# M&G plc 2024 Half Year Results

## Driving progress together
## Financial strength, Simplification, Growth

Presentation Transcript

04 September 2024

# Welcome & Progress on Strategic Priorities

## Andrea Rossi, Group Chief Executive

Good morning, and welcome to M&G's Half-Year Results. I am very happy to be here with you today, to share the progress we have achieved so far in 2024 as we continue to deliver on our strategic priorities, and to lay the foundations for sustainable business growth.

Over the last six months, we have taken meaningful steps forward, both from an operational perspective and towards all our financial targets. Despite the high-rate environment, which subdued new business sales, we delivered a good performance, with both Operating Profit and Capital Generation nearly matching last year's record result.

And thanks to our strong investment performance, we achieved some of the best flows among active Asset Managers. With market trends improving, we are well placed to capitalise on growth opportunities.

Let me now take you through the key business highlights.

### Slide 4 – Continuing to move forward in 2024

We began our strategic journey 18 months ago, when I outlined my three priorities for M&G: Financial Strength, Simplification, and Growth. We continue to relentlessly focus on them, and I am proud of how much we have already achieved.

First, let me talk about Financial Strength. In March, I told you that de-leveraging was our top priority. Today, M&G has a very strong capital position, and the lowest level of debt since becoming an independent company back in 2019. Thanks to the de-leveraging actions announced in June, we bought back £461m of debt, reduced ongoing interest costs by £21m per annum, and lowered our capital restrictions to zero.

Secondly, let us discuss Simplification. Our Transformation programme is progressing well. We have increased the pace of cost reductions, and already delivered £121m of savings. Looking ahead, we remain committed to absorb inflationary pressures and improve profitability across the whole business. Simplification isn't just about costs of course; it is also about focus and making tough choices about where we deploy our capital.

After a strategic review, we concluded that our competitive position in the wealth market is not sufficiently strong to ensure profitable growth without committing significant further resources. This is why we have decided to focus and rationalise our Wealth strategy. We will exit our digital platform, and bring together the Wealth and Life operations, under Clive Bolton's leadership.

Through this change, we remain committed to the UK retail market, which offers a compelling growth opportunity for M&G. But we will focus and coordinate our efforts, complementing PruFund with the Life insurance solutions that our customers want. We will also stop non-value-adding activities, reduce duplication, and improve operational efficiency. Underpinning all of this is our ongoing focus on delivering improved service.

And finally, on Growth, 18 months into our journey, we have successfully navigated a challenging macro environment. Despite headwinds in the UK, the Asset Manager continued to expand internationally, with nearly £2bn of net inflows in the first half. And we have also seen positive traction over the summer. With over £700m of net inflows in July and August, we are confident about our momentum for the second half of the year.

I am also pleased with the ongoing progress in the Life segment. After re-entering the BPA market, we are now working on a number of exciting opportunities we can unlock through our With-Profits Fund. Our Life team is developing new investment and guaranteed products, which we expect will drive greater flows into the Group from 2025 onwards. To do so, we will also leverage the meaningful excess capital in the With-Profits Fund. For M&G, this means participating in the Life Insurance market through capital-lite solutions, a unique competitive advantage.

## Slide 5 – Strong progress across all targets, OCG and cost targets upgraded

I already mentioned the strong progress we have made across all our financial targets in just six months. You can see a summary of that progress on this slide. The half a billion Operating Capital delivered in H1 means that we have almost reached our three-year cumulative target. This is why we have decided to upgrade it from £2.5bn to £2.7bn, reflecting our confidence in a continued strong operating result.

Earlier, I spoke about how we tackled leverage. Considering the actions already taken and the strength of our balance sheet, we are on-track to reach our target through organic Own Funds growth.

On Simplification. Given the progress of our transformation programme, we are increasing the cost savings target to £220m. This is before any additional benefits from the rationalisation of Wealth. In doing this, we reaffirm the importance of a culture of responsible cost discipline across the entire organisation.

I also welcome the improvement in the Asset Management Cost-to-Income ratio, from 79 to 77%. This is an important achievement by Joseph Pinto and his team. But we know that we need to do more.

And finally, the share of capital-lite earnings increased from 42 to 45%, thanks to the 9% improvement in the Asset Management result, as we continue to pivot our business towards capital-lite growth.

## Slide 6 – Financial Strength: M&G's leverage compares favourably with peers

Let us now look at each priority in a bit more detail, starting with Financial Strength. The key message I want you to take away, is that M&G has never been in such a strong financial position. M&G's balance sheet is in great shape, and well positioned to support the business.

Our leverage ratio improved from 35 to 32%, and all of you that are familiar with M&G will know how conservative our definition of this metric is. Using the definition adopted by some of our peers would give us a leverage ratio of just 23%, the lowest one in our sector on a like-for-like basis.

Having already reduced debt interest costs, and showing the lowest leverage ratio amongst peers, we do not anticipate redeeming any further debt in the near-term. And we expect to achieve our target through Owns Funds growth.

## Slide 7 – Simplification: Strong progress on Transformation programme

Next, let us look at our second priority, Simplification. In 2023, we maintained a flat cost base despite significant headwinds from inflation. And through strategic cost actions, we freed up resources that we then reinvested to expand our international distribution footprint, and to add the capabilities we needed to re-enter the BPA market. This year, we have gone a step further.

Despite continued inflationary pressures, we have reduced costs by 4% year-on-year. This achievement is a direct result of the commitment of all teams across the business, as cost discipline and value for money are kept firmly at the top of the Executive Committee agenda. Let me be clear. We will deliver sustainable earnings growth over time; and we will do this by growing the business. But our growth focus will always be paired with a strong commitment to efficiency and improved client outcomes.

And if markets pose headwinds to our growth, we will not hesitate to take a stronger stance on costs. Our Transformation is a key enabler of this journey. We are just halfway through the programme, but we have already delivered over 60% of the original target. Thanks to this strong progress, we confidently increased our cost savings ambition to £220m.

### Slide 8 – Growth: Clear priorities across segments

And now let us talk about our third priority, Growth. Here we have clear objectives for each segment.

In Asset Management, we have delivered a resilient result, outperforming most peers in challenging markets. As macro trends begin to normalise, our focus remains the same, maintain strong investment performance, continue to expand internationally and in private markets.

In the Life business, we are scaling our BPA capabilities, and developing capital-lite solutions to drive more flows towards the Asset Manager. Delivering our first capital-lite BPA this year will be a key proof point, as we expand our offering both in the UK and internationally.

And finally, on Wealth. PruFund is still one of the UK's leading retail propositions, but flows were impacted by high interest rates. With many customers choosing to invest in cash, or opting for annuities, we expect to see a similar trend in the second half of the year. Nonetheless, we are working hard to reduce costs and support sales, taking proactive steps to improve client access to PruFund, and to complement it with guaranteed solutions created by our Life business.

I will now hand over to Kathryn to take you through our Financial Results and afterwards I will speak in more detail on the business operations before we open up for Q&A.

## Financial Review

Kathryn McLeland, Group Chief Financial Officer

Thanks Andrea. Good morning, everyone, and thank you for joining us today.

I am pleased to present a good set of results, which prove the resilience of M&G against the ongoing challenging macroeconomic environment.

### Slide 10 – Resilient Operating Profit and Capital Generation

Although flows in this half were impacted by persistently high interest rates, both operating profit and capital generation proved to be very resilient, nearly matching last year's result and once again demonstrating the strength of our business model. Net client outflows of £1.5bn were mainly in the Wealth segment.

Within Asset Management, our Wholesale business delivered neutral flows, outperforming most peers. And while the Institutional franchise was still impacted by the ongoing de-risking of DB pension schemes here in the UK, it continued to expand internationally, with positive net inflows outside the UK.

Operating profit of £375m was marginally down year-on-year but showed a 9% improved contribution from Asset Management. The lower PruFund and Life earnings were expected, and in line with the guidance we provided at our Full-Year Results.

At £486m, the Operating Capital Generation was again very strong, reflecting a stable result from Asset Management, a 9% improvement in Wealth, and a lower contribution from Life due to lower expected returns on surplus assets and new business strain.

Management actions of £189m provided continued support to our capital generation and were £36m higher year-on-year.

On the back of this strong result and improved balance sheet efficiency, our Solvency II ratio climbed to 210% even after accounting in full for the final 2023 dividend and recent deleveraging actions. Let me now deep-dive into assets under management and flows.

## Slide 11 – Higher AUMA driven by positive markets

Closing AUMA of £346bn was £2bn higher than at the start of the year, due to positive markets offsetting net outflows from the business. As already mentioned, the high-rate environment was a headwind to flows, in particular for PruFund, where many of our target customers chose alternative risk-free solutions such as cash, government bonds, or individual annuities.

We remain cautious on the near-term outlook for PruFund sales, as rates have not yet declined meaningfully. Though, as Andrea noted, we are also working to grow our distribution capabilities and broaden our product offering.

In Asset Management, Institutional outflows narrowed meaningfully year-on-year, as we continued to build our international footprint and diversify away from the UK and DB pension schemes. Wholesale flows were resilient, with neutral flows being a good outcome in the current environment, driven by the quality of our proposition and strong investment performance.

In Asset Management, we are confident that we will see an improvement in the second half, as we are seeing strong client demand, in particular for Public and Private Fixed Income strategies. And over the course of July and August, we delivered over £700m of net inflows.

Having covered flows, I'll now move on to Adjusted Operating Profit.

## Slide 12 – Resilient Operating Profit

At £375m, our Group operating profit was only marginally down year-on-year.

The key features of this result are:

- Firstly, a 9% increase in Asset Management profits. This was underpinned by both higher revenues and reduced costs, as we continued to drive strong operational efficiencies.

- Secondly, a decline in PruFund and Traditional With-Profits, mainly due to the lower CSM amortisation rates that we flagged back in March.
- Thirdly, a much-improved result across Wealth's Advice, Platform and Other businesses. Here we more than halved losses year-on-year through proactive cost action and strong commercial discipline.
- And finally, a stable contribution from Annuities, where despite lower expected returns on surplus assets we had a much-improved expense experience.

Let us now look at the Asset Management result in a bit more detail.

## Slide 13 – Asset Management: 9% higher AOP on improved revenues and costs

At £313bn, average AUM was up 3% compared to the same period in 2023. This was driven by favourable equity markets, more than offsetting lower fixed income and real estate valuations. The average fee margin continued to be resilient, declining by only one basis point year-on-year. This was primarily due to a change in business mix within our Wholesale franchise, where sales were concentrated in funds charging slightly lower fees.

With revenues up 1%, the main driver behind the improved earnings and lower cost-to-income ratio was the 2% reduction in costs. This is as an excellent achievement, and it demonstrates our continued commitment to delivering positive jaws over time, with strong operational discipline supporting profitable growth.

The transformation programme that Andrea spoke about was the main driver behind these efficiencies. As part of that, the simplification of our Private Markets division delivered over £10m in savings, with another £7m generated by the streamlining of our operating model, supplier and third party spend. These initiatives have created capacity for us to invest in our capabilities, drive strong client outcomes, and position us for growth through sustained positive operating jaws.

Now, moving on to Wealth, and the PruFund result.

## Slide 14 – Wealth: Focus on PruFund UK

PruFund continues to be a compelling proposition, consistently generating over £5bn in yearly sales, and with a strong track-record that has significantly outperformed its benchmark for an extended period of time. Despite this, in the first half, we had softer flows, continuing the trend seen in the second half of last year.

As explained earlier, this is mainly driven by the conservative profile of our target customers. Moving PruFund into our Life operations will give us an opportunity to add guaranteed solutions to our proposition, and to re-capture flows over time.

PruFund's Operating Profit reduced to £96m due a combination of factors, including increased customer persistency and a higher new business strain. We expect the operating result to improve from this rebased level, as higher customer persistency will support faster CSM growth, and as we tackle expenses to address the new business strain.

Turning now to Life.

## Slide 15 – Life: Traditional With-Profits and Annuities

Here, the Traditional With-Profits result was 16% lower, impacted by the same increase in customer persistency of PruFund.

Once again, while this lowers the CSM amortisation rate, creating a short-term headwind to profits, it also increases the CSM growth over time, and the long-term value of the business. The year-on-year decline in profits was more pronounced than for PruFund, as the effect of the lower attrition rate was compounded by a lower opening CSM, which is to be expected in a closed-book of business.

Within Annuities, there were two main movements year-on-year, broadly offsetting each other and leading to a stable result. On one hand, we had lower expected returns on excess assets due to the more conservative allocation of our surplus. And this is consistent with our guidance from March. On the other hand, we had a significant improvement in the expense experience, demonstrating again our focus on costs.

Having reviewed our key profit drivers, we will now cover CSM movements on the next slide.

## Slide 16 – Operating change in CSM of £99m

At the end of June, the total CSM stood at £5.8bn, a 5% increase in just six months, representing a meaningful improvement in our already large stock of future value from our insurance operations. The increase was supported by a strong positive operating change of £99m, and a further £183m favourable impact from markets.

It is worth pointing out that the positive operating change in CSM did not benefit from any meaningful assumption change. It was rather driven by interest accretion and expected returns which more than offset the CSM release to earnings.

Positive market movements were primarily concentrated in PruFund and Traditional With-Profits. Here, higher rates increased the value of future shareholder transfers, together with good investment outcomes.

Having covered earnings and the CSM, let us now turn to Capital Generation, starting with the Underlying result of just under £300m.

## Slide 17 – Underlying Capital Generation of £297m

This is the result of a resilient contribution from Asset Management and a 9% higher contribution from Wealth. This was once again possible thanks to our focus on cost discipline, which drove significant improvements in the profitability of the non-PruFund components of Wealth.

The £60m reduction in Life was expected, and it mainly relates to two items:

- Firstly, the new business strain from the bulk annuity deal we closed earlier this year. As a reminder, we did not complete any deal in the first half of 2023;
- and secondly, the lower expected returns on surplus assets which we have already discussed when covering the Operating Profit results.

It is important to remember that we have not yet reinsured any of the three BPAs that we have closed since re-entering the market 12 months ago. While this has increased the level of strain, we still delivered double digit IRRs, retaining longevity reinsurance as a potential future management action.

I will now move from Underlying to Operating Capital Generation.

## Slide 18 – Operating Capital Generation of £486m

In the first half of 2024, management actions were £189m, up £36m over the prior period, and leading to a strong Operating result of £486m.

There were three main components to our management actions:

- Firstly, and similar to last year, we had a material contribution from Asset Trading. Here, the With-Profits investment office trimmed the Fund's exposure to Equities, and replaced it with Fixed Income assets, lowering our capital requirements.
- Secondly, we increased our Equity hedging, to proactively manage our Solvency sensitivities, and take advantage of the strong markets we have seen.
- And finally, we benefitted from the With-Profits excess surplus distribution we declared earlier in the year, which led to a one-off increase in the PVST of £62m, which stood at £4.3bn at the end of June, up £300m vs. year end.

Thanks to this strong result, we have now generated £2.3bn of Operating Capital since announcing our £2.5bn target at the beginning of 2022. Given our confidence in the Group's ability to sustainably generate capital, we have upgraded this target to £2.7bn, as we continue to focus on delivering value for our shareholders.

## Slide 19 – Strong OCG result and removal of capital restrictions lift SII ratio to 210%

I will now walk you through the other movements in our Solvency II surplus.

Besides our strong operating capital generation result, which led to a 13-percentage point increase in the Solvency ratio, the most notable elements were the reversal of the £216m capital restriction, and the nearly £800m we deployed for the 2023 final dividend and the deleveraging actions we announced in June.

We also had a benefit of £53m, from the impact of Solvency UK's changes, which allowed for more granular credit risk modelling. This is captured under Other Movements on the slide.

At 210%, our Solvency ratio underscores the strength of our balance sheet and our confidence in continuing to deliver on our targets in the event of potential market volatility.

## Slide 20 – Managed costs are -4% YoY thanks to simplification efforts

Before wrapping up and handing back to Andrea, I wanted to touch upon the progress we have made on our Simplification agenda.

As you have heard us say before, a key part of the Strategy refresh we announced in 2023, is a strategic Transformation programme, where we create capacity to allow us to invest in strengthening our capabilities, improving client outcomes, and driving profitable growth.

In spite of inflationary pressures, our cost base at June 30 is 4% lower year-on-year. Through this Transformation programme and the key levers, you see on this slide, we continue to build a stronger, simpler and more efficient business.

We have optimised our UK office footprint, reduced contractor spend, in-housed critical change capabilities, and increased and strengthened our operations in India. And we are not done yet, as today we have increased our total cost savings target from £200 to £220m.

### Slide 21 – Key messages

So, to summarise, over the first six months of the year:

- We delivered resilient asset management flows, which we expect to improve in the second half;
- We realised £375m in Operating Profits, benefitting from a 9% higher Asset Management result;
- We generated almost half a billion of operating capital, upgrading our target to £2.7bn;
- We increased the Solvency ratio to 210%, and reduced capital restrictions to zero;
- And finally, we continued to demonstrate our strong commitment to cost discipline.

I am therefore highly confident that we can continue to deliver on our financial targets and operational ambitions.

And, with that, I will hand back to Andrea to go through the business review.

## Business review

Andrea Rossi, Group Chief Executive

Thank you very much Kathryn.

These results demonstrate the strength and diversification of our business model. And now, I'd like to cover each segment in a bit more detail, starting with Asset Management.

### Slide 23 – Asset Management: Continuing to deliver strong investment performance

In Wholesale Asset Management, we delivered net neutral flows in H1. This is in a period where most peers suffered severe outflows, across Europe and in the UK. Superior investment performance has been the main driver behind this achievement, with roughly 40% of our mutual funds ranking in the top quartile for performance on both a 3 and 5-year basis.

As structural headwinds now start to abate, we are optimistic about the outlook for the second half of the year. With the market transitioning from contraction to expansion, the strength of our investment range puts us in a good position to capture flows, in particular in Public and Private Credit.

### Slide 24 – Asset Management: Internationalising the institutional franchise

Turning now to Institutional Asset Management.

Here, we are seeing a continuation of the same trends from last year. Structural headwinds have persisted in the UK, due to the ongoing de-risking from DB pension schemes, yet we continue to grow internationally, consistently and at scale.

International net inflows of nearly £2bn in these six months, were again a strong positive result, despite including nearly £700m net outflows in South Africa, which were driven by a large, one-off redemption. I am incredibly proud of how our institutional franchise has developed since demerger. We have successfully grown it, through internationalisation and diversifying our client base.

Defined Benefit pension schemes accounted for 65% of total assets back in 2019, while now they are less than a third. Over the same time period, international assets more than doubled from £20 to £51bn, and we saw similar levels of growth in the UK with Local Government Pension Schemes and Insurers. And we are not done yet. We continue to drive forward our international expansion, as it remains one of our key growth opportunities.

## Slide 25 – Asset Management: Capitalising on M&G's strong position in Structured Credit

The other key growth opportunity for the Asset Manager is Private Markets. And as we did at Full-Year, I will give you a bit more colour on our capabilities in this space, specifically Structured Credit, a £7bn franchise within our broader Private and Structured Credit offering.

As in many other parts of our £73bn Private Markets business, we have been investors in Structured Credit for over 20 years, partnering with our internal client to continuously drive innovation. Over time, we have broadened our proposition across the risk-return spectrum; from Investment Grade to High-Yield solutions. Starting with Asset Backed Securities and CLOs, and then adding Specialty Finance and Significant Risk Transfer funds.

Thanks to the partnership with the internal client, a compelling product range, and the strong track record you can see on this page, we are experiencing significant interest in this asset class. On the back of this strong client demand, and with a 100m euro seeding from the Life business, our SRT Fund II is on-track to hit its capital target of up to 1bn euro.

We are very excited about the medium and long-term opportunities in private credit, which is at the heart of our private market franchise. Our compelling business model, which combines the strengths of the asset owner and the asset manager, is a unique competitive advantage for M&G, supporting investment innovation and growth.

## Slide 26 – Life: Growth opportunity structured across three business areas

Moving now from Asset Management to Life.

The first thing I would like to do, is welcome Kerrigan Procter to M&G as Managing Director of our Corporate business. He will join us in January to drive forward our growth in the UK corporate space. Attracting someone of his calibre is testament to the level of our ambition, and the scale of the opportunity in front of us. Kerrigan's objective will be to build our presence in this attractive market by leveraging two balance sheets: the shareholder and the With-Profits'.

Within Life, we also have the Individual and International teams. Leading these are Anusha Mittal and Matt Robinson, who are driving good operational momentum in their respective areas. In Individual, Anusha is working to broaden our UK retail offering with fixed-term annuities, and to launch PruFund on third-party platforms. This will improve client access to this amazing proposition and support sales. We expect to see material progress on both these initiatives over the next six months.

In International, we expect to soon launch a PruFund-like guaranteed product in the Middle East and redesign the proposition for European markets.

## Slide 27 – Life: The With-Profits Fund as key writer of insurance business

As I have already said, I am excited about the renewed focus from this team, on leveraging the potential of our With-Profits Fund as a key writer of insurance business. With a solvency surplus of £6.8bn, and a strong appetite to deploy its financial strength, the With-Profits Fund is already partnering with each one of the three Life Insurance teams to develop and launch new propositions.

Writing capital-lite insurance business is a key competitive advantage for M&G, and one that we want to better leverage. This will generate additional Life Insurance profits without committing vast amounts of shareholder capital. Importantly, it will also drive more flows towards the Asset Manager, giving it greater scale and supporting investment innovation, in particular in private markets. This once again highlights the benefits of our synergistic business model.

## Slide 28 – Wealth: Simplifying business and operating model

I will finish my business review with Wealth.

Over the past year, Caroline and her team have delivered a more focused Wealth franchise, a better customer and adviser experience, and improved business outcomes. However, given our current position and market outlook, Caroline and I have determined that the full growth opportunity for our Wealth business can only be achieved with significant ongoing investments. Given our commitment to operational discipline, and better opportunities to deploy capital elsewhere across the Group, we have decided to focus and rationalise our Wealth strategy.

We have already taken important steps to improve profitability, tackling costs and more than halving non-PruFund losses year-on-year. But we need to do more. Having already closed our D2C offering, we intend to exit our adviser digital platform while continuing to improve our financial performance.

By combining Wealth and Life, we will optimise management resources and reduce overlaps. We will also continue to grow the distribution of our own solutions through restricted advice, offer a more comprehensive proposition, and make it more accessible by distributing on third party platforms.

As a result of these changes, Caroline will be stepping down from her role as CEO of Wealth. She will stay with us as a strategic advisor until the end of the year, ensuring a smooth transition of our Wealth activities. I want to personally thank Caroline for her leadership and significant contribution to M&G. Since joining, she has strengthened our Wealth business, and brought much needed strategic and commercial focus.

After having completed the business review, I would like to now touch upon our capital management framework.

## Slide 29 – Shifting focus from leverage to sustainable business growth

I am very pleased with the momentum we are seeing across the business, and the progress we delivered across all our five targets. And this also reflects in how we think about capital management. We are reporting a strong operating result and have improved our Solvency and leverage position.

These achievements make us very confident in the financial strength of M&G.

We also continue to make targeted investments in the business, such as those needed to deliver the Transformation programme and to add capabilities in Private Markets. And as operational progress starts to translate into earnings growth, we can begin to shift our focus towards the dividend, and how to grow it gradually over time. We will naturally review this topic with the Board ahead of our Full Year Results.

Slide 30 – Key messages

So, to conclude.

First, M&G is in its strongest financial position since demerger.

Second, the transformation programme is well on-track. This is clear evidence that we are serious about customer experience, operational efficiency, and of course cost management.

Third, we continue to position the Group for long-term capital-lite growth across all segments. But also, we have taken meaningful steps, towards achieving, all of our financial targets in a very short period of time. And we have upgraded our ambitions for both capital generation and cost savings.

And finally, thanks to the hard work of everyone here at M&G, we are increasing our focus on sustainable business growth. We are 18 months into our strategic journey, and today's results prove once again the benefits of our synergistic business model.

We keep delivering across all our strategic priorities and financial targets. We are growing internationally, and we continue to deliver stellar investment performance in those asset classes that our clients are most focused on.

Looking forward, this makes me very confident in the continued progress and success of our business.

Thank you.

## Q&A hosted by Luca Gagliardi
with
Andrea Rossi, Group Chief Executive
Kathryn McLeland, Group Chief Financial Officer

**Larissa Van Deventer (Barclays Capital):** Three questions, please. The first one, very impressive on the international flows. Can you provide some detail on the asset classes and geographies?

The second question is on the asset management cost-to-income ratio. What are your expectations and where do you see the main drivers for changes – is it on the revenue side or expenses?

And then the third one. You speak about capital-lite expansion and mentioned it specifically in the bulk annuity business as well. But that is traditionally a capital intensive business line. How should we think about marrying capital-lite bulk annuities, especially in light of the Dear CEO letter the PRA published recently on funded reinsurance? Thank you.

**Andrea Rossi:** Okay, so flows, cost, income ratio and capital-lite, if I summarise your three questions, right?

So, on flows. Yes, we are very proud of what we delivered on our international expansion with nearly £2 billion of net inflows in the first half, and it is something that we have focused on. If you remember, when I presented the first time, I said that our international expansion was key. And clearly, I am very happy about that because it is an international expansion which is very diversified.

It is not one single country, it is not one single asset class. When I see where the flows have come from, they have come from Japan, they come from Australia. We had good momentum also in Singapore, Hong Kong and if you look at Europe, we had very strong momentum both in Germany and in the Netherlands, on the institutional side, but also the wholesale side in Italy, for example. So, it is well diversified from a regional perspective, but it is also well diversified from an asset class perspective.

Clearly, we see an interest in fixed income, it is normal, but we see an interest also in private credit. And we start to see also interest now again in real estate, people are starting to think that this is the right moment to come in. So, with our strong investment performance, and I would say with the relevance of our investment capabilities, I think we are well-placed to expand that international expansion.

But of course, we also have the UK market, and we should not forget about the UK market, we had some structural headwinds in the UK market. I think you saw the numbers there on the DB schemes. We have been sort of reducing it. But the good news here is that we are not too reliant on the UK market and more importantly, we are taking action. So, we are having momentum with local authority pension schemes. And also, we are having momentum with insurers, and of course, we have re-entered ourselves in the BPA market, and that will drive, of course, flows as well to the asset managers.

So, I would say when you look at flows, and you look at the momentum, you should look at it from a global perspective. And of course, I am, I would say, rather pleased with the results that we have had in July and August, where we had more than £700 million of net inflows. And this, of course, puts us in, I would say, a better position for the second half, and I expect that this will continue going forward for this half. So that is on flows.

Second, cost-to-income ratio. Well, first of all on the cost-to-income ratio, clearly, I am very pleased with the progress we have done. We moved from 79% to 77%, and I am very pleased that Joseph and his team have had a nearly 10% increase in their profits, 9%, which is great. But of course, that cost-to-income ratio is driven

both by a relentless focus on cost, which we reduced 2% year-on-year, but also on revenues, which went up by 1%.

We should not forget that that cost-to-income ratio is calculated in a very conservative way. We do not take into account performance fees. We had a slide on that. You can see that performance fees can be one-two points per year. So that cost-to-income ratio would have been 76%, 75%. We are very much committed to improving that cost-to-income ratio. And I think by looking at where we are, a) in the market environment, with rates progressively coming down, I believe both our fixed income book and our private assets valuation will go up. And of course, we charge fees on that, so that should help; b) Of course, we see flows.

As I said before, I do not need to go into that again. I think the superior investment performance that we have on our mutual funds, and this is something important because as usual, institutional, they come first. Retail investors always come later. But given our strong investment performance, I think on the retail side and our strong relationship, we have with the banks, we will see some momentum there as well.

So, flows should help. And of course, we will continue to be focused on expenses. But let me be clear, I want to grow the Asset Management business. I mean, we have been investing in this business. We have been investing in adding private asset capabilities, in adding fixed income capabilities in Asia. So, it is important also we sort of support this business going forward and make it a profitable capital-lite engine for us.

Okay, that is on cost-to-income ratio. And then you asked about capital-lite BPA. You are right, the three first BPAs we did were plain vanilla. I think overall, what you should take away from it is we want to grow our capital-lite business, and capital-lite business not only in Life, Asset Management, Wealth or PruFund, for example, but we want to do capital-lite BPAs.

One way of doing this is by what we are hopefully going to do before the end of the year, where we are going to share the economics with the pension scheme sponsor. This, I am sure you have seen this, there are some scheme sponsors that are reluctant to sort of give away some of the profits to the insurers. Well, we are a newcomer here, so we can actually come in with this sort of new approach, and we will do so by reinsuring the longevity and the credit risk to the scheme sponsor. So, this is a capital-lite way of doing business. But of course, what we really want to do is then, and the teams are working on this, is utilise the excess capital we had in the With-Profits Fund of £6.8 billion, in order to sort of guarantee the outcome to the sponsors, and we can go into more detail. I do not know if you want more detail. I can ask Clive to go into this, but I hope that is fine.

**Luca Gagliardi:** I think that is, and clearly, to your question on regulations, when you are insured with the scheme sponsor, everything remains onshore.

**Andrea Rossi:** Yes, this is not funded reinsurance and this is not what, of course, the regulator is a bit concerned about.

**Luca Gagliardi:** And obviously, this still drives flows into the asset manager. So again, it helps also on the other side of the business.

**Nasib Ahmed (UBS):** So, firstly, a question on flows. You say more than £700 million.

Can you break that down into where that is coming from? Because I feel like wholesale is still flat. DB pensions are still a headwind. Wealth, you said, is a headwind. So, it seems like international institution is doing really, really well, probably more than £1 billion over just two months. And do you expect that to continue? Andrea, you kind of alluded to that already.

Second question on the combination of Wealth and Life. What is the rationale, and what is the benefit of doing that? I think the With-Profits Fund is already combined, traditional and PruFund. And of course, you appointed Caroline very recently, and now you have changed tack a little bit there.

And then thirdly, on the £6.8 billion surplus in the With-Profits Fund, do you expect that to be released over time, annually, similar to what you did in February? Thanks.

**Kathryn McLeland:** So, I think, from the products we are very excited about launching with Clive and his leadership team, you would not expect a very meaningful surplus to reduce quickly over time. It gives us plenty of flexibility, and I think one thing that is really positive about the products that we are launching is that we are diversifying and giving customers products that are sometimes better suited to the high-rate environment. So, we have got plenty there, and I think you might expect to see it reduce, but certainly not on a meaningful gradient or anytime soon.

**Andrea Rossi:** So, on flows, and I cannot give too much colour, but what I can tell you is clearly, what we have is a mixture. It is £700 million, it is UK and international, I mean, it is overall.

We have seen interest in fixed income, which is rather normal, in particular on the institutional side, but we continue also to have interest on the wholesale side, on what we call fixed maturity products, FMPs, which we have had particular success with in Italy. So of course, we also have on the private asset side, interest on the private credit. I said that already in my presentation, so I would say it brings into the strength of our diversified and strong investment capabilities.

And then, of course, it is diversified. It is not a single country, and I think you can see the resilience also in the UK because that number is including the UK. Things might change a little bit in the UK as well.

**Luca Gagliardi:** And I guess the third question was on the combination of Wealth and Life.

**Andrea Rossi:** Yes, the third one was on the combination of Life and Wealth. So, the first thing here is, and I hope I made it clear in my presentation, we see the UK retail savings market as a great market, and we are committed to that market. We are still here, we are still going to distribute our products in this market, we are committed to grow in this market, and I think we have a right to win in this market. A strong brand. We have the PruFund, which is a great franchise and also very strong Asset Management solutions. And of course, we have the With-Profits Fund, which can help in this.

So, the reason we did this is because we are effectively executing on our strategy. Now, part of simplification is also making sure that we sort of put together the most efficient way of operating and the activities remain the same. You should think about Wealth as being a distribution arm in the manufacturing of Life, and also distributing the manufacturing capabilities of Asset Management here in the UK. But what we want to do by bringing these two together is to broaden the access to our solutions. So, for example, we are going multi-platform, from one platform, we are going multi-platform. So, we want the PruFund to be on every platform out there which should help PruFund sales.

We also want to continue to grow our tied advisors. We have been doing so with the academy, and of course, we are going to focus also on independent advisors and make sure they get a better advisory experience. We are investing in a better digital experience and also for our clients. So that is to broaden our set of distribution. At the same time, we are also launching new solutions out there. So, we are utilising the With-Profits excess in order to launch our fixed term annuity, but also provide guaranteed solutions out there, whether it is income or capital.

So, it is really to make sure that we drive those synergies by putting these two teams together. There will be, of course, some efficiencies as well. We will reduce certain duplications. But I mean, overall, I think this is really to put us in a better position to drive sustainable profitable growth going forward.

**Luca Gagliardi:** Thank you very much. So, Mandeep from RBC.

**Mandeep Jagpal (Royal Bank of Canada):** Thanks, Luca, three questions for me, please.

First, on surplus capital. Now you are well above the top end of your capital range of 160%-190%. You mentioned no further debt redemptions are expected and potentially some disposals in Wealth. Of course, you have to keep in mind leverage, but do you consider yourself to have excess capital, and if so, how do you expect to utilise this over the next few years?

Second one is on the With-Profits experience. What is driving that higher persistency in these books? And should we expect this to revert at some point and so see higher CSM amortisation return?

And then the final one, we kind of touched on in the presentation on dividend growth. You chose not to increase the dividend last year and UCG, which is a key component of the dividend policy, will likely be down year-on-year this year. So, in what circumstances would you consider increasing the dividend in full year 2024?

**Luca Gagliardi:** I think, Andrea, the first and third go relatively well hand-in-hand. So, Kathryn, do you want to first talk about the With-Profits persistency how to think about that and, you know, going forward? Well, customer persistency, not With-Profits persistency.

**Kathryn McLeland:** Yes. So, I think that was obviously one of the elements of guidance that we gave at our full-year results, that it sounded like a perverse outcome. When we had an increase in persistency in 2023, it lowered the amortisation rates for us in 2024, and we saw that come through in the numbers. So, you did see that flow through a much more meaningful reduction on the traditional book, down about 120 basis points, and a 70 basis point reduction on the PruFund side. So that has come through in terms of setting the AOP impact from the CSM release this year.

What is quite encouraging, when we think about the actual stock of CSM, and you have seen that increase by 5%, you have seen £100-odd million of operating change in CSM, and obviously a really strong meaningful contribution coming through from that interest expense and expected returns coming through from those two With-Profits books. So, when we think about that impact from persistency last year, obviously it has brought down AOP as we guided to, but really importantly, it is going to help drive CSM going forward.

**Luca Gagliardi:** And Mandeep, from a modelling perspective, so to speak, we review those assumptions only once a year. So, when it comes to the second half of the year, we are not going to review that assumption. And obviously, last year was the first year after the implementation of IFRS17, so it is fair to say that there was a little bit more learning. In particular, I think we noticed that at the five-year point for some products it is a key point in time to churn out more as customers were staying on, which is a good thing.

And so that is why we reviewed the assumption probably more materially than what you would expect going forward. Now, those assumptions will always move, but I think we flagged this at full-year because it was a relatively more meaningful movement than normal. And again, no change between H1 and H2. We will review it again at year-end, and if there is a meaningful change, we will obviously flag it.

**Andrea Rossi:** Okay, so dividend and?

**Luca Gagliardi:** Well, basically, the first one would be our Solvency II position, very strong. So, how do you think about your capital base? And then also, how do you think about the condition to increase the dividend?

**Andrea Rossi:** Okay, well, first of all, I am extremely pleased with our financial strength. I said it in my presentation. We have never been in such a strong position as we are now since 2019. We said leverage was a focus. We took action on our leverage ratio. And I am pleased to say that we are going to get below 30% by accretion of our own funds.

Now, we have a capital management framework, the focus is clearly on making sure we invest for business growth and grow the dividend. That is our focus. And, as you know, when you think about our dividend policy, what we paid out now is mechanically calculated. It is a third of the previous one, and we will make a decision on the second one, of course, with the Board. And you will have that decision when we meet for full-year results. And to finish maybe, any excess capital return, but this is not the time to deliver any excess capital returns to the market.

**Luca Gagliardi:** And maybe one nuance of your question was about, obviously, underlying capital generation might be down year-on-year because of specific reasons. I would say the reasons that have driven a lower underlying results are, for example, new business strain, which is something that is good over the medium to long-term for the business.

So, I think you would expect us not necessarily to take a mechanical approach, both on the down or the up, but rather looking through the macro trends and how the business is doing on an operational basis and look through in terms of the near-to-medium-term future.

**Rhea Shah (Deutsche Bank):** Just three questions.

So the first one on Asset Management. The margin dipped by one basis point, and you said it was because of business mix. Is more of this change and mix to come over the rest of the year and maybe next year? Or could the focus on private markets actually see that margin tick up or at least remain stable going forwards?

Second, on capital generation. The management actions in terms of asset de-risking, and what you are saying about maybe utilising longevity reinsurance in the future as a tool for future management actions, how should we be thinking about management actions for the second half of the year? And when do you think you could use that longevity reinsurance?

And then third, again on capital generation. You have increased the guidance for 2022-24 on OCG, the cumulative OCG. How are you thinking about post-2024 OCG or underlying cap generation? And it goes back to Mandeep's question because if you are talking about dividend growth going forward, should we be building in underlying capital generation growth and what kind of targets are you expecting from this?

**Kathryn McLeland:** So, you are right. In the first half, we had £189 million of management actions, up £36 million year-on-year. And we had a similar impact from the asset reallocation that we did in the With-Profits Fund out of equities and into fixed income. We also took advantage of the rally in equity markets to improve our equity hedging, and we had the impact from the one-off surplus distribution.

When we think about our guidance, so we have had a large number in the first half, but they are not your typical management actions, as you said. So we obviously have £400 million to go to hit our £2.7 billion target for 2024. And you would expect us to also review some of the key assumptions in the second half of the year. Like, we obviously look at longevity in the second half of the year.

So, I think when we clearly have confidence in hitting the revised £2.7 billion, we would also just remind you and our shareholders of the typical £100-200 million of management actions. So, when we look into 2025, and we also consider what we might get to do through longevity reinsurance, that can absolutely add to the management actions. And I think one thing to add to Luca's comment around underlying capital generation, and I think we did obviously highlight that we had a change in expected returns on the surplus asset in annuities because it was really unusually concentrated in very, very liquid, high-quality assets. So, I think you can almost think about that as a base also for us in terms of resetting, rebasing that underlying capital generation coming through from annuities.

So, we have said that we want to hit leverage through own funds growth, and actually, we have delivered an increase in Asset Management profits of nearly 10%. Wealth was up in terms of underlying capital generation, and we lowered losses meaningfully.

So, we are a strongly capital generative business and cash generative. And when we think about what the new target might be, again, it is one that, like the dividend, we will be working on in the second half and discussing with the Board at the end of the year. We have seen all our peers reset their capital management frameworks, their policies and distributions, and we always will think if there is another metric that makes more sense apart from an absolute OCG target, and it is something we will come back to at the end of the year. But I think the key is that we did see some one-off headwinds, I think, this year.

Management actions had a couple of meaningful outsized benefits, but we are strongly capital generative. We have got a lot of management tools at our disposal. We are confident in £2.7 billion. And importantly, also a lot of these products that we are launching in Life, as Andrea has said, do actually also benefit Asset Management in terms of flows.

**Andrea Rossi:** Good. On margins, I would say, first of all, our margins are resilient because you should see it from a two-year basis. And in fact, it is pretty flat.

Yes, on the wholesale side, we have seen a decrease, and as I said in my presentation, that is due to business mix. We have seen more momentum on fixed income funds, which, of course, are charged less than multi-asset and equities. But I would say even here, you should think, given our very strong investment performance, now that some retail investors are coming back, yes, they come back to fixed income, but they are also going to come back to multiassets and equity strategies when they are going to move out from either government bonds and cash.  So, we are well-placed to take that.

On the institutional side, I think we have been very resilient and there is a business mix as well there, of course, as fixed income mandates, you can imagine, are much lower in terms of bps than a mandate on private assets. But, in particular on private assets, I think you have to see this, we are having momentum on private assets. And when I look at the average bps on private assets, actually it is going up. And it is going up because we see momentum on some of our impact equity strategies. We have responsAbility, which has had positive flows, but also when you look at some of the more sophisticated credit strategies, like structured credit, etc., they are actually charged a bit more. So, I think you will sort of counterbalance that with, of course, fixed income mandates, plain vanilla fixed income mandates. So, I think you see some resilience on the institutional side, thanks to our private assets franchise.

**Luca Gagliardi:** And I think, Rhea, the final point on that is that obviously what we flagged is that over the last 12-18 months, we have been seeing headwinds to private asset valuations. And obviously those are assets that come at very high margin, so those became relatively less in the average blended mix, right? While obviously, we are at that point in which, with rates coming down, you could argue that that will work in our favour, so to speak. So, you know, definitely very resilient margin picture.

**Dominic O'Mahony (Exane BNP Paribas):**

So, first question just on the Asset Management flows. I mean, clearly international is doing great. On the UK DB side, there was a time when the outflows were ostensibly driven by the response to LDI. Is this a clean level? Is this something you expect to recur at this sort of level, or is there a structural reason to think that the flows will improve?

The second question is a really simple one. Can you just help us understand how much the bulk annuity strain was in H1?

And then third question, clearly the underlying capital generation was held back by the change in the asset mix and the surplus assets. Have you changed that mix during the first half? And if not, do you plan to do so? And if you do plan to do so, are you looking to get back to the same sorts of returns that you were getting last year? Thank you.

**Andrea Rossi:** Okay, so I will take the one the UK. I mean, the -£2.4 billion. Clearly, there continues to be DB de-risking in the UK. And what we are doing in order to sort of counteract that is we are focusing on, as I said before, on insurers and also local authorities where we are seeing momentum, thanks to, I would say, strength of our investment capability.

That is one way of sort of reducing it. Of course, we have also reentered the BPA space. I mean, we should not forget about that. And we have written nearly £1 billion of BPAs since we re-entered last year. And those are flows that goes into the asset manager. That is another way of recouping. So when you look at that trend there, I think that we have taken action in order to do more. And let us not forget when you think about the BPA, what I said before, there are many scheme sponsors now that are reluctant to do BPA because they are in surplus, and they do not want necessarily to give away those profits to an insurer. Well, they can come and speak to M&G. We are very pleased to speak to them and we hope before the end of the year we will deliver on one of these BPAs.

So now I think what is important here is to say that when you look at these figures, in 2019, we were over reliant on the UK. Now we are much more diversified and that is what you want. You do not want us to be in one country, one segment. You don’t want us to be all in one asset class. You want us to be as diversified as possible, but in a focused way.

And that is what Joseph and his team have been doing. And, you know, I look at these results that I have done the first half and I look at the outlook we have going forward. I think we are a positive outlier when you compare us to other active asset managers out there.

**Luca Gagliardi:** And obviously, a small point, the £1 billion of inflows from the BPAs, they still end up in the asset manager, but you do not see them through these numbers just purely because these are, at that point, external flows into Life, and are then internal flows to the asset manager. So, the number might also look slightly punitive because of not double-counting.

**Kathryn McLeland:** So, should I cover some of the questions on BPAs? I have not got the pounds, million, of strain to give you because we have not provided it in our results. We have just done the one vanilla deal that you heard about in March, and as we do more of the traditional deals, we will give more guidance.

What we have said is that it is double-digit IRR. Clearly, capital is not a constraint to us given where our solvency ratio is, but we have also got this flexibility to look at, those three deals we have done, of using some longevity reinsurance should we want to. So we are very disciplined, and we have talked about being quite selective in these deals. And obviously, you will be very familiar with the market dynamics in the first half, and

some of the guidance given by peers over the second half. So, I think the key focus for us is obviously launching this capital-lite BPA.

I think the question around, or Andrea's answer around our DB clients here in the UK, what I think they want is a range of products that suits their own particular circumstances. Some of them are choosing to retain risk. Our private asset capabilities help value those assets as they go down the de-risking journey.

So, we have got opportunities, I think, across both traditional, being very selective, using our private assets capabilities and using the With-Profits Fund, plus also doing this risk sharing where the economics can be split in a different way. And so, yes, we have not provided the number also in the results document.

And on the impact from the much more liquid asset mix at the beginning of the year, we have not given any guidance around to whether that has become more high-yielding or changed the composition of it. You would obviously expect us to maximise the capital and returns from that. And clearly, we had a slightly different mix last year, as you will know, for the two deals we did last year. So, we are confident, I think, when you think about the outlook for credit and rates and our opportunities in that market. Obviously, there is an element of surplus assets run-off as well that clearly impacts the underlying capital generation number. So, to be able to top up the book as we want to, and also stabilise that expected return as we increase or change the mix of those surplus assets to high-yielding ones.

**Luca Gagliardi:** And again, similar to the other assumptions, the returns on surplus assets are expected and are set at the beginning of the year. So again, do not expect a change between H1 and H2, but it is rather what is going to be the mix of the portfolio on 1 January. And that obviously is going to be driven by what deals we close and when, and what assets that we might have warehoused as we push into the deal.

So, in a way, it is obviously important and is an important part of the results. But then, eventually the economics, the returns that we realise and what we do not realise underlying the actual experience, will come out in market movements. So, while it is optically important, I think the most important thing is to drive good outcomes and not just think about what is your mix on day one of the year. But what you have seen this year from an asset allocation perspective is a little bit of a floor because the portfolio was fully Gilts on the 1 January, so you cannot make it more risk-free than that, right? So, you know, in a way, it should be a floor or an up.

**Andrew Sinclair (Bank of America):** Thanks. Three for me, please. First was just continuing on BPA, fine with the capital-lite stuff, but I am surprised you are not talking a little bit more about the traditional stuff, given how strong the market outlook is. Just what is the pipeline there for H2 and into 2025?

Second was just on PruFund, just trying to square off some of the comments about persistency. I get higher CSM, everything you have said in the answer so far. But higher persistency assumptions come at a time when it looks like the flows, outflows are quite a bit weaker for PruFund at the moment. Just trying to square the higher outflows with the better persistency assumptions, if you can just square that for me.

And third was just on slide 28, just when you are talking about the joint proposition for UK retail customers. Just if you can tell us a little bit more about that. What is the timeline? When should we see more? Thank you.

**Andrea Rossi:** Okay, let me start maybe on the last.

So, clearly, when you look at what we want to do in the UK in terms of new propositions, the Individual Life team are working already on a fixed-term annuity. More to come, I think, within the next six months that will be launched. And then, of course, we are working as well on the guaranteed solutions, which are also

happening within the next six months. So that, I think, is good because we are going to utilise excess capital that we have in the With-Profits Fund.

Let us not forget also that that is going to help us also in what we are doing internationally, because what we are finalising in the Middle East, it is a PruFund guaranteed like-product that we are doing in the Middle East with a partnership with a big international insurer. So once again, we are utilising that excess capital in order to guarantee. So, we have several fronts on that, that we are going to execute on within the next six months.

**Kathryn McLeland:** So, on the CSM release and the lower amortisation rate, which, as I mentioned before, was obviously quite a bit lower in PruFund. And, as you rightly said, it is a different profile and dynamic and sensitivities than the traditional book. So, I think, yes, if we obviously do these calculations, and Luca made some comments around thinking about different sorts of cohorts of customer we have, that has had a modest impact on the PruFund profits this year. It had a more meaningful impact on the traditional book because, obviously, it is closed. So that CSM does reduce.

The CSM also has benefited when rates move as well. So that is another impact on that PruFund AOP number, which has mitigated a bit of some of that decline in amortisation rate. So, I think the impact from the persistency last year was definitely much more meaningful on the traditional With-Profits book than on PruFund.

**Andrew Sinclair (Bank of America):** But just following up on that, I mean, on PruFund, we have got a better persistency assumption at a time when, I mean, we have had £3.1 billion of outflows in H2 last year, £3.0 billion in H1 this year. That is a big step-up versus what we have seen for the prior 18 months. So why do we have the better persistency assumption coming up to this?

**Luca Gagliardi:** I think, so there are two things to that. So, first, the persistency assumption was changed before the first half of this year. So in a way, I appreciate the point that you made on H1 this year, and I know that H2 last year was similar in level, but you look at your experience not on a six-month basis but a rather longer term basis to try to smooth out some of what could be one-off volatility. So that is point number one.

And in terms of the big change that we had done last year, as I said earlier, it was mostly related to when we did IFRS17 for the first time and we looked again at the numbers. So, it was more of a comprehensive review on the application of IFRS17. And that is what called for a bigger review of the persistency assumption. It was not necessarily motivated by the short-term behaviour. So look at it as, we are learning by doing, and we are refining our own estimates as we go through, as opposed to, we have reacted to a short-term trend effectively.

And there was another question on traditional BPA, why we have not done more, so to speak.

**Kathryn McLeland:** I think we are seeing a lot of interest, maybe slightly similar dynamics around clients thinking about taking a little longer to proceed or progress with the deals. And certainly, our focus has been on getting this capital-lite transaction done. I think Clive was going to add a comment here.

**Clive Bolton:** Hello, everybody. Clive Bolton, I am the CEO of the Life business. When we talk about capital-lite that is from a shareholder perspective. So when we play in our With-Profits balance sheet, that means the shareholder capital goes further, and we can use that to write the conventional BPAs with the risk-sharing between those two balance sheets.

So we will still expect to be participating fully in the core BPA market, the vanilla BPA, as Andrea had said earlier. But we will do it by actually combining our two balance sheets to maximise the shareholder capital and the return there will be as the execution partner and, as mentioned earlier, whether it is a capital-lite or a conventional BPA, M&G will actually manage all the assets, regardless of that.

We see this relationship between the with With-Profits Fund and the shareholder, we call it our engine for growth, because actually playing that With-Profits balance sheet, it will end up with a With-Profits policy. In that sense, to put it in basic terms, is one of the things we will employ to actually generate value for the shareholder in conjunction with that balance sheet.

**Andrew Crean (Autonomous Research):** Three questions, if I can.

Can I try and nail you down on the costs? What do you think costs will grow for the full-year 2024 and 2025 in percentage growth, or decline?

Secondly, could you give us a sense of these platforms and all those businesses which I think lost £13 million last year? When does that go to naught?

And thirdly, it is very difficult for us, with all these new products which are going to launch through the With-Profits Fund and where you only get 10% of the profits for shareholders, they only get 10% of the profits. Where is the value creation there really in the next five years? Is it actually in managing the money within the Asset Management division, or should we expect material contributions to come through from the underlying Life businesses?

**Luca Gagliardi:** So just to recap on the three questions that I think they all go to, Kathryn, this time around, the first one is what is our expectation for the cost base for full-year and beyond. A little bit more colour on the Platform and non-PruFund Wealth components, when that will go to zero. And then thirdly, where is the value in the new products powered by the With-Profits Fund?

**Kathryn McLeland:** So, on the cost base, obviously the absolute total cost did come down 4% year-on-year, you saw that, to £703 million, which is good in this inflationary environment. And we have not given any guidance towards the total cost base for this year or next year, because what is really important for us, is that we are driving quite meaningful savings group-wide through this transformation programme that we launched 18 months ago.

We have four levers, they are the classic strategic cost transformation levers. We talk about location strategy, operational simplification that we have clearly done, we are looking at taking advantage of obvious talent that we have in India, reducing our contractor consulting spend, automating, simplifying our technology stack. But that is really importantly allowing us to have scalable growth and to selectively invest where we do want to grow. And we have already said that we have talked about investing in Asset Management. We have hired on the distribution side internationally, we are hiring in private assets, a key growth area for us. And also, on the With-Profits side, we are also, and more broadly on BPAs, looking to build our capabilities in Life. So, we do not guide to an absolute cost number. We are very well advanced, £121 million towards the £200 million, which is why we are confident of increasing it to £220 million. And what we have also said is today's announcement around Wealth will also deliver incremental savings.

So, you obviously easily see the Asset Management cost number come through, and we delivered the 2% reduction in the cost-to-income ratio. And our focus there is very much about positive jaws. So again, it is not absolute costs, it is around having positive jaws in Asset Management, where we are growing. So we are delivering, and we will give an update at full year. We will give you the absolute number at full year, but we are not guiding to what that might be. Obviously, for us, the key objective from an efficiency perspective is making continued progress towards that 70% cost-income ratio in Asset Management and then driving growth in the other parts of the Group.

On the £28 million of losses down to £13 million of losses in the Platform and Advice business and Other outside of PruFund and Wealth, we obviously have been really pleased with that turnaround as we have been very focused on cost and on spend, and we want those losses to reduce. We said we are exiting the Platform business. We clearly need to return that to profitability. I would say it is quite early days in terms of Clive now looking at that business. So we will give a broader update at the full-year. But we have been relentlessly focused on improving the efficiency of that and taking costs out, and obviously really importantly bringing in and increasing PruFund on other platforms and bringing in more business and more products to the Group.

And it is an excellent question on this, what do shareholders see from this use of the surplus assets and the With-Profits Fund? And we are very excited around this partnership that you heard Clive talk about. And again, it is one that we would love to come and talk more about it. You clearly know very well how the 90-10 works, and how obviously with our IFRS17 profit signature changing, with the annuities, it is quite easy for you to see the shareholder benefit. So there is the benefit clearly on day one from Asset Management getting all the flows into Asset Management.

We are really focused on private assets, and that is also a capability that a lot of the clients are looking for. But clearly, PruFund outside of the UK has a different profit signature, it is 100-0. So, there is a different sharing of economics there. It is not as high-margin necessarily, but we are thinking about obviously maximising the use of the With-Profits capital, but also how it benefits shareholders and not necessarily always day one that is coming through from Asset Management flows. But the shareholders will benefit over time through the profit signature and shareholder transfers, and we are thinking about and spending a lot of time with the With-Profits committee around this relationship between the shareholder and the With-Profits Fund. So more to come.

**Farooq Hanif (JP Morgan):** I would like to ask Andrew's question again in a different way on costs. So, you changed a lot of targets today, you did not change the 70% cost-income ratio, and I thought that was really bullish. So, have you not changed that because you think we will not mind because we do not have it in our numbers anyway, or do you really believe you can actually get there? That is question one.

Question two is going back to the BPA capital-lite. With £6.8 billion surplus and a double-digit IRR, it feels to me like you can write a lot of BPA volume, more than the £1-2 billion that you have kind of indicated in the 100% market. Is that statement correct? Obviously, you are not giving us flows and expectations, but is that the long-term ambition?

And then the third question is, what level of interest rates, when you look at your data, would be supportive for PruFund growth again?

**Andrea Rossi:** Let me take the cost-to-income ratio, since I was the one who put that target up there. I mean, obviously, first of all, I am pleased with the progress, and this has been during, I would say, challenging market conditions. It is good to see the asset manager nearly getting 10% of earnings growth. It is a challenging target and I want you to know, we are fully committed to improve that cost-to-income ratio. The way we are going to do so, and I said it before, it is going to happen thanks to both flows that will come in, and we believe that there will be rich flows with the private assets momentum that we can see.

It is going to be helped also by rates. If rates indeed go down slowly, that will help the valuation of our fixed income book, but also private assets books. So that will obviously generate more revenues, and we will continue to be very focused on expenses. That is the reality. So we maintain the target, but clearly it is a challenging target from the point we are at here. And let us not forget once again that we have been very conservative, not utilising performance fees because we are a relatively big private assets house. So, yes, I

mean, we are progressing on that target. I am pleased with the progress, and we want to progress further for the next half and obviously next year.

**Kathryn McLeland:** And so, in terms of the BPA volumes, we have not updated the original guidance that we gave, which was originally around £1-1.5 billion, offsetting the decline in the book. I think we have obviously, until now, just done the traditional BPAs using the shareholder balance sheet. Again, as we look to use that quite meaningful surplus in With-Profits on the £6.8 billion, we will refresh guidance. We do not want to update that now. So, I think for now, £1-1.5 billion across all types of BPAs.

But certainly, as you said, that the opportunities longer-term are for quite a bit more meaningful impact and meaningful increase across all of the products that we are launching. Not just either the capital-lite BPA using some of the surplus capital for guarantees from the With-Profits Fund, but also for, of course, the shareholder balance sheet. So the volumes across the product range are likely to increase. But for now on BPAs, we will stick with the original target.

**Luca Gagliardi:** And the last question was on PruFund, and level of rates, what level of rates do you think are conducive to PruFund on business, what is the right environment?

**Andrea Rossi:** Well, I mean, so we are talking about the UK here. Rates are still relatively high. I think people are still buying government bonds and keeping money in cash. I believe the second half will still see some structural headwinds with that rate.

But if rates go down a bit further, which is expected, hopefully in 2025, I think there will be interest once again for PruFund. And let us not forget we have the rates, but we also have the access, as I said before. We want to put PruFund more out there in terms of distribution, whether it is on more platforms, whether it is increasing the tied advisors or IFAs.

So, yes, I think in your modelling, you should probably look at 2025 as growing again. Second half very similar probably to the first half in terms of PruFund sales.

**Abid Hussain (Panmure Liberum):**

Two questions, I think, both on BPAs. Just wondering if you can share any more colour on what capital-lite BPAs look like? You have touched upon it, but just any more detail in terms of how does it meet the requirements for the pension schemes and whether peers can replicate this product. It sounds like they cannot if you are utilising the With-Profits Fund.

And then just the second point on this is, in the past, capital-lite has also meant fee-lite, which, I think, is Andrew's point. And just so, any more colour on what the IRRs are, but also the pound amount, the absolute amount of profit that you can generate and does this actually move the dial? Because I think there has been a concern in the past that these products, sort of longevity swaps, they sound good, they transfer some risk, but actually, dollar amount, pound amount, they do not really move the dial. So, any more colour on that, please.

And then the second one is really a follow-up on the previous question, which is, overall, when you look at the picture, we can see that the balance sheet is very strong. The growth opportunity for BPAs is very strong, but you are not upgrading your volume guidance. So just, is it worth sort of bringing the volume guidance forward here if the opportunity is so good?

**Luca Gagliardi:** I mean, maybe, let me answer the last one first. And I think, look, let us do £1-1.5 billion and let us launch capital-lite, and then we can come back talking about refresh guidance, right?

I think it is one step at a time. We re-entered the market less than a year ago. So, it is also about trying to go step by step. That is effectively the answer.

Then on the capital-lite and fee-lite.

**Andrea Rossi:** Yes. Clive, why don't you give us a little bit more colour?

**Clive Bolton:** Hi, thank you. And it is a good question. If I just go through both scenarios, then we can see how it impacts the shareholder.

So, the capital-lite deal with sponsors would involve reinsuring back to the sponsor, as we said earlier. So that would be capital-lite from a M&G shareholder perspective because the other risk-taker would be the sponsor and their captive, which we would facilitate for them. M&G would run all the money. So, for the percentage of the BPA that remains with us on our balance sheet, we would expect to earn a normal BPA-type return. And you would see it as normal BPA metrics. The advantage for us, I think, is two-fold. Firstly, we think the market is changing and that the sophisticated sponsors who think their funds are in surplus and understand risk do not necessarily want to see the profit in just like a one-point transaction. And therefore, we are quite happy to facilitate that. We are a relatively new entrant into the market, and therefore we are quite happy to serve the customers in a way they want to be served from that perspective. We have the other advantage, that, although we carry the risk on a percentage, we run the money on the whole transaction, the whole BPA, if you like, and therefore that is attractive to us, and we get an advantage there.

If you then move away from the other balance sheet being an internal captive of the sponsor, but to the other balance sheet, to the shareholder, being the With-Profits fund, obviously that transaction would look to the outside world just like a BPA transaction, a core BPA. So again, we would have the normal metrics. And just to go through how that value share might work, so there would potentially be a PruFund-like bonus, but it is likely to be small and not our focus of attention. Some of our new products that we are dealing outside the UK are 100-naught because it is simpler from that perspective. So again, the shareholder will run the money for all of it. Secondly, it has actually invested in the BPA business, so it would rent that BPA business to the With-Profits fund. Thirdly, it would be the execution partner, so it would be paid for providing that service and the risk on that service. So, there is operational risk as well as the insurance risk, and potentially there could be a risk share.

I think what we are actually doing is flipping the idea that the customer, which in a buy-in perspective would be the trustees of the pension scheme, would actually interact with the With-Profits balance sheet. And therefore, any reinsurance relationship between the With-Profits Fund and the shareholder balance sheet would not involve the sponsor or the trustees but would be a relationship between the two parts of us. And here you are beginning to see how that becomes our engine for growth as we evolve the relationship between the shareholder execution, running the money, providing the services, and sharing some of the risk. But actually, the policies, if you like, being written from the With-Profits Fund, from the customer perspective.

There was just an earlier question about, I think, the capital-lite that we are talking about with the external sponsor, about what is the regulator's own view of that? And I would just like to say, obviously, we have kept the regulator very informed on all those stages, and it is not gone into the area of, "are you moving money outside of the UK", or "are you trying to do something which is not in the spirit of the various guidance" that they have given us over the last couple of years in that subject.

I hope that gives a little broader view about how we are evolving the business and getting the unique way in which M&G is set up with the With-Profits Fund and the shareholder back into growing the market in these areas that we talked about. Thank you.

**Andrea Rossi:** So, to be clear, I mean, before the end of the year, we are going to execute on the first solution that Clive said. Let us just do that before we start saying how we are going to grow in the whole market. And then, of course, we are looking forward to utilise the With-Profits excess capital in order to do the other capital-lite solution, which of course has enormous opportunities for us. But let us just do step by step.

**Luca Gagliardi:** And we got one question from **Steven Haywood (HSBC) online**.

Let me read it out. What does exiting the advisor platform mean for M&G? And after launching the D2C proposition last year, you have closed it this year. So what is the direction that M&G is taking in retail distribution, and how does the Ascentric platform support the group now? And effectively, yes, how do we think about distribution, the D2C and the platform which we have in part covered?

**Andrea Rossi:** We have covered that, but clearly, we want to make sure that access broadens, and therefore we are going to focus on multi-platform. And from the moment you decide you are going to put your solutions and particularly PruFund on more platforms, there is no real need to keep your own platform. And therefore exiting, there are two things, either it is a sale, or it is a wind down. So, we will keep our options open there, but clearly it is about making sure that we can make PruFund and other investment solutions with M&G as accessible as possible out there.

So, it is multi-platform, but it is also increasing our tied advisors through the academy and also improving the relationship with other independent financial advisors. So, a big focus on that, and of course, a big focus also on the product proposition. I mean we are launching fixed-term annuities, and we are going to add guaranteed solutions to PruFund. All that should help us grow in this big market which we are fully committed to, and we are just reorganising in order to grow further.

**Luca Gagliardi:** Perfect. Thank you Andrea I do not see any more hands in the room, and we have taken the question online.

So thank you very much everyone.