M&G 2019 Full Year Results

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Welcome

John Foley, Chief Executive Officer

Financial highlights

Good morning everybody. Welcome to our maiden set of financial results as a newly independent company. I would like to start by saying that this is a positive set of results against the backdrop of challenging markets in 2019 and markets that have become more challenging over the past few weeks as the world responds to COVID-19.

Like others we have restricted travel to business-critical activities so thank you to everybody in the room for joining us. It is a much bigger turnout than we expected. Thank you.

To say that 2019 was a busy year for us would be something of an understatement. I am very proud of what we achieved, and I want to take this opportunity to thank once more my team for their dedication and commitment. I hope this morning provides you with a good overview of what we have done this year as we continue to advance and execute our business strategy, delivered positive financial performance and strong capital generation, and prepared ourselves to pursue future growth opportunities.

Business Review

Continued delivery of business priorities alongside successful demerger

Below the line on this slide are the milestones to our demerger and listing on the London Stock Exchange on 21 October 2019. Above the line are some of the operational and capability changes we made to our business over the year. You can see that we have continued to innovate in our business, whilst simultaneously executing a successful demerger and making progress on transformation.

Positive performance in a challenging market

Financial highlights

This slide is 2019 in key numbers. The value of our business mix and the quality of our diverse earnings comes through clearly. Assets under management and administration are up 9% over the year to £352 billion, mainly on strong investment returns. Adjusted operating profits are over £1.1 billion, very much in line with our expectations.

Over the year, we generated capital of £1.5 billion helped by market levels, as the impact of management actions is lower than in previous years.

Looking out over the next three years we have set ourselves a target of £2.2 billion for capital generation by the end of 2022 and recent falls in market levels make this more of a stretch. Nonetheless, I am confident we can hit the £2.2 billion and, trust me, I am very focused on this.

From a capital perspective we finished the year in a strong position with a shareholder Solvency ratio of 176%.

Savings and Assets Management

Flows and investment performance

Against a challenging backdrop for the industry we had modest net outflows across our Savings and Asset Management business of £1.3 billion. This represents less than 1% of assets under management and administration.

Institutional asset management was flat over the year, returning to positive flows in the second half, almost entirely compensating for the slowdown in the first half.

In retail asset management net outflows were £7.4 billion. These were largely offset by net inflows of £6.2 billion into our retail savings business, which includes PruFund. This proves the value of having a diversified business model and a balance sheet to support smooth investment returns, particularly at times of market volatility.

Now, performance is key in any asset management business. Encouragingly performance in our wholesale range of funds picked up in the second half of the year, with 59% of products delivering above median returns over three years. There is no doubt that parts of the active asset management industry are challenged at the moment. Partly because of the growing popularity of passives but also because of changes to the distribution landscape. However, we are not sitting idle, what I want to do in the rest of my presentation is to give you an idea of how we are tackling these challenges.

What we set out to achieve

Our ambition for M&G plc

Demand for active management is strong and rising where it delivers a specific outcome for customers and clients. It is why we are focused on innovation in savings and investment solutions. Here profit margins are resilient and barriers to replication are high. To grow our business in active, high-value investment solutions we are doing the following:

- Building out our investment capability, particularly in private assets
- Expanding our range of customer propositions
- Extending distribution, both in the UK and internationally
- Overhauling our cost structure through transformation
- And creating an operational platform that is international and scalable, again through transformation.

Through these actions we can continue to deliver attractive and sustainable total returns to shareholders while retaining our capital strength.

How we implement our strategy is as important as the strategy itself. It is why in this slide I wanted to remind you of our corporate values; care which is treating others with respect, taking time to understand; and integrity, always doing the right thing. Always doing the right thing for the customer is at the heart of our ESG strategy and I will cover that later.

So, what progress have we made on delivering our strategy in 2019?

Customer and Distribution

Here is a reminder of our plans for customer and distribution. In short, how we are giving more clients, in more markets, access to more of our investment capabilities.

There are two points I want to highlight here.

First, we are in advance talks with a number of European partners about the distribution of a PruFund-like proposition, to bring the benefits of smoothed returns to a wider group of savers. As we said back in September, we

expect to see initial flows in the second half of the year. I cannot go into details about these discussions for reasons of confidentiality, but we will update you when we can.

Second, we continue to deepen our partnerships with institutional clients through more local support in our chosen markets. It is one of the reasons why during the year we had more than 100 institutional mandate wins in the UK and Europe. All of this is in line with our strategy of making our full set of investment capabilities available to more customers and clients, in more markets, in a wider range of formats.

Investment Management

In investment management in 2019, our priority has been to build out our international investment capabilities. In private assets, we are putting more resources into local asset origination, in regions which are important to our clients. It has helped us to commit just under $1 billion in new investments across Asia and the US in 2019.

On the public assets side, we are also investing in local capabilities, including the hire last year of a team of fund managers and researchers specialising in Asia Pacific equities. Both initiatives increase our capability in areas where profit margins are resilient and where client demand is growing. Both underpin our drive to investment solutions.

Transformation

Now, some of you may recall that when I first took on the job as Chief Executive of Prudential's UK and Europe insurance business I did so on condition of a sizeable investment in operational transformation.

Here we show how we have laid the foundations for the digital experience for our customers and improved systems for our colleagues whilst restructuring our cost base.

A milestone for the business in 2019 has been the migration of the most complex customer administration system in our heritage business to the BANCS platform of Diligenta, part of the Tata Consultancy Services Group. This successful transfer of 450,000 life and pension policies demonstrates our ability to drive efficiencies through our operations while improving customer outcomes at the same time.

Transformation is not just about modernising old stuff. It is also about creating the right platform to scale our business safely and at pace. It is fundamental to our ambitions for a PruFund-like proposition across Europe.

Finance and Capital

I have already touched on the key numbers for 2019 and Clare will go into more detail in her presentation. Still, there are a few additional figures I want to mention.

Thanks to our strong capital generation results, our Own Funds have grown, improving our solvency position to 176% and lowering our leverage ratio to 31%.

On transformation, we remain on track to hit our target annual cost savings of £145 million by full year 2022.

When it comes to dividends, we are confirming a pay-out of £310 million, that is 11.92 pence per share, to be paid in May. There will also be a one-off demerger-related dividend of £100 million, or 3.85 pence per share.

Now that I have covered the numbers, I want to go back to our values of care and integrity, that I mentioned earlier underpin all of our activity, including our approach to ESG.

Our responsibilities towards customers, colleagues and society

For more than 170 years we have been responsible stewards of our customers' savings. First as Prudential Assurance Company and since 1931 as M&G Investments.

Throughout that time, the challenge has remained the same, to balance savers' requirements for long term strong financial returns against the wider needs of society and the economy.

Today, impact on the environment is an increasingly important factor in how we deploy our customers' capital. And, as a major financial institution we have a part to play in finding a solution to climate risk.

That is why as a newly independent company, we are embedding ESG considerations across our entire business, both as a good corporate citizen and as an international asset manager.

On the left-hand side you can see our ESG commitments as an asset manager. As ever, our approach is to prioritise engagement over exclusion. However, we will consider this investment from companies who fail to engage.

When it comes to climate risk, our ambition on carbon is for our book of assets under management to be net zero by 2050.

In terms of new propositions, we will expand our current range of impact strategies, actively seeking out companies which want to fix our planet, one investment at a time. As an international business in 22 locations, we want to be carbon net zero by 2030.

We also want to be a more inclusive and diverse employer and have set clear targets for better representation among the leadership on gender and ethnic background by 2025.

Our priorities for 2020

- Now, before I hand over to Clare I want to end by setting out our business priorities for 2020.
- Pretty much all of them are a continuation of our work last year:
- Improvement in the customer experience
- Extension of distribution, in the UK and internationally
- Build out of investment capability
- Reaping the benefits of transformation and sound capital management.

Now I will hand you over to Clare who will take you through the financials in more detail.

Financial Review

Clare Bousfield, Chief Financial Officer

Financial highlights

Positive performance in a challenging environment

Thank you John and good morning everyone.

Our results demonstrate the strength and resilience of our business and are in line with the expectations that we shared with you last September. The environment has been challenging, especially across the asset management industry. Being and asset manager and an asset owner enables us to produce good earnings even in tough market conditions. I am going to draw out some of the key points on the underlying numbers before John sums up and we will then take your questions.

Net client flows and AUMA

Our overall assets under management and administration are 9% higher than last year end, mainly driven by the performance of the markets. On flows overall, we have shown our resilience. While the picture on retail asset management has remained challenging, our Institutional business showed a positive trend in the second half, and PruFund has continued to produce strong positive flows.

Taking each in turn:

Retail asset management remained in net outflow at £7.4 billion, primarily impacted by weak consumer confidence. As we have previously acknowledged, we are very proud of our overall investment performance which has been strong particularly over the medium term. However, there are a few funds where performance is weaker than we would have liked, particularly in the value-orientated strategies. We are addressing areas of weak performance through independent deep dive exercises supplementing the analysis done by the fund managers. As John has commented before, our role as management is to actively manage the active managers. Despite these headwinds, our retail AUM closed the year just slightly lower at £75 billion.

Institutional asset management showed broadly neutral net flows for the full year and a positive £700 million in the second half. Over the course of the year our institutional assets under management grew by 9%, £77 billion.

PruFund remained a highly popular proposition in the UK market despite some pressure caused by the fall in DB to DC transfers across the industry. Net flows into PruFund amounted to 15% of the opening assets. This included sales from the smoothed element of our new PruFolio range, which allows customers to combine the PruFund proposition together with active and passive mutual funds, leveraging both our asset allocation and stock selection capabilities. These flows combined with another year of strong investment performance drove PruFund assets up 25% to almost £54 billion.

Lastly, as you are aware, the High Court has denied our request to transfer the annuities policies, we reinsured in early 2019, to Rothesay Life. It is a new experience for all of us because such a process has never been done before in respect to the Part VII transfer. We expect a hearing on our appeal in the second half of 2020. Due to the uncertainty on both timing and outcome we are required to bring the £11 billion back into assets under AUMA. Previously it was reported as “Held for Sale” and therefore excluded from our AUMA. Growth in the assets under management before this effect was 6%.

Adjusted operating profit by source

I am now going to move on to Adjusted Operating Profit which was over £1.1 billion for 2019.

In 2018 we released £441 million on longevity and had £166 million insurance recovery in respect of TRASP. In 2019 we released £126 million from longevity and were fined £24 million by the FCA on TRASP.

When comparing 2019 to 2018 these impacts, all from the Heritage book, were the most material on the adjusted operating profit.

Our Savings and Asset Management business delivered a slightly higher result of £474 million for 2019. Asset Management was lower, with-profits was stable, and the "Other" result improved from a loss of £59 million last year to a profit of £38 million this year. This was due to a one-off negative of £56 million in 2018 related to our international insurance operations with the remainder of the improvement explained by higher investment returns.

Corporate centre expenses increased as expected, due firstly to the interest costs on the debt which we inherited from Prudential plc in October, and secondly to the build-out of our capabilities to become an independently listed entity.

Sources of earnings

Asset Management

I am now going to cover the key profit drivers, starting with Asset Management.

Whilst overall AUMA were higher at year end 2019 compared to 2018, it is the average level for the assets under management across each period which is more relevant for the revenue. This was 4% lower because the drop in markets in 2018 only occurred towards the year end. This, together with a moderate degree of ongoing margin pressure in the retail book, resulted in 7% lower fee revenue.

Costs were slightly higher year on year by £12 million or just under 2%.

£3 million related to the increased FSCS fees.

In both years we also had positive one offs in 2018, approximately £18 million from accrual releases, and in 2019 around £30 million from changes to the staff pension schemes and other items.

Importantly, we have been changing the nature of the costs, with lowering the back office costs in favour of building investment management capabilities for future growth.

You have heard John mention some of the initiatives that we have started. As a net result, primarily of the lower fee income, the cost income ratio increased by four percentage points year on year to 63%, a number which continues to compare favourably to our peers.

Sources of earnings

With-Profits/PruFund

The savings business has continued to perform well driven by PruFund. PruFund showed strong gross sales again in 2019 at £10.2 billion, although below the prior year level of £12 billion.

As I mentioned earlier, we expect DB transfers to reduce given the limited number of advisors who have the experience and permissions to write this business and potential changes in advisor charges proposed by the FCA. These transfers accounted for less than one fifth of our PruFund sales in 2019.

Gross outflows have also increased, as expected, as the book matures. This is important because we only recognise the cash transfers and the profits to shareholders when customers take their money out.

Shareholder transfers grew by 9%, broadly in line with the level of withdrawals.

In terms of adjusted operating profit, these increased transfers were offset by a lower hedge result, which I will explain shortly.

Sources of earnings

Traditional With-Profits

For the traditional with-profits book, I commented back in September that even though the book is closed to new customers, we expect shareholder transfers to remain broadly stable for the next few years, assuming normal market conditions. That is exactly what we have seen in 2019 at just over £250 million. As with PruFund, the hedge result is more negative than last year, driven by the increase in equity markets. In our July presentation last year, I explained the cash-flow hedging of shareholder transfers which we had been doing across the traditional and PruFund books.

What you are seeing in the operating result is the gain or loss on the hedging we put in place for the shareholder transfer in 2019. The more negative result reflects the strength of equity markets since the hedges were initiated. We have included some further detail in the appendix, to give you a better feel for how the numbers will move in the coming years as these hedges mature, based off different equity market scenarios.

At the end of 2019, rather than putting in a new tranche of these cash flow hedges, we switched to a structure focused on the protection of dividends up from the life company in the event of a market shock. Since it is not a hedge of the IFRS earnings but on Solvency II the impact of this new hedge will be excluded from operating profit.

Sources of earnings

Shareholder Annuities & Other

This slide shows our Shareholder Annuity and Other businesses. Results remain strong.

As expected, the particularly large positive effects from longevity and TRASP last year did not repeat.

The return on excess assets fell mainly as a result of lower releases from our credit default reserves and lower investment income. As we highlighted in September, part of this was related to us returning a significant amount of capital out of the insurance entity, up to the parent ahead of demerger, and so some of that investment income has just simply shifted up the Group structure.

Longevity of £126 million reflects the adoption of CMI 17 which we executed in the first half of the year. In 2020, we will be reverting to our usual practice of reviewing the assumptions at the year end and of course it is too soon to give you any guidance on what that might look like.

In the TRASP line, we had a £166 million recovery from our insurers last year. The small loss you see this year is in relation to the FCA fine that was announced in September.

Finally, other items contributed £137 million from close to zero last year. The main contributors are mismatch gains of £55 million, and a one-off benefit of £29 million from changes to the staff pension schemes and some other minor items.

Capital generation

FY 2019 total capital generation at £1.5 billion

I am now going to move on to capital generation. We had a very strong year. Total capital generation from continuing businesses came to £1.5 billion, including £538 million of positive impacts from the markets, and did not include a full year of interest and head office costs which we will of course have going forwards.

After pre-demerger dividends and related adjustments the overall increase in our surplus capital was £0.5 billion.

Sources of operating capital generation

FY 2019: £1.3 billion pre-tax

Pre-tax operating capital generation was £1.3 billion, of which just over £800 million was underlying capital generation. The remainder, other operating capital generation is less recurring in nature.

The decline of £79 million in the underlying capital generation is primarily due to the corporate centre where we started to incur debt interest and head office expenses in the latter part of the year around the demerger.

We have enhanced the methodology for allocating capital generation between the PruFund and the Traditional With-Profits business to be based on underlying asset shares which has resulted in a higher PruFund number, with a corresponding reduction in the Traditional With-Profits within Heritage.

The Other operating capital generation incorporates a number of elements. Asset trading and hedging contributed £251 million, including £80 million from the new with-profits hedge programme.

As reported in the first half results, the impact of longevity was just over £100 million. A number of other smaller items, including for example, experience variances and other operating assumption changes generated £96 million. The decline from the prior year is mainly driven by the TRASP insurance recovery.

Shareholder Solvency II coverage ratio

The capital generated resulted in an increased solvency ratio of 176% before dividends, up from the pro forma 170% last year end. Our Solvency II debt leverage ratio fell from a pro-forma 34% at the first half as we disclosed in September, to 31% driven by the growth in Own Funds. We estimate that the negative market movements up until last Friday have had a negative impact of around ten points since the beginning of the year, in line with the sensitivities that we have published.

With-Profits excess surplus distribution

The with-profits fund is an enormously important part of this Group, something no-one else can replicate, and we continue to explore ways in which we can leverage it as part of our ongoing development of our broader proposition and drive our long term returns to our customers and investors.

Capitalisation of the fund has continued to strengthen, with the Solvency ratio of 267%, up from 231% last year. It is also becoming increasingly resilient. The older style guaranteed products are running off and being replaced by PruFund customers, the vast majority of whom select the non-guaranteed option. As a result the sensitivity to equity markets is very low. If equity markets were to drop by 20% the fund's solvency position would reduce by around 1 percentage point. This strength and resilience is why, as we announced last month, we will be making a distribution of excess surplus to policyholders of £1 billion. And being a 90/10 fund, shareholders will receive one ninth of this amount from the fund, coming through to earnings when the customer takes their returns as cash. We expect this

effect to be of the order of £10 million per annum over the next few years. The impact on the shareholder solvency position is negligible, since the positive economic impact is offset by the TMTP.

Parent company liquidity

Initial position established

Finally on the balance sheet, the parent company's initial liquidity position. This slide shows the most significant transactions which founded the parent company's liquidity position, including those related to the demerger.

First of all, we had payments up from our subsidiaries of £1.7 billion, including a £1.2 billion exceptional return of capital up from the insurance business, as I referenced when talking about the Heritage result.

The next two transactions are the debt for equity swap from Prudential plc. We received £3.2 billion in consideration for the debt we inherited and then paid a demerger dividend of £3 billion.

Finally, you will see the normal dividends we paid to Prudential plc last year, and some minor other movements including head office and interest costs.

So we ended the year with a cash and liquid asset balance of £1.3 billion, well ahead of the minimum we aim to hold according to our financial management framework, which is to cover one year's expected outgo.

Transformation programme

Gradual shift of focus

I now want to build on the update John gave on transformation, where we have completed the second year of our five year programme. We are making good progress, having implemented key outsourcing arrangements, commenced legacy system migration work, and upgraded customer facing platforms. These are just some of the initiatives all of which are improving customer outcomes, our control environment and the efficiency of our business.

The efficiencies we are delivering are not short term tactical cost savings. They are driven by fundamental, deep rooted changes to the way that we run the business. We remain on track to deliver around £145 million of shareholder cost savings by 2022. We are slightly behind where we wanted to be on timing, because in 2019 we took the active decision to prioritise demerger activity in some areas. Finance is a good example of that. However, we know what needs to be done to reach the target and we remain committed to our 2022 timetable.

Our priorities from here will include further decommissioning of legacy IT infrastructure, increasing the scalability of our operations in our growth areas and driving out costs. With much of the groundwork done the level of resources we need will inevitably decline. That is why we are announcing today a voluntary redundancy programme which aims to reduce headcount related cost by around 10% this year. This runs across all areas of the business and on all levels of seniority.

Sources of earnings – Expected development

Key drivers of adjusted operating profit

In terms of 2020, it is early days and there is obviously uncertainties, but you will see here some indications of what we expect.

The headlines are, for Savings & Asset Management, we will be fully focused on delivering our medium term growth initiatives.

We remain positive on the outlook for Institutional business, and we are working to improve flows in retail asset management, recognising the need to refocus on the UK which has been underinvested in historically.

We have a number of initiatives including developing our investment solutions expertise, continuing to expand our sub-advisory capability and capitalising on our strong and broad propositions.

We expect PruFund will continue to be a highly appealing proposition in the UK markets, and we have started to see strong traction for PruFolio.

There is further uncertainty on DB to DC transfers, given the FCA's review of contingent charging.

In Europe we are on track to realise the ambition of exporting PruFund.

The duration of the current COVID-19 outbreak and the associated market volatility will obviously be a factor in terms of how flows develop across the Group, especially in retail asset management.

We expect fee margins in the Institutional business to remain resilient, but for some fee pressure to remain in the retail asset management. That is why it is absolutely imperative that we are sharply focused on costs in 2020.

Shareholder transfers from the with-profits business should continue to grow as the book matures.

In Heritage, we expect broadly similar transfers from the with-profits book.

For Shareholder Annuities & Other, we will see some compression on the return on the excess assets following the dividend paid up in 2019, although there will be an offset in the Corporate Centre which will now earn interest on that money.

This year we will return to our normal practice of reviewing longevity assumptions at the end of the year.

For Corporate Centre, we continue to expect £80-£100 million of overheads, mitigated by the interest earned on the liquidity now at the parent company.

Coupons on the debt will be around £190 million as previously guided.

We will also have an accounting effect of the amortisation of the fair value premium under IFRS, which will net off against this.

Priorities for the period ahead

To wrap up, all of the management team are highly energised post-demerger. We have continued to deliver on improvements in customer outcomes, reducing operational risk and creating an efficient and scalable business.

We are absolutely focused on cost and ensuring that we deliver the transformation on time.

Financially, 2020 will also be an important year, because the clock starts on our three year target of £2.2 billion capital generation by 2022.

Our 2019 numbers demonstrated once again the potential of the business, and we remain focused on the necessary growth initiatives and the balance sheet optimisation measures to meet our goal.

In short, we are aiming to deliver to our investors good long term growth prospects with a healthy dividend yield.

Thank you, I will pass back to John for some closing remarks and then we will be read to take your questions.

Wrap-Up Messages

John Foley, Chief Executive Officer

Key messages

I want to end by reminding you of the growth opportunity we see in markets and why M&G is well-placed for that opportunity.

Savings gaps continue to open up across the developed world as societies age and states restrict retirement provision. In the UK alone the savings gap is currently estimated at $8 trillion by the World Economic Forum and it is growing.

Faced with longer lives and negative real returns on cash, people want a financial partner who can deliver reliable savings and investment solutions. M&G is well-placed to become the partner of choice.

We have the right mix of investment capabilities, a unique offering in with-profits, and the client insights of an asset owner. Our plan is to grow our offering in solutions at pace, leveraging our client relationships in 28 markets and our two well-respected brands.

Now, with independence, we also have an energised leadership team determined to grow this business. That growth, coupled with sound capital management, will drive attractive and sustainable total returns for shareholders.

Thanks again to all of you for making the time to be with us today at our first set of annual results. We are now ready to take your questions. We have the leadership team in the front row if the questions get a bit too tricky.

Q&A

Spencer Horgan, Director of Investor Relations

Andrew Sinclair (Bank of America Securities): Two from me, if that is okay.

Firstly was the hold co cash figure, the £1.3 billion. It looks to me about twice what you have guided for or what you need at the hold co. You have ruled out buying back debt, special capital return and M&A. Does that mean we should feel a bit more bullish on the regular dividend or is there something else we are missing on that cash?

Secondly on institutional asset management you have talked quite a lot about mandate wins in 2019. I wonder if you could give us a bit of colour on pipeline for mandates that have been won but not yet funded and what that means for 2020. Thanks.

Clare Bousfield: On the first question the level of hold co cash, yes, it is a bit higher than we had originally guided in terms of numbers, but overall we are pretty comfortable in terms of that being a sufficient buffer in order to manage the business. From a dividend perspective, I think we have guided in terms of where we believe the future is. You have got to recognise as well that the markets right now are certainly pummelling in terms of interest rates and the overall capital position. We are comfortable with the strength and the resilience both in terms of the level of capital and the liquidity but obviously we need to have that strength in terms of being able to survive some of the market conditions.

John Foley: On the institutional business, the last time I looked at the pipeline it was around £4 billion. Not surprising we have put a number of people in various locations around the world to actually start to source assets. It is getting trickier in private assets, so we have people on the ground in Asia and in now the US, as of yesterday, to actually source assets for those propositions. It is a big business for us, and it is one that we are working hard to keep the momentum going behind it.

Andrew Sinclair: Just to be clear, that is £4 billion of mandates that were won in 2019 but will fund in 2020?

John Foley: No, the pipeline is £4 billion, and we have had 100 mandate wins in 2019. The pipeline is about £4 billion. I have not got the exact number.

Andrew Sinclair: Sure and can you say for those 100 that were won in 2019 are some of them effectively still to receive the funds in 2020 or is that all received in 2019?

John Foley: Some of them will be funded in 2020, yes.

Ashik Musaddi (JP Morgan): First of all on your cash flows, you have a £2.2 billion cash flow guidance but what visibility do you have for this year 2020? The reason I am asking is given that we are already two and a half months in you would have reasonable plans about longevity. The tables which you said you would be reviewing later this year, but you would have plans about asset re-risking in case you are considering longevity reinsurance. You would have reasonable plans around that given the close life nature of the annuities book. Any thoughts on that as to how we should think about cash flows, especially one-off nature for this year?

The second on asset management cost, revenues is what it is, but in terms of cost you put an extra emphasis that that is definitely a focus, especially in these markets. Are you managing that on a basis point way or are you managing on an absolute cost basis like £642 million? Is that £642 million going up, going down? How should we think about that, especially given where markets are? Or how much flexibility you have on that £642 million? Thank you.

Clare Bousfield: On the cash flow and the £2.2 billion, we are obviously looking to manage that over a three year period. It is an all-inclusive number and we recognise during that three year period markets will move up and down.

Right now you would say we have already got quite a challenge in terms of where current markets are. Yes, we have got a line of sight in terms of actually looking at our longevity in terms of the base assumptions.

CMI 18 is what we will be looking at in 2020 but we will obviously have line of sight also to the 2019 CMI table as well in terms of that. It is a calibrated table, so it does depend a lot on your underlying experience in terms of where you are at. Then the other elements we are also looking at as we put some equity hedging on, as I mentioned, during 2019 and we also put some further interest rate hedging on in terms of what we are doing. Right now the market side of it is where our focus is. What we want to make sure, is with the target that we have got, that we are managing this business for the long term. We are not making short term decisions just to drive capital in the short term. Asset trading will continue. That has been something that we have done consistently, and you can see from the numbers that we have shown in terms of the amount of asset trading. That does depend on the market conditions but right now we would expect to make something similar. However, obviously if there are market opportunities then we will take advantage of it. Absolutely, we have ongoing plans, but it is about how you manage it over the long term rather than necessarily just purely focused on the short term.

In terms of asset management costs, as I talked about, the transformation programme is fundamentally about customer outcomes. It is about the control environment, but it is also about the efficiency of the business. The efficiency of the business is also about how you structure those costs. Which costs are variable, which ones are fixed, how do you use technology and automation in order to improve what we are doing. Clearly with some of the ambitions that we have around growth, particularly on some of the asset management and private asset capability, what we are working through at the moment is how we build that scalable growth. That is our focus, as opposed to purely the cost income ratio or any absolute level of cost level.

Again, the retail asset management business particularly in the mutual funds is cyclical by nature so what you want to make sure of is that you have a cost base that is actually sustainable and efficient in the future. That is where the focus is. In terms of that cost income ratio and we would expect it to go in 2020, obviously over the long term we are expecting it to come down but what we want to make sure of is during 2020 we are investing in the right things in order to get that cost base to where we want it to be.

Oliver Steel (Deutsche Bank): In your presentations previously you have talked about business growth and investment expenditure. I think that was up to £200 million by 2022 or 2023 against the £145 million that you are saving on the transformation programme. How much of the costs in 2019 include that business growth and investment expenditure? I do not think you have ever really talked about the returns that you expect on that and when you expect those returns to come through so perhaps you can give a bit more detail on that today.

Then the second question, if that is not too long, is back to Ashik's question about the capital generation guidance. Frankly, I cannot see why you are targeting a total capital generation figure because it is clearly being moved by markets. Implicitly you have lost £600 million off the Solvency so far this year. Are you saying that you can make up that £600 million organically or through exceptionals over the course of the next three years?

Clare Bousfield: Going to the first question, Oliver, on the growth in terms of what we had included. Obviously there are certain elements of our business where the growth actually requires us to have more people in order to be able to deliver it. If you think about private assets as a good example, you cannot use technology and automation to get you that growth. That is what was included in that £250 million and remembering it is over a five-year period. Effectively it is the ongoing cost to be able to support that growth. As I said, we have invested during 2019 in the

front office in the business in terms of the growth, particularly on the institutional business in terms of building private asset capability. Whether it is putting people in Asia or in the US in terms of building that out. We will continue to do that in terms of the approach. The numbers in that chart were all built off where we see the future in terms of the revenue. What we were basically assuming is that there is an element of incremental cost that aligns with the revenue. Clearly, with some of the pressures that we are currently facing from a retail asset management perspective, we are very conscious around balancing the cost initiatives versus being prepared for the growth in terms of the future.

In terms of capital generation, we always set the target to be total because basically we want it to be totally aligned with our shareholders. Over a three-year period the expectation is that you should be able to even out some of that volatility. If you think about it, we basically made just over £500 million of positive market returns at the end of 2019 and as you say, the beginning of this year has pretty much reversed that position. There is an example of where you would expect for it to be over the period. It just did not feel right to basically have a three-year target that was not based off the total returns. That is how we look at it.

Going back to the first question in terms of how we assess returns on the business, we look at it very much on a cash generation basis and we look at it is using IRRs. A very simple approach in terms of how we decide where we are going to spend our money and what the things are that we want to grow the business from.

Jon Hocking (Morgan Stanley): I have two questions, please. On the capital front your Solvency ratio is optically low but obviously the with-profits fund is very strong. I wondered how much of this you think is really economic and how much of it is just the risk margin giving it a low optical number. In the statement this morning, John, you make the comment that it is within your risk appetite. What levers do you have to pull to get the ratio back up if it becomes an issue? I can accept it is not really an economic issue, but the headline is you are screening very low versus the rest of the industry.

Then secondly, some of your peers gave some early trading indications post-election in terms of flows etc. I guess you have got a bit of an each-way bet on it having PruFund that works well in a risk off environment and the rest of the business which has recovered. Can you talk a little bit about what the early experience was in January and February in terms of the retail flows? Thank you.

Clare Bousfield: On the Solvency ratio, Jon, we basically match the annuity liabilities and the assets on a Solvency II basis. If you look at, for example, interest rates in terms of the impact of it, we do not get much impact in terms of what is happening with assets and liabilities. That obviously creates a little bit of a mismatch on the IFRS which you saw come through the results in terms of where you are at. The place where we get the interest rate impact is basically from the capital. The SCR is where effectively you are getting that. We put some hedging in place in the middle of August to effectively dampen some of that but that is a non-economic hedge in terms of that exposure. That is one of the key areas that causes the volatility in the Solvency ratio. We are pretty happy with the resilience. If you look at the sensitivities we are pretty resilient in terms of these markets and we are comfortable where we sit right now. We are above risk appetite but clearly some of the tools that we can leverage are effectively putting some more hedging on around that interest rate. We also have put additional hedging around the equity side of it. We are all obviously looking for asset optimisation in terms of risk and reward and using the private asset capability that we have across the business. Reinsurance and longevity are also options that we have. Although from that perspective you have always got to think about the value that you give up versus the risks that you are actually mitigating, particularly where you see upside in longevity in the longer-term. However, yes, we have a lot of levers that we can pull from a Solvency perspective but each one of them needs to be weighed up against what benefit you are actually getting.

In terms of flows, it is interesting from a flow perspective because the election happened in December. You then had Christmas and then basically we pretty much got a hit with the coronavirus sentiment in the markets in the early part of January. It has been pretty difficult to actually see any kind of movement in it. January is always a relatively slow month on the retail savings side of things but with market volatility we are starting to see some advisors actually wanting to come into the product in a heavier way than they had previously been in, which shows that customers are thinking, given these volatile markets, this is a great proposition. It is an interesting proposition, particularly the guaranteed option but also the non-guaranteed option in terms of giving customers more certainty in terms of outcomes. It effectively takes out the top slices of the volatility in the markets and that is exactly what we have seen over the last couple of weeks. The fund has performed very well. However, it is still early days and because of the amount of uncertainty in the markets it is really quite difficult to call right now.

John Foley: However, you are right in terms of PruFund, the mutual fund business and the institutional business. You will continue to see the solutions business being attractive both from us and from a client perspective because it is outcome-orientated. PruFund, both in terms of a down market and an upmarket, is still a very strong proposition. Then mutual funds which is a volatile business which accounts for about 20% of our book today. That is a very important part of what we do and as Clare has said in her presentation we are going to some lengths to actually make sure that we start to deliver consistently the right returns to clients on those funds. The actual jump that we have got on the market is around the PruFund proposition, the passives and the institutional flows. There is no question of that. That is what makes us feel we are quite resilient to these choppy markets.

Greig Paterson (KBW): Two questions, one is of the £26 billion annuity fund that is not the Rothesay part, can you give me the percentage of that which is reinsured by longevity swaps at this point?

The second thing is, in terms of this with-profit hedging programme you made a comment in the presentation that you renewed it. Is my understanding correct that the old programme remains unchanged to run off in the operating profit and the new programme comes in below the line? If that is the case, does that mean we can expect more volatile IFRS operating profits going forward in aggregate?

Clare Bousfield: The simple answer to your second question is yes. What we have done is the old programme effectively hedged the transfer five years ahead and that will run off over the next five years. The new programme effectively focuses on the Solvency II capital generation rather than the absolute Solvency II ratio. That will potentially create a bit more volatility in the underlying IFRS numbers, but I would not expect it to be significant, Greig. On the annuity fund we will have to get you the exact number. It is around 40%-50% in terms of how much is reinsured.

Greig Patterson: Is there capacity to increase that further?

Clare Bousfield: You could clearly increase it right up to 100% but this is a risk/reward in terms of how much of that future value we want to give away.

Questions from webcast - Spencer Horgan (Director of Investor Relations, M&G plc): There is a potential gap between the cash flow generation target and the dividend commitment. What are the management priorities for the use of that surplus capital? Related to that question, how do share buybacks fit into the capital framework given the current share price?

Clare Bousfield: In terms of the gap, because the total capital generation is basically covering the full impact including all the market movements then what we have done is built in an element of recognition that that gap needs to be there in order to be able to support the company and the resilience of the balance sheet. Right now if we have excess capital then what we will do is we will look to return it to shareholders. We have got no interest in

retaining excess capital for the business but certainly for the volatile market conditions that we are in at the moment absolutely it is the right thing to do to have a resilient balance sheet.

Andrew Baker (Citi): Two questions, please. For 2019 I think you said less than 20% of PruFund flows were from DB to DC transfers. Are you able to give that number for 2018? Then are you expecting this to still be a headwind in 2020, so that 20% coming down?

Then secondly on Solvency II sensitivity to 20% credit downgrade scenarios is only six points. Is there any management action assumed in that sensitivity and if so are you able to give a little bit line of sight into what that is? Thank you.

Clare Bousfield: I do not know the 2018 number off the top of my head in terms of the percentage of DB transfers, but it has come down reasonably significantly between 2018 and 2019. We do expect there to be some headwinds around DB transfers because of the FCAs consultation around contingent charging. However, the one thing I would say is there is an element of resilience in the advisor market and also the quality of our proposition is very strong. Right now we do not know what the outcome will be on that consultation, but it does look like it could potentially have a reasonably significant impact in terms of how the advisors operate. Then obviously we have got the initiatives around launching PruFund in Europe which is a big focus right and there is a lot of interest in terms of that opportunity. From a broader perspective we are very comfortable in terms of the ongoing flows on PruFund.

On downgrades I do not believe that there is any management actions included in that 20% credit downgrade, but I am looking at Spencer to double-check that.

Spencer Horgan: We will double-check it, but I think that is right, yes.

Andrew Crean (Autonomous Research): Can I ask two questions? The first one on asset management costs, I think you are talking to continuing to invest and continuing to grow the cost base. Should we grow it from the £652 million you have reported or about £687 million after taking back the one-off DB write-in that you had?

Then secondly, again on the retail asset management flow situation, as I understand it quite a lot of the flows and the growth over time has come from expanding into European business. I wondered how that performed, the European flows into retail asset management, in 2019 and how it is doing under coronavirus.

Clare Bousfield: On the cost for asset management I am not guiding that I am saying that I think they are going to increase over time. They will come down over time. I guess there are a couple of things. One is what we want to make sure of is that structurally we have fixed the underlying operating model so that we have scalable growth in the future. The actual investment that will be needed or we have already started on is included within the transformation costs beneath. This is more around making sure that in the period as we go through the transition through 2020 that you are not going to see a sudden drop in 2020.

Andrew Crean: Is the base £687 million or £652 million?

Clare Bousfield: You are absolutely right that you have got to adjust for the pension credit because that was effectively a one-off gain in 2019 that will not repeat in 2020.

John Foley: In terms of the retail asset management business UK versus Europe it is pretty evenly spread across the whole of the market. The problem really comes in as much that with the virus, as you alluded, we have got the office in Milan closed as you would expect. We have got a mature book. What we are finding as a big asset manager with a mature book is that part of it matures every year. It is a question of keeping the flows coming in which is going to

be tricky in certain parts of Europe as we have endured this lockdown. That is why candidly we are replacing that to a certain extent via the PruFund proposition which will be structured quite differently to the UK proposition. As I said, we are talking to a number of parties in Europe and we are close to signing MoU with two. We are hopeful for that as a solution to the issues across Europe. That is the current picture but with this virus I am not going to make any predictions. It would be a brave man who would do that.

Ashik Musaddi (JP Morgan): A follow up again on asset management cost. Where would that £100 million additional transformation plan you have fit in? Are we talking about an absolute benefit or will that be able to offset any potential investment you are doing in asset management cost? Or do you think that additional investment could actually outgo this £100 million saving? Could it be £150 million or £200 million additional investment? Thank you.

Clare Bousfield: Bear in mind that we are about a third of the way through in terms of what we are delivering in terms of cost savings. However, the way that the cost programme is done, and the transformation programme is across the broader business, which picks up both the with-profits and the shareholder element of it. Not all of the additional £100 million would flow through to asset management because there will be an element that flows through to the shareholder component on the insurance business as part of that. In terms of what we are looking to do, the programme is all part of the transformation programme, in terms of the actual investment that we have made in order to improve the underlying processes. Some of that cost has already been incurred in order to start the process. That will continue to be incurred through 2020 and into 2021 in terms of the outcomes.

Question from webcast - Spencer Horgan: What is the latest position on the suspended property fund?

John Foley: It remains in suspension. You know we gated that fund for the benefit of customers. The team are making very good progress in terms of generating cash so that when we do eventually open the fund we can meet any redemptions that have been storing up. The team have been quite successful in rebalancing the fund to make sure that we are not in a fire sale situation. We will keep it gated until such time as we are confident about opening it and how we would respond to redemptions. I am not going to make any predictions around that at this point.

Andrew Sinclair (Bank of America Securities): One final one from me. I wanted to check, have any of the versions of PruFund had a negative adjustment to the unit price over the last few weeks of pretty significant market volatility?

Clare Bousfield: As far as I am aware, no they have not.

Oliver Steel (Deutsche Bank): You talk about identifying levers for balance sheet optimisation. What sort of things are you looking at?

Clare Bousfield: That includes hedging that we do around interest rate, equities, looking at the risk and reward on the asset portfolio in terms of the use of illiquids and private assets and how we maximise that. Also obviously longevity and any of the other provisions that we have in terms of on the balance sheet. Potentially reinsurance, although I have tried to balance that in terms of making sure there is a value piece of that in terms of where we go. Those are a number of the different levers that we have in terms of how we manage the balance sheet.

Marcus Barnard: Just one question. Your capital generation target by 2020, presumably that does not include any benefit from acquisitions but how would you adjust that figure if you did make any acquisitions?

Clare Bousfield: The capital generation was set to be total capital generation. To a certain extent I think it would depend on the size of any acquisition. Clearly if we did something very significant, which I am not suggesting by making this comment that that is what we are looking to do, then I think it would be a different conversation. For small acquisitions we would expect that to be included, including both the cost of it and then also the benefits that you would get from the acquisition.

Marcus Barnard: Did I say acquisition? I actually meant disposals.

Clare Bousfield: Same answer to the question.

Questions from webcast - Spencer Horgan: Thomas Howarth at Barclays Capital asks two questions. The first one is the 2019 restructuring costs were £190 million with £62 million transformation. What is the remainder and particularly what run rate should we expect? Then also, how significant are Italian flows given that that is one of our larger markets?

John Foley: On the Italian flows, we are clearly not seeing much activity there either way because of the lockdown and the virus. It is probably still too early to determine what is actually happening and what will happen. My guess is we will be in outflow in Italy as a consequence of this. It is almost inevitable and that might run into other markets as well. However, it will not surprise you to know that one of the institutions that we are talking to about the version of PruFund is an Italian institution.

Clare Bousfield: On the difference between the restructuring costs and the transformation cost of £62 million there are a number of other costs related to the separation from Prudential plc. Whether it is the IT infrastructure that we have based in the US, the rebranding that we have had to do in terms of the move away from using the Prudential red, and some of the elements around Prudential. That is the difference between those two amounts. It is not recurring amounts. It is one-off amounts that we are not expecting to have any future cost.

Greig Paterson (KBW): I am trying to understand the magnitude of one element of the management actions. You had a benefit this year from asset optimisation. I wonder if you could tell us how much assets that actually involved so we have some kind of feel for you do X amount, you get Y amount.

Clare Bousfield: Off the top of my head I do not know the nominal value of the actual assets that were traded but effectively what you are doing here is looking at the use of illiquids and private assets to effectively increase the yield of the bonds for something that is an equivalent risk profile, if not lower risk profile. That is effectively what we are doing. The constraint or the way that we look at this is, what proportion of the annuity portfolio do we feel comfortable invested in private and illiquid assets? There is still a reasonable margin above what we are currently in that would take us up to our risk appetite level in terms of what we are looking to do. However, that conceptually is what we are doing, Greig, in terms of optimising the portfolio because they are illiquid liabilities, so they are ideally matched by illiquid assets. Clearly you want to make sure you have got sufficient liquidity should you need it in the event from a market or a customer perspective.

Greig Patterson: Remind me, given that, how much have you got in this? How much can it go to and what is the benefit?

John Foley: Price moves in the market. You have got price moves versus cost of assets. You would not be able to calibrate that and then project what that would mean over time for the whole book. That is just not possible given the way markets move, especially over the last couple of weeks.

Clare Bousfield: That is always one of the considerations, you have got to find the right market conditions to purchase the right assets. It is critical in terms of what you are actually doing.

Greig Patterson: Someone was commenting that the opportunity has reduced since the interest rates have come down. Do you also recognise that?

John Foley: It comes and goes. That is why we have a team of people doing this. Some days, some weeks, some months it looks positive, others it does not. It is in a moving market. You cannot optimise at the drop of a hat. You need certain conditions and one of them is a friendly market, shall we say.

Spencer Horgan: Thank you, Greig. I can see there are a couple of questions left on the internet, but I think we have covered them. The IR team is going to get in touch with you to make sure your questions are properly answered. Other than that, thank you all for participating. It has been a pleasure to have you here. If you have any further questions, obviously the IR team are available. Otherwise we look forward to seeing you next time.

John Foley: Thank you.

Clare Bousfield: Thank you.