M&GPrudential
Investor & Analyst Conference

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Opening Remarks

Spencer Horgan

Director of Investor Relations, M&GPrudential

Introduction

Good morning everybody. My name is Spencer Horgan, I am the Director of Investor Relations at M&GPrudential. It is a real pleasure to welcome you here to our new offices at 10 Fenchurch Avenue. Today is for the first time, but we look forward to meeting together with you here many more times in the future as we head through demerger and into our new life as a public company. Our ambition for today is to give you a thorough insight into M&GPrudential, its business, its strategy, its unique capabilities and the opportunities we see in front of us. We will also give you a deeper insight into our financials and the new segmentation we will be using going forwards.

I know you will also be very keen to hear about our future financial ambitions, our capital management framework and of course dividend policy. Here we will have to ask you to be a bit patient with us. We will not be discussing those today, but closer to the time of demerger be assured that we will go into these crucial topics in detail.

You will see from your agendas we have a comprehensive schedule of speakers for you, and after the presentations we will have plenty of time to take your questions. In a moment I am going to hand it over to John Foley, our CEO, but before that, to get us warmed up we would like to show you a brief video.

[VIDEO – available via webcast recording]

Welcome and Introduction

John Foley

Chief Executive, M&GPrudential

That tells me two things. One, for the rest of the day we will keep our lips in synch with what we say, and the second thing is I need a haircut. Ladies and gentlemen, welcome to the first ever Investor and Analyst Conference for M&GPrudential. Welcome also to those watching on the webcast, including our colleagues in the UK, Europe and beyond.

Agenda

What we will cover today

As Spencer said, the main purpose of today's event is to give you the opportunity to gain a better understanding of our business. Along the way we will demonstrate that we are in great shape to use the freedom of demerger to grow our business. We will also share our view on the long-term growth opportunity and why M&GPrudential is ideally positioned to capture it. We will explain how we will grow our customer base and assets under management so that we can deliver attractive returns for shareholders. You will hear from most of the Executive Team today as we set out why we believe we have the right capabilities and experience to grow this business at scale, how in the past 20 years we have built a series of new and highly-profitable savings and investments franchises both at home and internationally. Our investment in transformation and merger has given us strong and deep foundations for future growth as we head towards demerger. I think we have something very special in M&GPrudential and our unique business mix.

The new M&GPrudential

What drives us

I want to start by giving you a sense of what drives us at M&GPrudential. It is very fashionable to talk about the sustainable purpose for business. The reality is that we have had the same purpose for more than a century. Put simply, we are here to help people manage and grow their savings so that they have the money they need to live the life they want. We like to think we make the world a little better through how and where we invest our customers' savings. Our customers' money goes into the real economy, not just into shares and bonds but also into hospitals, schools, ports, bridges, solar power and housing. Of course, many of our competitors could say the same.

The difference at M&GPrudential, what makes us exceptional in my view, is summed up by one word: care. Customers want us to care about their finances and to care about some of the same things they do: retirement without financial worry and a high standard of living. They also increasingly care how and where their long-term savings are invested. What is the point of financial security if the planet is dying? As an institutional investor of scale we are in a position to be a force for good. Today our customers expect us to reflect their views on the environment and social values, tomorrow they will demand it.

As Chief Executive of a business whose roots date back to the mid-19th century, I am proud of our tradition of care and how all my colleagues at M&GPrudential strive to go the extra mile for customers. 'The man from the Pru' still resonates today because he went above and beyond for his customers. M&G too has championed the interests of the small investor, introducing the first regular savings plan for mutual funds in the 1950s.

Our challenge today is to continue to show the same level of care but in a digital world, that requires our business to act at scale, at pace and at an international level. Now, if we get this right, and I have every confidence we will, then we can become the best-loved and most successful savings and investments business. That is what makes us tick at M&GPrudential.

A unique business mix

Who we are

Let us move on to our unique mix of businesses and why we describe ourselves as a fund manager with a balance sheet. The Life Insurance side of our business dates back to 1848, which is 30 years before the invention of the telephone. M&G is relatively young, having been founded in 1931 when it introduced the first mutual fund to UK savers. Today as a combined force we are a leading provider of savings and investments, serving more than five million individual customers and 900 institutional clients, with a focus on high value-add savings and investment solutions. We now have an international footprint serving customers in 28 countries from 20 offices around the world. With assets of £321 billion we are also a major institutional investor with holdings spread across public and private markets including major infrastructure.

New financial segmentation

How we see business opportunities

The merger of these two great names in savings and investments requires a new financial structure. Later today Clare will take you through the detail of our new financial segmentation but let me give you a high level snapshot. Essentially we have two business lines at M&GPrudential. Firstly, a £198 billion savings and asset management business which is open and growing. That is everything that is under the M&G brand and the Prudential retail savings franchise anchored by PruFund. David and Joffy will provide more detail on that later. Demerger gives us both opportunity and means to scale this business in our chosen markets, moving at pace, but always with our customary discipline on capital and always focused on profitable growth. After all, that is what I have spent my life doing.

Secondly, a reinvigorated £123 billion heritage insurance business in the UK, which whilst it is closed to new customers, remains vital to our future growth. Our strategy for the heritage business is optimisation: improve customer outcomes, create efficiencies and maximise cash flow. Having these two businesses under the same roof, working together and alongside each other is a source of competitive advantage. Capital from the heritage business underpins capability in the savings and investments business. It is also deployed selectively and carefully to grow this business. Without it we could not offer PruFund and the smoothing of returns. It allows us to see new customer propositions in an agile and cost effective way. Its stickiness, the long-term nature of the assets, enables us to develop new investment capabilities. As I say, we are a fund manager with a balance sheet.

The other point I want to make here is about profits. Of course there is pressure on margin in some parts of asset management but our move over the past decade into high value-add solutions has allowed us to preserve margins across the aggregate of our assets under management. Jack will talk to the resilience of profits in our Savings & Asset Management business when he takes you through the breadth of our investment capabilities.

A series of successful franchises

Our customers

Now, a little bit more detail on our successful record in growing new savings and investment franchises since Prudential acquired M&G 20 years ago. In the UK we have built a new retail savings franchise around PruFund with total assets of £51 billion. PruFund has raised £43 billion of assets in 15 years by delivering reliable, smoothed returns. David will share his vision of the winning strategy in this sector later. We have successfully internationalised our retail management business. Hiring locally and investing in brand, we have gathered £37 billion of retail assets in Europe in little over a decade, almost half our total assets in this business segment. Joffy will explain how we have become a leading fund manager in Europe and how we are looking to take advantage of changing buying patterns among wholesale clients.

We have also grown a £71 billion institutional business. Here we design bespoke investment strategies for clients, often drawing on the expertise behind the £57 billion of private assets. Our pitch conversion rate is 80%. Will Nicholl will demonstrate the value of our patient and methodical approach to institutional business which is characterised by sticky assets and high margin propositions. We have achieved all of this without the benefits of transformation and merger. Imagine what we can do once demerger allows us to be truly masters of our own destiny.

The savings and investments market

Local and international expansion at scale

We already have the international footprint to leverage our capabilities at scale. Here we capture our position by geography. Right now the weight of our assets lay in our home market. Much of this is our heritage book but it also includes the Prudential retail savings franchise anchored around PruFund and the bulk of our institutional business. At the start of this decade our UK mutual funds business grew rapidly. M&G was the best-selling retail house for four consecutive years. Since then, this part of the business has contracted because of a combination of a deliberate effort to slow funds into some bestselling propositions to protect customer interest, changing buying patterns and frankly some patchy performance. Thanks to demerger we can start to attract new flows in this segment as we put M&G product on our proprietary Prudential platform for UK advisors. David will cover this off.

In Europe, including institutional business, today we manage £49 billion. Encouraged by our success in Europe, we have also been quietly building out our presence in other chosen international markets, opening up further avenues for growth. As well as a long-established South African business, we have had offices in Singapore and Hong Kong for almost a decade. More recently we opened offices in Miami and New York to serve our clients in Latin America and institutional clients in the US. Now, it is small scale at the moment, but these are important early steps in scaling our business for the long-term if we choose to expand here. Together with our creation of the Luxembourg SICAV platform, we have laid firm foundations for focused international growth.

Our organisation

A single and integrated company

I now want to talk more about transformation, merger and how we are organising ourselves for demerger. I have said this before but when Mike Wells, the Group CEO, asked me to run the UK Insurance business three years ago I agreed to do so on the condition that shareholders made a substantial investment to rejuvenate it. As you know, we have secured £250 million of shareholder capital to do just that. This five-year programme will deliver cost savings of £145 million by full-year 2022. Transformation is already yielding benefits for colleagues, customers and shareholders alike. Roddy will show how this work is reinvigorating our heritage business, cutting service times for customers and improving net promotion scores.

Merger too has created many benefits. We now have a unified leadership team with a common purpose, joined-up distribution and combined support functions. The result is a more efficient decision making, enhanced distribution strategies, better product design and of course cost savings. Transformation and merger have given us strong and deep foundations for future growth as we head towards demerger.

Your presenters today

This slide shows the responsibilities of each of today's speakers. The point I want to stress here is the collaborative aspect of our business model. It is why we have chosen a circle to capture it. Each of the business leaders have to work with the others to achieve the best outcomes for customers and ultimately drive profitable, long-term growth.

Global demographic trends

An ageing society

As we head towards demerger I think we are in great shape. Of course, it helps that the structural market trends are so supportive. The demographics are on our side. We are all getting older. This will not be news to any of you. The typical retirement is now close to 20 years. Famously when Otto von Bismarck introduced pensions for Prussian workers over 70 the average life expectancy was 45. Good one, Otto.

Retreat by corporates and governments

A widening savings gap

It has taken a while for companies to adjust. Our political leaders have been even slower to respond. If you were in any doubt about the future of defined benefit pensions, take a look at these charts. The key point is that only four FTSE 100 companies still have such schemes, and none are final salary. Even governments are moving on this issue. Across Europe they are set to raise official retirement age by a year or two. It all adds up to a retirement savings gap of a gargantuan scale. The chart on the right-hand side is from the World Economic Forum and shows estimates of the retirement gap for major countries. Right now the UK has an estimated retirement gap of $8 trillion and it is growing. At the same time, people's expectations on living standards are rising.

Putting cash to work

The biggest opportunity

This gap between expectation and reality creates a huge opportunity for trusted providers of savings and investments. Yet many savers continue to keep much of their money in cash. The left-hand chart shows the proportion of household wealth held in cash across Europe. In some countries it is as much as 45% even though at current interest rate levels individuals are often losing money in real terms. Across the European Union there is an estimated €10 trillion sitting in cash, much of which must surely be idle. Nudging a mere 10% of this cash into long-term savings products would result in a €1 trillion inflow into the industry.

Investment engine

Investment solutions meeting customer needs

Why would anyone come to us rather than one of our rivals? Aside from our rich heritage, two well respected brands and a strong record of investment performance, we have the breadth and quality of investment capability and the diversification of savings solutions to attract assets at scale.

This slide shows how we mix and match our investment capabilities calling on our balance sheet as appropriate to fulfil different customer needs. I want to make a few points here.

First, in PruFund we have the ideal proposition for savers who want to take the first step out of cash. Remember, there is €10 trillion of money sitting in bank accounts across Europe.

Second, the breadth of our investment capability means we can pick and mix assets to design bespoke solutions. Institutional clients like our ability to blend private and public assets in a single portfolio.

Third, clients are happy to pay up for such propositions because they directly meet a need rather than offer a vague prospect of returns sometime in the future. This focus on high value-add solutions underpins the resilience of our profit margins in our savings and asset management business.

Now, given that we already have most of the right capability under our roof and the large international footprint, our growth strategy is largely about execution. Demerger gives us both opportunity and means to broaden and scale our proposition in our chosen markets at pace, always focused on solving of customer need and always with our customary discipline on capital.

Customer and distribution

Attractive growth opportunities

Here are the strategic priorities by geography. Let us start with the UK. In the Retail Savings market our priorities are to broaden our market-leading proposition and bring scale to the Prudential advisor platform. For Institutional clients we need to continue to evolve our bespoke solutions and improve our capacity for asset origination. There will always be tactical opportunities perhaps in areas such as cash-driven investment strategies.

In Europe our priority is to introduce our smoothing capabilities to the wholesale market, to complement our range of mutual funds. We will also accelerate the development of our sub-advisory business, collaborating with financial partners to deliver a specific customer outcome. We will expand our Institutional franchise and build up our asset origination capacity. Beyond Europe, we will accelerate the focused growth of our business in Asia by leveraging our existing relationships with global banks. We have laid the groundwork for expansion in North America with the new offices there. As in Asia, we have entered the markets to follow our clients.

Finance and capital

Our financial priorities

As we invest for growth we will continue to take our disciplined and proactive approach to capital management, always in the knowledge that good customer outcomes lead to profitable growth and attractive returns for shareholders. Using the capital investment in our business to transform the customer experience and to bring scale and efficiency to our business.

An international leader in savings and investments

The scale of our ambition

To sum up then, our ambition is to become an international leader in savings and investments, achieving scale at pace in our chosen markets by always being relevant to customers, whether they are individuals or institutions, through the breadth and quality of our investment proposition and the differentiation of our savings solutions. We will also continue to optimise our heritage business, improving customer outcomes, creating efficiencies and maximising cash flow, while deploying its balance sheet selectively to assist the growth of our savings and investments business. Always taking a proactive and above all a disciplined approach to capital management, supported by the demographic shifts in savings and financial self-reliance.

Creating opportunities for our colleagues to grow but above all to the benefit of customers and shareholders alike. We must do all of this without losing sight of what makes us different: the care we show customers and clients. The care we show in how and where we invest on their behalf, always going above and beyond to become an exceptional savings and investments business. Caring for the customer is not only the right thing to do, it also makes commercial sense for a business which wants to thrive for another 150 years.

M&GPrudential's story

Key messages

To end then, M&GPrudential has a unique mix and compelling business proposition: a fund manager with a balance sheet. We have a proven track record for growing new savings and investment franchises, both at home and internationally. Our move into high value-add solutions means we are more closely aligned to customer needs and underpins our resilient profitability. We are reinvigorating our heritage business and we will continue to optimise it, taking our customary proactive and disciplined approach to capital management. Demerger gives us both opportunity and means to grow at scale in our chosen markets in a focused way and so deliver attractive, profitable growth for our future shareholders. Thank you.

Investment Engine

Jack Daniels

Chief Investment Officer, M&GPrudential

Good morning everybody. My job today is to lift the bonnet on the M&GPrudential investment engine and let you all have a good look at what powers our business. In this session I will cover the following: our approach to investing, the span of asset classes we cover, the market trends that play to our strengths and along the way we will go a little deeper into the competitive advantage arising from M&GPrudential as asset owner and as asset manager.

Asset owner and asset manager

However, before we get stuck into the mechanics I want to spend a little time explaining how the investment engine has evolved over the past two decades. When Prudential acquired M&G 20 years ago it brought together an asset owner, the UK Life and Annuity funds, and an asset manager, a third-party funds business. Pretty quickly it dawned on the two teams that collaboration would be to their mutual benefit and to the benefit of policyholders and investment clients. On the one side the deep pockets and a long-term investment horizon of the asset owner has enabled the asset manager to develop and commercialise new capabilities. On the other, the expertise and external focus of the asset manager has brought fresh ideas and a keen awareness of competition to the asset owner.

This is how the investment engine looks today. The combination of asset owner and asset manager, and the collaboration that goes with it, is in our view a source of huge competitive advantage. Set aside for one moment the investment firepower that comes with being an asset owner of scale. What is really important for the commercial development of our business is the client insight we derive from this arrangement. Many businesses look for a cornerstone client or investor, but we are lucky to have one within our own company. This means we can credibly claim to understand the needs of large and complex clients. You can see the value that this generates at work in the next slide.

Innovation benefits internal and external clients

Leveraged loans example

This shows our European leveraged loans portfolio. Today it tops £8 billion of assets, spread across more than 200 clients. The green represents the internal funds and the purple is third-party investors. As you can see, the original investment 20 years ago was made by the Life Fund. Over the following years we built up a track record in the asset class, and this gave us the credentials to market our capability to others, initially to pension funds, the first client making an investment in 2003. Then we launched a pooled fund version in 2005. Today the third-party investor assets outnumber the internal investor by a factor of ten.

Our approach to investing

Let us move on to our approach to investing. There are five aspects to our approach. We always start with the customer needs. What are they trying to solve? What problems have they got, and do we understand their real needs? Second, we look to constantly diversify our active capabilities, often in combination with the strength of the With-Profits Fund. Third, we innovate all the time, whether focused on high value solutions or products for the wider market. Fourth, none of this is possible to do consistently over time without a stable and experienced team. Finally, we encourage our investment teams to act with conviction based on the identification of long-term value. Informing every aspect of our approach to investing is a sense of care. Care in ensuring reliable outcomes for our customers and clients and care in the way we put their savings to work in the market. A lot of competitors can make these claims. What I am going to do today is to show you the evidence.

Industry leading capabilities

Our investment approach means we are a genuine industry leader in some asset classes. These are just a few of our achievements and awards on the right-hand side of this slide. What is really pleasing is recognition for our multi-asset capability. Our With-Profits Fund is not only the largest such fund by some distance in the UK, it is also one of Europe's largest multi-asset portfolios for retail investors. Note too, our standing in private assets, real estate and public fixed income in Europe.

Scale in high-value market segments

Here we provide more detail on the asset classes we cover and a breakdown of our multi-asset portfolio. I will talk a little more about our strategic approach to asset allocation shortly, but I just wanted to point out the contribution of private assets to the mix, which at £57 billion is a little over 20% of the total. This exposure is vital to our diversification efforts and helps underpin the reliability of the returns we deliver for our customers. The breadth of our investment capability, the depth of our expertise, combined with the insights we gain from being an asset owner mean we can remain relevant to our clients even when their needs change.

Strengths in the right places

That is why right now we think we are in all the right places given broad market trends. The search for yield is driving cautious savers from cash to public fixed income and it is driving the more adventurous investors with long-term horizons from public to private assets. While as active investors we might think of volatility as our friend, many of our customers and clients view it as a foe. Growing demand for volatility management favours our capabilities in private assets and in multi-asset. The de-risking of defined benefit pensions is creating strong demand for solutions to match cash flows. Again, this plays to our strengths in private assets and in public fixed income.

Asset owner

Let us take a deeper look now at M&GPrudential as asset owner. Let me quickly recap. Around £174 billion of the assets we manage are held on behalf of Prudential policyholders. Some £115 billion are managed by M&G, while the rest is managed by others. We tend to talk of these as our Life Fund assets. They back our annuity book as well as our with-profits and unit-linked savings solutions.

The role of the Investment Office

Overall responsibility for the management of the Life Fund assets rests with the Investment Office. You should think of it as the in-house fiduciary manager with the aim of providing policyholders and other clients with the best returns in the most efficient manner in line with their risk appetite. In reality this means the Investment Office is responsible for strategic asset allocation, fund manager selection and the implementation of strategy. All this happens within a governance framework where the Prudential Assurance Company Board is the independent body with ultimate accountability and oversight.

Characteristics of the With-Profits Fund

These are the seven criteria we use in the investment process. You all know that we are a conviction-led, active manager with a long-term investment horizon and an emphasis on valuation. I want to draw your attention to the last three columns. Again, here our scale as an asset owner helps. We have one of the largest buy side credit research teams in Europe. Our waterfront coverage of the fixed income markets means we are ideally placed to identify and evaluate opportunities in the credit markets. Likewise when it comes to the premium available from illiquidity. The final column captures our determination not to stand still. Our asset mix needs to evolve in line with markets or better still, ahead of markets. Most recently we have added a Chinese equity sleeve to the portfolio and exposure to African debt. Wrapped around this is a strategic investment process.

Strategic asset allocation

Evolution of the With-Profits Fund

Our approach to strategic asset allocation is critical to our success. It is dynamic, taking into account any material shifts in capital market valuations, which we review regularly. On the left-hand side the chart shows how the With-Profits Funds strategic asset allocation has moved over time. Equities are in red, real estate in green, alternatives in yellow and fixed income in blue. The graphic on the right-hand side shows how well-diversified the current portfolio is, both by asset class and by geography. You can see, for example, how we have moved away from developed market sovereign bonds to global credit, and reduced exposure to the UK and increased it to Asian equity and real estate. Our aim is always to give ourselves the best chance to generate positive returns whatever markets do. Our size and diversity helps us to achieve this.

With-Profits Fund delivers superior outcomes

Of course, this is all aimed at delivering superior outcomes for our customers. There has only been one five-year rolling period since the Second World War when the With-Profits Fund has failed to deliver a positive return and that was in the depths of the 1970s oil crisis and bear market. On the right-hand side of this slide you can see the performance of PruFund since 2006. My point here is that it has done exactly what it says on the tin. It has delivered a smooth performance over time. The grey almost horizontal line is cash, the green represents inflation and the red shows the industry benchmark for similar multi-asset growth funds. PruFund is comfortably ahead of all of them.

Management of shareholder annuities

Before I move on to talk about our role as asset manager, I want to touch on our strategy to optimise the shareholder-backed annuity book. We have steadily de-risked this £25 billion portfolio seen here without the assets transferred to Rothesay. The chart on the left shows how the risk profile has changed over the past three years. Today 79% of the portfolio is in risk-free or secure debt, compared with 67% in 2016. Credit risk remains good too with 86% of the portfolio rated as A or higher. Note too, the rising proportion of private assets, possible because our extensive fixed income coverage enables us to identify and value opportunities across the entire market. As well as de-risking the portfolio, the change in profile has had a positive impact on our capital position.

Asset manager

Now let us look at M&GPrudential as an asset manager. Again, a quick recap. We are an asset manager specialising in active, high value-add solutions. Our £265 billion of assets are held on behalf of retail, wholesale and institutional clients including the Life Funds.

Growth in third-party business

Back in 1999 when Prudential acquired M&G the overwhelming majority of our assets under management were from the Life Fund. Today the majority of assets we manage are for third-party clients. Assets managed for third-party clients has grown from £24 billion in 2003 to £147 billion last year. That is a fivefold increase entirely organic in its nature. Behind our success has been the breadth of our investment expertise, lots of product innovation always focused on customer needs and a consistent record of long-term investment performance.

Depth of investment expertise

This slide gives you an overview of our investment capabilities, their scale and how they align with differing customer needs. We have talked about our capabilities in public fixed income and private assets, but as this slide shows we have critical scale in other asset classes such as equities and multi-asset. While we are known in the institutional market for our fixed income capabilities M&G's origins lie in equities. For much of its near-90-year history M&G offered a range of equity strategies through mutual funds often directly to savers. I think it is also worth highlighting the size and the scale of our real estate capability. With assets of £28 billion, we are one of the largest investors in property and either number one or two in the UK depending on whose data you look at.

Successful record of product innovation

The diversity of our investment capability allows us to manufacture a wide range of product for both retail customers and institutional clients. Here you can see how we have successfully taken good investment ideas and turned them into a series of multi-billion pound funds and strategies. We have no fewer than 14 distinct strategies with at least £2 billion of customer money in each. Now, you are probably familiar with Optimal Income, a bestseller with our European retail customers. Less well-known is the similar success that we have had with Alpha Opportunities, a multi-asset fixed income strategy in the institutional market. Whilst both have distinct investment strategies, both managers call on the expertise and insight of our large credit research team to inform their decision making.

New ideas are the life blood of investment, and the truth is we are never short of ideas. On the right-hand side of this slide you can see some of our recent launches. Most of them are solution-type products designed to meet a particular customer need. Some we believe are firsts. As far as we can tell the Impact Financing Fund for institutional clients is the first social impact strategy applied to private assets and because the recent crop of new launches are either solutions or invest in private assets they come with decent profit margins. Of course, you can have the best ideas in the world but what really counts is your ability to commercialise them. Do they address a customer need?

Consistent ability to anticipate market demand

I am pleased to say that the hit rate of our new launches is almost twice that of the industry as a whole. 60% of our mutual fund launches over the past decade have either been partially successful in that they have raised £100 million or entirely successful in raising £500 million, within three years.

The Global Dividend Fund is a good example of this. Through company meetings one of our fund managers realised that companies with progressive dividend strategies were much more disciplined about capital management. As a result they have good total return profiles. He set up a global portfolio of companies with long-term track records for dividend growth, rather than the classic approach of a spread of high yielders. It has been a great success with European retail clients, and today has £5 billion of assets under management.

Strong investment performance

Now, of course performance is crucial for any active manager. More than half of our mutual funds have delivered top-quartile returns over the past three years, and almost three quarters are ahead of the average over the same period. In the segregated and pooled fund market around 90% of our products achieve their objectives year-in, year-out.

Resilient fee margins driven by solutions

Now, as I mentioned at the outset, current market trends play to our investment strengths. Then combine this with a focus on innovation to meet customers' changing needs, and the result is that we have been in a far better position to protect our profit margins when so much of the industry is under pressure from low-cost passives. We have also been able to make the shift from being a provider of low-value building blocks for financial partners to also a provider of high-value investment solutions. Margins across our assets under management have actually risen over the past three years at a time when most active managers are being squeezed by the passives. Of course we are not complacent about this. There is margin pressure on some of our funds, but it is evident that clients are willing to pay for solutions, particularly those which bring some form of volatility management.

Positive market outlook in our core areas

If you look at the forecast for global growth in asset management revenues, you can see that we are strong in all the right areas, particularly alternatives and solutions. This is industry data on forecast revenue growth, and I would like to draw your attention to the bottom box in green. While passive houses are attracting vast inflows, their share of industry revenues will remain low and growth there is obviously slowing. Meanwhile alternatives and solutions will continue to account for a larger and larger share of total revenues, 55% of the total, which is a $60 billion growth in revenues over five years.

Confident about the future

That is one of the reasons why we are so confident about our growth prospects. First, we are experts where it matters. We have an established presence in segments where credible expertise is scarce and where the threat from passives is limited. Second, our consistent track record. We have a reputation for meeting our client's expectations and often going beyond those expectations. Third, a focus on high-value solutions. Whilst we still offer building blocks in terms of funds and strategies, more and more of our business is in high-value investment solutions. Fourth, the market dynamics are supportive. Demand for our capabilities, particularly in multi-asset and private assets, is growing.

Investment engine

Key messages

That was a quick look under the bonnet at the investment engine of M&GPrudential. To sum up I would like to ask a question. If you were running an asset management start-up, what capabilities would you want for the first day of business? I can tell you that my list would be pretty similar to the one we already have. I think we have the right investment capabilities with great access to customers and client insights, supported by market trends and a track record for commercial innovation, in sectors where margins are healthy, all under one roof. Thank you.

Institutional Deep-Dive

William Nicoll

Head of Institutional Fixed Income, M&GPrudential

Introduction

Morning everybody. My name is William Nicoll, I run the Institutional Fixed Income business here at M&GPrudential. I have been with M&G for about 15 years so have been working here for a while. The institutional business has been a core part of M&GPrudential ever since Prudential bought M&G in 1999. Historically this has mainly been focused on the property and fixed income markets as these are the growing areas of the institutional investment. Today I am going to discuss how we have built the business with £70 billion of third-party assets and why this is going to remain a key focus for the current business and to growth prospects for M&GPrudential. I will also go through some of the characteristics of the institutional market which are highly attractive to us, including the large barriers to entry, the size of the market and clearly the good growth prospects.

What we mean by institutional clients

However, before we go on I thought it would be useful to stop for a few moments just to agree on what we mean by institutional clients. We know that everyone defines segments of the market slightly differently and this is unlikely to be an exception. When talking about institutional clients some of you might be thinking about pension funds, some insurance companies or some corporates. Rather than trying to draw a comprehensive list of what is and is not an institutional client, what we have decided to do is categorise them, based on core characteristics that they all share.

These characteristics matter because they affect the psychology of the buying process. You need a different approach to be successful. The main features of institutional clients for us are, first, they look after their own assets. Second, they are often looking at funding set liabilities, such as pension or insurance cash flows. Finally, there is usually a strong regulatory background with some sort of fiduciary duty to someone or something.

Retail and institutional markets are not the same

These characteristics mean that institutional funds do not act in the same way as retail clients. The industry is set up to protect wealth and to make a small number of significant decisions, which means that we need to build relationships of trust with our clients given that we hope to be working with them for decades. Indeed, taking a couple of years to work to build up to a mandate is not in any way unusual for us. All these characteristics mean that once you have a mandate from a large institution it tends to stay, and it tends to grow.

The institutional market is attractive

Building such deep relationships takes a lot of effort so why do we bother? Very simply, as shown here, it is because a relatively small number of institutions globally control an enormous amount of money and this is growing strongly. Even if one were just to keep the same number of trusted relationships then you have still got significant growth. Now, unfortunately we are not the only people to have noticed this, so it is important to be able to offer a service that clients actually want and are willing to pay for.

A differentiated approach

To succeed we believe first you need to be different. Asset managers tend to say that they are fundamentally driven with a top-down macroeconomic overlay. The idea being that they can achieve returns from all possible drivers within, say, the fixed income markets. We tend to have a different approach for institutional clients. We have a fundamental bottom-up approach and that is it. We do not tend to use economists because they are not always right. We mostly build up portfolios asset by asset. For example, another way to think of us in the fixed income market especially is as an operation to build credit ratings, to find credit ratings on assets.

Once you have credit ratings on the whole universe of assets and you know the price then it is much easier for portfolio managers to build an appropriate portfolio for the clients' needs. That is the care that John was talking about earlier. This has meant is that we have built up a very large team of credit analysts with a highly detailed knowledge base and with a long experience in the market, which is a fantastic barrier to entry for our peer group. The discipline of building portfolios based on fundamental views for the long-term is what has been at the heart of our success and it is much easier to produce predictable results, which is generally what clients need.

The other way to differentiate is to offer products that other people cannot. Again, our large team of analysts allows us not to be scared of new markets and different asset classes. That in turn means that we can innovate together with the sales team to offer novel products that produce solutions for clients.

Finally, and I do not think this should be particularly surprising, complete honesty works really well. We are happy to tell clients when we do not believe their strategy will work. That sometimes means that we do not get the mandate that they are offering but we do tend to get them a few years later, especially if the strategy did not work. At the very least, clients want to hear our opinion, and that is half the battle. To be clear, all of this is vital. Investors need a reason to let you manage their money. Offering a diversification approach is a very good reason, whether it is from how we construct portfolios or because we have a wider asset pool to offer or even just because we can combine the assets in different ways.

Solving clients' problems, not selling funds

Once you have something that is different from the rest of the industry, then the second condition for success is that you now need to know what your clients want and need. As you can see from this slide, from the outside it looks like consultants are the gatekeepers of all this money, especially in the UK because they are an integral part of the chain. However, it is quite clear that unless you have already worked out what the client actually wants, then you run the risk of producing products that clients do not actually buy, even when working closely with consultants. We found out the best way to do it is to find out what is needed by the clients and educate consultants if necessary. We have most success when we take ideas that we have worked out with a few clients to select consultants and then build the propositions together. You will never be successful in institutional fund management by telling people what they want.

Innovation is core to our proposition

Let us see that model at work. In 2014 we were the first people to set up dedicated multi-asset private credit funds, an idea that came from client conversations. As I said before, in fixed income we spend a lot of time to put credit ratings on all assets whether public or private and it is therefore relatively simple for us to start building pools of assets to produce the cash flows that pension funds need. Once we had worked out which pools of assets we were going to use we spent six months discussing the idea with a few clients and consultants, and a further six months educating the market. Finally, we brought out a fund and that took about six months to fund.

The second fund was much easier, with only a small amount of education and a short fundraising time. In both cases the success rates from pitching, as John said earlier, was around 80%, which is extremely high. Putting this in context, most beauty parades for institutional mandates will have between three to five participants so you would really expect a 20-30% natural success rate. The next fund we hope will be quicker still because we have £500 million of indicated commitments already for a fund that does not yet exist. This cumulative build-up of mandates through innovation is we believe a key competitive advantage for M&GPrudential.

This dynamic also explains why the external business has been able to grow so strongly over the past decades. We have a differentiated set of strategies with excellent long-term relationships that have grown faster than the market as we have been offering clients what they need.

Our long-term partnership approach works

This slide shows the progression of our relationship with one particular client over the past few years, as a good example of what we are trying to achieve. As you can see, we start in 2011/12 with standard benchmark-type products which performed well and allowed us to have a deeper conversation with the client about what they needed, which led to them adding some bespoke portfolios and more illiquid assets that better matched their requirements. This also has the effect of tying in the clients for a long time. This chart is only for eight years but some of these assets are not going to mature for decades.

I realise in this room that I am talking to equity analysts in the main, but I am by training a credit analyst and a bond fund manager, so apologies. I am going to go back to my comfort zone and describe what can go wrong with the approach. The two main threats that we find to this approach are margin compression and irrelevance. Apart from showing a growth of trust between us and a client this slide also shows how to combat margin compression. The more value that you add for a client, the better the margins. It explains the data you saw earlier from Jack where we managed to maintain margins and in many cases improve them while the industry has seen margins in general fall.

20 year track record of innovation

The second problem is irrelevance, and the way to attack this is through research and development. We have consistently allowed our investors access to markets before the majority of asset managers. This started with corporate credit and has continued through a wide range of investment areas, some of which have grown very large. This means that consultants and clients want to talk to us, whether it is about impact investment or private credit or residential property.

We build solutions that consistently deliver

As Jack said earlier, all of this is irrelevant if you cannot produce the goods in terms of investment performance. These charts show how we have done for our institutional clients. As you can see, we believe we have done well for our institutional clients. When we look at the charts it is important to understand that the objective is not normally the same as a benchmark and it normally includes the additional returns that the client would expect. These numbers are very high, but they are also consistent, so we know we have a strong repeatable process. You can also see that we are consistently moving away from market-type funds to solutions. This has the dual effect of reducing turnover of clients but also means that we can take clients from market-oriented strategies to the next stage of their investment cycle. Thinking about margin compression, it is vital for you to appreciate that 95% of our revenues cannot be replicated by ETFs. We do not have to be defensive to protect against very low-margin funds.

Being a trusted partner brings repeat business

That is the business today. We work with our clients to build products that they need. We then do what we said we were going to do which means that they give us more money to run. This builds the trusted relationship that means they will do more things with us. We all understand this cycle and the interdependence of asset management and sales and so the discipline required to follow our processes very seriously. We have built our reputation slowly and carefully with clients and counterparties and have seen profits flow from that.

On this slide point three is something that makes us very proud. There is no greater expression of trust from a client than when they give us money to run for a new strategy. We are fortunate to have a number of clients eager to participate alongside us in new markets as they develop and while they continue to offer super-normal returns.

Our institutional model takes time building partnerships on trust that pay dividends in the long-term

However, we are also here to talk about the future because that is where it gets properly exciting. This slide shows how we continue to grow in the UK and how long-term trusted relationships have allowed us to grow the business. It is interesting that even after 15 years of uninterrupted growth we are still seeing more business coming into the UK and coming to us as institutions cycle out of equities into fixed income and from benchmarks to solutions. This will remain a driver of growth.

We have implemented this strategy internationally with similar results

We get more excited when we start thinking about the other markets where we are applying the same business model. You can see that we have been successfully building in the Netherlands, Nordics, Switzerland and are just starting in Japan. The fact that all these countries show us the same sort of trajectory gives us cause for optimism that as we make our relationships deeper and more profitable, we will end up with something that looks a bit like the UK. The really striking thing is the limited additional resource that we have put into these countries. We are usually talking about putting a small office of local distribution personnel who can represent the business and guide us to possible clients. As we look to scale the business then we expect to, and have begun to, increase this coverage and step up investment.

New office openings in North America and Australia enable us to tap a pool of institutional assets of ~$30 trillion

Now, when you start thinking about the places that we have not even started to address and which the demerger now allows us to approach, then it gets even more exciting. For example, we have just added distribution coverage to the US and Australia, and we have got really good reasons to be confident these are good prospects. For example, the Australian market has strong similarities with the UK and we know a lot of the consultants there already because they know us from the UK. This means we have been able to generate a lot of interest in our products very quickly with only a small office in Melbourne. The US is completely different. There it is the deep specialisms that are likely to work best but the size of the market means that this can still make a significant difference to our business. A disciplined, focused approach should give us good opportunities to attack several niches of this very large market.

Institutional deep-dive

Key messages

I hope that I have shown that we have built a strong base over the last few decades but that we have plenty of room to grow with our existing clients and our current set of differentiated products. Our aim after the demerger is to expand that client base internationally and continue to innovate for a whole new set of clients with the same level of care. That is what we are preparing for. Thank you.

Customer and Distribution

David Macmillan

Chief Customer & Distribution Officer, M&GPrudential

I have had two iWatch messages in the last 30 seconds. The first one is that my heart rate is apparently dangerously elevated, so we will see how that pans out. The second one said, 'Remember to smile' which must mean that my mother is either here or dialled into the WebEx which is disconcerting to say the least. My name is David Macmillan. I am addressing you today in my role as Chief Customer & Distribution Officer. In this section of the presentation I am going to talk specifically about the UK Savings business within the Retail segment, PruFund, the unique investment solution that anchors our customer proposition, some of the early benefits that our customers are gaining from the combination of M&G and Prudential, and explain our strong conviction that exceptional customer care and experience will ultimately determine the winners and losers in this market. I am also going to endeavour to tackle a few urban myths about our proposition along the way.

M&GPrudential Customer and Distribution

At the heart of our customer and distribution model is a clear and deliberate purpose to become the best loved and most successful savings and investment company. That sounds like a lofty and surprising goal for an asset gatherer and manager, but our customers are looking for something that feels genuinely different to everything else in this marketplace. Our heritage is founded on client engagement, products that solve real customer problems and easy access to guidance and advice. Today we are carrying those same principles through into the design and execution of our M&GPrudential proposition. At the heart of that proposition sits a proprietary manufacturing strategy that is focused clearly on utilising our core capabilities to supply a broad range of savings and investment solutions to our chosen markets.

M&GPrudential broad customer relationships

As I will cover shortly, the merger of our two companies is already beginning to power a new chapter in our evolution as a customer-centric business. By means of recap, we currently serve 700,000 retail investors, over 900 institutional clients, which Will has already covered, and a heritage book of over 4.8 million customers looking after a combined £321 billion of assets under management. The retail business accounts for £127 billion of those assets and that business distributes insured and non-insured solutions through a wide array of financial advisors, wealth managers, platforms, discretionary intermediaries and smaller institutions across the UK and Europe. It is worth pointing out, in the UK this distribution picture is further augmented by the in-house financial planning business that sits within Prudential UK. In addition to those retail assets we manage a further £71 billion for institutional clients through both segregated and pooled mandates and £123 billion in our heritage business through traditional with-profits, annuities and corporate pensions.

Savings and asset management segment

UK retail customers

I am going to cover very specifically the UK savings business. After lunch when you have had a good stretch Joffy Willcocks, and believe you me you will need a good stretch when Joffy is up, will cover the asset management business within the Retail segment and therefore touch much more on Europe as well.

Significant opportunity from dynamic market trends with exceptional experiential innovation at the core

Specifically to the UK then, in recent years our market has evolved dramatically in response to such developments as the Retail Distribution Review and Pensions Freedoms. More often than not, regulatory and legislative intervention has shaped the direction and pace of customer innovation and rightly so. However, it is time that our industry took much more of a lead on the delivery of exceptional outcomes for customers and frankly get its head around how best to build products and services that protect customers by design as opposed to intervention. Customer outcomes, as I will touch on, are at the heart of our transformation as a company. They are the fuel in the tank of our innovation agenda.

Traditional outcome drivers like product design, pricing and returns are no longer sufficient to characterise the breadth and depth of what we must take into account to deliver a superior proposition. Vulnerability, fraud prevention, cyber security and advice play an increasingly powerful role in our design thinking. We see a significant opportunity to further differentiate our proposition by moving beyond the ordinary in customer care and experience.

By way of example, any company in or entering our market today can develop and launch a personal pension product, but how many of them can also offer a customer with dyslexia, say, the support, usability, security and accessibility to deliver an exceptional and truly personal experience for that customer? With our transformative investment in digital technology and design this is exactly where we are headed as M&GPrudential. Just think for a minute about the many sources of customer vulnerability that we could use to inspire our people to build tailored customer journeys, products and services to the benefit of millions of our fellow citizens.

Whilst we are actively expanding our products and our product choices, we regard experiential innovation as the defining characteristic of a winner in our market. Unsurprisingly we are transforming our business accordingly.

Capitalising on market trends via our unique multi-wrapper 'smoothed' solution (PruFund)

Turning to PruFund, our anchor solution, Jack has already covered the fact that it is a truly unique investment solution and a significant source of differentiation for our business. Customers in general do not like volatility, even those with good reason to seek it in their portfolio, but those with a lifetime of savings to protect or income to sustain are even less inclined to turbulence. PruFund was designed and is clearly positioned to deliver good relative returns whilst smoothing out the short-term peaks and troughs of investment markets. It has driven significant growth in customer numbers and assets into our business over the last few years, powered in no small part by the decision to end compulsory annuitisation in the UK in 2014.

As a result, our share of the drawdown market has grown from less than 10% in 2013 to 35% by 2018. That said, one of the myths that has grown up around PruFund is it is only really used as a drawdown solution. Whilst it is absolutely the case that we have a leading share of the pensions decumulation market in the UK, how many people in this audience know that PruFund is available across multiple tax wrappers, including pension accumulation, ISAs, on and offshore bonds and trustee investment plans? PruFund inflows have grown from £1.8 billion in 2013 to £12 billion in 2018 across six different wrappers and it is this multi-wrapper dimension to PruFund that underpins the rapid growth in take-up that we have seen in recent years.

We gather assets directly onto our digital platform, bypassing open architecture platforms

Continuing with my mission to dispel a few myths, there is a general assumption at large that we gather our customers and their investable assets through the plethora of third-party open architecture platforms that have sprung up across the UK over the last 20 years or so. In actual fact, PruFund is only available to our customers and advisors via our own digital platform. As you can see from our asset gathering numbers this has in no way hindered our growth and competitiveness. That said, I suspect there are a few people in the room wondering why in the wide world we have not made PruFund more easily accessible by using these third-party platforms. Fair question so let me answer it in two parts.

First, even if we wanted to utilise third-party platforms we cannot. It is not technically feasible because of the way PruFund is actually constructed. It is by design an insured actively smoothed unit-linked policy written out of a life fund as opposed to a standardised mutual fund or collective. Second, even if we could, it does not immediately follow that we would. Being restricted to our own platform confers a number of advantages for customers, partners and shareholders alike. We retain control, for example, over customer care and experience. We do not intermediate that away. We control pricing in general and the administration margin in particular. We also retain responsibility for our platform technology, its performance and its ongoing innovation, as well as unfettered access to thousands of different intermediary businesses across the UK.

It is perhaps worth remembering in the context of M&GPrudential, because we are not a one trick pony, that through our newly merged retail business we have a large range of mutual funds that are available across all major open architecture platforms, which Joffy will cover, which are designed to meet the needs of customers looking for something very different to PruFund. While it might fly in the face of current market wisdom our PruFund distribution model demonstrates quite starkly, I think, that it is possible for a proprietary manufacturer with a truly differentiated offer to bypass open architecture platforms and retain more control over the commercial value of its intellectual property. Suffice to say, through our transformation investment we are very focused on what else we can do to piggyback more customer solutions into the market utilising that same distribution strategy.

Merger provides broad value chain coverage and proprietary influence over customer proposition

Turning if I may to the benefits of combining our two businesses. We have, I believe, an unrivalled opportunity to take what we previously thought of as Prudential and M&G, and combine our collective strength, capabilities and advantages to deliver an exceptional customer experience. Being able to combine a deep and wide array of asset building blocks, smoothed and unsmoothed strategies, insured and non-insured products, as well as a multi-channel distribution model with our very own multi-wrapper platform, represents a serious and solid foundation upon which we can build our future business.

I could wax lyrical all day about our relative position in the value chain, something I know you do not want me to do. However, I would rather draw your attention to something quite specific, the one capability we have that I suspect will prove to be pivotal if we are to lead the industry on delivering superior customer care. That capability is best defined as direct access to a rich stream of live and on-demand data from customers and the advisory community to help inspire, guide, shape and beta-test our experiential innovation. Our direct relationships with thousands of UK advisory firms as well as our in-house advice business, Prudential Financial Planning, generate a constant stream of data, insight and experience derived directly from those who help real people deal with real problems on a daily basis. I know of no greater advantage in pursuit of unrivalled customer experience than access to real customer intelligence, particularly when it is married to the wide set of capabilities that we enjoy across the value chain as a direct consequence of the merger. We have the opportunity to exert control over the customer experience in ways that few of our competitors can touch or replicate.

Allowing our proprietary fund range to expand to target untapped growth opportunities

To expand further on the benefits of the merger, we are already seeing the direct benefit to customers in the shape of our expanding range of investment solutions. Earlier this year, for the first time in our collective history, M&G OEICS were made available to customers and advisors in the UK by placing them on the Prudential platform. In addition, after several months of collaborative effort with Jack's guys, teams on both sides of this merger came together and launched PruFolio. Now, PruFolio is made up of 15 risk-rated funds. It is a unique blend of three investment styles with active and passive options complementing five smoothed ones, giving advisors the ability to tailor a multi-asset portfolio for their clients that nobody else in the UK industry can do. Founded upon our long-standing multi-asset investment process, PruFolio benefits directly from the underlying scale and diversity of the asset building blocks that Jack and Will have talked at length about already.

Through the remainder of this year we will launch further portfolio options directed in particular at addressing demand for responsible investments and solutions designed to impact particular social or environmental causes. In other words, products that give customers unprecedented control over what their money is ultimately invested in. In combination the placement of M&G OEICS on Prudential's platform and the development of PruFolio represent in my mind a truly seminal moment in the merger and point very clearly to the art of what is now possible as a consequence of our collective focus on delivering superior customer outcomes.

Accelerating transformation to deliver against our objective of superior customer outcomes

Turning now to the business transformation that is currently underway, the cornerstone of that agenda, as I have said, is focused on delivering superior customer outcomes. I want to finish my presentation today by providing you with a powerful example of how we are putting our money where our mouth is in relation to customer care. In decades past, we helped to pioneer the democratisation of financial services. 'The Man from the Pru' was launched on the back of penny policies to serve the needs of the masses. However, somewhere along the line we and our industry became disconnected from the masses.

Today there is arguably no greater risk to our future relevance than the millions of people caught in what is known as the advice gap. We do not believe it is possible to deliver superior customer care without decision making guidance or full financial advice. There are simply too many ways in which customers who choose, or are forced down, a non-advice pathway can cause themselves financial harm without active intervention. Take the act of taking tax-free cash or income from a pension. That is one example of a customer journey that could go horribly wrong without the right support.

This is the reason why we have just completed the development of a digital service that embeds algorithmic guidance directly into customer journeys and transactions. Think of it like the brain in your car that monitors you're driving and prevents you from hitting the car in front or falling asleep at the wheel. Once complete and fully tested, our technology will also monitor and sense and actively intervene to protect the customer from harm, this time in support of their financial decisions rather than their driving abilities.

Now, that probably sounds so obviously sensible that you are wondering why such technology is not already the standard in our industry. The fact that it is not tells you just how out of touch our industry has become. I give it to you as an example of why the winners in our industry will be those that finally figure out that delivering superior customer outcomes is the source of profitable growth and market leadership, and not a box to be ticked along the way. As for our guidance algorithm, that should serve today as a pointed illustration of our intent to reconnect with our heritage and build a business that is centred on customer care.

The transformation underway in this business represents a very significant accelerant to achieving those ambitions. We are investing right now in new skills and a diversity of perspectives to design and build a different way of doing business. Our infrastructure has been completely overhauled to provide the foundations for rich, sensory and frictionless customer journeys that are easily scalable. We are deploying digital technology to make our products and services more convenient, accessible and safer to use.

We are also beginning to work on how we make our products smarter. By augmenting our current capabilities with AI and machine learning, we can see a way of opening up a new frontier in the personalisation of customer care. Our goal is to lead the market on experiential innovation to the benefit of our customers. The transformation investments, that Roddy will touch on later as well, are putting that goal firmly in our sights.

Retail savings

Key messages

Which leaves me with a few key takeaways. We have a very unique and successful anchor product, PruFund. It is a multi-wrapper, not a single wrapper solution, creating broad market coverage. It is only available through our digital platform, bypassing open-architecture competitors. The merger of M&G and Prudential has enabled a programme of proposition expansion beginning with the placement of M&G OEICs on the Prudential platform and the development of PruFolio, with much, much more to come. The transformation investment is creating a business with critical capabilities for the future, particularly around digital technology. I have said it, I will say it again, the winners in our market will be characterised, I believe, by a resolute focus on superior customer outcomes. We already have a unique and market-leading investment solution. Now we want to lead the market on customer care. Thank you for your attention.

Global Retail and Institutional Asset Management

Joffy Willcocks

Global Head of Asset Management Distribution, M&GPrudential

Savings and Asset Management segment

Retail and Institutional Asset Management

Good afternoon everyone. As you might have gathered from the photo, my name is Joffy Willcocks and I am the Global Head of Distribution for Asset Management here at M&GPrudential. What I would like to do now is take you through the part of the business that I am responsible for, namely Global Distribution.

Growing our international footprint

Our job consists of taking our full suite of investment management capabilities, that Jack and Will talked about earlier, to a broad set of wholesale and institutional clients globally. This ranges from high-end advisors and discretionary fund managers, private wealth managers and banks, to institutional clients and consultants, not just in the UK but also around the world. As you heard John and Jack mention earlier, we currently have £321 billion of assets under management and we have gathered them from across 28 markets, thanks to a distribution network of 20 offices. What I wanted to do now is give you a greater flavour of where those assets have come from.

With the UK being the headquarters of our business since 1848, we naturally have the majority of our assets here in our home market. Of the £260 billion shown above, £51 billion are retail savings assets, that you heard David speak about just now, and £123 billion are heritage assets which will be covered by Roddy next. I wanted to focus now on the assets from our Global Retail and Institutional asset management businesses.

Our UK assets are split £55 billion from institutional clients and £31 billion from retail customers. As you can see from the colouring of the charts, at the moment Europe, Middle East and Africa are for us predominantly retail markets, while Asia and the Americas are predominantly institutional. In the Middle East and Africa, M&GPrudential holds a 49.99% associate shareholding in PIMSA, Prudential International Managers South Africa. Now, after M&G was acquired by Prudential plc in 1999 we looked to expand internationally, and in 2001 we launched into Europe. Over the last 18 years we have built up a European book of assets worth £49 billion.

In more recent times we have also led with our institutional offering in markets outside of EMEA. You can see from this chart in Asia, where we have had offices since 2011 and have £7.8 billion of assets under management, our institutional clients there also include Prudential Corporation Asia and the Asia Life Fund. This was also true of our Americas business which is nascent compared to other markets but where we have established our offices in New York and Miami late last year. We have already raised £1.2 billion of assets. That is how we stand today but how have we got to this point?

The evolution of M&GPrudential's third-party assets

This next slide shows the evolution of our assets over the past 16 years and the countries labelled in grey at the top represent the evolution of our distribution office footprint over that time. As you can see, we have grown from an asset base of £24 billion in third-party assets to £147 billion today. The number of offices used to service those assets has grown too, from three outside of the UK and Ireland in 2003 to sixteen offices today. We started in mainland Europe back in 2001, as I mentioned earlier, continuing to spread throughout the region. In 2012 we moved further afield into the APAC region, in particular Singapore and Hong Kong, with Japan coming in 2016. Last year we opened offices in the US and Australia in 2018.

What is particularly pleasing throughout this whole period of time is the extraordinary success that we have achieved right the way through this whole period of time. We delivered that by growing all parts of our book from institutional to retail clients, both in the UK and internationally. The bulk of our success in retail asset management in Europe has come from

Italy but I am going to talk more about that in a minute. We have also made significant inroads in France, Spain, Germany and Switzerland. As you will have heard from Will earlier, the success we have seen with our institutional clients has been in those markets which typically favour institutional type assets, for example, Switzerland, the Netherlands and the Nordics.

However, the main point I really wanted to get across is that we have got proven experience in developing and externalising our manufacturing capabilities, not just to UK clients but increasingly to international customers. Where did this big increase in assets come from?

We particularly enjoyed an increase in mutual fund sales following the deposit rate collapse post the global financial crisis, meaning that savers had to look elsewhere to make their money work for them. They turned to asset managers and the mutual fund universe. Mutual funds today no longer just appeal to investors but also to savers as well. Why did we particularly benefit from this shift? When we first launched into Europe we could effectively look after the wholesale market with one or two people in each major city. In those days the banks would not really let you access their private or retail bankers and essentially the primary route to market was through their fund of funds or model portfolios.

However, post-2008 with the financial crisis and the Madoff effect hurting many of those fund of funds structures, many of these European banks began to open up to third-party distributors through partnerships. In order for us to win these key partnerships we had to demonstrate not just a breadth of product but that we also had a brand and importantly that we had people on the ground, not just in cities in Europe, but also in Asia, where we could offer the same touch, feel and service proposition. We started to hire more people in 2009 and 2010 where most other asset managers were actually reducing their footprint at that point in time. This led to us being eligible for these key partnerships but more importantly for shareholders this meant more funds on buy lists and more assets coming into M&GPrudential.

Now, let me elaborate a little bit more on this point. There was one major bank who specifically asked us to have a distribution presence in Asia and to register our funds there. That was the minimum requirement needed for us to be considered as a global partner. At the time, this particular client had around £750 million with us. However, today we are a global partner of choice as a consequence of that, and this client has almost £3 billion in M&G funds. The importance of this is to understand that when you are dealing with international wealth managers and private banks they operate on a global scale. To be a successful partner we need to service them wherever they are, not just in the UK but in Europe and in America and also in Asia.

Now, we have seen challenges in the past five years. As you will have probably spotted from my previous slide our retail asset base in the UK has seen some outflows in the last few years, and this came off the back of some extraordinary period of growth that we enjoyed between Q4 2008 and Q2 2012, where we were actually the number one fund group in the UK for net sales, for 15 consecutive quarters. It had never been done before and clearly that was not sustainable. We then experienced underperformance of one of our key equity funds as well, which had more of a value style bias in what had been a growth momentum environment. We also decided to slow down flows into two of our UK corporate bond funds in 2012 in order to protect performance for our investors.

Also, whilst we have had huge success in multi-asset funds in Europe the market has been more challenging for asset managers in the UK who do not have their own platform. The majority of flows into multi-asset funds in the UK have gone into platforms with their own multi-asset funds, which are seen as a default choice by many advisors once they have selected that platform. PruFund, as David mentioned earlier, has been the only real exception to this and so of course this is another great benefit of the merger. Now we have an M&GPrudential platform and the PruFolio range where we can capture more of that multi-asset market share in the UK.

Asset management flows 2016-2018

We cannot get through a presentation these days without mentioning Brexit, although it is not a Brexit presentation. However Brexit always crops up and this has also been a key factor because of the effect it has had on markets and more importantly on investor confidence and attitude to risk.

So while our institutional flows have remained more stable, in the UK and European retail space the industry has endured political, macro-economic and market headwinds, which have affected investors sentiment negatively. But as you can see from the charts, our flows have been in line with the market.

2017 was a record year for mutual fund sales across the industry and, as shown in this chart on the right, this lasted until January 2018 before investor appetite for risk collapsed entirely due to these political and macro-economic uncertainties that I just mentioned. And this lasted for the rest of the year with Q4 2018 being the worst quarter for mutual fund sales in the industry since Q4 2008.

So 2019 has seen equity markets and indices rally, but investor confidence has still not recovered. Equity and multi-asset funds in aggregate remain in outflow across the industry this year. The market has also increased allocating to sub-advice mandates where we have not so far played in the UK, but I will talk shortly about the great opportunity we have on the European and global stage.

A proven ability to grow internationally

M&GPrudential Italy

Now let us talk about one of our biggest success stories in Europe, Italy. As I mentioned earlier our biggest market in Europe is Italy. Before the financial crisis we had around £700 million of assets under management in Italy. When the dust stopped falling from the City in the aftermath of the GFC we had dropped less than £300 million, but we did not panic. We instead continued to invest in our Italian business and you can see the massive growth in assets that we have enjoyed since then.

This is of course helped by having some fantastic products; one of which Jack has already mentioned, namely the M&G Optimal Income Fund, which enjoyed some very strong relative performance in the aftermath of the global financial crisis. And as deposit rates fell we were well positioned with our fixed income and multi-asset range to capture assets from savers that were turning to investments rather than deposit accounts.

At the same time, Italian retail distributors also began to open up for third-party asset managers for the first time. And we made the decision in 2010 to enter the retail advisory market and you can see what followed. This has been a huge driver of growth for us over the past nine years, now accounting for more than 50% of our total assets in Italy.

In 2014 we began to engage with institutional clients; as you can see now we have around 3% of our Italian asset base from institutional clients. But more importantly we also entered the sub-advisory market in 2016 and now we have 11% of our Italian AuM in sub-advised mandates and we are projecting this number to increase in the future.

In our view the sub-advisory market is changing the shape of distribution globally. So the key question is, what is sub-advisory?

What is Sub-Advisory?

This is a major theme, spreading out across the globe, driven by a number of factors. Today most fund managers take their existing range of mutual funds and sell them either as building blocks, or in the case of multi-asset funds for example, as a solution in its own right. But in the last three or four years we have been adapting to a new way of working as a result of MiFID II as we saw the same thing happen in the UK as a result of RDR.

The distributors are now approaching us, not just to buy existing mutual funds that we offer, but are now increasingly focussed on trying to access our investment management capabilities to provide a product, a solution, or an outcome that is specific to their needs and to the needs of their clients. This is the world of sub-advisory. We are now tailor-making solutions for our distributors and their clients, accessing the broad range of capabilities that you heard Jack and Will talk about earlier.

So what is driving this? Firstly, the regulatory environment is very much a part of that. As we see in the UK, as we saw in the Dutch market, we are moving to a world where rebates and retrocessions may eventually disappear. The market will need to change shape because no longer can these bank distributors rely on retrocessions or rebates to pay for their banks of advisors. They now need to try and change the charging mechanism and rather than being reliant on a rebate from fund managers, what we are now seeing is that third-party distributors are now creating their own fund ranges in order to charge the fee to the client, where they build the cost of advice into that fee structure of their funds and then approach us as fund managers to run the money on a mandate or sub-advised basis for a specific fee.

Secondly, there is a suitability angle. In the context of RDR and MiFID II there is a greater onus on distributors and advisors who need to make sure that the products that they sell to their clients tick the suitability box. And clearly, if we are designing products in conjunction with our distributors, then we can absolutely demonstrate that we have designed products and outcomes specific to clients' needs.

Thirdly, we are seeing the impact of negative cash rates in many jurisdictions, but especially in Europe. Large banks would typically offer customers, retail customers, 20 or 25 basis points for depositing assets with them. Now if the banks do not use those assets for lending elsewhere then they will probably lodge that money with the ECB and they charge around 40 basis points to the bank. Altogether this can result in a net cost of 60 to 65 basis points on a banks' balance sheet, which you can imagine can run into hundreds of millions of euros in aggregate.

So why is this driving sub-advisory growth? Because the bank can now use these products to offer alternatives to cash and, as such, the bank would no longer have to deposit that money with the ECB. And many of the conversations we are having today with banks are based exactly on this; alternatives to cash, not just in fixed income but in lower volatility, multi-asset products as well.

Lastly economics; many distributors or banks that own their own distributors or financial advisors have realised that there is actually greater economic value to their business in owning their own fund range and not just advising on third-party assets. If they actually have their own fund range and ask asset managers to run the mandates for them, then their business model becomes effectively an advisor and asset manager vertically integrated enterprise. And the market tends to recognise this for the higher multiple awarded on the value of that business.

So for me and for us these four drivers are absolutely changing the shape of distribution for us globally. We have seen it happen in the UK, and whilst we did not fully capitalise on the trend here, we want to make absolutely sure we capture this opportunity as it continues to take off in Europe, Asia and in due course the Americas.

Sub-Advisory markets present a huge opportunity for M&GPrudential

Now one of the key questions might be how big is this opportunity? Well today the market in Europe is just under €600 billion according to InstiHub and this is predicted to grow to €1.7 trillion over the next ten years. And this is not an unreasonable expectation considering the US non-affiliated sub-advised market is now already approaching $2.9 trillion.

So how do we plan to turn this into a business opportunity for M&GPrudential? We do what we have done before and we use our proven ability to grow internationally and to adapt to new distribution models. This distribution model will become far more institutionalised in terms of the amount of due diligence required by these global distributors who are now looking to act as sub-advisory mandates. It is not dissimilar to a traditional investor and, as you heard from Will before, we are experienced in this area and we are going to apply the same institutional pitch process and logic to the wholesale distribution business.

And also thinking creatively about how we blend different parts of manufacturing ability, we are going to effectively democratise what was hitherto called institutional asset management by blending both public and private strategies into products that can deliver the right customer outcome, and this is a clear benefit of the merger.

Finally, to win this space it is absolutely key to work hand-in-hand with our global distribution partners. We have seen that once you set up a sub-advised mandate with a global distributor the chance is very high you will be given the opportunity to pitch for the next mandate. And working well together with our distributors can lead to M&GPrudential becoming a partner of choice, often being their first port of call for all future mandate business.

Now yes, the margins for this distribution model are lower for the asset manager but studies conducted by InstiHub suggest that they are statistically much longer, five or seven years perhaps, compared to the persistency of funds held in say a fund of funds structure, which might be a two or three year persistency. And also the size of these mandates is often much larger, meaning that the embedded value of these assets is much higher to M&GPrudential.

Drivers of growth

So what do we see as the major drivers of growth going forward? Now I have already spoken at length about sub-advisory. The last thing I will say on this is that this is not just a trend change, it is a fundamental shift to the distribution model and in ten years we predict that the revenue split between mutual funds and sub-advisory will be vastly different; with revenue increasingly being derived from the sub-advisory space. So it is absolutely important to win here, and we are very well positioned to do this over the next few years.

There is a chance to really respond and to create products with our key global banking partners and to capitalise in this growing market. In order for us to maximise this opportunity, we have now created a dedicated team, purely focussed on investment solutions. And in fact to that end we recently hired the Head of Investor Solutions from BlackRock to head up this team.

Within a few years we think ESG will be a given. Every single asset manager will have had to integrate ESG into their processes. So the important thing for us to think about now is how do we differentiate ourselves from the competition in the future? It will not just be about returns. Increasingly a generation of investors, not just millennials, are focussed on doing something good, making the world a better place as well as generating returns on their portfolios.

In fact Steve Cohen, one of the biggest names in investing, speaks about the three ages of investing. The initial period from 1920s was all about returns; this moved on to focussing on risk-adjusted returns from the 1970s onwards and finally, post the GFC, we are now moving into the investing for good era. It is not just about avoiding certain stocks, but also investing in those companies that will make a difference to the world.

And this is corroborated by a study conducted by Impact Investing, which suggests that sustainable funds are set to attract around £330 billion in new money in Europe alone in the next five years.

So to this end, we have started to think very deeply about this over the last few years, to ensure that we have a range of products that suit the needs of future generations and which have a positive impact on society. And this has led to the creation of a range of a sustainable and impacting team and the launch of various strategies across M&GPrudential already, with more to come in the future.

Moving on to smoothed returns; to smooth a products return asset managers would need a large balance sheet. But, as many of you will know, asset managers are typically cash light businesses and so hence the struggle. Now, as David already mentioned, PruFund has been a phenomenal success for us in the UK, delivering those smoothed outcomes that many investors want in retirement phase, or as alternatives to cash.

And we now have a fantastic opportunity to think collaboratively and work together as M&GPrudential to take this successful proposition of PruFund into Europe, and hopefully into Asia and the Americas in the future. It has been a silver bullet for these sorts of investors and so the opportunity to extend that internationally after the demerger is a huge one for us as a business.

And lastly cross-selling. Historically we were organised as an institutional management business, with institutional distribution and a retail wholesale asset management business with wholesale retail distribution. Today we have one investment engine and one distribution business, and this gives us the chance to take all products to all customers, subject to the usual caveats of suitability, liquidity, price, etc.

But this means that from our perspective, even if we were not to find a single new client, we have an extraordinary opportunity to extend our institutional success into the wholesale space and extend our wholesale success into the institutional space.

And it goes back to what I referred to earlier, there are increasing numbers of global wealth managers who are looking for access to a liquidity premium to generate as higher return as they can get from just investing in the public markets. And again with extraordinary depth and breadth of our manufacturing ability we have a wonderful opportunity to build products that meet our customers' needs in this space.

Priorities by region

Now as I spoke about at the beginning of this section, the UK is a mature but significant market for M&GPrudential, and we are a leading player in both the retail and institutional markets here. We look to maintain our existing position, consolidate our strength and evolve the products over time as the needs of our clients change.

In the wholesale space we have raced to re-focus the distribution team to reflect the changing business model of our clients as a discretionary part of the market in the UK is becoming increasingly important and influential.

In the institutional market, increasingly the focus now is on specific opportunities that Will mentioned earlier, such as cash for dividend investing, solutions and private assets. And we use this strong base in the UK and revenue stream to drive our global expansion.

The European region continues to drive short and medium-term growth, cross selling where possible to enhance the market share and capitalising on the key themes I have touched on before.

And the same can also be said for our expansion plans in Asia. From our offices in Hong Kong and Singapore we will continue to focus on regional and private banks where there remains strong demand for investment management capabilities. And in Tokyo we will continue to grow our institutional client bank there.

For Australia and the Americas we will use our proven track record of expanding into international markets, both institutional and in the retail space. And we have now also set up an operation in Miami to service the US offshore and Latin American markets. The world is now globally interconnected. Key partnerships with distributors will help us to broaden our distribution capabilities into these new jurisdictions and to be able to offer a global service to these global wealth managers.

And the US, it still represents the largest asset pool in the world, especially in the institutional space. And now by having a dedicated resource in New York this will allow us to access that market as well.

So from my perspective as I look at the map, we have a fundamental core strength in the UK where we are a leading player. We are continuing to grow rapidly in Europe and over the medium term this represents the strongest opportunity for us and this strength allows us to invest further into Asia and into our chosen markets the fastest growing asset pool, and the Americas, as I just mentioned.

Key messages

So to conclude, we have a strong brand and presence in the UK and a proven track record of internationalising our business. Through the merger we now have a joined up investment edge in and we can take more products to more clients on a global basis. We have a strong global and local coverage, with local people based in local markets.

If you want to be successful in any market you need to be part of that local community, and increasingly regulators are also encouraging more local activity on the ground. It is my real belief that asset management remains the Pentium chip inside. We have the responsibility for looking after people's long-term savings and I think we are in an excellent position to capitalise on this and to grow internationally.

Thank you very much. I will now pass the baton to Roddy to talk about the heritage book.

Customer and Distribution, Heritage

Roddy Thomson

Chief Operating Officer, M&GPrudential

Introduction

Hello, I am Roddy Thomson; I am the Chief Operating Officer here at M&GPrudential. I have been part of the team here for nearly two years and my role is all about setting up the right operation, IT and supplier strategy to really get behind our transformation plan and deliver it to enable our business to be successful.

I am accountable for ensuring we deliver all of our externally communicated transformation targets, and that we build the capability that really supports the growth of our business going forward. I am also accountable for the transformation of our heritage business, which delivers around about 20% of our overall transformation cost savings and that is going to be the focus of a lot of the presentation today.

Our business transformation is designed to deliver real outcomes to our customers

We have really focussed our transformation on delivering for all of our customers and our customer segment, be it retail, institutional or be it our heritage segments, we are really looking at real things for those bits of the business.

And there is a set of transformation levers that we are really focussed on to deliver improved outcomes for those customers and we have got to transform our operation and technology environment to make sure we can serve those customers the way they want, when they want.

Let me just take you through each of these levers in turn. The first one is really focussing on how we deliver a great customer experience by equipping our people and our customers with the tools they really need to deliver great service. And this has required us to look end-to-end at our business in a different way; moving away from a more transactional led process to a real understanding of that end-to-end customer journey.

The second one is about digital and digital enablement. That is really to allow our customers to be served how they want, when they want and also allows us to really embed a lot of that richer guidance and support for customers that David talked about in his slot and we think that is vital.

The third one is simplicity. We have been in business for a long time and we really need to simplify our IT and operational estate. There is new cloud-based technology, new best in breed applications that really allow us to standardise and scale our business in a different way. And we are doing that utilising key partnerships to also significantly reduce our total cost of ownership.

In our heritage book, this is also about allowing us to verbalise a lot of that cost base and get ahead of policy run-off to move that fixed cost to marginal cost that falls out ahead of that book in run-off.

And the last one, by no means least, is how we produce a lower risk business and we are really looking at not just how we take risk out of the business but also increase the resilience of our business. Looking at that process end-to-end, looking at how we make the manual controls automated and designed into the process, looking beyond traditional business continuity and disaster recovery to operational resilience and how we really create a safer more shock-proof business into the future.

I am sure you will agree that these levers are fundamental to all aspects of our transformation and the customer outcomes we deliver, the level of efficiency, the level of effectiveness we can operate at. And partnering with industry leaders to deliver these outcomes really allows us to catch-up and get ahead.

Today’s focus is on the heritage business where a lot of our corporate pension customers, individual pensions and life customers are served. And we started planning for this transformation around about June 2017; we have been in delivery now for over 18 months. In the future we will share a lot more progress across all of our segments and a lot more about the transformation there.

The transformation of our heritage book

So firstly the heritage book, what is it? We have around 4.8 million heritage customers; they have about 5.5 million policies with us. It is an extremely strong and loyal customer base. Of those policies over half relate to pension products, both in accumulation and decumulation, post the transfer to Rothesay, we have about 1.2 million annuitants, 1 million individual pension policies and a further 500,000 corporate pension scheme members.

Another 500,000 policies are in investment bonds, with a similar number of other life and endowment type plans. We also have 2 million industrial branch policies; these are the traditional 'Man from the Pru' policies sold door-to-door with premiums often collected in cash. These policies are generally whole of life or endowment plans and we have not sold them for many years, but we continue to serve them.

Altogether the heritage book accounts for about £123 billion of assets under management; it really is the bedrock of our business. Of this £85 billion, close to 70% relates to traditional with profits business; a lot of this business is really sticky with good persistency rates and some of the heritage books, whilst not open to new business, are open to top up and contributions. On average our individual pension customers are around about 57 years old, and our corporate pension customers are a little younger at 55; so a lot of life and a lot to manage in continuing to serve in those books.

Our challenge has been to really raise our game and ambition in service delivery. Post the introduction of pension freedom our world has changed, and customer expectations have changed, and the transformation is about fundamentally upgrading our service delivery and equipping the people and our customers with a radically simplified industry leading toolkit.

We will move from 14 policy administration systems to just 1

Up on this slide we show the systems on which our heritage book is currently run. There are lots of them, it is complex and many of them have been in place for over 30 years. And as a consequence of this our total cost of ownership for IT and in making change is extremely high and the cost of making changes to the estate is also significant.

At the heart of the transformation is a commitment to fundamentally simplify this estate and in doing so transform our customer cost and control outcomes. The cost equation here is really simple, verbalising that book ahead of policy run-off, radically reducing the number of systems and applications on which we are reliant and in doing so, radically reducing the cost of delivering change and being regulatory compliant going forward.

We signed a 10-year partnership with Diligenta to provide proven digital and PAS migration expertise

To do that we have really focussed on the operation and what we need to do. Prudential first outsourced the bulk of its operations to Capita in 2008. This was a fairly typical first generation BPO deal and considered against the outcomes of the time it delivered fairly well. The primary ambition for the arrangement was one of cost certainty and the customer context we now operate in is completely different.

Delivery of the transformation programme with Capita was only partially successful and we have been continuing to rely on these legacy systems for far too long and that is something we have really looked into. When we set about looking at how to tackle this challenge we undertook a full market appraisal to understand the right capabilities and the right partners.

We spoke to their customers; we really listened to what they had to say and what they delivered, not in slides but in action. And that extensive process led to the appointment of

TCS and Diligenta as the UK regulated entity to be our transformation partners in this space. Our partnership is based on great operational capability, leading digital skills, real technical expertise specific to the industry and deep policy administration and knowledge of how to do these migrations gained from actually migrating 12 million customers.

And it is those learnings that really power us forward. We have also stared at how we operated with Capita and we have also stared at the management of a relationship and how you really work in partnership with someone and that has been integral in looking at how we work with TCS.

As part of the strategy definition for the operating model we have really looked at how we streamline all functions and how we work together as one integrated operation to deliver for our customers and deliver those customer outcomes. And that means we have really simplified how we do things and really changed the way we oversee that partnership and relationship.

As you can imagine, doing that is not without significant people change; over 2,400 colleagues have transitioned to Diligenta or TCS from Capita and from Prudential over 600 have moved to also be part of that operation with Diligenta. This includes our annuities team as well as our change and IT teams that look after a lot of this legacy estate.

We have already seen a significant step forward in operational performance for our customers and that is driven in no small part by the great leadership and support in operations that we have had since we have made that transition.

Our Road Map for delivers significant customer outcome benefits and cuts total costs of ownership by 50%

This is our road map for the transformation. A lot of it has been delivered rather than it being stuff we would like to do. We have made some really good progress and completed a lot of the underpinning infrastructure.

We have replaced our old Capita and Prudential telephony infrastructure with a new single platform for customer calls. This includes an interactive voice response, IVR capability, automated identification and verification of customers. It also increasingly allows customers to complete simple transactions without needing to speak to an agent.

Delivery of digital foundations here have also been really, really important and I will talk in a minute about our new MyPru platform. And that digital functionality we are looking forward to rolling out completely across all of our customer journeys in top-ups, claims, servicing, bereavements and across our complaints journeys.

And at the heart of that is BaNCS, which is the industry leading TCS asset, which will be a single policy administration and CRM tool that also provides the workflow across all digital and servicing channels and really gives us for the first time that complete 360 degree view of the customers, and helps us move to that journey based thinking, improving the end-to-end experience and outcomes we deliver.

We have the commitment and capability through our partners and internally to deliver this rationalisation of the system infrastructure and that is forecast to reduce our IT costs of ownership by over 50% by 2022, as part of the total cost savings in our heritage business that we are aiming for of £60 million in that time.

Now the first platform we are migrating is the SALAS platform; it has been with us a long time. We inherited it at the start of the ScotAm acquisition. It is the first to be migrated. It is the most challenging migration because on it sits our highest value and our most complex products and we are well on the way to that and looking to migrate it in the next couple of months. That will see half a million customer plans migrated to the new BaNCS platform and we are leveraging TCS's tried and tested methodology here, which really takes a lot of risk out of the migration.

In the first half of 2020 the next migration will then move through and be completed, which is for our corporate pension customers, who are currently administered on the Capita HartLink platform.

Significant improvements in customer service are already being delivered

As we have been doing this transformation we have been making real, real improvements in our customer service. I am going to share some of those with you. Moving to a customer journey and end-to-end view has meant we are radically reducing our servicing times with a lot more to do. Since service commencement of our relationship we have taken over 44% of the customer wait time out of our service. A lot of that has just been working the old process better, as well as looking at how we move to that end-to-end journey management, and that has been great to see.

In the same period of time, if we just move on, you will see that we have also dramatically improved our customer experience and our MPS scores. Some of this is from the new digital enhancements that we have put in and driven. Some of it has just been customers really seeing the difference in the service performance with an improvement of over 14 points in that score since last summer. And it is great to see when you do the kind of role that I do the correlation between the service improvement and customer satisfaction moving together in detail.

Re-platform for MyPru provides the foundation for digital transformation ambitions

I am just going to take a little bit of time to talk through some more of the improvements that we have been doing to drive this and set up the infrastructure for the next stage of the transformation.

Let us talk about MyPru. The MyPru app and platform is central to our digital servicing ambition for our heritage book customers. It moves us to a 24/7 operating model. The previous infrastructure on which this was built and developed could not scale to the levels we needed and was not great when you were looking at things and rendering them on mobile devices. It did not give you the right kind of experience.

The MyPru upgrade we have put in place brings substantial usability improvements for our customers and really provides the foundation and resilience built into the application with active processing on which we will scale the journeys for all of our customers.

And for the first time with this technology we also gain insights into a customers' use of the app and website and it really helps us prioritise our future enhancements to tackle what customers really need and where they are struggling. MyPru is a really crucial pillar for developing all of our customer journeys going forward.

Significant improvements in customer service are already being delivered

Whilst we have been doing that we have not just been waiting for the infrastructure, we have also been delivering some of these customer journeys in action. And one of the key ones for us has been the bonds claims journey, where we are trying to make it easier for our customers to withdraw and access the money they need when they want it.

Online bond claims launched in late 2018, improving customer experience… 35% take up to date

We launched this in late 2018 and already we have a 35% take up of this. And when you look at the bonds claims journey and what we were doing traditionally, you will see the evidence of that transactional process. It was a source of customer frustration, relying heavily on paper, multiple touch points across the servicing teams. On average a claim took 16 days to complete with 5% of cases taking 47 days or more.

Our new process with MyPru, which we launched like I said in late 2018 and have rolled out to advisors as well, radically reduced this end-to-end time by 80% and each claim now taking on average 3.5 days when it goes through and uses that technology. And that will improve even further when we get to the automation of payments, when we have moved those policies onto BaNCS too.

I think in doing this we have really dispelled the belief that heritage customers do not want to move to digital. It is simply not true. If you build good technology they will embrace it and we design all of our customer journeys now with real customers like David described. We test their needs, we get hands on feedback and we build what really works.

And to get digital take up at these levels of over 35% within five months, and this continues to rise with more advisors and more customers using it, it really shows us what I think our ambition for digital servicing can really look like. And with improved MyPru registration we are getting swifter at moving more and more customers to this way of working.

Significant improvements in customer service are already being delivered

Now we have also done a lot of transformation that is not quite so digital and exciting, but it is also absolutely vital in looking at a lot of our propositions and how we modify them. A lot of our customers rely on paper and really trust us in our products, so it is really important we lean into those and we make a difference. I just thought I would also share some of these.

Modernising statements & other customer communications whilst improving customer value

Our proposition team have really been focussing on how we enhance a lot of the product features and how we improve regular communications to make sure they are clearer than ever for our customers. Improvements to these propositions cover all aspects, including value for money, customer outcome improvements, updates to customer lifestyle profiles, strategic asset allocation changes and also additional product features that we build in.

By the end of 2018 the modernisation of our annual benefits statements will have improved communications to 1.7 million customers. Changes make the statements simpler, easier to understand, more engaging, more informative, with charges even clearer. We have another 500,000 customers who will get improved statements by the end of this year and a further 500,000 as part of our migration from the SALAS system to the new BaNCS platform.

We have removed exit charges from over one million of our individual pension customers and also done a lot more on value for money, reducing charges for AVC customers. We have removed policy fees and fund reviews to make sure that customers are invested in the most appropriate and lower cost fund whenever we can.

There is a lot more to come in the next two and a half years, just when you thought it could not get any more exciting, but we are well on the way to the heritage transformation.

Heritage transformation, Key messages

Now we have talked a lot about digital and for us that is about providing the 24/7 service that our customers really need and really want. The rationalisation of our systems estate that I talk about will result in the consolidation of our policy administration systems from 14 legacy to 1 and move us to that industry leading BaNCS platform.

Through our transformation and focus on customer journeys we will continue to see these increased improvements in customer satisfaction scores and we will also get more and more feedback and insight on how our service can get better and better, shaped by our customers for our customers.

And if we do that and if we move to this new infrastructure you will see continued improvements in our resilience in how we operate and how we trade ongoing. Thank you for your time. Now for the highlight I will hand to Clare to take us through the finance section.

Finance and Capital

Clare Bousfield

Chief Financial Officer, M&GPrudential

Introduction

Thank you Roddy. As many of you will know, I am Clare Bousfield, the M&GPrudential CFO. I am going to complete today's formal presentation with the financials. As Roddy said, the piece that you have all been waiting for.

The financials of a life company, particularly with-profits, are not the simplest, so please bear with me as I would like to take the opportunity to walk you through this as simply and clearly as I can.

Our financial priorities

To set some context, I am going to start with our key financial priorities. First and foremost we will run the company with capital discipline and efficiency, whilst demonstrating financial resilience to all our stakeholders.

We plan to provide our shareholders with an attractive return profile through a combination of sustainable dividends and long-term growth. As you have heard from David, Joffy and Will, we can see significant opportunities over time to grow our savings and asset management business in a capital efficient way. And our heritage book generates a steady stream of cash to underpin dividends.

To be successful we need to deliver our transformation programme, improving customer outcomes and experience together with focussing on scalability and efficiency. These will be pivotal in our ability to compete and thrive in the future.

What we will cover today

That is what I will cover. I will show you our new segmentation and how it aligns the shape of the business as you have heard all about today. Then I will provide you with an update of the merger and transformation programme and I will then move on to describe how our capitalisation looks and the mechanics of how this will flow through to the day one balance sheet of the new M&GPrudential Group. And I will also provide you with a preview of our capital management framework.

At the next event, closer to the time of demerger, the focus will be on how we generate capital, how we think about deploying it, together with our policy on dividends.

New financial segmentation: Reflecting how we see business opportunities

So to the segments; what you have seen in the past is a split between insurance and asset management. That made sense in the days when you could think about the businesses as distinct. Today we are simply focussed on delivering great propositions and outcomes to our customers, no matter which legal entity we do it in.

Our first operating segment, savings and asset management, is a key future growth engine of our business. This segment holds all of our propositions that are open to new customers from retail savings and asset management solutions through to our tailored solutions for institutional clients. You have heard from David, Joffy and Will as to why we are excited about future growth prospects we see for each of those.

The second operating segment, heritage, is where we have business lines, which are closed to new customers. The stable and sizeable earnings are driven by the shareholder annuity and the traditional with-profit books.

The heritage with-profit business is written within the same fund and the same asset pool as PruFund; this is denoted by the dotted box on the chart. The size of the with-profit fund benefits both the traditional with-profits and the PruFund customers, allowing the asset managers to invest in a diverse range of asset classes as Jack described earlier.

AuM by sub-segment

The split of assets under management here gives you a sense of the relative scales. The savings and asset management segment contribute almost £200 billion of assets under management. The institutional and retail asset management sub-segments are third-party assets under management, together amounting to £147 billion. The remaining £51 billion is retail savings, of which 85% is the PruFund.

The heritage segment has £123 billion of assets under management, around 70% of which is the with-profits business. Overall this shows the diversity of the assets that we manage and the customers that we serve.

Net flows by sub-segment

In terms of net flows, what you see for heritage is the pension payments we make to our annuity policyholders and the withdrawals from traditional with-profit policies.

Within savings and asset management segments the retail savings has been steadily very positive, driven by the strength of our PruFund proposition. The flows of retail asset management on the other hand are more sensitive to short-term relative performance and investor confidence. That generates a higher degree of volatility.

At the end of 2018 and into 2019 investor confidence has been weak against the backdrop of various political uncertainties including Brexit. This has caused cyclical negative flows. As Joffy explained earlier, we are confident of driving good growth over time through a number of new initiatives, including sub-advisory in Europe.

Flows in the institutional business demonstrate relatively lower volatility. As Will set out, they are long-tenured sticky assets. Our clients have specific long-term goals, usually linked to liabilities and are not sensitive to short-term market movements.

Here I am excluding one mandate of £6.5 billion, which left us last year, as we referred to in the 2018 results release. This was a very specific and temporary case and being very low margin will have limited impact on earnings.

The historical flows demonstrate well the diversity of the underlying businesses in different economic conditions.

Earnings by source - FY 2018

Moving to profitability; here you see a simple matrix of our adjusted operating profit, with the rows showing you the segments and the sources of earnings along the top. The total adjusted operating profit of £1.6 billion is materially the same as the segment profits shown in Prudential PLCs 2018 results announcement. There are some small differences in definition and you will find the details of those in the appendix.

Two other things to call out on this slide: firstly, the Corporate Centre line, where you will see a higher number here for 2019 and the future years as it will include the interest cost once the transfer of the debt from Prudential PLC is completed, and the costs as we build the infrastructure and capability needed for our new life as a public company.

The second item to mention here is the £59 million loss in the 'other' column for Savings and Asset management. The main driver of that is a £56 million exceptional item related to one of our international life insurance operations, which is not expected to recur in the future.

Sources of earnings: Asset Management

Turning to asset management, on the top left is the external assets under management for the retail and institutional books, together with the internal assets we are managing for the Savings and Heritage businesses. These amounted to £118 billion at the end of 2018.

The overall average fee margin, bottom left, encompasses both those internal and external assets under management. Fee margins have been quite stable thanks to the fact that we have focussed on higher value services and bespoke solutions.

On the right you will see the overall development of our revenues, with expenses and resulting operating profit. The overall cost income ratio has historically been in the late fifties; that compares favourably to our peers. But there is no doubt that we need to continue focussing on cost efficiency in order to remain competitive.

Sources of earnings: With-Profits

Moving to the retail savings piece of the Savings and Asset management segment, the part that David spoke about earlier, the majority of the assets and earnings are coming from PruFund. As he explained, having launched PruFolio earlier this year, we have the ambition to grow the breadth of the investment proposition in this space.

The growth inflows and outflows demonstrate how the PruFund, our smoothed proposition, has gone from strength to strength. The proposition is targeted at customers aged between 45 and 65. The early PruFund customers are starting to access their savings and enjoy the investment returns we have generated for them. As a result the outflows are growing as the book matures, alongside the inflows, which have remained very strong.

It is important to remember that we only recognise earnings on PruFund business when the customer accesses their money, where there is regular or full withdrawal of their funds. As I explained in Singapore, the way it works is when a policyholder invests we start to credit their account on a daily basis with the expected long-term growth rate. This gives policyholders a smoothed return over time so long as the actual returns do not deviate outside the pre-determined corridors.

The earnings we generate will be one ninth of the investment return that we have generated for that customer, booked at the time that they take their money out. The cash is received, and the earnings recognised at the same time and both are therefore inherently back-end loaded. That is why we have seen the profile of shareholder transfers growing quite significantly over the last few years and why there is significant future value not yet recognised.

The traditional with-profits book in the Heritage segment is closed to new customers and so has negative flows. These have averaged around 6% of the assets under management per year. On the other hand the investment returns generated over the last three years have more or less offset those flows, leaving the assets under management at around £85 billion.

These assets will not stay flat forever, and they will decline over the long term. But the dynamic on the outflows in the investment returns means that we expect the run-off to be very gradual. Policyholder value on these policies is driven both by the bonuses credited over the life of the contract and by a terminal bonus when the monies are withdrawn. As before the shareholder transfer is simply one ninth of the bonus credited. As the terminal bonus is the most significant element there is also significant additional value yet to be recognised.

Although there can be some ups and downs depending on the performance of the fund and the volume of policies maturing, we would expect these shareholder transfers to remain relatively flat in line with recent history for the next decade at least. Over the long term they will decline as the book runs off.

With-Profits: Shareholder transfer hedging

One last element to explain on with-profits is hedging. We hedge across both PruFund and the traditional with-profits, aiming to reduce the equity market risk associated with the shareholder transfer. Although the returns being accrued to the policyholders are subject to smoothing in the with-profit Fund, this is only true within normal levels of market volatility. More extreme scenarios can cause this smoothing to cease, with the policyholder valuations thereby reduced or increased and the shareholders would see their share of that market impact.

We have put in place a relatively simple mechanism to mitigate this by structuring equity options to reduce downside risk at the expense of future upside. In addition to protecting the transfers, the programme results in reduced capital requirements within a shareholder solvency position, by around 25% of the capital requirements in respect of the with-profits business.

We have used a broadly annual rolling programme which aims to hedge transfers over the subsequent five years. Recently, the equity markets have been positive on average, we have seen losses as each tranche of the programme comes to maturity. Conversely, if equity markets were to fall the hedges would increase in value.

Of course, as with any hedging strategy, there are trade-offs to consider, and we are currently assessing what we want to do post demerger in terms of whether we continue with this programme, do something different, or simply let the current programme run off.

Sources of earnings: Shareholder annuities and other

Finally, I will come to shareholder annuity and heritage earnings. The table shows you the drivers, some of which are more likely to recur than others. Roughly the table is ordered with the more probable at the top.

As common with annuity books, and as you can see, some of these drivers can be quite large and they move around from year to year. Also recall that the numbers are impacted by the reinsurance of £12 billion of liabilities to Rothesay in March 2018.

The stable elements of the earnings are the investment return we have generated on the assets not backing the policyholder liabilities and the release of the margins on credit risk, mortality and expenses.

In the second row is asset trading and other optimisation, with some especially large numbers in 2016 and 2017 as we repositioned the book on the advent of Solvency II. The ability to generate these profits is driven by our private asset capability and market conditions.

Next, longevity which has generated substantial positives in recent experience, as has been the case across the entire industry.

The last line I will talk to here is the provision that we have put up for the FCA's review into annuities sold without advice. We booked a total provision of £400 million over 2016 and 2017 and our expectations remain that this will be sufficient. In 2018 the positive of £166 million relates to an insurance recovery from our professional indemnity insurers in respect of this issue.

Annuities: Recent longevity developments

So focusing on longevity, the chart on the right shows you that, including reinsurance transactions we have executed, we have seen around a £1 billion of positive earnings over the three years ended 2018. The left hand chart shows you the major cause. The stark trend across the UK population is the deterioration in the rate of mortality improvement over the last half-decade.

There are a number of plausible reasons for this, but no definitive evidence that could confirm one theory or not. Some may be structural, for example the reduced impact of cardiovascular improvement, but some, for example the impacts of austerity or obesity, may be more cyclical.

Wider population trends are not the only driver. We have been making substantial investments in technology, data quality and research to further improve our understanding of the dynamics, supporting us in forming our views on the future when we come to set our reserves. It is especially important since our book of annuitants has a different socio-economic makeup compared to the general population. Moreover, the emergence of enhanced annuity players resulted in our annuitants being typically healthier than the average as we chose not to enter that market.

Future longevity subject to continued uncertainty

For the future we believe that ongoing research and continued improvements to data granularity, accuracy and analytical capabilities will be fundamental. It could well be that we see more releases as we move forward, but the selection and mortality assumptions will continue to be something that we take great care over.

Merger and transformation: Key objectives

Moving on to merger and transformation. As you know by now, this programme is driving real improvements for our customers, both in terms of outcomes and in terms of their experience in dealing with us. It is also based on simplifying the way that we work, which creates cost benefits, reduces operational risk and improves our effectiveness.

We are very focussed on driving a mentality of efficiency, scalability and simplicity right across our business and all the time with a focus on our customer.

Transforming at pace across the entire business

The programme touches many areas. David explained how the digital transformation is powering the way we create new solutions for customers and positioning us for growth. And Roddy gave a number of examples of how the transformation is improving outcomes, from reduced wait times to improved communications, and at the same time we incur significantly lower costs.

But these benefits go across the group, beyond the externally obvious ones. Take Finance as an example; here too a substantial investment in technology and modernisation will generate tangible benefits, improving our insight, reducing risk, minimising manual intervention and saving money.

On track to deliver transformation benefits by 2022 as announced

You will recall our 2017 announcement of a £250 million investment for £145 million of annual cost savings, both from the shareholder view. Here you will see what we are spending the money on and where the benefits are expected to emerge. On digitalisation, we are investing heavily across a number of initiatives, and it is not only about the externally facing projects that we have spent much of today talking about. It is also substantial internal modernisation and streamlining.

The Finance example I gave is just one, but similar things are happening across HR, Risk and other areas. Outsourcing is another meaningful part of the project, and a large proportion of this relates to the new outsourcing agreement and legacy system migration project with TCS that Roddy explained to you.

Then, there are a large number of initiatives to improve the efficiency of our operating model. Just one example would be the project which we announced internally last month. That is the significant re-shaping and rationalisation of our office location strategy across the UK, which will save substantial real estate costs.

Efficiency benefits absorb upward cost pressures

The chart here shows how the savings will flow through our cost base. Our cost base reflects both the costs borne by the shareholders and the policyholders. And before you get your rulers out, what we are trying to do here is just give you an indication rather than a precise view!

Starting from the 2017 cost base which I have assumed will be inflated. I see it as a basic discipline that we need to be able to offset inflation as part of our business as usual efficiency. The transformation benefits reflect both the savings attributable to shareholders of £145 million and the benefit to policyholders. This creates capacity for two upward pressures. The first is the creation of our head office and the building of the infrastructure we will need as we demerge from the existing Group.

The second is the investment in business growth. As you have heard earlier, we have ambitions for growth over the medium term. Our transformation programme also aims to make the costs more variable than fixed, and so if our revenue ambitions did not emerge, the associated costs should also not emerge.

On the right you will see the planned phasing of the run-rate benefits, which pick up significantly this year after the initial investment phase and the heavy lifting associated with the demerger, and then develop reasonably evenly from now out to 2022.

Solvency II position as at year end 2018: Prudential Assurance Company (PAC)

Now turning to solvency. I will begin by focussing on the main insurance balance sheet, Prudential Assurance Company, or PAC. PAC can be thought about as two distinct parts: the shareholder balance sheet and the With-Profits Fund. The two are separate but they interact from a solvency point of view.

There are two slides in your pack on this, one explaining in words how it works, and the other showing it diagrammatically. I am going to leave the diagram up on the screen to explain it, with the other slide for reference. The shareholder solvency ratio on the left is the primary focus for us in managing our capital position. It was 172% at the end of 2018, with Own Funds of £8.8 billion and a solvency capital requirement of £5.1 billion.

Although the with-profits Fund is separate, the future cash transfers provide considerable value to the shareholders fund, and the discounted value of those transfers are included within the shareholder solvency position as an asset. Likewise the capital requirement of £5.1 billion reflects the underlying risks inherent in the shareholder transfers given the with-profit fund is invested in a range of asset classes.

The middle column shows you the with-profits fund in isolation. It has a very strong solvency ratio of 231% at the end of 2018, with £9.6 billion of own funds. The future shareholder transfers of £2.4 billion which appear as an economic asset on the shareholder balance sheet, are a corresponding liability for the with-profits fund.

There is one last view of solvency; the regulatory solvency ratio on the right. This takes a conservative view of the combined position of the shareholder and with-profit balance sheets. To arrive at this, the shareholder capital requirements of £5.1 billion is added to the with-profit capital requirements of £4.2 billion for a total of £9.3 billion.

For own funds, the £8.8 billion from the shareholder balance sheet is taken into account, but the own funds from the with-profits side can only be taken up to the extent of its capital requirements. In other words only £4.2 billion out of a total £9.6 billion with-profit own fund can be counted. The exclusion of the other £5.5 billion of capital results in a solvency ratio of 140%.

Solvency II sensitivities

The ratios have some sensitivity to financial markets but as you can see here, they are quite resilient. The shareholder view is on the left and the regulatory view is on the right. These sensitivities are all typically what we expect to happen in markets once in every 25 years. A full letter downgrade across 30% of our credit portfolio is the most impactful, reflecting the credit exposure within our annuity portfolio, although this is still very manageable.

As I explained before, the regulatory solvency ratio is lower than the shareholder ratio, but as you can see on the right, the sensitivities are lower in terms of percentage point change. That is essentially due to the higher denominator. In adverse conditions, the regulatory solvency ratio will fall slower than the shareholder solvency ratio, however both will arrive at 100% at the same point in time.

The creation of M&GPrudential: key financial aspects

So, that wraps up the solvency position of PAC, but how will the new M&GPrudential Group look post-demerger? The emerging group view of capitalisation will also be Solvency II based, due to the size of PAC within it. Simplistically, the own funds and capital requirements will be the sum of PAC, plus M&G and the other minor entities. PAC will be the dominant part, and for this reason you can expect the Group solvency ratio to be similar to PACs prior to demerger.

Then, at the time of demerger itself, M&GPrudential will assume its share of Prudential's overall debt. This will flow in and count as solvency capital. In return, M&GPrudential will pay to Prudential PLC a pre-demerger dividend in order to bring solvency back down to the target level. We will confirm the exact magnitude of these numbers closer to the time of demerger.

Expected adjusted operating profit vs surplus cash generation

Let me finish by giving you a preview of our future capital management framework. As I said, I will be going much deeper into this next time. The IFRS view which I have explained to you today is an important view, but for us it is also crucial to understand how our business performance translates into capital generation and ultimately cash remittances.

Simplifying a little, there are two main entities underlying the new Group, which are on the insurance side PAC, as we have discussed before, and M&G. For M&G, assuming capital requirements do not change, the amount it can distribute is broadly its after tax earnings. For PAC, in normal circumstances the constraint on the remittance is Solvency II related, and I have illustrated in a simple way on this slide how the generation of Solvency II capital differs from IFRS earnings. Next time we will deep dive more into this with some numbers and we will give you regular disclosure post-demerger so you can track us against it, because for us, this is an absolutely fundamental measure.

I expect you will then ask me 'does that mean the end of embedded value?' Yes, we will be dropping the embedded value disclosure. We feel that publishing two frameworks which are conceptually similar just adds complexity rather than insight. We would rather focus on the measure which is actually the binding constraint and provides a good economic insight into our business, with a commitment to give you helpful disclosure.

Distributable surplus to parent company cash indicative future flows

The translation of this through to holding company cash is then relatively straightforward. We would typically intend to take most of the cash generated each year from both entities to the parent, subject to a number of factors including adequate capitalisation. Parent company cash generation would be the sum of these two dividends, less holding company overheads and debt interest cost after tax. The resulting number is a key measure because that is really the tangible money that could be deployed relatively freely. Those elements will be the key ones which flow into our overall management of capital.

Key messages

To wrap up, we will closely and proactively manage this balance sheet with a focus on capital generation and how best to deploy it. We will be disciplined and if we have no value creative opportunities, we are committed to returning any excess created over time, so long as our key financial metrics around solvency, leverage and liquidity are in line with our appetite.

We are continuing to drive transformation across the Group to improve customer experience, enable growth and capture efficiencies. And we are on track to deliver. Through a combination of these, we feel confident of producing an attractive balance sheet, balance of dividends and growth for our future shareholders.

Now let me hand back to John to conclude.

Concluding Remarks

John Foley

Chief Executive, M&GPrudential

Thanks Clare. So, before we move to Q&A I just want to sum up very briefly. I hope today has given you a good insight to M&GPrudential, how we have a unique and compelling business mix, combining diversified asset management with the capital strengths of our heritage business. We have shown that we have a coherent and focused strategy to grow our savings and asset management business by scaling and broadening our diversified range of savings and investment solutions, leveraging our international footprint and with our customary disciplinary on capital. We have shown how our strategy is supported by major structural changes in society in all our chosen markets.

We have demonstrated how transformation is re-invigorating our business and how we will continue to optimise our heritage business by improving customer outcomes, creating efficiencies and maximising cash flow.

We have shown too that we have a track record for successful growth over the past 20 years, building new savings and investment franchises from scratch and always with the interests of our customers front and centre of all we do. Caring for the customer is not only the right thing to do, but also makes good commercial sense.

Finally, I believe we have shown that demerger gives us both opportunity and means to become a truly international leader in savings and investments: meeting customer needs, creating opportunities for our colleagues and delivering long-term growth and attractive returns for shareholders. Thank you.

Q&A

Greig Paterson (Keefe, Bruyette & Woods): I will keep it to two questions. I do have many. One is a credit event. Spreads are very low currently; the PRA is doing a credit stress test currently on potential risks to the industry. In your Solvency II sensitivities you provide a sensitivity on higher spreads and a sensitivity on downgrades but in reality it is the combination of those two which has a compounding impact and I suspect the hit to your Solvency II would be quite dramatically higher on that. I wonder if you want to talk about the combination of downgrades and widening spreads and the impact on Solvency II?

The second question is: when you look at your asset management performance on a one year view, I think it is on slide 39, in a footnote, the performance has a dramatic drop in the performance fees, it appears to me that your one year performance has deteriorated quite materially and that will have a knock-on on the three year going forward and pull it down. Is that not a concern; will that not hit net current cash flows going forward?

Jack Daniels: Yeah, okay, if we look at performance which relates specifically to the mutual fund side of the business, the performance in other areas, PruFund and the institutional side of the business is still strong, the one year numbers deteriorated for the mutual funds.

We take a medium-term view of our performance, and we have been quite consistent in saying that, which is why we produced the three year numbers. We think they are the most relevant. If you look back over the last ten or fifteen years, we have had periods before where short-term performance has been less than ideal, or less good than we would want it to be. However, we think our approach to investing and our fundamental beliefs around investing have shown the test of time. We are not going to suddenly jettison that approach. We clearly monitor it; it is important. I think those numbers, as well, were particularly impacted by the performance of markets towards the end of last year, the end-of-2018 number. You will remember that during December particularly a very severe risk-off reaction from markets. I think, in terms of our positioning, we were more positioned as risk-on at that particular time. However, as I say, I think it is important to focus on performance over the medium-term rather than the short-term.

John Foley: Yeah. That is impactful. To your point, one year performance is impactful for the European market, but we have been in this position before and it comes back once the trends change, so we will expect that to happen again.

Clare Bousfield: Yeah. Greig, on your question on the sensitivities in the overall portfolio, we are very comfortable with the overall credit strength of the overall portfolio. If you look at the analysis that Jack showed earlier on in terms of not just the average credit rating but also the security behind the portfolio, it is very strong. In terms of the stresses that we show, yes, absolutely we show the impact of downgrades in terms of the stress and that is very manageable. We are very comfortable in terms of the overall credit portfolio and I am aware of the PRA stress test. Obviously that is something that we need to look at and work with that, with the PRA.

Jon Hocking (Morgan Stanley): Two questions, please. Firstly, on the fee margins slide you put up, can you talk a little bit about what the fees are on the internal book versus the external book and what the mix impact has been on that sort of trend over time? So is the fee margin going up a function of the external assets growing relative to internal or is it actually higher-revenue strategies?

Then, secondly, I think somebody mentioned looking at smoothed returns in Europe. So would that be a sort of euro version of the with-profit fund or would it be using the techniques you have in multi-asset to build more of like a GARS-type product?

Jack Daniels: Yeah. The resilience of the fees is down to the mix of the assets, really. I think it is this focus on solutions, on private assets and the shift, really, in that direction. That is why we have managed to maintain margins. We do not split out the difference between internal and external, but you can be sure that the internal client gets institutional rates with the appropriate discount for scale and captivity. So although we do not split it out, you can assume that is the level of fees that you would expect to see in that portion of the book.

David Macmillan: Yeah. On the second point, around PruFund, actually we are looking at whether we can take PruFund, as a construct, to Europe.

Johnny Vo (Goldman Sachs International): Just the first question: if you take PruFund to Europe, how does the regulator feel about you smoothing European policyholders and how would this be impacted post-Brexit? That is the first question.

The second question is just on the regulatory view of solvency. Given that it is substantially lower, does it mean that distributions cannot exceed the capital generation because you would effectively eat away at the solvency position of the regulatory view? Thank you.

John Foley: On the PruFund in Europe, these are conversations we are just starting to have. The regulatory environment in Europe is pro this. We have had conversations with EIOPA and they have been going on some time, we need to work through the detail. Fundamentally, it is something that the Europeans have said to us in a variety of jurisdictions that they want, so as we said earlier on in the presentation, it is about execution. Once we get through that whole demerger process, we will be able to crack on with some of this stuff but at the moment we see no impediment to PruFund in Europe.

Clare Bousfield: I am not sure I totally understand your question, Johnny, on the regulatory solvency ratio. The regulatory solvency ratio and shareholder solvency ratio are fundamentally the same. As I said, they will both converge to the same point. Certainly the regulatory solvency ratio does not cause any kind of constraint over and above the shareholder solvency ratio from a capital generation or dividend perspective.

Johnny Vo (Goldman Sachs International): Just if you were to take out £1 billion and pay it out then the regulatory solvency position would fall. How low can you go on that? Does that limit your ability to continue to pay out above capital generation?

Clare Bousfield: So all of our risk appetite and all of our capital management framework is based off the shareholder solvency ratio. Because, effectively, the regulatory one is just a function of how big the denominator is, there is no additional constraint as a result of the regulatory solvency ratio.

Ashik Musaddi (JP Morgan Securities): Hi, just a couple of questions, one on asset management. You flagged about £60 million of private assets, basically, in the asset management, out of £320 billion. Is it possible to get some colour as to how much of that is institutional money, how much is retail money? The reason I am asking this is there is a lot of noise in the market about the private debt, illiquid assets and some funds getting closed etc. so just on the back of it.

Secondly, there was a slide where I noticed that you have about 30% of your shareholder assets in private assets as well for the annuities business. Any clarity on what those assets are would be great, thank you.

Joffy Willcocks: Well, if I begin on the private book of £57 billion, that is institutional clients who invest in those private assets across a broad spectrum of all the different strategies that Will referred to earlier, so it is entirely institutional. Some of the real estate private assets are also held by retail customers through a UK property fund that we have. Clearly, over the long term, we will look to try and diversify the investor mix but I think it is very important to separate out the question that you have asked about retail customers having exposure to private assets and the issues about liquidity in mutual funds today. Jack looks at this stuff all the time and monitors on a regular, monthly basis exactly how much unquoted or unlisted stocks we have. We have zero. We do not invest in unlisted or unquoted stocks in our mutual funds. If we have one or two stocks that may have been written down to zero, gone bust, effectively, then you would own that or carry that weighting in the portfolio of 0.001%. However, as a principal, we do not put unquoted or unlisted stocks into our mutual funds which are sold to retail customers.

John Foley: The other one, Jack, was on the annuity book specifically and whether we can say anything?

Jack Daniels: On the annuity book, just to go on from what Joffy said, if you take the private assets a number of them are either institutional mandates or they are in the annuity book or the with-profits fund. These are the sort of usual range, we do not split it out in any detail but there are the usual range of private assets that you would expect to see in a portfolio of that type. They are private loans and they are mostly secured. You have seen the analysis on credit quality. The portfolio overall, including the private assets, has strong credit quality.

Oliver Steel (Deutsche Bank): Two questions on PruFund. The first is you talked about crediting customers with a long-term investment return within a certain corridor. Can you talk about what that corridor is? I suppose the question I have behind that is unlike the old with-profit sort of bonuses, where you had a reversionary bonus and a terminal bonus, presumably this crediting rate that you are giving does apply a legal liability. Then what happens if there is some kind of market event to the with-profits fund assets and liabilities?

The second question is the PruFund has delivered very good returns in the past. To what extent are those returns being used in the market of that PruFund to new customers?

David Macmillan: I can take the last part. Interestingly, if you go and study how PruFund is sold as an advised product, because remember we do not offer it without advice, the smoothing is by far the biggest sales angle. Naturally, an advisor will reflect on the long-term performance of that fund, as would be their right and their professional responsibility but in marketing terms we ourselves do not market it on that basis.

Clare Bousfield: In terms of the way the mechanism works, it depends on the risk profile of the actual sub-fund, in terms of PruFund. So the higher-risk elements, like the PruFund growth, typically has a corridor of plus or minus 5%, which it operates within. Something like the Cautious Fund, which is obviously the lower-risk fund, has a smaller corridor. I think it is 3%. It could be 2%, but it is around about that sort of level in terms of the corridor. If the markets and the return operate within that then, effectively, that does not result in any price adjustment. If it does not and it triggers outside of that then there is a price adjustment. We have had a number over the last five or six years, something of the order of 14–15. They have typically been upward adjustments, not downward adjustments, in terms of where it goes and yes, fundamentally the customer is entitled, to that daily crediting in terms of the amount of the return. However, the price adjustment allows you to effectively have an adjustment for any kind of market volatility.

Spencer Horgan: If you look at slide 31, actually, you can kind of see it, where Jack showed you the performance of the PruFund over time. You can see those chinks in the line there, which are the price adjustments Clare was talking about. So that line is a smoothed PruFund return after fees.

Clare Bousfield: You had another question, Oliver but I am afraid I completely forgot. There was a third piece.

Oliver Steel (Deutsche Bank): No, it was covered by that.

Andrew Baker (Citi): Hi, two questions please. The first one is on the internal assets. I think about 65–70% are managed by M&G right now, with the balance looking like it is other Prudential PLC asset managers. Post-demerger, is there any opportunity to recapture any of those other assets? Is that in the plans or not?

Secondly, just on the annuity book, obviously you sold down some last year. Are you happy with the size of that book right now and how it fits with your other segments or is that something you will continue to review going forward? Thank you.

John Foley: As far as the external managers, or in the case of Prudential PLC, internal managers, are concerned on the Life Fund, we go through a rigorous process of management selection and determining how well the management of those funds is performing. That goes through a sort of separate corporate process. It goes through the With-Profit Committee and the PAC board. So it is sort of at arms' length and candidly, over time, it is up to us to determine whether or not those assets are being managed appropriately. So, we will see is the answer but there are certainly no plans to do that at this stage.

The second question was around annuities. We have a very strong capability to operate the annuity portfolio successfully. It is a pretty chunky book and I think we manage it pretty well. It throws off good earnings. That is a substantial underpin for our business as we go forward, and it is going to run off over a long period of time, so we will continue to be a scale operator.

The other thing is, it does give us crossover benefits, as we have tried to convey to you today. As we evolve asset strategies, whether it is around the annuity book or the with-profit book, this is expertise that we can then sell to third parties. It is very important that we continue to do that because we have been doing it for a number of years, which again is the point we tried to convey in the presentations.

Having said all of that, we like to keep our options open and we will continue to keep our options open. So maybe to some of the questions you will ask today I will say, 'never say never.'

Gordon Aitken (RBC Capital Markets): So, three questions, first on with-profits. I hear the sort of chat on corridors and crediting rates but if we go back sort of 20 years, how companies talked to us about what they were paying out to policyholders was how they paid out versus asset shares, so maybe you can just tell us what you are paying out relative to asset share in, say, each of the last three years, or five years, or whatever?

Second, on the annuity side and the mortality, I remember from a long time ago that you used to write annuities out of the with-profit fund, so can you just set out, of the annuities, how much sits in the with-profit fund and how much sits in the shareholder funds?

Just to finish off on mortality, can you just remind us why the £441 million was such a big number last year. I think it was 9% of the Group profit and I think a lot more than any of us had expected. When you do move to the 2018 table, because in the 2018 table they are talking about a six-month reduction in life expectancy, which is by far and away the biggest reduction ever, presumably that is going to result in a very large release. What would you plan to do with that? Thank you.

Clare Bousfield: So, I am going to start with annuities, if that is alright and I might need reminding what the other questions were before we get to them. However, on annuities, in terms of the long-term trend, there were two big drivers behind the release last year. Firstly, it was effectively the trend around improvements. Historically what we have taken the position of is until we are comfortable, and we can see that trend, we have not released longevity reserves. As part of that what we saw last year was not only, effectively, the updated CMI table but also some mortality improvements from a base perspective and the combination of those two resulted in the £441 million release.

The other piece that is important on the CMI tables is the tables are not just a default table that you just apply to your mortality assumptions. They are actually calibrated based off your own experience. So therefore it is actually quite difficult to just say, 'I will take CMI 2018 and I can just apply it and therefore say it translates into X number.' The range of different outcomes is quite broad. I have seen some reports saying that the CMI 18 produces quite a large number. That depends on the way that we calibrate in terms of the outcome, so it is not just a straight outcome.

Now I am going to go back to the previous questions.

John Foley: How much of the annuities are written from with-profits funds as opposed to from shareholder.

Clare Bousfield: So, we will have to get you the exact number but there are between around £10–15 billion of annuities that are within the with-profit fund. I think there was the first question on with-profits. Can you remind me?

Spencer Horgan: Yes, the first one was if you go back 20 years and you look at the PruFund, effectively, what is the pay out of PruFund relative to asset shares?

Clare Bousfield: So, typically what we have been paying out is around about asset share. So, in a good year, that means that typically we are paying out a little bit more than asset share and in a bad year we are paying out a little bit less than asset share. However, historically, that is what we have been paying out over the last few years.

Andy Sinclair (Bank of America Merrill Lynch): Two from me, please. Firstly, going back to annuity volumes, you have talked a little bit about potential for bolting off elements, but on the other side, do you have any interest in restarting your sales franchise for annuities, or doing more DB de-risking transactions there?

Secondly, moving on to the digital platform that you have talked a bit about, I just want to know a bit more about your aspirations here, beyond enabling PruFund and where are you positioned in the realms of platforms? Is it more the Emirates or Ryanair end of the platforms space? Thanks.

John Foley: I will let David take the second one. As for the first one, look, I might 'never say never' but it is very unlikely we will ever start writing annuities from scratch again. When I first took over the UK insurance business, it seemed that it was not appropriate. There are other things we could do with our capital. The fact is that we own a big annuity book; and we have reduced the size of that book and we feel very comfortable with the current level of annuities that we have in the overall proposition that is M&GPrudential. That could change but it is very unlikely to change.

David Macmillan: My one is easy then. It is not Ryanair, if that helps? I will back that up now.

Clearly, on the basis of the presentation I gave, if you are focused on, frankly, customer care and experience and controlling that value chain and in particular controlling pricing and margin, we are very focused on delivering a quality platform to advisors and customers, where we are adding value as a proprietary manufacturer. We are not interested in being an open-architecture bucket shop.

Ming Zhu (Panmure Gordon): Just two questions please. Your PruFund is £43 billion. What sort of size would you have to get to before you reached the scale issue? The reason I am asking is you have just launched the PruFolio. It sort of reminds me of many years ago when Standard Life sort of launched their My Folio when the cost reached a certain size, or the flow and they sort of ran into problems on that, so I just want to know the scale on the PruFund?

My second question is your solvency ratio. Do you have a comfort range that you would be comfortable on, with respect to any dividend going forward?

Jack Daniels: If you talk about PruFund and our capacity, we had £12 billion last year, we had no issues with that sort of volume at all, so we think we can accommodate significant flows, even higher flows than that, without having capacity issues. I think with the new PruFolio range, for the majority of those the investment is down as much as anything, to the strategic asset allocation and the mix. Most of the assets in there, as we said, are liquid, so we feel the important thing is to get the strategic asset allocation right on those propositions. So we feel, at current and expected levels of flows, we can deal with them quite comfortably.

Clare Bousfield: On the solvency ratio, the guidance we put out was that the solvency ratio at demerger would be at or around 170%. We are comfortable that that is a fair reflection of the underlying risks on the balance sheet. Obviously, as part of the event that we have talked about, I will go into a bit more detail around capital generation and the capital framework.

Dominic O'Mahony (Exane BNP Paribas): Two questions from me. The first is back to PruFund, thinking more operationally, it has done phenomenally well in the UK. I can see the attractiveness of bringing that product to other markets in Europe. If I were your competitors here or on the continent, I would be very jealous, and I would be thinking, 'Maybe I should do this as well.' Could you just help us understand the barriers to entry that you see there? Why, for instance, haven't the other very large with-profit funds in the UK not re-opened to replicate that product, or indeed why have they not been successful in doing so?

The second question is just on the capital generation from this. You very clearly explained that with the PruFund there is a back-end loading of the earnings, from a capital generation perspective, I suspect it is slightly different. I wonder if you might be able to explain that? Presumably the same is true for traditional with-profits as well, where the final bonus is asymmetric to the regular bonuses, for instance is the capital generation more evenly distributed over the lifetime? Thank you.

John Foley: I will take the second one. The situation with PruFund and the competitive environment around it has been around for quite some time. We are not going to comment on what the competitors have done, or tried to do. The fact is, this is a big fund and to get this level of performance it needs to be well-established, be very large and be managed very well for a very long time. To replicate that is very, very difficult, and I think we are all sitting here really quite smug that we actually have this product line in our portfolio.

People will be trying to do that, smoothed returns and so on, but I think it is very tough to break into that. My view is the barriers to entry are quite high and they have been proven to be quite high because people have been trying and we do not see that there has been much traction.

Clare Bousfield: On the capital generation for the with-profits book, yes, the earnings profile is different. From a Solvency II perspective, it is effectively the discounted value of the shareholder transfers and the earnings is based off risk-free. Obviously, the reality is real returns are, so although it has a different profile, it is also undervalued in terms of how the own funds are on the balance sheet. I will go into a bit more detail on that next time.

Andrew Crean (Autonomous Research): I have a couple of questions. You were talking about PruFund being back-end loaded. Is it possible to give us a sense of the future growth of the transfers from PruFund even if it did not sell any more product, just as the bonuses accrued and ran through? Perhaps as part of that, you said, I think, that the legacy with-profits book would be flat over the next ten years. However, if you included some payment of the inherited estate, what would that look like?

The second question is more general. You have presented a company in which, on the one hand, you are looking at in terms of growth coming out of the investment management business and partly out of PruFund, and on the other hand you want to retain the capital and the cash earnings from legacy books in both the annuity and the with-profit. What are you pitching yourself as? What peers are you trying to put yourself against? At one level you seem to be an asset manager and on the other hand you seem to be Phoenix, or even ReAssure?

John Foley: Thank you for that question. So, what are we pitching ourselves as? I think the pitch that we have tried to convey today is that we are an asset manager with a balance sheet. We have a heritage business. If we wanted to be a pure something, like a pure asset manager, we could sell the heritage business, but we have the crossover between the two. I have worked in M&G for the first 11 years of my career and all I saw was the capability of both the life fund and the M&G guys to create more value for both sides of the house, so we actually did. We launched a lot of product out of M&G in that early period because the life fund wanted that type of return and those types of assets.

I get told off for calling it a symbiotic relationship, but it actually is, and it works very well and what price would you put on PruFund? We have just had questions about how people want to replicate it. You could come up with a numerical number but then what does it help build across the piece?

So we are very comfortable with this portfolio of businesses. We think it will help us to grow and we have talked about that at length. So, in terms of who we look like and who our peers might be, I think that is probably more for you to determine. However, when we have done the analysis around all of this, because we are demerging, so we have obviously looked at this with a number of advisors, we cannot find anybody who looks like us is the honest answer. There are people who are at the edges, but they are not the same as us. We quite like the way we are set up.

Clare Bousfield: On your question on PruFund, in Singapore there is a chart in the slides that I showed that basically shows you the projection of the underlying traditional with-profits business over the next ten years. That chart basically shows it is broadly flat and I think, from memory, Andrew, that the chart also shows the PruFund both showing the existing business and then an assumption around new business. I think those two components are actually shown separately.

You are absolutely right: they basically assume that there is no distribution of the excess, or the estate, in terms of the with-profit fund. The with-profit fund is very strong and actually that is one of the key reasons that other companies will find it difficult to replicate it because in a lot of other companies, actually, they went through an attribution of their estate. So I can tell you if we go through that process then we are going to lose some of the crown jewels, in terms of what we have. However, would we look to basically provide customers with enhanced bonus rates, recognising the strength of the fund, but over a very conservative and smoothed basis? Absolutely, that is part of our job in terms of managing the with-profit fund.

I suggest you get the ruler out.

Oliver Steel (Deutsche Bank): Can I follow up on the question about the scale limitations of the PruFund because you answered it in the form of flows? Actually, it seems to me there is more of a scale question mark in terms of the balance sheet and the extra protection that is provided by the back book, by the traditional with-profit fund. You are up at £43 billion of PruFund against whatever it is, £100 billion of total with-profit fund. There must be a point where PruFund cannot offer the same degree of protection as it does at the moment.

Clare Bousfield: One thing that I think is important here is that the PruFund is managed within one asset pool that effectively reflects both a traditional with-profits and the PruFund, so there is not a separate ringfenced set of assets that basically just relate to the PruFund. It is managed within one fund and then in order to create the different risk profiles, what you do is take an element of that fund with different asset allocation.

So any constraint on it would either come from a capital perspective, in terms of the with-profit fund, it has a £10 billion estate, there is a long way we can go before that estate gets near it, or it is to, potentially, the size of assets that you get into. We have been able to demonstrate that we can actually utilise that to invest in very sizeable assets because of just the size of it, in terms of how we are managing it.

So we cannot see any constraint out there that is going to reduce the opportunity in terms of the volumes out there in the market, both in terms of international growth or from a UK perspective. However, do not think about the PruFund as being a separate ringfence; it is not; it is one asset pool within that with-profit fund.

Abid Hussain (Credit Suisse): Hi, just two questions, if I can. Firstly, just coming back to PruFund on the potential miss-selling risk there, given that it is expanding at a rapid rate and the chequered history that we have had with the profits funds in the UK in particular and also in Europe as well. So just what is the control environment around the sales process in PruFund?

Secondly, can you just give us an update on the Part VII transfer, how that is progressing?

David Macmillan: Having lived through the previous with-profits moment, PruFund is fundamentally not like the traditional product. However, if you ask about the way it is sold and the way it is marketed, we do not market and sell it direct; you have to take full financial advice. Whether it is a third-party intermediary or our own in-house financial advisors, they go through rigorous training and assessment, second and third line audit that annually. It is not just a question of with-profit traditional versus PruFund, it is fundamentally the regime we live in ensuring that any fund pertains its suitability for the client.

John Foley: As far as the Part VII is concerned, that has been through the court process. The court has now adjourned, and we are waiting for the judge to give his opinion. That should be coming, we understand, in seven days, ten days, I do not know. We do not control that process.

David Wahi (Santander): Good afternoon. I would like to understand a bit more on product innovation: what are you doing for newer or younger customers? Is that a target market for you and will you be using your digital channels to reach them? Just another part of that is, for investment trusts, closed-end funds, I know you have one or two but is that something of scale that you are looking at?

David Macmillan: Yeah, we are desperate for younger customers in case the book dies off on us. Genuinely, up until recently, we have not sought to target below, the age of 50 for obvious reasons, because we are heavily retail pensions draw-down. But research has told us for years the demand for smoothing at the lower age bands in an accumulation, or even in an ISA wrapper, is high. But, if you said to me, 'are they likely to want to pay for advice or seek advice to do that?' the answer is no they do not. So one of the things that we are genuinely working on right now is how do we deliver, through digital channels, with the guidance I described earlier, a safe and secure route for someone, frankly, to invest directly into PruFund or equivalent.

Joffy Willcocks: I think, picking up on the second point, in terms of asset management, if you look at the ONS statistics from the UK, which was printed by the government in 2015, 83% of the investable wealth in the UK is owned by those aged 45 and above. So, naturally, asset managers as a whole have a fiduciary responsibility to look after that bulk of assets owned by those looking towards, who are retiring, or beyond retirement. So that sort of backs up David's point. However, essentially, when you think about what we are trying to do, we also need absolutely to connect to that younger generation. It goes back to what I talked about in my presentation. From a perspective of connecting with the younger investor, investing for good, not just investing to generate returns but making the world a better place, is a really important connection point. We have talked about the fact that we have spent a lot of time in the last three or four years building products in the ESG space, sustainable space, to try and connect to investors who want to, as I said, generate long-term savings and wealth but also, importantly, connect to making the world a better place. I think that is really, really important.

So, absolutely, constantly evolving, talking to customers, evolving our product line in conjunction with the feedback that we get from our customers.

You had a third question which was about investment trusts and I think a great, great example is something we launched last year, and Will was the brainchild behind that, so maybe I could hand that over to you.

William Nicoll: Investment trusts: yes, the question, always, when you launch an investment trust is why? Why would you do an investment trust because it is more expensive than a mutual fund? But, if you have an asset class that is illiquid then it is the obvious way to go through.

When we launched the credit investment trust we did last year, we did that on the basis that that would be a start of a business to go forward. So we will continue to launch those, as long as there are sensible assets that we can put inside and as long as, clearly, there is client need.

Greig Paterson (Keefe, Bruyette & Woods): Just two requests. One is on my first question: if you could at your next presentation, if you could produce, say, Solvency II sensitivity for higher spreads in combination with downgrades, that would be helpful. The second thing is I note that you made a comment, I do not know if there is a breakdown, but of the £25 billion annuities, is that 56% secured debt? I wonder if you could give us a credit profile there so we can understand the credit risk in that? That is a request, but my two questions are just also looking at credit.

In terms of explicit questions, in terms of your third-party funds, it appears to me that it is predominantly in fixed interest of some nature. I was wondering if you could give us some kind of feeling of how a credit event would affect that level at some kind of exposure?

The second thing is just IFRS 17, I do not know if you have done some work, I wonder how IFRS profits would evolve under that new regime.

Clare Bousfield: I will take the first one and the last one and then I have forgotten, Greig, what I will do in the middle.

On the request, let me take that away and come back to you on that, either Spencer or I will come back to you in terms of what we will supply.

On IFRS 17, bear in mind IFRS 17 does not come in until 1st January 2022, so we are very much in the early stages of actually evaluating what does it mean and with the largest with-profit fund in the market, open to new business, that is one of the most challenging and complex areas around IFRS 17. So yes, we have started to do analysis to understand what we think the profit profiles will look like on an IFRS 17 basis but there are probably more questions than there are answers at the moment. I think we need a bit more time to actually evaluate it.

John Foley: And how would a credit event affect third-party funds?

Will Nicoll: In general because we are a bottom-up fund manager, you tend to skew the portfolios away from fashionable areas because when the pricing starts getting a little expensive, then the fund managers will seek to move the assets elsewhere. So in the financial crisis, we had an extremely good financial crisis, because we were underweighted in all the fashionable assets and then we were able to buy them afterwards. I do not want to give the wrong impression, but I have got quite a lot of bottom-up fund managers out there who would quite like a nice crisis.

Johnny Vo (Goldman Sachs International): Just a question on heritage: there are outflows of about £7 billion a year. What is your recapture rate on those assets out the back and what is your strategy on the heritage book in terms of capturing assets?

The second question is, just on page 104, in terms of the hedge result, why was that negative, given the markets were down?

Clare Bousfield: The reason why it is negative is because the markets have been positive over the last couple of years, so because we are hedging that, and we are giving away the upside then it is naturally negative in terms of cost.

David Macmillan: The recapture: with respect to the pensions book that sits within heritage, Prudential Financial Planning, our in-house advisory service, clearly supports existing customers going through into decumulation, so it has a long track record of recapturing those customers who fundamentally want the shift into PruFund as their vehicle. There are lots of customers who do and there are lots of customers in most instances because they just want to take the cash. However, we have a strong recapture rate.

Roddy Thomson: Maybe I will just add, David, we are also looking at how we strengthen it. I think part of the movement to the new policy administration systems give us a lot more functionality for things that we make customers take full withdrawal on when actually they would be quite happy with partial withdrawal, given the investment performance. They may not be at the case size that we typically see in PruFund, but we think there is a lot we can do to strengthen that recapture rate too.

Gordon Aitken (RBC Capital Markets): A couple of questions: the FCA's review into the past annuity sales. £400 million, just can you remind us, is that set aside for the cost of redress only or is it the cost of redress and a potential fine and might there be a potential fine?

The second question is on with-profits. There are plenty of small with-profit funds out there. None of them, of course, are core to anyone else apart from you. Would there be any benefit to you to be taking on, acquiring, some of these with-profit funds and if there is any benefit would you have any desire to do so? Thank you.

Clare Bousfield: On the provision, the provision cost includes the cost of remediation and the actual redress itself. It does not include any provision for a fine and that is obviously something that is outside of our control, in terms of where the regulator goes.

Gordon Aitken (RBC Capital Markets): And are you in the market for small with-profits books?

John Foley: To sort of merge with-profits is a very, very difficult thing to do, and looking at the governance around our with-profits book, it would have to be a pretty compelling proposition that we would go through an exercise to actually do it. So we have kicked it around, but we think unlikely. However, again, 'never say never'.

Andrew Crean (Autonomous Research): Hello, it looks as though your central costs are about £100 million, if I have measured the boxes roughly right. How much of those are additional, or just transferred from PLC, is one question. The second question is could you give us a sense of the net flows and the relative performance of your key funds in the first half of 2019?

Clare Bousfield: On the head office costs, your ruler is reasonably right. It is a little bit lower than £100 million. Some of those costs are costs that were already from Prudential PLC. Some of those costs also relate to effectively functions that we were building up within the organisation and some of it is new cost. It spans those three separate areas.

Jack Daniels: On performance, I would say there have been areas of improvement, but I would not say there has been a massive turnaround in performance relative to the information we provided today.

Joffy Willcocks: In terms of fund flows, I do not think we are in a position to comment until we get the results in August.

Dominic O'Mahony (Exane BNP Paribas): Can I just ask a question about the administration of the heritage book? Firstly, is there sort of one unified administration operating model across both the shareholder and the with-profits annuities book? Relatedly, could you remind us, is it integrated with the book that transferred to Rothesay or is it actually that going to be administered completely separately?

Then, secondly, the arrangements with your outsourcing partners are presumably very long-dated. Could you give us a sense of how long-dated and whether there are any sort of break-clauses? Thank you.

Roddy Thomson: So, on the heritage book, that all sits together in one administration unit that we have with Diligenta, so we do not differentiate on the way we have written the fund. Obviously there are many, many different products in there that we administer that go across many, many different investment funds but from a customer perspective, we service them in a general way, making sure we cover all those products and all the features.

In terms of what agreements we have signed and what they look like, they are fairly typical industry agreements. You will see on the BPO relationship, which is with Diligenta, which is the UK-regulated part of TCS, that is a ten-year deal, as most of these deals are, with the level of money you put in and then the profile you get out. Obviously there is a lot of longevity in that customer base, so it makes a lot of sense for them and us. But, really we are working through all the upfront transformation of that to complete well in line with the 2022 guidance we have given.

Then, in terms of the IT piece, it is slightly different but the IT relationship we have is with the TCS parent and they look after our legacy data centre infrastructure. That typically sits as a five-plus-two deal, again fairly standard in the industry. There is lots for us to evaluate through the life of that deal. We are looking at physical infrastructure versus cloud-based infrastructure, what sort of synergies we can get, not just on the immediate running costs but also future, looking into growth and growth marginal cost. Really we are trying to get a lot more of those costs fixed and we grow without needing to scale those at a similar kind of rate. They are long-term deals which allow us to really look at that innovation.

Dominic O'Mahony (Exane BNP Paribas): Sorry, just on the Rothesay piece?

Roddy Thomson: Yeah, with Rothesay, when it all goes through, we will continue to administer, and there is a relationship with Prudential. We will continue to administer those policies for a period of time. Rothesay, when you look at what they do typically in the market, they use Capita for a lot of administration and at a period of time, you can expect that to transfer. We have gone through a fairly extensive process of making sure the information, the branding and everything, the data and customer data is separate as part of doing that. We are in good shape for that ahead of waiting for final feedback from the courts.

Andrew Baker (Citi): I think you mentioned earlier, of the transformation expense savings, I think £60 million on the heritage book. Has this been taken in the Solvency II ratio yet, through lower unit-cost estimates' and if not, when do you anticipate that will be recognised? Any idea on magnitude would be great.

Clare Bousfield: On the cost savings, the £145 million is the cash savings from the transformation. We have booked some capitalised savings, particularly from signing the Diligenta agreement with TCS, in terms of the capitalised impact, but there is still a reasonably significant amount to come through.

Spencer Horgan: Thank you so much to all of you for coming, it has been great to see so many of you here. We really appreciate your interest in our story and we look forward to seeing you next time. Thanks.

[END OF TRANSCRIPT]