Y 2020 Earnings Call

Company Participants

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

Other Participants

- Andrew Baker
- Andrew Sinclair
- Dominic O'Mahony
- Gordon Aitken
- Louise Miles
- Stephen Hayward

Presentation

Operator

Ladies and gentlemen, welcome to the M&G live Q&A session. (Operator Instructions).

I will now hand over to your host Luca Gagliardi, Director of Investor Relations to begin.

Luca, please go ahead.

Luca Gagliardi {BIO 21290241 <GO>}

Good morning and welcome to our 2020 full-year results Q&A session.

Today, I have with me John Foley, our Chief Executive and Clare Bousfield, our Chief Financial Officer. John will be giving a short introduction and then we'll be happy to take questions.

Over to you, John.

John Foley {BIO 4239156 <GO>}

Thank you, Luca. Good morning, everybody.

So this is progress. We did it from home last time. We're now in the office. So hopefully we'll have you all in here the next time we do this.

As you've seen this morning, we've announced the first full set of results as an independent business since our market listing back in October 2019. These results demonstrate a strong and resilient performance in one of the most challenging operating environments ever. They also reflect the value of our diversified and integrated business model as asset owner and asset manager.

In 2020, we laid the foundations for our return to growth including fixing our retail asset management and accelerating our expansion into UK wealth management. Above all, we are pivoting the entire company to sustainable investing, a strategic direction, which will benefit customers and shareholders, our communities and the planet. I want to thank all my colleagues for their resolve and commitment in the face of the pandemic as they continue to serve our customers and clients from the safety of their homes.

With that, I'll open the call for questions.

Questions And Answers

Operator

(Question And Answer)

Thank you very much. (Operator Instructions) Our first question is from Andrew Sinclair, Bank of America. Your line is now open. Please go ahead.

Q - Andrew Sinclair {BIO 3232978 <GO>}

Hi. Morning, everyone. Three for me if that's okay. Firstly, just on HoldCo cash, just really wondered what you're likely to be remitting up from subsidiaries this year. You previously said cash and capital are pretty much synonymous for you. You just generated about GBP1 billion of capital. So should we see a substantial portion of that coming up?

Secondly was on PruFund in Europe. I think we previously expected the launch of that before the end of 2020. I'm not sure we've heard anything on that. Just wondered if you could provide an update.

And thirdly is on strategy. You've repeatedly said you're an asset owner/asset manager. And to me, if that's your business model, then one of the most obvious products to be writing would be bulk annuities. You still got GBP35 billion of annuities AUM, which seems enough to provide scale. You've shown you can get attractive returns from those books with the Heritage book. Others in the market have built a credible bulk annuity franchise from pretty much zero. Just really interested in why you don't have any desire to rebuild your bulk annuities franchise. Thanks.

A - John Foley {BIO 4239156 <GO>}

Thanks, Andy. So Clare, will you take the first one, I'll take the other two?

A - Clare Bousfield {BIO 16746072 <GO>}

Yes. So there's a simple answer to that one, Andy, in terms of the dividend and the cash and capital. As I've said before and quoted, absolutely cash and capital for us is much aligned. So you're absolutely right, we would expect to have a dividend up of close to GBP1 billion from the operating companies.

A - John Foley {BIO 4239156 <GO>}

And then PruFund in Europe. So yes, you haven't heard much about that. It won't be called PruFund when we take that product to Europe by the way. We are now operationally ready to deliver that product, but we've still got quite a lot of paperwork to do. So it will still be a while before we actually deliver that proposition into the hands of our customers in Europe. But we've continued to talk to our bank partners in Europe and there's still strong demand for that. So it's a question of getting through all the, if I call it the paperwork that we've got to get done.

In terms of the strategy, I think the strategy lends itself to a capital-light structure. And we've often said that we will emphasize the investing side of our business, the savings and investment side of our business rather than the Heritage business, which is a back book.

I've been careful never to close down our options on this topic. So most of the conversation is around when you are going to sell the part of the back book. And now this is a different way of asking more or less the same thing. But our view is that we're very happy with the structure that we have right now. We're very happy with the back book. We -- as you say, we manage it pretty well. If options come along that are attractive, then we'll only think about it from a shareholder perspective. So it's not a strategic direction that we aim to follow. But as I say, I don't like to close down any options.

Q - Andrew Sinclair {BIO 3232978 <GO>}

Thank you.

A - John Foley {BIO 4239156 <GO>}

Welcome.

Operator

Thank you very much. Our next question is from Andrew Baker of Citi. Your line is now open. Please go ahead.

Q - Andrew Baker {BIO 3694545 <GO>}

Hi, everyone. Thanks for taking my questions. Three for me as well, please. So just first, we've seen some recent fee reductions on several of your funds. If we just assume current market conditions, can you just give us what your expectations are for 2021 asset management revenues given these fee reductions relative to 2020? And then maybe what your ability to offset some of these two cost reductions is?

Secondly on PruFund flows, so obviously, these were down in 2020 because advisers weren't able to get out and meet new clients. Are you expecting pent-up demand when movement restrictions are lifted? So do you expect any of these missed modes to be caught up? And then just thirdly Prudential commented last week that it expects about GBP6 billion outflows in the first half in respect to funds managed from behalf of M&G. Presumably this is AUM that you're bringing back in house, can you just remind us on the remaining funds held by prudential that you could potentially bring back in over time? Thank you.

A - John Foley {BIO 4239156 <GO>}

Thank you. Thanks, Andrew. So the fee reductions question, I'll ask Clare to answer the impact on revenues and so on. But if you really think about that it as a sort of one-off, it's part of an integrated strategy to fix our retail fund management offering quite frankly. So it's been about performance, our competitive position and how we think about the analysis of the funds. Have we got the right fund offering? Should we think about collapsing some of those, which we've been doing and otherwise. So the actual reason for the fee reduction was as much about the strategy around our retail fund management business.

But Clare, have you got some answers on the impact on revenues?

A - Clare Bousfield {BIO 16746072 <GO>}

Yes. So we made two changes to the fees for the funds. In August, we made some changes to the SICAVs in terms of the discounts we offer. And that was just under GBP20 million per annum. And then we made another adjustment to the OEICs, which affected 75% of the OEICs, and that was in February this year. And that has around about GBP45 million per annum impact in terms of fee reductions. And from our perspective, that is really the bulk of the fee reductions that we're expecting to make recognizing that the environment going forward is something that can constantly change.

As you said, Andy, in terms of cost reductions, obviously, as we address the kind of the fee and the sustainable pricing, one of the points we also need to look at is the cost reductions in terms of how we treat that. As you have seen from our numbers, that broadly the fee reductions and the revenue reductions is broadly offset by the cost reductions and we would look to continue to basically drive that across the business.

We've obviously -- as a result of the COVID and the pandemic, we've been able to reduce costs, but there are also elements of that that provide long-term sustainable cost reductions together with other opportunities across the portfolio. So it's something that we are constantly focused on in terms of how we optimize the business model both in terms of the cost reduction, but also and as importantly to create a platform for growth.

A - John Foley {BIO 4239156 <GO>}

Thanks. On the question of PruFund flows, obviously, I think it's our hope that they do get caught up once the market reopens and we can -- and the IFAs can get face-to-face with their clients once again, I mean, this is an advice product. And people generally do put a significant sum relatively into this strategy. So it is something that they will need advice on. And the way they take advice is face-to-face rather than over the Zoom call. And we've seen that. So we would hope that -- I mean the proposition is still extremely strong. And we would hope that there is a catch up there as the market reopens.

In terms of the in-house funds transfer, well, as far as I'm aware, that's been largely complete. There are still some funds to -- I mean, this is a decision for the investment office of the life funds. So they decide where those funds will be managed. And most of the funds both in North America and in Asia, have come back to be managed by M&G. And there may be some residual money left with local asset managers, including a previous parent. But that won't -- I doubt be significant, so.

Q - Andrew Baker {BIO 3694545 <GO>}

Great. Thank you, guys.

Operator

Thank you, Andrew. Our next question is from Dominic O'Mahony of Exane BNP Paribas. Your line is now open. Please go ahead.

Q - Dominic O'Mahony

Hi, folks. Thank you for taking the questions. Just the first one on the sort of the direction of travel for margins beyond retail asset management. On the internal asset management portion, the margin has been sort of picking up a little bit. Is that reflecting essentially increased illiquid asset allocations? And is that just going to sort of keep trickling up as those go up? And relatedly, on the performance fees, I mean, clearly, an increase on last year. Is that essentially a reflection of institutional mandates maturing and starting to pay out performance fees, so it's sort of a new run rate? Or is this really a reflection of sort of a very good performance in the period and we shouldn't be reading it through?

Second question, just a quick one on PruFund to gross sales, take the point about face-to-face meetings being difficult. But if I look at the like system changes place for quarter, it doesn't look like they're down 50%. Is proven, in particular you think sort of sold face-to-face? Or was there some other sort of factor driving sort of the relatively sharp reduction in gross sales?

And then final question, I noticed some of your peers have started to -- some of your bulk annuity peers have started to ensure their own pension schemes. You clearly have quite a large, very mature pension scheme. Is that something you would consider as a sort of a one-off return to the bulk market? Or indeed if you were to do so do you think that actually, there's value to be released from that pension fund for shareholders in the very long-term that might be incremental to your capital generation from the sort of the shareholder book? Thank you.

A - John Foley {BIO 4239156 <GO>}

Thanks for those, Dominic. So on the -- on margins and the internal margins in particular, I mean clearly those are negotiated between the asset owner and the asset manager. And the asset owner, as you would expect drives a very hard target. But it's up to the asset manager to come up with new ideas, new strategies, and new ways of providing the solutions that the asset owner wants. And so that's what we've been doing for many years and that's what we'll continue to do. And that's the leverage that we deploy with third-party clients and institutional clients. So that's something that's in our DNA, and that's what we continue to do. Performance fees have also been a constant. I'm not sure how much we've talked about them over the years. But they have been constant in our revenues over a long period of time. So I don't think there's anything exceptional you should see about that one.

A - Clare Bousfield {BIO 16746072 <GO>}

Yes. The one thing I would say on the performance fee is they can be a bit lumpy based off just, as you said it can be driven by the performance focus of the 10-year period and then actually how those performance fees come through. So if you look at the history in terms of where you get to, it's -- you can't necessarily say it's totally flat over that period.

A - John Foley {BIO 4239156 <GO>}

Yes. Yes, it is lumpy. And then on PruFund gross flows, I mean, I think it's different as between us and others. So others have a platform. And usually I think those investments are of a different order to the investments in PruFund. So these are advised sales that are made on the PruFund and as far as I'm aware, not with others. So it wasn't a surprise to see people, who can access funds through a well-established platform doing that clearly in our case and with the intermediates not being able to actively engage with their customers. That's been an impediment for us. Hopefully going forward though, we have -- we've acquired Ascentric. That is going to be a great platform for us to sell that product, which you can only buy from us, right, on that platform. So the IFA market will be able to use that platform to sell PruFund. So we would hope that, that would be the mechanism for sales in the future.

A - Clare Bousfield {BIO 16746072 <GO>}

One thing, John, I'm just going to add on that is when you compare us to other players like St James's Place, they play much more in the accumulation space. We tend to play much more in de-cumulation, which is why -- well, if you look at the income drawdown market, what you'll see is that's dropped by around about 40%, 45%, which is broadly in line with the drop that you're seeing in terms of PruFund sales. And if you think about it, that point of de-cumulation is obviously the most complex point that a customer goes through. So that's why the face-to-face advice is critical. But if you look at our competitors in that market, it's broadly in line.

A - John Foley {BIO 4239156 <GO>}

Yes. Do you want to take the pension question as well?

A - Clare Bousfield {BIO 16746072 <GO>}

So as far as the pension question, I'm going to repeat a bit of what John said. So our strategy is very much capital-light. So we wouldn't look to go to basically take a chunk of the annuities from the pension scheme in terms of being a very capital heavy structure, but there are potentials in terms of actually from an asset management perspective, in terms of playing in that place and looking at it from a capital-light perspective. And there are also elements around the with-profits fund, where we have a significantly strong capital position. And potentially there are some angles there in terms of actually leveraging something that's more capital-heavy, but it will fundamentally drive into our strategy of asset management and the growth within asset management as opposed to driving heavy capital investment.

Q - Dominic O'Mahony

That's super clear. Thank you so much.

Operator

Thank you, Dominic. Our next question is from Louise Miles of Morgan Stanley. Your line is now open. Please go ahead.

Q - Louise Miles {BIO 20765435 <GO>}

Hi, good morning. John, Clare, and Luca. Congratulations on the results this morning. Just two questions from me. The first one is you mentioned targeted acquisition of new capabilities. I'm just wondering, is there anything in particular that you think M&G could benefit from having? Could you just give us a bit of color on that?

And then also on Slide 28, that's a really helpful slide, but does it allow for the change in corporation tax and outside the transfer last week? And if so what exactly is your assumption about how long that corporation tax rate last call? Thanks.

A - John Foley {BIO 4239156 <GO>}

So I'll take the first one. The -- I mean, we're always looking for new capabilities. You'll have seen recently that we have pivoted the entire company towards sustainable investing. We've deployed GBP5 billion of the policyholder money into private asset, sustainable assets that are going to have a positive impact either on society or on the planet. We put together a team of 25 people globally to actually pursue that strategy and we will do more as the opportunities unfold. So there are things that we identified, but we like wherever possible to actually deploy resources that may be used on strategies that are maybe a bit long in the tooth into these new exciting things that we're doing. But where we see the opportunity and we don't have the capability, we will look for an infill or something. So that's been our strategy. And you've seen us do that with acquisition team in North America, in -- with this team in Asia and with the Ascentric proposition. So we will continue to focus on that sort of strategy of infilling the gaps, wherever we identify them.

Clare, will you take the second question?

A - Clare Bousfield {BIO 16746072 <GO>}

Thank you, Louise, as well for your comments on the presentation. Yes, on Slide 28, the runoff shows it includes the update through corporation tax, which has a relatively small impact in terms of the cash flows we expect over the next 10 years.

Q - Louise Miles {BIO 20765435 <GO>}

Thanks, guys.

A - Luca Gagliardi {BIO 21290241 <GO>}

Thank you, Louise. I'll be taking a couple of question from the webcast. Ashik and have submitted two. So then we'll go back to the phone line. So starting with Ashik, which came first? He says, "Hello. I have three questions if I may. One, how do you -- how do we think about scope for management action in coming years? Can you please give some potential sources of it?

Number two, what is the Solvency II surplus in the operating entities that isn't included in the GBP10 billion underlying capital generation? So again, referring to Slide 28.

And then finally number three, given your Solvency II ratio of 182% and increasing due to year-to-date rising rates, what is your plan for the surplus Solvency II ratio as you would be sitting at around 190% at the moment?"

Thanks, Ashik.

So maybe, Clare, if you want on the second one, I can provide a very quick and simple answer to Ashik, which is we don't provide a figure for that, but the capital is out in the subsidiary in line with our capital management and risk appetite framework, so obviously, over time as that would be released. So not a specific figure. Do you want to take the other ones?

A - Clare Bousfield {BIO 16746072 <GO>}

Yes. So in terms of management actions, Ashik, so we delivered just over GBP700 million of management actions in 2020. Those related to longevity, which you can see is just around just under GBP250 million. We delivered -- we extended the equity hedging. And then we also did continue to do the asset trading that we've done historically, which is absolutely about maximizing the yield compared to the underlying risk. We also de-risk sold some of the credit as the portfolio ran off and that basically released capital. And then there was another optimization strategy that we applied in terms of the ALM, which you can continue to do as the market moves and the portfolio changes. And then there were also some releases of provisions as we closed down a number of the legacy programs that have been ongoing for the last couple of years.

So when you look at the balance sheet overall, the balance sheet is equally as prudent at the beginning and the end of the period. And that's one of the things that is really critical to us in terms of how we maintain those ongoing stream of management actions. So most of the longevity was underlying base longevity rather than actually the CMI tables. So hopefully that kind of gives you a sense in terms of how much of those are sustainable. I wouldn't expect management actions of the order of GBP700 million on an ongoing basis. And you can think about the first half of the year being the point, where we actually looked at the market volatility and the position from a solvency perspective and actually pushed in terms of looking at management actions while the second half of the year I would describe as a more normal period given where the market was.

From a solvency perspective, yes, the solvency position ended up being very strong. One of the things I think we need to remember though as part of that is that a number of the reasons why the solvency position was strong were because of effectively how global markets moved compared to our portfolio. So if you think about equities, North America was particularly strong. The UK had a weaker year. When you look at interest rates and credit, when you look at our portfolio and what actually happened compared to the sensitivities, we ended up benefiting in the second half of the year. That can obviously work both directions. So yes, today, our solvency position is very strong because interest rates have continued to increase. But from our perspective, given the sensitivities and given the pandemic and the situation we're currently in, we're very comfortable with the strength of it, but you also need to recognize we are in the middle of a global pandemic.

A - Luca Gagliardi {BIO 21290241 <GO>}

And so maybe following up on that, the next question from Paruk is very much along the same line. So apologies, Paruk, if I didn't put it first, but I think Clare might have answered most of it already. Paruk asks, "Beyond the GBP2.2 billion capital generation target for 2020, 2022, what do you expect the natural level of management action to be above underlying capital generation?"

A - Clare Bousfield {BIO 16746072 <GO>}

So yes, I would repeat. If you think about the first half of the year as being something that was much more in terms of response to the market volatility and the second half of the year being much more what I would describe as a normal year, then hopefully, that helps you get a sense in terms of what you think those management actions will look like going forward.

A - Luca Gagliardi {BIO 21290241 <GO>}

And its worth bearing in mind that in the second half of the year is when we implemented most of the longevity assumption changes. And so in a way, I would not necessarily double the second part of the year. But I would remember that in the second part, we benefit on the longevity and that's on when we do it once a year.

So Ruby, maybe we can go back to the question of the people on the phone line.

Operator

Absolutely. Our next question is from Gordon Aitken of RBC. Your line is now open. Please go ahead.

Q - Gordon Aitken {BIO 3846728 <GO>}

Great. Thank you. Three questions, please. First, you announced quite a large mortality release to date. It's almost a quarter of your operating capital generation. Can you just post into what is the base table and what is the move to CMI 18? And I mean, within CMI 18, you proposed a move on the smoothing factor from 7.5 to 7.0. What did your smoothing factor move from? And what did it move to? Thanks.

And second one on the annuity reserves. What proportion of the liabilities is currently reinsured for longevity risk? And finally a question on the potential for Solvency II reform post Brexit. Your risk margin is on a much larger multiple of your transitional versus some of your peers. If there is a reduction in risk margin, you could see a material one off benefit. What do you expect from this? and do you think the ABI's proposal of a 75% reduction in risk margin is likely? Thank you.

A - Clare Bousfield {BIO 16746072 <GO>}

Thank you, Gordon. So in terms of the mortality release, the vast majority of the mortality release was on the base table. We've done a lot of work over the last three to four years effectively rebuilding that model and looking at how we can model base mortality. And as you would expect when you go through quite a significant change in the models, you tend to find that the positive results, you tend to wait for a trend and make sure that you're totally comfortable with it, while anything negative, you tend to take at that point in time. So what we are seeing is the benefit of a lot of that model refinement that we've done over the last couple of years.

And we don't disclose a smoothing factor, but all I would say is that overall, I'm very comfortable that the longevity basis is prudent and it continues to adopt a prudent approach. The other thing that I think we have to remember is that the CMI tables are highly calibrated now. So it's absolutely based off your own experience and how you calibrate it in terms of that prudence.

In terms of the amount of the book that is reinsured, it's just fewer than 50%, and we haven't really moved that percentage over the last couple of years. There would obviously be an opportunity to reinsure further blocks of that business, but that has to come down to the commercial benefit in terms of capital. So it's a good example of one of the things that from my perspective, when you're sitting on potentially prudent reserves and a degree of uncertainty in terms of future mortality, reinsuring it potentially gives away value. So it's one of the areas that is an option and a lever that we have, but it would have to make sense in terms of actually the capital benefit in the context of the solvency ratio rather than to just drive management action.

In terms of the Solvency II reforms, I think it's important to remember that any release of the risk margin would get effectively offset by the TMTP. So anything that comes through that reform really would have very limited impact in terms of the Solvency II numbers. And from my perspective, I'm not expecting significant changes. The one thing that is very clear as the volatility of the risk margin is the key issue here. And I know that's where the PRA is very focused on. The one area that I do believe that would be important is changes in the matching adjustment particularly in terms of the context of infrastructure and how we as annuity players can actually help the government in terms of investing in infrastructure. So from our perspective, that's the bigger driver in terms of Solvency II reform.

Q - Gordon Aitken {BIO 3846728 <GO>}

Thank you.

Operator

Thank you very much. Your next question is from Stephen Hayward of HSBC. Your line is now open. Please go ahead.

Q - Stephen Hayward {BIO 6022767 <GO>}

Hi. Good morning. Thank you very much. You mentioned in the webcast that you had a -- only one default in 2020 of a GBP200 million instrument. I guess going forward, just what is your outlook for 2021 in terms of defaults and downgrades? Because obviously, as a lot of support gets withdrawn from the economy potentially, there might be more of an uplift to come in the future. And I was wondering if you could -- can you give us a percentage of your book that was downgraded to sub-investment grade in 2020 as well?

And then you've mentioned earlier about possible targeted missions and investments. One of your competitors announced that Parmenion is up for sale. Is that of interest to you? Or have you put your base in Ascentric now and don't need to -- anymore additions onto that side of the business?

And finally from me, on the integration of your retail savings and retail funds, can you provide just more color and more detail here? Because I was trying to follow what was happening in -- with this in the webcast, but I didn't really fully understand what the potential benefits would be here. Thank you.

A - Clare Bousfield {BIO 16746072 <GO>}

Shall I take the first?

A - John Foley {BIO 4239156 <GO>}

Do you want to take the first one now and then I'll take the last one?

A - Clare Bousfield {BIO 16746072 <GO>}

Yes. So Stephen, first thing to just correct you is that the default that we saw was for one bond with a nominal value of GBP2 million, not GBP200 million. So it's really tiny in terms of the default. As far as what the future looks like, I guess there's two ways to look at this. Firstly, we're in a very uncertain environment, in the context of the pandemic. So in terms of when the government takes off the funding, it's pretty difficult for anybody, I think, to call exactly what's going to happen. But saying that, I think you've got to look at our portfolio and recognize how conservatively we are positioned.

So from my perspective, are we absolutely monitoring and watching the portfolio in terms of understanding what the implications of it are? Yes, but we don't have significant exposure to the sectors that you would be concerned about in terms of hospitality, leisure, et cetera. And when you look at the proportion of the portfolio that is BBB and below investment-grade, it's tiny in the context of that overall portfolio. So we have not seen significant downgrades to below-investment grade. So from our perspective, we're very comfortable with where we sit today, but I think we have to acknowledge that uncertainty that is on the horizon.

A - John Foley {BIO 4239156 <GO>}

To your question on acquisition, I think I answered as far as I'm going to Louise earlier ON that. I mean you wouldn't expect us to comment about the specific opportunity that might be around in the market.

Look, the -- all I will say though is that we're very happy with the Ascentric acquisition. We think that it's brought a number of relationships with advisers, customers, funds under management. But most important, it's brought the platform that will enable us to sell some of our core products direct to the IFA channels . And that's really what's missing for us. So we're very happy with that. I mean I'm never going to close my options down. So I won't rule anything in or out, but that's as far as I'm prepared to go there.

On retail funds, it's -- we have gone through a significant piece of work on retail funds. And I'll take a few moments just to explain what we've been doing, because it is important not only to the business, but also to the framework of how we're going to deliver that part of the business to our customers and clients particularly in the UK market. And I've been pretty clear about the extent of the challenge facing the retail management industry.

So I'm happy to go into that in some detail, because we've been addressing this issue both tactically and strategically. And at the half year as a matter of fact, I did set out what we're doing to fix our retail funds business, which is very much focused on improving investment performance. That's the tactical bit if you like. We brought disciplines from our institutional business to the retail investment management. That's investment performance, which focuses more on data and analytics. We've conducted more fund deep dives, which better to understand the performance drivers of funds. And we've supported very much this collaboration within the investment teams, which is sort of moving away from the star fund manager approach.

Now I will say that this is early days. But in the second half of the year, I can tell you give you a couple of the stats in terms of how things are moving. In terms of performance over a percentage of funds on a three-month period in above median, in May 2020, it was 14%, 1-4 percent. In -January by the time we've taken these actions, it was 76%. And at the same median measure on a six-month period back in May 2020 was 20%, and that moved by January to 71%. So it seems to be working. I'm not calling it. Its early days. These things take time, but it's important to understand what we've done to actually improve performance. But that's the tactical response.

The strategic response is the sort of overall fix to the business. And we've actually been fixing the structural challenge, which had been brought about by the shifts in the distribution landscape. And so for most of the previous decade, a tactical response to RDR and similar shifts in distribution was being sufficient. And good performance when you've got supportive macro markets means that you get inflows. And that's what happened with M&G except that we actually had outflows in the UK market context. And as we know from a distribution perspective, it seems that the European market is following the UK market. So that's not surprising.

So these shifts in distribution patterns have been -- become so pronounced that it's obvious when I took the job as CEO of M&G that we needed to take some strategic action. And customers and advisers today search for a partner that can offer them a complete and integrated proposition. They want to buy an end-to-end service that encompasses advice, consolidation and administration services and investment solutions that deliver good value for money and good -- and achieve really good outcomes. So rather than individual product solutions distributed through sales teams, you can sell I prepared some text on this, because I knew it'd come up. Advisers are looking to platforms as a way of getting an experience, where they can access to multiple solutions and to help their business achieve results for their customers. We believe in the future of the retail funds business, but its one component, it's only one component of a wider interaction in the distribution landscape with customers.

So as an independent freshly merged business, we inherited most of the right components for this integrated proposition. But what we lacked was a proven administration platform, and that's something that advisers can use to administer their customers' long-term savings. And that's why we bought Ascentric. So we'd have had two. If that hadn't come along, then we'd have developed it ourselves. So that's been an acceleration of our strategy. That has in turn enabled us to create M&G Wealth, which we think is a powerful new force in the UK market. And I'll give you some stats around that.

Right now it has GBP28 billion of assets under management and administration. When we add our other retail savings and funds to that platform including PruFund, and we will have a wealth manager with GBP110 billion under administration. The addition of PruFund will make this a compelling proposition through -- because you can only buy -- as I said earlier, you can only buy PruFund from us. And another proof point is that, we estimate about 60% of wealth on UK platforms today is in some form of pension matter. And that's the same as seek to convert wealth into an income, we want to be the go-to destination. So we think for all those reasons, we'll win both in the UK and for much the same reasons we'll win in Europe.

I've already talked about pricing, but that is a key component in this, but so is the product that we distribute. And so we've reviewed our product portfolio in some detail. We've been revamping it fairly considerably. We've refreshed some funds. We've consolidated others. And we've been launching a new generation of propositions with a strong focus on ESG and sustainability, aimed at the growing demand for that type of product. And these new funds have been performing very strongly since inception and those would be the M&G positive impact fund, the M&G sustainable impact fund, the M&G climate solutions fund, and the sustainable multi-asset fund.

And to come later in the year, we will have PruFund Planet, which we hope will be a game-changer yet again in that strategy. So we put these ESG requirements at the center of our investment decisions, using a framework that we developed, which actually has positioned us well for how the Europeans look at that. And we believe only active managers can do this. So I've already talked a bit about pricing, but that, I hope, gives you a better context of what we've been doing in terms of the retail management side of -- retail asset management side of our business.

Long answer, but important to get the message across, I think.

Q - Stephen Hayward {BIO 6022767 <GO>}

Thank you very much. That's more than I was hoping for. And apologies on...

A - John Foley {BIO 4239156 <GO>}

Yes, yes. We like to give a bit more than they hoped for.

Q - Stephen Hayward {BIO 6022767 <GO>}

Excellent. Thank you very much.

Operator

Thank you very much, Steve. (Operator Instructions) I will now hand back to Luca for any webcast questions.

A - Luca Gagliardi {BIO 21290241 <GO>}

Thank you, Ruby. And yes, we do have a couple of questions from the web coming from Charlie Beeching from KBW. And I think they fit nicely as a segue to your last long answer. He's asking first of all, do you expect net flows? I presume retailers asset management net flows because PruFund institutional are already positive. Do you expect net flows to turn positive either this year or next? And what is the key driver of this?

So I think you have talked a lot through the drivers. But I guess if you want to say anything specific on expectations to Charlie.

A - John Foley {BIO 4239156 <GO>}

So any one question? Normally, we take...

A - Luca Gagliardi {BIO 21290241 <GO>}

Yes, I wanted (inaudible)

A - John Foley {BIO 4239156 <GO>}

I've got no pre-prepared notes on this one, Charlie, so it'll be short. The answer is that if you subscribe to the view that an improvement in performance, then flows follow, then I think a reasonable person would expect to see the flow position change during the course of this year and into next year. But it's more about the overall proposition that I've described, and I've been at pains to describe to you this morning that I think is what we expect to be the game changer. And I am not going to put a timeframe on that, but a lot of hard work has gone into this and our expectations are high.

A - Luca Gagliardi {BIO 21290241 <GO>}

And then the second question from Charlie is, "Are you feeling more confident on the GBP2.2 billion total capital generation target following today's result?"

A - Clare Bousfield {BIO 16746072 <GO>}

So from my perspective, I think Slide 27 sets out in terms of what we -- how we look at the GBP2.2 billion target. Definitely, we are feeling more confident about the GBP2.2 billion target than where we were at the half year, predominantly driven by where markets were. You can see in there in that -- on that slide in terms of what we have to assume in terms of being able to hit the GBP2.2 billion. It's -- the market movements would be the key thing in terms of the pandemic. But in terms of underlying business performance and management actions, yes, we're very comfortable and confident around GBP2.2 billion.

A - Luca Gagliardi {BIO 21290241 <GO>}

So I think this possibly brings an end to the Q&A session. We have no more questions online. I'll just refresh quickly now. But I think we have tackled them all, and there are no more hands raised on the phone line. So I think with this, we can close up.

A - John Foley {BIO 4239156 <GO>}

Okay. Well, thanks to everybody for dialing in and joining us today. We very much appreciate it. Thank you.

A - Luca Gagliardi {BIO 21290241 <GO>}

Thank you very much. Have a good day.

Operator

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