S1 2021 Earnings Call

Company Participants

- Nigel David Wilson, Group Chief Executive Officer & Executive Director
- Stuart Jeffrey Davies, Group Chief Financial Officer & Executive Director

Other Participants

- Andrew Crean
- Andy Sinclair
- Ashik Musaddi
- Colm Kelly
- Dominic O'Mahony
- Farooq Hanif
- Greig Paterson
- Larissa Van Deventer
- Louise Miles
- Ming Zhu
- Oliver Steel
- Steven Haywood

Presentation

Operator

Hello, everyone, and welcome to the Legal & General Half Year Results Call. You will have the opportunity to ask a question at the end of the presentation. (Operator Instructions)

I will now hand the floor over to your host, Nigel Wilson, CEO, to begin. Nigel, please go ahead.

Nigel David Wilson {BIO 1535703 <GO>}

Thank you, and thank all of you for joining the call today. And thank you, indeed, for this speed at which several of you managed to get out supportive, not this morning.

Jeff and myself and all of the team here at Legal & General delighted with our results, very strong performance in operating profit at a group level. But we're also delighted with the performance of all of our divisions and even the subdivisions within the divisions. Not only did we perform well in the pandemic, just -- from manage our -- managing our staff, managing our customers and delivering a resilient performance last year, which we leveled (inaudible). It's great to see us returning to normality in a sense that we're driving forward in earnings per share. And of course, in ROE. Our ROE performance of 22% was outstanding. Really, when you consider that we're still operating under a pandemic.

We're very much believes in investment-led growth, is the solution to both the U.K. and the U.S. economic growth over the long term, and we're playing an ever increasing role in investing in real assets, creating real growth, real jobs and real wages growth here in the U.K.

I guess our capability to scale up businesses is coming through in LGC for the first time materially and I wanted to talking to Jeff about that this morning. We've been on that journey for a number of years, we've said that this year that LGC would be a breakthrough year and indeed that's what we've delivered. And it was terrific yesterday to sign the deal with the NatWest Group Pension scheme where they've become co-investors in our Later Life business.

Why this is strategically important is, if you look at our Build to Rent business, the partners there were PGGM, a very prestigious and incredibly well run Dutch Pension scheme. And we've seen this sort of activity from European Pension schemes particularly from U.S. and Canadian. We're getting increasingly confident that we will see the same thing happening here in the U.K. and we will play an incredibly big role in getting these partners to help us scale up businesses not just here in the U.K. but increasingly international.

We are pleased with our performance and -- in the U.S., in Europe and in Asia, where we're seeing again this sort of scaling up impact, having the talling [ph] on our results. I guess our biggest challenge and it's a shared challenge with all of you. It's a collective challenge really is, is how do we get financial services re-rated in the U.K. We've seen it happen in the United States and we're not the only industry where there's a difference in rating between the U.S. and the U.K. We're hoping over time as we continue to deliver outstanding results that that gap will disappear, and we'll see wider recognition for the quality and the growth of our earnings going forward.

That's all I was going to say by way of introduction, we like now to move to questions.

Questions And Answers

Operator

(Question And Answer)

A - Nigel David Wilson {BIO 1535703 <GO>}

And the first question is from Louise at Morgan Stanley. Louise?

Q - Louise Miles {BIO 20765435 <GO>}

So the LGEN new business margin was down versus the first half of 2020. How should we be thinking about their margin for the full year? Should it be similar to the first half? Or should we be looking at more of the 2020 or 2019 margin?

At LGRI, you have about GBP30 million of that FY20 mortality provision last? I mean, do you have any concerns that this is going to be sufficient given the outlook (inaudible) in the second half. We're hearing that these might be a bit heightened versus previous years?

And then finally, I've had a look at your sensitivity analysis, on your Solvency II stresses. On the credit migration stress, this seems to have moved a bit since FY20 compared to the other ones. Is there any particular reason for this or is it nothing to think about? Thanks.

A - Nigel David Wilson {BIO 1535703 <GO>}

I think, Jeff, that's all for you.

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

Yes. Thanks, Louise. LGEN new margin, I mean, we know we said we traded very well last year, especially in the first half around traded credit when spreads were pretty volatile, that helped us with the margin plus there was probably a bit less competition, certainly we were demanding more return on our capital for putting it to work in much more uncertain times.

The level is, it's around 8.4% for Solvency II new business margin, so it's definitely in normal range for us. So I'd say, we'd look to continue to deliver that sort of level of returns which is, we're really in line with what we've seen '19 and what we're seeing in the first half this year. And obviously as we all know, it does very little depending on the duration of what we write and the exact assets that we're applying at any point in time and we continue to source in a very, very good assets and to manufacture those ourselves.

LGRI, yes, there's 30 million left and it was obviously a big impact in Q1 in particular in the U.S. due to COVID. We follow the same methodology in terms of projecting out the IHME and where within that believe there's a little bit of prudence based on that, clearly there's a big range of uncertainty around that.

There is some sense but with not a huge amount of data that that potentially any penetration of adverse claims into the insurance market will be slightly less due to some of the socio-economic impacts. So certainly, we are comfortable with that level of provision going into the second half. And as ever, of course, we don't make any allowance for any potential excess deaths in the annuity portfolio, which acts as extra prudence for us.

And the credit migration are nothing really to worry about that. That's just the impact of the mass, in terms of your starting point, in terms of race and where spreads are, and that moved the sensitivity, but nothing's changed at all in the underlying portfolio there or the stresses.

A - Nigel David Wilson {BIO 1535703 <GO>}

Thank you, Louise. Thanks for your questions. Next is Larissa.

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

Good morning, everybody. A couple of quick questions from our side please. Two on bulk annuities and then one on LGC, PRT and LGC, if you don't mind and bulks can help us understand what is currently driving the dynamics and what gives you confidence about the 2H volumes should come through, related to their basically, do you think there's a lag effect from a COVID shock last year or the other factors?

Then the two on LGC. How robust is the pipeline? Which areas of -- particularly attractive opportunity, is it mainly a housing pay or all the other areas that are coming through?

And then, secondly, can you give us some color -- on how much of the 50 million in earnings related to mark to market on the evaluation of the portfolio?

A - Nigel David Wilson {BIO 1535703 <GO>}

Yes, thanks for those questions. I'll take the first two and Jeff can take the third one.

Just in terms of markets for PRT, we broadly expect the market about the same size this year as it was last year, so that there isn't really a macro COVID impact. We're strongly seeing -- we're seeing a stronger pipeline in H2, hence, the reference in the release to the GBP2 billion that we've either closed already or in exclusives for the second half of the year.

We will retain our financial discipline in the second half of the year, as we've always done in previous years. But we're very confident that the long-term size of the market opportunity in the U.K. and indeed internationally for the business. So the numbers that Jeff and I've used in numerous other presentations, the GBP40 billion to GBP50 billion of 45 years are absolutely the same as they have been over the last few years.

In terms of LGC across the board. I mean, we invested in a number of these businesses several years ago. And whether that's in the various housing businesses, the urban regeneration businesses, the energy businesses, the SME finance that support in venture capital but also in Pemberton. They're all doing incredibly well, they're all performing very, very strongly and we're very confident that they'll continue to perform strongly, even more so because of the third party capital that we're bringing in at scale into these businesses which, I think, is a good thing, not just for us and for our shareholders, but actually for the U.K. economy and elsewhere, that big pension funds and big asset managers want to co-invest alongside us.

We've done a lot of the heavy lifting, built the management team, built the market opportunity, have scaled up these businesses and there very attractive investment opportunities for other people.

Jeff, do want to take the third question?

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

Yes, sure. On the mark-to-market for the 250, sort of, depends what you mean by mark-to-market, the direct investments in alternative those are underpinned by the transactions we've seen or pending transactions we'll be talking about in the second half. But in terms of the profit pay, there's 55 million from the traded portfolio. Clearly that is a pure mark-to-market and we can't predict what's repeats on that, if you like in the second half and we wouldn't necessarily expect to see some of the VC continuing to move at the same rate in the second half -- of the first half. But we'd expect those to keep growing over time.

But I mean, I just covered it to some extent. The others are in a good quality, operating businesses and underlying businesses with growth, so CALA, affordable housing, Build to Rent, Pemberton will continue to see revenue growth there and sales growth. And those are how we put valuations on that. CALA is real profits at the point we sell a house, that's the only time we get profits coming through. And so in terms of second half, we wouldn't double that 250 number, what there are strong underlying businesses, we continue to see growing.

A - Nigel David Wilson {BIO 1535703 <GO>}

If you look at Slide 28, see that the traded portfolio delivered 87 million profit in 2020 and 55 million in 2021. So that's not being the source of profit growth, but it's a really high performance of the other businesses.

We now passed on to Andy Sinclair.

Q - Andy Sinclair {BIO 17749036 <GO>}

Good morning, everyone, and (inaudible) businesses clearly and I think in good shape. Three questions for me, if that's okay. Firstly, it was on LGR that you've talked about this Assured Payment Policy as being your capital white PRT product. Just really wondered if you can tell us a little bit more about how the capital intensity and margins different versus traditional PRT business?

And secondly on LGI. I thought they were really good protection sales growth in H1 and both the U.K. and the U.S. Just really wondered, if you can tell us a bit more about outlook here, what sort of growth do you think is sustainable?

And third on LGC, I was possibly a little bit surprised to see that the LGC investment portfolio AUM would seem to only be around flat year-to-date and just wondered if this future investments maturing and being passed on to other parts of the business? Or what's going on? Just can you give us a little bit more color here on how the alternatives and trading portfolios have moved here year-to-date? Thanks.

A - Nigel David Wilson {BIO 1535703 <GO>}

Jeff, do you want to take the first and the third question and I'll take the second.

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

Yes. Sure. The APP as you say, it's sort of capital life. It's really along the way on the journey and it doesn't pass on the longevity risk. It allow schemes to really take in the direct investments that we put to work on our own LGR portfolio and get them to buy out sooner, so we had a good example of that. Where we've done a transaction with ARV and APP. And we've now moved to full bias on that.

And so they really get exposure to our credit expertise, they transfer that risk to us and we're able to deliver the returns to them that they lock in, and then they eventually move further down the track to that. So it looks very attractive to us and allows the schemes to move earlier, clearly the return meet all our hurdles, we don't price in any differential way. We put the capital to work and get the returns not broadly in line with what we get from the rest of the business, we elaborate in that way.

LGC investment portfolio -- yes, that's a particularly going on there. I mean, we were expanding the portfolio, it grows, we had reduced the traded portfolio as Nigel said in terms of up profits, you can see less reliance on that. So that had reduced but otherwise, no, that was nothing. And now we look to continue to grow the alternate investments, would give views on where we think that will be, we usually put to work a good few 100 million in any year whether that's 200 million, 300 million, 400 million, 500 million, and we continue to do that, we continue to transfer from the traded portfolio, so this nothing particularly going on there.

A - Nigel David Wilson {BIO 1535703 <GO>}

On LGI -- thank you, Andy, for your kind words, over the years they've not always been so kind about LGI and -- but Bernie equivalency versus the rest of the team, both in the U.K. and the U.S. done an outstanding job, particularly in plan claims during the -- sadly during the pandemic.

But we did see strong growth in both the U.K. and the U.S., and we expect it to continue in both the U.K. and the U.S. We becoming increasingly optimistic about the United States and the progress that we've been making there and the -- we're strengthening the management team, building out its capabilities as we speak. We think the U.S. market will begin to follow the U.K. market and that there will be greater use of technology, it's always been quite a long way behind the U.K. in terms of use of technology in effective way.

Technology leaders here in the U.K. standards (inaudible) in the United States. So I'm becoming increasingly confident about our capabilities in the United States to grow the business.

Next question is from Colm.

Q - Colm Kelly {BIO 19140684 <GO>}

Thanks, Nigel. Just -- first one on L&G [ph] obviously strong results today and obviously a lot of emphasis on LGP in the presentation slide, so quite a strong expectation in terms of future growth going forward. If we think about it from a cash flow perspective and particularly upstreaming cash to the group holding company. When we think about LGR, it's a very consistent track record of upstreaming, relatively stable cash to the group and can you just touch on LGC's remittent track record? And what kind of -- what we should expect going forward in terms of upstreaming capacity there?

And then just, secondly, on the LGRI business. Obviously, Laura moving across LGC, I didn't see anything announced in terms of the successor for the CEO position of LGRI. I'm just wondering, if you can update on the process there, if that's okay? Thanks.

A - Nigel David Wilson {BIO 1535703 <GO>}

Jeff, do you want to take the first one? I will take the second.

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

Yes. As you see cash flows -- yes. It's incense the combination clearly. When you re-value a VC portfolio, you don't get the realization straight away, but there's a lot of operating businesses that are in a real profits and real cash at that point in time. CALA there's 17 million plus PBT in the first half that that's -- those are real houses, real completions money in the door. And so, clearly in the past few years, we've been investing in the business to grow those and so we've been helping the portfolio mature and that in our liquid resources into that.

But then as those mature, they start to throw off either realizations with the party money, a bit on NatWest Pension Fund and other examples, or we sell them as they become mature anyway, or alternatively, if there's a -- they're maturing, yielding type equity, we're happy to move those across into the insurance company, which then move the liquidity around the business. So there's a different profile across the Board, but we do see that as that -- those businesses mature, we see them throwing up a lot more cash than obviously has been historically when we've been growing them through the realization, through a third party money and simply businesses like CALA becoming mature operating businesses to pay dividends.

A - Nigel David Wilson {BIO 1535703 <GO>}

It's just like any normal regular business, NTR and stuff like that, we've invested in assets, those are operating assets and we've helped manufacture those assets but then they become cash flow producing on a go-forward basis. Similarly with Pemberton and other areas of the business.

On LGRI, I'm pleased to report that actually The Kerrigan has now arrived in Asia. It's taken a while to get there. He's moved from quarantine in Thailand to quarantining in Hong Kong, so that's been a journey. It's been non-trivial interviewing international candidates to be first during the lockdown period. And we've certainly been looking across the world for -- candidates for the LGRI position, and as you say, (inaudible) is on holiday today, but calling in Laura's just recently taken the rents for LGC. But we're comfortable with where we are in terms of finding successors in LGRI.

Next questions from (Technical Difficulty) from Credit Suisse.

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, it's Farooq Hanif from Credit Suisse. Thanks very much. Just turning again to the APP and ISS, the alternative LGR PRT Solutions. Can you talk about the sort of pipeline and do all of these inevitably end up in a buy-in and buy-out when they mature?

Second question is, you talked about the CMI19 transition not having an immediate explicit release, but they're being kind of a margin release. Will this be actually equivalent in size to what happened with the CMI18 experience for probably the one modeling?

And then, lastly, on LGC, can you just talk about the profit implications of the third party capital? So is it simply that you need that 14 billion to get to 5 million alternative assets or is it that you will get realizations, which improve cash or is there some other margin that you can make on that? Thanks.

A - Nigel David Wilson {BIO 1535703 <GO>}

Jeff takes the first two and I'll take the third question.

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

Sure. Yes. I've heard. Yes, the APP, ISS is -- yes, there's a good strong pipeline on there, trustees have lots of responsibilities, they want to understand when they're doing different things as being good precedent now in the market around APP both third-party as soon as whether own scheme, et cetera.

And the ISS, we have a good number of conversations around those. It's instant and some of them, you have long conversations about these alternative structures. They suit them at the time, along their journey and then suddenly they have a windfall, the markets move and actually say, what we can afford to buy out now? So let's jump straight to that and that has happened to us. But they're very useful tools to have along the way.

That's almost then answers the second part of your question. Yes, I mean if we do our job properly and the schemes manage themselves, they would all eventually be running to buyout, we wouldn't expect people generally to put it be -- putting these in place to sit on them forever and there may be exceptions to that but they would be looking to buy out.

So we see this is really helpful on that, hold the risk in journey, as we say many times, we're the only one that start all the way beginning in LGIM move all the way through and so we continue to build on that and what 50% of the case from LGIM this time.

Yes, the CMI19, we were prudent in the way we implemented CMI18 and we've also already had the 19 table at the time, we know broadly where that sits. And so we see that being pretty neutral to implement as neutral as you can be, when you're such a big book and you drop it in some new tables, but we have built some prudent then we think we're conservative given the uncertain outlook on data for 2020, 2021 and so we do anticipate some of that prudence, some of those excess that flowing through the P&L for the next couple of years as we've said.

In terms of size, it's very hard to predict, but yes, we'd expected to be in a possibly probably in the sort of high tens of millions which is not dissimilar to the lower end of some of the longevity releases that we've had. We could get as high as 100 million flowing through, but that will be through P&L as we release these overtime, combination of some of the experience coming through and the prudence released as '20 and '21 data, and what we believe about what's happening in terms of delayed hospital appointments et cetera and treatments come through. And we understand the market and the outlook on mortality a bit better.

A - Nigel David Wilson {BIO 1535703 <GO>}

Okay. On LGC, we have a variety of businesses, some of which are outlined in the pack which give you care studies and there's -- as we were seeing, we're having an Investor Day in October, so we can go through everything in a lot more detail. So this is really just a sample for head of that. But the modal is really that we -- we put up equity, we hire a management team for a particular sector, we then invest in the business, Pemberton is a good example of NTR, Build to Rent, Affordable Housing, Venture Capital, Data Centers, Later Life Living. And we ultimately look to get fees from alternative asset management platform fees. Is the expression that we use in-house from these activities. So if you take something like Pemberton of the funds that they have under management, somewhere between 5% and 10% are actually funds the rest of from their 120 plus LTs.

And we think this model works incredibly well for us and we can scale it up brilliantly well. And so we just got to continue repeating that. And data centers is another area that we think we can scale up on a go-forward basis by bringing in further part of capital.

As Jeff mentioned, we may realize some of that value on a go-forward basis. Obviously market mutterings around Pod Points, which is one of our, many, many -- 300 different investments that we have in the start of the scale up businesses, this huge demand for electric vehicle charging, we have another business called Onto which is our electric vehicle leasing business. All of these have been scaled up and it's -- demonstrating value, realizing value and building revenue from third parties, which are all part of the narrative and the economics going forward.

And next question is from Oliver.

Q - Oliver Steel {BIO 6068696 <GO>}

Good morning. Excellent results. Well done. The first question is, I'm assuming that the guidance you're giving to the full year is of last year's 2Q, 1H figure. If that is the case then it looks if you have to make somewhat close to 1.4 billion in the second half and I'm just trying to sort of work out where that is, because if you're not -- if you're only talking about this sort of smooth release from longevity reserves, maybe 100 million is quite hard and well, and particularly I feel seeing LGC being lower in the second half. Where's the delta to that 1.4 billion in the second half?

Second question is on LGIM. I can see an excellent ETF margin on new net inflows. But what's the -- or how does the margin on new flows -- revenue margin on new flows compared to the 7 bps or so that you're getting across the book as a whole?

And then thirdly on LGI, you talk about growth, I'm talking about the U.K. business. You talk about sort of growth in sales every year and generally you have been growing that business. Actually almost every year, we also see a decline and the release from operations and I know that something to do with tax. I'm wondering when do we see the release from operations actually growing in line with your group targets?

A - Nigel David Wilson {BIO 1535703 <GO>}

Jeff, do you want to take the first and third and then I'll take the second question on LGIM.

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

Sure. Yes. Oliver, thanks. In terms of the up profit, we certainly expect to see that across the metrics that continue in operating profit from continuing divisions, a total up profit, we've always focused on excluding longevity releases, we would see those numbers coming through strongly overall and don't forget of course with a strong investment variants, that would flow through to EPS growth overall.

And so we don't focus so much on that longevity release and probably a bit too much detail so where the number looks compared to that, but we're looking at the underlying businesses expecting to deliver profits in those double-digit returns across the board there.

Q - Oliver Steel {BIO 6068696 <GO>}

Can I just sort of -- can I quickly just, I mean, just to be clear, you are looking, the guidance you're giving would imply 24 million, 50 million, 24 million, 40 million of operating profit in 2020 and 2021 as a hole, and then that's the right figure, isn't it?

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

I think, we just need to be careful on where we're putting the guidance around that, as I say, you flow it through from the double-digit growth for the full year across both continuing and the odd profit certainly excluding longevity releases. And then, we would look to show growth overall with the growth below that you get good EPS growth as well then.

Q - Oliver Steel {BIO 6068696 <GO>}

I'm still confused. I'm having to say, you say in the statement that you're looking for double-digit growth in operating profit, so that the year as a whole. Is that from last year's

2Q,1H? Or what does it actually mean?

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

Yes, when we deliver the growth, we deliver growth from the total number from last year and we'll deliver good double-digit growth of profit excluding the longevity release, is a combination of those deliver both good growth on all of those metrics. And then we delivers very strong EPS growth overall.

A - Nigel David Wilson {BIO 1535703 <GO>}

Yes. We're not trying to give absolute number here, but the direction of travel that you're going through although we would say, yes, to the -- if you're looking for a one word answer to where we want to get to and it's double-digit growth.

Should I take the LGIM question?

Yes, the LGIM question. Michelle's articulated a very comprehensive strategy for modernized, diversify and internationalize. Part of that diversify is building out some higher yielding higher margin products. And if you go to the detail of the results, you'll see that there were very strong international floors across the business, we're doing incredibly well in the U.K., Europe and indeed in Asia for the business right now. So we're very happy with that.

But we're making fantastic progress in things like our award-winning high-yield debt team, fixed income team has just done an amazing job in the last few years. Our emerging market debt team exactly the same and ETS, which we highlight for the first time, I think at bolt-on acquisition a few years ago is seeing tremendous growth in revenue and these are all 20, 30, 40, 50 basis point type of products. And therefore, as we build these out over the next few years, we should see an acceleration of revenue from these high yielding, high margin products.

We do have to invest more, it'll part of that regulatory driven, part of its -- from the fact that we are expanding into new product areas and internationalizing the business, but we'd hope going forward that the growth in revenue be greater than the growth in costs, which is what we haven't achieved in the last few years, in LGIM. But the current -- current there are still rather new management team that Michelle's pulled together, a really work incredibly diligent on these areas.

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

LGI question, as you say, yes, I mean, the biggest impact there has been a tax impact in sale of the Mature Savings effectively, all term business been taxed on profits basis, as opposed to the old -- good old fashioned blade gap [ph] business and that's been the main impact overall on that.

There is some other second-order impact and there's some things we do between what's reported, we've optimized some of our U.S. business, historic new business financing, some of that appeared in U.K. and that's been moving around, but generally the underlying biggest impact has been the taxpayer along with the other small items.

So we see across the board in some ways is better to look across the LGI, the top level, that's where we see the true picture coming through, because the way we use our different entities and that shows the growth and that continues to be that we see it in the OSG of the underlying as well, which is a good sign for us. Obviously, we don't split that out for you guys, but we do see that coming through, so that continues to grow in line with that.

A - Nigel David Wilson {BIO 1535703 <GO>}

And next question is from Ashik at JP Morgan.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, thanks, and morning, Nigel, morning, Jeff. Just a few questions I have. I mean, just to go back on all these questions, sorry for this again on operating profit, I mean, if I understand correctly, what you're saying is operating profit will grow at double-digit, but before last year's mortality releases. So which, the base is 2 billion basically, on that it will grow double-digit.

Now, what I'm trying to understand is, if it grows double-digit, then you're just recovering back the COVID impact from last year which was stated at 228 million. So -- I mean, are we talking about some underlying growth as well? Or are we just missing the numbers like it's not 2.2 billion. We are talking about 2.4 billion which is on the headline profit number of last year. So that's one thing would be good to get some color about like in terms of numbers.

Second thing is on LGC, clearly the first half profit was very strong. No doubt about it. But would you be able to give some color as to what sort of say runway profitability we should assume for annual like normal year for, let's say, next year onwards, et cetera. Or say, if you can give us some return hurdles for the alternative asset, like in this half, it was 10%. But like normally, it is like your expectation is you generate 5%, 6%, 7%, something like that?

And third question is, I mean, FCA -- sorry, this PRA quest is out on the U.K. solvency. I mean, on one hand, they are very optimistic on risk margins to getting reduced, but on the other hand, they are putting a bit more default stress on the matching adjustment, specially for illiquid assets. Any early thoughts that you have on that would be very helpful. Thank you.

A - Nigel David Wilson {BIO 1535703 <GO>}

Okay. Jeff's going to take the first and the third question and then I'll take the second.

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

Yes. I mean we shouldn't be giving too much guidance directly on the numbers, but to spell it out, we see good strong underlying operating profit growth of all of the businesses in a double-digit level and so we continue to deliver that across the divisions, we will deliver that growth, which is what we have done historically.

The longevity releases have always been considered one-off and excluded from those metrics. However, if we deliver that for across the businesses, we would still see growth on the overall operating profit level. And when you combine that with what we're delivering below as well, we would consider that to -- that will then deliver strong EPS growth, which is what we are intending to deliver.

So there's good strong underlying growth of all of the divisions, which is what we've historically delivered, there are one-offs around longevity releases, which we're not taking through and not included in those numbers, but we would expect to see overall operating profit growth despite that and then that would translate into strong EPS growth as well. LGC?

A - Nigel David Wilson {BIO 1535703 <GO>}

We got 3.4 billion at the moment in these alternative asset platforms. We set a target return of 8% to 10% for those assets. We've said that in the presentation that 3.4 billion will increase to 5 billion, in which case we would expect GBP400 million to GBP500 million of LGC profit coming out in the next two to three years.

And that's broadly the direction of travel, you can use for your models. We're going to give you a lot more detail on how this all fits together in October, and trying to do a lot more work for you guys to make it even more transparent as to what we're doing.

Clearly this is a really important part of our growth driver but it's part of the three businesses working together LGEN, LGR and LGC, and where one goes all gone, really because there's so many growth opportunities, for all three of those businesses.

Jeff, do you want to take the quiz?

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

Yes, sure. On the quiz, it's a very large exercise and there's at least sort of 18 type scenarios. So difficult to I think as an industry and commentates it draw too much from that. And from discussions of PRA are very much looking on some specific areas where they want to have numbers and wide, wide range so that they can find an answer somewhere in the middle, in simplistic terms.

And there are lots of other areas they're looking at which are more qualitative and to do with process and what assets are allowed, et cetera or where they already have extensive data. So these are specific areas where they're looking for extra information in terms of okay in a range of scenarios, what could that mean, so that they can see debt in, it's very hard to draw any more from that, but we get the same positive noises from them around risk margin. And sort of assets being allowed into matching adjustment portfolio. There just a lot of things, they don't need to test at this stage, but there's a range of things where they do want to get some numbers best. So there isn't more conclusion than that at this stage.

A - Nigel David Wilson {BIO 1535703 <GO>}

Articulate the PRT report has been balance in measures. I don't think they want to have any thoughts of shocks to the industry. And that certainly they have been supportive of the initiatives that we've been having and discussions we've been having about investing in real assets in the real economy. I have a degree of empathy -- sympathy from my colleagues, it looks a huge amount of work and I, Tim Stedman and others, it's going to be an enormous amount of work routine now in October and it's just, (inaudible) the PRI, we want to do a very thorough exercise, but we expect the outcome to be balanced and measured and not to have a material impact on our business going forward.

I'll now hand over to Andrew Crean from Autonomous.

Q - Andrew Crean {BIO 16513202 <GO>}

Good morning, all. Three questions of three areas. Firstly, would you give us the update is Solvency II coverage figure post the fallen yields in July and can you talk to us about what the ceiling is in terms of when you'd look either inorganic or capital returns 180% as it is appears.

Secondly, on LGC, I think the alternative assets have grown as a CAGR 29% over the last 4.5 years and you've got to hit your 5 billion target. It's a CAGR of only 9% going forward. Do you think that, that's a bit too conservative?

And then thirdly, it's clear from your final slide of the presentation. You're somewhat exercise about Legal & General's valuation and I can't understand, why? Are you still happy to leave it to public markets to find the right level for Legal? Or do you think, you're moving to a situation where you may need to look at slightly more dramatic actions whether it's selling off minorities or bringing in private capital?

A - Nigel David Wilson {BIO 1535703 <GO>}

If Jeff takes the first one, I'll take the second too.

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

Yes. And the ratio, it's basically broadly unchanged, as you say, (inaudible) but obviously we have had surplus generation since then. So within the usual sort of plus or minus a couple of percent broadly unchanged there hasn't really been much that moved otherwise apart from rates from surplus generation.

In terms of ceiling, yes, we don't as you know, like to give the ranges around that, there's a whole host of reasons why a number may not be appropriate at a point in time. The big picture we obviously continued to make ROEs to 20% plus, so believe investing back in the business makes sense for us and as you comment on that, on the DI, maybe 9% we can do faster, see what Nigel says now. But there's always ways to deploy the capital to make good returns but equally it does depend, why you've got to that level. It could be a 190% for a just simply because rates would increase, does that -- is that right what's our view on down sides from there et cetera. So it very much depends why you've got to a level and how sustainable, what your plans are around that, in terms of what we would think to do with the capital.

Q - Andrew Crean {BIO 16513202 <GO>}

Could I ask you on that -- would you be able to give us in terms of the operating surplus generation, all the surplus generation, a split between what's going on in the equity and funds and the SCR separately, it's quite helpful then.

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

Looking with a view to IFRS 17 and everything else and generally looking at as two disclosures, we are sitting down post holidays to consider what we might do around that.

Q - Andrew Crean {BIO 16513202 <GO>}

Brilliant. Thanks.

A - Nigel David Wilson {BIO 1535703 <GO>}

On the second point about alternative assets, Andrew, you sound like me. You can take that as the compliment. And yes, indeed, the math say that we could grow faster going forward. This is really, this is our plan from last year and we've just repeated it here, but there's certainly, the business has performed better than our expectations to be honest about it right across the board, I think there's a lot of third-party equity that can be brought in at that private level, which is really in part, the answer to is three, in a sense, it's much easier to get equity into Later Life Living and get a fair valuation for that or into many of our other businesses, Build to Rent or whatever and fees from it, then necessarily getting the recognition from the public markets.

And the point that we're making earlier on is that there's now a big delta between alternative assets or people with a broad approach to assets and evaluation of them and there's a whole bunch of American firms that are beginning to look more like us ironically. And that have a much higher multiple than we do right now. And we're on this journey from moving bit from being a traditional insurance company. And we've sold off huge amounts of our assets in the last 10 years.

And we positioned ourselves to be a modern investment management company of which insurance forms an incredibly important part. We have a whole series of liabilities, pension liabilities, insurance liabilities, climate liabilities of which to create assets to manage against those liabilities and they offer us enormous growth opportunities, not just here in the U.K. but increasingly internationally. And we're busy recruiting people and investing in activities that should continue to deliver the great returns that we've seen over the last 10 years.

We think at some point, the public markets will catch up with that. We're -- a little bit frustrated but not massively frustrated about it because we've recognize that we have to deliver more, we have to give greater transparency, which is what we're going to do with LGC in October, and what Jeff and the team sitting down to do a post-summer on Solvency II.

Next question is from Greig at KBW.

Q - Greig Paterson

Morning, everybody. Three quick questions. Sorry, my normal question is, when you can just talked in the first half, what the sort of downgrade experience of being honored in the BBB asset (inaudible) LGR and because things have improved, what the outlook in the second half for down grades are as it pretend to the solvency ratio?

Second point is, in the U.S. on your term life business, you are rolling out your U.K., call it, fintech/digital expertise and which seems to be making a difference. My question is, as you really have a very large market share, is that a constraint on what you can grow or you're going to go to or do you have the capacity to go into say other mortality type products, different distribution channels whatever and sort of describes a little bit there?

And the third question is just in terms of your own company's debt and leverage. Are you planning to issue any further debt in the next 12 months? Thank you very much.

A - Nigel David Wilson {BIO 1535703 <GO>}

Jeff will take the second and third. On downgrades, we haven't really had downgrades, as you rightly pointed out Greig, we're on a upgrade trend right now. And so we can't be totally confident that that trend is going to consider giving it what's happening in the pandemic. But the sectors were there have been problems of not as we've articulated before, have not been problems and our cash coming into our assets has remained the very high 99.89% and we're confident we'll continue to deliver that sort of level.

Do you want to take the other two questions, Jeff?

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

Yes, sure. U.S. term, that's right. Yes, we've been effective in rolling that out that obviously was very good time and with pandemic and people looking to move away from paper transactions et cetera, we're seeing delivery on that. It was in some one of the points made yet, I mean that in itself is changing the way distribution is done. There's a number of very strong tech-based when they're not their past been startups, now they have significant sales volumes and we're quite often either (inaudible) or the main part, with a number of these that are growing the market, they're in themselves a different distribution to the traditional brokers.

They're advertising to completely different segments of the market and they want the sort of straight through processing that we're offering much faster turnaround times and putting business on the books. And that is definitely paying dividends for us. We're seeing increased volumes and -- continuing to grow. You're right. Being number one in the broker market has a -- would have a limit but the broker market is completely changing and there are new entrants that are pushing this and expanding the market, we believe we can push that further. So there's a long way to go on that before we would need to look at different products et cetera.

A - Nigel David Wilson {BIO 1535703 <GO>}

Greig's used expression, the sky is the limit.

Q - Greig Paterson

Yes.

A - Nigel David Wilson {BIO 1535703 <GO>}

I don't believe that. The slides which show the debt reducing over time. The constant growth, the balance sheet gives us lots of optionality around that obviously, yes. 180 plus solvency, very, very strong liquidity, we wouldn't need to do that. You never say never but that wouldn't be our plans at the moment. I think it's safe to say now given the position that we're in.

Q - Greig Paterson

The question was about to looked at the Fitch ratio in the various rating agencies ratios and it didn't look like there's a lot of headroom until you sort of grow the denominator, I was just trying to understand within the current situation whether there is headroom?

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

As in my presentation and I think I say it's actually the leverage is lower than its been in the last sort of three and a half years, down now, I think post the 300 million or about 2026 on the -- on the fetch, and those reduce constantly and it was the balance sheet grow, so, there would be -- we don't feel like we need to issue at this stage, but we definitely hand room, should we want to do that, but we see it reducing over time and therefore, then choosing opportune moments to optimize shareholder returns rather than anything else driving, what we would do around that.

A - Nigel David Wilson {BIO 1535703 <GO>}

That's a great slide in the pact which would encourage you all to read on Page 30, 31, which shows how much the leverage has fallen over time and will continue to fall out to 2024, which is very helpful guidance, I think.

Next question is from Ming at Panmure.

Q - Ming Zhu {BIO 17001429 <GO>}

Hi, good morning, and thank you for taking my question. Just two questions, please. And first is, on the LGC's, and you've got a packet of the 14 billion, third party capital. Now, that is a double of where you are now and how much of that could you just give color in terms of, how do you expect to achieve that and how much of that would depend on for you to achieve your 8% to 10%? And then blended portfolio return?

And then my second questions on the solvency ratio, your solvency ratio has been very very strong, on order and report it and dates, but it's really not for example, lashes. Really that volatility. And in between, I mean, what is a really sort of the minimum solvency ratio that will keep you comfortable and the while keeping the regulator and happy, so that you can still pay out the dividend? Thank you.

A - Nigel David Wilson {BIO 1535703 <GO>}

I'm certainly going to let Jeff answer the second question. On the first one, the 8% to 10% return is related to the money that we put in into these investments. And that's as under were saying that risen quickly over the last few years since that 3.4 billion, we want to make that 5 billion. That's us as a principal investor as an agency you know, we've identified that will rapidly increase the fees and the assets from external, so that External, so that will bring us up to 20 billion or above, Andrew, I guess that's the same view that I am about the opportunities we have for doing that right now. So we've got two sources of profit the revenue that we get from third parties and but also the return on the assets that we invest as a principal ourselves.

Jeff, do you want to take the second one?

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

Yes, sure. I mean, but like not having a maximum we don't have a minimum margin that pretty strong message last year, we are in 170 and in a lower intensities of times, we paid the dividend, we maintain that worst modeling some very, very adverse credit scenarios and handing those to the regulator the Board, putting a lot of scrutiny on that. We know what our adverse scenarios look like. We talked about that, that many times. We build up from that sort of minimal level. Low level, minimum level two.

Then give us the flexibility, we requiring, that moves around depending on the sort of subjective view of how big stresses can be. Where are you at any point in time and so it moves to some extent which is why we don't set the absolute ranges but we're never been anywhere near the levels. Were we would be having concern in conversations with regulator or the board around the solvency.

A - Nigel David Wilson {BIO 1535703 <GO>}

Yes. Thanks. In general the LGAS Solvency ratio is about 20% lower than the group ratio. And so the regulator is obviously sees a different number from the number that you're seeing when they look at the regulated businesses.

And we have one last question, last but not least from Dominic at Exane BNP. Dominic?

(Technical Difficulty) at HSBC.

Q - Dominic O'Mahony

Hi, thanks, Nigel. Three questions for me. If that's okay. Firstly, I'm really pleased to hear, you're thinking about sort of two disclosures, I think they'll be really useful such as we go into our crescent team. In the meantime, could you just give us some sense of what proportion of the operating surplus generation is management actions. I realize that's a bit of a loose category, but anything you could say on what proportion, would be very helpful?

Secondly, I think there was a comments about some of the reinsurance. You guys normally have done in H1 being deferred, into, H2. I imagine that meant that the new business strain would have been higher in H1 than you would expect to learn the normal course of events. What would be the IFRS impact, would be like a another positive or negative in H2? If you then update the reinsurance?

And then thirdly, I just don't like mortgages, I think it's like mortgages in retirement will be do this. Now volumes, I think are up on last year, but I think they're still down pre-pandemic times, curious to hear your view on the outlook for that business line? Do you think that, that's going to recover an H2 and in 2022 and being? Thank you.

A - Nigel David Wilson {BIO 1535703 <GO>}

Jeff will take the first two questions. I'll take the third.

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

Yes. In terms of management actions in OSG is relatively minimal amount. We always affected some things, we know we're doing, in terms of I don't know, we may have warehouse on other liability, which is to do some reinsurance when no, we're going to do that, as you say, it's a very broad category, but it's relative

(Technical Difficulty)

Operator

(Operator Instructions).

Thank you for your patience, everyone. We have reconnected the speakers, please resume.

A - Nigel David Wilson {BIO 1535703 <GO>}

It's obviously Steve now from HSBC. Steve?

Q - Steven Haywood {BIO 15743259 <GO>}

Thank you. Thank you for squeezing me in. Three questions here. That's almost on your third party capital 6.8 billion now, obviously grown strongly in the first quarter 5.2 billion end of the year, really want to know what sort of revenue margin you're receiving in terms of fees from this third party capital stream, so we can sort of look at what it might be when it reaches the GBP14 billion mark in a few years time as well. Secondly, you've previously given some information about the pipeline of UK, PRT, I wonder if you can talk about an L&G pipeline and I know you mentioned the GBP2 billion pretty much done in July, but if you can give some more guidance on the rest of the year, that would be very useful.

And then finally, from me on the operating profit guidance, , it is obviously based , based off of her, the GBP2 billion base level below wondering, if you can be the clearer on the percentage range, you're looking at is a sort of looking at 10% to 20%, 20% to 30% or we're not obviously talking about a 90% double digit growth rate but maybe I'm being a bit facetious [ph] on the last question. Thank you.

A - Nigel David Wilson {BIO 1535703 <GO>}

I'll take the first one. Do you want to take the second, Jeff? On the first one, no, this to see ranges between about it 50 basis points to a 150 basis points across the different asset classes. Clearly the mix, we can't be certain as to what the mix is going to be going forward, but there's a healthy pricing range, but for those assets.

A - Stuart Jeffrey Davies {BIO 20023574 <GO>}

Sure. Yes, pipeline. Some of that pipeline is, yeah, it's very strong. It's not dissimilar to the numbers we've given in the past, it's up that order up to 20 billion that we see but obviously, a number of those deals which we now see in, which is stronger, than we, probably thought at the start and some of those will naturally flow into to into next year as well.

Given the 2 billion and exclusives were in a strong place coming into the second half, or post-holiday second half if you like the obviously executed, very well in July and so, we are comfortable that we don't necessarily need to be hit in 8 billion to 10 billion with a good quality assets. We've got to -- get to the metrics we anticipate for this year and hit the metrics. We need and so, we can look at what's the best business out there was the most advantageous to us to build on top of that size. So, there's plenty out there coming from a strong position. If the markets '20 to '25, we keep our market share. We get a good level of new business volume on the back cover.

Yeah, they are profit don't think I'd be giving too much away. I'd say, we don't particular anticipate doing 20 to 20% to 30% profit growth overall. You never know, where say we're clearly talking about what we've done historically is always been 10% plus, 14% in the first half, if those are the sorts of numbers we talked about when we say double-digit.

A - Nigel David Wilson {BIO 1535703 <GO>}

Thank you to everyone for participating in the call this morning. I think there's a great variety of questions which is from Jeff and my point of view has really kept us on our toes during the presentation. We look forward to seeing everyone, hopefully in person, at the LGC Capital Markets Day in October, we remain very confident about our capability to continue to deliver great returns for shareholders on a go-forward basis.

And we're very happy with our portfolio of business. I think as we've alluded to, I think you should expect some further announcements on us, bringing third party capital into various parts of LGC continuing to make very good progress in terms of executing LGEN strategy around diversifying internationalize, but also Jeff just talked about a very solid performance that we're going to see and continue to see from our PRT business and retirement solutions business has been going from strength to strength has indeed, has LGI particularly in the United States.

So it's taken us a long time to get the portfolio into the shape it is today. And you can see the outstanding results of that portfolio is driven by tremendous people efforts right across our organization. So, look forward to seeing you in October. Good bye.

Operator

This concludes today's conference call. Thank you for joining. You may now disconnect.