M&G plc 2021 Half Year Results

Video Transcript

10 August 2021

Welcome & Business Review

John Foley, Chief Executive

Slide 4 - Business Review

Good morning

Today's set of financial results demonstrate that we are making good progress on our strategy for sustainable growth, while delivering continued strong capital generation.

There are clear signs of improvement in our core business but we recognise there is still much to do.

Slide 5 – Continued delivery of resilient performance through the pandemic
Strong capital generation and solvency ratio

Here you can see the key numbers for the first half of the year.

Total capital generation – an important stakeholder commitment – has been especially strong during the period, coming in at £869 million.

Year on year, adjusted operating profit is up 6% to £327 million, and assets under management and administration at £370 billion are also up on the end of 2020, with positive market movements more than offsetting expected redemptions from our Heritage business.

The strength of our capital position – with a Solvency II ratio of 198% – helps to underpin the dividend, which is 6.1 pence per share, payable in September.

At that point, we will have paid a cumulative total of 40.1 pence per share since we listed in October 2019. This is equivalent to almost 20% of our market capitalisation at demerger.

Slide 6 – Our strategy pillars and how they support our ambition
Positioning M&G for long-term, sustainable growth

Now this is a quick reminder of our strategy and ambition.

We aim to leverage our combination as an asset manager and asset owner to meet the structural growth in demand for savings and investments, both in the UK and internationally.

There are five pillars to our strategy. Four of them focus on delivering sustainable growth in M&G's open business. In the fifth, the Heritage segment, our mission is to improve customer outcomes while managing our capital in a disciplined and efficient way.

During the first half, service levels in part of our Heritage business were disrupted by operational changes and exacerbated by lockdown restrictions. We are sorry for the inconvenience this caused and have implemented a plan to return service levels to those expected by our customers.

Slide 7 - One M&G: Continuing to progress at pace on our sustainability journey
With the values of care and integrity forming the basis of our culture

As we have said consistently since listing, we believe the total of M&G plc is worth far more than the sum of its parts.

This is encapsulated in the concept of One M&G – asset manager and asset owner aligned to a single purpose and anchored by our values of care and integrity.

Sustainability is now at the heart of what we do – as a corporate citizen, as the custodian of savers' long-term capital, and as a provider of investment solutions to customers and clients. We firmly believe that sustainability is key to our future success. Innovation in this field will not only support flows and protect margins, but also help to attract and retain talent.

A few points on this slide to highlight:

- In May, we published of our first ever sustainability report which sets out our 10-point plan to help make the world better
- We are also in the process of moving €15 billion of existing European client assets to EU standards on sustainable investing

Slide 8 – PruFund Planet: The next generation PruFund for a sustainable future
Built thanks to the collaboration between the Asset Owner and Asset Manager

As I said, innovation in sustainable investment strategies is critical to our growth.

That's why we have just launched PruFund Planet, a UK first.

It's a version of our flagship UK savings solution that combines smoothed investment returns with positive societal and environmental outcomes.

The With-Profits Fund has allocated £500 million to the investment capabilities behind PruFund Planet, demonstrating once again how we can use its capital to foster innovation.

As well as being powered by our own capabilities in public and private assets, PruFund Planet also draws on those of other market players who are best in their class.

PruFund Planet was launched to advisers in July, through our Retirement Account proposition. Initial response has been extremely positive.

Slide 9 – What we have delivered
Key achievements so far in 2021

This slide picks out a few highlights on delivery against our five strategic pillars.

We will look at some of these in more detail but it's worth noting on this page the completion of onboarding £25 billion of assets previously managed by companies within Prudential plc.

Slide 10 – Continuing to develop a retail fund offering fit for the future
Innovation to drive new business and performance to support existing one

Now, six months ago, we set out the range of measures we have been taking to fix our retail asset management franchise. This slide shows that the medicine is working.

A more collaborative approach to investment management, coupled with closer monitoring of performance, has led to a marked improvement in investment returns.

Nearly two-thirds of our funds have delivered returns in the upper two quartiles on a 1-year basis, which is a critical metric for European clients.

Improved performance has helped staunch net outflows, which have more than halved compared to the first six months of last year.

If we strip out two large expected one-off redemptions, net outflows would have been just £1.6 billion. That's almost 80% lower than this time last year.

Sales of retail funds in Europe and Asia were net positive in May and June – the first net inflows for more than three years.

Now, we know there is more work to do, and I don't want to tempt fate, but we appear to be turning the corner.

In addition, our new generation of retail funds with sustainable or thematic strategies are gaining traction in the market, delivering £610 million in net inflows during the period.

And we continue to invest in talent. Later this summer, Fabiana Fedeli joins us from Robeco as our new CIO of Equities. She brings a wealth of experience in innovative and sustainable equity investment.

Slide 11 - Revitalise UK: Building an integrated savings and investments business
Launched in Sep-20, M&G Wealth has already achieved several milestones

In the UK retail savings market, our focus is on the continued development of M&G Wealth.

We have made good progress on accelerating our wealth management strategy on the back of the Ascentric acquisition in May last year.

During the first half, we strengthened our proposition, to increase its appeal to independent advisers, as well as improving support for our own tied-agents and launching an adviser academy.

Following a deal with a software specialist Ignition Advice, we expect to launch hybrid advice in the second half of the year – an innovative combination of digital and in-person service.

And our flagship PruFund Retirement Account is now linked to our Ascentric platform ahead of full integration next year, to future-proof its market leadership.

Slide 12 – Expand Institutional: Positive flows, resilient margins, and healthy pipeline
Growing Private Asset capabilities and European presence are the key priorities

Institutional asset management has had another good half, with net inflows of £2.2 billion helping to boost total external assets under management to a record £90 billion on the back of continued strong investment performance.

The institutional team has consistently delivered growth in revenues for more than two decades. It's now the largest component of our asset management business.

Part of the secret of its success has been to draw on the seeding and insights of the asset owner to innovate and then commercialise new strategies with third-party clients.

One of our most exciting opportunities is to grow this business internationally, starting with Europe where we can leverage our strong relationships with local wholesalers, regional and global banks.

We have already made a good start, with £2 billion of net inflows from European clients in the first half of this year.

Looking forward, we remain confident about the prospects of this team. We have a strong pipeline of new business, with £4 billion in the capital queue – that's client money committed but not yet invested.

We also have a further £5.5 billion of mandates agreed in principle but yet to be funded.

Slide 13 – Private Assets: A key differentiator and area of growth
We already are the 2nd largest private credit investor in Europe

The jewel in the M&G crown is our £65 billion private and alternative assets franchise – that makes us one of the largest alternative managers in Europe.

Built up over 20 years with the backing of the asset owner, we now have more than 200 investment professionals across a diversified set of capabilities.

Private assets managed for external clients have increased 65% over the past five years. We believe that this is just the start - in a market forecast to grow rapidly this decade.

Slide 14 – Catalyst: Tailored capital solutions to support innovation and drive impact
A flexible approach across geographies, asset classes, and impact spectrum

Our latest major innovation in private assets is Catalyst – a global strategy to invest in private companies and platforms which are seeking to have a positive impact on people and the planet.

In February we announced a £5 billion commitment by the With-Profits Fund to Catalyst, which we believe is well-positioned in an underserved part of the market seeking flexible long-term capital.

In the first half of the year, Catalyst deployed £500 million, with a further £700 million approved for investment.

Its investments include Vaccitech, which has been in the news of late because it pioneered Covid-19 vaccination in partnership with AstraZeneca.

We are confident that Catalyst will become a global leader in private asset sustainable investing, and we are looking forward to open up its capabilities to external clients.

Slide 15 – Grow Europe: Well positioned to expand asset management presence
Positive momentum expected to continue

Now turning to Europe, business is beginning to pick up, partly as a result of the improved performance of our retail funds as I mentioned previously.

The graph on the left of this slide shows the slowdown in outflows and a return to net positive territory in May.

Conversion of our Luxembourg-listed retail funds to EU sustainable standards of article 8 and 9 is also well under way.

This 'Big Switch' will position us well in a market where the interest in sustainability is rising continuously, driven by client demand and regulation.

Our strong brand and distribution network in Europe position us well for the growth opportunities with both retail customers and institutional clients.

Slide 16 – Key messages
Continued delivery of business priorities

We have made good progress on our strategy so far this year and I am confident about the growth prospects for this business.

We continue to invest in innovation, with an emphasis on sustainable and thematic investment capabilities, across both public and private assets.

The pipeline for institutional asset management remains strong, as we continue to build out our on-the-ground presence in European private asset markets.

The direction of our retail asset management business is positive, with the recovery in performance helping to reverse flows.

In the UK, hybrid advice will strengthen M&G Wealth offering and meet a real market need.

And we will continue to offer attractive total returns to shareholders, through strong and steady capital generation.

Since listing, we have faced a number of challenges, but these results do show the business is moving in the right direction.

The focus of our actions remains firmly fixed on our strategy for long-term sustainable growth, while continuing to take a disciplined and proactive approach to the management of capital.

I will now hand you over to Clare who will provide more detail on our first half results.

Financial Review
Clare Bousfield, Chief Financial Officer

Slide 17 – Financial Review

Thanks John, and a warm welcome from me.

Slide 18 – Strong and resilient performance in a challenging market
Financial highlights

We continue to make good progress on the themes we discussed with you at the Full-Year presentation back in March:

- Pivoting M&G towards sustainability
- Expanding the institutional asset management franchise
- and transforming our Retail and Wealth offering.

Whilst shaping our future, we delivered Adjusted Operating Profits of £327 million, a 6% increase over the same period last year, as M&G's diversified business model supported broadly stable earnings across our segments despite the volatile economic conditions. Being both an asset manager and an asset owner played once again a key role in delivering strong financials.

Total Capital Generation of £869 million was underpinned by the £309 million Operating result and the favourable impact of financial markets. Operating Capital Generation is an important metric for us, as it measures the ability of the business to generate sustainable value over time and reflects our proactive approach to management actions. It captures, in an effective way, the dual benefits of being an asset manager and an asset owner.

On the back of these strong financials, our Solvency II ratio increased to 198% after paying dividends of £310 million in April. This ratio compares favourably with the 182% level we recorded at year end.

The opening up of the economy is giving us some hope that we can finally move forward and leave these challenging times behind; but as we do that, we do need to remain mindful and prepared for the possible risks along the way.

Slide 19 – AUMA and Net client flows

Assets Under Management & Administration ended the period at £370 billion, marginally above the year end.

Within Savings and Asset Management, we continued to build on the success of our Institutional franchise. As of last year, this is the largest component of our asset management operations both in terms of assets and revenues. Over the last 6 months, beside completing the repatriation of £25 billion of internal mandates from our former parent company, it also attracted £2.2 billion of external net new money. Consistently strong investment performance, a growing presence in Europe, market leading private asset capabilities, and a healthy pipeline of new business, make us confident about the prospects for this franchise.

The direction of travel of Retail Asset Management is also encouraging, as outflows continued to reduce on the back of much improved investment performance and the launch of a new generation of sustainable and thematic funds. The £3.4 billion net outflows seen here are not only significantly better than the same period last year, but also include two large negative one-offs. Excluding them, the underlying result is £1.6 billion of net outflows. As John covered in his presentation, we have been taking a number of steps to return Retail Asset Management to growth, and we are confident that we are on the right track.

Retail Savings net outflows of £800 million were broadly in line with the second half of last year, as the economic uncertainty and lockdowns continued to weigh on IFA productivity and on PruFund sales.

PruFund achieved strong investment returns and recorded several upward unit price adjustments, but the pandemic accelerated the ongoing shift of customer interactions towards digital platforms, and the consolidation in the advice space, that reduces the number of IFAs we can interact with. Both these structural trends underscore the strategic importance of our decision to launch M&G Wealth, acquire the Ascentric platform, and strengthen our tied-agent network. PruFund remains a differentiated proposition – made even more compelling by the recent launch of PruFund Planet – but it needs equally strong distribution channels for sales to return to pre-pandemic levels.

Slide 20 – Retail Asset Management flows improved in H1 2021
One-off impacts from Prudential Hong Kong and reopening of property fund

On this page, we break down Retail Asset Management flows by month.

You can see here what I mean by an encouraging direction of travel.

The blue line shows net flows excluding two large one-offs I mentioned. The first one relates to Prudential Hong Kong, as they redeemed £900 million from one of our SICAV funds after we repatriated the internal mandates. The second one is linked to the Property fund, with customers withdrawing £900 million shortly after the fund reopened in May. This was in line with our expectations and after this initial spike flows returned to normal levels.

After a challenging start of the year, underlying flows recovered between March and June. Thanks to the continued action on performance, a new generation of sustainable funds, and the provision of good value for money to customers, we believe this positive trend will continue over the second half of the year – of course subject to a stable macro-economic environment.

Slide 21 – Continued positive momentum for our mutual funds range
1-year and 3-year performance has returned above median

Let's look more closely at the mutual funds' performance, which is one of the key drivers of the recovery in the Retail Asset Management flows.

You can see on this page how sustained improvements in the 1-year track record gradually lifted the 3-year figure. In May and June these metrics were jointly above median for the first time over the past 12 months. While we are pleased by these results, we are certainly not complacent and continue to proactively drive investment performance.

Slide 22 – Adjusted Operating Profit by source

Turning to Adjusted Operating Profit, you can see it has grown year-on-year by £18 million.

In Savings and Asset Management, the lower contribution from asset management was offset by higher earnings from PruFund, which I'll cover in more detail on the next slides.

The "Other" line remained negative, with a similar magnitude to last year but for different reasons. In 2020 we experienced losses on seed investments due to the pandemic, while this year we had an expected loss of £5 million from Ascentric and an expense overrun on the PruFund new business. As we said in March, Ascentric plays a pivotal role in the build-out of our Wealth operations, but we expect it to be loss-making in the short to medium-term, as we integrate the platform and build scale. The PruFund overrun, on the other hand, is related to recent lower sales volumes, which do not allow the With-Profits Fund to fully absorb operational fixed costs. Over time, we expect sales to pick up and the overrun to reduce while we continue to transform the advisor and customer journeys – Improving the experience and driving efficiency.

As expected, the Heritage segment continued to provide a solid underpin to earnings, with resilient contributions from both the Traditional With-Profits and the Annuity books.

Corporate Centre, which includes debt interest and head office expenses, was -£116 million, in line with the guidance provided and better than 2020 due to the non-recurrence of the foreign exchange loss on the US Dollar denominated debt we experienced last year.

Slide 23 – Sources of earnings
Asset Management

Looking now more in detail at the asset management results.

Revenues remained stable, as the success in the Institutional business offset the pressure from retail outflows and the margin compression. The continued growth of the institutional franchise, now accounting for 60% of the asset management revenues, improves the quality of our top line, as the volatility of the retail business is being replaced with sticky assets and long-term mandates.

The Institutional margin declined slightly due to a mixed effect, as the growth in assets came predominantly from public strategies. The compression in Retail margin was expected, as it was triggered by proactive action taken in August 2020 and February 2021 to reduce fees on the SICAV and the OEIC range respectively.

Costs increased to £333 million, although the comparison with 2020 is misleading as last year we reduced recruitment and had lower discretionary and project spend in the initial phase of the pandemic. 2021 costs are in line with the 2019 levels once one-off effects are netted off. This means we have absorbed two years' worth of inflation and kept costs flat despite adding the North American and Asian investment teams that allowed us to in-house £25 billion of assets previously managed by Prudential plc. Cost control remains a key area of focus for us as we continue to aim for greater operational efficiencies while investing in attractive growth opportunities.

Slide 24 – Sources of earnings
With-Profits

Moving on to With-Profits.

In Savings and Asset Management, which is predominantly PruFund, the Adjusted Operating Profit almost doubled year-on-year, reaching £46 million as upward unit price adjustments benefitted both the value of customers' investments and the Shareholder Transfer. The cost of our equity hedging programme increased by £3 million, in line with expectations, as markets recovered since the lows of last year.

In Heritage, With-Profits earnings declined very slightly, due to the marginally lower shareholder transfer.

Slide 25 – Sources of earnings
Shareholders Annuities & Other

Now to the second element of our Heritage book, Shareholder Annuities and Other.

Adjusted Operating Profit was £174 million, just below last year's level. Lower returns on excess assets, longevity assumptions and asset trading, were largely offset by a number of the positives in the 'Other' line, such as improvements in expense assumptions, favourable short-term mortality experience, and the release of provisions from the legacy programmes. The combination of these elements also more than offset the swing from mismatching profit to loss triggered by the increase in interest rates.

The reduction in returns on excess assets was expected, as we up-streamed a significant dividend from the Life Insurance entity to the Group, reflecting the recent strong capital generation. Similarly, we had flagged that the £23 million benefit from longevity in the first half of 2020 was a one-off, as we normally review base mortality assumptions and calibrate mortality tables in the second half of the year.

Asset trading did not repeat the strong performance of 2020 and was impacted by a small loss on the sale of a property held in the annuity portfolio. The loss is purely an accounting one as the transaction completed at market value with a positive impact on capital generation.

The annuity book remains conservatively positioned from a credit perspective, with only 17% of the assets rated BBB, and 2% below investment grade. So far this year, downgrade experience was limited, and no default was experienced. Detailed information on the breakdown of assets by credit rating and capital ranking is available in the appendix of this presentation.

Slide 26 – Sources of Operating capital generation
H1 2021: £0.3bn pre-tax

Now onto capital generation, starting with Operating Capital.

Underlying capital generation was £216 million, with lower contributions from asset management – due to the pressure on earnings – and from the annuity book, following a reduction in the yields earned on surplus assets.

Other operating capital generation, at £93 million, came in below the £276 million recorded last year for two reasons. Firstly, in the first half of 2020 we accelerated a number of our management actions as we sought to protect the balance sheet at the beginning of the pandemic. Secondly, this year we booked a £77 million provision for the expected impact of regulatory changes on our equity release portfolio.

The largest contributions to management actions were £118 million from asset trading and £75 million from our equity and interest rate hedging programmes.

Slide 27 – Continued delivery of management actions over time
Development of Other Operating Capital Generation from 2017 onwards

On this slide, we summarise the positive financial impact from management actions from 2017 onwards. It totals almost £2.5 billion over the course of only four and a half years.

We see management actions as a key area of value generation and have been focusing on improving the efficiency of our balance sheet since we were still part of Prudential plc.

Although we expect some recurring elements, such as the asset trading and longevity, to reduce gradually over time, we have a clear pipeline of initiatives that will continue to generate capital for years to come. We do not provide guidance around their specific quantum and timing as they can be influenced by external factors that are not under our direct control. Nonetheless, our track-record of delivery should give you both the comfort and the confidence that management actions will continue to be an important driver of shareholder value in the future.

Slide 28 – Capital Generation
H1 2021: £0.9bn Total Capital Generation

Total capital generation reached almost £900 million on the back of the operating result and favourable economic variances of £600m. Total capital generation also includes a restructuring provision of £58 million from subletting of two floors of our London office, in line with our shift to new hybrid and flexible ways of working.

These results once again demonstrate our focus on proactively managing the balance sheet, and our commitment to deliver sustainable capital generation over time.

Slide 29 – Shareholder Solvency II coverage ratio

Given the capital generation result, our solvency ratio strengthened further to 198%, up by 16 percentage points since the beginning of the year. Our measure of Solvency II debt leverage at 29.6% continues the positive, downward trend, seen at the year end. We remain comfortable with the level of debt given our strong capital position and the capital light nature of our new business.

At the beginning of the year, we added new interest rate hedges to reduce the sensitivity of our balance sheet. You'll find the updated sensitivities of our solvency ratio in the appendix.

Slide 30 – Well positioned vs. target of £2.2 billion target for Total Capital Generation by 2022
£2.6bn target for 2021-2023 shifts focus to Operating Capital Generation

On this slide, we review our £2.2 billion Total Capital Generation target as we are half-way through the 2020 to 2022 timeline set out at demerger. As you can see, we are well positioned.

Looking at the numbers, the combination of the capital generated over the last 18 months and the assumptions on the underlying capital and tax for the next 18, give you an illustrative total of about £2.4 billion. Once again, I should add my usual caveat: financial markets can have a large impact on capital in a short period of time, as we all saw in 2020; the pandemic is not yet over, and we need to be mindful of that.

At the beginning of the year, the Board extended our target to the 2021-2023 period. As this is one of the key metrics within the management incentive scheme we disclosed all the relevant details in our Remuneration report, but, for convenience, we have outlined the key features on this page.

Firstly, this target does not replace, but extends the current one, rolling it forward by twelve months. Secondly, we shifted the focus away from Total and towards Operating Capital Generation to exclude economic variances, that are outside management control and may create more volatility as a result of the pandemic. Finally, we set the target to £2.6 billion.

Once again, a stretching ambition to deliver superior value to shareholders. We aim to meet this challenge both by growing the underlying business and proactively managing the back-book. Here, our long-term track record of management actions speaks for itself.

Slide 31 – Financial Strength is the primary lens of our Capital Mgmt. Framework
Economic uncertainty remains high as government scales back support

Before moving on, a few words on how we think about uses of capital.

Our priority is to drive financial strength and flexibility together with meeting our commitments on dividends. At present, we are operating at comfortable levels of solvency and liquidity and expect to continue generating capital in excess of our regular dividend.

Whilst our business performance is improving, we are still in the middle of a pandemic, with governments heavily supporting the economy - we feel the need to act with caution.

We continue to monitor the economic and macro position together with investing in opportunities to generate long-term value. As and when the uncertainty recedes, assuming the current capital strength persists, we will then look to deleverage if we have excess capital over and above the investment opportunities with attractive returns. It is worth mentioning though, that the earliest debt call date is 2024, with a £300 million tranche, and that we foresee our growth to be predominantly in capital light areas.

Returning excess capital to shareholders will always be a consideration if we are in a strong financial position and available capital is greater than the debt redemption and the investment opportunities. We have no desire to retain excess capital or cash in the business.

Slide 32 – Continued progress on the Transformation programme
On track for completion of key objectives by 2022

I want to briefly touch upon our Transformation programme. Since its launch in 2017, we covered a lot of ground and remain on track to deliver on all the programme’s objectives, namely modernising the business, strengthening the control environment, improving the proposition we offer customers and the efficiency of our operations.

With a constantly changing environment, and our drive to deliver excellent value and service to customers, transformational change will continue. We will review the programme at the end of 2022 against its original objectives, but implementing new ways of working, building new capabilities and expanding our proposition are all elements we will continue to focus on going forward.

Slide 33 – Delivering on the cost objectives of the transformation programme
Reducing like-for-like cost basis while building additional new capabilities

Cost savings were never the primary driver of the transformation programme, but rather an expected outcome of our efforts to modernise the business and make it more efficient.

On this slide, we show how the overall cost basis of M&G plc developed since 2017. The chart includes both shareholder and policyholder costs across Asset Management, Retail Savings and Heritage. As you can see, we have reduced the overall cost base, and are on track to push savings further in 2021. Whilst realising these savings, we have absorbed the costs required to pursue growth opportunities in Wealth Management and Asset Management, as well as offsetting roughly £100 million of inflation over four years.

As we continue to drive our growth agenda, deliver good customers outcomes and a robust control environment, cost control will remain an important area of focus for our business.

Slide 34 – Sources of earnings – Expected development
Key drivers of Adjusted Operating Profit

Before wrapping up, we want to provide the usual indications of how we expect the business to develop over the next six months.

In asset management, we expect the Institutional book to continue to deliver consistent growth in assets and revenues. There continues to be strong demand for our private asset capability in the UK and growth opportunities to leverage our international footprint.

Retail flows will remain sensitive to market conditions and investment performance in the short-term, but we are optimistic about the longer-term prospects given the significant level of innovation and product development completed in the last 12 months, including our strong focus on sustainability and investment solutions.

In Retail Savings, we know that PruFund is a compelling proposition, but we also acknowledge that it will take time to return to pre-pandemic levels. As long as volumes remain subdued, we may face an expense overrun captured in the “Other Saving and Asset Management” line. The launch of PruFund Planet is a positive development in this respect as it will contribute to build back volumes.

In Heritage, the traditional With-Profits business will continue to deliver steady earnings. We have the same expectations for the Annuities, albeit noting that the returns on excess assets and asset trading will likely decline gradually over time. As usual, we will review longevity assumptions in the second half of the year, including implementing CMI19.

Expectations for the “Corporate Centre” remain unchanged going forward.

Slide 35 – Key takeaways

To sum up what has been discussed today,

Over the past six months we delivered strong financials thanks to our diversified Asset Manager and Asset Owner business model, continuing to grow the institutional franchise and making significant progress in returning Retail to growth.

Given the cash generative nature of our business, we delivered £869 million of capital, strengthening our Solvency ratio to 198%; the highest level since demerger.

We have a clear path to meet and exceed our £2.2 billion capital generation target and have rolled it forward to 2023 setting yet another stretching ambition to deliver value to shareholders.

I would like to thank our stakeholders for their continued support. We have weathered the challenging conditions well, recognising none of this is possible without the commitment of our people, customers and investors.

Thank you.

Closing Remarks

John Foley, Chief Executive

These results show the business is moving in the right direction and that we continue to manage our capital position in a disciplined way.

Thanks for watching.

Live Q&A

Introduction by Luca Gagliardi, Director of Investor Relations

Good morning and welcome. I am here today with John Foley, our Chief Executive, and Clare Bousfield, our Chief Financial Officer. John will be giving a short introduction and then we will be happy to take your questions. Over to you, John.

Welcome & Business Review by John Foley, Chief Executive

Thanks, Luca. Good morning everybody, thanks for joining the call. Today's results I think show very good progress on our actions to reposition the business for sustainable growth while we continue to generate strong capital.

Institutional assets under management reached a record £89.7 billion following net client inflows of £2.2 billion, mostly from Europe, and we are very happy about that.

In Retail Asset Management, net client outflows more than halved as investment performance improved, with 63% of funds in the top two quartiles over one year.

In July, we launched PruFund Planet, the UK's first smoothed savings proposition that offers positive societal and environmental outcomes.

Today, we are announcing an interim dividend of 6.1 pence per share taking our cumulative payout since listing in October 2019 to 40.1 pence per share. And thanks to that dividend policy and share price performance, we have delivered total shareholder returns of over 30% since demerger versus 6% for the FTSE 100 Index.

We still have much work to do to set up the business for sustainable growth, but I do believe these results show we are making good progress.

I am happy now to hand over to Luca to take your questions.

Q&A Session

Luca Gagliardi: We had a couple of questions submitted online before the start of the conference. The first two are for you, John. How comfortable are you that the actions that you have taken on Retail Asset Management will increasingly slow net outflows and at what is the earliest you would expect those flows to return to positive? The second one is whether we can have an update on PruFund Europe and expectations around launch.

John Foley: Okay, on the Retail Asset Management side, obviously, we made good progress there. And we are in this for the long-term, so it is about shaping the activity so that we have got long-term sustainable, capable performance in the funds. There will inevitably be a little volatility, so if the question is around a specific date when we will definitively have all our funds in the upper top two quartiles, obviously, that will depend on the market and performance. But, generally, we are heading in the right direction. This has already had an impact on flows. Some of those outflows have been one-offs, so the picture from my perspective looks even a little better than we have said today. So, I dare say it will be a bit choppy as we go through the period towards the end of the pandemic but directionally, we are going in the right place. And actually, more importantly, from

an organisational perspective, from a fund management perspective, it is absolutely the right – I think I would characterise it as the medicine is working.

On PruFund in Europe, we continue to talk to the regulators on this. As I have said before, we are operationally ready to do this. Our clients are keen to have this proposition. Certainly, the partner banks in Europe are very keen to be selling this product to their customers. However, I think from a regulatory perspective it is potentially a very large opportunity. We certainly see it that way, and I think, quite rightly, the regulators want to be very clear about what the growth rates of this product might be, what the impacts might be in their environment. So, it is reasonable that they are taking their time to analyse this product. So, I am not going to give timescales, I have done that before, but we are working hard on the proposition.

Luca Gagliardi: Thank you, John. And two for you, Clare, which came in before the session. The first one is regarding our annuity capital generation, the underlying one, noticing that there was possibly a little bit of a miss versus consensus, and trying to understand what drove that and what is the longer-term expectation?

The second one is about our total capital generation target of £2.2 billion, and the question is why did we not simply revise the target rather than adding a new one, the £2.6 billion target for 2021-23? And then does the health of the capital position mean anything for how we think about short-term dividends?

Clare Bousfield: Thank you, Luca. On the first question around the underlying capital, you are absolutely right, the key driver in terms of why the underlying capital is down was driven by the annuity book, and there were two reasons why underlying capital is lower than the prior year and in terms of consensus.

Firstly, we look to pass all of the excess capital up from the operating companies to M&G plc. There was a significant dividend up from the insurance company to M&G plc as part of the strong returns in 2020 and as a result, the portfolio that we operate at the M&G plc level is on a more conservative basis, so the returns are lower. That is one of the key drivers. The second one is driven by the way Solvency II effectively operates. If you think about the opening yields, that is the position that we basically put in for the underlying capital returns – so the yield was low at the beginning of the year, if you look at the yield now, then it is obviously higher. That had actually quite a big impact in terms of the excess returns on the surplus in the annuity portfolio. Those are the two drivers. Obviously, when you look at where yields are today, we are in a much stronger position. In terms of thinking about that going forward, obviously, it will depend on where yields are at the year-end.

The second question around operating capital generation, as part of the long-term incentives that are delivered at the end of each year, what we do as part of that is one of the key measures in the capital generation. Historically, we used total capital generation as one of the key measures and that is because we wanted to be completely aligned with our shareholders. For the years 2021-23, predominantly driven by the pandemic and the fact that it is very difficult to say that markets will be smoothed over a three-year period, we have gone with an operating capital generation target for 2021-23. Every year that we issue another tranche of long-term incentive plans what we will have is another capital generation target for the next three-year period. What that does is drive sustainable capital generation, for us from a management team perspective, in terms of how we are incentivised. That is how we think about it, rather than actually adjusting the original target because they obviously link to the original issuance of the long-term incentive plans.

As far as the capital position goes, yes, the balance sheet is very strong. We are very pleased in terms of the financial position. And when we stand back and look at that in terms of how we think about capital management, I think firstly, we have to remember that we are still in a pandemic. The government is still providing a lot of support to the economy and therefore there is uncertainty around volatility. And you have only got to look back at what happened in the first half of 2020 versus what happened in the first half of this year – you have got two very different periods in terms of volatility. From that perspective, we are mindful of that, and we need to make sure that we have got a strong balance sheet and we retain flexibility.

Secondly, we are obviously looking to invest in the business to generate growth, but also to drive an operating model in terms of efficiencies in terms of what we are doing. And you can see that in terms of the profile in terms of what we are expecting to do around the 2020-22 capital target. We have no interest in keeping excess capital and cash in this business. We have said that consistently, but we also need to maintain a degree of prudence as we are thinking about the current situation in terms of the pandemic.

Luca Gagliardi: Thank you, now we can move on to the live Q&A with our analysts.

Dominic O'Mahony, Exane BNP Paribas: Nice to see you, and thank you for making the time to answer our questions. Three from me, if that is okay. Firstly, just on Institutional Asset Management, you show a chart on page 12 with a very nice trajectory upwards of the revenue margin albeit with a small blip this half I think because of the mix of your business. Are you confident that that trajectory will continue, as you continue to realise the real assets where you see a lot of growth for the market? And I suppose the other part of that question is a lot of asset managers would like to be big in real assets, and maybe you have an advantage there, but you might have thought that there would be competition there, which then puts pressure on the margins that you can achieve. Is that something you recognise, or would you disagree?

The second question on management actions, page 27 shows an extraordinary track record in delivering these, and you are very confident about delivering these going forwards. You provide some of the categories of types of management actions on the right-hand side of this slide. I was curious what proportion would you say is down to asset trading? And the reason I ask is, firstly, that is the bit that actually creates lifetime cash rather than accelerates it. If you could give me some sense of what proportion comes from that, that would be very helpful.

And then the third question on PruFund UK, in the press release you reiterate the point about the economic environment and the lockdowns making it difficult for advisors to operate on a business-as-usual basis. You also point to a shift towards platform and consolidation amongst advisory firms as being factors that might weigh on flows. I wonder if you could flesh that out, and in particular, are there things that you can do to address that? For instance, have you considered offering PruFund on third-party platforms, and if not, why not? Thank you.

John Foley: Okay. Thank you for those. I will take the first, Clare will take the second, and then we will do a combo for the third, I think.

On the institutional business, confidence Dominic, remains strong. Because we have talked about the pipeline of new business, and we have talked about that consistently since we have been a separate company. We talk about the pipeline of new business for which we are looking for assets in the range of £4-5 billion, that remains the case. And I have talked about this funnel type of approach where it gets topped-up as the assets are found and the capital is deployed.

The other thing is the advised win, so those if you like are slightly further out wins that we have but are yet to see the contracts signed. There is a good pipeline and that is still strong. We also won more mandates just this week, which I am very pleased about. Again, all the signs are positive.

In terms of the competition, of course we are not complacent in this business. We are very strong. We happen to be strong in private assets. We have a very good network of people around the world looking for these types of assets for these strategies, but you cannot be complacent. The thing is though, that this comes back to the combination of being an asset manager and asset owner, where we deploy these sorts of techniques for the asset owner and that then gives confidence to our institutional clients to award these mandates because they have seen the track record that we have been able to achieve over a very long period of time now.

I think that again, I am definitely not complacent, but, if you are somebody who is seeing that this is a good opportunity and you want to get in, you do have to put quite a bit of capital in, and you do have to establish a track record which is not that easy to do. That would be how I would answer that question.

And then you also asked about pressure on margins, and we have talked about margins before in this business, where we bring on a new client or new clients, and sometimes typically as we get to know them, that is in the more vanilla strategies, so we cannot charge the sort of fees that we would hope to charge later on when we are doing more interesting things for them. We would see that as a sort of wave effect, but generally going up. And again, pressure on margin in that world, it is all about negotiation, there is no market standard and if we are good at what we do, people will pay us for doing it. I think I have covered that question.

Clare, do you want to take the second one?

Clare Bousfield: On management actions, in terms of the proportion of asset trading, I think we have talked beforehand about asset trading being of the range of £50-100 million in terms of what we would expect to generate on an annual basis. If you look at the numbers for 2021, it is just over £100 million of asset trading, and that is a combination of effectively where we are buying higher yielding assets and in terms of maximising that return versus the capital and leveraging the private asset capability, but also sales of real estate, which I think you will notice, we sold one of the properties that generated a positive result in terms of that asset trading.

The other thing I would say is in terms of those management actions do not treat that as an exhaustive list. There are also other areas that we would look to drive. Rather they are just good examples of what has been historically, in terms of the track record, of where we are at. I would not necessarily say that asset trading is the only one that basically talks about changes in terms of the long-term as opposed to timing aspects. However, you are right, that is one of the core strengths in terms of the asset trading and leveraging the private asset capability.

John Foley: On PruFund, yes, we have talked to you before about the impact of the pandemic on the face-to-face advice that advisors give their clients. In talking to our colleagues in the channels it is clear that is still the case, and that we are finding it difficult to talk to clients. Obviously, the PruFund product itself is still the go-to product. The performance has been outstanding, and we have, as you have seen, launched PruFund Planet that we think will really resonate with clients both here and overseas. We only launched it last week, so we have not got any sales of that just yet, but that will be a very interesting proposition. Because again, that proposition has got all the hallmark characteristics of the conventional PruFund, so we wait to see. Still good inflows, I mean, £5 billion on an annual run rate is still strong. I think it was £2.1 billion or £2.2 billion in the first half. However, there is still an impact on the IFA channels, and we know that because we have our own group and that is what is causing the issue.

Clare Bousfield: Your point on platform in terms of platform consolidation, that was the big driver to the Ascentric acquisition. It is effectively being able to effectively leverage that platform both in terms of all the wrappers but also in terms of PruFund. And today, we do offer PruFund on that platform. Although, what we are working to do is to integrate that further in terms of the solution.

When you look at PruFund in Europe, that is actually us putting PruFund onto other people's platforms in Europe. That is how it will work in terms of an institutional play, so absolutely there is nothing here about saying that it is specific to us in terms of our platform. However, one of the things that is really important when you get a platform linked into an advisors business is that you naturally get flow. Now it does take longer because you are effectively embedding that platform into the business, so it is important in terms of how you get those flows. Historically, we have been really successful at effectively a transactional process because the proposition is so strong, but what we are seeing is that gradual shift towards platforms, and that is definitely putting a bit of pressure on flows from a PruFund perspective.

Luca Gagliardi: Thank you very much, next up we have Andrew Sinclair, Bank of America.

Andrew Sinclair, Bank of America: Thanks. Hi, everyone, morning everyone. Three for me, if that is okay. Firstly, was on annuity, going again to asset trading and optimisation but this time on the IFRS slide. I know you guided that this was going to be lower this year, but I think £4 million was quite exceptionally low and, in your script, I think you mentioned an accounting loss on a property disposal, just wondered if you can give us some colour on how much was that accounting loss, and just any colour on what we should look at, from the IFRS side going forwards?

Secondly, sorry, to go back to capital deployment, but you have got £1.7 billion of cash holding which you somewhat euphemistically said is more than one year's central outgoing – I think it is about £1 billion more than one year's central outgoings, not to mention the strong solvency. I get prudence, but it kind of looks excessive, and we have seen more companies across Europe, putting capital to work, as we emerge from the pandemic. Really, what is the trigger to start putting that capital to work?

And the third question from me is just on the asset management cost-income ratio also creeping up a bit. I realise you have added some teams, but the fact your cost-income ratio has been creeping up, when will your cost management actions see that peak and potentially come back down again? Thanks.

Clare Bousfield: On the annuity side, Andy, in terms of property, this is a nuance with the way IFRS accounting works in terms of the liabilities, and we basically sold the property pretty much at market value, and you can see that from the capital benefit we got in terms of the asset trading and optimisation, but on an IFRS basis, you end up taking an accounting hit as a result. That is the reason why you get this loss that basically nets us down to £4 million and in terms of the other.

Andrew Sinclair: Sorry, just to check, how much was that property loss on the accounting side, what would it have been if it had not been for the property loss?

Clare Bousfield: It was around £20 million – Luca is telling me it is £17 million in terms of loss.

On the capital deployment, in terms of the strength of the balance sheet, absolutely, we are very pleased with the strength of it. But I think it is important, and if you go back to the first half of 2020, when we had about a £700 million loss as a result of volatility in the market versus what we are seeing in the first half of 2021, I think anybody would say that you have got to acknowledge that that volatility is still out there in terms of the context of where we are sitting in the pandemic and the fact that the government is still supporting the economy. So, we need to make sure that we think about this balance sheet over the medium and long-term rather than necessarily just purely the short-term.

Absolutely, we are committed in terms of investing in the business; in terms of generating growth, and you can see the strength of the institutional proposition in terms of what we have been able to deliver. We have also repatriated about £25 billion of assets under management and built teams in Asia and the US in terms of actually what we have built out. So, there are some examples in terms of where we are putting money to work.

We have also been investing to improve the efficiency of the business and generating the right operating model leveraging technology, and that has been a big focus in terms of investment over the last 2-3 years. That is fundamentally what we are looking to do. It is capital light. That is our strategy, that is how we operate, so we are not expecting to deploy significant volumes of capital, but it is important actually in terms of making sure that we are driving growth across the business, and also efficiency in terms of what we are doing. So, I would not describe it as overly cautious or overly prudent, I would say right now, we are taking the right approach, but we are very much on a 'wait and see' and constantly monitoring and thinking about what we believe the capital position of the business should be.

In terms of the cost-income ratio, you will see, in terms of the slides on page 33, you can see in terms of the cost base what we have delivered in the first half of 2021, and you can see that we have delivered significant cost savings across the business. You need to recognise that on the asset management side there are a number of places where we are investing. I talked about those two teams in Asia and the US, but also, we have added capability on the private asset side. So, what you are seeing in that bottom green asset management cost base is efficiencies but also investment in terms of the future of the business. Yes, we are very focused on the cost-income ratio, but it is also a reflection of the revenue as much as it is the cost, and we do need to think about effectively driving growth, at the same time as driving scalable efficiency.

Luca Gagliardi, thank you, next up we have Andrew Crean of Autonomous.

Andrew Crean, Autonomous Research: Morning, everyone, I have got three questions. Firstly, what is the solvency coverage ratio up to date, because clearly there has been a significant move in rate since June.

And secondly, I think in terms of deployment of capital you say that you want to deleverage first this £300 million debt, falling June 2024. By the end of 2022, do you want to have fully catered for that or just a pro-rata amount?

And then, thirdly, coming back really to Andy's question, markets are always uncertain, companies can always say we are holding on to capital because there is uncertainty in the future. Are you really saying that you will not make any decision about capital return until you hit 31 December 2022, or are there any market conditions, as we recover from the pandemic, where you are prepared to take a slightly bolder approach? Thank you.

Clare Bousfield: Andrew, on rates since June, you are right, interest rates have dropped a bit since June. If you use the Sensitivities in the appendix, that will give you a reasonable proxy in terms of what has happened to our solvency position. It has dropped off a little bit, but it is not significant.

The second question, I did not fully catch all of it. You are talking about – so the tranche of debt that comes up for call is £300 million in 2024. Clearly, in terms of when we hit that 2024 date, that gives us an opportunity in order to be able to actually deleverage. However, ahead of that, it would depend on economic conditions and just the commercial position in terms of whether we did anything. Can I just check what was the remainder of the question that you were asking on leverage?

Andrew Crean: Yes. It was really you have got to pay down £300 million in 2024. At the end of 2022, do you want to be holding £300 million of excess capital already to do that, or will it be a pro-rata amount, say, £200 million, and then you will build up to £300 million in the years?
Clare Bousfield: Okay. I think certainly from my perspective, the way I look at the capital position is I am looking at it overall and I am looking at the sensitivities in terms of market movements, to make sure that we are in a position that we can actually take advantage of that call option at that relevant point in time. However, I am certainly not building up amounts and then holding it, and sort of earmarking it in terms of what we are doing. We are just looking at the overall capital number in terms of that perspective.

And then in terms of market uncertainty, absolutely, I think today there is market uncertainty, and that is why I go back to 2020 compared to 2021. We are not suggesting that we are going to basically hold until the end of 2022. I think what we are saying is basically, we need to recognise that short-term volatility in terms of the strength of the balance sheet, but continue to monitor it, in terms of the context of the sensitivities we have. Hedging is also an element in terms of this but also thinking about investment opportunities that we have investing in the business, obviously, to generate good returns in terms of those opportunities. And then post that, we then say, right, have we got excess capital when you have thought through all of that. And that is something that we are doing on a day-to-day, monthly basis in terms of assessment. There is not some kind of trigger point of a future date. It is really just looking at all those elements – the macros, the opportunities, and then saying, right, what do we want to do from a capital perspective.

As I said, we have no interest in retaining excess capital or excess liquidity in this business. It does not make any sense in terms of where you go. However, you need to take into account all the different elements.

John Foley: Yeah, I take your point in terms of volatility of the markets. And obviously, in a normal cycle, there is volatility of markets, and management teams and boards need to make up their minds around what they can do to deploy capital to better effect strategy or find some mechanism to give to shareholders. And that debate of course we have. But I would take issue with you that this is a pandemic we are coming out of, and it is an unusual time, and I think that our shareholders would expect us to have a degree of caution around this, both in terms of what we do and what we say, and that is the strategy we are deploying. We can maybe agree to disagree on that.

Andrew Crean: Thank you.

Luca Gagliardi: Ashik over to you.

Ashik Musaddi, JP Morgan: Thank you, Luca. Good morning John, good morning Clare. Just two or three questions from me, and thanks a lot for giving me the opportunity to ask these questions. First of all, this £2.6 billion capital generation guidance for the next three years, it is good that it is clean of macros and so at least the visibility is that, let us say, £2.1 billion over three years, so that is £700 million a year. Is that the simple way you are thinking as well, £700 million is what you are trying to deliver year after year, or would you say that it includes lots of, okay, there are some one-offs which you have planned for, there are some recurring items within that? What is your thinking process in coming up with this £2.6 billion pre-tax, let us say, £700 million a year post-tax number? That is the first one.

Second thing again, sorry, to go back on the capital point, your solvency ratio is around 200%. If I look at the peers like Legal, Aviva which have a much higher asset risk compared to yours, they are running at about 180%. If I look at peers like Phoenix and Just Group who are a bit more similar to your business model, they are running at about 160%. You have 30-40 points of extra capital compared to your peer set, that is about £2 billion of extra capital.

If I look at the asset risk you have versus others, Annuities is the only place where you have asset risk, because I would say your With-Profits is pretty much protected from even extreme macro scenarios. So, what macro scenario should we worry about from your Annuities business perspective that would make you hold this much capital for more than 6-12 months? Any thoughts on that would be very helpful.

And the third question would be if I think about underlying capital generation, Clare, you mentioned very clearly it is partly because of the Solvency II mechanics work that you need to take into account the beginning of the year's interest rates or macro. Where would that number be, if you are talking about current rates, current macro? Would it go up again 20-30% or would it be maybe like what you reported in the first half plus minus 5%? Is it a small difference or would you say the numbers go back again up to a reasonably higher number? Thank you.

Clare Bousfield: Ashik, on the capital generation, the way we think about it is – and this is partly why we originally have the total capital generation, because one of the things that is really important for us, is making sure that the balance sheet is robust. If you look back at 2020, particularly in the first half of 2020, we pulled the lever on management actions in order to compensate for some of the volatility that we saw in the market in that first half of the year, and that is why you saw slightly higher than normal capital generation through the first half of 2020, and to a certain extent 2020. You have got to think that we are not thinking about just managing the capital in terms of individual buckets, we are thinking about it holistically, making sure that we have got a robust balance sheet.

Clearly, the underlying capital generation is much more driven by the underlying business performance of what we are doing. And that is pretty easy to predict in terms of actually what we are looking at. However,

when you get to management actions and the market movements, we are obviously looking at the overall solvency position in terms of what we are doing. We do not necessarily think about it as £700 million per year. What we are thinking about is just making sure that that is the position we are trying to get to. And to a certain extent, the hedging strategy plays into that, in terms of how you are overall managing the balance sheet.

The second question you had around the capital position, the one thing that I would say that was missing from your analysis is the shareholder transfer to the With-Profits Fund. We have got an annuity portfolio that is positioned relatively conservatively. That is a position that we have taken as a clear strategy that we've had. Yes, there is volatility from interest rates. And yes, there is exposure to credit, downgrades and defaults. However, as I said, it is a pretty conservatively positioned portfolio. But the With-Profits shareholder transfers contain underlying asset risk basically based off the underlying assets that are in that portfolio. We do hedge some of that exposure through the equity hedging, but the With-Profits Fund is investing in a very wide range of assets. That does create diversification, but it also creates some volatility, so that is quite different to our peers in terms of the companies that you quoted.

So, when we look at the overall solvency position what we talked about is 170% at the point in time that we went through the demerger as being the solvency level in those market conditions that we felt comfortable with. What we are saying today is we are in a pandemic, and basically there has been a lot of volatility over the last 12-18 months, and that we need to make sure that we see through that in the short-to-medium-term before we are in a position to say this is where we want to be, that is all we are saying, it is nothing more than that.

In terms of underlying capital generation, the difference between the yield at the beginning of the period and the yield today will basically flow into market movements. Whatever the market portfolio is, and the difference between what you put in the underlying capital generation, the difference goes into market movements. That is how it works. In some ways, those are blown up if we had taken yields on an average monthly basis in terms of the opening position if that makes sense.

Ashik Musaddi: Yeah, that is very clear. Thanks a lot for the detailed answers.

Luca Gagliardi: Thank you now on to Steven Haywood.
Steven Haywood, HSBC Bank: Good morning, thanks for taking my questions. I have got three questions if you do not mind. I think you mentioned that there was £4 billion pipeline of institutional AUM, and you said there was £5.5 billion of mandates agreed in principle. For me, I do not understand how long it takes for these to come into your invested AUM. If you could give us a bit more colour on when this would come into your AUM that would be very helpful.

And secondly, on the UK PruFund new business, obviously, it might be a bit disappointing in the first half but has the new business and the advisor-driven selling improved in the last couple of months as economies have opened up? Some of your peers have obviously had a bumper, let us say, 6-9 months in terms of selling by advisors. Does it mean that M&G has missed out to a certain amount on the pent-up demand and the high level of deposits in banks savings accounts?

And then, finally, from me, on your operating capital generation target of £2.6 billion can you confirm this is a pre-tax target or is it after-tax, and therefore, should I be looking at the £309 million or £309 minus an assumed tax rate? Thank you.

John Foley: Steven, thanks for those. On the institutional question, I am afraid I cannot be precise. It depends on the strategy that we are working on for the client, and it depends on where we can source the assets. We have deployed more resources internationally to find assets in other markets – private assets – in other markets. And when we talk to existing or potential institutional clients about their portfolios and about their strategies, we are brought into the conversation much more on international opportunities to acquire assets.

Thus, it depends is the long and the short of it, and it could be a couple of months, it could be a year. As I say, it will depend on the strategy. But we are talking private asset, if it is a public asset transaction then obviously it is deployed quite quickly. The teams are all over this in the sense that if they are talking to clients and the signs are positive then we are looking for the assets almost immediately, but they are not always available all that quickly.

On the UK PruFund, the economies opened up a bit, absolutely agree with that. But, in terms of the target market for that product, it is still people who are making life decisions in retirement and we have not really seen that come to life, so to speak. We know there is pent-up demand there, but I think to your suggestion that others have got the jump on us, I do not think that is right. It is a different segment of the market, and it is a different deployment of customer capital that you are looking at. So, my view is that this is still a very strong proposition, and particularly so, now that we have got PruFund Planet being available, but I am not going to, sort of, hold out a forced dawn on that.

Clare, do you want to take the other questions.

Clare Bousfield: Yes. On the operating capital generation target, Steven, the £2.6 billion is pre-tax, and the £309 million is also pre-tax, so those are comparative numbers.

Steven Haywood: Thank you very much.

Luca Gagliardi: And now moving on to Deutsche Bank, to Rhea if you can keep it to two questions.

Rhea Shah, Deutsche Bank: Sure, my first one is on the Pru money. You captured about £25 billion of assets from Prudential. How much of assets under management is left to win back, and what asset classes do these tend to be invested in?

And my second question is around expenses. So, firstly, how much of the £145 million of annualised cost savings target is left to deliver, and can you remind us if this is gross or net of inflation?

John Foley: To your first question, Rhea, the bulk of the assets have moved, so there are small pockets of assets between the two companies, but not at all significant. I think of the £25 billion as the significant shift. Those assets are deployed into various strategies which is why we have teams in North America and in Asia, so Asian equities and fixed income multi-asset, North America into predominantly fixed income and some equity. Clare?

Clare Bousfield: So, on the expenses, we are around two-thirds of the way against the £145 million. One of the things we have always said is that the cost savings were very back-ended just by the nature of what we were doing. A lot of it is about investing in technology and infrastructure and really driving the underinvestment that has been in the business over the last 10-15 years, so we were always expecting that it would be a much more back-ended delivery than front-ended. And the £145 million is gross of inflation in terms of the target that we set. I think there is a chart that we included in a couple of investor presentations that shows you how you get to the £145 million, and you will see the inflation is in there.

Rhea Shah: Thank you.

Luca Gagliardi: Thank you very much, Rhea. Given that you have a colleague from Deutsche Bank, who has submitted a question online, Oliver Steel, we should also take Oliver's question here, too.

The first one is: looking at future management actions, how do we expect this to split between general value accretion versus acceleration of future cash flow?

And the second one: we clearly had positive macro movements in the first half of the year. To what extent do these translate into future cash remittances?

Clare Bousfield: In terms of the management actions, it is very difficult to give a split in terms of whether there is acceleration or pure value creation. Obviously, the ones that are pure value creation are the more attractive opportunities and we certainly would prioritise those in terms of the opportunities. But, also, what we are trying to do is manage ultimately what the total cash flow is across the book and make sure that we have got fairly consistent earnings and a reasonable view in terms of the best estimate. So, that is what we are ultimately trying to do in terms of both of those, but the ones that generate value creation would be clearly a priority.

And then in terms of market movements, the vast majority of the market movements arise in the insurance company. And in terms of the ability to dividend up those cash flows to M&G plc there are no issues around the cash and the capital that comes up from the insurance company to M&G plc. Obviously, what we are looking at is both capital and liquidity in the insurance company and making sure that we are comfortable with both of those. The philosophy is that we get the excess up into M&G plc so that we have got maximum flexibility across the business and then should the markets go against it, and there is not a sufficient buffer within the insurance company, then what we would look to do is payback down to the insurance company and make sure that it was in a sufficiently robust capital position. And that is how we think about it in terms of the philosophy around cash and capital.

Luca Gagliardi: Thank you Clare now on to Louise Miles, Morgan Stanley.

Louise Miles, Morgan Stanley: Hi, good morning everyone, thanks for taking my questions – I will just take two, Luca. My first one is on the capital position as well. I am not sure if you can say too much, but I believe you have got the hearing for the annuity transfer to Rothesay in November. If this is successful would we expect there to be about £100 million of capital release by the end of 2021? I think that is what you guided to before, I just want to check if that is correct? I think that is about 6 points of positive capital. If you could just confirm that, that would be great.

And then just another question on PruFund. It seems like you are trying to shift the distribution channel mix a little bit as well by going more digital and moving it onto a platform in Europe as well. Presumably, there would be some cost increases short term, but longer-term would you expect the cost base of PruFund to actually decrease because of this? And also, should we expect any shift in the mix in the wrappers that are sold, i.e., could there potentially be a shift towards ISAs more than there has been previously? Thanks.

Clare Bousfield: On the capital position around the annuity transfer you are absolutely right, there is a court case for the Part VII transfer in November. And yes, the release of capital is around £100 million, which is around 6 percentage points in terms of solvency position.

On the PruFund, I think the first thing I would say, Louise, is that for the UK proposition the shareholder gets one-ninth of the investment performance, so it is actually the With-Profit fund that is taking the expense risk in terms of the ongoing cost of delivering PruFund in the UK, subject to our new business actually making sure that the product is profitable.

For what we are releasing in Europe, we are writing that on a 100-zero basis, so just like any other asset management product, so absolutely the expense of that is relevant. The scale is obviously important with any one of these propositions in terms of what we are looking to do, but certainly, we do see a significant opportunity across Europe to be able to drive that scale in terms of what we are able to deliver. Yes, we are looking at digital technology, that is what we have been effectively putting through in the UK solution both in terms to improve the customer experience, the advisor experience, but also from an efficiency perspective in terms of what we are trying to deliver. We will be leveraging that in the delivery of PruFund in Europe.

Luca Gagliardi: Thank you Louise, Clare and next Andrew Baker, Citi.

Andrew Baker, Citibank: Hi guys, thanks for taking my question – two from me. First, on capital generation, and really it goes back to the slide that you showed at the full-year showing £10 billion of underlying capital generation over the life of the annuity book and the With-Profits book. Obviously, the return on surface points created some volatility that you laid out. Has that view on the amount, over the life of the book, has that £10 billion changed materially based on what you have seen in the first half?

And then, secondly, just on expenses. I think you mentioned in your comments that the asset management expenses were roughly in line with 2019 after adjusting for some one-offs. 2019 saw second half expenses significantly higher than the first half. Should we expect that to be the same as well in 2021? Thank you.

Clare Bousfield: In terms of the capital generation, no, I would not expect the £10 billion to materially change, Andrew, in terms of the profile because obviously, that is over the long-term. Obviously, interest rates do have a potential impact, but I would not see the move that we have seen this year as being necessarily fundamentally changing the £10 billion.

In terms of the asset management expenses, yes, historically, we have typically seen lower expenses in the first half of the year, and higher expenses in the second half of the year, largely driven by some of the incentives in terms of how they operate. And clearly, that links into revenue because that is one of the key drivers. So, when the revenue is stronger what typically then happens is obviously the bonuses and incentives go up, but from a net perspective that is actually positive in terms of where we go. We have been doing a lot more work to effectively make sure that we get the accruals adequately balanced between the two periods in terms of half-one and half-two, so I would not expect to see the same level of disparity between the first and second half of the year. But it obviously does depend on what happens to the revenue in the second half of the year.

Luca Gagliardi: Thank you, next we have Trevor Moss, Agency Partners.

Trevor Moss, Agency Partners: Okay, this is either two questions, three questions, or one very long question, depending on how you like it. It strikes me, Clare, that within the £2.6 billion of capital generation target, the new target, there is probably about £1 billion of other capital generation, kind of, management action stuff, which will take the total management action capital generation to about £3 billion on a 6-year view out of a portfolio of about £20 billion on the annuity side, which strikes me as a lot, okay. So, I am not so sure that you are going to reach a cliff edge in terms of the operating capital generation from management actions, but you are certainly coming to a conclusion where there is not much left. It strikes me, you are going to be much more reliant on the underlying performance of the business to generate capital beyond that point and to satisfy dividend expectations.

Now, coming back to one of Andy's original questions, on the asset management side, which is clearly going to need to be one of the big drivers, in the last three years since 2018, your revenues are down £150 million and your costs are up £30 million, taking your cost-income ratio from 58% to 71%. I think we need to start thinking about what that trajectory looks like and I would be quite interested in any guidance you might be willing to give on that trajectory on a 3-year view on the cost-income ratio, or on revenues, or on costs.

Clare Bousfield: Yeah. Trevor, one of the things that I think is important is the track record that we have built up in terms of management actions which is strong, as you can see from slide 27. It is not purely about the annuity portfolio, though. There are management actions there that we are driving around shareholder transfer and the With-Profits Fund, so the hedging that we do, in terms of what we are doing and how we look at that is an important component around it, together with some of the underlying assumptions around that book. So, I would not necessarily say it is purely about the annuity portfolio. The one thing I would say though is that the annuity portfolio has a long run-off, so in terms of being able to manage and managing the private assets, the illiquidity premium, but also some of the assumption changes, whether it is expenses or mortality is also important in terms of that context.

So, yes, they are not going to be in yet, because the book is in run-off. However, I would still challenge your premise that they are going to run out anytime soon in terms of our ability to drive that piece. Absolutely, in terms of the core underlying result it is a strong focus. And if you look at what we have done in terms of the institutional book, in terms of continued growth, good steady margins, again, very long-tail business – sticky business because it is typically pension schemes and insurance companies in terms of what we are delivering. Retail Asset Management, we have obviously shown really good green shoots in terms of flows but also the core underlying performance in terms of what we are doing. We are creating a more efficient business model in terms of what we are driving across the business, but we are also investing in growth for the future, so expansion of the institutional book across Europe. We talked about the Asian and US capability that we are building out in terms of where we are at.

So, I am not going to give you any kind of future view around cost-income ratios or revenue. But some of what you will have seen over the last 18 months is a combination of us actually driving clear value at addressing the price and the sustainability in terms of what we are doing, but also, in terms of broadening out the products we are offering. So, we have got a lot of what I would say are new, sustainable, innovative products that basically allows us to diversify in terms of some of the big funds that we have historically held. From my perspective, we are on that route to growth in terms of where we are going. And you are right, we will then end up less dependent on management actions in terms of where you go. That is our key focus, that is what we are trying to drive.

John Foley: And importantly, performance is a key area in that. And over the period you talk about, we have been in the doldrums on performance and that is why we have had to address that since we became an independent company. That is why you see I think the jaws opened the wrong way in terms of the cost-income ratio, so that is something we really had to address. But, again, there is no quick fix because you clearly are setting against a market which judges by one, three, and five-year time periods, so those are time periods that we have to show we have improved performance, and the trajectory is the right one that we are on.

Trevor Moss: Okay. The one thing, if I could come back on that, is on the cost side it is very difficult to get a clear view of how much investment cost has gone into that cost line for the asset management side. It is obvious when you look at all the narratives and you talk as you do there has been a lot of things going on. The challenge I think for me is understanding whether the jaws opening in the future is going to be from holding the cost line relatively flat from this level or whether it is going to be driven by revenues. You may say, well, it is a bit of both. However, clearly, only costs would be a starting point because I have no idea how much investment has gone into that cost line.

Clare Bousfield: Yeah. I am going to give you the answer that it is a bit of both, Trevor, because fundamentally what we are trying to do is generate growth across both books of the business, recognising the margin dynamics are quite different. And even within the institutional book, you have obviously got public, fixed income, private where you have got quite different dynamics, so the mix of business is also relevant in terms of that. But it is also relevant in terms of the cost base as well, because private assets do incur more cost just by the nature of them in terms of the value-add and the quality in terms of what we are doing. So yes, we have put in a fair degree of investment in terms of building our capability in the US and Asia, but we have also invested quite significantly and generated efficiencies in terms of the operating model in terms of how we deliver. So, it is very difficult to say it is all cost and it is all revenue. You would not expect us to do that, because you want us to grow the business. But, also, what you want to be able to do is grow the business without the cost base growing incrementally on the same basis.

Luca Gagliardi: Thank you Trevor, moving on to Farooq, Credit Suisse.

Farooq Hanif, Credit Suisse: Hi everybody, thanks very much. Firstly, just a quick one on the £2.6 billion of underlying capital generation can we just assume that the vast majority of that can be remitted and that is what we should be expecting now, given your capital position?

Clare Bousfield: Yes.

Farooq Hanif: And then, secondly, going to the retail performance, you talked about it being judged on a 1-3 year basis. I know from my own history of working as an investment consultant it was more 3-5 years on the institutional side. However, on the retail side, how quickly do you expect that to respond and what can you say has been driving the performance, between luck and process, what can you tell us about that? Thanks.

John Foley*:* Luck, process and markets of course. Where to go with that one? Look, so the one year is very important in the European market. When you are looking at the SICAV, so you do not have to wait for 3-5 year performance metrics to come through, if you are looking for inflows from Europe, the European market responds to the one year number, so that is heading in the right direction, 3-5 years will obviously take time, which is more the UK market.

On institutional, yeah, as you rightly point out, these are fairly sticky asset classes, and they just tend to build mandates, so we remain positive about those. Otherwise, I think what we are trying to say here, is within these markets, and directionally, we are making progress. Clearly, we have taken some fairly bold action in terms of how we address the management of funds, so whether that is more of a team-based approach. We do risk-based deep dives on them. There are a number of things that others may do, but we as M&G have perhaps not done them before, so we have inculcated these sorts of disciplines into the group, which has gone down extremely well. The fund manager is obviously the person at the end of the day who makes the calls on his own but has got a lot more tools at his or her disposal now, to make those calls and make those decisions. It will be a fluctuating picture, but we hope to see that that fluctuation is on a rising trend so to speak.

Farooq Hanif: Perfect, thank you.

Luca Gagliardi: Last of the analysts on video is Larissa from Barclays.

Larissa van Deventer, Barclays Capital: Good morning, just two quick questions from me, the first one on fees. We have seen some changes in your fee charging structure in the last year. Are those done or are there anymore that we should consider coming up? And then the last one, very big picture, but there is quite an emphasis on sustainability in your wording in today's release. Three years from now, how do you believe you will be able to differentiate yourself from your competitors as this is a very hot space at the moment?

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

Clare Bousfield: Yeah. On the fee structure, Larissa, we have done three separate changes in fees around the portfolio – one in 2018, one in 2019, and again in 2021 the 2021 was the OEIC change. And what we have tried to position with the changes that we made is hopefully a long-term sustainable price, that was the underlying strategy and philosophy. Now, you can never say there will never ever be more fee changes but that was our underlying philosophy, in that we wanted to address this head-on rather than necessarily have a continual reduction in fees.

John Foley: On sustainability, there are a couple of things, and I do not want to give you a trite answer, because in one sense it is not a competitive thing at all. When you look at what is happening around the globe today, we want everybody to be moving to a sustainable solution because that is what the planet obviously needs, not just from an environmental perspective, but also from a societal perspective. So, we actually really believe this, and we believe in it, which is why we launched Catalyst, which we have talked about in a previous session. We have launched PruFund Planet. We are moving our SICAV range to SFDR. These are all very important things, we have joined any number of groups that are moving – power against coal, for example, and so on, because we want to send out that very strong message to the whole organisation that is M&G and also to the wider universe as well, that, of course, we are in a competitive and dynamic environment and we want to have better sustainable funds than the next firm, but actually, it is right that we all have really good sustainable funds because that is where we need to go as an environment and as a planet.

So, I do not really consider this from a competitive perspective. It is more about what we really have to do, and all of us have to do it. That said, I do like to see our sustainable funds performing well and achieving good inflows, which I have to say they are doing, so that is a positive by-product.

Larissa van Deventer: Thank you.

Luca Gagliardi: I think that calls for a perfect ending to our session. Slightly longer than the hour that we budgeted at the beginning, but I guess we made up for the time that we lost with the technical interruption. Thank you very much for watching, listening, and joining us today.