leading share of the pensions decumulation market in the U.K., how many people in this audience know that PruFund is available across multiple tax wrappers, including pensions accumulation, ISAs, on and offshore bonds and Trustee Investment Plans? PruFund inflows have grown from GBP 1.8 billion in 2013 to GBP 12 billion in 2018 across 6 different wrappers. And it's this multiwrapper dimension to PruFund that underpins the rapid growth and take-up that we have seen in recent years.

But continuing with my mission to dispel a few myths, there is a general assumption at large that we gather our customers and their investable assets through the plethora of third-party open architecture platforms that have sprung up across the U.K. over the last 20 years or so. In actual fact, PruFund is only available to our customers and advisers via our own digital platform. As you can see from our asset gathering numbers, this has, in no way, hindered our growth and competitiveness.

That said, I suspect there are a few people in the room wondering why in the wide world we have not made PruFund more easily accessible by using these third-party platforms? Fair question. So let me answer it in 2 parts: First, even if we wanted to utilize third-party platforms, we can't. It is not technically feasible because of the way PruFund is actually constructed. It is, by design, an insured actively smooth, unit-linked policy written out of a life fund as opposed to a standardized mutual fund or collective. And second, even if we could, it doesn't immediately follow that we would.

Being restricted to our own platform confers a number of advantages for customers, partners and shareholders alike. We retain control, for example, over customer care and experience; we don't intermediate that way. We control pricing in general and the administration margin in particular. We also retain responsibility for our platform technology, its performance and its ongoing innovation as well as unfettered access to thousands of different intermediary businesses across the U.K. And it's perhaps worth remembering in the context of M&GPrudential because we're not a one-track pony, through our newly merged retail business, we have a large range of mutual funds that are available across all major open architecture platforms, which Joffy will cover, that are designed to meet the needs of customers looking for something very different to PruFund.

So while it might fly in the face of current market wisdom, our PruFund distribution model demonstrates quite starkly, I think, that it's possible for a proprietary manufacturer with a truly differentiated offer to bypass open architecture platforms and retain more control over the commercial value of our intellectual property. Suffice to say, there are transformation investments we are very focused on what else we can do to piggyback more customer solutions into the market, utilizing that same distribution strategy.

Returning, if I may, to the benefits of combining our 2 businesses. we have, I believe an unrivaled opportunity to take what we previously thought of as Prudential and M&G and combining our collective strengths, capabilities and advantages to deliver an exceptional customer experience; being able to combine a deep and wide array of asset building blocks, smoothed and unsmoothed strategies, insured and noninsured products as well as a multichannel distribution model with our very own multiwrapper platform represents a serious and solid foundation upon which we can build our future business.

Now, I could wax lyrical all day about our relative position in the value chain, something I know you don't want me to do. But I would rather draw your attention to something quite specific, the one capability we have that I suspect will prove to be pivotal if we are to lead the industry on delivering superior customer care.

That capability is best defined as direct access to a rich stream of live and on-demand data from customers and the advisory community to help inspire, guide, shape and beta test our experiential innovation. Our direct relationships with thousands of U.K. advisory firms as well as our in-house advice business, Prudential Financial Planning, generate a constant stream of data, insight and experience derived directly from those who help real people deal with real problems on a daily basis. I know of no greater advantage in pursuit of unrivaled customer experience than access to real customer intelligence, particularly when it's married to the wide set of capabilities that we enjoy across the value chain as a direct consequence of the merger. We have the opportunity to exert control over the customer experience in ways that few of our competitors can touch or replicate.

To expand further on the benefits of the merger, we're already seeing the direct benefit to customers in the shape of an expanding range of investment solutions. Earlier this year, for the first time in our collective history, M&G OEICs were made available to customers and advisers in the U.K. by placing them on the Prudential platform.

In addition, after several months of collaborative effort with Jack's guys, teams on both sides of this merger came together and launched PruFolio. Now PruFolio is made up of 15 risk-rated funds. It's a unique blend of 3 investment styles with active and passive options complemented by 5 smooth ones, giving advisers the ability to tailor a multiasset portfolio for their clients that nobody else in the U.K. industry can do. Founded upon our long-standing multiasset investment process, portfolio benefits directly from the underlying scale and diversity of the asset building blocks that Jack and Will have talked at length about already.

Through the remainder of this year, we will launch further portfolio options directed, in particular, at addressing demand for responsible investments and solutions designed to impact particular social or environmental causes. In other words, products that give customers unprecedented control over what their money is ultimately invested in.

In combination, the placement of M&G OEICs on Prudential's platform and the development of PruFolio represent, in my mind, a truly seminal moment in the merger and point very clearly to the arc of what is now possible as a consequence of our collective focus on delivering superior customer outcomes.

Turning now to the business transformation that's currently underway. The cornerstone of that agenda, as I've said, is the focus on delivering superior customer outcomes. I want to finish my presentation today by providing you with a powerful example of how we are putting our money where our mouth is in relation to customer care.

In decades past, we helped to pioneer the democratization of financial services. The Man from the Pru was launched on the back of penny policies to serve the needs of the masses. But somewhere along the line, we and our industry became disconnected from the masses. And today, there is arguably no greater risk to our future relevance than the millions of people caught in what is known as the advice gap.

Now we don't believe it's possible to deliver superior customer care whether in decision-making guidance or full financial advice. There are simply too many ways in which customers who choose or are forced down a nonadvice pathway can cause themselves financial harm without active intervention.

You take the act of taking tax-free cash or income from a pension. That is one example of a customer journey that could go horribly wrong without the right support. And this is the reason that we have just completed the development of a digital service that embeds algorithmic guidance directly into customer journeys and transactions. Think of it like the brain in your car that monitors your driving that prevents you from hitting the car in front or falling asleep at the wheel. Once complete and fully tested, our technology will also monitor and sense and actively intervene to protect the customer from harm, this time in support of their financial decisions rather than their driving abilities.

Now that probably sounds so obviously sensible. But you're wondering why such technology is not already the standard in our industry. The fact that it's -- not tells you just how out of touch our industry has become. I give it to you as an example of why the winners in our industry will be those that finally figure out that delivering superior customer outcomes is a source of profitable growth and market leadership and not a box to be ticked along the way. As for our guidance algorithm, that should serve today as a pointed illustration of our intent to reconnect with our heritage and build a business that is centered on customer care.

The transformation underway in this business represents a very significant accelerant to achieving those ambitions. We are investing right now in new skills and a diversity of perspective to design and build a different way of doing business. Our infrastructure has been completely overhauled to provide the foundations for rich, sensory and frictionless customer journeys that are easily scalable. We are deploying digital technology to make our products and services more convenient, accessible and safer to use. We're also beginning to work on how we make our products smarter. So by augmenting our current capabilities with AI and machine learning, we can see a way of opening up a new frontier in the personalization of customer care.

Our goal is to lead the market on experiential innovation, to the benefit of our customers and the transformational investments that Roddy will touch on later as well, are putting our goal firmly in our sights, which leaves me just with a few key takeaways: We have a very unique and successful anchor product, PruFund. It is multiwrapper, not a single-wrapper solution, creating broad market coverage. It is only available through our digital platform, bypassing open architecture competitors.

The merger, M&G and Prudential, has enabled a program of proposition expansion beginning with the placement of M&G OEICs on the Prudential platform and the development of PruFolio with much, much more to come. The transformation investment is creating a business with critical capabilities for the future, particularly around digital technology.

I've said it. I'll say it again, the winners in our market will be characterized, I believe, by a resolute focus on superior customer outcomes. We already have a unique and market-leading investment solution. Now we want to lead the market with customer care.

Thank you for your attention. And I'm now going to invite Spencer to introduce, of course, the most popular part of the session, lunch.

(Break)

Spencer Horgan {BIO 4241901 <GO>}

Welcome back, everybody. This is typically what's known as the graveyard slot. I think we possibly have the antidote to that. But let's see.

So with that, I'd like to welcome Joffy Willcocks onto the stage

Jonathan Willcocks {BIO 20855266 <GO>}

Thank you very much, indeed, Spencer. Well. Good afternoon, everyone. Welcome back. I hope you managed to suitably charge your batteries and are now ready for the afternoon session. So as you might have gathered from the photo, my name is Joffy Willcocks. And I'm the Global Head of Distribution for asset management here at M&GPrudential. What I'd like to do now is take you through the part of the business I am responsible for, namely global distribution.

Our job consists of taking our full suite of investment management capabilities that Jack and Will talked about earlier, to a broad set of wholesale and institutional clients globally. This ranges from high-end advisers and discretionary fund managers, private wealth managers and banks, to institutional clients and consultants, not just in the U.K. but also around the world. As you heard John and Jack mention earlier, we currently have GBP 321 billion of assets under management. And we've gathered them from across 28 markets thanks to a distribution network of 20 offices. And what I wanted to do now is to give you a greater flavor of where those assets have come from.

With the U.K. being the headquarters of our business since 1848, we naturally have the majority of our assets here in our home market. Of the GBP 260 billion shown above, GBP 51 billion are retail savings assets that you heard David speak about just now and GBP 123 billion are heritage assets, which will be covered by Roddy next.

I wanted to focus now on the assets from our global retail and institutional asset management businesses. Our U.K. assets are split GBP 55 billion from institutional clients and GBP 31 billion from retail customers. As you can see from the coloring of the charts, at the moment, Europe, Middle East and Africa are, for us, predominantly retail markets, while Asia and the Americas are predominantly institutional. In the Middle East and Africa, M&GPrudential holds a 49.99% associate shareholding in PIMSA, Prudential International Managers (South Africa) (sic)) Prudential Investment Managers (South Africa)).

Now after M&G was acquired by Prudential plc in 1999, we looked to expand internationally. And in 2001, we launched into Europe. And over the last 18 years, we have built up a European book of assets worth GBP 49 billion. And in more recent times, we've also led with our institutional offering in markets outside of EMEA. You can see from this chart in Asia where we have had offices since 2011 and have GBP 7.8 billion of assets under management. And our institutional clients there also include Prudential Corporation Asia and the Asia Life Fund.

And this is also true of our Americas business, which is nascent compared to other markets. But we have established our offices in New York and Miami late last year. And we have already raised GBP 1.2 billion of assets. So that is how we stand today.

But how have we got to this point? This next slide shows the evolution of our assets over the past 16 years. And the countries labeled in gray at the top represent the evolution of our distribution office footprint over that time. And as you can see, we have grown from an asset base of GBP 24 billion in third-party assets to GBP 147 billion today. And the number of offices used to service those assets have grown too from 3 outside of the U.K. and Ireland in 2003 to 16 offices today.

Now we started in mainland Europe back in 2001, as I mentioned earlier, continue to spread throughout the region. And in 2012, we moved further afield into the APAC region in particular, Singapore and Hong Kong, with Japan coming in 2016. And last year, we opened offices in the U.S. and Australia in 2018. What is particularly pleasing throughout this whole period of time is the extraordinary success that we have achieved right the way through this whole period of time. And we delivered that by growing all parts of our book from institutional to retail clients, both in the U.K. and internationally. And the bulk of our success in retail asset management in Europe has come from Italy. But I'll talk more about that in a minute. And we've also made significant inroads in France, Spain, Germany and Switzerland.

As you will have heard from Will earlier, the success we have seen with our institutional clients has been in those markets which typically favor institutional-type assets, for example, Switzerland, the Netherlands and the Nordics. But the main point I really wanted to get across is that we have got proven experience in developing and externalizing our manufacturing capabilities, not just to U.K. clients but increasingly, to international customers.

But where did this big increase in assets come from? Well we particularly enjoyed an increase in mutual fund sales from the deposit rate collapse post the global financial crisis, meaning that savers had to look elsewhere to make their money work for them. So they turned to asset managers and the mutual fund universe. And mutual funds today no longer just appeal to investors but also to savers as well.

But why did we particularly benefit from this shift? Well let me first launch into Europe. We could effectively look after the wholesale market with 1 or 2 people in each major city. In those days, the banks would not really let you access their private or retail bankers. And essentially, the primary route to market was through their fund of funds or model portfolios. However, post 2008, with the financial crisis and the Madoff effect hurting many of those fund-of-fund structures, many of these European banks began to open up to third-party distributors through partnerships. But in order for us to win these key partnerships, we had to demonstrate not just a breadth of product, that we also had a brand and importantly, that we had people on the ground, not just in cities in Europe but also Asia, where we could offer the same touch, feel and service proposition. And so we started to hire more people in 2009 and 2010, where most other asset managers were actually reducing their footprint at that point in time. This led to us being eligible for these key partnerships. But more importantly for shareholders, this meant more funds and buy lists and more assets coming into M&GPrudential.

Now let me elaborate a little bit more on this point. There was one major bank who specifically asked us to have a distribution presence in Asia and to register our funds there. That was the minimum requirement needed for us to be considered as a global partner. At the time, this particular client had around GBP 750 million with us. However, today, we are a global partner of choice as a consequence of that. And this client has almost GBP 3 billion in M&G funds. And the importance of this is to understand that when you are dealing with international wealth managers and private banks, they operate in a global scale. So to be a successful partner, we need to service them wherever they are, not just in the U.K.. But in Europe and in America and also in Asia.

Now we have seen certain challenges in the past five years. As you would have probably spotted from my previous slide, our retail asset base in the U.K. has seen some outflows over the last few years. And this came off the back of some extraordinary period of growth that we enjoyed between Q4 2008 and Q2 2012, where we're actually the #1 fund group in the U.K. for net sales for 15 consecutive quarters. Never been done before and clearly, that was not sustainable. We then experienced underperformance of some of our key equity funds as well, which have had a more of a value star bias in what has been a growth momentum environment. And we also decided to slow down flows into 2 of our U.K. corporate bond funds in 2012 in order to protect performance for our investors.

And also whilst we've had huge success in multiasset funds in Europe, the market's been more challenging for asset managers in the U.K. who do not have their own platform. The majority flows into multiasset funds in the U.K. have gone into platforms with their own multiasset funds, which is seen as a default choice by many advisers once they've selected that platform. PruFund, as David mentioned earlier, has been the only real exception to this. And so of course, this is another great benefit of the merger. Now we have an M&GPrudential platform and the PruFolio range where we can capture more of that multiasset market share in the U.K.

Now we can't go through a Brexit presentation these days without mentioning Brexit, although this is not a Brexit presentation. But Brexit always crops up. And this has also been a key factor because of the effect it's had on markets and more importantly on investors' confidence and attitude to risks. So while our institutional flows have remained more stable, in the U.K. and the European retail space, the industry has endured political, macroeconomic and market headwinds, which have affected investor sentiment negatively. But as you can see from the charts, our flows have been in line with the market. 2017 was a record year for mutual fund sales across the industry. As shown in the chart on the right, this lasted until January 2018 before investor appetite for risk collapsed entirely due to this political and that macroeconomic uncertainties that I just mentioned. And this lasted for the rest of the year, with Q4 2018 being the worst quarter for mutual fund sales in the industry since Q4 2008.

So 2019 has seen equity markets and indices rally. But investor confidence has still not recovered. Equity and multiasset funds in aggregate remain outflow across the industry this year. The market is also increasingly allocating to sub-advised mandates, where we have not so far played in the U.K. But I will talk shortly about the great opportunity we have on the European and global stage.

Now let's talk about one of our big success stories in Europe: Italy. As I mentioned earlier, our biggest market in Europe is Italy. Before the financial crisis, we had around GBP 700 million of assets under management in Italy. When the dust stopped falling from the ceiling in the aftermath of GFC, we had dropped to less than GBP 300 million. But we didn't panic. We instead continued to invest in our Italian business. And you can see the massive growth in assets that we've enjoyed since then. This was, of course, helped by having some fantastic products, one of which Jack has already mentioned, namely the M&G Optimal Income Fund, which enjoyed some very strong relative performance in the aftermath of the global financial crisis. And as deposit rates fell, we were well positioned with our fixed income and multiasset range to capture assets from savers that were turning to investments rather than deposit accounts.

At the same time, Italian retail distributors also began to open up to third-party asset managers for the first time. And we made the decision in 2010 to enter the retail advisory market. And you can see what followed. This has been a huge driver of growth for us over the past nine years, now accounting for more than 50% of our total assets in Italy.

In 2014, we began to engage with institutional clients. As you can see now, we have around 3% of our Italian asset base from institutional clients. But more importantly, we also entered the sub-advisory market in 2016. And now we have 11% of our Italian AUMs in sub-advised mandates. And we are projecting this number to increase in the future. In our view, the sub-advisory market is changing the shape of distribution globally.

So the key question is, what is sub-advisory? This is a major theme spreading out across the globe driven by a number of factors. Today, most fund managers take their existing range of mutual funds and sell them either as building blocks or, in the case of multiasset fund for example, as a solution in its own right. But over the last 3 or four years, we've been adapting to a new way of working as a result of MiFID II. And we saw the same thing happen in the U.K. as a result of RDR.

The distributors are now approaching us not just to buy existing mutual funds that we offer but are now increasingly focused on trying to access our investment management capabilities to provide a product, a solution, or an outcome that is specific to their needs and to the needs of their clients. This is the world of sub-advisory. We're now tailor-making solutions for our distributors and their clients, accessing the broad range of capabilities that you heard Jack and Will talk about earlier.

So what is driving this? Firstly, the regulatory environment is very much a part of that. As we see in the U.K., as we saw in the Dutch market, we are moving to a world where rebates and retrocessions may eventually disappear. The market will need to change shape because no longer can these bank distributors rely on retrocessions or rebates to pay for their bank's sub-advisers. They now need to try and change the charging mechanism. And rather than being reliant on a rebate from fund managers, what we are now seeing is that third-party distributors are now creating their own fund ranges in order to charge the fee to the client where they build the cost of advice into that fee structure of their funds and then approach us, as fund managers, to run the money on a mandate or sub-advice basis for a specific fee.

Secondly, there's a suitability angle. In the context of RDR and MiFID II, there's a greater onus on distributors and advisers who need to make sure that the products that they sell to their clients tick the suitability box. And clearly, if we're designing products in conjunction with our distributors, then we can absolutely demonstrate that we have designed products and outcomes specific to a client's need.

Thirdly, we are seeing the impact of negative cash rates in many jurisdictions but especially in Europe. Large banks would typically offer customers, retail customers, 20 or 25 basis points for depositing assets with them. Now if the banks don't use those assets for lending elsewhere, then they will probably lodge that money with the ECB at a charge around 40 basis points to the bank. Altogether, this can result in a net cost of 60 to 65 basis points on banks' balance sheets, which as you can imagine can run into hundreds of millions of euros in aggregate.

So why is this driving the sub-advisory growth? Because the bank can now use these products to offer alternatives to cash. And as such, the bank would no longer have to deposit that money with the ECB. And many of the conversations we're having today with banks are based exactly on this: Alternatives to cash not just in fixed income. But in lower-volatility, multiasset products as well.

Lastly, economics. Many distributors or banks that own their own distributors or financial advisers have realized that there's actually greater economic value to their business in owning their own fund range and not just advising on third-party assets. If they actually have their own fund range and ask asset managers to run the mandates for them, then their business model becomes effectively an adviser and asset manager vertically integrated enterprise. And the market tends to recognize this with a higher multiple awarded in the value of that business.

So for me and for us, these 4 drivers are absolutely changing the shape of distribution for us globally. We've seen it happen in the U.K. And whilst we did not fully capitalize on the trend here, we want to make absolutely sure we capture this opportunity as it continues to take off in Europe, Asia and, in due course, the Americas.

Now one of the key questions might be is how big is this opportunity? Well today, the market in Europe is just under EUR 600 billion according to Instihub. And this is predicted to grow to EUR 1.7 trillion over the next 10 years. And this is not an unreasonable expectation considering the U.S. nonaffiliated sub-advice market is now already approaching USD 2.9 trillion.

So how do we plan to turn this into a business opportunity for M&GPrudential? We do what we have done before and we use our proven ability to grow internationally and to adapt to new distribution models. This distribution model will become far more institutionalized in terms of amount of due diligence required by these global distributors who are now looking to access sub-advice mandates. It's not dissimilar to the traditional institutional investor. And as you heard from Will before, we are experienced in this area and we're going to apply the same institutional pitch process and logic to the wholesale distribution business. And also thinking creatively about how we blend different parts of manufacturing ability, we can effectively democratize what was hitherto called institutional asset management by blending both public and private strategies into products that can deliver the right customer outcome. And this a clear benefit of the merger.

Finally, to win in this space, it is absolutely key to work hand-in-hand with our global distribution partners. We have seen that once you've slated for a sub-advice mandate with a global distributor, the chance is very high you'll be given the opportunity to pitch for the next mandate. And working well together with our distributors can lead to M&GPrudential becoming a partner of choice, often being their first port of call for all future mandate business.

Now yes, the margins in this distribution model are lower for the asset manager. But studies conducted by Instihub suggests that they're persistently much longer, 5 or seven years perhaps, compared with persistency of funds held in a fund-of-funds structure which might be a 2; or 3-year persistency. And also the size of these mandates are often much larger, meaning that the embedded value of these assets is much higher to M&GPrudential.

So what do we see as the major drivers of growth going forward? Now I've already spoken at length about sub-advisory. The last thing I will say on this is that this is not just a trend change, it's a fundamental shift to the distribution model. And in 10 years' time, we predict that the revenue split between mutual funds and sub-advisory will be vastly different with revenue increasingly being derived from the sub-advisory space. So it is absolutely important to win here. And we are very well positioned to do this over the next few years.

There's a chance to really respond and to create products with our key global banking partners and to capitalize on this growing market. In order for us to maximize this opportunity, we have now created a dedicated team purely focused on investment solutions. And in fact to that end, we've recently hired the Head of Investor Relations from BlackRock to head up this team.

Within a few years, we think ESG will be a given. Every single asset manager will have had to integrate ESG into their processes. So the important thing for us to think about now is how do we differentiate ourselves from the competition in the future? It won't just be about returns. Increasingly, a generation of investors, not just millennials, are focused on doing something good, making the world a better place as well as generating returns on their portfolios.

In fact, Steve Kern, one of the biggest names in investing, speaks about the 3 ages of investing. The initial period from the 1920s was all about returns. This moved on to focusing on risk-adjusted returns from the '70s onwards. And finally post the GFC, we're now moving into the investing for good era. It's not just about avoiding certain stocks. But also investing in those companies that will make a difference to the world. And this is corroborated by a study conducted by Impact Investing (sic) (Impactvesting), which suggests that sustainable funds are set to attract around GBP 330 billion of new money in Europe alone in the next five years.

So to this end, we have started to think very deeply about this over the last few years to ensure that we have a range of products that suit the needs of future generations and that have a positive impact on society. And this led to a creation of a range of sustainable and impacting team and the launch of various strategies across M&GPrudential already with more to come in the future.

Moving on to smooth returns. So smoother product returns, asset managers would need a large balance sheet. But as many of you all know, asset managers are typically cash-light businesses. And so hence the struggle. Now as David already mentioned, PruFund has been a phenomenal success for us in the U.K., delivering those smooth outcomes that many investors want in retirement phase or as an alternative to cash. And we now have a fantastic opportunity to think collaboratively and work together as M&GPrudential to take the successful proposition of PruFund into Europe and hopefully into Asia and the Americas in the future. It has been a silver bullet for those sorts of investors. And so the opportunity to extend that internationally after the demerger is a huge one for us as a business.

And lastly, cross-selling. Historically, we were organized as institutional management business with institutional distribution and a retail wholesale asset management business with wholesale retail distribution. Today, we have one investment engine and one distribution business and this gives us the chance to take all products to all customers, subject to the usual caveats of suitability, liquidity, price, et cetera. But this means that from our perspective, even if we're not to find a single new client, we have an extraordinary opportunity to extend our institutional success into the wholesale space and extend our wholesale success into the institutional space.

And it goes back to what I referred to earlier, there are increasing numbers of global wealth managers who are looking for access to -- and a liquidity premium to generate a higher return than they can get from just investing in the public markets. And again, with extraordinarily depth and breadth of our manufacturing ability, we have a wonderful opportunity to build products that meet our customer needs in this space.

Now as I spoke about at the beginning of this section, the U.K. is a mature but significant market for M&GPrudential and we are leading player in both the retail and institutional markets here. We look to maintain our existing position, consolidate our strength and evolve the products over time as the needs of our clients change. In the wholesale space, we have recently refocused the distribution team to reflect the changing business model of our clients as the discretionary part of the market in the U.K. has become increasingly important and influential.

In the institutional market, increasingly the focus now on specific opportunities that Will mentioned earlier, such as cash for doing investing, solutions and private assets. And we use this strong base in the U.K. and revenue stream to drive our global expansion. The European region continues to drive short; and medium-term growth, cross-selling where possible to enhance the market share and capitalizing on the key themes I touched on before.

And the same can also be said for our expansion plans in Asia. From our offices in Hong Kong and Singapore, we will continue to focus on regional and private banks where there remains strong demand for investment management capabilities. And in Tokyo, we'll continue to grow our institutional client bank there.

For Australia and the Americas, we will use our proven track record of expanding into international markets, both institutional and in the retail space. And we've now also set up an operation in Miami to service the U.S. offshore and Latin American markets.

The world is now globally interconnected. Key partnerships with distributors will help us to broaden our distribution capabilities into these new jurisdictions and to be able to offer a global service to these global wealth managers. And the U.S., it still represents the largest asset pool in the world, especially in the institutional space. And now by having a dedicated resource in New York, this will allow us to access that market as well.

So from my perspective, as I look at the map, we have a fundamental core strength in the U.K., we're a leading player. We're continuing to grow rapidly in Europe and over the medium term, this represents the strongest opportunity for us. And this strength allows us to invest further into Asia and to our chosen markets, the fastest-growing asset pool. And the Americas, I just mentioned.

So to conclude. We have a strong brand and presence in the U.K. and a proven track record of internationalizing our business. Through the merger, we now have a joined-up investment engine and we can take more products to more clients on a global basis.

We have a strong global and local coverage with local people based in local markets. If you want to be successful in any market, you need to be part of that local community. And increasingly, regulators are also encouraging more local activity on the ground.

It is my real belief that asset management remains the Pentium chip inside. We have the responsibility for looking after people's long-term savings. And I think we're in excellent position to capitalize in this and to grow internationally.

Thank you very much. I'll now pass the baton to Roddy to talk about the heritage book. And we'll want to do this all day.

Roddy Thomson {BIO 21307809 <GO>}

We got it. Phew. Let me just check the energy in the room. We struggle with Joffy. We're trying to get him to be a bit less shy and come out of himself a bit more. I think it's a journey for him. But we're getting there.

I sit in between you and the blockbusting finance section which I know you can't wait for. So sharpen the pencils and get the calculators out and Clare will be on very shortly after me.

Hello. I'm Roddy Thomson. I'm the Chief Operating Officer here at M&GPrudential. I've been part of the team here for nearly two years. And my role is all about setting up the right operation, IT and supplier strategy to really get behind our transformation plan and deliver that to enable our business to be successful.

I am accountable for ensuring that we deliver all of our externally communicated transformation targets. But also that we build the capability that really supports the growth of our business going forward. I'm also accountable for the transformation of our heritage business which delivers around about 20% of our overall transformation cost savings. And that's going to be the focus of a lot of the presentation today.

We've really focused our transformation on delivering for all of our customers. And our customer segments, be it retail, institutional or to be our heritage segments, we're really looking at real things for those bits of business. And there's a set of transformation levers that we're really focused on to deliver improved outcomes for those customers. And we've got to transform our operation and technology environment to make sure we can serve those customers the way they want, when they want, how they want.

Let me just take you through each of these levers in turn. The first one is really focusing on how we deliver a great customer experience by equipping our people and our customers with the tools they really need to deliver great service. And this has required us to look end-to-end at our business in a different way, moving away from more transactional-led process to a real understanding of that end-to-end customer journey.

The second one is about digital and digital enablement. That's really to allow our customers to be served how they want, when they want. And also allows us to really embed a lot of that richer guidance and support for customers that David talked about in his slot. And we think that's vital.

The third one is simplicity. We've been in business for a long time and we really need to simplify our IT and operational estate. There's new cloud-based technology, new best-in-breed applications that really allow us to standardize and scale our business in a different way. And we're doing that, utilizing key partnerships to also significantly reduce our total cost of ownership. In our heritage book, this is also about allowing us to variable-ize a lot of that cost base and get ahead of policy runoff to move that fixed cost to marginal cost that falls out ahead of that booking runoff.

And the last one, by no means least, is about how we produce a lower-risk business. And we're really looking at how we take risk out of the business but also increase the resilience of our business, looking at that processes end-to-end; looking at how we make the manual controls automated and designed into the process; and also looking beyond traditional business continuity and disaster recovery to operational resilience; and how we really create a safer, more shockproof business into the future.

I'm sure you'll agree that these levers are all fundamental to all aspects of our transformation and about the customer outcomes we deliver, the level of efficiency, the level of effectiveness we can operate at. And partnering with industry leaders to deliver these outcomes really allow us to catch up and get ahead.

Today's focused on the heritage business where a lot of our corporate pension customers, individual pensions and life customers are served. And we started planning for this transformation around about June 2017. We've been in delivery now for over 18 months. In the future, we'll share a lot more progress across all of our segments and a lot more about the transformation there.

So firstly, the heritage book. What is it? We have around 4.8 million heritage customers. They have about 5.5 million policies with us. It's an extremely strong and loyal customer base. Of those policies, over half relate to pension products, both in accumulation and decumulation. Post the transfer to Rothesay, we have about 1.2 million annuitants, 1 million individual pension policies and a further 500,000 corporate pension scheme members. Another 0.5 million policies are in investment bonds with a similar number of other life and endowment-type plans. We also have 2 million industrial branch policies. These are the traditional Man from the Pru policies sold door-to-door, with premiums often collected in cash. These policies are generally whole of life or endowment plans and we haven't sold them for many years but we continue to serve them.

Altogether, the heritage book accounts for about GBP 123 billion of assets under management. It really is the bedrock of our business. Of this, GBP 85 billion, close to 70%, relates to traditional with-profits business. A lot of this business is really sticky with good persistency rates. And some of the heritage books, whilst not open to new business, are open to top-up and contributions. Now on average, our individual pension customers are around about 57 years old and our corporate pension customers are a little younger at 55. So a lot of life and a lot to manage in continuing to serve in those books.

Our challenge has been to really raise our game and ambition in service delivery. Post the introduction of Pension Freedom, our world has changed and customer expectations have changed. And the transformation is about fundamentally upgrading our service delivery and equipping the people and our customers with a radically simplified industry-leading toolkit.

Up on this slide, we show the systems on which our heritage book is currently run. There's lots of them, it's complex and many of them have been in place for over 30 years. And as a consequence of this, our total cost of ownership for IT and in making change is extremely high and very, very significant. At the heart of the transformation is a commitment to fundamentally simplify this estate. And in doing so transform our customer, cost and control outcomes.

The cost equation here is really simple: Variable-izing that book ahead of policy runoff; radically reducing the number of systems and applications on which we're reliant; and in doing so radically reducing the cost of delivering change and being regulatory-compliant going forward.

To do that, we've really focused on the operation and what we need to do. Prudential first outsourced the bulk of its operations to Capita in 2008. This is a fairly typical first-generation BPO deal. And considered against the outcomes at the time, it delivered fairly well. The primary ambition for the arrangement was one of cost certainty. And the customer context we now operate in is completely different. Delivery of a transformation program with Capita was only partially successful. And we've been continuing to rely on these legacy systems for far too long. And that's something we've really leaned in to.

When we've set about looking at how to tackle this challenge, we undertook a full market appraisal to understand the right capabilities and the right partners. We spoke to their customers. We really listened to what they had to say and what they delivered, not in slides. But in action. And that extensive process led to the appointment of TCS and Diligenta as the U.K. regulated entity to be our transformation partners in this space.

Our partnership's based on growth operational capability, leading digital skills, real technical expertise specific to the industry and deep policy administration, knowledge of how to do these migrations gained from actually migrating 12 million customers. And it's those learnings that really power us forward.

We've also stared at how we operated with Capita and we've also stared at the management of a relationship and how you really work in partnership with someone. And that's been integral in looking at how we work with TCS.

As part of the strategy definition for the operating model, we've really looked at how we streamline all functions and how we work together as one integrated operation to deliver for our customers and deliver those customer outcomes. And that means we've really simplified how we do things and really changed the way we oversee that partnership and relationship.

As you can imagine, doing that is not without significant people change. Over 2,400 colleagues have transitioned from Diligenta or TCS to Capita; or from Prudential, over 600 have moved to also be part of that operation with Diligenta. That includes our annuities team and our change in IT teams that look after a lot of this legacy estate. We've already seen a significant step forward in operational performance for our customers. And that is driven in no part (sic) (no small part) by the great leadership and support in operations that we've had since we've made that transition.

This is our road map for the transformation. A lot of it has been delivered. Rather than it's stuff we'd like to do, we've made some really good progress and a lot of the underpinning infrastructure. We've replaced our old Capita and Prudential telephony infrastructure with a new single platform for customer calls. This includes an interactive voice response, IVR, capability; automated identification and verification of customers. It also increasingly allows customers to complete simple transactions without needing to speak to an agent.

Delivery of digital foundations here have also been really, really important. And I'll talk in a minute about our new MyPru platform. And that digital functionality, we're looking forward to rolling out completely across all of our customer journeys, in top-ups, in claims, servicing, bereavements and across our complaints journeys. And at the heart of that is BaNCS, which is industry-leading TCS asset which will be a single policy administration and CRM tool that also provides the workflow across all digital and servicing channels and really gives us for the first time that complete 360-degree view of the customers and helps us move to that journey-based thinking, improving the end-to-end experience and outcomes we deliver.

We have a commitment in capability through our partners and internally to deliver this rationalization of the system infrastructure. And that's forecast to reduce our IT cost of ownership by over 50% by 2022 as part of the total cost savings in our heritage business that we're aiming for of GBP 60 million in that time.

Now the first platform we're migrating is the SALAS platform. It's been with us for a long time. We inherited it at the start of the Scot Am acquisition. It's the first to be migrated. It's the most challenging migration because on it sits our highest-value and our most complex products. And we're well in the way to that and looking to migrate that in the next couple of months. That will see 0.5 million customer plans migrated to the new BaNCS platform. And we're leveraging TCS' tried and tested methodology here, which really takes a lot of risk out of the migration.

In the first half of 2020, the next migration will then move through and be completed, which is for our corporate pension customers who are currently administered off the Capita HartLink platform.

As we've been doing this transformation, we've been making real, real improvements in our customer service. I'm going to share some of those with you. Moving to that customer journey and end-to-end view has meant we're radically reducing our servicing times with a lot more to do. Since service commencement of our relationship, we have taken over 44% of that customer wait time out of our service. A lot of that has just been working the old process better as well as looking at how we move to that end-to-end journey management. And that's been great to see.

In the same period of time, if we just move on, you'll see that we've also dramatically improved our customer experience and our NPS scores. Some of that is from our new digital enhancements that we've put in and driven, some of it has just been customers really seeing the difference in that service performance with an improvement of over 14 points in that score since last summer. And it's great to see, when you do the kind of role that I do, that correlation between the service improvement and the customer satisfaction moving together in detail.

I'm just going to take a little bit of time to talk through some more of the improvements that we've been doing to drive this and set the infrastructure up for the next stage of the transformation.

Let's talk about MyPru. The MyPru app and platform is central to our digital servicing ambition for our heritage book customers. It moves us to a 24x7 operating model. The previous infrastructure on which this was built and developed couldn't scale to the levels we needed and wasn't great when you were looking at things and rendering them on mobile devices. It didn't give you that kind of experience. The MyPru upgrade we've put in place brings substantial usability improvements for our customers and really provides the foundation and resilience built into that application with active, active processing on which we will scale the journeys for all of our customers.

And for the first time in this technology, we also gain insights really into the customers' use of the app and website. And it really helps us prioritize our future enhancements to tackle what customers really need and where they're struggling. MyPru is a really crucial pillar for developing all of our customer journeys going forward.

Whilst we've been doing that, we haven't just been waiting for the infrastructure, we've also been delivering some of those customer journeys in action. And one of the key ones for us has been the bonds claims journey where we're trying to make it easier for our customers to withdraw and access the money they need when they want it. We launched this in late 2018 and already we have a 35% take-up of this. And when you look at the bonds claims journey and what we were doing traditionally, you'll see the evidence of that transactional process. It was a source of customer frustration, relying heavily on paper, multiple touch points across the servicing teams. On average, a claim took 16 days to complete with 5% of cases taking 47 days or more.

Our new process now with MyPru, which we launched, like I said, in late 2018. And have rolled out to advisers as well, radically reduces this end-to-end time by 80%. And we have each claim now taking on average 3.5 days when it goes through and uses that technology. And that will improve even further when we get to the automation of payments, when we've moved those policies on to BaNCS, too.

I think in doing this, we've really dispelled the belief that heritage customers don't want to move to digital. It's simply not true. If you build good technology, they'll embrace it. And we design all of our customer journeys now with real customers, like David described. We test their needs, we get hands-on feedback, we build what really works. And to get digital take-up at these levels, of over 35% within five months. And this continues to rise with more advisers and more customers using it, it really shows us what I think our ambition for digital servicing can really look like. And with improved MyPru registration, we're getting swifter at moving more and more customers to this way of working.

Now we've also done a lot of transformation that isn't quite so digital and exciting but it's also absolutely vital. In looking at a lot of our propositions and how we modify them, a lot of our customers rely on paper and really trust us in our products. So it's really important we lean into those and we make a difference. I just thought I'd also share some of those.

Our proposition team has really being focusing on how we enhance a lot of the product features and how we improve those regular communications to make sure they're clearer than ever to our customers. Improvements to those propositions cover all aspects, including value for money, customer outcome improvements, updates to customer lifestyle profiles, strategic asset allocation changes and also additional product features that we build in. By the end of 2018, the modernization of our annual benefit statements will have improved communications to 1.7 million customers. Changes make the statement simpler, easier to understand, more engaging, more informative, charges even clearer. We have another 500,000 customers who'll get improved statements by the end of this year and a further 500,000 as part of our migration from that SALAS system to the new BaNCS platform.

We've also removed exit charges from over 1 million of our individual pension customers and also done a lot more of value for money, reducing charges for AVC customers. We've removed policy fees and fund reviews to make sure that customers are invested in the most appropriate and lower-cost funds wherever we can.

There's a lot more to come in the next 2.5 years, just when you thought it couldn't get any more exciting. But we're well on the way to the heritage transformation. And we've talked a lot about digital. And for us, that's about providing the 24x7 service that our customers really need and really want. The rationalization of our systems estate, I talked about, will result in the consolidation of our policy administration systems from 14 to 1 and move us to that industry-leading BaNCS platform.

Through our transformation and focus on customer journeys, we'll continue to see hopefully those increased improvements in customer satisfaction scores. And we'll also get more and more feedback and insight on how our service can get better and better, shaped by our customers for our customers.

And if we do that and if we move to this new infrastructure, you'll see continued improvements in our resilience in how we operate and how we trade ongoing.

Thank you for your time. But now for the highlight, I will hand to Clare to take us to the finance section.

Clare Jane Bousfield {BIO 16746072 <GO>}

Thank you, Roddy. As many of you will know, I'm Clare Bousfield, the M&GPrudential CFO. I'm going to complete today's formal presentation with the financials, as Roddy said, the piece that you've all been waiting for. The financials of a life company, particularly with-profits, are not the simplest. So please bear with me as I'd like to take the opportunity to walk you through this as simply and clearly as I can.

To set some context, I'm going to start with our key financial priorities. First and foremost, we'll run the company with capital discipline and efficiency whilst demonstrating financial resilience to all our stakeholders. We plan to provide our shareholders with an attractive return profile through a combination of sustainable dividends and long-term growth. As you've heard from David, Joffy and Will, we can see significant opportunities over time to grow our savings and asset management business in a capital-efficient way. And our heritage book generates a steady stream of cash to underpin dividends.

To be successful, we need to deliver our transformation program, improving customer outcomes and experience together with focusing on scalability and efficiency. These will be pivotal in our ability to compete and thrive in the future.

Now to what I'll cover. I'll show you our new segmentation and how it aligns the shape of the business as you've heard all about today. Then I'll provide you with an update of the merger and transformation program and I'll then move on to describe how our capitalization looks and the mechanics of how this will flow through to the day 1 balance sheet of the new M&GPrudential Group. And I'll also provide you with a preview of our capital management framework. At the next event, closer to the time of demerger, the focus will be on how we generate capital, how we think about deploying it together with our policy on dividends.

So to the segments. What you've seen in the past is a split between insurance and asset management. That makes sense in the days when you could think about the businesses as distinct. Today, we're simply focused on delivering great propositions and outcomes to our customers no matter which legal entity we do it in.

Our first operating segment, savings and asset management, is a key future growth engine of our business. This segment holds all of our propositions that are open to new customers from retail savings and asset management solutions through to our tailored solutions for institutional clients. You've heard from David, Joffy and Will as to why we're excited about the future growth prospects we see for each of those.

The second operating segment, heritage, is where we have business lines which are closed to new customers. The stable and sizable earnings are driven by the shareholder annuity and the traditional with-profit books. The heritage with-profit business is written within the same fund and the same asset pool as PruFund. This is denoted by the dotted box on the chart. The size of the With-Profits Fund benefits both the traditional with-profits and the PruFund customers, allowing the asset managers to invest in a diverse range of asset classes, as Jack described earlier.

The split of assets under management here gives you a sense of the relatives scales. The savings and asset management segment contributes almost GBP 200 billion of assets under management. The institutional and retail asset management subsegments of third-party assets under management together amounting to GBP 147 billion. The remaining GBP 51 billion is retail savings of which 85% is the PruFund. The heritage segment has GBP 123 billion of assets under management, around 70% of which is the with-profits business. Overall, this shows the diversity of the assets that we manage and the customers that we serve.

In terms of net flows, what you see for heritage is the pension payments we make to our annuity policyholders and the withdrawals from traditional with-profit policies. Within savings and asset management segment, the retail savings has been steadily very positive driven by the strength of our PruFund proposition.

The flows of retail asset management on the other hand are more sensitive to short-term relative performance and investor confidence. That generates a higher degree of volatility. At the end of 2018 and into 2019, investor confidence has been weak against the backdrop of various political uncertainties, including Brexit. This has caused cyclically negative flows. As Joffy explained earlier, we're confident of driving good growth over time through a number of new initiatives, including sub-advisory in Europe.

Flows in the institutional business demonstrate relatively lower volatility. As Will set out, they are long-tenured, sticky assets. Our clients have specific long-term goals usually linked to liabilities and are not sensitive to short-term market movements. Here, I'm excluding one mandate of GBP 6.5 billion which left us last year as we referred to in the 2018 results release. This was a very specific and temporary case. And being very low margin, will have limited impact on earnings. The historical flows demonstrate well the diversity of the underlying businesses in different economic conditions.

Moving to profitability. Here, you see a simple matrix of our adjusted operating profit with the rows showing you the segments and the sources of earnings along the top. The total adjusted operating profit of GBP 1.6 billion is materially the same as the segment profit shown in Prudential plc's 2018 results announcement. There are some small differences in definition and you'll find the details of those in the appendix.

Two other things to call out on this slide. Firstly, the corporate center line where you'll see a higher number here for 2019 and the future years as it will include the interest cost once the transfers of the debt for Prudential plc is completed and the cost as we build the infrastructure and capability needed for our new life as a public company.

The second item to mention here is the GBP 59 million loss in the other column for savings and asset management. The main driver of that is a GBP 56 million exceptional item related to one of our international life insurance operations which is not expected to recur in the future.

Turning to asset management. On the top left is the external assets under management for the retail and institutional book together with the internal assets we're managing for the savings and heritage businesses. These amounted to GBP 118 billion at the end of 2018.

The overall average fee margin, bottom left, encompasses both those internal and external assets under management. Fee margins have been quite stable thanks to the fact that we focused on higher-value services and bespoke solutions. On the right, you'll see the overall development of our revenues with expenses and resulting operating profit. The overall cost/income ratio has historically being in the late 50s. That compares favorably to our peers. But there's no doubt that we need to continue focusing on cost efficiency in order to remain competitive.

Moving to the retail savings piece of the savings and asset management segment, the part that David spoke about earlier. The majority of the assets and earnings are coming from PruFund. As he explained, having launched PruFolio earlier this year, we have the ambition to grow the breadth of our investment proposition in this space. The growth inflows and outflows demonstrate how the PruFund of smooth proposition has gone from strength to strength. The proposition is targeted at customers aged between 45 and 65. The early PruFund customers are starting to access their savings and enjoy the investment returns we've generated for them. As a result, the outflows are growing as the book matures alongside the inflows which remain very strong.

It's important to remember that we only recognize earnings on PruFund business when the customer accesses their money, whether it's regular or full withdrawal of their funds. As I explained in Singapore, the way it works is when a policyholder invests, we start to credit their account on a daily basis with the expected long-term growth rate. This gives policyholders a smooth return over time so long as the actual returns don't deviate outside of the predetermined corridors.

The earnings we'll generate -- we generate will be 1/9 of the investment return that we've generated for that customer but for the time that they take their money out. The cash is received and the earnings recognized at the same time. And both are therefore inherently back-end-loaded. That's why we have seen the profile of shareholder transfers growing quite significantly over the last few years and why there is significant future value not yet recognized.

The traditional with-profits book in the heritage segment is closed to new customers and so has negative flows. These have averaged around 6% of the assets under management per year. On the other hand, the investment returns generated over the last three years have more or less offset those flows, leaving the assets under management at around GBP 85 billion. These assets will not stay flat forever and they will decline over the long term. But the dynamic on the outflows and the investment returns means that we expect the runoff to be very gradual. Policyholder value on these policies is driven both by the bonuses credited over the life of the contract and by a terminal bonus when the monies are withdrawn.

As before, the shareholder transfer is simply 1/9 of the bonus credited. As the terminal bonus is the most significant element, there is also significant additional value yet to be recognized. Although there can be some ups and downs depending on the performance of the fund and the volume of policies maturing, we'd expect these shareholder transfers to remain relatively flat in line with recent history for the next decade at least. Over the very long term, they will decline as the book runs off.

One last element to explain on with-profits is hedging. We hedge across both PruFund and the traditional with-profits, aiming to reduce the equity market risk associated with the shareholder transfer. Although the returns being accrued to the policyholders are subject to smoothing in the With-Profits Fund, this is only true within normal levels of market volatility. More extreme scenarios can cause this smoothing to cease with the policyholder valuations thereby reduced or increased. And the shareholder would see their share of that market impact. We've put in place a relatively simple mechanism to mitigate this by structuring equity options to reduce downside risk at the expense of future upside. In addition to protecting the transfers, the program results in reduced capital requirements with the shareholder's solvency position by around 25% of the capital requirements in respect of the with-profits business.

We've used a broadly annual rolling program which aims to hedge transfers over the subsequent five years. Recently, the equity markets have been positive on average. We've seen losses as each tranche of the program comes to maturity. Conversely, if equity markets were to fall, the hedges would increase in value. Of course, as with any hedging strategy, there are trade-offs to consider. And we're currently assessing what we want to do post demerger, in terms of whether we continue with this program, do something different or simply let the current program run off.

Finally, I'll come to shareholder annuity and heritage earnings. The table shows you the drivers, some of which are more likely to recur than others. Roughly, the table is ordered with the more probable at the top. As common with annuity books and as you can see, some of these drivers can be quite large and they move around from year to year. Also recall that the numbers are impacted by the reinsurance of GBP 12 billion of liabilities to Rothesay in March 2018. The stable elements of the earnings are the investment return we've generated on the assets, not backing the policyholder liabilities; and the release of the margins on credit risk, mortality and expenses.

In the second row is asset trading and other optimization with some especially large numbers in 2016 and 2017 as we repositioned the book on the advent of Solvency II. The ability to generate these profits is driven by our private asset capability and market conditions.

Next, longevity, which has generated substantial positives in recent experience, as has been the case across the entire industry.

The last line I'll talk to here is the provision that we've put up for the FCA's review into annuities sold without advice. We've booked a total provision of GBP 400 million over 2016 and 2017 and our expectations remain that this will be sufficient. In 2018, the positive of GBP 166 million relates to an insurance recovery from our professional indemnity insurers in respect to this issue.

So focusing on longevity, the chart on the right shows you that including reinsurance transactions we have executed, we've seen around GBP 1 billion of positive earnings over the three years ended 2018. The left-hand chart shows you the major cause. The stark trend across the U.K. population is the deterioration in the rate of mortality improvement over the last half decade. There are a number of plausible reasons for this. But no definitive evidence that could confirm one theory or not. Some may be structural, for example, the reduced impact of cardiovascular improvement. But some, for example, the impacts of austerity or obesity may be more cyclical.

Why the population trends are not the only driver? We've been making substantial investments in technology, data quality and research to further improve our understanding of the dynamics, supporting us in forming our views on the future when we come to set our reserves. It's especially important since our book of annuitants has a different social economic makeup compared to the general population. Moreover, the emergence of enhanced annuity players resulted in our annuitants being typically healthier than the average as we chose not to enter that market.

For the future, we believe that ongoing research and continued improvements in data granularity, accuracy and analytical capabilities will be fundamental. It could well be that we see more releases as we move forward. But the selection of mortality assumptions will continue to be something which we take great care over.

Moving on to merger and transformation. As you know by now, this program is driving real improvements for our customers, both in terms of outcomes and in terms of the experience in dealing with us. It's also based on simplifying the way that we work, which creates cost benefits and reduces operational risk and improves our effectiveness.

We're very focused on driving a mentality of efficiency, scalability and simplicity right across our business and all the time with a focus on our customer. The program touches many areas. David explained how the digital transformation is powering the way we create new solutions for customers and positioning us for growth. And Roddy gave a number of examples of how the transformation is improving outcomes from reduced wait times to improved communications and at the same time, we incur significantly lower costs.

But these benefits go across the group, beyond the externally obvious ones. Take finance as an example. Here too a substantial investment in technology and modernization will generate tangible benefits, improving our insight, reducing risk, minimizing manual intervention and saving money.

You'll recall our 2017 announcement of a GBP 250 million investment for GBP 145 million of annual cost savings, both from a shareholder view. Here, you'll see what we're spending the money on and where the benefits are expected to emerge. On digitalization, we're investing heavily across a number of initiatives. And it's not only about the externally facing projects that we've spent much of today talking about, it's also substantial internal modernization and streamlining. The finance example I gave is one. But similar things are happening across HR risk and other areas. Outsourcing is another meaningful part of the project. And a large proportion of this relates to the new outsourcing agreement and legacy system migration project with TCS that Roddy explained to you.

And there are a large number of initiatives to improve the efficiency of our operating model. Just one example would be the project which we announced internally last month that is the significant reshaping and rationalization of our office location strategy across the U.K., which will save substantial real estate costs. The chart here shows you the savings which will flow through our cost base. Our cost base reflects both the cost borne by the shareholders and the policyholders.

And before you get your rulers out, what we're trying to do here is just give you an indication rather than a precise view. Starting from the 2017 cost base, which I've assumed will be inflated, I see it as a basic discipline that we need to be able to offset inflation as part of our business-as-usual efficiency. The transformation benefits reflect both the savings attributable to shareholders of GBP 145 million and the benefit to policyholders. This creates capacity for 2 upward pressures: The first is the creation of our head office and the building of the infrastructure we'll need as we demerge from the existing group.

The second is the investment in business growth. As you've heard earlier, we have ambitions for growth over the medium term. Our transformation program also aims to make the cost more variable and fixed. And so if our revenue ambitions didn't emerge, the associated costs should also not emerge.

On the right, you'll see the planned phasing of the run rate benefits, which pick up significantly this year after the initial investment phase and the heavy lifting associated with the demerger and then develop reasonably evenly from now out to 2022.

Now turning to solvency. I'll begin by focusing on the main insurance balance sheet, Prudential Assurance Company, or PAC. PAC can be thought about as 2 distinct parts, the shareholder balance sheet and the With-Profits fund. The 2 are separate. But they interact from a solvency point of view. There are 2 slides in your pack on this, one explaining in words how it works and the other showing it diagrammatically. I'm going to leave the diagram up on the screen to explain it with the other slide for reference.

The shareholder solvency ratio on the left is the primary focus for us in managing our capital position. It was 172% at the end of 2018 with own funds of GBP 8.8 billion and a solvency capital requirement of GBP 5.1 billion. Although the With-Profit fund is separate, the future cash transfers provide considerable value to the shareholders' fund. And the discounted value of those transfers are included within the shareholders' solvency position as an asset. Likewise, the capital requirement of GBP 5.1 billion reflects the underlying risks inherent in the shareholder transfers given the With-Profit fund is invested in a range of asset classes.

The middle column shows you the With-Profit fund in isolation. It has a very strong solvency ratio of 231% at the end of 2018, with GBP 9.6 billion of own funds. The future shareholder transfers of GBP 2.4 billion, which appears as an economic asset on the shareholder balance sheet, are a corresponding liability for the With-Profit fund.

There's one last view of solvency, the regulatory solvency ratio on the right. This takes a conservative view of the combined position of the shareholder and with-profit balance sheets. To arrive at it, the shareholder capital requirements of GBP 5.1 billion is added to the with-profit capital requirements of GBP 4.2 billion for a total of GBP 9.3 billion.

For the own funds, the GBP 8.8 billion from the shareholder balance sheet is taken into account. But the own funds from the with-profit side can only be taken into the extent of its capital requirements. In other words, only GBP 4.2 billion out of the total GBP 9.6 billion with-profit own funds can be counted. The exclusion of the other GBP 5.5 billion of capital results in a solvency ratio of 140%.

The ratios have some sensitivity to financial markets. But as you can see here, they're quite resilient. The shareholder view is on the left and the regulatory view is on the right. These sensitivities are all typically what we expect to happen in markets once in every 25 years.

A full letter downgrade across 30% of our credit portfolio is the most impactful, reflecting the credit exposure within our annuity portfolio, although this is still very manageable. As I explained before, the regulatory solvency ratio is lower than the shareholder ratio. But as you can see on the right, the sensitivities are lower in terms of percentage point change. That's essentially due to the higher denominator.

In adverse conditions, the regulatory solvency ratio will fall slower than the shareholder solvency ratio. However, both will arrive at 100% at the same point in time.

So that wraps up the solvency position of PAC. But how will the new M&GPrudential group look post-demerger? The emerging group view of capitalization will also be Solvency II-based due to the size of PAC within it. Simplistically, the own funds and capital requirements will be the sum of PAC plus M&G and the other minor entities. PAC will be the dominant part. And for this reason, you can expect the group solvency ratio to be similar to PAC's prior to demerger.

Then at the time of demerger itself, M&GPrudential will assume its share of Prudential's overall debt. This will flow in and count as solvency capital. In return, M&GPrudential will pay to Prudential plc a pre-demerger dividend in order to bring the solvency back down to the target level. We will confirm the exact magnitude of these numbers closer to the time of demerger.

Let me finish by giving you a preview of our future capital management framework. And as I said, I'll be going much deeper into this next time. The IFRS view, which I've explained to you today, is an important view. But for us, it's also crucial to understand how our business performance translates into capital generation and ultimately, cash and remittances. Simplifying a little, there are 2 main entities underlying the new group, which are on the insurance side, PAC, as we've discussed before; and M&G.

For M&G, assuming capital requirements do not change, the amount it can distribute is broadly its after-tax earnings. For PAC, in normal circumstances, the constraint on the remittance is Solvency II-related. And I've illustrated in a simple way on this slide how the generation of Solvency II capital differs from IFRS earnings.

Next time, we'll deep dive more into this with some numbers. And we'll give you regular disclosure post-demerger so you can track us against it because for us, this is an absolutely fundamental measure.

I expect you'll then ask me, does that mean the end of embedded value? Yes. We'll be dropping the embedded value disclosure. We feel that publishing 2 frameworks which are conceptually similar just adds complexity rather than insight. We'd rather focus on the measure, which is actually the binding constraint and provides a good economic insight into our business with the commitment to give you helpful disclosure.

The translation of this through to the holding company cash is then relatively straightforward. We would typically intend to take most of the capital generated each year for both entities to the parent subject to a number of factors, including adequate capitalization. Parent company cash generation will be the sum of these 2 dividends less holding company overheads and debt interest cost after tax. The resulting number is a key measure because that is really the tangible money that could be deployed relatively freely. Those elements will be the key ones which flow into our overall management of capital.

To wrap up, we will closely and proactively manage this balance sheet with a focus on capital generation and how best to deploy it. We'll be disciplined. And if we have no value-creative opportunities, we're committed to returning any excess created over time so long as our key financial metrics around solvency, leverage and liquidity are in line with our appetite.

We're continuing to drive transformation across the group to improve customer experience, enable growth and capture efficiencies. And we're on track to deliver. Through a combination of these, we feel confident of producing an attractive balance sheet, balance of dividends and growth for our future shareholders.

Now let me hand back to John to conclude.

John William Foley {BIO 4239156 <GO>}

Thank you, Clare. So before we move to Q&A, I just want to sum up very briefly. I hope today has given you a good insight to M&GPrudential, how we have a unique and compelling business mix, combining diversified asset management with the capital strengths of our heritage business. We have shown that we have a coherent and focused strategy to grow our savings and asset management business by scaling and broadening our diversified range of savings and investment solutions, leveraging our international footprint and with our customary discipline on capital and how our strategy is supported by major structural changes in society in all our chosen markets. We have demonstrated how transformation is reinvigorating our business and how we will continue to optimize our heritage business by improving customer outcomes, creating efficiencies and maximizing cash flow.

We have shown too that we have a track record for successful growth over the past 20 years, building new savings and investment franchises from scratch and always with the interest of our customers front and center of all we do because caring for the customer is not only the right thing to do. But also makes good commercial sense.

And finally, I believe we have shown that demerger gives us both opportunity and means to become truly international leader in savings and investments, meeting customer needs, creating opportunities for our colleagues and delivering long-term growth and attractive returns for shareholders. Thank you.

Spencer, I'm going to throw it.

Spencer Horgan {BIO 4241901 <GO>}

Yes, I'm glad I'm a terrible catch. So we'll just take a half an hour break now, if we can, to allow us to set the stage and give you a chance for a cup of coffee. And then we'll come back for the Q&A session. Thank you.

(Break)

Questions And Answers

A - Spencer Horgan {BIO 4241901 <GO>}

Ready. Let's begin the Q&A session. So if you would like to ask a question -- wait a minute, Greig. If you'd like to ask a question, please raise your hand. You'll actually see there's microphones in the seat pocket in front of you, which if you could please take the microphone out and press the button so that the people on the webcast can hear you. Obviously, please do wait for me to indicate to you because if you all get on the microphones at the same time, it will be a big mess. If when you ask the questions, you can state your name and organization, again, for the website. Then also to give everybody a fair chance, if we could keep it to 2 questions at a time, please, the 2 questions including subquestions of the same question.

With that, who's first? I think -- I mean in fairness, Greig, you were well out of (inaudible). Press the button. That's it. Yes, go on. Just go for it.

Q - Greig N. Paterson {BIO 6587493 <GO>}

Greig Paterson, KBW. I'll keep it to 2 questions. I do have many. But the one is credit events, which spends are very low. Currently, the PRA is doing a credit stress test currently on potential risks to the industry. You provide -- in your Solvency II sensitivities, you provide a sensitivity about -- of higher spreads and a sensitivity on downgrades. But in reality, it's the combination of those 2, which has a compounding impact. And I suspect would be quite dramatically higher, the hit to your Solvency II on that. I wonder if you want to talk about the combination of downgrades and widening spreads and the impact on Solvency II.

The second question is when you look at your asset management -- are we allowed 2 questions? Just the one? Yes?

A - Spencer Horgan {BIO 4241901 <GO>}

Yes, go on.

Q - Greig N. Paterson {BIO 6587493 <GO>}

And the second one is when you look at your asset management performance on a 1-year view, I think it's on Slide 39. And in the footnote, the performance of -- dramatic drop in the performance fees, it appears to me that your 1-year performance has deteriorated quite materially and that will have a knock-on impact on the 3-year going forward and pull it down. Isn't that a concern in terms of won't that hit the account cash flows quite hard going forwards?

A - John William Foley {BIO 4239156 <GO>}

Okay. Thank you, Greig. I mean -- so Jack, do you want to take the second one first?

A - Jonathan Daniels {BIO 4311715 <GO>}

Yes, okay. If we look at the performance, it's true that the 1-year performance numbers, which relates to -- specifically to the mutual funds side of the business, I mean the performance in other areas, PruFund and the institutional side of the business is still strong. But yes, the 1-year numbers deteriorated. But the mutual funds, we take a medium-term view of our performance and we've been quite consistent in saying that, which is why we produce the 3-year numbers. We think they're the most relevant.

If you take -- if you look back over the last 10 or 15 years, we've had periods before where short-term performance has been less than ideal or less than -- less good than we would want it to. But we think our approach to investing and our fundamental beliefs around investing have shown the test of time. And we're not going to suddenly jettison that approach. We clearly monitor it. We -- it's important. And I think those numbers as well were particularly impacted by the performance in markets towards the end of last year. They're end of 2018 numbers and there was a -- if you remember that during December, particularly, a very severe risk off reaction from markets. And I think in terms of our positioning, we were more positioned as risk-on at that particular time. But as I say, I think it's important to focus on performance over the medium term rather than the short term.

A - John William Foley {BIO 4239156 <GO>}

Yes, I mean that is impactful. And to your point, Greig, 1-year performance is impactful for the European market. But we've been in this position before and it comes back once the trends change. So we will expect that to happen again. Clare, do you want to take the first one?

A - Clare Jane Bousfield {BIO 16746072 <GO>}

Yes. So Greig, on your question on the sensitivities and the overall portfolio. So we're very comfortable with the overall credit strength of the overall portfolio. If you look at the analysis that Jack showed earlier on in terms of just the average credit rating. But also the security behind the portfolio is very strong. In terms of the stresses that we show, yes, we -- absolutely, we show the impact of downgrades in terms of the stress. And that is very manageable. We're very comfortable in terms of the overall credit portfolio. And I'm aware of the PRA stress test. Obviously, that's something that we need to look at and work with that with the PRA.

A - Spencer Horgan {BIO 4241901 <GO>}

Somebody over this side of the room, Jon?

Q - Jonathan Michael Hocking

Jon Hocking from Morgan Stanley. Two questions, please. Firstly on the fee margin slide you put up. Can you talk a little bit about what the fees are in the internal book versus the internal -- the external book and what the mix impact has been on that sort of trend over time? So is the fee margin going up a function of the external assets growing relative to internal? Or is it actually high revenue strategies?

Then secondly, I think somebody mentioned looking at smooth returns in Europe. So would that be sort of euro version of the With-Profit fund? Or would it be using the techniques you've got in multiasset to build more like a GARS-type product?

A - John William Foley {BIO 4239156 <GO>}

Thanks, Jon. Jack, do you want to talk about the fees and then maybe David on PruFund?

A - Jonathan Daniels {BIO 4311715 <GO>}

Yes. The resilience of the fees is down to the mix of the assets really and I think it's this focus on solutions, on private assets and the shift really in that direction. So that's why we've managed to maintain margins. We don't split out the difference between internal and external. But you can be sure that the internal client gets institutional rates with the appropriate discount for scale and captivity. So although we don't split it out, you can assume that's the level of fees that you'd expect to see in that portion of the book.

A - David Macmillan {BIO 16195004 <GO>}

Yes. And on the second point around PruFund, it's actually we are looking at whether we can take PruFund as a construct to Europe.

A - Spencer Horgan {BIO 4241901 <GO>}

Johnny?

Q - Johnny Vo {BIO 5509843 <GO>}

Johnny Vo from Goldman Sachs. Just the first question. I mean if you take PruFund to Europe, how does the regulator feel about you smoothing European policyholders? And how would this be impacted post-Brexit? That's the first question.

The second question is just on the regulatory view of solvency. Given that it's substantially lower, does it mean that distributions can't exceed the capital generation because you'll effectively eat away at the solvency position of the regulatory view?

A - John William Foley {BIO 4239156 <GO>}

So on the PruFund in Europe, I mean these are conversations we're just starting to have. The regulatory environment in Europe is pro this. We've had conversations with EIOPA. And they've been going on sometime. We need to work through the detail. Fundamentally, it's something that the Europeans have said to us in a variety of jurisdictions that they want. So as we said earlier on in the presentation, it's about execution. Demerger will -- once we get through that whole process, we will be able to crack on with some of this stuff. But at the moment, we see no impediment to PruFund in Europe. Clare, the second one?

A - Clare Jane Bousfield {BIO 16746072 <GO>}

So I'm not sure I totally understand your question, Johnny, on the regulatory solvency rate. The regulatory solvency ratio and the shareholder solvency ratio are fundamentally the same. As I said, they both -- they'll both converge to the same point. So certainly, the regulatory solvency ratio doesn't cause any kind of constraint over and above the shareholder solvency ratio from a capital generation or dividend perspective.

Q - Johnny Vo {BIO 5509843 <GO>}

Just if you were to take out a bit and then pay it out, then the regulatory solvency position would fall and the -- how low can you go on that? Does that limit your ability to continue to pay out above your generation?

A - Clare Jane Bousfield {BIO 16746072 <GO>}

So all of our risk appetite and all of our capital management framework is based off the shareholder solvency ratio. And because effectively the regulatory one is just a function of how big the denominator is, there's no additional constraint as a result of the regulatory solvency ratio.

A - Spencer Horgan {BIO 4241901 <GO>}

Ashik?

Q - Ashik Musaddi {BIO 15847584 <GO>}

Ashik Musaddi from JPMorgan. Just a couple of questions, one on asset management. I mean you flagged about GBP 60 billion of private assets basically in the asset management out of GBP 320 billion. Is it possible to get some color as to how much of that is institutional money? How much is retail money? I mean the reason I'm asking this is there's a lot of noise in the market about the private debt, illiquid assets and some funds getting closed, et cetera. So just on the back of it.

Secondly, there was slide where I noticed that you have about 30% of your shareholder assets in private assets as well for the annuities business. Any clarity on what those assets are would be great.

A - John William Foley {BIO 4239156 <GO>}

Joffy, would you get that one?

A - Jonathan Willcocks {BIO 20855266 <GO>}

Well if I begin on the private book of GBP 57 billion, that's institutional clients who invest in those private assets across a broad spectrum, all the different strategies that Will referred to earlier. So it's entirely institutional. Some of the retail -- sorry, some of the real estate private assets are also held by retail customers through a U.K. property fund that we have.

Clearly, over the long term, we'll look to try and invest, while invest to mix. But I think it's very important to separate out the question that you've asked about retail customers having exposure to private assets and the issues about liquidity and mutual funds today. Jack looks at this stuff all the time through the -- whereas we monitor this on a regular monthly basis exactly how much unquoted or unlisted stocks that we have. And we have 0. We do not invest in unlisted or unquoted stocks in our mutual funds. If we have 1 or 2 stocks that may have been written down to 0, gone bust, effectively, then you effectively would own that or carry that weighting in the portfolio of 0.00 to 1%. But as a principle, we don't put unquoted or unlisted stocks into our mutual funds, which are sold to retail customers.

A - John William Foley {BIO 4239156 <GO>}

The other one, Jack, was on the annuity book specifically and whether we can say anything in terms of the...

A - Jonathan Daniels {BIO 4311715 <GO>}

I mean the annuity book, I mean just going from what Joffy said, if you take the private assets, a number of them are either institutional mandates or they're in the annuity book or the With-Profits Fund. And there's a sort of usual range. We don't split it out in any detail. But there's the usual range of private assets that you'd expect to see in a portfolio of that type. So they're private loans and they're mostly secured. And you've seen the analysis on credit quality there, the portfolio overall, including the private assets are strong credit quality.

A - Spencer Horgan {BIO 4241901 <GO>}

Oliver?

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

Oliver Steel, Deutsche Bank. Two questions on PruFund. The first is you talked about crediting customers for the long-term investment return within a certain corridor. Can you talk about what that corridor is?

And I suppose the question I've got behind that is that unlike the old with-profit sort of bonuses where you had a reversionary bonus and a terminal bonus, presumably this crediting rate that you're giving does actually apply a legal liability. So then what happens if there is some sort of market event to that with-profits -- to the With-Profits fund assets and liabilities?

The second question is the PruFund has delivered very good returns in the past. To what extent are those returns being used in the marketing of that PruFund to new customers?

A - David Macmillan {BIO 16195004 <GO>}

I can take the last part. Interestingly, if you go and study how PruFund is sold as an advised product, because remember, we don't offer it without advice, the smoothing is by far the biggest sales angle. Naturally, an adviser will reflect on the long-term performance of that fund as would be their rate and their professional responsibility. But in marketing terms, we ourselves don't market it on that basis.

A - Clare Jane Bousfield {BIO 16746072 <GO>}

So on the -- in terms of the way the mechanism works, it depends on the risk profile of the actual sub-fund in terms of PruFund. So the higher-risk elements like the PruFund Growth has typically got a corridor of plus or minus 5%, which it operates within. Something like the Cautious fund, which is obviously the lower-risk fund, has got a smaller corridor. I think it's 3%, could be 2%. But it's around about that sort of level in terms of the corridor.

If the markets and the return operates within that, then effectively, that doesn't result in any price adjustment. If it doesn't and it triggers outside of that, then there is a price adjustment. And we've had a number over the last 5 to six years, as I said, something of the order of 14, 15, they've typically been upwards adjustments, not downward adjustments in terms of where it goes. And yes, fundamentally, the customer is entitled to effectively that daily crediting in terms of the amount of the return. But that price adjustment allows you to effectively have an adjustment for any kind of market volatility.

A - Spencer Horgan {BIO 4241901 <GO>}

And if you look at Slide 31, actually you can go see it, where Jack showed you the performance of the PruFund over time and you can see those little chinks in the line there, which are the price adjustments Clare was talking about.

A - Jonathan Daniels {BIO 4311715 <GO>}

So that line is a smooth PruFund return after fees.

A - Clare Jane Bousfield {BIO 16746072 <GO>}

And you had another question, Oliver. But I'm afraid I completely forgot. There was a third piece.

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

It was covered.

A - Spencer Horgan {BIO 4241901 <GO>}

Andrew?

Q - Andrew Baker {BIO 20402705 <GO>}

Andrew Baker, Citi. Two questions, please. The first one on the internal assets. I think about 65% to 70% are managed by M&G right now and with the balance looking like it's other Prudential plc asset managers. Post-demerger, is there any opportunity to recapture any of those other assets? Is that in the plans or not?

Then secondly, just on the annuity book. Obviously, you sold down some last year. Are you happy with the size of that book right now and how it fits with your other segments? Or is that something you'll continue to review going forward?

A - John William Foley {BIO 4239156 <GO>}

So as far as the external managers, or in the case of Prudential plc, internal managers, are concerned on the life fund, I mean we go through a rigorous process of management selection and determining how well the management of those funds is performing. That goes through a sort of separate sort of corporate process. So it goes through the With-Profit Committee and the PAC Board. So it is sort of at arm's length. And candidly, over time, it's up to us to determine whether or not those assets are being managed appropriately. So that's -- so we'll see is the answer. But there are certainly no plans to do that at this stage.

The second question was around annuities. Look, how will I say? We have a very strong capability to operate the annuity portfolio successfully. It's a pretty chunky book and I think we manage it pretty well. It throws off good earnings and that's a substantial underpin for our business as we go forward. And it's going to run off over a long period of time. So we will continue to be a scale operator.

The other thing is it does give us crossover benefits, as we've tried to convey to you today. That as we evolve asset strategies around whether it's the annuity book or the with-profit book, this is expertise that we can then sell to third parties. And it's very important that we continue to do that because we've been doing it for a number of years, which, again, is the point we tried to convey in the presentations.

Having said all of that, we like to keep our options open and we will continue to keep our options open. So maybe to some of the questions you'll ask today, I'll say never say never.

A - Spencer Horgan {BIO 4241901 <GO>}

One from over this side. Yes, Gordon? Yes. It should be in the chair in front of you. Give it a good yank. Or you can just shout if you want. Just shout, Gordon, you'll be all right.

Q - Gordon Aitken {BIO 3846728 <GO>}

Gordon Aitken from RBC. So 3 questions. One, first on with-profits. I mean if you go back -- and I hear the sort of chat on corridors and crediting rates. If we go back sort of 20 years, how companies talked to us about what they're paying out to policyholders was, how they paid out versus asset shares. So maybe you can just tell us what you're paying out relative to asset share in, say, each of the last 5 -- three years or five years or whatever.

And second on the annuity side and the mortality. Just can you -- and I remember from a long time ago that you used to write annuities out of the With-Profit fund. So you can just set out of the annuities, how much sits in the With-Profit Fund and how much sits in the shareholder funds.

And just to finish off on mortality. Can you just remind us why the GBP 441 million was such a big number last year? I mean it was -- I think it was 9% of the group profit and I think a lot more than any of us had expected. And when you do move to the '18 table -- because, I mean the '18 table, you're talking about a 6-month reduction in life expectancy, which is by far and away the biggest reduction ever. Presumably, that's going to result in a very large release. What would you plan to do with that?

A - Clare Jane Bousfield {BIO 16746072 <GO>}

So I'm going to start with annuities, if that's all right. And I might need reminding what the other questions were before we get to them. But on -- so on annuities, in terms of the kind of long-term trend. So there were 2 big drivers behind the release last year. Firstly, it was effectively the trend around improvements. Historically, what we've taken a position of is until we are comfortable and we can see that trend, we haven't released longevity reserves.

So as part of that, what we saw last year was not only effectively the updated CMI table. But also some mortality improvements from a base perspective. And the combination of those 2 resulted in the GBP 441 million release.

The other piece that's important on the CMI tables is the CMI tables now, they're not just a default table that you just apply to your mortality assumptions. They're actually calibrated based off your own experience. So therefore, it's actually quite difficult to just say I'll take CMI '18 and I can just apply it and therefore say it translates into X number. The range of different outcomes is quite broad. So I know I've seen some reports saying that the CMI '18 produces quite a large number. That depends on the way that we calibrate in terms of the outcome. So it's not just a straight outcome.

And I'm going to get back to the previous questions.

A - Spencer Horgan {BIO 4241901 <GO>}

He was asking on annuities (inaudible) with-profits. How much share with-profits comes from the -- how much annuities are written from with-profits as opposed to shareholders?

A - Clare Jane Bousfield {BIO 16746072 <GO>}

So we'll have to get you the exact number. But it's of the order of -- there's around between GBP 10 billion and GBP 15 billion of annuities that's within the With-Profit Fund. And I think there was a -- the first question on with-profits. Can you remind...

A - Spencer Horgan {BIO 4241901 <GO>}

The first one was if you go back 20 years and you look at the PruFund, effectively, what's the payout of PruFund relative to asset share?

A - Clare Jane Bousfield {BIO 16746072 <GO>}

So typically, what we've been paying out is around about asset share. So in a good year, that means that typically we're paying out a little bit more than asset share. And in a bad year, we're paying out a little bit less than asset share. But historically, that's what we've been paying out over the last few years.

A - Spencer Horgan {BIO 4241901 <GO>}

Yes. Over here, please. I'll leave you 2 to decide which one takes the mic.

Q - Andrew Sinclair {BIO 17749036 <GO>}

It's Andrew Sinclair from BofA Merrill Lynch. Two for me, please. So firstly, going back to annuity volumes. I mean you've talked a little about potential for bolting off elements. But on the other side, do you have any interest in restarting your sales franchise for annuities or doing more DBD risk in transactions there?

And secondly is moving on to the digital platform that you've talked a bit about. I just want to know a bit more about your aspirations here beyond enabling PruFund. And where are you positioned in the realms of platforms? Is it more the Emirates or Ryanair end of the platform space?

A - David Macmillan {BIO 16195004 <GO>}

Why do I always get the Ryanair question?

A - John William Foley {BIO 4239156 <GO>}

Prepare to take the second one. But as for the first one, look, I might say -- I might never say never. But it's very unlikely we'll ever start writing annuities from scratch again. I mean when I first took over the U.K. insurance business, it seemed that it wasn't appropriate. There are other things we could do with our capital. The fact is that we own a big annuity book and we've reduced the size of that book and we feel very comfortable with the current level of annuities that we have in the overall proposition that is M&GPrudential. That could change. But it's very unlikely to change.

A - David Macmillan {BIO 16195004 <GO>}

Yes, my one's easy then. It's not Ryanair, if that helps. I'll back that up there. Clearly, on the basis of the presentation I gave, if you focused on frankly customer care and experience and control in that value chain and in particular controlling pricing and margin, we are very focused on delivering a quality platform to advisers and customers, where we're adding value as a proprietary manufacturer. We're not interested in being an open architecture bucket shop.

A - Spencer Horgan {BIO 4241901 <GO>}

Yes, please?

Q - Ming Zhu {BIO 17001429 <GO>}

Ming Zhu from Panmure Gordon. Just 2 questions, please. Your PruFund and GBP 43 billion. What sort of size would you have to get to before you reach the scale issue? Now the reason I'm asking is that you're also -- you've just launched the PruFolio. So that remind me many years ago when Standard Life sort of launched their MyFolio when the GARS reached a certain size and -- or the floor. They sort of ran into problems on that. So I'm just want to know the scale on the PruFund.

And my second question is your solvency ratio. What sort of range? Do you have a comfort range that you will be comfortable on in terms of with respect to any dividend going forward?

A - Jonathan Daniels {BIO 4311715 <GO>}

So if we talk about PruFund and our capacity. We've been GBP 12 billion last year. We had no issues with that sort of volume at all. So we think we can accommodate significant flows, even higher flows than that without having capacity issues. I think with the new PruFolio range, the majority of those, the investment is -- it down to, as much as anything, to the strategic asset allocation in the mix. And most of the assets in there, as we said, are liquid. And so we feel the important thing is to get the strategic asset allocation right on those propositions. And so we feel that the current and expected levels of flows, that we can deal with them quite comfortably.

A - Clare Jane Bousfield {BIO 16746072 <GO>}

So on the solvency ratio, the guidance we put out was that the solvency ratio at demerger would be at or around 170%. We're comfortable that, that is a fair reflection of the underlying risks on the balance sheet. Obviously, as part of the event that we've talked about, I'll go into a bit more detail around capital generation and the capital framework.

A - Spencer Horgan {BIO 4241901 <GO>}

Dominic, at the back there?

Q - Dominic Alexander O'Mahony

Dom O'Mahony, Exane BNP Paribas. Two questions for me. The first is back to PruFund. Thinking more operationally, it's done phenomenally well in the U.K. I can see the attractiveness of bringing that product to other markets in Europe. If I were your competitors here or on the continent, I'd be very jealous and I'd be thinking maybe I should do this as well. Could you just help us understand the barriers to entry that you see there? Why, for instance, haven't the other very large with-profits funds in the U.K. reopened to replicate that product? Or indeed, why have they not been successful in doing so?

And the second question is just on the capital generation from this. So you very clearly explained that both the PruFund, there's a back-end loading of the earnings; from a capital generation perspective, I suspect it's slightly different. I wonder if you might be able to explain that. And presumably the same is true for traditional with-profits as well, where the final bonus is asymmetric to the regular bonuses. Is, for instance, the capital generation more evenly distributed over the lifetime?

A - John William Foley {BIO 4239156 <GO>}

I'll take the second one. I mean so the situation with PruFund and the competitive environment around it has been around for quite some time. And we're not going to comment on what the competitors have done or tried to do. The fact is this is a big fund. And to get this level of performance, it needs to be well established and be very large and have been managed very well for a very long time. To replicate that is very, very difficult. And I think we're all sitting here really quite smug that we actually have this product line in our portfolio. So I don't really want to -- people will be trying to do that, smooth returns and so on. But I think it's very tough to break into that. And I think the barriers to entry are -- my view is they're quite high. And it's been proven to be quite high because people have been trying. And we don't see that there's been much traction.

A - Clare Jane Bousfield {BIO 16746072 <GO>}

Yes. So on the capital generation for the with-profits book, yes, the earnings profile is different. It's effectively -- from a Solvency II perspective, it's the discounted value of the shareholder transfers. And the earnings is based off risk-free. Obviously, the reality is real returns are. So although it's got a different profile, it's also undervalued in terms of how the own funds are on the balance sheet. And I'll go into a bit more detail on that next time.

A - Spencer Horgan {BIO 4241901 <GO>}

Andrew?

Q - Andrew John Crean {BIO 16513202 <GO>}

It's Andrew Crean, Autonomous. A couple of questions. You were talking about PruFund being back-end loaded. Is it possible to give us a sense of the future growth of the transfers from PruFund even if it didn't sell any more product just as the bonuses accrued and ran through? And perhaps as part of that, you said I think that the with-profits -- the legacy with-profits book would be flat over the next 10 years. But if you included some payment of the inherited estate, what would that look like?

Then the second question, more general. I mean you presented a company which, on the one hand, you're looking at growth coming out of the investment management business and partly out of PruFund. And on the other hand, you want to retain the capital and the cash earnings from legacy books in both the annuity and the with-profit. What are you pitching yourself as? What peers are you trying to pull yourself against? Because at one level, you sort of seem to be an asset manager. On the other hand, you seem to be Phoenix or even Reassure.

A - John William Foley {BIO 4239156 <GO>}

Thank you for that question. So what are we pitching as? I think the pitch we've tried to convey today is that we are about asset management with a balance sheet. We have a heritage business that candidly, we could -- if we wanted to be a pure something, like a pure asset manager, we could sell the heritage business. But the crossover between the 2, I mean I've worked in M&G for the first 11 years of my career. And all I saw was the capability of both the life fund and the M&G guys to create more value for both sides of the house. So we actually did. And we launched a lot of product out of M&G in that early period where we -- because the life fund wanted that type of return and those types of assets. So I get told off for calling it a symbiotic relationship. But it actually is. And it works very well. And what price would you put on PruFund? I mean we've just had questions about is it -- it's -- people want to replicate it. I mean you could come up with a numerical number. But then what does it help build across the piece?

So we are very comfortable with this portfolio of businesses. We think it will help us to grow. And we've talked about that at length. So in terms of where we're -- who we look like and who our peers might be, I guess that's probably more for you to determine. But when we've done the analysis around all of this, because we're demerging. So we've obviously looked at this with a number of advisers, we can't find anybody who looks like us, is the honest answer. There are people who are at the edges. But they're not the same as us. And we quite like the way we're set up.

A - Clare Jane Bousfield {BIO 16746072 <GO>}

And on your question on PruFund. So in Singapore, there's a chart in the slides that I showed that basically shows you the projection of the underlying traditional with-profits business over the next 10 years. And if you're -- that chart basically shows it's broadly flat. And I think from memory, Andrew, that the chart also shows the PruFund by showing the existing business and then an assumption around new business. I think those 2 components are actually shown separately.

You're absolutely right, they basically assume that there is no distribution of the excess or the estate in terms of the With-Profit Fund. The With-Profit Fund is very strong. And actually, that is the one of the key reasons that other companies will find it difficult to replicate it because in a lot of other companies, actually, they went through an attribution of their estate.

So I can tell you, if we go through that process, then we're going to lose some of the crown jewels in terms of what we have. But would we look to basically provide customers with enhanced bonus rates, recognizing the strength of the fund but over a very conservative and smooth basis? Absolutely, that's part of our job in terms of managing the With-Profit Fund.

Q - Andrew John Crean {BIO 16513202 <GO>}

(inaudible)

I suggest you get the ruler out.

A - Spencer Horgan {BIO 4241901 <GO>}

Oliver? I was trying to think if somebody hadn't asked a question already. But Oliver, go on.

Q - Oliver George Nigel Steel {BIO 6068696 <GO>}

Oliver Steel. Can I follow up on the question about the scale limitations of the PruFund? Because you answered it in the form of flows. And actually, it seems to me there's more of a scale question mark in terms of the balance sheet and the sort of the extra protection that is provided by the back book, by the traditional With-Profit Fund. There must be -- you're up at GBP 43 billion of PruFund against whatever it is, GBP 100 billion of total With-Profits Fund. There must be a point where that PruFund cannot offer the same degree of protection as it does at the moment.

A - Clare Jane Bousfield {BIO 16746072 <GO>}

Well one thing I think is important here is that the PruFund is managed with one -- within one asset pool that effectively reflects both some -- the traditional with-profits and the PruFund. So there isn't a separate ring fence of assets that basically just relate to the PruFund. It's managed within one fund. Then in order to create the different risk profiles, what you do is take an element of that fund and then with other -- with different asset allocation.

So it's not the -- any constraint on it would either come from a capital perspective in terms of the With-Profit Fund. As a GBP 10 billion estate, there's a long way we can go before that estate gets nearer. Or it's to potentially the size of assets that you get into. And we've been able to demonstrate that we can actually utilize that to invest in very sizable assets because just of the size of it in terms of how we're managing it.

So we can't see any constraint out there that's going to reduce the opportunity in terms of the volumes out there in the market, both in terms of international growth or from a U.K. perspective. But don't think about the PruFund as being a separate ring fence. It's not. It's one asset pool within that With-Profit Fund.

A - Spencer Horgan {BIO 4241901 <GO>}

Abid?

Q - Abid Hussain {BIO 20229932 <GO>}

It's Abid Hussain from CrÃ©dit Suisse. Just 2 questions if I can. Firstly, just coming back to PruFund, just the potential misselling risk there given that it's expanding at a rapid rate and the checkered history that we have had with the profit funds in the U.K. in particular and also in Europe as well. So just sort of what's the control environment around the sales process for PruFund?

Then secondly, can you just give us an update on the pattern of transfer, how that's progressing?

A - David Macmillan {BIO 16195004 <GO>}

Yes, I can take the first one. I think I mean having lived through the previous with-profits moment, PruFund is fundamentally not like a traditional product. But if you ask about the way it's sold and the way it's marketed, we don't market and sell it direct. You have to take full financial advice. And whether that's a third-party intermediary or our own in-house financial advisers, they go through rigorous training and assessment, second-, third-line audit that annually. Because it's not just a question of with-profit traditional versus PruFund. It's fundamental the regime we live in now, in ensuring that any fund attains a suitability for the client.

A - John William Foley {BIO 4239156 <GO>}

As far as the Part VII is concerned. So that's been through the court process. The court is now adjourned. And we are waiting for the judge to give his opinion. So that should be coming, we understand, I don't know, seven days, 10 days, I don't know. We don't control that process.

A - Spencer Horgan {BIO 4241901 <GO>}

Yes. If there's...

Q - David White {BIO 18631985 <GO>}

David here -- David White here from Santander. I would like to understand bit more on product innovation. What are you doing for newer or younger customers? Is that a target market for you? And will you be using your digital channels to reach them?

And just another subpart of that is for investment trust, closed-end funds, is that a market you -- I know you have 1 or 2. But is that something of scale that you're looking at?

A - Spencer Horgan {BIO 4241901 <GO>}

I think either David or Joffy could answer that one. Why don't you go, David and thenâ€¦

A - David Macmillan {BIO 16195004 <GO>}

Yes. We're desperate for younger customers just in case the book dies off on us. We have up until -- generally up until recently, we have not sought to target below probably the age of 50 for obvious reasons because we're heavily retail pensions drawdown. But research has told us for years the demand for smoothing at the lower age bands and an accumulation of even in an ISA wrapper is high. But if you said to me, are they likely to want to pay for advice or seek advice to do that? The answer is no, they don't. And so one of the things that we are genuinely working on right now is how do we deliver through digital channels. With the guidance I described earlier, a safe and secure route for someone, frankly, to invest directly into PruFund or equivalent.

A - Jonathan Willcocks {BIO 20855266 <GO>}

And I can pick up the second point, in terms of asset management. If you look at the ONS statistics from the U.K., which was printed by the government in 2015, 83% of the investable wealth in the U.K. is owned by those aged 45 and above. So naturally, asset management as a whole has a fiduciary responsibility to look after that bulk of assets owned by those looking towards who are retiring or beyond retirement. So that sort of backs up David's point. But essentially, when you think about what we're trying to do, we also need absolutely to connect to that younger generation. And it goes back to what I've talked about in my presentation. So I'm trying to peer round behind the flowers here. So I'll step forward a bit so the hay fever doesn't kick in.

So from a perspective connected to younger investor, investing for good, not just invest to generate returns but making the world a better place is a really important connection point. And we've talked about the fact that we're spending a lot of time last 3 or four years building products in ESG space, sustainable space, to try and connect investors who want to, as I said, generate long-term savings and wealth but also importantly, connect to making the world a better place. And I think that's really, really important. So absolutely on constantly evolving, talking to customers, evolving our product lineup in conjunction with the feedback that we get from our customers.

You had a third question, which is about investment trust. And I think a great, great example is something that we launched last year. And Will was the brainchild behind that. So maybe I could hand that one over to you.

A - William Nicoll {BIO 2031697 <GO>}

So yes, investment trusts, I mean yes, the answer always when you launch an investment trust is why, why would you do an investment trust? Because it is more expensive than a mutual fund. So -- but if you've got an asset class that is illiquid, then it's the obvious way to go through. When we launched the investment trust, the credit investment trust we did last year, we did that on the basis that, that would be the start of a business going forward. So we will continue to launch those as long as there are sensible assets that we can put inside, as long as clearly there's client need and demand.

A - Spencer Horgan {BIO 4241901 <GO>}

Greig?

Q - Greig N. Paterson {BIO 6587493 <GO>}

Just 2 requests. One is in -- on my first question, if you could -- at your next presentation, if you could reduce, say, Solvency II sensitivity with -- for higher spreads in combination with downgrades, that would be helpful.

And the second thing is I note there's -- you made a comment -- or I don't know if there's a breakout. But of the GBP 25 billion annuities, is that 50% -- 56% secured debt profile? I wonder could -- secured debt, I wonder if you'd give us a credit profile there. So we can understand the credit risk in that. Those are -- that's the request.

But 2 questions is just also looking at credit -- those are 2 requests. So I can get away. Just in terms of do you -- in terms of explicit questions, the -- in terms of your third-party funds, I mean it appears to me that it's predominantly in fixed interest of some nature. I was wondering if you'd give us some kind of feeling how a credit event would affect that level and some kind of exposure feeling.

And the second thing is just IFRS 17, I don't know if you've done some work. Wonder how that would -- the IFRS profits will evolve under that new regime.

A - Clare Jane Bousfield {BIO 16746072 <GO>}

I'll take the first one and the last one. Then I'll forget -- and then I've forgotten, Greig, what's in the middle.

A - John William Foley {BIO 4239156 <GO>}

The middle one is whatâ€¦

A - Clare Jane Bousfield {BIO 16746072 <GO>}

On the request, let me take that away and come back to you on that one. Spencer and I will come back to you in terms of what we'll supply. On IFRS 17, bear in mind, IFRS 17 doesn't come in until 1st of January, 2022. So we're very much in the early stages of actually evaluating what does it mean. And with the largest With-Profit Fund in the market open to new business, that is one of the most challenging and complex areas around IFRS 17.

So yes, we have started to do analysis to understand what we think the profit profiles will look like on an IFRS 17 basis. But there are probably more questions than there are answers at the moment. So I think we need a bit more time to actually evaluate it.

A - William Nicoll {BIO 2031697 <GO>}

And on the institutional side, it was about a current event?

Q - Greig N. Paterson {BIO 6587493 <GO>}

Yes. I'll (inaudible), the first part was about (inaudible).

A - William Nicoll {BIO 2031697 <GO>}

Sure. Well in -- I mean in general, because we're a bottom-up fund manager, you tend to skew the portfolios away from fashionable areas because where the pricing starts getting a little expensive, then the fund managers will seek to move the assets elsewhere. So in the financial crisis, we had an extremely good financial crisis because we were underweight in all the fashionable assets and then were able to buy them afterwards. So I don't want to give the wrong impression. But I have got quite a lot of bond fund managers out there who'd quite like a nice crisis.

A - Spencer Horgan {BIO 4241901 <GO>}

Johnny?

Q - Johnny Vo {BIO 5509843 <GO>}

Sorry. Just a question on heritage. I mean there's outflows of about GBP 7 billion a year. What's your recapture rate on those assets out the back? And what's your strategy on the heritage book in terms of capturing assets?

And the second question is just on Page 104 in terms of the hedge result. Why was that negative given the markets were down?

A - Clare Jane Bousfield {BIO 16746072 <GO>}

The reason why it's negative is because the markets have been positive over the last couple of years. So because we're hedging that and we're giving away the upside, then it's naturally negative in terms of cost. Do you want to take that?

A - David Macmillan {BIO 16195004 <GO>}

The -- I mean the recapture. So with respect to the pensions book that sits within heritage, Prudential Financial Planning, our in-house advisory service, clearly supports existing customers going through into decumulation. So it has a long track record of recapturing those customers who fundamentally want to shift into PruFund as their vehicle. And there's lots of customers who do. And there's lots of customers who fundamentally don't. And most of them say it's because they just want to take the cash. But we have a strong recapture rate.

A - Roddy Thomson {BIO 21307809 <GO>}

And I think (inaudible), we're also looking at how we strengthen it. I think part of the movement to the new policy administration systems give us a lot more functionality for things that we make customers take full withdrawal on. And actually, they'd be quite happy with partial withdrawal given the investment performance. They may not be at the case size that we typically see in PruFund. But we think there's a lot we can do to strengthen that recapture rate, too.

A - Spencer Horgan {BIO 4241901 <GO>}

Gordon?

Q - Gordon Aitken {BIO 3846728 <GO>}

Much better. So a couple of questions. So the FCA's review into the past annuity sales, I mean GBP 400 million, just can you remind us, is that set aside for the cost of redress only? Or is it the cost of redress and a potential fine? And might there be a potential fine?

And the second question is on with-profits. And there's plenty of small with-profit funds out there. None of them, of course, are core to anyone else apart from you. I mean is there any benefit -- would there be any benefit for you to be taking on, acquiring some of these with-profit funds? And if there is any benefit, would you have any desire to do so?

A - Clare Jane Bousfield {BIO 16746072 <GO>}

So the -- on the provision. So the provision cost includes the cost of remediation and the actual redress itself. It doesn't include any provision for a fine. And that's obviously something that is outside of our control in terms of where the regulator goes.

A - David Macmillan {BIO 16195004 <GO>}

And are you in the market for small with-profit books?

A - John William Foley {BIO 4239156 <GO>}

Look, again, it's -- when you're -- to sort of merge with-profits is a very, very difficult thing to do. And looking at the governance around our with-profits book, it would have to be a pretty compelling proposition that we would go through the exercise to actually do it. And so we've kicked it around. But we think unlikely. But again, never say never.

A - Spencer Horgan {BIO 4241901 <GO>}

Andrew?

Q - Andrew John Crean {BIO 16513202 <GO>}

It's Andrew Crean at Autonomous again. It looks as though your central costs are about GBP 100 million if I measure the boxes roughly, right? How much of those are additional to -- or just transferred from plc's is one question.

Then the second question, could you give us a sense of the net flows and the relative performance of your key funds in first half '19?

A - Clare Jane Bousfield {BIO 16746072 <GO>}

I'll try to. So on the head office costs, your (reeler) is reasonably right. It's a little bit lower than GBP 100 million. Some of those costs are costs that are already from Prudential plc, some of those costs also relate to effectively functions that we were building up within the organization. And some of it is new cost. It spans those 3 separate areas.

A - Jonathan Daniels {BIO 4311715 <GO>}

I mean performance, I would say there have been areas of improvement. But I would not say that we would say there's been a massive turnaround in performance relative to the information we provided today.

A - Jonathan Willcocks {BIO 20855266 <GO>}

So in terms of fund flows, I don't think we're in a position to comment until we get the results in August.

A - Spencer Horgan {BIO 4241901 <GO>}

Dom?

Q - Dominic Alexander O'Mahony

Sorry, me. Okay. Dominic O'Mahony, Exane BNP Paribas. Can I just ask a question about the administration, the heritage book? Firstly, is there sort of one unified administration sort of operating model across both the shareholder and the with-profits annuities book? And I guess relatedly, could you remind us, is it integrated with the book that transferred to Rothesay? Or is actually that can be administered completely separately?

Then secondly, the arrangements with your outsourcing partners, presumably, they're very long dated. Could you give us a sense of how long dated and whether there are any sort of break clauses?

A - Roddy Thomson {BIO 21307809 <GO>}

Yes, sure. So on heritage book, that all sits together in one administration unit that we have with Diligenta. So we don't differentiate on where you've written the fund. Obviously, there's many, many different products in there that we administer that go across many, many different investment funds. But from a customer perspective, we service them in a general way, making sure we cover all those products and all the features.

In terms of what agreements we've signed and what they look like, I mean they're fairly typical industry agreements. So you'll see on the BPO relationship, which is with Diligenta, which is the U.K.-regulated part of TCS, that's a 10-year deal as most of these deals are with the level of money you put in and then the profile you get out. And obviously, there's a lot of longevity in that customer base. So it makes a lot of sense for them and us. But really, we are working through all the upfront transformation of that to complete well in line with the 2022 guidance we've given.

Then in terms of the IT piece, slightly different. But the IT relationship we have is with the TCS parent. And they look after our legacy data center infrastructure. That typically sits as a 5-plus-2 deal, again fairly standard in the industry. And there's lots for us to evaluate through the life of that deal. We're looking at physical infrastructure versus cloud-based infrastructure, what sort of synergies we can get, not just on the immediate running costs but also future looking into growth and growth marginal cost. And really, we're trying to get a lot more of those costs fixed. And we grow without needing to scale those at a similar kind of rate. So they're long-term deals which allow us to really look at that innovation.

Q - Dominic Alexander O'Mahony

And sorry, just on the Rothesay, piece. The...

A - Roddy Thomson {BIO 21307809 <GO>}

Yes. So with Rothesay, when it all goes through, we'll continue to administer and there's a relationship with Prudential. We'll continue to administer those policies for a period of time. Rothesay, when you look at what they do typically in the market, they use Capita for a lot of administration. And at a period of time, you can expect that to transfer.

We've gone through a fairly extensive process of making sure the information, the branding and everything, the data and customer data is separate as part of doing that. And we're in good shape for that ahead of waiting for final feedback from the courts.

A - Spencer Horgan {BIO 4241901 <GO>}

Maybe we'll take a couple more if there are any. Yes, Andrew?

Q - Andrew Baker {BIO 20402705 <GO>}

Andrew Baker from Citi. So I think you mentioned earlier, there's, of the transformation expense savings, I think GBP 60 million on the heritage book. Has this been taken in the Solvency II ratio yet through lower unit cost estimates? Or -- and if not, when do you anticipate that will be recognized? And any idea on magnitude would be great.

A - Clare Jane Bousfield {BIO 16746072 <GO>}

So the cost savings, the GBP 145 million is the cash savings in terms of from the transformation. We have booked some capitalized savings from -- particularly from signing the Diligenta agreement with TCS in terms of the capitalized impact. But there's still a reasonably significant amount to come through.

A - Spencer Horgan {BIO 4241901 <GO>}

One more if there is one. No? We've exhausted you. Fantastic.

So we'll wrap it up there. Thank you. So much to all of you for coming. It's been great to see so many of you here. We really appreciate your interest in our story. And we look forward to seeing you next time. Thanks.