M&G plc 2020 Half year Results

Video Transcript

Welcome & Business Review

John Foley, Chief Executive

Good morning, and thanks for joining us.

I am pleased to present a resilient set of results in what is a challenging market.

I want to spend a little time talking about the challenge of Covid-19 for our business, how our customers have reacted and how we have responded. And I want to update you on our progress in positioning M&G for sustainable growth, including the acquisition of Ascentric in the UK and PruFund in Europe. Clare will then take you through our financial figures in more detail.

Resilient performance in a challenging market

Financial highlights

So, let me start with the key numbers, which you can see on this slide. These show the financial resilience of M&G throughout this current crisis. They also demonstrate clearly the benefits of our unique business mix as asset manager and asset owner.

During the first six months of this year we generated adjusted operating profits of £309m. Assets under management and administration slipped by just 4% to £339bn, largely reflecting the market falls in March. It is worth noting that at the end of June the FTSE 100 index of leading shares remained 18% lower than at the start of the year.

We generated more than half a billion pounds of operating capital, which was more than offset by the swing in markets, to take total shareholder capital generation to a loss of £202m. Shareholder solvency at 164% is not far away from the level at which we listed our shares in October. The ratio has remained comfortably above our risk appetite throughout the entire first half.

Our ability to deliver these resilient financial outcomes demonstrates the strength of our diversified business model. As always, the Heritage business the Prudential pensions, bonds and annuity funds in the UK is vital to the mix. It provides a strong and long-term underpin to earnings and capital generation.

On the basis of this positive performance, we are declaring an interim dividend of six pence per share, in line with our dividend policy of stable or increasing pay-outs. We'll continue to monitor developments carefully, and we do not expect to increase dividends as long as the threat of Covid-19 persists.

We also remain committed to our capital generation target of £2.2bn by end 2022 a target which has become even more ambitious given market developments. Cost control is always a focus. We remain on track to meet our £145m annual cost savings target in full year 2022.

The impact of COVID-19

Stepping up to continue delivering to customers and shareholders

Obviously Covid-19 and its economic disruption are having an impact on our customers and on our business. Throughout the pandemic, our priority has been the well-being and safety of our colleagues, the continued service of our clients and customers, and the sustained long-term health of the business.

I will talk about how our different groups of customers reacted shortly, but let me first talk about our operational and financial response.

Operationally, we responded quickly to government restrictions on public movement to enable remote working, first in Asia and then across Europe, and then the UK. Right now the vast majority of our 6,000 colleagues continue to work from home. There will be no meaningful return to our offices in the UK before September. As many companies have noted, the crisis has accelerated the adoption of digital ways of working. In some cases we did in three weeks what we planned to do in three months.

Productivity rose too, advisers in our Prudential Financial Planning network used digital technology to increase their level of engagement with clients. The crisis has affirmed that digital ways of working enable us to improve the customer experience and reduce our operating costs.

We now have work underway, to capture permanently, the financial and environmental benefits of the past five months. Our ambition is that most colleagues will work no more than two or three days per week in an M&G office. This will help reduce operational footprint costs, be kinder to the planet, while giving our colleagues more freedom through flexible working.

As I have touched on, we have remained financially robust throughout the pandemic. We paid out the 2019 final dividend in full at the end of May. Our balance sheet is strong and of high quality. In our 23bn shareholder annuity book, 83% of the bond portfolio is rated A- or above. Year to date, we have experienced no credit defaults in this book, a record we have maintained since 2011, we have seen only minimal downgrades. We continue to take proactive management action to maintain the robustness of our balance sheet and the With-Profits Fund.

Our financial resilience has meant we have not sought any government assistance.

The virus has clearly led to greater uncertainty for customers and clients, here again, our differentiated offering has stood us in good stead.

The long-term and stable nature of our Heritage business means we have seen little change to behaviour among our five million Prudential policyholders in the UK. There's been no disruption to annuity payments and no surge in redemptions.

In our Savings and Asset Management business, the response of clients has differed widely. In our growing institutional business, clients came to us to seize opportunities created by the disruption to markets in March and April. During the first half, we won £2.8bn of net new institutional money, mostly in new public fixed income mandates, but also with wins in alternative credit and infrastructure.

In UK retail savings, the PruFund proposition has done exactly what it says on the tin: it's cushioned customers from the worst of market falls. However, this is an advised proposition and restrictions on movement have made it difficult for many IFAs to see clients. In this context, positive net inflows of £800m for our retail savings business during the first six months are a good result.

The positive performance from institutional and retail savings helped to off-set outflows in retail and wholesale asset management. Here, clients were quick to react to the market disruption, taking risk off the table and cashing in their most liquid investments. Net outflows peaked in March but have now returned to more modest levels. Retail clients tell us they are still reluctant to commit new capital to markets while there is a prospect of further spikes in Covid-19.

Investment performance is key to the success of our business
Solid performance for PruFund and Institutional, weaker in Retail

As ever, investment performance is an important driver of business performance. In these charts, you can see that our institutional asset management teams continue to deliver excellent returns for both external and internal clients.

For external clients, the institutional teams have matched or exceeded their agreed objectives on almost 80% of mandates on a three-year basis; this percentage rises even further, to 85%, on a five-year basis. It is a truly remarkable achievement which we have consistently delivered year after year.

In retail and wholesale asset management we have more to do to improve performance and overall value for customers. Our institutional business is now a larger part of our business mix, but retail asset management remains a vital franchise for us. Performance recovered across the range in the second quarter, but we still have work to do to consolidate this improvement. Jack Daniels, our Chief Investment Officer, is leading a strategic review of our retail funds range.

This is part of a wider programme to revitalise our retail proposition in light of changing customer behaviour. Along with a review of fund pricing, we are developing new ESG strategies for retail investors, the latest of which we expect to launch by the years end.

Now PruFund is underpinned by the Prudential £136bn With-Profits Fund, a highly diversified global portfolio of public and private assets. Over the past twelve years, the growth option in PruFund has delivered strongly positive returns for customers, who have also enjoyed the benefits of our unique smoothing mechanism.

Our strategy priorities and delivery
Positioning M&G plc for sustainable growth

Now I want to turn to our ongoing work to position M&G for sustainable growth both in the UK and internationally. This next slide is a reminder of the priorities we set out in March, how we have delivered against those priorities, and what we intend to deliver next.

I will go into the details in subsequent slides which cover the main pillars of our growth strategy. They are:

- To revitalise the UK retail business
- Grow Europe
- Build our international presence
- And expand our institutional business

But first, a quick reminder of the opportunities. Demographics and persistently low interest rates are stoking demand for risk investments. Most people want a trusted financial partner for their long-term savings. M&G is well-placed to be the partner of choice.

Our business mix is a real differentiator, it means we have some unique offerings, including:

- Smoothed returns, backed by our With-Profits Fund
- Solutions for institutions built on the insights of the asset owner
- And private assets as an integrated element in our solutions business

And add to this:

- Our balance sheet strength
- Our network of distribution relationships
- and our two respected brands.

Let's now look at the progress on delivery during the first half of this year, starting with the UK retail market.

Revitalise the UK: Expanding reach and proposition
Building our offering to access the wealth market

In the UK, we have strong positions in savings for the mass affluent through PruFund and our Retirement Account. We serve the more affluent end of the market through our M&G fund range. Our strategy is to protect and enhance this position.

By expanding our offering and embracing digital technology, we can add new advisers and new customers. Ultimately, this will win us a greater share of the savings wallet.

As you can see on this slide, an important step in this strategy is the acquisition of Ascentric. It strengthens our market position and takes us firmly into UK wealth management.

- Ascentric brings over £15bn of assets under administration and relationships with 1,500 advisers representing 90,000 customers
- It accelerates our growth strategy by giving us a proven set of tax wrappers for our investment propositions
- And brings us the capability to offer our product through discretionary fund management portfolios

Grow Europe: Three priorities to capitalise on existing strengths
Leveraging established relationships and investment proposition

Now we have been in Europe since 2002, building strong relationships with our distribution partners and gathering substantial assets under management. Our strategy is to build on this record of successful growth, deepening our client relationships and bringing a PruFund-like offering to our partners there.

Delivery in the first half of the year includes:

- Signed memoranda of understanding with two banks, in different markets, for the distribution of a PruFund-like proposition
- First flows into these propositions are expected by the end of the year, provided Covid-19 allows and we have the optimal structure for it
- We won seven new contracts to provide investment solutions to European distributors, with vesting to begin in the second half
- We began exploring an asset management service for European insurers looking to outsource portfolio management activities

Build international investment expertise: An integrated capability led team
Broadening capabilities and geographic coverage

The third pillar of our growth strategy is to build out our international presence. Key to this is how we organise our investment capability so that we can deliver at scale. Here's what we have delivered over the past six months:

- Following our hiring of an Asia Pacific Equity team last September, we have brought £6bn of assets back in house from EastSpring with £3bn of further assets expected to follow later this year
- We have established a US investment hub in Chicago, which we intend to grow to about 30 people over the next twelve months, Covid-19 permitting

- Research and sustainability teams have been brought together with a view to ensure the integration of ESG into all products and propositions
- We have created a single private assets business with combined assets under management of over £65bn so that we can provide across the waterfront services to clients

Expand institutional: A successful, growing franchise
Currently focused on the UK market and Private Pension funds

Now, the fourth growth pillar is further expansion of our institutional business. I believe this is an under-appreciated part of our business mix, whose success over the past twenty years stems directly from the asset owner – asset manager relationship. During the first half, we had notable mandate wins in Japan, the UK and Europe, as pension funds have sought to de-risk their portfolios by allocating more to public debt and private assets.

We are very proud of having delivered sizeable institutional net inflows in this challenging environment, but we are hardly surprised by this result. The institutional business has delivered net inflows in four of the last five consecutive years, once you take out the expected redemption of a £6.5bn very low margin mandate in 2018. Total assets under management for external clients now top £81bn, making this our largest investment franchise for external clients by some margin.

Key messages

Turning to the outlook, I remain optimistic about our prospects. Capital markets are likely to remain volatile while there is a fear of further waves or spikes of the Covid-19 virus. In such circumstances, we expect savers and investors to favour companies with diversified investment capabilities, including smoothed returns and strong brands.

We remain committed to our £2.2bn target for capital generation by end 2022, encouraged by the resilient performance of M&G through this crisis, and the value of our unique business mix, assuming we see more normal market conditions from here. And because of the actions we have taken during the first half of this year, we are increasingly well-positioned for sustainable growth in our chosen markets, once investor sentiment improves.

I'll now hand you over to Clare.

Financial Review
Clare Bousfield, Chief Financial Officer

Thank you John, and a warm welcome from me to our first set of interim results as an independent company.

Financial highlights
Positive performance in a challenging market

It's certainly been an early test of our resilience, but while we are new to the stock market, we are not a new company. We have a long track record of navigating volatility over our more than a 170 year history, and a team today with a truly enviable amount of experience.

I think we have demonstrated our resilience as this crisis unfolded, both operationally and commercially as John has described. As I will show you our financial position has clearly shown its robustness. All of this is testament to the quality and commitment of our people around the world.

Despite the crisis, solvency at the end of the first half is only a few points below the 170% target we set out at the time of demerger. The market impacts from COVID and the payment of our first dividend have been offset by our continued strong operating capital generation.

We delivered adjusted operating profit of £309m in the first half. The demerger has had a significant impact when you compare to last year. Firstly, the interest and the head office costs which we did not have a full years impact in 2019, and secondly the longevity release and the changes to the staff pension schemes we made in the first half of last year.

In the first half of the year 2020, we had market movements from the COVID crisis which impacted operating profit. And finally, and most importantly, our underlying business has delivered materially stable profits. This is a great result in the current environment.

That's not saying we haven't been impacted by the crisis, but as we have said the benefit of being an asset manager and asset owner provides diversification of earnings, and that's exactly what we have delivered in the first half of 2020.

Net client flows and AUMA

Assets under management ended the first half at £339bn, down by 4% from the beginning of the year, but recovering from the £323bn at the end of Q1, predominantly driven by the recovery in the markets.

Net flows in Institutional asset management were a healthy £2.8bn, and despite the market conditions, we've continued to grow the assets under management over the first six months, demonstrating once again the strength of the institutional proposition.

Our retail savings business, which is primarily PruFund, delivered net inflows of £800m in the first half, below the £3.2bn delivered last year.

We saw two impacts linked to the crisis. The first is that we sell PruFund only on an advised basis, lockdown restricted advisors ability to conduct business. Secondly, one of our strengths is our pension proposition, and as you can see from industry data, there has been a significant drop in the flows on pensions business during

the market volatility. This isn't a surprise given the importance of advice in the pensions arena and recognising this was a time when our customers minds were not on making long-term investment decisions. One of the key reasons for the Ascentric acquisition was to broaden our capability from pensions and bonds into the full range of tax wrappers i.e. including ISAs and GIAs.

We saw gross inflows start to fall in March, reaching quite depressed levels in April and May, but with a slow recovery starting to set in from June. Secondly, we saw an increase in customers wanting to access cash, particularly as markets crashed. Gross outflows were elevated in March and April, but then rapidly returned to pre-crisis levels.

In line with the industry, net client flows remained challenged in retail asset management, with £7.7bn net outflow in the first half of 2020. More than half of that occurred in the month of March alone. The pace of outflows slowed significantly in the second quarter and this trend of reduced net outflows has continued.

As John comments, investment performance has continued to be strong on with-profits and our institutional propositions. Both increased risk as the markets dropped and as a result have taken advantage of the market recovery. Performance on retail asset management has been more volatile. Both Optimal income and the multi asset funds were positioned for a positive economic backdrop coming into the crisis. These caused them to underperform as the crisis emerged, but they have held these positions, and benefited from the market rally.

Adjusted Operating Profit by source

Looking now at the adjusted operating profit by segment. The headlines are that in Savings and Asset Management we had lower earnings from asset management, which I'll come back to in a moment, and a small reduction in with-profits. Unusually, we have a negative result in the "Other" line, this is due to some crisis-related effects, including investment losses on seed capital investments as we referred to in our Q1 update.

In the Heritage segment, most of the year on year variance comes from positive one-offs last year. As I'll show you shortly, the underlying performance has been resilient.

Lastly, in the Corporate Centre line, as I referenced before, half year 2019 did not include debt interest and head office costs as a result of the demerger, which were £127m in the first half of 2020, in line with our guidance. In addition, we had a 30 million negative foreign exchange impact on our US dollar denominated debt, partially offset by investment income on other assets.

Sources of earnings
Asset Management

Moving into the Savings and Asset Management segment: In asset management, revenues were down 8%.

- In our retail book, average assets under management were 11.5% lower than the first half last year, while revenue margins compressed from 58 basis points in the first half last year, to 50 basis points, as a result of the ongoing industry margin pressure and our own actions on pricing taken in August last year.
- In Institutional, performance has been very good. Despite the crisis our average assets under management grew by almost 6% over the first six months, driven by both strong net inflows and positive investment returns. Revenue margins widened slightly to 28 basis points, reflecting our ongoing focus on value added and bespoke solutions.

- In terms of the overall assets managed by M&G, one last thing to note is the internal assets under management which increased by £3bn to £126bn. During 2020, as John mentioned we moved £6bn of with-profits assets previously managed by Eastspring to our fund management team in Asia, driven by the investment capability we acquired in 2019.

Expenses grew by 3% to £306m, but asset management's share of the changes to the staff pension scheme flattered the comparative by £35m. Excluding this effect, expenses fell by 8%, matching the change in the revenue. This was driven by lower facilities costs, and lower accruals for long term incentive plans resulting from the lower revenue. This reflects the new disciplined approach to remuneration.

The cost income ratio was 66%, up by 8 percentage points since the first half last year but again due to the one off pension credit. The ratio last year excluding the pension benefit was 65%, leaving a 1 percentage point underlying deterioration year on year.

Sources of earnings
With-Profits / PruFund

Moving on to our retail savings business, which includes PruFund. The net inflows I referenced before were more than offset by market impacts, with PruFund assets under management falling slightly from £54bn at the year end to £52bn. However, we delivered resilient profitability despite the difficult backdrop.

The shareholder transfers are driven by the investment performance of PruFund, and there was a negative impact of £8m from the downward unit price adjustments that occurred in March. The equity hedging programme we have in place partially offset this, with a £3m favourable result compared to last year.

Sources of earnings
Traditional With-Profits

In the Heritage segment, our with-profits book was also resilient. Shareholder transfers were slightly higher year on year reflecting the good investment performance realised in 2019. As in the retail savings business, we've also seen an improvement in the hedge result, as would be expected given the declines in the equity markets. The overall operating result increased by 13% to £110m.

Sources of earnings
Shareholder Annuities & Other

Adjusted operating profits from our shareholder annuity and other book fell by £191m to £188m. Most of this is explained by the longevity assumption changes and changes to the staff pension schemes last year, as I referred to earlier.

The return on excess assets and margin release on the annuity book fell from £118m to £94m, mainly driven by lower investment returns. As we spoke about last year, this reflects the loss of income on surplus assets, which we passed up to the M&G plc parent company ahead of demerger.

Asset trading and other optimisation fell from £63m last year to £40m this year primarily impacted by a loss on a property disposal.

On Longevity, we had a £127m benefit last year, primarily as a result of adopting CMI 17. We remain on this mortality table, and will look to the impact of adopting CMI 18 in the second half of the year. In this first half

of 2020, there is a small positive of £23m. This reflects a more minor update in respect of the assumptions around the proportion of married annuitants.

In the "Other" line, we saw a decline from £71m to £31m, mainly driven by the impact of changes to the staff pension schemes of £29m last year. Otherwise there were a number of positive and negative movements in the balance sheet provisions from year to year, which broadly offset each other.

Shareholder Annuity book - Credit quality

Lastly on shareholder annuities, the credit quality of the book. We remain conservatively positioned, with 15% of the book rated triple B, and only 2% of the book below investment grade. The exposure by sector and by issuer is diverse. Downgrade experience remains limited so far, with only 4% of the bonds having had a downgrade which changed the letter rating.

On the right hand side, you see the security of our assets, with almost 19% classified as risk free under the Solvency II model, and 60% secured. Only 1% is in subordinated debt.

Capital Generation

Now Turning to capital generation, the headline is that we've had very strong operating capital generation, more than offset by the negative market movements driven by sharply lower equity markets and interest rates alongside widening spreads. This resulted in £202m negative total capital generation.

That is clearly not the start that we had expected to our three year target of £2.2bn. We had explained at the time of the demerger why we believed £2.2bn was an appropriately challenging and ambitious target, and clearly, with market developments it has become even more stretching. We remain absolutely focused on delivering the £2.2bn, but acknowledge that we will likely need more normal, positive, market conditions over the remaining period to deliver it. And to reinforce the point I've made before; we absolutely will not take any actions that deliver short term capital at the expense of long term value.

We do have an identified pipeline of management actions that we plan to take, and you will see them coming through over the course of the plan period. As you can see in these results, we delivered almost £300m of other non-underlying operating capital generation in the first half.

Sources of Operating Capital Generation

Now to give you more colour on the operating capital generation. Underlying capital generation was £263m in the first half of the year, down from £442m last year, mainly reflecting the inclusion of central overheads and debt interest costs, and the lower asset management profitability. While underlying capital generated from the annuity book fell slightly, due to the lower surplus assets as I referenced to in the IFRS results, with-profits increased due to higher starting asset shares and lower new business strain.

Other operating capital generation was very strong at £276m, and reflects a number of management actions we took to protect the balance sheet as the crisis unfolded. The largest item is around £140m from asset optimisation and allocation within the annuity book. The other half is the net positive generated by a number of provision movements, experience variances and assumption updates, in both directions, but netting to the positive balance. These include, for example, £46m related to the change in the assumed proportion of married annuitants that I referred to earlier.

Shareholder Solvency II coverage ratio

With the total capital generation and payment of dividends, our solvency ratio fell from 176% at the beginning of the year to 164%. This remains very comfortable and not out of line with where we said we'd like to operate as a company, as we set out at the time of demerger.

Our measure of Solvency 2 debt leverage was 33% at the end of the first half, rising from the 31% we reported at year end, but slightly below 34% at demerger. We remain comfortable with the level of debt.

We have not participated in the recent trend of increasing indebtedness, particularly within the insurance sector. Given our strong capital position and the capital light business model, we have no current intention to do so.

Parent company liquidity
1H 2020 cash and liquid assets at £1.2bn

The liquidity position of the holding company remains strong at £1.2bn, slightly down from the £1.3bn at the beginning of the year. In terms of the outgo, the main element was the 2019 dividend of £410m paid in May. In addition to head office costs and interest costs, we also had the cost of acquiring our own shares for the equity incentive plans. Against these, we had £472m of dividends paid up from our operating entities.

Sources of earnings - Expected development
Key medium term drivers of Adjusted Operating Profit

Before I wrap up, on this slide we have provided the usual indications of how we expect the business to develop over the coming period. It goes without saying that the uncertainties here remain elevated, as the crisis seems far from over.

In asset management, we expect the institutional book to continue to deliver good growth in assets and revenue. As we have demonstrated over time, the investment performance and support we provide to our clients by building solutions tailored to their needs has been extremely successful. Retail flows will remain sensitive to market conditions. Medium term we are optimistic given the pipeline of actions we intend to take in the coming months.

In retail savings, we are on target to launch our PruFund proposition into Europe this year, although we wouldn't expect to see meaningful volumes yet. We expect PruFund to remain a compelling proposition in the UK market, which we can build on with the Ascentric acquisition, whilst recognising that advisor activity is somewhat constrained by the crisis for the time being.

In our Heritage book, we expect the traditional with-profits business to continue to deliver steady earnings, assuming markets behave.

Our annuity book has also continued to deliver strongly. There will be two key factors driving future results. The first is longevity, both underlying developments and as a result of the crisis. As I referenced before we will be looking at longevity assumptions in the second half. The second factor is any substantial shift in downgrade and default experience in the credit book which might occur as the economic impacts of the crisis feed through.

Though we had some market driven volatility in the "Corporate Centre" line in the first half, our guidance in terms of the underlying drivers going forwards remain unchanged in terms of head office and finance costs.

Priorities for H2 2020

I'll finish by reviewing our near term priorities. As you can see working remotely has not constrained our ability to continue to deliver. We remain absolutely focused on delivery.

On growth, we are on track to deliver PruFund into Europe, we will continue to build on our successful institutional asset management franchise. And though our Retail asset management business has faced clear challenges, as John referenced, we have plans for revitalising the business through a combination of new propositions, action on price, and leveraging the Ascentric acquisition. These will put us on a more sustainable footing to return the business to profitable growth. You'll be hearing more from us on that in due course.

We remain fully focused on delivering on our five year transformation programme to improve customer outcomes, reduce risk and save costs. We are on track to deliver the targeted £145m of shareholder cost savings by 2022.

Capital management remains a high priority, as evidenced by the strong operating capital generation in first half of 2020. We are also continuing to explore ways to best use the very strong surplus position of the with-profits fund.

Our policy of stable or increasing dividends remains in place. However, to repeat what John said: we do not expect to increase dividends from the current level until such time as the crisis is well behind us, both from a social and an economic market perspective. We'll continue to monitor developments carefully.

We are proud of the way the organisation has risen to the recent challenges. It's been a major test of us as a newly listed company to be thrown almost immediately into a major global crisis. We have proven our resilience, in terms of our people and our ability to serve our customers, as well as financially. As I said at the beginning, this crisis is not over and I have no doubt that new challenges will emerge as we move forward, but we feel well positioned and confident in our ability to face them.

Closing Remarks

John Foley, Chief Executive

Let me conclude with a few final comments. This is a really good set of results in what are extremely difficult times. They prove the resilience of our diversified business model. They also demonstrate the value of our unique offerings like PruFund. Despite the disruption, we have continued to execute on our growth strategy. And we are increasingly well-positioned for the many growth opportunities open to us as asset manager and asset owner.

Q&A with: John Foley, Chief Executive, Clare Bousfield, Chief Financial Officer
Jack Daniels, Chief Investment Officer, David Macmillan, **Customer and Distribution Officer**
Chaired by Spencer Horgan, Director of Investor Relations

Hello, everyone, and thank you for joining us for this Q&A call on M&G's First Half 2020 results. With me this morning, I have John Foley, our Chief Executive; Clare Bousfield, our CFO; Jack Daniels, our CIO; and David Macmillan, our Customer and Distribution Officer. We have about 45 minutes for your questions. And before we get into that, John, if I could pass it over to you for some opening remarks.

Opening Remarks

John Foley, Chief Executive

Sure. Thanks Spencer. Good morning, everybody. Hope you are all well. And hopefully, you have all had the opportunity to watch the video or read the transcript that we released this morning in relation to the half year results.

Obviously, the COVID-19 pandemic is not the backdrop that we would have wished for as a newly independent company. However, these are a really good and resilient set of results in very difficult times, and I think that demonstrates the value of our diversified business mix as asset manager and asset owner.

Before we move into Q&A, I want to share some late news with you. Yesterday, the FCA approved the change of control of Ascentric, which enables us to complete this transaction in September. And as you know, the acquisition of Ascentric strengthens our position in the UK savings market and will help accelerate our move into high value wealth management. So that was the update. And with that, I will take no more of your time and open it up for questions.

QUESTION: *Louise Miles, Morgan Stanley*

Hello, everyone. Just two questions for me, please, today. The first one is on cash remittances from the subsidiaries. So we saw that, that was £472 million in the first half of 2020. It would be great to get an understanding of the split between what came up from M&G Investment and what came up from PAC? And also, it would be good to understand the flavouring of the year because if you look at the full year 2019, you can see that the cash remitted from subsidiaries, excluding specials, was fairly similar to that £472 million as well. So it would just be good to understand what we should expect in the second half of 2020.

And then my second question is on the private asset capabilities. So this is something you talk about a lot in the asset management business. But when we look at the shareholder annuity portfolio, we can see that only 10% of the portfolio is invested in private market fixed income at the moment. What are the plans to increase this proportion? Are there plans to increase this? Some of your competitors have a 40% illiquid asset target. Are you thinking of doing anything similar? And obviously, this is something that can improve your margin adjustment for your investment capital. Thanks.

John Foley Thank you, Louise. So I will ask Clare to just take the cash remittances question and then I will talk a little bit about where we are at with private assets and hand over to Jack for the detail. Is that all right, Clare?

Clare Bousfield Yes. So Louise, on the cash remittances, you are right; there was £472m that came up in the first half of 2020. And it is fair to say that the split between M&G and PAC is not particularly helpful at the moment just because we are going through a transitional period as we effectively go through the demerger process.

Going forward, what we will look to do is basically pay up dividends from both PAC and M&G, effectively just before the announcement of the dividend from an M&G plc perspective, and we are just basically getting into that routine in terms of being a demerged entity.

If you look at the actual cash remittances that come up from the subsidiaries, obviously from an M&G perspective, it is largely driven by the operating profit. And from PAC, it is driven by the solvency II capital generation, and that is obviously predominantly from an insurance company perspective. But we would see that to be a very routine process. And there is really no fundability issues between the underlying capital generation and then what comes up as dividends.

John Foley Thanks. On your private assets question, we do talk a lot about it because it is a very key strength of this organisation, but it is not necessarily in respect of our own balance sheet. So the private assets business that we have built is largely off the back of the institutional business. And as you would have seen, the institutional business is now the largest third-party component of our overall business. So rather than steal any of his thunder, I will just pass it over to Jack to talk a bit about the private assets business, but he will also mention the sort of capital queue that we have on that side of the business. Jack, can you pick that up?

Jack Daniels Sure, yes. Hopefully, you can hear me okay. I mean the point you make about our strength in private assets is correct. We have been in this area of the market for a long period of time, over 20 years, so we have a lot of experience there. And in terms of how we think about private assets, there is the internal requirement for the With-Profits Fund, for the PruFund, the annuity portfolio, where we have been growing the percentage of private assets and also for our third-party clients. And it is managing those competing demands.

It is an area of the market where it is quite hard to replicate the capabilities that we have built up over a long period of time. So we will continue to grow that part of the business and the allocation of private assets will continue to be shared between third-party clients and also our internal funds, both PruFund and the annuity portfolio.

Clare Bousfield One follow-up on that, Louise. I do not know where you are getting your 10% of private assets from, but around 30% is the level of private assets in the annuity portfolio. So that might be one to just follow-up with Spencer.

Jack Daniels Yes. That is correct. That 10%, I agree, seems a bit low. It is more like 30%.

Spencer Horgan: Yes. I will give you a call back on that one, Louise.

QUESTION: ***Andrew Sinclair, Bank of America***

Two from me as well, if that is okay. Firstly, about the property trading loss on the annuity portfolio. I am probably a little bit surprised by that. I am just really looking for a bit more colour. Is there anything else property-wise in the portfolio where there could be any potential risks of a loss crystallising?

And secondly just on Ascentric. Just really wondered if you could put this in a bit more context, the acquisition for the wider savings plans. It is clearly good to get a bit more scale and more products, but I think there is still quite a distance behind some of the leading players in the platform market. And really, question is, is it possible to be a winner nowadays in the platform market without your own financial advisors? Is there any interest in a reincarnation of the Man from the Pru?

John Foley: Let us go straight to the Ascentric question. And without stealing any of his thunder, I will pass that one to David, and then Clare will pick up the property trading question.

David Macmillan: Andrew, with respect to Ascentric, I would absolutely agree with you that there have been open architecture platforms in the market for a considerable period of time. I think when we announced the acquisition in the first place, we were quite clear that in the context of our business, we see that acquisition is the opportunity to take our core capabilities into segments of the market, particularly wealth management where we have not really played, as John said, a lot of high net worth business that we know is attractive, not just in PruFund but to a lot of our M&G capabilities. We simply have not packaged that up and that is absolutely our intention.

And when it comes to the question of advice, we never ever walked away from Man from the Pru entirely and have had our own in-house advice business since around 2011-2012, which has consistently been there to look after our large existing Prudential customer base and continues to do that and has enjoyed good performance. Through the course of this year, on the back of the fact that we have been able to integrate our new advice technology in a digital sense, alongside our existing product capability, and deliver a sustained service to our customers. So those two things are obviously to be built upon going forward.

Clare Bousfield: And it is fair to say that, that business is sort of around about, sort of a tenth in size in the market, in terms of advice, so it is a reasonably sized advice business.

On the property trading loss, this was one transaction where we had an offer, and we felt it was a credible offer, but it resulted in a small loss in terms of just the way the accounting works for the annuity book. You can see on slide 32 that we have £2bn of real estate that backs the annuity book, so the portfolio is very small. We are not expecting to see any other small losses come through on that book. But as I said, the transaction, we felt economically was the right thing to do, but it did have a small accounting loss.

Andrew Sinclair Just to follow-up. Can you just confirm what was the size of the accounting loss on that transaction?

Clare Bousfield It is small; low tens of millions, Andy.

QUESTION: *Andrew Baker, Citi*

Thank you for taking my questions. First is on asset management expenses. So adjusting for one-offs, full year 2019 expenses were about £685m. Obviously, the first half run rate of £306m is materially below this. Is some of this just first half versus second half timing difference, or are you expecting 2020 full year expenses to be materially down year-on-year? And if so, what is driving that?

And then secondly, just on the regulatory solvency II ratio. So this was 136% at the end of June. I know previously, you said this metric does not drive the dividend decision, but at some point, I am sure there has to be a constraint. So are you comfortable with the 136%? And how low can it go before there is any impact on that dividend decision?

Clare Bousfield So on your first point on the asset management expenses, if you look back over history, what you see is that the second half of the year on the asset management side tends to be higher than the first half of the year. And that is driven by just some of the incentive plans and some of the unwinds of accruals that happen through the period. Now we would hope to basically level that off more into the future, but there is potentially a bit of seasonality between first half and second half of the year.

The expense savings in the first half of the year are driven by location and some of the changes in the properties that we have had. They are also driven by the reduction in travel and they are also driven by the reduction in recruitment. All of those, as John talked about in his speech, because of the changes that we are looking to make in terms of the way that we are working, the way that we are travelling, the use of mobile and digital

technology, from our perspective that is very much sustainable cost reduction in terms of how we see the business going forward. And a lot of those costs were already in our plan in terms of the £145m, because fundamentally we wanted to move from some of the higher cost locations to some of the lower cost and more flexible working in terms of that approach, together with the need to reduce the kind of travel footprint in the context of the environmental aspects around that.

On the regulatory solvency ratio. So the regulatory solvency ratio is low because the With-Profit Fund is so big and has a big sizable capital requirement. The one thing to remember is that as the solvency ratio gets impacted by market volatility, that market volatility effectively would get you to the same point in terms of zero or 100%, whether it is the regulatory solvency ratio or the shareholder solvency ratio.

So for example, if you say that interest rates at 50 bps fall and has a six percentage point impact on the shareholder solvency, it has around about a 3% impact on the regulatory solvency. So from that perspective, we do monitor the regulatory solvency ratio, but actually, it is just a functional calculation that effectively is a lot less volatile than the shareholder solvency because it has got a bigger denominator.

So all our risk appetites are set based off the shareholder solvency, and we are very comfortable with 164%, well above our risk appetite, and pretty much in line with the resilience of the balance sheet that we expected.

John Foley I am not wishing to belabour the cost question that you heard, Andrew. But we were contemplating going down this road before COVID hit. As I suspect, many other companies were as well. The fundamental belief that you could actually operate your business on a different basis with much more increased flexibility.

And, of course, as with many other companies, we have had to respond to that. And we found that we can do it and we can do it well, and it has significantly reduced our carbon footprint. And these are all cost savings that we are going to sort of try and include in the BAU, so that they are captured going forward.

Andrew Baker So maybe just one follow-up, if that is okay. So should this be thought of as an acceleration of the £145m benefit on the cost side, or is there any actual increase?

John Foley No. It is just a different way of thinking about it. I mean, we are not changing that. That remains the exact number that we have said all along. But I think what it does do is give us options around how we can deploy our resources and make them more efficient going forward. That does not necessarily mean cost reduction; it means we can probably do more. I do not know about your productivity levels, but ours have gone up actually since we have been working from home.

Clare Bousfield Yes. The other thing to remember, Andy, is we announced at the year-end results that we would basically target a 10% reduction in our headcount, and we also announced a voluntary redundancy programme. So we left the voluntary redundancy programme open, but we stopped compulsory redundancy through this period just because of the social implications and the importance of giving our staff a degree of certainty through this crisis. So some of this kind of counterbalances some of the decisions that we made at that point in time.

QUESTION: ***Andrew Crean, Autonomous Research***

I have two questions, if I might. Firstly, could you give us a sense of your net flows in June and July, both in the asset management retail savings business and the institutional, just so we can get some concept of shaping up the second half? And secondly, you mentioned something about a cut in the retail charges in your retail asset management business, I think related to performance. Is that going to be a material thing that we should think about?

Clare Bousfield John, do you want me to take those two?

John Foley Yes.

Clare Bousfield So on the flows in terms of June and July, on the retail asset management other than March and April, where we saw a significant uptick in the outflows on the retail asset management, the flows post that have pretty much returned to the levels that we saw during 2019, and that has continued through June and July.

John Foley Net outflow.

Clare Bousfield In net outflow, yes. And then on retail savings, as I mentioned in my speech, what we saw during the sort of March-April period is an uptick in terms of outflows. That pretty much reversed very quickly. But what we have seen is a dampening on new business flows, and that is basically driven by the advisors and their ability in terms of digital technology. And what we have been doing is working with those advisors in terms of leveraging our technology. But fundamentally, it is out of our control in terms of how they can do the face-to-face advice.

And because we are relatively high in pensions, that is one of the higher advice type transactions, and that is one of the drivers to why the Ascentric deal makes a lot of sense in terms of broadening our tax wrappers. Now those levels of new business flows have stayed pretty much at the sort of dampened view through June and July. Obviously, August is a month that you cannot get much evidence from because it is a holiday month. So what we are looking to do is basically work with those intermediaries as we go through the sort of fourth quarter.

And then on retail asset management, so we have guided around margins at every presentation. In line with the industry, we expect margins to reduce. We cut margins on the direct book and introduced the unified fee in August. And then we also offer the discount on the property fund when we gated it. And that, together with just the mix of the underlying funds, as we have seen inflows on certain funds and outflows on others, has driven the drop in margin on the retail asset management side.

We are continuing to basically focus on value for money, as you can see from the value assessment. But this is a journey and it is a journey that we have basically started over the last 18 months and we will continue to basically adopt. But remember that value for money is not purely about investment performance. It is about all aspects of the service that we actually provide. And certainly, there is no evidence to say that if you cut the fee and the investment performance is poor, that that actually solves the problem. Investment performance is way more important than fee.

QUESTION: *Gordon Aitken, RBC*

Okay. So a couple of questions on the insurance business, please. First, I mean, it looks like you will need mortality releases to hit your £2.2bn capital generation targets. Can you just talk a bit about the different components of those releases? I mean, first of all, you are still yet to move to the CMI18 table. I mean, that was a three-month reduction in life expectancy; and then will you definitely move to that in this financial year? Then the smoothing factor. If you could just tell us what your smoothing factor currently is. I mean that guidance to drop from 7.5 to 7.0 also came along with CMI18 and that is another three month drop in life expectancy. And then maybe just talk about the deaths you have seen this year-to-date and maybe how they compare with the population?

And the second question is on the annuity book. I mean really aside from mortality, what else could you do on that annuity book to release capital, perhaps talk about reinsurance and change the asset allocation? Thank you.

Clare Bousfield So Gordon, on mortality, you are absolutely right. We are currently on CMI17. We will look to move to CMI18 this year as part of the mortality or the assumption review that we do in the second half of every year. And that review will look at not just mortality improvements, but it will also look at base mortality as well. And we have historically with both improvements and base mortality been prudent in our approach. We have been one of the last insurance companies to adopt the latest tables.

When we adopted CMI17, and the same will be for CMI18, those tables are highly calibrated to our underlying book. And so in effect, it is quite difficult to necessarily say that this is what the impact will be of CMI18. We are not expecting it to have a significant impact in terms of mortality releases. And the other thing that we do need to do is look at CMI19 in terms of what is the trend showing because it would be madness to basically release on 18 and then strengthen again when we implemented 19 a year later. And that is obviously our whole kind of philosophy around the prudence that we operate.

In terms of the deaths that we have seen as a result of COVID, the amount is relatively small in terms of the impact on our numbers in Q1 and Q2. Definitely, in terms of the deaths being higher-than-expected is absolutely the case. And you can see that through a lot of the population data as well in terms of where it is at, but you have to remember that just over 40% of our book is reinsured, so there is a reasonable chunk of benefit that goes to the reinsurers.

And then in terms of opportunities on the annuity book, obviously, yes, longevity is one of the areas that we look at. Expenses is another one in terms of just optimising the way that we administer the book and we have done a lot of work around transforming those processes, and that can have a fairly sizable impact just because of the capitalisation factor. You have then also got the optimisation of the asset portfolio, the use of private assets that we talked about earlier on. And then also interest rate hedging is the other place that we obviously manage and monitor through the period.

We have a strong track record of delivering a lot of management actions across the entire portfolio, not just the annuity portfolio. But a number of them are market-driven in terms of making sure that you have the right conditions from a market perspective. And that is something that we look to optimise on a regular basis. As you can see from these numbers, we have delivered just under £300m in the first half year.

Gordon Aitken Can I just follow-up on the point on the mortality smoothing factor, are you currently using 7.5? Is there scope to drop that to 7.0?

Clare Bousfield I do not have the detail on where we are on the smoothing factor. And as I said, it calibrates. I am not sure you would just take that smoothing factor without taking into account other aspects around it.

QUESTION: ***Kathryn Fear, Berenberg***

So the first question was just on the retail funds range in the strategic review, and just when we might start seeing some results from that. Or is there supposed to be a turnaround there on the retail asset management business? From there, what you think about the outcome of that? And then the second one was just on PruFund. And I was just wondering, I think there was some talk maybe before about a change to the structure going away from the 90-10 when you launched it internationally. And I was just wondering if you had any further thoughts on that or if it is going to remain a 90-10 product when you launch it in Europe? Thank you.

John Foley So just to be clear, on your question, it is around retail fund performance? And I know what we are doing about that on the first one. So, as we said before, there are a number of things coming on there, which is being led by Jack, who is on this call, and he can give some more colour on it; but it is around a couple of things.

First thing is that, as you have seen, the performance on PruFund has been stellar for very many years and bringing the techniques of how we think about the investment thesis around PruFund to other parts of our business is a no-brainer from my point of view. That is a more team orientated approach. It is a more quant approach using digital capabilities. And those are the things that are being embraced by the fund management team. I mean, that has been happening for some months and we are already starting to see the fruits of that. Jack, I do not know if you want to make any more comments around that.

Jack Daniels Yes. I mean, if it is a general question, both about the new potential propositions and performance. I think, just on performance, we think about it in three ways. We think about funds which John has alluded to, with a strong track record. The institutional business, again, consistently strong performance. And those two parts of the business have had a pretty good first half, they came into the crisis with reduced risk positions and added risk in March and April. So pretty comfortable there.

On the retail and wholesale side, they have been more challenging. The multi-asset and fixed income funds were generally positioned for a positive economic outlook. And clearly, that was not the case. But they have rebounded quite strongly in the second quarter. And on the equity side, clearly, the value bias with some of our funds hit us, particularly in that first quarter, but even during the recovery.

So we are thinking about the retail funds in two ways. One, refreshing the range and taking a look at it. So that will be looking at opportunities to consolidate the existing fund range, where appropriate, to identify new funds and strategies to launch and ESG and impact will be at the core of these new propositions. The integration of ESG and sustainable investing into the research and investment processes, which we have already undertaken, will help us and give us an edge there.

And also, within the equity strategies, a diversification away from value as a style with some thematic offerings to come out there. So a number of things going on there, and you will start to see that coming through towards the end of this year and the beginning of next year, but will come through during the course of next year. And we are also taking some actions around how we work with the fund managers to improve the consistency of performance on our flagship funds.

And there are a number of initiatives that we have running there, which we have had in place for some time, and we are starting to see some positive outcomes as a result.

QUESTION: *Ashik Musaddi, JP Morgan*

I just have a couple of questions. So first of all, let us talk about the PruFund and heritage With-Profit Fund. Now if I look at the shareholder transfer of the heritage With-Profit Fund, it increased year-on-year, whereas the shareholder transfer from PruFund decreased year-on-year by quite a lot, and that was a severe decrease because in the past, I guess, you used to get about 2% of the outflows as shareholder transfer in PruFund. But in the first half this year, it was only 1%. So what is the mechanism for that? On heritage, it is going up. On PruFund, it is going down, even though if I understand correctly, the crediting rate is more or less the same for both PruFund and heritage. So that would be my first question.

And secondly, going back to Gordon's question on that confidence on £2.2bn capital generation. Based on that guidance, you still plan to do about £2.4bn capital generation over 2.5 years. So is it possible for you to split

that into underlying management action and macro moves? If so what are your expectations on these three buckets? These two questions would be great.

Clare Bousfield Okay, Ashik. I am actually just going to go back and answer Kathy's question on PruFund in Europe, because I do not think we have covered that in terms of how we are looking at 100-0 in terms of PruFund in Europe rather than 90-10. So that is still our current working philosophy. We have not finalised in terms of the underlying structure, but that is the current direction of where we are going.

On the shareholder transfers in terms of the PruFund versus the old style traditional With-Profits, the reason why there is a difference between what is going on there is the PruFund, you have this concept of the unit price adjustments. So when the unsmoothed price and the smooth price get out of line by plus or minus 5% on the higher risk funds, then what that does is triggers the unit price adjustment upwards or downwards depending on where we are at.

And those funds basically had a unit price adjustment downwards at the end of March. A number of the more cautious funds have also had a price adjustment upwards that has happened in the last month or so. And some of the higher risk funds, when you look at where they are sitting in terms of smoothed and unsmoothed assuming markets behave, it looks like they may well have an upward adjustment as well.

And of course, on the traditional With-Profits book. What we have not done is reset bonuses because effectively what we have done is looked at the impact that happened in March and April, but then also the recovery and basically we are pretty comfortable in terms of the level of terminal bonuses that we are paying at the moment in the context of where the market sits today.

So that is the reason why you have a slightly different dynamic going on between the underlying too. But the core underlying asset pool is exactly the same. And the hedging process is exactly the same that it is just the mechanics of how the outcome for customers changed in terms of the transactions.

Ashik Musaddi Go ahead, yes.

Clare Bousfield No, go ahead, because I was going to move on to the capital generation. But if you have a follow-up on With-Profits.

Ashik Musaddi Yes. Just on PruFund. So does it mean that the shareholder transfer will go back to the 2% level because that one-off hit has been taken, but going forward, like from the second half onwards, it will go back to whatever the historical rate was?

Clare Bousfield So we did have a small reduction in the expected growth rate at the last quarter end. But it should return to that more normal level, yes, assuming market conditions behave.

And then on capital generation, you are absolutely right. Our task is now £2.4bn over two and a half years. And as I said in my speech, we do need normal market conditions in terms of returns over that two and a half years and then together with management actions in terms of delivering that £2.4bn. It is stretching. It is always an ambitious target. But also, if you look at the track record of what we have delivered historically in terms of management actions, it is achievable, but stretching is the way that I would articulate it.

If you look in terms of the split between management actions and the underlying generation, what you can do is use effectively what we have provided to you in terms of the analysis of the underlying capital generation and also the guidance in terms of how we see the future outlook. That will give you a sense in terms of what the underlying capital generation we are expecting will do during the period. I am not going to get into the detailed numbers, but I think it gives you a pretty good guide if you look at half one 2020.

QUESTION: ***Dominic O'Mahony, Exane BNP***

Thank you for taking my questions. Just two. One quite specific. You mentioned that you booked the Asian Asset Management team. You have recaptured, I think, £6bn of assets there and another £3bn expected in H2. You are also building a US team in Chicago. And I am just wondering, what is the potential recapture of assets currently managed outside of M&G itself? Is there a ceiling in terms of whether it could be 100% of all assets kind of managed externally, or are there good reasons to leave more assets with other managers?

Second question; I think this may build on Ashik's question. Just coming back to the £2.2bn target, which is clearly a stretch given what markets have done. It also sounds like you have a line of sight to quite a lot of capital management actions. Just really trying to understand the extent to which this is a change versus what you originally expected when you set the target, and in particular, whether what you are anticipating is essentially bringing forward capital generation that might otherwise have been expected later, i.e., that better return on assets because it is earlier versus sort of the creation of new capital, which would obviously have a very different implications in terms of fair valuation.

John Foley So as a business, we obviously think that we should have the capability to manage all of our internal assets and have a very strong capability to do that. But that is not a given, and as a consequence, we have to compete with external providers and go through the appropriate governance to ensure that we merit the transfer or the repatriation of money back to M&G from third-party managers.

But this is an opportunity for us, because, clearly, we are already in those markets, and we know people. We manage those assets from, if you like a 10,000-feet perspective within the investment office. So we know precisely what it is that we need to develop and grow, which is why we acquired the Asia team and why we have acquired the US team.

But there would still be governance to go through to ensure that we provide the Boards of those regulated entities with all the information that they require to ensure that we are the right people or the company with the right people to manage those assets. And yes, I mean, it is a philosophical point as to whether or not you think it is a good idea to leave some money with external providers. I mean, traditionally, we have not. Not to a significant extent, anyway. Because we have developed the in-house capability and then proven over time that we have the capability set, which is why we have grown an institutional business to the magnitude that we have, because we are good at that part of the business. So my expectations are to see more money being repatriated both from Asia and North America. But as I say, we have to go through governance, and it is not a slam dunk. Clare, do you want to pick up the other question?

Clare Bousfield Yes. So on capital management and the £2.2bn on the original plan. So I think one thing you have to remember is one of the underlying reasons for bringing the business together and effectively operating as one business is that we want the diversification of the insurance and annuity book with the With-Profits and then with the asset management side. And we always, as part of the business planning process, envisaged there was a cyclicality, particularly on the retail asset management, and also the margin pressure that we knew.

So in terms of the actual number of management actions, we always believed there were levers that we needed to pull depending on the conditions in terms of where the market was. And that is exactly what has happened in terms of the crisis. I do not think we envisaged that the size of this crisis was going to hit us so early in our life as a newly listed company. But fundamentally, that is how we see this business, as both elements of the business are able to basically support the other one, both in terms of the capabilities in terms of the investment proposition, but also financially in terms of enabling us to deliver something that is a very stable return.

So we always looked at ranges on this, rather than necessarily saying, right, this was the number of management actions and this was the underlying numbers, but you can see from the capital generation that the operating capital generation has been very strong. Yes, supported by a number of management actions, but those

management actions were natural things that we were doing as part of the kind of business as usual. As I said in my speech, we are not interested in doing management actions that effectively destroy long-term value. There is no value in that whatsoever. We are all shareholders. That does not make any sense. But does some of this move profit from period-to-period? Absolutely, it does, but it is all about how we manage the balance sheet and how we manage the business as one way to get the stability in terms of the outcomes that we need as a listed company.

QUESTION: *Steven Haywood, HSBC*

Two questions from me. And on your credit risk allowance, you have given an increase of £117m. Could you explain what M&G's assumptions for defaults and downgrades are currently? And you said 4% of bonds have been downgraded by a whole letter. Could you say what is the amount downgraded to high yield? And then secondly, just a quick question on your property fund. Is there any update on your gated property funds and what are you expecting the outflows to be when they open?

Clare Bousfield So on the credit assumptions, I am not going to get into the specific details in terms of where or what the underlying assumptions are. But basically, what we have done is strengthened the kind of short-term allowance that we put up as you go through any kind of crisis where we expect credit experience to deteriorate. We did that during the financial crisis, and because effectively, a lot of this stuff takes quite a long time to come through, what we have done is reassessed the credit, the IFRS provision and effectively said we want to hold a short-term amount, which is £117m.

Again, it is effectively the experience that we expect to incur on a short-term basis. That will take quite a long time to run off, and it will run off in line with the actual experience in terms of the downgrade. I do not think we are going to get into the specifics of which bonds we actually hold and what is being downgraded. But as we have said, the portfolio is very conservatively positioned. And what we have seen to date is not out of line with what we were expecting.

John Foley On the property fund, we are keeping our customers very well appraised of what is going on in the fund, what is happening in terms of cash buffers, sales and so on. We have sold one or two properties that have actually been completed at levels above pre-COVID pricing, which feels counterintuitive but nevertheless, that is what is happened. And so that will continue.

As you know, all other funds being closed now from a valuation perspective. So in terms of what we would expect as outflows, I am not going to speculate on that. All I know is that we will try and sort of get a closer read from our customers nearer time when the funds will open because the last thing we want is for the fund to reopen only to then be met with a lot of redemptions and we have to close it again. So obviously, we are all over it, but it feels like it is not something that is going to happen next year.

Closing Remarks

John Foley, Chief Executive

Okay. Well, so look, I just wanted to thank everybody for joining, not only in a COVID environment, but also in this heat. Because unless you have the luxury of air conditioning, you are stifling just like I am.

So I will just wrap up quickly and say that we have delivered a really good set of results in what has been a challenging market. And I think that really demonstrates the value and resilience of our unique business mix. Given our continued financial strength and the resilient first half performance, we have declared a dividend of 6p per share, which is in line with our dividend policy. And that is something we are proud about. And I also have to say that we are a crew that really want to deliver in respect of the things we have talked about and the business generally.

We remain committed to the £2.2 billion capital generation target by the end of 2022. We know that is more stretching, but we remain on track to deliver the annual cost savings of £145m by the end of that period. And despite the crisis, we have managed to stay on course as we expand the business. And we are increasingly well positioned to deliver long-term sustainable growth. That is my view.

Thank you very much for your time. It is really appreciated. I hope to see you all in the not too distant future.