M&G plc
Business Update and Q&A

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WELCOME

Spencer Horgan, Director of Investor Relations, M&G plc

Good morning everybody and thank you for joining us. You will have seen the two pieces of news in our announcement this morning. Firstly, a quarterly business update which we are doing by exception in this unprecedented situation and secondly, we have announced the acquisition of the Ascentric digital wrap and wealth management platform in the UK market. With me as usual I have our CEO, John Foley and CFO, Clare Bousfield. Also joining us in the light of the transaction we have announced is David Macmillan, our Chief Customer & Distribution Officer. I will hand it over to John for some opening remarks and then we will be ready for the Q&A session. In that session we will not be providing additional financial details over and above those you will find in the press release.

BUSINESS UPDATE

John Foley, Chief Executive, M&G plc

Good morning everybody, thank you for joining the call, especially at such short notice. I really hope you and yours are all coping in this unprecedented environment that we find ourselves in. As Spencer has outlined, this is really a quick opportunity for you to ask us some questions around the acquisition of Ascentric. Let me say that we are doing this deal from a position of strength, as you have seen from the release. That release demonstrates the financial resilience of M&G and it has been that way throughout this pandemic.

My key message is that the acquisition of Ascentric will accelerate our growth strategy in the UK. For M&G this deal not only brings a well-established wrap platform used by more than 1,500 advisors and over £14 billion of assets, it also takes us as a company into wealth management through Ascentric's discretionary fund management service. That business compliments our existing Prudential and M&G offering in the UK and strengthens our position in our home market which is essentially why we did the transaction.

Over time Ascentric will enable us to offer more Prudential and M&G investment solutions to more advisors and their customers across a greater range of tax wrappers and surface propositions. I am not going to eat into the Q&A session anymore than that. I am glad we have got David on the line so I will hand it back to you, Spencer to coordinate the Q&A. Thanks.

Q&A

Andrew Sinclair (Bank of America): Good morning everyone. I will keep it to two from me, please. Firstly, I wonder if you can give us a bit of an update on PruFund. What have you seen in terms of advisor and client reception recently and flows since the markdown? Is there an appreciation of the relative outperformance of PruFund or surprise around the markdown? Secondly, on the £2.2 billion cumulative capital generation punchy target being reiterated there today. I wonder if you can help us reconcile how you get to that £2.2 billion despite the market moves in Q1. Thanks.

David Macmillan (Chief Customer & Distribution Officer, M&G plc): On PruFund, as I think we have said before, we have a very solid advisor base that clearly knows how that product works and is designed to work in respect of big market corrections. So yes, we saw price adjustments go through. No surprise there, as I say, and certainly there was a clear expectation that was going to happen. I think with respect to PruFund what we have seen is the usual crisis where you will have some people tapping cash. You will have some advisors moving still on our products into cash and PruFund. They will inevitably come back but we have not seen anything particularly different from that which we went through the last time we had a financial crisis. The proposition stands up to that scrutiny.

Clare Bousfield (Chief Financial Officer, M&G plc): The one thing I would add to that, David, is the unit price downward adjustments were between 10% and 14% against an equity market down 25%-30%. In terms of actually what the proposition is doing it is absolutely doing what they expect it to do in terms of smoothing out some of the volatility. There are a number of funds that potentially will have a positive movement effectively as the market has gone through a rebound. Again, it is doing exactly what is expected.

Andy, on your question on capital generation, I look at this in two ways. Firstly, we are five months into a three year period and therefore from a market perspective, yes, we have seen a fairly volatile market in that first five month period and that has undoubtedly made that £2.2 billion more stretching, but there is still well over two years in terms of market position. The other aspect I would draw your attention to is if you look at the history over the last four or five years in terms of the level of management actions that we are capable of delivering in terms of that track record, that is overall we are comfortable to commit to that £2.2 billion. Now, as I said, it is definitely stretching. We also delivered in the first quarter management actions that were broadly in line with what we have delivered before. That is why we are committing to that target.

Andrew Sinclair: Very good, thank you very much.

Andrew Baker (Citi Bank): Hi guys, thanks for taking my question. You just mentioned the management actions you took in Q1 to strengthen the solvency position. What exactly did you do here and what was the benefit to the ratio? Then secondly, on PruFund and potentially taking that to Europe, are those discussions still going on or have they been put on hold because of the crisis? Thank you.

John Foley: On the European aspect of PruFund, no, those discussions are not on hold and I think we told you back last time we did a briefing that we were in discussions with two different partners in two different markets and close to signing MoUs with those partners. I can now confirm that those have been done. The PruFund in Europe proposition continues at pace which I am pleased to report.

Clare Bousfield: On the management actions, I am not going to go into the details of the exact magnitude and the exact details of them, as Spencer highlighted upfront in terms of more detail on the numbers. However, as I said, the level of management actions were consistent with the prior period. They were around areas like asset trading and also the overall provisions on the balance sheet. As we have said before, those management actions were management actions we took without giving up overall value in terms of profit. Again, that is something we have been consistent around is that we will not just take management actions where effectively it is cost on ongoing profitability going forward.

Ashik Musaddi (JP Morgan): Good morning John, Clare and David. First of all, can you share some thoughts about how you see dividend. I guess it is too early to talk about 2020 dividend but how should we think about dividend? You have clearly reiterated that you will pay the 2019 dividend which I think is good news from an investors' perspective but how do you see a dividend for this year? At what level of capital do you think that dividend will go into a question mark? Especially given the discussions that you are having with the regulator, what sort of discussions are they? Second, it would be great to get some colour on cash flows. How should we think about capital generation, especially in the Life business? Have the cash flows from the heritage or annuities business gone down because of weaker markets or have the smoothing mechanics helped you maintain the sustainable level of cash upstreaming or cash flows that you think will get upstream in the future? Has that been offset because of smoothing? One last question is about the investment in this new platform. How much money do you think you are going to spend in building this platform like Ascentric? How should we think about that? Are we talking about triple digit million numbers here or are we talking about double digits? Any thoughts on that would be appreciated. Thank you.

John Foley: We are going to reiterate what we previously said on dividend but you can take them Clare.

Clare Bousfield: Ashik, on the dividend forecast, to Johns point, the dividend is obviously linked to capital generation. Our dividend remains in terms of stable and increasing. Clearly, as part of the discussions that we have with our Board and the regulators, we are looking at the affordability of the dividend but also the sustainability of the dividend. However, all of that is subject to markets and market volatility.

From a cash flow perspective in terms of the heritage book one of the benefits of being an asset manager and an asset owner is the diversity of earnings that we have and the stability that comes particularly from the heritage business. Clearly, in terms of the annuity book, credit is one of the key areas but fundamentally in terms of the key solvency II generation, that is relatively stable. However, credit is the key area and downgrades and defaults are the key area of risk in terms of that annuity book. We are very comfortable with the credit portfolio that we have and you will have seen in the trading update some details around the level of credit risk that we have got. As we say, we have not experienced significant downgrades and no defaults over this period.

From a with-profit, in terms of the shareholder transfer, the key element around future earnings is the level of equity markets. Obviously, the lower the equity markets are, the lower the future value of the shareholder transfer is and that affects the ongoing earnings in terms of that book. However, relatively smoothed because of the underlying diversification of the assets that the with-profit fund invest in.

In terms of the Ascentric platform, firstly I would say that at £14 billion that platform is still getting to scale. As part of the acquisition we absolutely acknowledge that there will be investment into that platform but it operates well. That gives us flexibility in terms of when we need to put further investment into it and also what we are able to do is leverage off the investment that we have made across the broader business from a transformation perspective and effectively bring the front-ends of the two platforms together so that we can create effectively one proposition, recognising the two are basically providing quite different outcomes to our customers and to our advisors.

Ashik Musaddi: Thank you, Clare. One follow up on the cash flow. It is clear that if equity markets are lower your shareholder transfer from with-profit will be lower but is it fair to say that part of that is offset by the hedging gains that you might have seen on your hedges of with-profit?

Clare Bousfield: That is right, Ashik, yes, absolutely.

Ashik Bousfield: Thank you, that is very clear. Thanks.

Dominic O'Mahony (Exane BNP Paribas): Good morning all, hope you and yours are well and thank you for this update. Three from me, if that is alright. The first is I realise you will not give numbers but clearly the flows numbers that you have given are through to Q1. Can you give us maybe some qualitative commentary on what flows have been like so far in Q2? In Retail in particular I think is probably the area that is of most interest. The second question is on performance. Could you give us some sense of how the performance has been going so far this year in terms of quartile in the asset management business? Then thirdly and I guess more broadly, John, the transaction from the way you describe is an important part of a wealth proposition. I wonder if you might expand a little bit more on what you are see as your strategy there. This presumably is a building block within your wider thinking. Maybe you could flesh out how you see M&Gs proposition and prospects in that segment. Thank you.

John Foley: Thank you, Dom. The flows situation, it has been a mixed bag. March was not at all good. That stabilised in April. I do not want to say too much more about that. I would also make the point quite strongly that our Institutional business continues to go from strength to strength and the PruFund proposition, as Clare has already said, is doing what it says it would do on the tin. Overall, I would say things have improved since March, for sure. That was a lumpy old month. On the performance, and that is obviously one aspect of it, we have been working hard on the biggest funds to make sure that we understand what is going on in terms of relative performance. That too is improving but we are not going to update with specifics at this time. I will pass to David on the strategy for wealth since we have the benefit of him on the line.

David Macmillan: I think John, Clare and myself at various times have made clear the criticality of the UK wealth market to our business. It is fair to say that this acquisition is absolutely in the sweet spot of your building block observation. Post-RDR in the UK a significant number of wealth advisors moved, as I am sure you know, to discretionary fund management as a service model where they clearly take much greater interest in the underlying investment mandate. That is not particularly an open architecture play. That is a very specific discretionary decision making framework that allows advisors to pick and choose who you work with. What we get with respect to this transaction is technology, capability and frankly people that we simply do not have in our business today who have clearly got demonstrable expertise in model portfolios and DFM construction. If I look at it through a lens of both of our operating brands we have with this acquisition the opportunity now to seed M&Gs asset management capability in the shape of solutions, sub-advised mandates into a range of models and into a range of distribution relationships we simply do not have today because we have not been participating in the wealth space. It opens up a very different waterfront of distribution. It certainly opens up a very different waterfront of innovation for asset management. Then on the Pru side frankly the demand for a wrap-based account that would have PruFund as an anchor in a series of model portfolios has been something that we have been looking at for more than a year now. What this acquisition does frankly is accelerate getting to market with that proposition, probably 2-3 years in advance. It may be a small acquisition but it is a huge capability gain for us.

Dominic O'Mahony: Thank you very much, that is really helpful.

Louise Miles (Morgan Stanley): Good morning, everyone. Three questions from me, please. Firstly, looking at the flows out of the retail asset management business, which are £5.6 billion in the first quarter, we wonder if we can get a bit of flavour for which funds actually had those significant outflows. Then our second question is on the deal. What kind of technology platform is Ascentric actually using and does it need an IP infrastructure refresh or any kind of significant investment? Then finally, we are getting a lot of interest from investors especially about ESG and how insurers especially have been responding to the COVID-19 pandemic. What we have seen others do is contribute medical equipment, made charitable donations and they have even seen cuts in executive pay across the sector. We are wondering what kind of measures M&G have actually introduced. Thanks.

John Foley: On the flows question in terms of which funds, inevitably the biggest funds which have seen the most significant outflows in March. As I have already indicated, that significantly stabilised in April. We are not going to go into any more detail than that, Louise. In terms of any significant investment in the platform, I think between David and Clare they have already answered that. Unless there is anything else, Clare or David, you feel like augmenting to your previous answer?

David Macmillan: Probably one comment, John, I would add. For clarity's sake, Ascentric has already re-platformed to the very same technology that we use from a company called Bravura. We are effectively operating both businesses on the same fundamental software, so we are not looking to change that.

John Foley: As to your last question around all those blended ESG issues, we have as a firm been donating to the various frontline charities since the absolute beginning of this pandemic. We have got a number of people that we work with already in the charity space, as you can imagine. Inevitably we have had a whole host more people come to us since this started. Our view has been that we will give money where it can be deployed rapidly and with significant frontline impact. The charities we have been working with have been precisely those as well as the usual charities that we work with. I am personally not a fan of shouting our activities from the rooftops when it comes to things like charitable giving and so on. The staff have done a tremendous job in giving to charities, not only their money but also their time. A lot of that has been going on. We have regular updates with the staff around the business to find out what they are contributing and the firm matches those contributions as well. There is a lot that goes on from within on the charitable front and I am very proud of it quite frankly.

When it comes to other matters, we will make announcements if relevant about those in due course. You talk about cuts in salaries and so on, we have furloughed no staff. We have not made people redundant. I have gone out of my way to hopefully be supportive to our colleagues so that they understand that the firm will support them during this pandemic. We as an investor are very keen to ensure that the companies we invest in treat their employees appropriately and fairly. That is what we absolutely do. We put our customers and our staff first in this crisis and we continue to do that. Thank you.

Louise Miles: That is great.

Andrew Crean (Autonomous Research): Good morning all. May I ask three questions? Firstly, why did the solvency margin not rise from the end of March to now given where markets have been? Secondly, it is difficult from the net flows on the retail side to understand are you still targeting and capable of generating £10-£15 billion of gross flows this year from PruFund? Thirdly, on the adjusted operating profit of £134 million can you talk at all about how that squares with ambitions and consensus for the year? What I am really after is seasonal issues which might bring profit in, in another quarter, like management actions and things like that. I understand the £134 million is very little from the with-profit fund in the first quarter and we are also slightly surprised that there is a negative mark-to-market on corporate assets of £43 million. Why is that not below the line?

Clare Bousfield: On the solvency margin post 31 March, if you look at what has happened to interest rates, Andrew, they have dropped in that period which has offset the positive from an equity market perspective. It is the interest rate movement that is the main driver. In terms of retail flows around PruFund, as David said earlier on, PruFund is doing exactly what we expect it to do in terms of impact. The flows have maintained the levels that we saw in 2019 although in the period around about March we definitely saw some reduction in new business flows predominantly driven by the advisors access to digital and mobile capabilities. However, that is definitely starting to pick up post the end of March.

From an operating profit perspective, the main area where there are one-off items is the line that you call out, the corporate centre, and there are two items in there around the FX on the US-denominated debt. We have got revenue that is US-denominated as well so from a hedging perspective we took the position that the US debt that we had matched with the revenues. Unfortunately, from an accounting perspective the two do not end up in the same line in the P&L which is why you get this hit into the corporate centre into operating profit. Then the second piece is we have some seed investments that we make as part of supporting the investment proposition. Obviously, the market impact of those impacted and those we have historically put through the corporate centre instead of below the line. However, those are the main two drivers of those one-off items in the corporate centre.

Andrew Crean: On the heritage side do management actions tend to be fourth quarter related? Is there a seasonality around the management actions there on an IFRS basis?

Clare Bousfield: We took some management actions in the first quarter. Historically we have done that before in terms of first and second quarter and they have tended to be more front-end loaded than back-end loaded. However, there is no reason for that. The big assumptions review that we do, we typically do in Q3/Q4 but at first quarter we did do some management actions that will have had a fairly small impact on the heritage book. As I said, they are broadly in line with what we have done historically.

Andrew Crean: Great, thanks.

Gordon Aitken (RBC): Morning, thanks, three questions please. First on PruFund, what is the surplus currently in the fund? Secondly, if you can talk about your annuity liabilities and how they have been performing during the crisis. Connected to that, in terms of the base table what experience will you be bringing into the 2020 results? I am assuming like others you use a five-year rolling average. Will it be 2015-2019? The question is really when will you bring the 2020 experience in? Will it be the 2020 results or the 2021 results? Finally, on the acquisition in these wrap platforms I know you are making money across the different value chain but a big goal is to make money on the asset management side. You mentioned that as well. In terms of Ascentric's current assets, what proportion are in Royal London's asset management products and what do you hope that potential will be for M&Gs products? Thanks.

Clare Bousfield: I do not know the exact number in terms of the surplus in the with-profit fund, Gordon. It is of the order of £9-£10 billion, is effectively the estate on the with-profit fund. The with-profit fund in terms of the solvency as we have gone through the crisis has held up very well and that is driven by the diversity that we have in the underlying asset. It has performed well, as you would have expected, and at year-end we showed the sensitivities and the resilience of the fund itself, which as you would have seen, was very resilient. From an annuity liability perspective there are two aspects to this. Firstly is the longevity and then secondly is the discount rate and obviously the credit element around it. As I said earlier on, the credit portfolio we are very comfortable. It is positioned conservatively. That was a proactive decision and what we have seen in terms of downgrades and defaults is well within our expectation. Obviously, that is something that we are watching very closely, also in terms of managing that credit portfolio.

In terms of longevity the 2020 experience will not come in until 2021 but whenever we are doing analysis of the longevity experience what we are always doing is looking forward and looking at the data, whether it is market developments in terms of what is going on in medical conditions. Obviously, COVID-19 is something that is potentially a one-off but also potentially has some impact in terms of longer-term trends. We will take that into account but much more from an expert judgement perspective than necessarily data because you will have limited data in order to be able to effectively do the experience. As I think you know, we are on CMI 2017 so when we do the longevity assumptions review later this year we will obviously look to move to CMI 2018 but as part of that we will also look forward at 2019 and 2020. Longevity is going to be a key area of judgement this year and there are lots of different elements that we all need to take into account, recognising there will still be a degree of uncertainty in terms of what the data and the experience actually looks like.

From an acquisition perspective, on the asset management side you are absolutely right that one of the key things here is to leverage the strength of our asset management capabilities and our investment proposition in the way that we service the clients and customers on the Ascentric platform. Royal London certainly has a percentage of the book invested in their own assets. Off the top of my head I do not know the percentage but it was not enormous and there is definitely an opportunity to enhance that into the future. Absolutely, in terms of the platform at £14 billion the importance of generating flows, taking advantage of the scale and the fixed cost of the underlying technology is absolutely fundamental to the strategy.

Gordon Aitken: Thanks very much.

Spencer Horgan: I think we are out of time. Thank you all again for joining us and for your questions. If there are any others please do not hesitate to contact the IR team. Stay safe and goodbye for now.