Legal and General Group PLC Q1 2013 Interim Management Statement Conference Call

Company Participants

- John Pollock, Group Executive Director, Protection & Annuities
- Kate Vennell, Head of IR
- Mark Gregory, Managing Director, Savings
- Mark Zinkula, CEO, LGIM
- Paul Stanworth, Head of Group Treasury & Investments
- Wadham Downing, interim Group CFO

Other Participants

- Alan Devlin, Analyst
- Andrew Crean, Analyst
- Andy Hughes, Analyst
- Blair Stewart, Analyst
- James Pearce, Analyst
- Jon Hocking, Analyst
- Kevin Ryan, Analyst
- Marcus Barnard, Analyst
- Oliver Steel, Analyst

Presentation

Operator

Ladies and gentlemen, welcome to the Legal and General Plc Q1 IMS conference call. My name is Andy. And I'll be the operator for your call this morning.

I would now like to hand you over to your host, Kate Vennell, to begin today's call. Kate, please go ahead.

Kate Vennell

Good morning, everyone. And thanks for joining the call. Wadham Downing, interim CFO, will chair the call this morning. And he is joined in the room by several of our colleagues. We have John Pollock, CEO of Protection & Annuities; and Mark Gregory, CEO of Savings. And also, on the phone from Chicago we have Mark Zinkula, CEO of LGIM. They will be delighted to answer any questions that you have but, first, Wadham will give a short summary of the results.

Wadham Downing {BIO 17627522 <GO>}

Thank you, Kate. Good morning, everyone. And thank you for joining our Q1 IMS call. Today, we have announced record First Quarter sales, assets, op. And net cash. Our market-leading franchises in protection, annuities, savings. And investment management have all had strong quarters. And they're extremely well positioned to continue to grow.

In Annuities, individual and bulk premiums were up significantly on Q1 last year. Individual premiums were up 51%. And bulk premiums were up to GBP357 million, from GBP36 million last year. We have also just written our first international BPA deal with New Ireland Assurance for EUR136 million.

Managing pension scheme balance sheet risk is an international market, not just a UK one. And we expect to be increasingly active in this new and exciting market as it develops.

In Group protection, sales were up 67%, benefiting from auto-enrolment and its excellent record for employee rehabilitation. And in US Protection business, we have grown sales by 6% to $34 million.

LGIM now manages GBP441 billion of assets, up 9% since Q4, with gross fund flows for the quarter of GBP13.6 billion, up 81%; and net fund flows of GBP5.5 billion, up 113%.

LGIM's international expansion continues. Our LDI, Active Fixed. And Indexed offerings continue to grow in the US, Europe, Gulf. And Asia. International net fund flows were an exceptional GBP6.7 billion. And international assets are now over GBP50 billion.

The Savings business increased sales by 20% to GBP366 million in Q1. The big success here was workplace savings, with APE sales of 115% to GBP202 million. The Savings business now has AUA of GBP74 billion.

Since prelims, we've also been active in the M&A space with our Cofunds and CALA deals. Cofunds, we enhanced our digital and asset gathering capability in the Savings business. And saving of assets under administration will increase to over GBP100 billion.

CALA is a clear example of the opportunity that exists for us in direct investments as banks continue to retrench.

On outlook, we remain positive. We are confident our businesses can continue to grow, to provide more value to both our customers and shareholders.

I'll now open up the call to questions.

Questions And Answers

Operator

(Operator Instructions) Jon Hocking, Morgan Stanley.

Q - Jon Hocking {BIO 2163183 <GO>}

I've got two questions, if I may. I just wondered, on LGIM, if you could comment on the pipeline you see for the rest of the year. And whether there are any lumpy transactions in Q1. Because the net new money has really grown very, very quickly in LGIM. So I'm wondering whether we should be extrapolating this for the rest of the year. That's the first question.

And second question, in the release you mentioned moving into the enhanced annuity market as a key area of growth. I just wonder if you could talk a little bit about that; what the strategy is, what the upside is there. Thank you.

A - Wadham Downing {BIO 17627522 <GO>}

Okay, the first one Mark can take. And then pass on to John.

A - Mark Zinkula {BIO 16142450 <GO>}

Okay, this is Mark. In regards to the pipeline, we're continuing to see strong demand internationally, particularly in Europe, in the Gulf, for indexed funds. So that's largely attributed to be a strong increase in passive flows.

I wouldn't annualize the numbers. Our client base is largely institutional. And the levies[ph] will be uneven, or quarterly flows will be uneven. But we continue to see strong demand and a growing pipeline. And, again, continued growth in the US and the UK in LDI, in fixed income, as clients increasingly implement de-risking strategies.

Q - Jon Hocking {BIO 2163183 <GO>}

Thank you.

A - John Pollock {BIO 6037447 <GO>}

Morning, Jon; John Pollock, here. On enhanced annuities, yes, we're pretty pleased with the progress we've made here. Q1 on Q1, we've more than trebled our market share in a market that is growing. It's driven by a number of factors. But not least being gender neutrality impacting the price of annuities for individual annuitants. So more and more of them will be seeking the opportunity to get any enhancement they can.

Don't forget, L&G started the ball rolling here with our postcode pricing, which is a proxy for underwritten annuities. And we're pretty pleased with the progress we've made. We expect to make further investments in our systems and technology to make this a more seamless process for customers. And we'd expect our position to continue to grow here.

Q - Jon Hocking {BIO 2163183 <GO>}

And how much of this enhance is coming through the open market? Are you doing enhance on the internal vesting book as well?

A - John Pollock {BIO 6037447 <GO>}

Yes. We do it on all. It's one of our positioning, if you like, is that we like to offer all of our customers pretty much the same deal. So we will enhance -- offer enhance to internal and external. The external market is the largest portion of our space in the business.

Q - Jon Hocking {BIO 2163183 <GO>}

Okay, excellent. Thank you, John.

Operator

Blair Stewart, Bank of America.

Q - Blair Stewart {BIO 4191309 <GO>}

A couple of questions. Firstly, could you comment on any of the aspects of the results that may be one-off in nature? I'm thinking of the Annuities side, where you might have seen a spillover from the gender rules and that might have affected protection too. So interested in that.

Secondly, obviously, cash flow's up quite strongly year on year. Would your guidance be that that's a reasonable run rate going into the rest of the year?

Thirdly, just coming back to the enhanced annuity question, is the profitability of that business more or less in line with standard annuities? Or is there a pickup there, perhaps given higher risks? Thanks.

A - Wadham Downing {BIO 17627522 <GO>}

Okay, I'll take cash flow. And then pass on to John for enhanced, if he's got any one-offs, then he can talk to that; and then maybe Mark Gregory this end, also.

Cash flow, we've given you cash flow guidance for 2013. And we're reiterating that guidance at Q1. As you know, we break that down. So we give you cash guidance on an element of the overall net cash. A number of you have got models for the likes of LGIM and GI and, looking at some of your numbers, have got that pretty close. So no, we're just reiterating the cash guidance we gave at the prelims.

A - John Pollock {BIO 6037447 <GO>}

Hi, Blair. Just one-offs, I think what we've seen Q1 over Q4 is a drag forward of individual protection numbers into Q4. You would have expected that; people trying to get in ahead of gender-neutral pricing. So Q1 was always going to be quite a volatile quarter for the market. And that's what we expected. I'm happy to say that we are seeing a return to more normal flows as that works through the system.

As far as Annuities is concerned, I think there probably was a bit of an uplift in Q4 and Q1, again, as a consequence of gender neutrality, which will ease back. So there will be a bit of a one-off for the market, as well as obviously for us, in terms of new business flows. But don't forget, the underlying position of the annuities market is inbuilt demographic growth, that we would expect to continue for many, many years to come.

Just in terms of enhanced, I wasn't quite sure why you think it's higher risk. What we do here is take the individual risk of the individual and price it accordingly.

We price all of our Annuities business according to pretty strict return requirements. And, as you've seen from our track record, over years and years and years we've delivered against that. So no, the enhanced market will be priced appropriately, according to the risk of the individual.

Q - Blair Stewart {BIO 4191309 <GO>}

Okay. Thank you very much.

Operator

Kevin Raine, Investec.

Q - Kevin Ryan {BIO 1814771 <GO>}

I've got two questions, please. The first is on workplace marketing, which is a lot more vigorous than I was guessing at. Could you give us a feel for what's happening with that, or what is likely to happen with that going forward, in terms of your tactics in this space?

And secondly, could you also comment on the volumes you've seen from the IFA market, year on year? Thanks.

A - John Pollock {BIO 6037447 <GO>}

Over to you, Mark.

A - Mark Gregory {BIO 15486337 <GO>}

Yes, I'll pick both those up, Kevin. Just on workplace, yes, we're pleased with the results, Kevin. I hope it's not too much of a surprise, though. We have been saying for quite a long time that we are -- we do see workplace as being a major opportunity and a growing market going forwards. And that clearly has come to fruition.

So clearly, strong result so far. But again, as we indicated in the announcement as well, we've got a very strong pipeline of future auto-enrollees and other schemes to join later on this year. And beyond as well. And this will go on for a number of years. Even through next year, we've still got some decent mid-size employers will have to auto-enroll their employees next year.

So we don’t actually get down to what we might call the micro-employee firms, five employees and less, do until 2016. So this will go on for quite some time.

And in terms of prospects, we've always said this essentially is a scale game. As you know, we've invested heavily in making sure we've got straight-through processing capability. And we're just seeing that come to fruition.

Again, we've loaded 120,000 plus auto-enrollees very smoothly in the First Quarter of this year. And we've got a pipeline of 230,000[ph] auto-enrollees to load during the final three quarters of this year. Again, that capability, we've spent a long time planning for. And I'm glad to say it's paid off very well for us so far. So we remain positive on the prospects of growth and profitable growth in the workplace savings arena.

On the wider -- what's going on in the IFA space, I think it is fair to say that, clearly, we have had mixed experience, more generally, in terms of the impact RDR into the adviser space. Some areas are going well.

But generally, we would expect -- I certainly think it's going to take probably at least a year for us to truly know the true underlying rate of where we are in the advisory space post-RDR. I don't think we're going to know for sure in the very short term.

All I will say is we are seeing decent increase in trends pretty much from one week to the next. But it has varied by different types of distributor in terms of how they've coped with the change in terms of training, getting their people qualified, getting used to new processes, etc. So personally, I think it will take a while for this to really work through, for us to really understand what is the new base level going forwards.

Q - Kevin Ryan {BIO 1814771 <GO>}

Thanks.

Operator

Andy Hughes, BNP Paribas.

Q - Andy Hughes {BIO 15036395 <GO>}

A couple of questions, if I could. The first one is on LGIM. Obviously, we can see the outflows in LGIM have been running consistently about GBP8 billion a quarter. And obviously very strong inflow quarter for LGIM.

I'm just wondering, could you break the net inflows between index funds and active funds, if at all possible; and give us an idea, is the GBP8 billion we've seen for the last three quarters of outflow relatively fixed? And the inflow, should we think of that as being more volatile, as your guidance has given that it's quite lumpy? I'm just trying to work out what the outlook for inflows into LGIM is in the year. And also the mix of margin, which is quite important.

On the workplace pension side, obviously, given you a hard time in the past about supermarkets. I see the disclosure from Asda means that they're saying there's an opt-in rate of only 8% for their clients. I know John Lewis' is 5% as well. But John Lewis, obviously being a DB scheme, is a bit odd. I'm just wondering what your experience so far has been on those particular schemes?

And the final question's about the insured -- the Savings net flows. Obviously, they're quite weak in Q1. I'm just wondering if that's going to improve. And indeed whether the margin is declining, as you see the run-off for the structure of products? Thank you.

A - Wadham Downing {BIO 17627522 <GO>}

Okay. So we ask Mark Z. to take the first one; then we'll ask Mark here to finish off with savings.

A - Mark Zinkula {BIO 16142450 <GO>}

The breakdown of our inflows in the First Quarter, over GBP10 billion were in passive funds. And that was predominantly from international clients, again in Europe and the Gulf, in particular. Then over GBP3 billion were in active LDI funds, predominantly in the US and UK.

I think the flows will be uneven, both inflows and outflows. The (inaudible) are several hundred million, or even in the billions. But we have existing clients that are also very large, an institutional client base. So outflows will be uneven quarter to quarter, as well.

Q - Andy Hughes {BIO 15036395 <GO>}

I was just wondering about the split of the net numbers, if that's at all possible?

A - Mark Zinkula {BIO 16142450 <GO>}

I don't have that information in front of me.

Q - Andy Hughes {BIO 15036395 <GO>}

Okay. Thank you.

A - Mark Gregory {BIO 15486337 <GO>}

Just on workplace then, Andy, just in terms of opt-out rate, as you say, Asda have gone public with their number. And that's probably -- as you know, Asda's one of our schemes. So that 8% is -- you know, it's not atypical.

We said in the press release that we're experiencing opt-out rates under 10%. And clearly that's a very positive outcome. And definitely good from everybody's point of view. Good for policymakers' point of view. And good for employees. And good for the pension providers, like ourselves. So I think we're very encouraged by the take-up of auto-enrolment in the general marketplace.

In terms of Savings net flows overall, you comment on them being weak. And I guess two or three things going on here, Andy. First of all, I guess, in the workplace arena what we are seeing now is we're getting to the phase where there are actually more auto-enrollees joining, whereas last year we had a lot of restructurings going on.

So there is kind of a slight mix effect going on here between the transfers of existing pension pots with their regular payers ready. And now we're getting the new auto-enrollees on the back of some of those schemes. So there is a kind of a slight APE versus net funds flow mix year on year going on there. But clearly, the regular premiums will grow over time. So that's very much a compounding effect that we expect to see in that regard, going forwards.

Elsewhere, I've just -- I guess IPS is probably the one area where gross sales are down a bit year on year. And that has come through in the net funds flow. Again, that is a bit back to what I said earlier about the slow trend post-RDR building week by week. In some ways, we are seeing the flows on to our platform lower levels than they were last year. But that trend is definitely improving week in, week out.

Q - Andy Hughes {BIO 15036395 <GO>}

Sorry, just a quick follow-up question on the Asda thing, do you think the 8% is an initial opt-out? Are you expecting it to deteriorate as people have two months of salary going in? Or is that basically (multiple speakers) --

A - Mark Gregory {BIO 15486337 <GO>}

That's actually not the rules, Andy. They've only got 30 days to opt out. They don't then get another chance to even opt in again for another three year. So actually that can't happen[ph]. Other than just new employees joining, that's the only way that can happen. But for the bulk of the new auto-enrollees, they only get 30 days.

Q - Andy Hughes {BIO 15036395 <GO>}

Right, okay, thank you.

Operator

James Pearce, UBS.

Q - James Pearce {BIO 16758460 <GO>}

I just have a quick RDR question, as well. Ahead of RDR, you sign up all these building societies and it felt like that was going to be a major part of your tactical approach. But I see in Q1 bancassurance sales are down quite sharply, actually. What's going on there? And can we expect bancassurance sales to pick up in later quarters this year?

A - Mark Gregory {BIO 15486337 <GO>}

Yes, I think it probably affects a little bit both my area of Savings. And probably some for John as well in terms of Protection. So maybe I'll answer the first bit. And perhaps John can comment, if he feels he wants to, after that.

Yes. In some ways, James, a kind of a similar thing which as I was trying to say to Andy's question. We have -- there definitely has been a disruption caused by the implementation of RDR. Again, we have a fully compliant process outlet. But it is taking advisors a while just to get used to the new process. Again -- and even within our models we are seeing different shades of people getting used to it quicker. So I think, as I said, it will take a while for this to kind of fully get through to a revised run rate.

What I would say, we still remain very positive on the building society sector. And we're absolutely confident that the advice model we have in that space will be a very good asset for LNG going forwards; and probably, more importantly, for those building society customers, who get the benefit of advisors. So I think it's fair to say, I think it will take a while just to work through in terms of 'til we get to a normalized run rate.

A - John Pollock {BIO 6037447 <GO>}

Yes, I think that's pretty much the same for Protection. We've seen a little bit of an effect in the building societies from their sales training issues; people being -- spending their time focusing on the new processes and bedding them in properly. And as a consequence not seeing the sales effort quite as high there as it has been. I'm absolutely confident that it will return to norm, as Mark says, as it works through the system.

So we are fantastically well positioned in building societies. And we're beginning to see a re-emergent mortgage market, which, of course, will play very powerfully for our position in the protection market.

Q - James Pearce {BIO 16758460 <GO>}

Okay. Thank you very much.

Operator

Alan Devlin, Barclays.

Q - Alan Devlin {BIO 5936254 <GO>}

Three questions, if I can. First of all, on the -- can you talk about the pipeline in the book purchase annuities on longevity reinsurance segment, both in the UK and international?

And also, what do you think is the opportunity from growing international in this area? Is that Irish transaction -- is there a few more of them that we could see?

Secondly, on M&A, I wonder if you could update us on the M&A pipeline, what you're seeing there. Is there a few more transactions that might come through?

Then finally just on Savings, you've talked in the past about the levels you need to reach a scale in the Savings business. Can you remind us how close you are to reaching scale on the Savings platforms. And also, how the Cofunds transactions changes that dynamics? Thanks.

A - Wadham Downing {BIO 17627522 <GO>}

I'll take the second one; then back to John on pipeline, BPA; and then Mark.

On M&A, at the prelims we told you that we would be very disciplined, both financially and strategic, in terms of looking at bolt-on acquisitions. We set out our five growth themes. And I'm pleased to say we've ticked off two of those in terms of direct investment and digital solutions. So we continue to look at the others, the international expansion of LGIM, retirement solutions. And protection. But we will have a strong financial discipline around that.

So nothing to update you on today. But hopefully we'll continue the strong start we've made.

A - John Pollock {BIO 6037447 <GO>}

Just a little bit on BPA pipeline, Alan. I get asked this question at every point. We touch base, in one shape or form. And it really is determined by your definition of pipeline.

There remain a huge number of corporates very actively interested in derisking their pensions scheme. And L&G has got, as you're well aware, a very broad array of solutions, from LDI right the way through to full-blown buy out.

We are as active currently in the quotations base as we have been for the last six months. How many of those actually come to market is always impossible to call. It depends on trustees, finance directors, the state of derisking in the assets held by the individual companies to determine whether they will come to the market, or not.

We remain very active. I'm feeling pretty optimistic about our position in the derisking space. And we've seen a degree of competitor weakness over the last six months, or so. L&G's got over 25 years' track record in this business. And that pays off when competitors demonstrate weakness. So I'm fairly optimistic about that market. But that's over the short, medium. And long term. It's impossible to tell you exactly when things will come to market.

I was very pleased to get away the Irish deal. I think the UK is well ahead of the rest of the world in terms of pension scheme derisking.

And we've seen very active interest from a number of territories, Holland, America, Canada. And, on the assumptions that they are as interested as they purport to be, I would expect further transactions to take place internationally. But we're not promising anything. We just believe that all of the liability cash flow capability that we have. And the enormous strength of LGIM. And, as you've seen, their capability to grow phenomenally in Chicago, gives us just a -- I couldn't ask for a better base than LGIM.

So hopefully, a lot more. We see the opportunity. And we will exploit it, given all of our normal disciplined approach to business.

A - Mark Gregory {BIO 15486337 <GO>}

On your last question, Alan, clearly, having efficient scale is very much at the very heart of the Savings strategy. In that regard, we've updated today we've got GBP6.9 billion assets now on the workplace platform; we've got GBP9.1 billion of assets on the IPS platform; when we end[ph] the intended acquisition of Cofunds we'll have over GBP100 billion of AUA within Savings. All those are, clearly, very positive dynamics from our perspective.

If I could just cheat a bit and say, just to remind you, we have got a Savings Investor Day on May 23. So some of the color you might be after I might just hold back on and just use the Investor session on May 23, just to help in that regard.

Q - Alan Devlin {BIO 5936254 <GO>}

No problem. Thanks, guys.

Operator

Oliver Steel, Deutsche Bank.

Q - Oliver Steel {BIO 6068696 <GO>}

Three questions. The first is just a technical question. I wonder if you could give us the international dividend that was included in the First Quarter, just so that we can see what the underlying trend was.

Secondly, if you're taking on more bulk annuity business, respectively internationally. And particularly from, say, US or Canada, I'm just wondering about the solvency regime that you'll be using, or being forced to use, in that environment.

Then my final question is you talk about maintaining strong discipline in pricing in Annuities. And yet, as you say, there has been a degree of competitor weakness. I'm just wondering if that strong pricing discipline is actually a code for actually increased margins.

A - Wadham Downing {BIO 17627522 <GO>}

Okay, on the factual one, Oliver, the American dividend was $66 million that we received.

Q - Oliver Steel {BIO 6068696 <GO>}

Sorry, how much, $66 million?

A - Wadham Downing {BIO 17627522 <GO>}

$66 million, yes. I'll pass you to John on the Annuities piece.

A - John Pollock {BIO 6037447 <GO>}

Pricing discipline, no, it's not really code for strengthening pricing, Oliver. We have a pretty robust process for selecting the risks that we want. Everything starts with the liability cash flows. And we are, we believe, world class in that space. Then the asset availability and -- or, in fact, our investment strategy and asset strategy, that Paul Stanworth and his team help us with, do give us advantages.

If we can get a scheme that we prefer then that tends to help our margins. But if you remember, margins are very often a factor of duration. So depending on whether you're writing more IA, more shorter duration stuff, or whether there's a stronger DA mix will tend to move the margins around.

So we're kind of sticking where we are. We think it's appropriate to offer the market a decent product at decent prices. We're not a rapacious organization; we never are, never have been. So it isn't really code for increased margins, it's carrying on very much as we have been.

In terms of US and Canadian expansion, we're very cognizant of the Solvency II environment. And whilst that's a long way away, we do -- if you remember, when I've talked about how we go about pricing bulks in the past, we tend to look at all three metrics, our own economic capital model, our EEV regime. And with an eye to Solvency II at our best guess. And we try to make sure that our pricing sits in this space that overlaps all three of those disciplines.

So we haven't written any yet; we would hope to. And we would expect to write that against a solvency basis that we are capable of interpreting between Solvency II and Solvency II.

Q - Oliver Steel {BIO 6068696 <GO>}

Thank you.

Operator

Marcus Barnard, Oriel Securities.

Q - Marcus Barnard {BIO 2103471 <GO>}

Great figures. But can I take you to task on a couple of points? Firstly, on your Protection sales, where you've seen a fall in retail sales and you've attributed it to customers securing better rates ahead of gender-neutral pricing. Now, I'd have just thought that male mortality, morbidity would be worse than gender-neutral so, if anything, they should hold off for better rates after gender-neutral.

And secondly, given that IFAs are still getting commission on these, I'd have thought, if I was an IFA trying to generate commission, I'd be selling lots of this stuff, rather than less.

I'm just wondering if this is actually down to your being too cautious and losing market share post gender-neutral. Perhaps, you can comment on that.

And secondly, on the infrastructure, I asked you what you were doing at the full-year results. And I wasn't quite expecting to see you do CALA so quickly after. But I just wonder, are you still going to progress with quite a lot of these projects over the year?

At the moment, it's small enough to not make much of a difference to your bottom line. But clearly these are cyclical businesses you're buying. They're also at the moment not big enough to worry about. I just wonder if you could say more about what you're planning to do there.

A - Wadham Downing {BIO 17627522 <GO>}

John, do you want to take gender-neutral. And myself and (inaudible) will do --

A - John Pollock {BIO 6037447 <GO>}

Yes. An awful lot of the product we sell, Marcus, is joint life. And what we saw in the market. And you will have seen it, this isn't just Legal and General, this is completely across the market, a very substantial acceleration of business into Q4 to make sure that the pricing that had been offered to customers was completed.

So we stuck to pipeline. We worked very hard to try to make sure that products that were in the pipeline were given to the customers at the prices we had promised it at quotation stage.

So this is not a Legal and General effect, or us being too cautious, or whatever, this is a market effect. So the Q1 -- if you averaged out Q1 and Q4, I think you'd find our run rate is roughly in the same place. It will take a little bit of time for that to work through the system.

And don't forget, there was some tax changes as well, the I minus E changes that come through in pricing, which gave rise to another little spin of volatility during Q1. But as I said much earlier on in the Q&A session, we are seeing run rates re-established to more normal levels.

I agree with you entirely, that you might think that IFAs would see the opportunity, in an under protected society, for protection sales to help their own cash flow models. And to some extent, we are beginning to see that.

So I'm fairly optimistic in the outlook for individual protection market generally. But early days to say whether that effect will actually come through. But I'm optimistic. And we were not too cautious.

Q - Marcus Barnard {BIO 2103471 <GO>}

Okay.

A - Wadham Downing {BIO 17627522 <GO>}

On housing. And then infrastructure, we talked at the prelims about housing and the importance we felt the role that insurers and ourselves could play in this space. We were very pleased with the CALA transaction; the financials, I think, we explained pretty well at the time. And are very attractive from a shareholder investment point of view.

I have Paul Stanworth here. So he'll probably talk -- give more flavor around infrastructure and what we're doing around shareholder funds. But also the annuity book.

A - Paul Stanworth {BIO 15495409 <GO>}

Yes. Thanks very much. The intent is to build a much greater proportion of our portfolio from direct investments, which will include equity and debt. And predominantly in infrastructure. And it fulfills our need to look at investments which we can create synergies from. And match our social purpose goals.

We have a lot of capacity to move into this area because our principal balance sheet is very much based on traded assets, currently. And we see this as a big opportunity given our well-flagged views around banking austerity and the triangle of austerity, which we've talked about in our results previously. And we will be putting more resources into that area to build that portfolio.

Currently, in the pipeline there are various transactions, covering everything from energy to further social housing. And we will be looking at the synergies of the acquisitions we've made, as well.

Q - Marcus Barnard {BIO 2103471 <GO>}

Okay, that's great. Well maybe you can fill us in more about the risk profile of these as you do more of them; that would be helpful. Thank you.

Operator

Andrew Crean, Autonomous.

Q - Andrew Crean {BIO 16513202 <GO>}

Two questions. Firstly, on LGIM, could you give us a sense, or in fact the figures, for the revenue margins on inflows relative to outflows; and also, within the inflows, give us a sense of the revenue margins on indexed funds versus LDI, versus active fixed income? That was one question.

The second question was on auto-enrolment. The Regulator is proposing that all pension pots below GBP10,000 automatically switch when an employee moves. How will that affect the margins, or your planned margins, on your business, particularly given your focus on relatively low earning employees and fast-moving employees?

A - Wadham Downing {BIO 17627522 <GO>}

I'll ask Mark Z. to do the first one. And then Mark Gregory, on this end, to do the second.

A - Mark Zinkula {BIO 16142450 <GO>}

Yes. We don't disclose margins by product or geographic region for competitive reasons. We do target roughly 50% margins really across the board. And we've maintain that in the aggregate business for quite a while.

The -- so percentage margins, really, they're relatively consistent on the inflows and the outflows on a percentage basis. The absolute margins on our LDI and fixed income businesses, generally speaking, are higher than the absolute margin than we have on asset business, the passive book of assets.

Q - Andrew Crean {BIO 16513202 <GO>}

And is that material, that difference? Without actually giving us the numbers, is it a material difference between indexed LDI and passive?

A - Mark Zinkula {BIO 16142450 <GO>}

Again, the percentage margin would be -- again, we target roughly the same percentage margins.

In the passive space, it really just depends on the nature of the mandate and the size of the mandate. So I can't -- it's hard to generalize. It's obviously a multi-billion pound mandate, with large institutional clients going to be in relatively core markets, would be -- or in core markets would be a lower fee than emerging market equities. That's a relatively small mandate. So it really just varies. So I can't really just generalize, it depends on the nature of the mandates.

A - Mark Gregory {BIO 15486337 <GO>}

Just on the small pot sizes, Andrew, clearly, at this stage, the Department of Work and Pensions haven't yet gone up[ph] in terms of their absolute thinking. But as you say, what's called in the trade a pot-follows-member seems to be quite an attractive -- certainly, got hold within the DWP.

From our perspective, we actually are supportive of pot-follows-member, primarily because actually we think it will -- it makes pensions more attractive from an individual's point of view. And that will in time encourage pension saving. And that's got to be good for the pensions industry. In the round, we are very comfortable with pot-follows-member as a concept. So we are supportive of it.

A - John Pollock {BIO 6037447 <GO>}

And if I may just add, Andy, in the fullness of time, having a single pot to annuities at the end simplifies the annuity process. So from our perspective, we're very supportive of pot-follows-member as well.

Q - Andrew Crean {BIO 16513202 <GO>}

Great, thank you.

A - Wadham Downing {BIO 17627522 <GO>}

Okay, I think that's all the questions we've got. So thank you very much for joining the call this morning. Thank you for the participants, for calling in at the very early hours in Chicago.

As Mark mentioned, we have our Savings Investor Day on May 23. So, hopefully, we'll see a lot of you then. But thank you very much for joining the call.

Operator

This concludes today's call, ladies and gentlemen. If you would like to hear any part of this conferenced again, a recording will be available shortly. Thank you for joining. You may now replace your handsets.