# M&G plc Full year 2020 Results

Video Transcript

9 March 2021

# Welcome & Business Review
John Foley, Chief Executive

**Slide 4 - Business Review**

Good morning,

We are pleased to present our first full set of results as an independent business since our market listing in October 2019.

These results demonstrate a strong and resilient performance in one of the most challenging operating environments ever.

The performance reflects the value of our diversified and integrated business model as asset owner and asset manager.

In 2020, we laid the foundations for our return to growth, including fixing retail asset management and accelerating our expansion into UK wealth management.

Above all, we are pivoting the entire company to sustainable investing – a strategic direction which will benefit customers and shareholders, our communities and the planet.

**Slide 5 – Strong and resilient performance in a challenging market**
*Delivering attractive returns as an independent business*

Let's start with the key numbers which Clare will expand on later.

On this slide you can see that assets under management and administration ended the year up 4 per cent at £367bn.

Adjusted operating profit of £788m was a strong and resilient outcome, given that as an independent company we now bear directly head office and interest costs.

The total capital generation in the year was also strong, at £995m, lifting our shareholder solvency ratio to 182 per cent, the highest level since we demerged and well above our risk tolerance.

We remain committed to our policy of a stable or rising dividend, and today confirm a final dividend pay-out of 12.23 pence per share.

We also remain committed to our ambitious three-year total capital generation target of £2.2bn.

And we remain on track to achieve annual run-rate cost savings of £145m by 2022 through our five-year programme of transformation and modernisation.

**Slide 6 – One M&G: Sustainability at the heart of everything we do**
*A comprehensive approach covering all aspects of our business*

I will talk in a moment about the impact of the COVID-19 pandemic on the business and our response.

But before doing that, I want to explain how, in 2020, we laid the foundations for M&G's return to growth. One of my first strategic decisions on our demerger from Prudential plc 17 months ago, was to pivot the business towards sustainable investing.

We believe that a sustainably run and well-governed business will deliver better overall outcomes for customers and stronger, more resilient returns for shareholders.

Since demerger, we have worked hard to position M&G to face directly into this rapidly growing market in savings and investments globally, as well as embedding the principles of sustainability across the business. We don't see this shift to sustainable investing as a fad. We believe it is a permanent, structural change in customer behaviour, which is increasingly encouraged by governments and regulators.

It is also the right thing to do for people and the planet.

It's a shift that plays to the strengths of our combination as asset manager and asset owner:

As an asset owner, we have influence and the capital to set the pace on the transition to sustainability. The With-Profits Fund also acts as a sponsor of innovation in sustainable investing. And we have an asset management team which is well known for the quality of its engagements.

As you will see, the pivot to sustainability is an important part of our ongoing work to reinvigorate our retail funds business. This year, it will differentiate us in retail savings and the increasingly important arena of wealth management.

**Slide 7 – Catalyst: A £5bn collaboration between the Asset Owner and Asset Manager**
*Investing capital where it is needed to drive innovation and impact*

I want, briefly, to demonstrate how the asset owner and asset manager combination is a competitive advantage in the rapidly growing market for sustainable investing.

You may have seen last month that our With-Profits Fund is putting £5bn into an innovative sustainable private assets strategy.

This strategy is being managed by a newly created, home-grown team called Catalyst – 25 investors and analysts in London, New York, Singapore and Mumbai.

Their job is to find opportunities around the world for the With-Profits Fund to become a cornerstone investor in early-stage technologies and industries tackling societal issues or climate change.

As we do this, M&G will develop an international franchise in sustainable private assets – a capability which will feed into the portfolios we offer to external clients.

Catalyst is just one of a string of planned innovations which will differentiate M&G with customers and advisers.

Our next big launch later this year will be a sustainability focused version of PruFund, our market-leading smoothed solution in UK retail savings.

**Slide 8 – The impact of COVID-19: Demonstrating the strength of our business model**
*Continuing to deliver to colleagues, shareholders and customers*

Now I want to touch on the impact of the COVID-19 pandemic on our business.

First, I want to thank all my colleagues for their resolve and commitment in the face of the challenge that this virus has created.

I am immensely proud of our response to this crisis. We facilitated working from home for almost all of our 6,000 colleagues worldwide in a matter of weeks. We put no colleague on furlough and received no financial assistance from governments, whilst also paying a dividend to our shareholders.

Our priority remains the safety and well-being of all our colleagues, alongside the continued service of our customers and clients.

This crisis also demonstrated the strength of our diversified and integrated business model.

In the asset owner, our prudent and proactive management of the Heritage Business underpinned our earnings.

The stability of its cashflow provides a long-term support for M&G's dividend policy, while we fix our retail asset management business.

Our balance sheet has so far weathered the storm well, gaining in strength despite the volatility in global markets during the year.

For our customers and clients, the pandemic has obviously brought great uncertainty, which they have navigated in different ways.

Advisers have had fewer face-to-face meetings with their customers, hurting their productivity, despite a rapid embrace of digital practices.

Many major financial decisions have been deferred, and while markets have recovered quickly, it will take longer for confidence to return.

Institutional asset management has been a bright spot in this picture. Over the year, we won a net £5bn in new mandates from pension funds and others.

**Slide 9 – Our strategy pillars and how they support our ambition**
*Positioning M&G for long-term, sustainable growth*

Let's move onto talk about the strategic outlook. Here's a quick reminder of our strategy.

Our plan is to return to sustainable growth through:

- continued innovation in investment
- the targeted acquisition of new capabilities
- and further modernisation of the business
- while pivoting the entire business to the rapidly growing market for sustainable investing.

I'll quickly run through our strategic priorities before covering a number of them in more detail.

They include the revitalisation of our UK retail savings and asset management business.

The international expansion of our successful institutional business.

Further growth of our business in Europe, based on our well-established trusted-partner approach.

The building-out of our international operations, leveraging the new investment hubs we created in Singapore and the US in 2020.

Finally, we are protecting our Heritage business, continuing to improve customer outcomes, strengthen operations and achieve efficiencies.

And at the centre of this is our integrated business model as asset owner and asset manager.

Before looking at the overall progress against this strategy in 2020, I am going to drill down into two areas:

- Retail asset management
- And Institutional asset management

**Slide 10 – Retail: Responding to an increasingly competitive arena**
*Structural trends in the retail market*

First, let's be candid about the extent of the challenge facing the retail asset management industry.

The pressure on active management fees, the rise of passive investing, the shifts in the distribution landscape – I want to show you how we are grasping each of these nettles in a determined way.

We cannot possibly ignore this. If you are hit with a bout of poor relative performance, as we have been in the first half of last year, then the combination of outflows and fee pressure has a pronounced impact on revenues – as our figures today show.

At the half-year, I set out what we are doing to fix our retail funds business and the next slide will show our progress so far.

But we are also addressing a wider structural change – the shifts in the distribution landscape.

Today, companies want far greater control over the whole savings and investments value chain, typically through vertical integration.

In this environment, retail funds remain important but become a component of a larger wealth management model.

Europe is behind the UK in this trend, but we have no doubt that the same forces of change are at work there.

M&G is ideally placed for this shift because we already have all the necessary components under our roof to create an integrated wealth business, complete with advice.

I will give more detail on M&G Wealth – and the importance of the Ascentric acquisition – in subsequent slides.

**Slide 11 – Retail: Delivering a retail fund offering fit for the future**
*Driving change in uncertain times, 2020 as a foundation year*

First, a quick update on what we have done to fix our retail funds offering.

We're revamping the product range, refreshing some funds and consolidating others.

Our new generation of propositions – like the Climate Solutions equity fund launched in November – are focused on the growing market for sustainable strategies.

Sustainable investing will be a clear differentiator for active managers as it becomes a norm in many markets.

Only active managers are equipped to deliver the full benefits of sustainable investing and only they can direct capital for true impact.

You may also have seen that we have cut fees across our UK wholesale fund range to be more competitive.
And to improve performance, we have introduced institutional disciplines, moved to team-oriented management and bolstered data modelling.

It is of course early days, but performance of our retail funds improved markedly in the second half of 2020.

As of December, two thirds of our mutual funds ranked in the upper quartiles for performance on a 6-month basis. And that improvement has continued into 2021.

**Slide 12 – Retail: Launch of M&G Wealth positions us for sustainable growth**
*Integrating retail asset management into the broader retail proposition*

We are making good progress on fixing the retail funds offering but we are also addressing the larger challenge of a structural shift in customer and adviser behaviour.

Our answer here is an integrated wealth model, with PruFund – our market-leading smoothed solution which is popular with UK retirees – a clear differentiator.

In 2020, we took a major step forwards with the acquisition of the Ascentric IFA platform from Royal London.
Ascentric brought to us £16bn of new assets under management and administration, as well as 95,000 new customers and relationships with more than 4,000 advisers. Critically, it enabled us to repurpose the Ascentric IFA platform as the IT backbone of our integrated wealth model.

In the autumn, we created M&G Wealth, combining Ascentric with our own restricted advisory businesses – Prudential Financial Planning and The Advice Partnership – and our direct funds unit.

Today M&G Wealth is a powerful new force in UK wealth management, with £28bn of assets, operating across both our brands. And that's just the start.

We will integrate our entire UK retail business - £82bn in retail savings and £28bn in retail funds – to create a vertically integrated wealth manager with more than £110bn of assets. Within it, PruFund will continue to play a key role thanks to its market leading position in retirement and drawdown solutions. About 60% of the current wealth held on advisory platforms is in pension wrappers.

As savers approach retirement, they will need a decumulation vehicle – a means to draw an income while making their capital last throughout retirement.

M&G Wealth, with PruFund on its platform, will be a compelling destination for those with maturing pension products.

**Slide 13 – Institutional: A successful, growing franchise**
*Strong performance, steady flows, resilient margins, growing AUMA*

Let's move on to our Institutional Asset Management business, which continues to be a success story, growing assets by 11% in the past 12 months.

We attracted over £5bn of net new assets during 2020, on the back of strong investment performance and continued innovation.

New assets coupled with investment performance pushed total assets under management on behalf of external institutional clients to £86bn.

The profitability of our institutional business continued to improve, with the average fee margin rising by two basis points during the year.

Our position as a trusted adviser to institutions means we are well placed to expand this part of our business.

**Slide 14 – What we have delivered, 2020 as a foundation year**
*Key achievements*

I want now to look back at what we achieved in 2020.

I will also set out our priorities for this year and beyond.

Last year, in UK retail savings and investments
- we began the end-to-end revitalisation of our retail proposition
- we acquired Ascentric and created M&G Wealth

In Institutional
- we attracted net inflows of over £5bn
- and we began the transfer in-house of £25bn of North America and Asia Life fund mandates

In Europe
- we expanded our sub-advisory business in key markets
- and achieved operational readiness to commercialise a PruFund-like proposition.

Internationally
- we opened our investment hub in Chicago and hired a US fixed income team
- established a European fund management team to Brexit-proof our business
- and agreed to take control of our joint venture in South Africa, with about £12bn of assets under management.

Lastly, in our Heritage Business

- we improved customer outcomes and operational strength by increasing to 1 million the number of pension policies on the BaNCS platform
- and we doubled the number of Prudential customers that have moved their business online so that they could have digital access to their accounts.

**Slide 15 – What we are working on**

*Priorities ahead of us*

Looking to this year and beyond

In the UK

- we will expand M&G Wealth, our integrated savings and investments model
- we will grow The Advice Partnership, our new self-employed advisory business
- and launch more sustainable propositions including PruFund Planet

In Institutional

- we will make our expertise available to core European clients
- and continue to develop innovative private assets solutions

In Europe

- we'll continue with our work on PruFund
- deepen our relationships with selected partners to increase share of investment wallet
- and grow our local private assets origination

Internationally

- we will expand the investment teams in both Chicago and Singapore
- complete the transfer of assets in Asia and North America
- as well as integrating the South African operation.

In Heritage the priorities are

- further modernisation as we turn this into a digital-first business
- and the continued proactive management of capital

**Slide 16 – Key messages**

To end then: We believe M&G is a great business…. with a diversified and integrated business model…

A clear strategy to return to growth… by continuing to leverage the asset owner and asset manager combination…

Pivoting to the rapidly growing market for sustainable investing…leading by example and through innovation…

Against ambitious targets… both financial and non-financial…

Delivering strong and resilient returns to shareholders.

Thank you.
Over to you Clare.

# Financial Review
## Clare Bousfield, Chief Financial Officer

**Slide 17 – Financial Review**

Thanks John, and a warm welcome from me.

The backdrop to our first year as an independent company is clearly not what we were hoping for when we demerged from Prudential plc. Like everyone else, we were confronted with an unprecedented health and economic crisis which profoundly impacted our lives.

It was a severe test of our capabilities, coming early in our life as a standalone business; but we faced it with determination, focusing on the safety of our people, the needs of our customers, and the interests of our shareholders.

I am extremely proud of the results we have achieved over the past twelve months, and I want to take the opportunity to thank, once more, our colleagues for all their hard work.

**Slide 18 – Strong and resilient performance in a challenging market**
*Financial highlights*

As John mentioned, 2020 has been a very important year for us. We set the foundations for growth and put sustainability at the centre of everything we do. But while building our future, we also focused on the present, reaping the benefits of being a diversified and integrated business, delivering strong financial results and continuing to drive operational efficiency.

Despite the pandemic and the adverse impact from the financial markets, we generated £1bn of capital, enabling us to end the year with a Solvency ratio of 182% after paying dividends of £562m in 2020. This ratio compares very favourably against the 170% target we set out at the time of the demerger and the 176% level we recorded twelve months ago.

Adjusted operating profits, at £788m, demonstrate once again the power of our business model, as it delivered materially stable underlying results despite the difficult economic environment and the challenges we faced in Retail Asset Management.

No business is immune to the ongoing crisis, but as we have said many times before, being an asset manager and an asset owner is a crucial advantage for us, providing diversification and resilience of earnings. Times like this prove exactly that.

**Slide 19 – Net client flows and AUMA**

Assets under administration and management ended the year at £367bn, recovering from £339bn at the half year, primarily driven by positive market movements.

The sharp increase in Retail Savings' Assets Under Administration is largely driven by the addition of Ascentric's £16bn book, after we completed the acquisition of the platform in the second half of the year.

From a flow perspective, we continued building on the success of our Institutional franchise, now the largest component of our asset management business. Consistently strong investment performance translated into net inflows of £5.1bn, as many clients saw the market volatility as an opportunity to top-up existing mandates and invest in new ones.

On the other hand, our Retail franchise remained challenged, with £12.1bn of net outflows. Outflows slowed through the year but remained high as we failed to capitalise on the market recovery. As John covered in his presentation, we have taken significant action to revitalise our retail proposition, including new product launches and keener pricing. We have already started to see some of the green shoots as performance markedly improved in the second half of 2020 and has continued to be strong in 2021. We will continue to take further proactive measures as needed.

Our Retail Savings business, which is primarily PruFund, delivered net inflows of £400m. This contrasts with the £6.2bn in 2019 but remains a positive result in the context of the pandemic, where economic uncertainty weighed on pension market flows, and lockdowns hindered IFA productivity.

While the markets for PruFund was challenged by the environment, PruFund itself continued to deliver value to customers. This dynamic becomes clear if we break down net flows into their two components. As we only sell PruFund on an advised basis, and lockdowns restricted advisors' ability to conduct business, sales volumes contracted sharply, from £10.2bn in 2019 to £5.2bn in 2020. This fall was in line with what we have seen happening in the broader pension market. On the other hand, outflows only moderately increased, from £3.8bn to £4.8bn; an organic increment, in line with previous years, as the book continues to mature.

PruFund remains a compelling proposition and we expect to see sales picking up as we return to some degree of normality.

**Slide 20 – Adjusted Operating Profit by source**

Turning now to adjusted operating profit by segment.

In Savings and Asset Management, we had lower earnings from asset management and with-profits, which I'll cover in more detail on the next couple of slides. Unusually, we also saw a negative result in the "Other" line, which we would normally expect to be marginal but positive. The £28m loss here is roughly in line with the £25m loss recorded at the half year, which was linked to impacts from the pandemic. Included within this line item there is also a small £4m loss from Ascentric incurred in the second half. We expect Ascentric's trading loss to persist over the short to medium-term, as we integrate the platform, build scale, automate operations and improve efficiency. As we do that, we also expect Ascentric to help us generate greater sales for our asset management and retail savings operations as we offer our services to more advisers, on a better platform, through a broader range of tax wrappers.

As expected, the Heritage segment continued to provide a stable and sizeable underpin to our earnings, declining only marginally year on year due to lower one-off elements. As I'll show you shortly, the underlying performance has been very strong.

Corporate Centre, which includes debt interest and head office costs, was in line with the guidance provided. In 2020, we incurred debt interest costs for the full year, as opposed to just two months in 2019, and we completed the build out of our head office.

**Slide 21 – Sources of earnings**
*Asset Management*

Double-clicking now on the asset management results, you'll notice that we have provided you with greater granularity on revenues and margins, splitting them out into their main components.

We wanted to give you greater transparency on their relative size, to better appreciate the rising importance and the contribution of our Internal and Institutional operations. These two businesses have a growing base of long duration assets and resilient margins, that improves as more clients invest in our private asset capabilities. We expect this trend to continue as we keep expanding our institutional franchise and as the benefits of the new internal mandates, which John talked about, come through our results.

The Retail business has received a lot of attention due to its recent underperformance, and as you have heard John say today, we are very determined to fix it. We recognise the challenges and the structural changes this market is going through. We are taking action to transform the business, including optimising the operating model to respond to top-line pressures with greater efficiencies.

Turning to the numbers, you can see that asset management revenues were down by 4% to £988m, as outflows and margin compression in our Retail business more than offset the positive results in Internal and Institutional. Once you exclude the one-off £35m we benefitted from in 2019, costs fell on a like-for-like basis by 2% to £672m. Cost control and operational efficiency are key areas of focus for us and will remain so in the future as we aim to continue reducing our cost base over time whilst investing in attractive growth opportunities.

**Slide 22 – Sources of earnings**
*With-Profits*

Moving on to With-Profits.

In Savings and Asset Management, which is predominantly PruFund, the adjusted operating profit was down 20% compared to last year. The shareholder transfer was £19m lower due to the impact of the downward unit price adjustments that occurred in the first half of the year, which were only partially reversed in the second half. The equity hedging programme, designed to stabilise our earnings, behaved in line with expectations, delivering a £8m favourable result compared to 2019.

In the Heritage segment, our with-profits book continued to perform well, with the operating result increasing by 11% to £207m. Shareholder transfers were slightly higher year on year reflecting the excess surplus distribution that was announced in the first half, and the impact of smoothing investment returns over the longer term. At the same time, we benefitted from an improvement in the hedge result as the FTSE100 index declined over the year.

**Slide 23 – Sources of earnings**
*Shareholder Annuities & Other*

I'll now cover the last component of our Heritage book, Shareholder Annuities and Other.

Here, earnings fell by £73m to £492m, primarily driven by lower positive one-offs in the "other" line. As we flagged last year, in 2019 we benefitted from changes to the staff DB pension scheme and higher mismatching profits than we would normally expect. These elements alone combined for a £46m reduction in 2020.

The contribution from the three primary drivers of annuity profitability remained substantially unchanged.

Lower returns on the excess assets and asset trading were more than offset by higher earnings from the changes to our longevity assumptions.

The lower returns on the excess assets reflects the reduction in surplus assets held in the annuity book. As previously mentioned, we up-streamed some of these assets to M&G plc ahead of the demerger. This line will further reduce in 2021 as we up-streamed another smaller amount of cash in the second half of 2020.

Asset trading and other optimisation fell from £110m to £59m, primarily driven by the loss on a property disposal. Managing the run-off of an annuity closed book requires us to liquidate longer-dated assets and this can impact our liabilities.

The longevity result of £217m was £91m higher than 2019, benefitting mainly from significant ongoing work to improve our base mortality model. It also includes smaller positive impacts from changes to long-term assumptions as we implemented CMI-18, and further smaller assumption changes.

We continue to retain a prudent approach to mortality assumptions and will implement CMI-19 in the second half of 2021.

**Slide 24 – Credit quality of the Shareholder Annuity book**
*£22bn: 98% investment grade*

Lastly on shareholder annuities, the credit quality of the book.

We remain conservatively positioned, with only 15% of the book rated BBB, and 2% below investment grade. The exposure by sector and by issuer is diverse. Downgrade experience remains limited so far and has been in line with our long-term assumptions, with only 4% of the bonds having had a downgrade which changed the letter rating.

This year we experienced only one event of default, the first one in over ten years, on a very small holding with a nominal value of about £2m.

On the right-hand side of the chart, you will see the security of our assets, with 20% classified as risk free under the Solvency II model, and 60% secured. Only 1% is in subordinated debt.

**Slide 25 – Capital Generation**
*FY 2020: £1.0bn Total Capital Generation*

Now, let me talk about capital generation.

Needless to say, this is a crucial metric for us, as it underpins our dividend policy and contributes to the ambitious target we set for ourselves: to generate £2.2bn of total capital for the 2020 to 2022 period.

We are very proud to say we generated £1bn total capital in our first year as an independent company; a result made even more remarkable by the volatile and adverse market conditions, driven by our strong £1.3bn operating capital generation.

This result demonstrates, once again, our focus on proactively and efficiently managing the balance sheet, and our commitment to deliver on the £2.2bn target.

Outside of total capital generation, the last column of roughly £700m includes the regular and special dividends we paid over the course of the year, the cost of acquiring Ascentric, and the purchase of own shares to cover our staff incentive programme.

**Slide 26 – Sources of Operating capital generation**
*FY 2020: £1.3bn pre-tax*

Generating £1.3bn of Operating Capital was a strong result right across all of the business segments. The underlying result of £577m was down from £782m, mainly due to the ramp up of central overheads and debt interest costs. The contributions from the Savings and Asset Management and the Heritage segment were in line with 2019.

In Savings and Asset Management, lower asset management profitability was offset by better capital generation from PruFund due to lower new business strain. In Heritage, as capital from the annuity book fell slightly, due to the lower surplus assets that I referenced earlier, with-profits increased due to higher starting asset shares.

Other operating capital generation was very strong at £735m, reflecting our proactive approach to capital management. The largest contributor was asset trading, optimisation and hedging, with £322m. Here, we reduced our credit risk exposure by liquidating some assets as the annuity book runs off; continued to optimise this portfolio by rehypothecating assets to achieve a more efficient asset and liability matching; and extended the equity hedging programme on the With-Profits shareholder transfers. The review of longevity assumptions, coming in at £242m, was underpinned by the same themes covered in the IFRS results; namely the improvements in our base mortality model and the implementation of CMI-18.

The remainder is the result of a number of provision movements, reflecting the reduced risk from legacy remediation programmes which are now coming to conclusion, experience variances and assumption updates.

**Slide 27 – On track to reach our £2.2bn target for Total Capital Generation by 2022**
*A goal that is stretching but achievable*

What we have tried to do on this slide, is to review our £2.2bn total capital generation target in the context of the 2020 performance. As you can see, we are on track to achieve it, as we reiterate our commitment to deliver superior value to our shareholders.

Now, let me walk you through the figures:

The first column takes the 2020 underlying capital generation and assumes it remains constant over the next two years. To be clear, we are not providing financial guidance, but a simple, illustrative assumption.

The second column shows our 2020 management actions and other capital generation. At over £700m it is a level we would not expect to replicate regularly, as this year we delivered a large number of actions in the first half to counter market volatility.

The third column includes our 2020 actual tax and restructuring costs, and the tax for 2021 and 2022 implied by applying a 19% rate to the illustrative underlying capital generation in the first column.

Finally, we add the 2020 negative impact from market movements to get to a total of roughly £1.9bn.

From here, the target is in touching distance – always being aware that markets can drive large changes in a short period of time as the past year has shown. The pandemic is not yet over, and we need to be mindful of that.

Our ambition is to reach the target by growing our underlying business. On top of this though, our long-term track record of management actions speaks for itself. These can support capital generation or compensate for any unexpected bad news if needed. However, let me be clear, long-term value will always take priority for us, and none of the actions we would consider would hinder long-term value for the benefit of short-term capital generation.

**Slide 28 – Our in-force business underpins the long-term sustainability of dividend**
*Annuities and With-Profits cumulative UCG is £10bn, net of tax*

This slide shows the long-term, cash generative nature of our in-force business, which includes the annuity book and the With-Profits fund. As you can see, these two books deliver stable and predictable capital for many years to come.

We estimate that, over time, the in-force book of annuities and with-profit policies will deliver £10bn of underlying capital generation after tax, thus providing long-term sustainability and a solid underpin to our dividend policy.

It is important to note that the £10bn figure excludes future management actions, asset management earnings, and any new retail savings sales. We also carry a level of Solvency II surplus in our operating companies which we would expect to release over time.

**Slide 29 – Shareholder Solvency II coverage ratio**

On the back of a strong capital generation result, our solvency ratio at the end of the year increased to 182%, up by 6 percentage points compared to last year, despite us paying dividends of £562m, and acquiring the Ascentric platform. The ratio is comfortably above the 170% level we indicated at the time of demerger.

Our measure of Solvency II debt leverage was 30% at the end of the year, lower than the 31% we reported in 2019 and the 34% at the time of demerger, just under 18 months ago. We remain comfortable with the level of debt given our strong capital position and the capital light nature of our new business.

**Slide 30 – Solvency II sensitivities**
*Estimated impact on % ratio and surplus*

To conclude on capital, on this slide you can see the Shareholder and With-Profits Solvency II sensitivities. Along with the operating capital generation, positive market variances also played an important role in the improvement of the shareholder solvency ratio in the second half of the year.

From an equity perspective, we benefitted from having a diversified exposure across markets, with North American indexes performing better than European ones. Rising interest rates and tightening spreads provided further support as our portfolio performed slightly better than the indices used in the sensitivities quoted.

Looking at the sensitivities going forward, they remain broadly in line with what we have previously shown you. The only exception being the interest rates sensitivity, where we have updated the methodology for the recalculation of the transitional measures.

**Slide 31 – Parent company liquidity**
*Cash and liquid assets at £1.0bn*

The liquidity position of the holding company is slightly down from the £1.3bn at the beginning of the year but remains strong at £1bn. We expect this number to increase further in the first half of 2021 as we expect dividends from the subsidiaries to be higher than the external dividend.

In terms of the outgo, the main element was the £562m paid in dividends over the course of the year. In addition to the dividends, head office, and interest costs, in 2020 we also purchased £105m worth of M&G plc shares as part of our staff's equity incentive plan.

Against these movements, we had £782m of cash remittances paid up from the operating entities.

**Slide 32 – Progress on Transformation programme**
*On track to deliver £145m savings in line with our 2022 completion date*

And now an update on Transformation.

We have completed the third year of the programme, out of a total of five, and remain on track to deliver the full £145m of shareholder cost savings by 2022.

Despite the pandemic, in 2020 we were able to continue our journey to becoming a truly international player, establishing investment and dealing capabilities in Chicago, Singapore, and Europe. At the same time, we simplified our IT architecture, improving customer outcomes and further enhancing the control environment.

In the last two years of the programme our priority remains to complete all the initiatives that have already been identified, further rationalising our expensive legacy IT infrastructure, outsourcing non-core processes to variabilise the cost base, and realise further operational improvements.

But there's more; while the pandemic has certainly posed some operational challenges, it has also given us the opportunity to rethink the way we work. Reduced travel, better digital tools and a more collaborative and efficient approach to office space are all features we expect to leverage going forward.

We'll capitalise on what we have learnt during this time as we look to deliver greater Transformation cost savings than those we previously committed to. As we do that, we'll also need to increase the investments in the business, being always mindful of striking an appropriate balance between cost to achieve and the benefits.

As we have already discussed, the asset management industry faces fundamental changes and continued margin pressure. Through our transformation programme we aim to rise to the challenge, delivering a modern and efficient operating model as we seek to counter these pressures with even greater emphasis on cost control. And at the same time driving changes to better improve our environmental footprint.

**Slide 33 – Sources of earnings – Expected development**
*Key medium-term drivers of Adjusted Operating Profit*

On this slide we have provided the usual indications of how we expect the business to develop over the coming period. As we said in August, the uncertainties remain elevated as the pandemic is still far from over.

In asset management, we expect the institutional book to continue to deliver good growth in assets and revenues as it has done consistently over time. Retail flows will remain sensitive to market conditions and our investment performance in the short-term, but we are optimistic about the long-term prospects given the decisive actions we have taken in 2020.

In retail savings, we expect PruFund to remain a compelling proposition, but we acknowledge that it will be hard to see sales volumes return in line with the past experience while advisors are unable to interact face to face with their customers.

In our Heritage book, we expect the traditional with-profits business to continue to deliver steady earnings, assuming markets behave. We have the same expectations for our annuity book, albeit noting that the returns on excess assets and asset trading might decline in the years to come for the reasons already discussed. Looking at the annuity book, there are two other factors that will be driving the results. The first is longevity, both underlying developments and as a result of the pandemic. The second, any substantial shift in downgrade and default experience which might occur as governments scale back ongoing support programmes.

Our guidance for the “Corporate Centre” line remains fundamentally unchanged going forward.

**Slide 34 – Key takeaways**

I’ll finish by re-iterating the key messages from these results.

Our diversified business model performed strongly despite adverse market conditions, generating almost £1bn of total capital.

We have continued to build on the success of our internal and institutional franchises while taking decisive action to return our retail asset management operations to sustainable growth.

The highly cash generative in-force business underpins the sustainability of the dividend, as we expect it to provide £10bn of underlying capital net of tax, over time.

Other capital generation of over £700m, in 2020 alone, proves once more our proactive approach to capital and management actions.

And finally, while we continuously optimise our balance sheet, we always retain a prudent approach, as shown by the credit quality of our book of assets and the 182% solvency ratio.

We are extremely proud of what we have achieved so far as a new organisation, and of the way that we have risen to the challenges posed by the pandemic. This crisis might not yet be over, but we are confident about the future as we have proven our worth protecting our people, serving our customers, and delivering to shareholders.

Thank you.

Live Q&A Tuesday 9 March 2021 08:45-09:45

Chaired by Luca Gagliardi, Director of Investor Relations
with John Foley (CEO) & Clare Bousfield (CFO)

***Introduction by Luca Gagliardi, Director of Investor Relations***

Good morning and welcome to our 2020 Full Year Results Q&A Session. Today, I have with me John Foley, our Chief Executive and Clare Bousfield, our Chief Financial Officer. John will be giving a short introduction, and then we will be happy to take your questions. Over to you, John.

***John Foley, Chief Executive, M&G***

Thank you, Luca. Good morning everybody, so this is progress. We did it from home last time. We are now in the office, so hopefully, we will have you all in here the next time we do this.

As you have seen this morning, we have announced the first full set of results as an independent business since our market listing back in October 2019. These results demonstrate a strong and resilient performance in one of the most challenging operating environments ever. They also reflect the value of our diversified and integrated business model as asset owner and asset manager.

In 2020, we laid the foundations for our return to growth, including fixing our retail asset management and accelerating our expansion into UK wealth management. Above all, we are pivoting the entire company to sustainable investment, a strategic direction which will benefit customers and shareholders, our communities and the planet.

I want to thank all my colleagues for their resolve and commitment in the face of the pandemic as they continue to serve our customers and clients from the safety of their homes. With that, I will open the call for questions.

***Q&A Session***

**Andrew Sinclair (Bank of America):** Hi, morning everyone. Three from me, if that's, okay. Firstly, it is just on Hold Co cash, I just really wondered what you are likely to be remitting up from subsidiaries this year. You have previously said cash and capital are pretty much synonymous for you, and you have just generated about £1bn of capital, so should we see a substantial portion of that coming up?

Secondly, on PruFund in Europe. I think we had previously expected a launch of that before the end of 2020, but I am not sure we have heard anything on that, I just wondered if you could provide an update?

And thirdly is on strategy. You have repeatedly said you are an asset owner/asset manager, and to me, if that is your business model, then one of the most obvious products to be writing would be bulk annuities. You have still got £35bn of annuities AuM which seems enough to provide scale. You've shown you can get attractive returns from those books with the heritage book; others in the market have built a credible bulk annuity franchise from pretty much zero. I am just really interested in why you do not have any desire to rebuild your bulk annuities franchise.

**John Foley:** Thanks, Andy. So, Clare, will you take the first one? I will take the other two.

**Clare Bousfield:** Yes, so there is a simple answer to that one, Andy, in terms of the dividends and the cash and capital. As I have said before and you have quoted, absolutely cash and capital for us is very aligned. So, you are absolutely right we would expect to have a dividend up of close to £1bn from the operating companies.

**John Foley:** And then PruFund in Europe, so yes, you have not heard much about that. It will not be called PruFund when we take that product to Europe, by the way. We are now operationally ready to deliver that product, but we have still got quite a lot of paperwork to do, so it will still be a while before we actually deliver that proposition into the hands of our customers in Europe. But we have continued to talk to our bank partners in Europe, and there is still strong demand for that. So, it is a question of getting through all the – if I call it - the paperwork, that we have got to get done.

In terms of the strategy, I think the strategy lends itself to a capital-light structure, and we have often said that we will emphasise the investing side of our business, the savings and investments side of our business, rather than the heritage business, which is a back book. I have been careful never to close down our options on this topic. So, most of the conversation is around when are you going to sell part of the back book? And now this is a different way of asking more or less the same thing. But our view is that we are very happy with the structure that we have right now. We are very happy with the back book. As you say, we manage it pretty well. If options come along that are attractive, then we will only think about it from a shareholder perspective, so it is not a strategic direction that we aim to follow, but as I say, I do not like to close down any options.

**Andrew Sinclair:** Good. Thank you.

**Andrew Baker (Citi)**: Hi everyone. Thanks for taking my questions. Three from me as well please. So just first, we have seen some recent fee reductions on several of your funds. If we just assume current market conditions, can you just give us what your expectations are for 2021 asset management revenues given these fee reductions relative to 2020? And then maybe what your ability to offset some of these through cost reductions is?

Secondly, on PruFund flows. So, obviously, these were down in 2020 because advisers were not able to get out and meet new clients. Are you expecting pent-up demand when movement restrictions are lifted? So, do you expect any of these misflows to be caught up?

And then just thirdly, Prudential commented last week that it expects about £6bn outflows in the first half in respect of funds managed on behalf of M&G. Presumably, this is AuM that you are bringing back in-house. Can you just remind us of some of the remaining funds held by Prudential that you could potentially bring back in over time?

**John Foley:** Thanks, Andrew. So, the fee reductions question, I will ask Clare to answer the impact on revenues and so on, but you should not really think about that as a one-off. It is part of an integrated strategy, to fix our retail fund management offering, quite frankly. So, it has been about performance, our competitive position and how we think about the analysis of the funds, e.g., have we got the right fund offering, should we think about collapsing some of those which we have been doing, and otherwise. So, the actual reason for the fee reduction was as much about the strategy around our retail fund management business, but Clare, have you got some answers on the impact on revenues?

**Clare Bousfield:** Yes, so we made two changes to the fees for the funds. In August, we made some changes to the SICAVs in terms of the discounts we offered, and that was just under £20m per annum, and then we made another adjustment to the OEICs which affected 75% of the OEICs and that was in February this year, and that has around about £45m per annum impact in terms of fee reductions. And from our perspective, that is really the bulk of the fee reductions that we are expecting to make, recognising that the environment going forward is something that can constantly change.

As you said, Andy, in terms of cost reductions, obviously, as we address the fee and the sustainable pricing, one of the points we also need to look at is the cost reductions in terms of how we treat that. As you would have seen from our numbers, that broadly the fee reductions and the revenue reductions are broadly offset by the cost reductions, and we would look to continue to basically drive that across the business.

We have obviously, as a result of COVID and the pandemic, we have been able to reduce cost, but there are also elements of that which provide long-term sustainable cost reductions together with other opportunities across the portfolio. So, it is something that we are constantly focused on in terms of how we optimise the business model, both in terms of the cost reduction but also, and as importantly, to create the platform for growth.

**John Foley:** Thanks. On the question of PruFund flows, obviously, I think it is our hope that they do get caught up once the market reopens, and the IFA's can get face-to-face with their clients once again. I mean, this is an advised product, and people generally do put a significant sum, relatively, into this strategy. So, it is something that they will need advice on, and the way they take advice is face-to-face rather than over a Zoom call, and we have seen that. I mean, the proposition is still extremely strong, and we would hope that there is a catch up there as the market re-opens.

In terms of in-house funds transfer, well, as far as I am aware, that has been largely complete. There are still some funds to – I mean - this is a decision for the investment office of the life fund, so they decide where those funds will be managed. And most of the funds, both in North America and in Asia, have come back to be managed by M&G, and there may be some residual money left with local asset managers, including our previous parent, but that will not, I doubt, be a significant sum.

**Andrew Baker:** Great. Thank you, guys.

**Dominic O'Mahony (Exane BNP Paribas)**: Hi folks. Thank you for taking questions. Just the first one on the direction of travel for margins beyond retail asset management. On the internal asset management portion, the margin has been picking up a little bit. Is that reflecting essentially increased illiquid asset allocations, and is that going to keep trickling up as those go up? And relatedly, on the performance fees, clearly an increase on last year. Is that essentially a reflection of institutional mandates maturing and starting to pay out performance fees? So, is it sort of a new run rate? Or is this really a reflection of very good performance in the period, and we shouldn't be reading it through?

The second question is just a quick one on PruFund gross sales. I take the point about face-to-face meetings being difficult, but if I look at the likes of St James Place or Quilter, it does not look like they are down 50%. Is PruFund, in particular, you think sold face-to-face? Or is there some other factor driving the relatively sharp reduction in gross sales?

And then the final question. I noticed some of your bulk annuity peers have started to ensure their own pension schemes. You clearly have quite a large, very mature pension scheme. Is that something you would consider as a one-off return to the box market? Or indeed, if you were to do so, do you think that actually there is value to be released from that pension fund for shareholders in the very long-term that might be incremental to your capital generation from the shareholder book? Thank you.

**John Foley:** Thanks for those, Dominic. So, on margins and the internal margins, in particular, clearly those are negotiated between the asset owner and the asset manager and the asset owner as you would expect, drives a very hard bargain, but it is up to the asset manager to come up with new ideas, new strategies and new ways of providing the solutions that the asset owner wants. And so that is what we have been doing for many years, and that is what we will continue to do, and that is the leverage that we deploy with third-party clients and institutional clients. So that is something that is in our DNA, and that is what we continue to do.

Performance fees have also been a constant. I am not sure how much we have talked about them over the years, but they have been a constant in our revenues over a long period of time, so I do not think there is anything exceptional we should say about performance fees.

**Clare Bousfield:** Yes, the one thing I would say on the performance fees is they can be a bit lumpy based off, just as you said, it can be driven by the performance over a 10-year period and then actually how those performance fees come through. So, if you look at the history in terms of where you get to, you can't necessarily say it is totally flat over that period.

**John Foley:** Yes, it is lumpy. And then on PruFund gross flows, I think it is different between us and others. So, others have a platform, and usually, I think those investments are of a different order to the investments in PruFund. So, these are advised sales that are made on the PruFund and, as far as I am aware, not with others. So, it was not a surprise to see people who can access funds through a well-established platform doing that. Clearly, in our case, with the intermediaries not being able to actively engage with their customers, that has been an impediment for us. Hopefully going forward though you know we have acquired Ascentric. That is going to be a great platform for us to sell that product, which you can only buy from us on that platform. So, the IFA market will be able to use that platform to sell PruFund. So, we would hope that would be the mechanism for sales in the future.

**Clare Bousfield:** One thing John, I was going to add on that is, when you compare us to other players like St James Place, they play much more in the accumulation space. We tend to play much more in decumulation, which is why, if you look at the income drawdown market, what you will see is that has dropped by around about 40-45%, which is broadly in line with the drop that you are seeing in terms of PruFund sales. And if you think about it, that point of decumulation is obviously the most complex point that a customer goes through, so that is why the face-to-face advice is critical. But if you look at our competitors in that market, it is broadly in-line.

**John Foley:** Yes. Do you want to take the pension question as well?

**Clare Bousfield:** So, as far as the pension question, I am going to repeat a bit of what John said. So, our strategy is very much capital-light. So, we would not look to go to basically take a chunk of the annuities from the pension scheme in terms of being a very capital-heavy structure, but there are potentials in terms of actually from an asset management perspective in terms of playing in that place and looking at it from a capital-light perspective.

And there are also elements around the with-profits fund, where we have a significantly strong capital position, and potentially there are some angles there in terms of leveraging something that is more capital-heavy, but it will fundamentally drive into our strategy of asset management and the growth within asset management as opposed to driving heavy capital investment.

**Dominic O'Mahony:** That is super, Clare. Thank you so much.

**Louise Miles (Morgan Stanley)**: Hi. Good morning, John, Clare and Luca; congratulations on the results this morning. Just two questions from me.

The first one is, you mentioned targeted acquisition of new capabilities. I am just wondering, is there anything in particular that you think M&G could benefit from having? If you could just give us a bit of colour on that. And then also, on slide 28, that is a really helpful slide, but does it allow for the change in corporation tax announced by the Chancellor last week? And if so, what exactly is your assumption about how long that corporation tax rate lasts for? Thanks.

**John Foley:** So, I will take the first one. We are always looking for new capabilities. You will have seen recently that we have pivoted the entire company towards sustainable investing. We have deployed £5bn of the policyholder money into private assets, sustainable assets that are going to have a positive impact either on society or on the planet. We put together a team of 25 people, globally to actually pursue that strategy, and we will do more as the opportunities unfold.

So, there are things that we identified, but we like, wherever possible, to actually deploy resources that may be used on strategies that are maybe a bit long in the tooth into these new exciting things that we are doing. But where we see the opportunity, and we do not have the capability, we will look for an infill or something. So that has been our strategy, and you have seen us do that with the acquisition of a team in North America, with the team in Asia, and with the Ascentric proposition. So, we will continue to focus on that sort of strategy of infilling the gaps wherever we identify them. Clare, will you take the second one?

**Clare Bousfield:** Thank you, Louise, as well, for your comments on the presentation. Yes, on slide 28, the run-off includes the updates on corporation tax, which have a relatively small impact in terms of the cash flows we would expect over the next ten years.

**Luca Gagliardi:** Thank you, Louise. I will be taking a couple of questions from the webcast. Ashik and Farooq have submitted two, so then we will go back to the phone lines. So, starting with Ashik, which came first, it says, 'Hello. I have three questions, if I may?

**Ashik Musaddi (JPMorgan):** One, how do we think about scope for management actions in coming years? Can you please give some potential sources of it?

Number two, what is the Solvency II surplus in your operating entities that isn't included in the £10bn underlying capital generation? So again, referring to slide 28.

And then finally, number three, given your Solvency II ratio of 182% and increasing due to year-to-date rising rates, what is your plan for the surplus Solvency II ratio as you would be sitting at around 190% at the moment?

**Luca Gagliardi:** So maybe, Clare, if you want, on the second one, I can provide a very quick and simple answer to Ashik, which is, we do not provide a figure for that, but the capital is held in subsidiaries in-line with our capital management and risk capital framework, so obviously over time that would be released. So not a specific figure. Do you want to take the other ones?

**Clare Bousfield:** Yes. So, in terms of management actions Ashik, we delivered just over £700m of management actions in 2020. Those related to longevity, which you can see, is just under £250m. We extended the equity hedging, and then we also did continue to do the asset trading that we have done historically, which is absolutely about maximising the yield compared to the underlying risk.

We also de-risked and sold some of the credit as the portfolio runs-off, and that basically released capital, and then there were other optimisation strategies that we applied in terms of the ALM, which you can continue to do as the market moves and the portfolio changes. And then there were also some releases of provisions as we closed down a number of the legacy programmes that have been ongoing for the last couple of years.

So, when you look at the balance sheet overall, the balance sheet is equally as prudent at the beginning and at the end of the period, and that is one of the things that is really critical to us in terms of how we maintain those ongoing streams of management actions. So, most of the longevity was underlying base longevity rather than actually the CMI tables.

So hopefully, that kind of gives you a sense in terms of how much of those are sustainable. I would not expect management actions of the order of £700m on an ongoing basis, and you can think about the first half of the year being the point where we actually looked at the market volatility, and the position from a solvency perspective, and actually pushed in terms of looking at management actions, while the second half of the year, I would describe as a more normal period, given where the market was.

From a solvency perspective, yes, the solvency position ended up being very strong. One of the things I think we need to remember, though as part of that, is that a number of the reasons why the solvency position was strong was because of effectively how global markets moved compared to our portfolio. So, if you think about equities, North America was particularly strong; the UK had a weaker year. When you look at interest rates and credit, when you look at our portfolio of what actually happened compared to the sensitivities, we ended up benefitting in the second half of the year. That can obviously work both directions. So yes, today our solvency position is very strong because interest rates have continued to increase but from our perspective, given the sensitivities and given the pandemic and the situation we are currently in, we are very comfortable with the strength of it, but you also need to recognise, we are in the middle of a global pandemic.

**Luca Gagliardi:** And so maybe following up on that, the next question from Farooq is very much along the same lines, so apologies Farooq if I did not put it first, but I think Clare might have answered most of it already.

**Farooq Hanif (Credit Suisse):** Beyond the £2.2bn capital generation target for 2020-2022, what do you expect the natural level of management action to be above underlying capital generation?

**Clare Bousfield:** So, yes, I would repeat, if you think about the first half of the year as being something that was much more in terms of response to the market volatility, and the second half of the year being much more, what I would describe as a normal year, then hopefully that helps you get a sense in terms of what you think those management actions will look like going forward.

**Luca Gagliardi:** And it is worth bearing in mind that it is in the second half of the year when we implemented most of the longevity assumption changes, and so in a way, I would not necessarily double the second part of the year, but I would remember that in the second part, we benefit from longevity and we do it only once a year.

**Gordon Aitken (RBC):** Thank you. Three questions please, first, you announced quite a large mortality release today. It is almost a quarter of your operating capital generation. Can you just explain a bit more into what is the base table and what is the move to CMI18 and when within CMI18 they proposed a move on the smoothing factor from 7.5 to 7.0, what did your smoothing factor move from and what did it move to? Thanks.

The second one on the annuity reserves. What proportion of the liabilities are currently re-insured for longevity risk?

And finally, a question on the potential for Solvency II reform post-Brexit. Your risk margin is of a much larger multiple of your transitional versus some of your peers, so if there is a reduction in risk margin, you could see a material one-off benefit. What do you expect from this, and do you think the ABI's proposal of a 75% reduction risk margin is likely? Thank you.

**Clare Bousfield:** Thank you, Gordon. So, in terms of the mortality release, the vast majority of the mortality release was on the base table. We have done a lot of work over the last three to four years effectively rebuilding that model and looking at how we can model base mortality, and as you would expect when you go through quite a significant change in the models, you tend to find that the positive results, you tend to wait for a trend and make sure that you are totally comfortable with it, while anything negative you tend to take at that point in time.

So, what we are seeing is the benefit of a lot of that model refinement that we have done over the last couple of years. We do not disclose the smoothing factor, but all I would say is that overall, I am very comfortable that the longevity basis is prudent, and it continues to adopt a prudent approach. The other thing that I think we have to remember is that the CMI tables are highly calibrated now, so it is absolutely based off your own experience and how you calibrate it in terms of that prudence.

In terms of the amount of the book that is re-insured, it is just under 50%, and we have not really moved that percentage over the last couple of years. There would obviously be an opportunity to reinsure further blocks of that business, but that has to come down to the commercial benefit in terms of capital. So, it is a good example of one of the things that, from my perspective, when you are sitting on potentially prudent reserves and a degree of uncertainty in terms of future mortality, re-insuring it potentially gives away value. So, it is one of the areas that is an option and a lever that we have, but it would have to make sense in terms of actually the capital benefit in the context of the solvency ratio rather than to just drive management action.

In terms of the Solvency II reforms, I think it is important to remember that any release of the risk margin would get effectively offset by the TMTP. So, anything that comes through that reform really would have very limited impact in terms of the Solvency II numbers, and from my perspective, I am not expecting significant changes. The one thing that is very clear is the volatility of the risk margin is the key issue here and I know that is where the PRA is very focused on. The one area that I do believe that would be important is changes in the matching adjustment, particularly in terms of the context of infrastructure and how we as annuity players can actually help the government in terms of investing in infrastructure. So, from our perspective, that is the bigger driver in terms of Solvency II reform.

**Gordon Aitken:** Thank you.

**Stephen Haywood (HSBC)**: Good morning, thank you very much. You mention in the webcast that you had only one default in 2020 of a £200m instrument. I guess going forward, what is your outlook for 2021 in terms of defaults and downgrades because obviously as a lot of support gets withdrawn from the economy, potentially there might be a bit more of an uplift in the future, and I was wondering can you give us a percentage of your book that was downgraded to sub-investment grade in 2020 as well.

And then you have mentioned earlier about possible targeted permissions and investments. One of your competitors has announced that Parmenion is up for sale. Is that of interest to you, or have you put your faith in Ascentric now and don't need any more additions onto that side of the business?

And finally, from me, on the integration of your retail savings and retail funds, can you provide just more colour and more detail here because I was trying to follow what was happening in the webcast, but I did not really fully understand what the potential benefits would be here. Thank you.

**John Foley:** If you take the first one, I will do the last one.

**Clare Bousfield:** Yes, so Stephen, the first thing to just correct you is that the default that we saw was for one bond with a nominal value of £2m, not £200m. So, it was really tiny in terms of the default.

As far as what the future looks like, I guess there are two ways to look at this. Firstly, we are in a very uncertain environment in the context of the pandemic. So, in terms of when the government takes off the funding, it is pretty difficult for anybody, I think, to call exactly what is going to happen, but saying that, I think you have got to look at our portfolio and recognise how conservatively we are positioned. So, from my perspective, are we absolutely monitoring and watching the portfolio in terms of understanding what the implications of it are?

Yes, but we do not have significant exposure to the sectors that you would be concerned about in terms of hospitality, leisure, etc. And when you look at the proportion of the portfolio that is BBB and below investment grade, it is tiny in the context of that overall portfolio. So, we have not seen significant downgrade to below investment grade. So, from our perspective, we are very comfortable with where we sit today but I think we have to acknowledge the uncertainty that is on the horizon.

**John Foley:** To your question on acquisition, I think I answered as far as I am going to, to Louise earlier on that. I mean you would not expect us to comment about a specific opportunity that might be around in the market. Look, all I will say though is that we are very happy with the Ascentric acquisition. We think that it is brought a number of relationships with advisers, customers, funds under management, but most important, it has brought the platform that will enable us to sell some of our core products, direct to the IFA channels, and that is really what was missing for us, so we are very happy with that. I mean, I am never going to close my options down, so I will not rule anything in or out, but that is as far as I am prepared to go there.

On retail funds, we have gone through a significant piece of work on retail funds, and I will take a few moments just to explain what we have been doing because it is important, not only to the business but also to the framework of how we are going to deliver that part of the business to our customers and clients particularly in the UK market. I have been pretty clear about the extent of the challenge facing the retail management industry. So, I am happy to go into that in some detail because we have been addressing this issue both tactically and strategically, and at the half-year, as a matter of fact, I did set out what we are doing to fix our retail funds business which is very much focused on improving investment performance.

That is the tactical bit if you like. We brought disciplines from our institutional business to the retail investment management. That is investment performance which focuses more on data and analytics. We have conducted more fund deep dives, which are better to understand the performance drivers of funds, and we have supported very much this collaboration within the investment teams, which is moving away from the star fund manager approach. Now, I will say that this is early days, but in the second half of the year, I can give you a couple of stats in terms of how things are moving. In terms of performance over a percentage of funds on a three-month period above median in May 2020, was 14%. In January, by the time we had taken these actions, it was 76%, and the same median measure on a six-month period back in May 2020 was 20%, and that had moved by January to 71%. So, it seems to be working. I am not calling it. It is early days. These things take time, but it is important to understand what we have done to actually improve performance.

But that is the tactical response. The strategic response is the overall fix to the business, and we have actually been fixing the structural challenge, which had been brought about by the shifts in the distribution landscape, and so for most of the previous decade, a tactical response to RDR and similar shifts in distribution was deemed sufficient. And good performance, when you have got supportive macro markets, means that you get inflows and that's what happened with M&G, except that we actually had outflows in the UK market context. And as we know, from a distribution perspective, it seems that the European market is following the UK market, so that is not surprising.

So, these shifts in distribution patterns have become so pronounced that it is obvious when I took the job as CEO of M&G that we needed to take some strategic action. And customers and advisers today search for a partner that can offer them a complete and integrated proposition. They want to buy an end-to-end service that encompasses advice, consolidation and administration services and investment solutions that deliver good value for money and achieve really good outcomes. So, rather than individual product solutions distributed through sales teams – you can tell I have prepared some text on this because I knew it would come up – advisers are looking to platforms as a way of getting an experience where they can access multiple solutions and to help their business achieve results for their customers. We believe in the future of the retail funds business, but it is one component, it is only one component, of a wider interaction in the distribution landscape with customers.

So as an independent, freshly merged business, we inherited most of the right components for this integrated proposition, but what we lacked was a proven administration platform, and that is something that advisers can use to administer their customers long-term savings. And that is why we bought Ascentric. So, if that had not come along, then we would have developed it ourselves. So that has been an acceleration of our strategy.

That has, in turn, enabled us to create M&G wealth, which we think is a powerful new force in the UK market, and I will give you some stats around that. Right now, it has £28bn of assets under management and administration. When we add our other retail savings and funds to that platform, including PruFund, we will have a wealth manager with £110bn under administration. The addition of the PruFund will make this a compelling proposition because, as I said earlier, you can only buy PruFund from us. And another proof point is that we estimate about 60% of wealth on UK platforms today is in some form of pension wrapper, and that is as savers seek to convert wealth into an income, we want to be the go-to destination. So, we think for all those reasons we will win both in the UK and for much the same reasons we will win in Europe.

I have already talked about pricing, but that is a key component in this, but so is the product that we distribute, and so we have reviewed our product portfolio in some detail, we have been revamping it fairly considerably. We have refreshed some funds, we consolidated others and we have been launching a new generation of propositions with a strong focus on ESG and sustainability aimed at the growing demand for that type of product. And these new funds have been performing very strongly since inception, and those would be the M&G Positive Impact Fund, the M&G Sustainable Impact Fund, the M&G Climate Solutions Fund and the sustainable multi-asset fund. And to come, later in the year, we will have PruFund Planet, which we hope will be a game-changer yet again in that strategy. So, we have put these ESG requirements at the centre of our investment decisions using a framework that we developed, which actually has positioned us well for how the Europeans look at that, and we believe only active managers can do this. So, I have already talked a bit about pricing, but that, I hope, gives you a better context of what we have been doing in terms of the retail asset management side of our business. A long answer but important to get the message across, I think.

**Stephen Haywood:** Thank you very much. That is more than I was hoping for and apologies for the mistake on the figures.

**John Foley:** I am sure it was. Yes, we like to give people more than they hope for.

**Stephen Haywood:** Excellent. Thank you very much.

**Luca Gagliardi**: We do have a couple of questions from the web coming from Charlie Beeching from KBW. And I think they fit nicely as a follow-up to your last long answer.

**Charlie Beeching (KBW)**: First of all, do you expect net flows – I presume retail asset management net flows because PruFund and Institutional are already positive – Do you expect net flows to turn positive either this year or next, and what is the key driver of this?

**Luca Gagliardi:** So, I think you have talked a lot to the drivers, but I guess if you want to say anything specific on expectations to Charlie?

**John Foley:** I have got no pre-prepared notes on this one, Charlie, so it will be short. The answer is that if you subscribe to the view that an improvement in performance then flows follow, then I think a reasonable person would expect to see the flow position change during the course of this year and into next year. But it is more about the overall proposition that I have described, and I have been at pains to describe to you this morning, that I think is what we expect to be the game-changer, and I am not going to put a timeframe on that, but you know, a lot of hard work has gone into this, and our expectations are high.

**Luca Gagliardi:** And then the second question from Charlie is, are you feeling more confident on the £2.2bn total capital generation target following today's result?

**Clare Bousfield:** So, from my perspective, I think slide 27 sets out in terms of how we look at the £2.2bn target. Definitely, we are feeling more confident about the £2.2bn target than where we were at the half-year, predominantly driven by where markets were. You can see on that slide what we have to assume in terms of being able to hit the £2.2bn. The market movements would be the key thing in terms of the pandemic, but in terms of underlying business performance and management actions, yes, we are very comfortable and confident around £2.2bn.

**Luca Gagliardi:** So, I think this possibly brings an end to the Q&A session we have no more questions online. I will just refresh quickly now, but I think we have tackled them all, and there are no more hands raised on the phone line. So, I think with this, we can close up.

**John Foley:** Okay, well, thanks to everybody for dialling in and joining us today. We very much appreciate it. Thank you.

**Luca Gagliardi:** Thank you very much. Have a good day.