M&G plc 2022 Half Year Results

Presentation Transcript

11 August 2022

Welcome & Business Review

John Foley, Chief Executive

Slide 5 Continued operational and financial delivery

Good morning.

Welcome to M&G plc's Half Year results.

Over the past six months, we have successfully built on the positive momentum achieved in 2021. Despite the current macro uncertainties, the team has worked hard to strengthen our business and, as One M&G, we have achieved a number of important operational and financial milestones.

We have leveraged our deep investment expertise to deliver strong investment performance to all our clients across Institutional, Wholesale and PruFund.

A superior investment performance helped us to achieve net positive flows in Asset Management and increase sales in the Wealth franchise. We have improved net flows by £3.2 billion year-on-year at a time of heightened volatility and uncertainty, when many investors have reduced their exposure to markets.

We are confident that the improvements in Asset Management and M&G Wealth are sustainable, and that we can make further progress on PruFund sales now that the proposition is live on the Ascentric platform and in Europe. Future+ – our name for PruFund internationally – has been live in Italy since February and will soon be launched in Ireland.

At full year, we shared our new financial target with you – to generate £2.5 billion of Operating Capital by 2024. I am pleased to say that we have made a strong start in achieving that goal.

Finally, despite adverse markets, our Solvency II ratio continues to be very strong, at 214%.

Slide 6 Turnaround in flows and strong Operating Capital Generation

This slide shows our financial highlights.

The turnaround in flows builds on the progress we made in 2021. It is a crucial milestone, and a lead indicator of the health of the overall business. In only 12 months, we have reversed our position from being £2 billion in net outflows, to achieving £1.2 billion in net inflows. The most significant improvements came from the Wholesale Asset Management franchise, that returned to growth after four years, and from M&G Wealth, that recovered from its 2021 outflows thanks to stronger sales and a broader proposition.

Adjusted Operating Profits were influenced by two non-cash accounting one-offs, that do not affect capital generation and do not impact our ability to sustain the dividend. Kathryn will cover them in more detail later on. Excluding these one-offs, the Adjusted Operating Profit was £308 million.

Operating Capital Generation for the period was £433 million; roughly 40% up on H1 2021. This was achieved through a rise in the underlying contribution from our Wealth and Heritage operations. We expect this growth to be sustainable in the current interest rate environment.

The 214% Solvency II ratio fully deducts the price paid to complete the acquisitions we talked about in March and the £500 million buyback programme.

Slide 7 Strong investment performance

I mentioned the importance of strong investment performance and the role it played in supporting flows in a tough half year for our sector. On this slide, you can see how each of our three open lines of business delivered value to our clients.

The Institutional franchise recorded another period of outperformance. We know many investors are 'risk-off' at the moment because of the macro volatility, but we also know they will return as markets stabilise. And when they do, they will look for trusted partners to navigate uncertain times. We are confident our strong reputation and investment capabilities put us in absolutely the right place to benefit when that happens.

The Wholesale franchise continues to evidence a strong turnaround. Whilst mutual fund performance can be volatile, we believe these improvements can be sustained over time because they are a direct result of the clear actions we implemented 18 months ago. The medicine we prescribed: - the move to a more team based approach; tighter performance monitoring; and fund-specific deep-dives – is working. In June, almost 40% of our mutual funds ranked in the top quartile for performance, and nearly two-thirds above median.

Finally, the PruFund chart speaks for itself. We have delivered outstanding results in absolute terms, but even more so on a relative basis as other comparable propositions have shown negative returns over the first six months of the year.

Slide 8 Driving synergies through our 'One M&G' strategy

As we move from the financial highlights to the operational ones, I want to pause to reflect on our One M&G strategy and how it underpins the strong outcomes we deliver to shareholders.

The Asset Owner is the single largest client of the Asset Manager and a critical strategic partner. It is a source of patient capital, that gives us the opportunity to play across markets and asset classes. Annual revenues from the internal client have increased to over £300 million; that is a resilient source of income that allows us to plan for the long-term as we build new investment capabilities. In the last two years we have added teams in North America and Asia as part of our strategy to grow internationally. By doing that, we have been able to both repatriate large internal mandates and expand our offering to external clients.

Going in the other direction, the expertise of the Asset Manager is crucial to the successful delivery of the asset trading activity of the Asset Owner. As you can see from this slide, this has provided a meaningful contribution to our capital generation over the recent past and will continue to do so over the coming years.

But it is through trusted relationships and continued dialogue, that the Asset Manager and Asset Owner deliver their best results. Their collaboration and complementary perspectives have underpinned our efforts on sustainability, and created some of the most important propositions that M&G offers today; PruFund, PruFund Planet, PruFolio, Catalyst and, of course, our Institutional Asset Management operations. None of these would have been possible without us thinking, working and being One M&G.

Slide 9 Delivery across all open franchises

Turning now to the operational highlights.

We are making good progress across all our franchises. We are building solid foundations to deliver long-term sustainable growth, capable of withstanding external headwinds and achieving our ambitious £2.5 billion Operating Capital Generation target.

Within the Asset Manager, both the Institutional and Wholesale franchises have delivered positive net flows, a rare achievement in our industry over the past six months. Whilst these positive net flows are a continued trend for the Institutional team, they represent a crucial turning point for Wholesale, and are an important part of our strategy to unlock growth at M&G. Our continued push into Europe was a key enabler here, as it allows us to access markets where we have historically been underweight, broadening our reach and reducing our reliance on the UK.

Within Retail & Savings, we have been busy building the foundations for growth, integrating new capabilities and bringing PruFund to Europe. The most important milestone for the Wealth business was the launch of PruFund Planet on the M&G Wealth platform in the UK last month. Combining PruFund's excellent track-record with a digital and efficient route to market will provide further impetus to our ambition to increase sales.

I will cover each of these areas more in detail in the coming slides.

Slide 10 Institutional Asset Management – Consistent delivery

Starting with Institutional Asset Management, our largest open franchise, with £102 billion under management.

This team has delivered consistent growth, period-on-period, over the past three years. Whilst the first half flows were only marginally positive, we started the second half with a couple of large wins in July. I am proud of what we have achieved, continuing to build momentum despite the economic backdrop. Over the past six months, we have seen a number of clients delaying investment decisions due to macro uncertainties; as this trend reverses, our strong reputation means we are well positioned to capture any emerging demand. Our pipeline remains strong, with a number of advised wins that are yet to be funded, and a £4.4 billion capital queue ready to be deployed in private assets.

M&G's success in Institutional Asset Management is based on differentiated capabilities, excellent returns, and product innovation. We are confident that these elements will continue to underpin our future growth.

Our pre-eminent position and global platform as a Public Fixed Income manager is the ultimate door opener. As our credentials are established we introduce clients to higher-value private and alternative assets. With over £75 billion of dedicated assets, we are a leading European player in private markets. These capabilities, combined with our strengthened equity proposition, drive value for both M&G and our clients.

While the UK remains our core market, we have also targeted and achieved growth overseas. We have an established presence in Europe, in the Netherlands and in the Nordics in particular, and we have successfully pursued targeted opportunities in Asia.

Slide 11 Wholesale Asset Management – Continuing turnaround

With £51 billion of Assets Under Management, Wholesale remains a key component of our Asset Management operations and an important contributor to M&G's long-term growth.

The outflows we saw in 2019 and 2020 were a clear sign that we needed to take corrective action. So, we pursued a four-pronged approach: starting with performance, but also improving the relevance of our offering, the effectiveness of our distribution and client value for money.

The leadership team was fully aligned on the need to revitalise our Wholesale business and together, we have delivered great progress. Outflows reduced steadily over time and we have now achieved positive net flows – of £800 million – in the first half of this year.

It was the combination of multiple actions that enabled us to achieve our goal, but, nonetheless, I want to highlight two examples that demonstrate the importance of continuous product innovation and client engagement.

On product, we seeded Global Listed Infrastructure which has become one of our most successful mutual funds; it has grown from only £550 million in December 2020, to £3 billion at the end of June.

On the client front, we deepened our collaboration with key distributors, particularly in southern Europe, focusing on developing client-specific Investment Solutions. For one of these partners, we are now managing nine sub-advised mandates with total Assets Under Management of £1.6 billion, up from three mandates and £600 million just 18 months ago.

The challenges of the recent past mean we are far from complacent. We are acutely aware of the volatility and uncertainty in the market and remain focused on making sure this very encouraging progress is sustained into the future.

Slide 12 M&G Wealth – Building an integrated UK Wealth proposition

Moving on to Retail & Savings.

We launched M&G Wealth only twelve months ago, bringing all our UK retail capabilities under one banner. We have made excellent progress since then. We have broadened our advice, added a digital platform and launched new investment solutions. Our objective is to build a wealth manager that supports a customer's lifetime needs, offering them a consistent experience and superior returns.

We know we are not alone on this path; there are several players in the UK, each with their own different business model, all moving closer to the end client. But not one of them can offer PruFund, our £51 billion multi-asset proposition with its unique smoothing mechanism.

PruFund is the key differentiator. We will expand our offering around this anchor proposition to turn M&G Wealth into a primary distribution channel for the Asset Manager capabilities, supporting its flows with long-term resilient business.

Slide 13 M&G Wealth – Targeted investments in growth markets

We continue to deliver on our strategy to grow M&G Wealth, both organically and through acquisitions and partnerships, giving us access to large and fast-growing segments of the market. Just last week, we announced the acquisition of Continuum, a small high-quality IFA business that adds 60 advisers to our team.

With Sandringham and Continuum, we have expanded our adviser base, strengthening controlled distribution. Working with Moneyfarm, we will soon launch a D2C offering, which will improve our reach to a younger demographic and give us the opportunity to acquire customers earlier in their lifecycle. We have integrated Ascentric into our broader IT infrastructure which means we can now bring PruFund to more advisers and more customers, more efficiently. Through TCF, we can now operate in the Model Portfolio and Discretionary Fund Management space.

All of these are important components of the vision for M&G Wealth that we are building day after day. To achieve this vision, we have deployed capital in a targeted and disciplined way, opening up opportunities in attractive and growing markets, that are supported by favourable dynamics.

Slide 14 PruFund in Europe – Attractive growth opportunity, pilot on track

Talking about attractive markets, I could not end this business review without mentioning Future+. We launched in Italy only a few months ago and in July we signed a distribution agreement in Ireland.

The opportunity is huge. PruFund is a real success story in the UK and we have the same expectation for Europe. Our strategy is to focus on delivering successful pilots in these first two European markets to prove the strength of the proposition. That will put us in a much stronger commercial position when we discuss future distribution agreements.

To be clear, as you can see from our own history in the UK, PruFund sales can grow exponentially in a short space of time. But we have learnt to be patient; we will use the pilot programmes to make sure we get operational delivery right, as advisers become more familiar with the proposition and its compelling features.

Slide 15 Business priorities

As we look ahead to the coming months, we have clear priorities that we are already addressing.

In Institutional Asset Management, we are expanding our international footprint both to increase private asset origination capacity and broaden client reach. In Wholesale, we need to keep up the good work completed so far: relentlessly focusing on performance, driving product innovation and deepening client relationships.

Driving sales will be the main focus for M&G Wealth, both with PruFund, now available on platform, and across our broader proposition including newly launched Model Portfolios. For Future+ it is all about delivering a convincing proof of concept, building momentum, and demonstrating the validity of our multi-country strategy.

Finally, we know that external headwinds might further worsen if the current inflationary environment persists. Driving efficiencies across the business is a key priority for me and for all the members of the executive team.

Slide 16 Capital generation drives total shareholder returns

We have proven repeatedly over time that we can deliver strong, reliable capital generation to underpin our attractive dividend and enable the deployment of excess capital in our growing businesses.

After achieving our demerger commitments one year ahead of schedule, we announced a new £2.5 billion Operating Capital Generation target for the coming three years – comfortably covering prospective dividend costs. We have already made a strong start towards meeting this goal.

Thanks to the strength of our capital position, we are pursuing a balanced approach to capital management with financial flexibility remaining our key priority. In March we ringfenced £300 million to manage M&G's leverage position, and we are closely monitoring rates and spread movements, evaluating market opportunities. In the meantime, we continue to deliver on our dividend policy, declaring today an interim dividend of 6.2 pence per share, a 2% increase on last year. Through dividends alone, we have now returned over £1.5 billion to shareholders, and in addition we are executing a half billion buyback programme, having deployed almost £150 million to date. And of course, we continue to assess investment opportunities that can accelerate our corporate strategy.

Slide 17 Paid back 35% of market cap in under three years

Consistently strong capital generation has allowed M&G to pay attractive dividends, and to start its first buyback programme.

As you know, since listing in 2019 we have returned £2 billion to our shareholders – equating to roughly 35% of M&G's market capitalisation at demerger.

Our dividend per share has grown every year since 2019, and it is set to increase further as we maintain our absolute dividend cost flat, while we reduce the total share count through the buyback.

Slide 18 Continued operational and financial delivery

To wrap up, then.

At the start of the year, I was quietly confident that this would be a good period for the firm, but even I was impressed by how we performed given the challenging external environment. This result is entirely down to the hard work and dedication of the great team we have at M&G and I thank them for their efforts.

The shift from net outflows to net inflows is a key moment for us and I am confident that over the coming period we will build on this. The progress made in M&G Wealth, in a little more than a year, is encouraging. It has all the building blocks it now needs to become a major player in the UK market.

We recognise the importance of reliable and increasing shareholder returns, even more so in these volatile times. We have made a solid start to our £2.5 billion Capital Generation Target, and with a strong Solvency II ratio can continue to deliver superior returns.

I'll now hand you over to Kathryn.

Financial Review

Kathryn, Chief Financial Officer

Slide 19 Financial Review

Thanks John.

I'm delighted to be here today, three months after joining M&G, to go through the financial details of our first half results.

Slide 20 Strong Operating Capital Generation and positive external net flows

During the first six months of the year, our performance demonstrated the benefits of our diversified business mix, with our One M&G strategy capable of withstanding macro headwinds, as we made a solid start on our journey to generate £2.5 billion of Operating Capital over the next three years.

External net flows were positive at £1.2 billion, as we turned around Wholesale Asset Management, added another period of growth in Institutional, and reversed flows in M&G Wealth. Total AUMA, at £349 billion, was impacted by £25 billion of negative market movements.

Adjusted Operating Profit of £182 million included two non-cash one-offs; the first triggered by the duration mismatch of the asset and liabilities in the annuity portfolio, the second by the exposure to the US dollar in our Hold Co debt. Excluding these items, AOP was £308 million, more in line with the first half of last year. As these items are non-cash accounting adjustments, they do not affect our ability to generate capital or fund the dividend.

Operating Capital Generation increased to £433 million, up £124 million year-on-year, underpinned by a strong growth in Underlying Capital Generation. Total Capital Generation was £24 million, as those strong operating results and the benefit from rising interest rates were largely offset by weak equity markets and widening credit spreads.

At 214%, our Solvency II ratio is modestly down on the 218% from the Full Year, despite the payment of the final dividend in April, the acquisitions of Sandringham and responsAbility, as well as the investments in TCF and Moneyfarm. The ratio also now fully deducts the £500 million share buyback we announced in March.

Taking a closer look now at Assets Under Management and Administration. These were £349 billion at the end of June, 6% lower than the £370 billion recorded at year end.

Slide 21 Resilient AUMA despite negative market movements

I'll cover external net flows in a moment. It is first worth noting that our open business was in net inflows over the period, continuing the positive trend from the second half of last year. As expected, net outflows from the Heritage book remained stable, and in line with recent experience.

The £25 billion negative impact from market movements is a pleasing result given the simultaneous contraction in equity and fixed income markets which we have witnessed over the past six months. A strong relative investment performance, diversified exposure by asset class and geography, and a weak pound, all helped to support M&G's assets.

Finally, the completion of the acquisitions of Sandringham and responsAbility added £2.4 billion and £2.9 billion respectively to our asset base.

Slide 22 Positive net flows across all franchises despite challenging markets

At the end of the first half, net flows from external clients in our open franchises were £1.2 billion positive, £3.2 billion better than the first half of 2021, with both Institutional and Wholesale Asset Management being in net positive territory.

Our Institutional business continued to extend its growth track record, with net flows in the period of £300 million. The figure is lower than we have seen recently, but we are confident about how the business is positioned and its future prospects. As you know, new business flows can be lumpy, and as John said we have made a good start to H2, winning some large mandates in July. We have a healthy pipeline, with over £4 billion in the capital queue and a further £2 billion of advised wins. While investors retained a prudent stance in the first half of the year, we remain a trusted partner for them, and they continue to look to us for help in navigating these volatile markets.

The turnaround in Wholesale is evident in the first positive inflows since June 2018 at £800 million, £4.2 billion better than H1 2021. This steady improvement is not the outcome of a temporary value rotation, as less than 15% of our Wholesale assets are in equity value funds. Rather the improvement is the result of a number of deliberate actions, which we have talked with you about over the past few years. These actions have delivered improved investment performance, a more relevant proposition, and better value for money. Our expansion in Europe, and the deepening of local partnerships were key factors helping to drive flows. Although the progress is encouraging, we of course remain focused on building further on this momentum.

Finally, Wealth flows improved by almost a billion pounds year on year, continuing the trend seen in the second half of last year. The differentiated proposition of PruFund, which has maintained its strong investment track record, together with improved service levels and increased digitisation, supported flows over the first half. As we look forward, we expect the launch of PruFund on our UK platform and the roll-out in Europe to contribute to our growth. As you know, we are also broadening our Wealth proposition to increase non-PruFund business, and earlier this year we added model portfolios to our offering.

Turning now to our H1 Adjusted Operating Profit, which you can see on Slide 23.

Slide 23 Earnings impacted by mismatching and FX accounting one-offs

The first half AOP was £182 million, with the year on year reduction mostly driven by annuity mismatching and FX movements. Ignoring these purely accounting losses, which have no impact on capital generation, the first half AOP was £308 million.

Mismatching losses, which are in Heritage, relate to the different duration profiles of our annuity liabilities and the assets backing them. Although these are matched on a cash and capital basis, annuity assets have a longer duration than liabilities under IFRS standards. This means that in IFRS accounting – but not capital – rising rates lead to a faster reduction in asset values than in liabilities. The difference between the opening and the closing balance sheet needs to be bridged through the P&L, this time with a loss. The size of recent Sterling swap rate increases drove the £78 million negative impact in the first half.

A similar effect occurs in the Corporate Centre, where we record FX gains and losses. As one tranche of our debt is US dollar denominated, we are required to mark it to market at each period end. The 11% strengthening of the dollar in H1 restated the IFRS balance sheet value of this tranche of debt at end of June. The resulting £48 million difference in value was once again bridged through a non-cash accounting loss.

Stripping out these two negative impacts, the first half Adjusted Operating Profit is £308 million, significantly closer to the result of the first half of last year. We were encouraged by the businesses' underlying AOP results – with Wealth profits up by £60 million driven by strong PruFund transfers, and Asset Management delivering a relatively robust performance, but with negative investment income impacting profitability in the period.

I'll dive into Asset Management now in some more detail.

Slide 24 Asset Management results by client type

We have already covered the net positive flows in both Wholesale and Institutional, as well as the overall asset base which remained broadly stable despite volatile markets.

Looking at the P&L, you can see that revenues held up extremely well, reaching £492 million, a 7% increase compared to the first half of 2021. The consolidation of our South Africa JV, which occurred in July last year, contributed to the improvement, together with our underlying operations. In particular, the Institutional franchise continued to show strong momentum, while the Wholesale franchise, now back to net inflows, can return to being an important contributor to our overall business growth.

The increase in costs to £367 million similarly reflected the consolidation of the South Africa JV, as well as our ongoing efforts to set up the business for sustainable growth, plus some inflationary impacts. It is important to state that we are of course acutely aware of the inflationary pressures, and we will continue to be disciplined on costs, and focused on driving efficiencies to free up resources and redeploy them in attractive opportunities. We are however encouraged by our positive flow and revenue performance, to continue with our Asset Management strategy and invest thoughtfully for growth.

This strategy is working. Since last year we strengthened our Equity, Sustainability, and European distribution teams. These investments increased our cost base, but they have also been instrumental to the growth we have seen in the first half. Our Equity strategies attracted almost £2.9 billion in net inflows, with the vast majority coming from European clients. Moreover, we continue to invest in private asset capabilities; and with over £75 billion of assets under management, we are one of the leading players in Europe.

Over the medium-term, we expect Asset Management revenues growth to outpace cost pressures, and the Cost-Income ratio to reduce gradually.

Performance fees were higher than 2021, although as you know we expect the bulk of these fees to be earned in the second half. Investment income reflects losses triggered by recent market volatility, but we would expect these to reverse as markets normalise.

As you can see on the chart on the right, Institutional and Internal margins have remained broadly stable. The small compression in Wholesale was expected and reflects the tail-end of the fee review implemented in February 2021. We do not foresee further action on Wholesale fees and expect margins there to remain roughly stable over the short to medium-term.

Turning now to our Retail & Savings business which you can see on Slide 25, starting with the Wealth segment, where we focus on its largest contributor to earnings, PruFund in the UK.

Slide 25 Retail & Savings: Wealth

Adjusted Operating Profit increased to £74 million, underpinned by a £23 million higher Shareholder Transfers that benefitted from the positive Unit Price Adjustments that took place in 2021. The higher transfers more than offset the change in the hedge result that was triggered by a bigger tranche of equity hedges running off this year. Finally, thanks to decisive action on costs, the expense overrun we experienced in 2021 did not reoccur, allowing us to release £15 million of a provision we had set aside. This is a positive one-off that won't repeat in H2.

The Shareholder Transfer is a function of gross outflows and investment returns. As outflows marginally reduced, strong investment returns were the primary driver of the improved transfer, together with the excess surplus distribution announced in February. As you can see from the chart on the right, PruFund's performance continues to be outstanding, having triggered several upward Unit Price Adjustments over the past two years.

Net flows broke even in H1, driven by a £600 million improvement in sales, which helps to underpin the value we expect to generate from PruFund over the coming years.

Slide 26 Retail & Savings: Heritage

This slide looks at our Heritage business and its two components: Traditional With-Profits, and Shareholder Annuities.

Traditional With-Profits continued to deliver a solid underpin to our earnings, with Adjusted Operating Profit of £121 million. Here again the Shareholder Transfers benefitted from the strong returns credited to customers, and from the £1.5 billion excess surplus distribution from the With-Profits Fund. This distribution will continue to feed through Shareholder Transfers as customers withdraw their money.

Looking at Shareholder Annuities AOP on the right hand side, you can see that the deterioration in the return on excess assets was more than offset by an improvement in the asset trading result.

The line that showed the biggest variability year on year was the 'Other' line, where we experienced the £78 million negative impact from mismatching. In addition to this, in the prior period we had a number of positive one-offs, such as provision releases, that did not reoccur. The 'Other' line comprises a large number of moving parts, and we would typically expect it to be marginally positive over the medium-term, although it can of course be volatile over the short-term.

As usual, we will implement new mortality tables in the second half, calibrating CMI20 to our own experience.

Slide 27 Credit quality of the Shareholder Annuity book

Staying with Shareholder Annuities, I want to provide an update on the credit quality of the assets backing our annuity book. As you can see, we remain conservatively positioned, with only 19% of our assets rated BBB, and just 2% below investment grade. This asset quality compares favourably with peers, as we didn't re-risk our portfolio over recent years.

Year to date, we have not experienced any defaults, and downgrades have been minimal, well below the 2021 levels and within our long-term expectations.

Our balance sheet is also protected from inflationary pressures, with inflation-linked annuity liabilities well matched with inflation-linked assets.

Given the strength and credit quality of our assets, we remain comfortable with the shape of our balance sheet despite the recent market volatility, although of course we are vigilant about inflationary risks and the broader macroeconomic environment. You can find the main sensitivities of our balance sheet in the Appendix of this presentation.

Turning now to capital generation on the next slide and starting with the Operating result.

Slide 28 Sources of Operating Capital Generation

We were pleased with the £170 million increase in Underlying Capital Generation year on year to £386 million, primarily driven by a higher contribution from Retail & Savings.

Within it, PruFund and Traditional With-Profits benefitted from two factors: the removal of the expense overrun on new business, and improved policy values at the beginning of the year. On the former, eliminating the expense overrun triggered the provision release we talked about earlier, and reduced the capital drag of new business. On the latter, the continued strong investment performance we deliver to customers has increased the Present Value of Shareholder Transfers, and the returns we realise on it.

Sticking with With-Profits, we have also changed the classification of our equity hedges. As you are aware, our rolling hedging programme reduces capital requirements triggered by the PVST. Each year, a tranche of the hedges expires, and we replace it with a new one. While in the past we recognised the negative impact on capital from the expiring hedges in the Underlying result, we now classify it as Other Capital Generation. This is now aligned with how we treat the positive impact from any new tranche of equity hedging we put in place.

Finally, within the Annuity book, higher interest rates led to a £17 million improvement in expected returns on excess assets. As you are aware, return assumptions are locked at the start of the year, and determine the Underlying Capital Generation of the book for the following twelve months. You can therefore expect this increase to persist in the second half.

At £47 million, management actions were lower than last year primarily due to the reclassification of the equity hedges. While management actions can be lumpy in nature, we have a clear pipeline of initiatives that we continue to work on, and that will contribute to capital generation in the coming years without impacting the level of prudence in our balance sheet.

In January, we started the three year journey to achieve our new £2.5 billion Operating Capital Generation target. The £433 million achieved in H1 is a very solid start. We remain focused on driving strong Underlying Capital Generation, while creating additional value through management actions.

Today's results should provide comfort around our ability to sustain our dividend through market cycles. As you can see, in only six months, we generated nearly enough capital to cover the entirety of the £465 million yearly dividend costs.

Slide 29 Sources of Total Capital Generation

When we look at the Total Capital Generated over the first six months, you can see the impact of economic variances. The scale of movements seen across equity and fixed income markets led to a reduction in surplus of almost £500 million.

At period end, the Surplus and Solvency II ratio included a number of other meaningful movements. The final dividend paid in April, the inorganic investments in Wealth and Private Assets, and the full quantum of the buyback programme. These items totalled roughly £1 billion and accounted for a 23 percentage points reduction in the coverage ratio.

The final Solvency position, at 214%, continues to be very strong and is of course above the top end of our 160% to 190% range. We follow the capital management framework we published in March, and of course assess opportunities to deploy or return excess capital. While investing in the business remains our priority, we will always take a very disciplined approach to capital management, focused on improving shareholder value. We also remain vigilant as to possible opportunities to act on leverage.

Slide 30 Shareholder Solvency II coverage ratio and leverage ratio

At the end of June, the Solvency II coverage ratio was 214%, and the leverage ratio 31% on a pro-forma basis, up from 28% at the end of last year.

We calculate the pro-forma leverage by netting off from both Own Funds and the nominal value of outstanding debt the £300 million we earmarked back in March. As we said at the time, we value the optionality this gives us, to deploy depending on market and interest rate developments, which have obviously been quite significant over the past few months.

While the leverage ratio increased to 31%, we remain comfortable with the temporary move above our preferred 30% threshold. This is because the increase is not driven by an increase in total debt, but by a market-led reduction in Own Funds. These economic variances do not impact our ability to service the debt, and we continue to remain very comfortable with its quantum given our resilient cash generation and strong capital position.

Before wrapping up, I want to share the usual indications of how we expect the business to develop in the near future.

Slide 31 Sources of earnings – Expected development

In Asset Management, the operating environment continues to be challenging with volatile equity and bond markets. Nonetheless, we are encouraged by our performance this year. As a reminder, from the first of July we will consolidate the responsAbility results in our financials, leading to an estimated increase in revenues and costs of £50 and £45 million respectively, on a yearly basis.

Within Retail & Savings, we aim to continue improving PruFund flows and build scale in non-PruFund propositions. While adding PruFund to the UK digital platform is an important step, we expect the impact on flows to build gradually over time. In Heritage, the traditional With-Profits should continue to deliver steady earnings; we have the same expectations for the Annuity book, albeit noting that returns on excess assets will gradually decline over time.

Future+, our version of PruFund in Europe, offers a compelling growth opportunity, but as John mentioned, the priority for this pilot phase is to deliver a successful proof of concept with strong investment returns and smooth operational delivery.

Our guidance for the 'Corporate Centre' remains unchanged – of course please do continue to track the impact of moves in the Sterling exchange rate on our US dollar subordinated debt.

Finally, while we do not underestimate the threats from inflation, we believe the balance sheet is well positioned, and we are committed to continue driving efficiencies to keep our cost base under control.

Slide 32 'One M&G', a diversified business model delivering attractive returns

To wrap up, I'd like to reiterate the key messages from today's results.

The performance from the first six months of 2022 has demonstrated the benefits of our diversified business mix. In particular, the Asset Owner and Asset Manager combination, at the heart of our One M&G strategy, has enabled the Group to withstand macro headwinds, and make a strong start towards achieving the £2.5 billion Operating Capital target for our shareholders.

Despite volatile markets, we continue to be in a very strong capital position, with a Solvency II ratio of 214%.

The Heritage operations provide a strong and resilient underpin to our business, while Asset Management is back into net inflows, offering high recurring revenues and capital-light growth opportunities. Through M&G Wealth, we can tap into a large and expanding market to drive long-term value creation.

And of course, given the inflationary and broader macroeconomic headwinds, we will continue to be disciplined on our cost spend, and capital deployment.

Importantly, I would like to conclude by thanking all our colleagues for their hard work and dedication over the past six months.

Thank you.

Closing Remarks

John Foley, Chief Executive

At the full year I said that the business had reached an inflection point. Another encouraging set of results is further evidence of that statement; our momentum is increasing, and we are well set to take advantage of market opportunities.

We have delivered a strong and improving investment performance, set against what has been a tough period for our sector. Buttressed by Wholesale, we have made excellent progress on flows, moving from net outflow to net inflow, a crucial milestone.

And, we have made good progress on our Wealth strategy too.

Capital generation is strong, which will allow us to both invest in the future of the business and, as the latest increase in the dividend per share demonstrates, deliver compelling shareholder returns.

Thank you for watching.

M&G plc 2022 Half Year Results

Q&A Transcript, 11 August 2022

Introduction & Welcome

Luca Gagliardi, Director of Investor Relations

Good morning, everyone, to those on the line and those in the room. I am here today with John and Kathryn. John will give a very brief introduction, and then we will be happy to take your questions.

So John, over to you.

Opening Remarks

John Foley, Chief Executive

Thank you. A very warm welcome to our Half Year Results. The first thing I want to do is introduce Kathryn McLeland, who joined us in May as our CFO. And so she will field most of your questions today.

Look, these are a really good set of results. I am very proud of what the team have achieved here. It shows two things. One is about the momentum in the company. We talked a lot about this, and I think today's results demonstrate the momentum that we have. And the second is delivery. We have often talked about delivery and how we are very focused on delivering what we say we will do. And we have hit all the milestones that we said we would at demerger, some we have achieved a little earlier than planned.

And these results today, there is a continuum of that momentum and some of you will notice the slight joke in continuum. Never mind. So without any further ado, we will go straight to questions if that is okay.

Q&A

Rhea Shah (Deutsche Bank): So two questions for me. The first is on the dividend. You have committed to the cash spend for the dividend for this year. But how should we think about either the DPS going forwards or the cash spend going forwards depending on whether you are committing to further excess capital return?

And then the second one is about M&A. You have been building up M&G Wealth, and there was a comment in the statement saying that you have got all the building blocks now for M&G Wealth. So are there any other gaps in the other parts of the business that you think you could acquire or invest in to grow further?

John Foley: Do you want to take the first one, and I will take the second one?

Kathryn McLeland: Yes. So in terms of the dividend, as you said, management at the Full Year Results said they would like to keep the pounds amount of dividend the same. And so what that means is we have got a £500 million buyback programme that we announced at the Full Year. So obviously, when we reduce the share count, you will get an increase in the dividends per share. And obviously, that is part of a broader capital management framework, one element of which John will talk about in a minute.

So encouragingly, we have seen a 40% increase in operating capital generation in the first half, which means at £433 million we are well on our way to our £2.5 billion operating capital target, and it is also a really strong underpin of that cash dividend.

And in terms of other uses of excess capital, I will hand over to John to talk about potential inorganic.

John Foley: So we did say that we are very pleased with the progress we have made on M&G Wealth and that we have the building blocks now to start delivering product, not just the PruFund proposition, but also M&G's mutual fund propositions to clients directly or through intermediary channels. We can still build that out further. So you have seen the deal we did recently, a small transaction with Continuum which follows the Sandringham acquisition. All of these are very positive building blocks to increasing our delivery mechanisms to our clients.

In terms of gaps, we think that the acquisition of the platform is really important for us. And PruFund Planet is already on that platform. So that is a great result. And we hope that the core PruFund proposition goes onto the platform in the second half of this year, and that will be a very important driver for sales of that proposition and will improve the momentum significantly, as you would expect, right?

Otherwise, I suspect that we will probably do more of the same. We have got Clare in the audience. I do not know if you want to talk about the IFA channels, Clare, and what our thoughts are around that.

Clare Bousfield: Yeah. So in terms of the Continuum acquisition, that was just really adding to the scale that we are basically looking to build from an overall advice perspective. So we have now got both a restricted and an independent, that allows us to be able to encourage advisers as well in terms of broadening that out.

We have talked about a target of 1,000 advisers as being a level from a scale perspective. But I think it is important to recognise that that is nothing more than an ambition of which we need to play together with productivity and the use of digital.

So we announced the launch of hybrid advice at the end of last year. That has been extremely successful in terms of actually improving the productivity. So do not treat that 1,000 advisers as anything more than a point that we are looking to basically achieve. And we will do that both inorganically and organically. And obviously, the partnership with Moneyfarm is also a key part of that in terms of being able to provide the full remit in terms of the access to different markets.

Farooq Hanif (JP Morgan): Can you talk about your thinking behind the flat nominal dividend? And presumably, your indication here is that, obviously, you are doing the £500 million buyback, but you would like to do more. So can you talk about the parameters around that?

And then secondly, there is a slide where you talk about your leverage and the £300 million of own funds you set aside. So presumably, this is something you are going to come up against potentially more as your cash book runs out. So what is your plan around debt and addressing that earlier than core dates. And if you could talk around that as well, that would be really helpful.

John Foley: Okay. So the debt question is probably the quick and easy one of those. And it is really down to economics, right? So we have seen interest rates move. They have not quite come into focus. The way I think about it is, when they come into focus, that is when we might do something on the debt front. That means when there is an economic advantage to M&G and to shareholders to enter into conversations with bondholders about doing something on a pre-emptive basis.

When we talked about our capital framework at the yearend, we discussed that as a potential use of capital that we generate. So that is still something. And in fact, it is a more likely proposition today than it was then, given the move in interest rates. So we have also got the £300 million that we set aside for the bond maturing in 2024. So that is all pretty clear.

In terms of otherwise in capital, look, as I say, we have a number of options around the capital we generate. We are a highly capital generative, cash generative organisation. We have strong solvency. We need to demonstrate resilience in these markets. We do not know what the winter is going to bring. It is likely to be pretty choppy. And I am very pleased with the fact that we have a 214% Solvency II ratio, that is a very good number and gives us confidence going into whatever lies ahead.

But there will be opportunities, right? So markets will throw up opportunities, I believe, for us to make acquisitions. Again, if they fit, if they are nailed on strategically, and I hope you can see that everything we have done thus far is nailed on strategically as these acquisitions have had real merit to our strategy.

So whether that is maintaining dividend? We will likely talk more about it at the full year. We did say at the full year back in March that we would not be making any announcements around capital at the half year, nor do we intend to. Did that cover your question?

Andrew Sinclair (BofA): First one for me was just on remittances, seeing slightly lower remittances in H1, about £0.3 billion. Just any reason for that after a pretty good capital generation last year, and should we expect more for H2?

And second and final one for me is just on With-Profits. PruFunds have held up pretty well in terms of performance in H1. Just really wondered given the market volatility, how has that changed dynamics of discussions with advisers? Is it really picking up with interest as a result?

Kathryn McLeland: So Andy, you are right. Remittances are down at about £253 million. But I think, first of all, remember that we have actually funded some acquisitions worth £260 million. So it is double that when you net off for the acquisitions that we have done in the first half.

And I think when we look at how we manage capital liquidity across the Group, our approach really has not changed. And so when we think about what we can distribute in terms of excess surplus from subsidiaries to the parent, we never like keeping a whole lot of excess in subsidiaries. So our framework has always been about distributing up to the parent, bearing in mind the position, obviously, of the two subsidiaries, the most meaningful one obviously, the insurance one.

And also, you will remember last year, the £1.1billion did have an unusually large contribution from PAC. So those are the main factors behind that. And I think when you look at the whole liquidity, we have got £1.4 billion, and we obviously are a very capital generative business. So we feel very comfortable about the position of the Group.

Yeah, so PruFund delivered With-Profits. Your question was more broadly about With-Profits. And so certainly, in terms of the performance, which you can see is a 20 percentage point outperformance of peers, which is really extraordinary. And that has led to this 30% pickup in sales in PruFund, which is also encouraging. And obviously, Clare is looking for more distribution channels for that product, but it obviously is very well positioned.

And so we have obviously had meaningful benefit coming through in terms of underlying capital from our With-Profits businesses. And that is about £100 million of the increase we have seen year-on-year. And so obviously, underpinning that is just the growth in the PVST, which has increased year-on-year. Now there are a couple of provision moves that you will have seen, and obviously, on the underlying capital move, we also moved a few hedges around.

But we have had really strong performance, which has led to that growing PVST driving a really strong underlying capital generation that you have seen. So I think we feel quite well positioned. But I do not know, Clare, if you want to add anything else about the prospects of PruFund.

Clare Bousfield: Yeah. So in terms of the advisers, obviously, the PruFund investment performance, as Kathryn talked about, has been extremely positive. And actually, you can see the smooth return, but also the underlying returns in terms of what we have actually been able to deliver.

But from an adviser perspective, the advisers are in a pretty good place. We have made some fairly significant improvements in service that has generated a lot of the improvement in terms of flow. But the market volatility that we have seen, what you can see from this is is it's doing exactly what you would expect it to do.

The other aspect that is important around this is a lot of the underlying assets, real assets. So in terms of being able to actually deliver the inflation component in terms of the cost of living crisis. This product is absolutely well positioned in terms of that respect too. So as interest rates start to climb, you will start to see increases in the expected growth rate. And again, that basically provides customers with a great outcome in terms of how they go through their retirement. And we are certainly seeing that in terms of how the advisers are reacting.

But the most important thing, Andy, is that the product is doing what it is expected because advisers have seen this now for 10-plus years, and they are pretty comfortable in terms of how it operates.

Andrew Crean (Autonomous): A couple of questions. Am I right in thinking, what is the underlying performance of the With-Profits Fund? I mean that is presuming the smooth returns. If we could just have the underlying performance behind that?

And then the second question on the balance sheet. The IFRS equity is £3.9 billion. Taking off tax intangibles of £1.6 billion and then there is about £550 million of buyback and dividend still to pay, the tangible IFRS equity actually now is about £1.75 billion, and that plays against debt of whether it is £3.3 billion or £3.7 billion in principal and the leverage there is well into the 60s, 68%. Is that really okay? I mean are you happy with that level of leverage?

Luca Gagliardi: I should take the first one on PruFund because we do not disclose the unsmoothed performance of the fund, because, obviously, this would be an arbitrage opportunity for any customer out there. So we have never disclosed that. And unfortunately, we cannot do it. But it is always within a boundary from the smoothed performance. So it hovers around and clearly moves on a daily basis, but we do not disclose it.

On the balance sheet, the short answer would be that our main metrics would be on the capital side of things. So that is what we focus most on.

Andrew Crean (Autonomous): It is what other people focus on, investors and rating agencies and regulators.

Kathryn McLeland: So I think since I have been in the role, I have understood people looking at obviously the IFRS position. Certainly, we do focus very much and obviously engage with our rating agencies. And clearly, the regulator is an incredibly important stakeholder.

And when we have seen leverage moves in the quarter on the solvency basis upon which we look at leverage, obviously, there has been a huge impact in this period from the very material market moves that we have seen. So our debt position has not changed that movement down to low 30s, but if one wants to adjust for the £300 million that is something we are comfortable with. We said we would be happy with sort of temporary variances above our target 30% and we said that at full year.

The management team are very comfortable with this approach to looking at leverage on the solvency basis rather than the IFRS basis. And obviously, there have been, as I said, meaningful market moves in both over the period.

John Foley: Our ratings have not been adjusted. And if you go back to 2020, we have probably been super AAA on that basis. So that is why we just look at it on the basis that Kathryn has described.

Ashik Musaddi (Morgan Stanley): Just a couple of questions. So first of all, on management actions. I mean this half, we saw about £67 million when it had been a very volatile half. So how would you categorise the £67 million for the half? I mean, would you say it was a good result or could there have been more? Or is there any pipeline you can share for the year? Because at the least it is an important part of your capital generation metric?

Second thing is retail flows or wholesale flows which have been pretty strong. I mean, £0.8 billion, which we have not seen for quite some time. So what would you say, was there any lumpy business in that? Was it pretty stable? Is there any outlook you can share, how it is looking for second half? Any thoughts on that would be helpful.

And the third one would be on cost. I mean over the results season, we have seen quite a few asset managers struggling on the cost side as well as on the revenue side. But when I look at your results, I mean it came pretty well in line with expectation. So how do you think about cost in second half? I mean do you think there is any catch-up on the cost that needs to be done in second half? Or would you say the first half is more or less a good indicator?

John Foley: One and three, and Jack will do two.

Kathryn McLeland: Yes. Look, I mentioned in the first question that the operating capital of £433 million, up 40% is pleasing for us, given it shows we are on track for our external target. And we do like driving underlying performance. So again, we do focus very much on that metric. But when we look at the management actions we delivered in the last six months, yes, they came in at around £67 million and that is in line with our expectations. And so we feel very comfortable about what we can deliver over the course of the year.

Obviously, we typically review all the longevity assumptions in the second half of every year. So we have the CMI20 tables that we will need to assess against our assumptions. And you will remember that the period a year ago in the first half of 2021 was very lumpy in terms of management actions, so really meaningful numbers coming through there. And so yes, the number of £67 million and the opportunities that we see in the annuities business there, we are comfortable around them, and it is very much in line with our expectations.

John Foley: But it is lumpy, right? I mean we will take opportunities when they arise. So if it does not fall within a period, we do not get excited about it, if I can put it that way. Jack, do you want to take the question on flows?

Jack Daniels: Yeah. Can we have slide 11, Luca. So the approach to wholesale asset management, we have talked about in the last couple of years, is a consistent approach to improving the flow position. And you can see that that is starting to happen.

A four-pronged approach: tackling performance, which was weak a couple of years ago. It is now improved considerably; value for money, looking at the pricing, which we have dealt with as well. So that is no longer an issue when we talk to our wholesale clients and intermediaries; launching new propositions and revitalisation of that proposition base, also bringing in new talent in the equities business in order to reinvigorate that side of our activities. And we have seen some very good inflows into equities in the first half; and then investing in distribution and developing these core relationships with our wholesale intermediary clients, that we can then do a number of different strategies with rather than just one or two. Some of those are more bespoke.

So all of these things are starting to work, and we have seen that in the first half with positive flows. The second half, we would expect also to continue with that momentum. But it is something that we have been focused on for a couple of years in a very systematic way, and it is starting to come through as we would expect.

John Foley: And if you take that in context of what has happened in the wider market, the achievements are even better.

Kathryn McLeland: Shall I take the third one on costs? And so it is a natural follow-on from just hearing about the really strong turnaround in the wholesale business. So you are absolutely right. Within asset management, costs were up about £40 million year-on-year. Now it is important to remember that about half of that was from the consolidation of our South African joint-venture. And then the remainder is split broadly 50-50 between some inflation and then some investments, which Jack has talked about to grow the business.

And so I think it is really encouraging that we have seen the fruits of this strategy and these investments come through, and that the business has got momentum. Revenues are up 7% year-on-year within Asset Management. And so what I said in my speech this morning is that over the longer term, you would expect the cost-to-income ratio to move down. But I think we have been very selective and focused on when we are investing. And really importantly, it has made the business much more diversified and much more resilient, which is why we have managed to deliver a relatively good performance in this period, particularly notable in the turnaround in the wholesale business.

John Foley: And to make the point in relation to delivery, so performance, we have spent this money. It is not jammed, but the performance is there and the revenue improvement is there. And that is what we focus on when we spend shareholders' money. Just to make the point.

Dominic O'Mahony (Exane BNP Paribas): So three questions, if that is all right. Just on wealth, and I suppose, related to retail Asset Management. There are some indications that the cost of living crisis is leading people to divert money away from saving, pensions. I know that the workplace is not something you work in. But I am wondering whether you are seeing any signs that the propensity to save is changing? Certainly, retail asset management is doing brilliantly. I am wondering whether I am missing any signs that the total pie is shrinking as a result of that?

And then one on the financial side. Kathryn, one thing you said earlier was you tried to push cash-up through the structure. I wonder if you could just help us understand a bit more about what the binding constraints are on cash remittance? Is it really as simple as the solvency position within the entities, and I guess PAC in particular? Are there other constraints? I mean, for instance, does it matter that PVST is a very big contributor to capital and presumably it is not a cash item. But maybe it is. So anything you could say that would be helpful.

And then you may say you can pass this on to the full year. But in terms of uses of surplus capital, I hate to come back to leverage again. But on your own metric, it is about 31% pro forma, the £300 million, which is fairly above the target. But I wonder whether it would be fair to assume that shareholder returns would have to take a second priority to debt redemption while the ratio is above that target? Or actually, are you more relaxed than that?

Kathryn McLeland: So I can take a few of those. The first question on whether we have we seen any change in savings patterns, I will hand over to Clare and then I will take the others.

Clare Bousfield: So what is interesting is most customers basically go through a review of their finances typically around the tax year end. So what we did see in that period was a slight pickup in terms of drawdown amounts in terms of people actually accessing their cash. But post that, we have seen no real change in terms of that trend.

Now one of the things I think that is really important as we go down the post-compulsory annuitisation is a lot more customers are now in drawdown than they would have done historically. So one of the things we are very focused on is fund exhaustion, for example.

So we are looking at different mechanisms in terms of, for example, how much we highlight that to customers. But also, we are looking at guarantees as an example, because as interest rates start to improve, what we can start to do is make those much more commercially viable, particularly with the size of With-Profit funds that we have. So there are a number of different options that we are basically exploring at the moment, and we are one of the few in the market who have got the expertise and the structures to be able to do that in terms of offering it.

But what I would say at the moment is that we are predominantly a mass market and mass affluent player. So we do not see some of the trends that I would say some of the higher net worth or the affluent, where we see a lot more impact from volatility in the market. But that cost of living point in terms of just being able to afford is critical in terms of our customer base.

Kathryn McLeland: So shall I take the next one. So back to how we think about remittances and how we manage capital liquidity across the Group? This is something I did fair a bit in my old role as well. And in fact, it is just a really similar approach when you have got regulated subsidiaries. You want to make sure that you have obviously run those subsidiaries prudently in terms of all their metrics. So they will have a number certainly of solvency capital, liquidity metrics are important.

But the approach is really consistent from what the Group has had historically. And as I said, last year did have a very, very unusually large distribution from the insurance subsidiary. So we are capital generative. As you know, we have delivered really strong numbers in the first half. We feel very comfortable, obviously. You can see how well supported the dividend is.

And when we talk about an intention for full year broadly line cash dividend, again, we feel really confident around that, given what we have delivered in the first half, and given my earlier statements also around confidence in management actions in the second half. And now it is an interesting question obviously, that has appeared amongst our peers as well, given the meaningful market moves that we have seen. And it does mean that the composition of the capital base to move depending on what happens with markets, which obviously drove a meaningful move in own funds in this period.

We have seen growth in the PVST, which is good news because it has come from very strong With-Profits performance. And so looking forward, we still feel very comfortable around the capital generation capacity of the Group and the distributions to the market.

And now if you step back and look again at the question around leverage, which does get a lot of focus. It is quite interesting. I think I look at that capital management framework that the Group put out at the full year and think it is very compelling for all our stakeholders. We really value financial strength. We like having, as John said, a 214% solvency ratio today. We also like having flexibility, and flexibility is also prudent from a regulatory perspective, from a business perspective to capture opportunities.

So we have delivered very strong capital generation. We have got the ability to potentially deploy that £300 million. And as John said, we have seen what has happened to credit spreads. Obviously, you have seen that also in our numbers today. And we understand certainly. very well. what we could potentially do. We will take into consideration all of the stakeholders, and importantly, do what is also driving shareholder value.

The management team has delivered enormously for shareholders. John can quote the numbers in terms of how much we have returned since listing. But I think that certainly, the total shareholder return through buybacks, and more importantly, the underlying strong dividend, is meaningful. And we like being in a strong position today. We know we are capital-generative, and we have got optionality and flexibility around that £300 million, and we will continue to monitor the balance sheet and the position and do what is right when we take into account all of those considerations.

John Foley: You want the number to the penny? I am kidding. Just to make the point on this, though, you mentioned that shareholders would take a back seat to debt repayment. That is not the way we see it. We have got these four planks from a capital framework perspective, and they are all to the advantage of shareholders, we believe. And therefore, there will be a moment when – well, I say there will be a moment. I expect there will be a moment when the debt question will actually play well in terms of value for shareholders in terms of reducing debt, given where markets are and where they are heading. So that is the way we think about it.

Virtually - Andrew Baker (Citi): Two questions. The first one is, what has been the initial flow experience from the PruFund Life product, which is called Future+ in Europe. And based on your initial analysis, what solvency impact are you expecting from the UK Solvency II review?

John Foley: So it is still early days with Future+. It is actually called Future+ in Europe. You know we are piloting this in Italy. We are working with São Paolo, so a very strong partner. We are going through the process of educating the sales force and so on and so forth. And investment returns like we had on the screen earlier will only promote the proposition. It will take time. We saw that in the UK. Everybody knows that, that proposition was available in the UK market for some years before it took off. And circumstances change, and that I am confident will happen.

We are also rolling it out in Ireland, and I have mentioned that previously. And we will just stick with those two markets until we have proof of concept because I think that will be more helpful, more advantageous for our commercial discussions with future partners in other markets going forward. So it is going well, but do not expect to see huge scores on the doors any time soon. What was the other question?

So Solvency II reform. Look, I do not see much in terms of output, but there is a lot said. We are engaged with industry forums and so on. We talk to the regulators, people know our views. It is not hugely impactful to our business. We do not write the sort of business that is going to be impacted by that.

That said, if things were to play into the hands of private asset managers, then that would be great from our perspective because it would mean that, that business would get yet another shot in the arm. But I think from our perspective, it is something we watch. It is something we are interested in, but it is not hugely impactful for our business.

Virtually - Steven Haywood (HSBC): Three questions. The first one, any update on management changes, particularly with the CEO and CIO? Second question, CMI20 calibration in the second half. Do you foresee any particular impact or trends? And then probably positive, but what about COVID volatility in it? So second question is on CMI20.

And third question is about management action, which we partly addressed earlier. But any change to the expected run rate, and Steven quotes a number between £150 million to £200 million a year as a sustainable level of management actions.

John Foley: Okay. I will take the first one and three others. So on the question of CEO succession, as you would imagine, the process is ongoing. It is being led by the chair and we will make an announcement about that in due course when the time is right. So in the meantime, though, you will be pleased to know, or maybe not, that my hand is very firmly on the tiller of this company, and will remain there until a new CEO is appointed.

In terms of Jack leaving, well, he will be around for quite some time yet, I am pleased to say. And it will be up to the new CEO to worry about how he is replaced, being irreplaceable, as you can see from the results. Kathryn?

Kathryn McLeland: And on the longevity question, and I appreciate this has come up before, and I am not going to give too much more specific guidance apart from it is too early to say at the moment or identify any clear trends. So I think we will wait to see what comes out, and we are not guiding to anything particularly meaningful or special here. So we are not expecting anything particularly unusual than you would have seen previously. And obviously, we know we have had meaningful longevity releases in the past.

And obviously, also, over the last few years, we have been continuing to work on our underlying model as well. So that is another aspect of that.

And I guess just back to management actions. And in terms of the guidance that has been given before, I think that guidance was given across both asset trading and longevity assumptions. So if you look at the asset trading, as we have said in the comments, that we are absolutely on track. We feel very comfortable about what we can deliver also in the second half. And you have seen that we have a really strong track record in management actions.

So I think we feel very confident that we can continue to deliver there across the various levers, hedging, trading that you know we have at our disposal.

Luca Gagliardi: Perfect. And last point on CMI20, obviously, we book short-term experience variances in each result. So obviously, experience variance in mortality in H1 would have already been booked in these numbers. So when COVID was at its height, clearly, that had more of an impact in terms of long-term trends. It is fair to say that it is probably still too early to judge on that.

Virtually - Charlie Beeching (KBW): First question is probably for you, Kathryn. Are you likely to change your balance sheet hedging approach at all with interest rates seemingly set to continue rising? So that would be the first one.

The second one, have you had any further thought of disposing of part or all of the Heritage book? Does this remain core to the strategy? It says the Heritage book, but I think it possibly implies annuity book.

And then third and final, which I think Jack already partly addressed earlier. Do you expect net positive flows in the second half of the year, given a more positive outlook for institutional and the mandate wins? So obviously, typically, we never guide on flows, but if you can add a little bit more colour on that.

Kathryn McLeland: Should I start with the thoughts around how we feel about the position of the balance sheet in terms of hedging. So as you know very well, we have got two broad hedging programmes. We have an equity hedge that hedges the shareholder transfers that the shareholder gets. And that has been obviously pretty beneficial, given what we have seen in terms of the market. And I think that is working very well.

You will be aware we did adjust it a couple of years ago, but I would not expect us to change the approach to equity hedging. And on the interest rate side, you have seen that we have obviously got interest rate hedges on. We are very much focused across all of our hedging programmes on protecting the Solvency capital position. So that is the primary objective in looking at the solvency capital and protecting that. And so there has been some negative move, obviously, given the meaningful backup we have seen in 10-year swaps this first half on that interest rate hedging, but we are prudently protecting for downside risks.

You have obviously seen net-net overall the benefit we have received from a rising rate environment. So we do continue to look at the structure of the hedging programmes, the composition. And we will be as efficient as possible, but very much focused on protecting the solvency position of the Group.

John Foley: I was worried that I was not going to get that question. So thanks for it. The answer is simply no. We have not changed our mind. We still think that it is the right thing for us to hold on to that book, for all the reasons that I have mentioned multiple times before. And I think in the current environment, even more so in some respects. So if we are talking about the annuity book, I mean the Heritage book, we certainly have no interest in selling. So we stand as we have always stood on that subject.

Luca Gagliardi: And as a reminder, when we talk about the heritage book, we also have got the traditional With-Profit fund, which obviously is an integral part of the overall With-Profit funds that also include PruFund, so you cannot really partition the two. That would be a nightmare of an exercise to do, and I do not think anyone is interested in running that.

Jack, on flows looking forward, maybe more on the sentiment.

Jonathan Daniels: So slide 11, Luca. We talked a bit about the wholesale side of the business. Obviously, the other bit is institutional. That has got a very long history of positive flows. The first half was quieter. Markets were turbulent. Some of our institutional investors were sitting on their hands a bit.

I am pleased to say that in July, we had a couple of significant wins. We have got the capital queue and the private assets down on the bottom right there. And I was speaking to the head of the institutional business earlier this week, and things seem to be returning to normal. But we do not give any further guidance on the expectations on flows. But it feels better than it did in the first half.

Larissa van Deventer (Barclays): On capital generation, about two-thirds of capital at the moment has come from the heritage book. How do you see that composition evolving over time as the heritage book runs off? And at some point, would it actually make sense not to sell the heritage book but to add to it by buying other closed back books?

John Foley: So we have never avoided controversy on that topic. If we see an opportunity and it makes economic sense, and that might happen as a result of Solvency II reforms, not to the extent I have heard about but that might, then that is something we could consider because we have the team of people, we run the business, we understand it very well, and we have a terrific brand in that market. So it is always an option.

And if you are asking will we, at some point, if it precipitates the change in our portfolio? It could well, but not for some years, in my opinion, if that makes sense. You have seen the runoff of that book. We have shown you that before, and it is a very valuable asset for us. So could there come a time? Sure. But there could also come a time when we would add to it.

Kathryn McLeland: Maybe just if I could just add one comment to that, which is the capital generated from the annuities book in the first half was pretty meaningful and it was up. And when you think about how that calculation works, it is also that we expect a return on the excess asset struck at the beginning of the year. So you will know what has happened to rates this year. So the market has been very volatile, but setting that should be reasonably supportive in terms of a continuation of that strong expected return on those assets sitting in the annuities book, albeit very, very much over the longer term, clearly, a declining run-off profile.

Larissa van Deventer: Do you believe that the other operations could generate sufficient capital to compensate for the run-off?

Kathryn McLeland: So the business that Clare runs, so I think we are very encouraged by the prospects there. We have talked about the longer term potential in Future+ in Europe, which we are really excited about. And the results of asset management today show a business that has got real momentum across wholesale and institutional, with great franchises. So obviously, we know that there are clearly inflation cost headwinds there, but we are really encouraged by the potential to grow earnings in that business over time.

Nasib Ahmed (UBS): On IFRS 17, given what you have done internally, what impacts are you thinking on IFRS NAV and earnings going forward? And is it just a case of adding your implicated surplus to your IFRS, and does that become the new base for IFRS 17? And is that the way you are looking at IFRS leverage as well, because you have got a big good profits book relative to this?

Kathryn McLeland: So on IFRS 17, it is obviously a project that is big for us and all our peers. We have got a lot to do, but we are in a good spot at the moment.

In terms of the impact on the business, obviously, we are not nearly as impacted as many of our peers, as you know. Luca is looking at what we might do in terms of guiding the market on the impacts on M&G when it comes in at the beginning of January. So with the expectation that several people will be coming out in the final quarter obviously of this year.

In terms of more details and more technicalities around how the various parts work, it is probably worth some initial guidance that Luca can take you through offline. But obviously, we will be waiting until we more formally give something out to the market.

Alan Devlin (Goldman Sachs): A couple of questions on PruFund. I know in the past, the sales been held back. It is a complex year with COVID and the uncertain markets seem to be unknown in the last couple of years. You have given the improvement in sales this half. Is it starting to get easier to sell that product? And what is the outlook for sales now it is on the platform now you have launched in Italy and Ireland, etc.? Can we expect that momentum to continue? And presumably the strong performance in H1 actually is better for forward sales because obviously it would have just happened and the advisers can start to sell it?

And then secondly, also on PruFund you mentioned in Italy and Ireland the improving of the concept. For you guys, how would you improve the concept? What is going to be a success for you, that you are looking for in Future+ in Italy and Ireland?

Clare Bousfield: Yes. So just standing back in terms of the last couple of years in terms of PruFund flows. So there are a couple of things that were basically driving some of the trend. Firstly, DB transfers were a big element in 2017 and 2018. They were about 25%-30% of our flows during that period. And obviously, what has happened with some of the regulatory pressure is we have now got a lot less IFAs who are actually able to make those DB transfers. So those volumes have come down.

The actual demand for it just ends up over a longer period, and PruFund is an ideal proposition in the context of a DB transfer. So that is one element.

The second piece is what we have seen is through the pandemic, a lot more customers and advisers have wanted to do things digitally for the obvious reasons. What that has done is effectively generated quite a lot of adviser consolidation because a lot of the advisers, as we all know, are closer to retirement. And so fundamentally, what they are saying is they have got to put investment into their business. And that, as a result, a lot of them have put themselves up for sale. And that is why we are seeing the consolidation that we have seen.

What that is also doing is shifting flows onto platforms. So there is has been shift from off-platform to on-platform over the last 15 years that has accelerated as the advisers have accelerated. So that has been the big driver to why if you go back to 2017-2018 and compare to where the flows are today, that is the big driver. So that was the reason why we acquired the Ascentric platform in 2020. That is why we just launched PruFund Planet on the platform in July. We have had an amazingly positive response to that. A number of leads that advisers have come to us.

We even had flow come straight in from a platform on day one. That is unheard of in terms of a platform. But the one thing you have got to remember is the platform sale is a holistic sale, the way you basically plumb that platform into through the adviser business and into us. And that typically takes somewhere between three to six months. And then it becomes less of a transactional process and more of something where you are part of the business model in terms of the adviser.

So we should start to see the impact of that, but it is probably going to be 2023 rather than 2022 in terms of where we go. We are also looking at putting PruFund Growth and PruFund Cautious onto the platform as well towards the end of the year in terms of that piece.

So overall, we are very much optimistic. You saw the performance. I mean the performance is stellar. And as the volatility of the market makes it very positive. As I talked about earlier on, we are also thinking about guarantees in the context of where interest rates are in terms of those different markets. So in terms of the optimism in terms of the future, absolutely.

If you then go to Future+, yes, the feedback that we have had in terms of the market and the agents on the ground in Italy has been very, very strong. Those banks, if you look at the amount of cash that is on deposit in bank accounts, again. So all the dynamics and the opportunity are absolutely there. But as John said, it takes time, and we are talking about thousands of agents and we are talking about a very innovative new product that has not been in the market. And that will take time in order to kind of bed down and get the full momentum in terms of what we are looking to do.

The Irish market is a bit different because it is more akin to the UK market. So there is a lot of things that we can learn and leverage in terms of the Irish market. But yes, overall, I would say we are feeling very, very optimistic in terms of the future.

Yes. So to Luca's point around the With-Profit fund. The With-Profit fund is one block of assets. You have not got £60 billion that basically backs PruFund. It basically backs the full traditional With-Profits. And then when you look at the different tranches, all they are are combinations of blocks of assets in terms of where you go. So absolutely, we can use the track record, although as for the agents they really want to see what are the actual funds that the customers are going to go for.

So the longer we get a track record, the better. But for example, when we saw a unit price downwards adjustment on that fund about a month, six weeks ago, that went down very, very well in the Italian market because it was actually significantly lower than the market had gone down. So what that was doing was proving to the agents, this actually does what you expect it to do in those situations. So yeah, it is very much doing exactly what you would expect.

Mandeep Jagpal (RBC): Just one question left for me as a follow-up on institutional net flows. I understand the pipeline here is good in terms of inflows. But in terms of potential redemptions, is there a threat here due to pension schemes accelerating the derisking over the next few months and years due to the improvement in funding levels that have been seen year-to-date? And this could either be in the form of moving from growth assets into LDI, or actually deciding that they are now in a position to buy out and won't need an insurance to operate this?

Jack Daniels: I will take that one. I mean it is a challenge to our existing business. But what I would say is that if you look at some of the positive flows that we have seen in the first half and actually in the second half of last year, on the public fixed income side particularly, we are getting very good traction with institutions outside of the UK in Europe. And if you looked at the last six months of last year, a significant portion of those inflows were large institutions in France and Germany. So part of the approach to diversification and investing in our international business, particularly in Europe, is that those core fixed income capabilities that we have are the sort of strategies that institutions in Europe are looking to invest in as well. So that is positive.

And we have not really seen the latter either in the interest of private assets. Again, we have traditionally been strong in the UK, but again, we are seeing significant flows there from institutions in Europe. So there is much more of a diversification to that side of our activity on the institutional side.

John Foley: In terms of the Asia operation, can we talk a bit about what we have done there?

Jack Daniels: Yes. I mean when we have talked about investing internationally, we are protecting the strength that we already have in the UK. We think Europe is the area where we are developing in the short to medium term. Longer term, some of the relationships that we are developing with institutions in Asia are also showing some positive flows. It is particularly true in Japan, but also elsewhere.

So we think the business is pretty well poised in terms of its diversification away from the UK, which was a specific plan that we had at the start when we demerged.

John Foley: So you may recall we acquired an equities based team some time ago, and we have recently acquired a fixed-income team in Asia. So again, it is not just about the public acquisitions but the team-based acquisitions, making sure we have got the investment capabilities to drive the business as we hope, and that principally is internationally, as Jack has described.

Virtually - Fahad Changazi (Mediobanca): Two questions. The first one, should we start looking at pro forma leverage, e.g. if you earmark more money for debt reduction? We do not have to wait for leverage to actually come down before capital return.

Second question is, you have only done £150 million of the buyback so far. Would consolidation be the faster way to distribute?

John Foley: Take the first one. I will take the second one.

Kathryn McLeland: Look, I think in terms of the leverage position and we just did think it might be helpful to adjust the £300 million off both numbers, which is what gave the 31% so it gave us a higher number. Look, I think for the moment, what we have said is we have got £300 million that gives us valuable optionality. We have got a 2024 bond that is callable. We have got other securities and we are watching market spreads. So I would not encourage people to think we will earmark more.

As John said, we like having a strong solvency position. We have invested very selectively to accelerate strategies where we have got gaps. We have seen that and most importantly Clare's talked about it as well, but obviously, responsAbility, we are really excited about in asset management. And then we have got the share buyback, which, as you said, is just under £150 million in terms of what we have done so far.

So I would not, at the moment, think about any other aspect of earmarking more. We are comfortable with where we are at the moment.

And on the share buyback, I am not 100% sure I understood what the question was?

Luca Gagliardi: I guess the question was share consolidation as opposed to buying shares in the open market as a means to return the capital passed through to shareholders?

John Foley: What we are doing is a proven technique to reduce the share count. It is chugging along well. So we will see how it goes. And if that forms any future action, then that forms future action. So we will just leave it there.

Dominic O'Mahony (Exane BNP Paribas): First question, this may sound cheeky, but it is extraordinary how strong the performance of the PruFund is in the period. Was there an element of positioning that drove that? And I am not asking for the actual number of the actual performance, but something that helps us understand why it has done that performance so spectacularly. And in particular, how have you marked-to-market the real assets within that? So do you change the discount rates in future cash flows based on interest rates?

And then the second question is, in previous presentations, you gave us the future UCG coming out of the in-force book. There is £10 billion in at the end of the year. I have not seen it in the slide deck. Forgive me if it is in the pack somewhere. Has that number moved?

Luca Gagliardi: So it is not in the deck simply because in a way, the number will always move because of assumption on return on excess assets and so on and so forth, but we also feel it is such a long profile and such a big number that it is not worth updating it every six months. It would have not changed massively between January and now. That is basically the short answer to the second point.

John Foley: I mean, Luca had the slide up before you even finished the question. It is this that makes the difference and it always has. So the strategic asset allocation that the team, and it is a pretty big team, that devised the SAA on this strategy. Think long and hard about it. It is this that creates, I do not know, somewhere between 80% and 90% of the value of the return.

And then, of course, given the size of the fund and the breadth of what we are able, both geographically and from an asset class perspective, what we are able to invest in. That is the result.

Dominic O'Mahony (Exane BNP Paribas): And I am guessing that means that actually because so much is non-sterling, the performance in sterling is very, very strong because of the weakness of the currency?

John Foley: Well, you are right to point out that there is a considerable international dimension here, and we manage our own assets, both in North America and in Asia as well as Europe. So it is the blend, right?

Andrew Crean (Autonomous): I was a bit flummoxed by the Solvency II move, the market movement in the first half, trying to apply the sensitivities which we then had. You could not help me a little bit as to how an outsider would model that and how the actual performance changed relative to that. And then I suppose going on from that, with yields falling since June, what has happened to your solvency position? And can we apply the sensitivities, do the sensitivities allow for your current hedging?

Kathryn McLeland: Go to slide 28. Okay. Yes. So this gives you the shareholder solvency sensitivities on the left and the With-Profits and on the right. And look, I think in terms of the market movements, and obviously, we have had a meaningful reduction in the capital as well when you look, which I look at as slide 29. So I think there have been really meaningful moves, obviously, across equities, across rates, across credit.

When you look at how the capital position has moved, sometimes you have interactions between some of these sensitivities. But I think it would be broadly in line in terms of where we have seen benefits and when we have seen market driven movements. Obviously, we have got the annuities, surplus assets, credit spreads have widened by 50-odd basis points, rates are higher as anticipated. We have got interest rate hedges on, which are prudent to protect against downside risks.

But as I said, we do continually monitor those. And so we also have benefited from the equity hedging that we put on, in shareholder transfers. So I think the sensitivities might have moved, and obviously, when you look at the overall solvency position, there is sometimes second order effects and impacts between the various external macro numbers that impact our solvency capital position, together with the hedging and then obviously the own funds.

So I think at the moment, what I would say is that we are mindful about, and no one has asked about inflation. So I did say in my comments that, from a balance sheet perspective, we do feel that the inflation risks are hedged in terms of the amount of inflation-linked annuity assets matched by liabilities. So the balance sheet is in a well protected position. We are obviously mindful about cost headwinds I covered that in some earlier comments with regard to just cost management and cost discipline across the Group.

And then, look, we continually monitor the appropriateness of how we manage the risks that we face. And I think we feel pretty comfortable with where we are today, but we are very alert that it is a very uncertain macroeconomic environment. We have seen the inflation numbers for the UK. And we constantly monitor that we have got the appropriate level of protection on. And hence, you see these sensitivities that we updated today.

Andrew Crean: Perhaps you could give the sensitivities the other way. Are they symmetric? Because everything there is sensitivity to markets crashing.

Luca Gagliardi: There are all the sensitivities that we show we have said in the past and that has not changed. They are, roughly speaking, symmetrical. What has happened in H1 is that the magnitude of the movements were such that there were other second order effects in play, right? So the broad direction was what you would have expected. Maybe the magnitude is slightly different.

But broadly speaking, they are there or thereabout. You will notice that we have updated the sensitivities. They have moved a little bit, again because market moved. So you are looking for where you should use this, and we are not providing a mark-to-market update on the solvency simply because there has not been that much time since the end of the period, right? While at full year, we have got 2.5 months before results. Now it is only five or six weeks.

Kathryn McLeland: I did check where swaps had moved since 30 June and they rallied a bit, but not too much. And when I first looked at this, I obviously wanted to see what the rates sensitivity was. But this is where we are exposed, which is why they kept sensitivities on the downside.

Luca Gagliardi: So we exhausted all the questions online. And I think we also covered everyone's questions in the room. So thank you very, very much. And I guess, see you in March.

John Foley: Thank you.