2026 Half Year Results

Presentation and Analyst Q&A

Andy Sinclair

Good morning, and a warm welcome, both to those of you in the room and to those joining online. Thank you for your interest in Legal & General. I'm Andy Sinclair, L&G's Chief Strategy and Investor Relations Officer. Our running order for today will be as follows. António will open with an update on progress we've made delivering our strategy, along with the highlights from H1. Andrew will cover the results in more detail, and then António will be back with some more comments on our outlook before opening to Q&A, at which point, António will be joined by Andrew and the CEOs of our three businesses to take your questions. For Q&A, again, we'll be keeping it to two questions each. Thank you for your cooperation last time around. With that, over to you, António.

António Simões

Thank you, Andy. Good morning, everyone. Great to see you here. I'm pleased with what we have delivered so far in 2026. We are delivering on our promises, and this starts with our 13 million customers. We want to be the best company for them to invest and retire with, and we're doing that at scale.

António Simões

First, as the UK's leading annuity player, we provide income every month to one million retirees. Actually, you can see it on the slide. Those payments were over 3.7 billion in the first half of 2026. As the UK's largest asset manager, we're trusted to invest on behalf of both institutional clients and individuals, including more than 5.2 million workplace customers.

António Simões

Finally, on the right-hand side, since we were founded in 1836, we've always provided protection insurance. In the first half of this year, we have paid almost 700 million to support customers and their families. We are delivering for shareholders. As you can see on the slide, we have generated year-on-year predictable growth in our headline earnings. These are clean numbers. If you remember, we talked about this at the full year, now that we've drawn a line under legacy issues.

António Simões

Core operating EPS is up 11%, that's above the top end of our guidance of 6-9%. OSG per share is up 7% year-on-year. Our solvency coverage ratio was 201% at the end of June. This is a strong capital position well above our 160-190% target range, allowing us to continue to deploy capital for growth. We are committed to increasing shareholder returns with an interim dividend per share up 2% to 6.24p. We have now completed around 450 million of our 1.2 billion share buyback program. That's as of a couple of days ago. L&G is now a growing, simpler, better-connected business, and we're firmly on track to meet our financial targets. We have scope to deliver more, as we will discuss later.

António Simões

We have strong growth momentum in each one of our three market-leading businesses. We have written or are exclusive on 6.9 billion. You can see it there on the slide of overall annuity volumes. That includes 5.7 billion of PRT and 1.2 billion of individual annuities. Our asset manager delivered 23 million of annualized net new revenue, ANNR, in the first half, which is the highest we've ever reported. In workplace pensions, we attracted 6.2 billion of net inflows, benefiting from the onboarding of new schemes that we won last year. We now have almost 1 billion per month from recurring flows.

António Simões

Let me now go into each one of the businesses. As I mentioned, in institutional retirement, we have written or are exclusive on 5.7 billion of PRT year to date. This compares to 5.2 billion at the same stage last year. We have remained disciplined in what is a competitive market, and this is important for the 2.1 billion of business that we have written. As you can see, we have written 2.1 billion, and we are exclusive or have since written the 3.6 billion.

António Simões

Just on the 2.1 billion that we have written in the first half, our new business margin declined to 4.2% and the strain rose to 3.4%. We are still beating our 14% IRR, the internal rate of return, and we're still above that hurdle, while at the same time locking in optionality for the future. In fact, this is what you can see in our numbers. In the first half, we have generated 288 million of asset optimization. This is across institutional retirement and retail, and that number compares to 212 million in the first half of last year.

António Simões

You remember this from when we were sitting here back in March, we've talked about we guided to more than 300 million of asset optimization per year. What I'm now saying is that we can deliver more than 400 million this year and going forward, even in benign markets. Credit spreads widening, because I'm sure you're going to ask me this question, would provide further upside potential on top of that number. We are on track to hit our target of 5-7% compound annual growth rate in operating profit.

António Simões

Turning to asset management. Asset management is the standout performance in the first half of the year, with fee-related earnings up 37% year-on-year. We have delivered, as I mentioned before, an impressive 23 million in annualized net new revenues during the period, but this ANNR will support earnings growth further into the second half and into 2027.

António Simões

We have increased revenue margins over the last 3 years. You probably remember first time I talked about this, back in 2023, the average revenue margin was seven basis points. That number is now 9.6 basis points, and we are ahead of plan for a revenue margin over 10 basis points. We continue to grow our private markets franchise with AUM rising by 4 billion in the first half to 79 billion. Again, here we are on track to exceed our 85 billion AUM private markets target.

António Simões

Our cost-to-income ratio, it's worth spending a moment on this, reduced from 75% to 71%. This is the first time this ratio has reduced in a decade, and it will continue to reduce further to hit our below the 70% target. We've made great progress in asset management, and there is more to come. We're on track to meet our 500-600 million target operating profit in 2028, with more than 80% coming from fee-related earnings. This is really important. The quality of that number is if it's more than 80% coming from fee-related earnings.

António Simões

Finally, retail. In retail, we serve over 12 million customers across three structurally growing markets. First, workplace savings. Second, individual annuities, and finally, protection. Let me go through the three of them. They've all performed really well.

António Simões

Workplace net flows are up 35% year-on-year. If you remember, we talked about this before, our end-to-end workplace profits, and that includes both the admin and the asset management part of those profits—I was talking to some of you outside about this—more than doubled to 48 million, and we'll talk about this a bit later. We continue to be the number one player in the open market in individual annuities, and you can see the number there. Premiums rose by 36% year-on-year.

António Simões

Finally, our protection business saw both an increase in margins and a 22% step up in sales. We also have new distribution agreements with two large banks that you'll see that in our future numbers. Again, we are on track to hit our 4-6% operating profit growth target.

António Simões

I've talked about the three businesses. The three businesses show good momentum, as we've just discussed, and importantly, they support each other with clear synergies. Typically, you can see that 80% of PRT transactions come from asset management relationships. Eric and Gareth are sitting next to each other there. Actually, the number in the first half of this year was 98%. So virtually every single PRT deal that we did this year came from a long-standing asset management relationship. Then, and this is what you have here, 90% of the annuity assets are then managed by our own asset manager. A good example of that in the first half is the 1.6 billion of investment-grade private credit sourced by asset management for our annuity book.

António Simões

On the right-hand side, as I mentioned, we have very exciting growth in workplace pensions, but this is particularly important to us because, and this is very specific to L&G, 95% of those flows are managed by our asset manager. A great example here is the private markets access fund that we have, which is now over £3 billion. So effectively, our institutional retirement and retail businesses represent controlled distribution for our asset manager, and in the first half of this year, that accounted for more than half of the ANNR.

António Simões

Talking about the bottom of the page, for most of our 190-year history, we have used scale as a competitive advantage. We increasingly share operations and teams across business units, and our large customer base and proprietary data are a source of competitive advantage in an AI world. Two examples, we have launched an AI-driven agent desktop, which Laura talked about in the capital markets event that we did in the retail business, which is now driving efficiency improvements.

António Simões

Second, we were the first large UK provider to get approval for targeted support, the new FCA regime, that has now also launched with AI-driven nudges, supporting customer decisions, and we have seen good early engagement. We can talk about that with Laura in the Q&A. There is more to come. Work is underway to make L&G a more efficient and a more competitive business.

António Simões

We understand the importance of a sustainable growing dividend. In the first half, the performance that we had supported another 2% dividend increase, as I said, to 6.24p per share. But our earnings are growing faster than our dividend, with EPS up 11% year-on-year and OSG per share up 7%. We expect, and this is what you can see on the chart, our dividend to be covered by core operating EPS this year, and that that cover will further improve in 2027. As I mentioned at the full year results back in March, also our NSG will cover our dividend by 2027. On that note, let me hand you over to our CFO. Andrew, over to you.

Andrew Kail

Thank you, António, and good morning, everybody. I'm delighted to be here presenting a strong set of results. Importantly, these IFRS results are clean and predictable after we drew a line under legacy complexities at our full year results in March. We've delivered 7% growth in core operating profit, supported by 5% growth in institutional retirement, 10% growth in asset management, and 5% growth in retail, all while holding central expenses and debt costs flat year-on-year.

Andrew Kail

Our core operating EPS was up 11%, and we now expect to be above the top end of our 6-9% target range for the full year. Our profit before tax benefits from the sale of our US protection business, as we previously guided, and we have a significantly smaller impact from the investment variances, which I'll cover in more detail later.

Andrew Kail

On this slide, you can see a summary of the solid trading metrics across the group in the first half of the year, with each business delivering good growth and on track to meet our 2028 targets. Let's discuss these results in more detail.

Andrew Kail

Starting with institutional retirement, our largest business. We delivered £646 million core operating profit in H1, with asset optimization increasing 38% to £227 million as we took advantage of market opportunities. This is ahead of our guided run rate, and as António mentioned, we're now on track to deliver greater than £400 million per annum of asset optimization across institutional retirement and retail annuities, even in benign markets. That's up from our prior guidance of £300 million as we've industrialized our processes.

Andrew Kail

The flat CSM is a function of the sovereign-based investment strategies we're using in a tight credit spread environment. In this environment, asset optimization is a greater driver of our profit growth, and we'll discuss more of that in a moment.

Andrew Kail

Further spread tightening through 2026 alongside the competitive pressure has increased the upfront new business strain we're reporting, even though our investment approach and capital requirements have broadly been consistent. But despite markets and competition, we continue to deliver strong returns on our capital. We remain highly selective and disciplined in the transactions that we go after.

Andrew Kail

On this slide, you can see our long-term track record of success in institutional retirement. We've written around £95 billion of PRT over the past decade, typically averaging 20-25% market share. This has supported growth in our PRT assets every year, excluding market impacts. The slide also shows the impact of the move to IFRS 17 accounting.

Andrew Kail

This changed the timing of profit recognition, but it has led to a more steadily growing predictable stream of profits from the institutional retirement business. We continue to rigorously apply our minimum 14% IRR threshold to all capital allocation decisions. New business margins have reduced, though, so let's dig into that further.

Andrew Kail

In a competitive market with tighter credit spreads, we've used sovereign-based investment strategies to back our new business. This has led to lower day one new business margins. But the optionality for the future is created through asset optimization profits. Sovereigns, as you can see, are now 29% of our asset portfolio, up from just 10% in 2022. Asset optimization generated £288 million across our total annuity portfolio in the half year. Writing new business on sovereign-based investment strategies feeds this optionality and growth.

Andrew Kail

Asset optimization doesn't require large market volatility. We have the optionality to rotate across ratings, currencies, and sectors in credit and in sovereigns. We increased our sovereign exposure, reduced derivative-related exposure, and remained cash flow matched in H1, and in so doing, delivered earnings and capital with no increase in our capital requirement.

Andrew Kail

We're confident in delivering asset optimization of more than £400 million per year across our greater than £90 billion annuity portfolio. We believe we have the optionality across the various components to deliver this, and we see further upside as and when spreads widen.

Andrew Kail

Moving to asset management, which António has mentioned, is really the highlight of today's update. Fee-based earnings grew 37% year-on-year as revenue grew and costs were controlled. Balance sheet earnings of £53 million are consistent with our guidance of £80 million to £100 million for the full year. We have substantially lower investment variances than we've seen in prior periods.

Andrew Kail

Annualized net new revenues, ANNR, were £23 million in H1, which is more than we generated cumulatively over the period 2020-2024. We're positioned well as the UK's largest asset manager with £1.2 trillion of AUM and an improving business mix, as I'll cover on the next slide.

Andrew Kail

Our cost-income ratio reduced year-on-year for the first time in a decade, from 75% in 2025 to 71%, with operating profit returning to growth up 10% compared to half year 2025. We are building momentum, but there's definitely more to come. Our ANNR growth and cost discipline will drive further operating profit growth in coming periods and support the delivery of our £500 million to £600 million operating profit target for 2028.

Andrew Kail

In both public and private markets in H1, we've seen ANNR growth even with net outflows in public markets, as you can see on the slide. Our revenue margins have increased annually from 7 bps in 2023 to 9.6 bps in H1 2026. This contrasts with the industry trend of declining margins. We are consistently improving our revenue margins by attracting net inflows in higher margin mandates, which more than offset the net outflows from the lower margin mandates.

Andrew Kail

We said that 2025 would be the pivot point for asset management, and we're delivering on that. The cost-income ratio improved by 4 percentage points to 71%, driven by strong revenue growth and disciplined cost management. Revenue grew 13% year-on-year, with around half of this increase driven by net new revenues generated over the last 18 months.

Andrew Kail

Cost growth of 5% reflects increased variable compensation linked to those higher revenues in the first half and our continued investment in the business. Underlying costs are flat on a nominal basis, i.e. down in real terms, reflecting the cost action we've taken in the business. This is an important milestone, but not the destination. We remain on track, as António said, to reduce the cost-income ratio below 70%.

Andrew Kail

Retail saw similar trends to institutional retirement, with a small increase in the CSM release and a step-up in asset optimization. As a reminder, our annuity portfolio is managed as one across PRT and individual annuities. Workplace admin profitability is improving as underlying profitability growth continues to fund investment in our proposition. In H1, we invested £25 million in our admin proposition, so admin was profitable on an underlying basis in the half year.

Andrew Kail

As we've outlined previously, we manage workplace profitability across both asset management and retail, and I'll touch on this a bit more later. Our new business margins also improved for both retail annuities and protection. We have impressive growth trajectories across our retail franchises. Workplace pensions assets under administration grew nearly 20% compound over the past decade, and our recent win rate suggests this momentum continues. We're not the largest, but we are growing fast.

Andrew Kail

Individual annuity sales have increased in recent years, and we see structural growth which will further support us as the market leader. In protection, this is a steady growth business with gross written premiums growing by more than a third over the past decade.

Andrew Kail

As you can see here, our workplace pensions business is starting to open its profitability jaws. Our end-to-end profitability for the first half more than doubled year-on-year to £48 million. A simple doubling of this suggests a significant step-up in 2025's profits for the full year. We have a strong proposition in which we continue to invest. Our app, for example, is top-rated in the market, and we already have two default funds above the government's £25 billion minimum threshold.

Andrew Kail

We're on track to deliver our commitment for a tripling of end-to-end workplace profits to £180 million by 2028. Workplace pensions, it's our hidden gem. A business which has grown significantly and is beginning to benefit from the scale that it has. It might still be small in the group profit context, but we see a really attractive trajectory.

Andrew Kail

Turning to investment variances, I've maintained the same format as presented in March, separating out insurance and shareholder asset impacts. Importantly, the legacy items that previously drove larger adverse variances in the blue boxes on the slide are behind us. I'm pleased with the immaterial experience recorded in the first half.

Andrew Kail

The investment variance in the insurance business, the green boxes, was primarily driven by day-to-day market movements in the annuity portfolio, particularly from changes in inflation, interest rates, and property, where accounting for asset and liability movements doesn't perfectly offset. The largest impact there came from higher short-term inflation expectations and no corresponding increase at longer tenors, which increased our liabilities more than our assets.

Andrew Kail

But importantly, we hold these assets for their cash flows, not their short-term price. The risk we care most about with our annuity assets is defaults, and this investment variance doesn't reflect any deterioration in the underlying credit quality. These rates and inflation impacts reflect exposures that we intentionally retain as part of our strategy to manage the size and volatility of our Solvency II capital requirements. Consequently, we accept a degree of market volatility in IFRS, which remains consistent with our risk appetite.

Andrew Kail

Last year, for example, movements in rates of inflation delivered positive investment variance. Our store of future profit, including the CSM and risk adjustment, was down slightly in H1. The underlying fall was around 1% before the impacts from experience and modeling refinements. This is largely due to the sovereign-based strategies we're using to back the annuity business, which contribute less CSM than historic business, but, as I've said previously, increase our asset optimization opportunities.

Andrew Kail

We would like to get back to a world with wider credit spreads, which would support a return to more significant CSM growth, but we will not chase yield when credit spreads are tight. As I've discussed earlier, we have a significant asset optimization opportunity to drive our profit growth.

Andrew Kail

Our solvency ratio is 201%, which is robust and remains well above our 160-190 target operating range. We reiterate our intention to organically move down this operating range over the coming years as we invest in growth opportunities. Over the first half, our solvency position benefited from the sale of our US protection business to Meiji Yasuda, net of the cost of our share buyback announcement. We also adjust for the final dividend for 2025, which is seasonally larger than our interim dividend payment in the second half.

Andrew Kail

Operating variances reduced the ratio by five points, reflecting changes to ALM management, improvements to cash flow modeling, and capital model strengthening. This was partially offset by market movements, including a positive impact from higher interest rates over the period, which reduces our SCR net of adverse inflation impacts.

Andrew Kail

As you can see, our recent debt refinancing took advantage of attractive RT1 pricing and leads to a step-up in the pro forma solvency ratio to 209%. Whilst we don't formally report our debt leverage at the half year, we've seen a modest uptick in the ratio due to seasonal factors like dividend payments. But to reiterate what I said at the full year, we're committed to reducing this ratio in the medium term.

Andrew Kail

This slide is a reminder of our asset portfolio. More than 99% of our bond portfolio is investment-grade, so less than 1 % sub-investment grade. The portfolio is well diversified by sector and internationally, with our public credit more US-focused, but our private credit more UK-biased. Further details on this are contained in the appendix to the pack.

Andrew Kail

At the full year results, I committed to greater transparency in our discussions with investors. I heard some of you talk about the importance of cash disclosure. We're moving there. Today, we're disclosing our stock of cash at holding company for the first time. You see it's £1.4 billion at 31 December 2025. Our Holdco cash is around one times our Holdco outgoings for a full year, and is likely to stay at that level for the foreseeable future. We think this is an appropriate level for our business. We have further liquidity held in our business units, which is material and available to invest in growth. We're well positioned to meet our continued growth objectives and support the attractive dividend. On that point, I shall hand back to António.

António Simões

Thank you, Andrew. I'm pleased with the growing momentum of our key metrics, which you can see here on the slide in the first half of this year. But there is more to come from L&G. We have strong positions in structurally growing markets. First, we see a golden era of PRT with over £1 trillion of global flows over the next 10 years, including 500 billion here in the UK, where, as you know, we are the market leader with 20-25% market share. This is a competitive market, as both Andrew and I have just said, particularly with tight credit spreads, but we are still beating our IRR hurdles while locking in optionality for the future.

António Simões

We also continue to win in international markets, including the US, where we are now quoting on jumbo deals. Basically, jumbo deals are the ones above $1 billion, thanks to our partnership with Meiji Yasuda. Second, DC pensions are set to double to £1.5 trillion by 2034. We are the fastest-growing player in the workplace pensions market and the only one with a global asset manager which manages 95% of flows. We are future-proofing L&G with DC, providing an additional growth engine beyond DB.

António Simões

Third, the same growth that we're seeing in DC is a structural tailwind for individual annuities where we are the market leader. We see, as you can see there on the slide, annuity market flows more than doubling from 8 billion in 2025 to 20 billion by 2034. Bigger pension saving pots will lead to larger annuity purchases and better retirement incomes for our customers as they reach retirement age. For reference, this is important, the average age of our workplace pension customers today is only 44 years old.

António Simões

Also, our protection business will also deliver steady growth with an opportunity to grow, particularly whole life assurance, following the inheritance tax changes in the UK. Our synergistic business model, which is the flywheel you can see here on the left, puts us at a competitive advantage to benefit from these structural trends I've talked about and better serve our customers. We have scope to do this more efficiently. Work is underway to drive efficiency improvements across L&G. We naturally see lots of opportunities from technology, particularly AI, but we also see opportunities from a simpler operating model and a leaner business.

António Simões

As I say here on the slide, we will reinvest some of these savings in growth initiatives and further efficiency improvements, but only where the payback periods are short. You can see the initial results of this effort in asset management, and Eric can talk about this more later, where the cost actions that we've taken helped drive our cost to income down from 75-71%. There's more to go, and we will give operational efficiency a bigger focus in our future updates.

António Simões

Andrew said this, but just to reinforce, we expect EPS at full year to be above our 6-9% EPS target. As you can see on the slide, we are on track to meet or exceed the rest of our targets. But I believe we can go further. Why do I say that? We have three arguments: market-leading businesses with 20-plus percent market shares in structurally growing markets. Second, our synergistic business model is unlike any of our peers and puts us at a competitive advantage. As I've just said, we see opportunities to use our scale to drive further efficiencies. Finally, this supports attractive, sustainable, and growing capital returns to shareholders.

António Simões

We flag today that we may have not seen this, that we will introduce quarterly trading updates. The first one will be our third quarter update on Monday, the 16th of November. With that, Andrew, Laura, Gareth, and Eric will join me on stage to take your questions, which Andy will be facilitating.

Andy Sinclair

Thanks, everyone. Thanks for hands already going up. Remember, two questions each. Please say your name and the organization that you represent. Let's start in the middle with Farouk.

Farouk

Hi, thank you very much. First question on asset optimization and second on dividend cover. With asset optimization, there are lots of questions on this, obviously, as you can understand. Can you give us an example, maybe, of something that you did in 1H, roughly what basis point increase it gave and how that capitalizes, just so that we can get comfort that this is a business-as-usual type of harvesting that you're generating? I'm guessing that this harvesting will grow with the size of the annuity portfolio, when you talk about the greater than 400. That's question one.

Farouk

Question two, on dividend cover, I think there's obviously a question over your dividend cover from Solvency II percentage points rather than just earnings or net surplus generation. Can you give us some comfort around that? You've given a 160-190 target range. Is there a level at which solvency will ultimately fall to and stabilize at? I saw the slides on stock and flow as well that you gave. What conditions would make that come sooner, that stabilization? Thank you.

António Simões

Great. Thank you, Farouk. Gareth, you should give a specific example on asset optimization, and then we'll come back to Andrew, and I may add a word on that as well. But why don't you go first, Gareth?

Gareth Mee

Sure. Thanks for the question. A few examples: UK to US sovereigns. We see both the UK and the US as being default risk-free, and so therefore, we will look for opportunities where we can optimize from one to the other. We also saw opportunities this year in selling out of triple-B credit and into single-A credit. There's a range of others as well, but we're looking for opportunities where we are taking little or no additional risk, where we think that we can get an uplift. The uplift might be 10 basis points or more. It needs to be big enough to make it worthwhile. Because of our scale, we're able to trade and generate large numbers. One of the reasons that the number will grow over time is because as our book grows, the size of the trades we can do are relatively larger.

António Simões

It's important, actually, Andrew mentioned this, that in this 400 million we're talking about, we're not consuming additional capital. We have talked about, I forgot if you asked, Farouk, if we rotate, so the additional credit spread widening with a rotation, that could consume capital, but it would still meet the same 14% IRR, but we feel good about the 400 million plus even in benign markets. Andrew.

Andrew Kail

Very high-quality earnings, I think, absolutely. Farouk, on your dividend, maybe just repeat some comments we said at the full year when we talked about the range. So, solvency ratio, we reported today 201, 209 on a pro forma basis. I think if we looked at it today, it's even higher given the rates environment. So we're very comfortable where the ratio is right now. But we've also guided that as we price business in the 160-190 range and we write more business, we would expect and plan to come down to that range over time. It's a range because it's dynamic, and you talk about the stock and flow and the examples we've given in the appendix, I hope, were helpful to give you an illustration of how that moves.

Andrew Kail

But we would be expecting over the next few years that ratio to trend down to 160-190. I think repeating something we also said at the year-end, we're still very comfortable supporting the dividend at 160 and writing business. Below that, we take actions to bring it back. We've got actions we could do to do that, but we gave the range for a reason. We're comfortable operating at that level.

António Simões

We're still saying, what I said at the full year, what we said at the full year, NSG will cover the dividend by 2027. That's obviously in pound terms. The ratio itself we expect to come down.

Andy Sinclair

Andrew Baker.

Andrew Baker

Hi, Andrew Baker, Goldman Sachs. Thanks for taking my questions. First one, obviously, we saw the asset optimization upgrade on the IFRS side. No change to the OSG growth. Can you just talk through the dynamics of what's happening on the OSG side that we're not seeing an upgrade there?

Andrew Baker

Then I guess just more generally on that comment around dividend covered by NSG 2027, you're very clear it's under normal new business strain scenarios. There's a lot going on the strain side with FundedRe, obviously gilt-heavy versus traditional. You have just to give us a sense of what is a normal new business strain scenario.

Andrew Baker

Then secondly, I guess, just on the volume side, you've got your 50-65 billion, '24 to 2028 target for UK PRT. Again, just related to the FundedRe potential changes, is there a chance… That's a gross target, is my understanding. Is there a chance we should look more at the net volumes that you've done in the last few years and therefore there may be some downward pressure there? Any comments around that would be really helpful. Thank you.

António Simões

I think actually, Gareth, we should start with you on volumes, and if you can say something about FundedRe there, and then we'll come to Andrew for the OSG generation and the asset optimization.

Gareth Mee

Sure. Volumes. The first thing to say, António talked about the golden decade, the one trillion opportunity. We see this as a really attractive market. The pipeline is bigger than we've ever seen as we sit here right now. In terms of the opportunity ahead of us, then we think it's really large. We find ourselves particularly well-placed at the larger end as well. As those larger schemes look to buy out, then we find ourselves in a really good position. I think that's the first thing to say.

Gareth Mee

On FundedRe, consultation just closed. We have been presenting what we think are robust arguments back to the regulator. We continue to see FundedRe as an attractive opportunity. The current market, the modeling suggests that we will expect to still see that in the future, and we will continue to use FundedRe where we see it as being economically attractive.

António Simões

Just one point to add on that. I gave all of those targets. But if you remember, because you were sitting here, Andrew, in June 2024, I said all of the other numbers were targets, but that the 50-65 billion was guidance. The reason why I'm just stressing that is we will not chase volume. We'll see this in the second half of this year in terms of disciplined pricing. We're printing today, probably something that surprised most of you positively, in terms of the 5.7 billion. But in the second half, if the conditions are not there, we'll write less PRT.

António Simões

There is, and this comes from the board to me and from me to Gareth and the team, our object… Even the 20-25% market share is not a target. The target is the pricing discipline and creating value. Then we gave guidance at that time that we thought that will be 50-65. We still think that. We still think the potential is there. But it's important that the other ones are actual targets. I would be comfortable if we didn't meet it for the right reasons, which is we're creating value for shareholders.

Andrew Kail

Yeah, and on the OSG point, we haven't formally updated the guidance for the asset optimization under OSG. A couple of points, though. Directionally, you should expect it to flow. We're doing more for the IFRS side. It will flow through to OSG in a natural way, but there are some structural differences. The really obvious one and very mechanical one is tax. It's a post-tax basis. We can adjust for that.

Andrew Kail

But when we optimize assets in a Solvency II world, we may have to deploy additional capital to achieve the optimization. Now, that's something Gareth and the team take into account. We'd only do it on a post-strain basis if it works. But giving quantitative guidance when you have that strain dynamic is just a bit more complicated. We'll reflect on your question, but absolutely aware you should expect that to flow directionally.

Andrew Kail

On the strain, you'll see the strain is up on the deals that we've written in the half. I think the deals coming after that this year on the exclusive piece are also lower. But we've said before, the IRR and hitting our capital target is the most important thing. Therefore, we're reminded when we look at transactions, of course, we consider the strain carefully. But actually, if we can deploy capital for the right return, for us, that's a good trade. So the normal level will depend on conditions, but it's the return that's more important than the strain. Mindful of the fact the conversation we've had about capital deployment, NSG dividend cover. So we have to take all that into the round.

António Simões

Yeah, but everything else being equal, it's 3.4 globally. It's 3.1% in the UK. We expect the UK number to come down, so the strain in the UK. That is abnormally high for the 2.1 billion, but we expect that number to come down in the second half.

Andy Sinclair

We're going to keep moving along the road.

Fahad Changazi

Thank you. Good morning. It's Fahad Changazi from Kepler Cheuvreux. Could I just touch upon the asset optimization strategy in terms of what infrastructure you have in place for talent and teams and how dynamic will you be versus what you were doing previously? Would it be daily trading, for example? Another point, I appreciate what's happening with new business on IFRS CSM, but the CSM release ratio, it ticks up. Is it expected to continue to tick up a little bit given the new cohorts of business from post-Solvency II coming through? Thank you.

António Simões

Thank you. I think on CSM, you should comment, Andrew. I think you should talk, Gareth, about the new hires we have in terms of new CIO, but maybe there's an opportunity for Eric to add because this is done, obviously, jointly between asset management and institutional retirement. Maybe, Gareth, you want to start, and then you can say a couple of words, Eric.

Gareth Mee

Sure. I started as CIO 18 months ago, and at that time, working closely with Eric, we started looking at what infrastructure we needed to be able to build. So last year we talked about having done a relatively smaller number of larger transactions from back-book optimization. We've increased the number of transactions. We're not doing daily trading. We're looking at relative value opportunities. But we have created a team across asset management and institutional retirement that works on this, looks at relative value opportunities together, enhanced our system so that we're looking at the same data together and looking at working together as a team. That's one of the reasons that's driven some of the increase in activity over the first half of the year.

Eric Adler

Yeah, not a lot to add to that, actually. We're really excited about this prospect of a more dynamic approach to our asset optimization. As I think you know, we're well known for our solutions business, and a lot of what our most important client in Gareth's team needs is a more active approach to both public and private markets. Derivative overlays is something we understand really well. This is actually quite a motivating factor for our teams that are delivering similar solutions for a lot of third-party clients.

Eric Adler

If you think about things like our cost-income ratio, I think Andrew mentioned, on a like-for-like basis, we really have a lot of control over our costs. But because we have the revenue to do it, we are very focused on variable compensation right now to make sure that we can continue to pay our talent to do what they've been doing so well this first half in a competitive market. Again, we're really set up to be able to drive this kind of dynamism in partnership with institutional retirement.

Andrew Kail

Yeah, just on the CSM release. CSM release, broadly flat, proportionately in institutional retirement, actually slightly up in retail. I wouldn't guide to expecting significant changes in that.

Andy Sinclair

Derald.

Derald Goh

Hey, it's Derald Goh from Jefferies. Two questions, please. The first one, could you help me understand the movements in the PRT new business margin and strain? Because margin has gone down and strain has gone up, whereas I would have thought it would have moved in tandem. Then secondly, the 5 percentage point hit to your solvency from those hedging. It looks like it was a bigger number if you were to exclude the benefit from interest rates. Maybe could you go in a bit more detail as to what was the impact there? Could you clarify if that has anything to do with the high levels of asset optimization you've taken? Thank you.

António Simões

I think we've covered some of that, but why don't you cover solvency first, and then, Gareth, can you come back on the strain in new business margin? Maybe double-click on what I said earlier about the 3.1% coming down. Yes, thank you, Derald.

Andrew Kail

On the solvency, rates was a component. A larger component was inflation. Then we had some model refinements that are the balance. I think in terms of the 5%, we made some changes to our hedging strategy in foreign exchange and inflation that added to our SCR, which therefore deteriorated the ratio. But the bigger component was inflation, not interest rates.

Andy Sinclair

If you look at the market sensitivities, the only one that's slightly different to the market sensitivity would be inflation, which is to do with the shape of the curve. It was the other things that really led to that miss, as Andrew mentioned.

Gareth Mee

On the new business margin. Market's competitive. It was competitive last year. The thing that's really changed from last year to this year is that credit spreads are tighter. We have preferred to retain optionality instead of me incentivizing my team to lock into long-dated spreads that we don't think are attractive. We've preferred to print an underwritten new business margin at 4.2%, but give ourselves the optionality to trade up on that over time, which we've demonstrated we've been able to do. We're fine with that in the current market.

Gareth Mee

The strain, as António said, we're expecting to come down. We will see opportunities at times to, for example, optimize when we use reinsurance. So this is a little bit higher because we'd seen an opportunity to not reinsure some of the business that we might ordinarily do because we saw a good return on capital on not doing that in isolation.

Andy Sinclair

Mr. Hawkins.

William Hawkins

Thank you. William Hawkins from KBW. I wanted to also go to PRT, but I think we've already heard a lot.

António Simões

We need Eric and Laura to answer something.

William Hawkins

Could you just flesh out a little bit more, António, about what you're thinking about in terms of scope for operating efficiency as you look to the future, and also how we're going to see that in your numbers? Because my view is you joined a business that was already quite cost-focused. Where you see further to go is interesting. Also, the risk of being a nerd, a lot of your profits come from the CSM and how it unwinds. It's not just a simple thing of saying, "Right, we'll cut costs and they'll drop to profits." If you could talk a little bit about how you're thinking about operational efficiency, please.

William Hawkins

Then secondly, and again, sorry if I'm just navigating the slide slowly, but the workplace profits of £48 million, can you just remind me where we see that in the P&L? Because the P&L has got a minus 14 for admin expenses somewhere, but I'm still not quite sure where I see that number and therefore get visibility about how it's taking off in the future. Thank you.

António Simões

Why don't I give that to Laura? Because it gives us also an opportunity to talk a bit more about that business. But let me comment on your cost point. Actually, we haven't talked a lot about costs externally. The fact that we're talking about it today tells you that it's an important thing for me internally. Yes, you're right, that the way, particularly in our insurance businesses, and I'm including in that PRT and individual annuities, a lot of mechanically how anything, but particularly costs, go through the CSM, and then it would be a release, so it would make our profitability better. That's the simple answer to that question.

António Simões

But the bigger point here, and you can see it in our asset management numbers, by keeping our nominal costs flat, which means that our real costs were down, we've been able to reinvest some of that into growth areas, and that's what we want to see across all of our businesses. I'm the largest annuity player in the country. I'm the largest asset manager. We have 20% plus market shares in many of our businesses. You would expect us to be looking for efficiencies.

António Simões

Also, we're at the moment where technology, particularly AI, gives us an opportunity to do things in a much more efficient way, to be a leaner organization with more efficiency. We can expect, as I present trading updates and results, to hear more about the results of what we're doing. I was going to go to

Laura, but maybe do you want to say a word, Eric, on what we've done in asset management in terms of cost efficiencies?

Eric Adler

Yeah, we really didn't think about it in terms of pure cost. We thought about what does it take to be one of the leaders in the asset management world while it's consolidating and while you're seeing more and more being asked of us from the largest clients around the world. They're looking for much more partnership-led type solutions. What that means is you need to be incredibly efficient. You need to be seamless and very transversely connected. You need to be less manual than I think we and others have been in the past to be able to deliver a wide range of solutions in a way that's not clunky.

Eric Adler

When you think about that, what you're really thinking about is maximum efficiency and maximum ability to deploy resources where you think you need them quickly and ability to pull a lot of different resources together to win these new mandates. When you think through that, what you end up with is quite a bit more discipline and control over your business-as-usual costs because you need to know where to direct them. You need to also be able to react to a very volatile economic world.

Eric Adler

What you've seen, I'd say that some of our cost efforts are just as apparent in the 13% increase in revenues as they are in the cost number because we are now winning more sophisticated mandates at a speed with which I think we would have been more challenged to do that. In many ways, if you think about rewiring the organization for efficiency and connectivity, the costs are a result of that versus the actual aim. That's how we've looked at it in asset management.

António Simões

Great. Thank you. Laura.

Laura

On your workplace numbers question, the 48 million number is the end-to-end workplace profit. Comparing the number we gave to you in the capital markets event last October, so effectively, 140% increase in the end-to-end, so asset management and retail profits. That doesn't actually include the new business that we've won but not yet funded, so the 9 billion of business that we will onboard over the next 6-12 months.

Laura

Then your question on the minus 14 million, which is on Andrew's retail slide, that's effectively the retail profits taking into account the investment spend as well. The 48 doesn't actually include the non-BAU investment spend, so the investment spend we're making on things like efficiencies, customer agent desktop, and the app, etc.

António Simões

Actually, if you have a follow-up with Andy and the team, we can reconcile all the numbers on that.

Andy Sinclair

We go to Naseem.

Naseem

Thanks. Naseem, I'm from UBS. Loving the stage here. It's a nice setup.

António Simões

Thank you for the feedback.

Naseem

António, when you set the target on IFRS, you had the asset optimization at 200 million. Now it's gone to 400. That's significant in terms of the uplift that you could get in our projections. Why haven't you upgraded targets is the short question? What's the delta? Have you seen any negatives that's offsetting that 200 million that you're getting from asset optimization?

Naseem

Second question, technical one, maybe for Andrew. In the shareholders' equity, there's a billion that's moving from reserves into P&L. Why have you done that? I know a lot of other companies are doing it. Is it because you want more distributable capital, were you running out of road? Thanks.

António Simões

Naseem, thank you. On the targets, look, I set out the targets in June 2024, and our role here across this table is to deliver those targets and ideally exceed them. What I haven't done is upgrade targets because my job here is to put something out there and deliver. That's the simple answer.

António Simões

The reason why we've gone from 200 to 300 to 400 is the change that Gareth was describing, which is we're getting less of that profit upfront from CSM day one margin, but we're getting it more from an asset optimization perspective. As you go back and update your models, I'm sure Andy and the IR team can help you after this, you need to balance the two. But I didn't want you to leave today without knowing that this is what we're doing. We're delivering more than 400 million in asset optimization. It's important for you to know that number. At some point next year, I'll need to give you the next targets in the next 3 years, but that's not the purpose of today.

Andrew Kail

To your question, we undertook a capital reduction exercise at the Holdco, which, as you said, a number of other companies have done post-IFRS 17. We got approval to move share premium reserves and capital redemption reserves into distributable, which basically done it for flexibility. It just gives us more flexibility having it in distributable rather than in non-distributable reserves.

Andy Sinclair

Good. Just keep passing along.

David Beck

Hi. David Beck, RBC Capital Markets. Thank you for taking my questions. Actually, most of them on asset optimization have been answered. But then on the asset management side, and I guess cost-income ratio trajectory, you're already at 71% against the target of below 70 by full year '28. I guess given the progress on the revenue mix and the cost discipline that you delivered this half, I guess if that momentum continues, where do you think realistically you could land in terms of the cost-income ratio?

David Beck

Then I guess on margin, strong progress there as well. The path to double digits seems very likely. Again, what's the ceiling there? You got positive underlying dynamic of the outflows that are coming out being lower margin than inflows being higher margins. I'm just wondered if you could share more color, or where do you see it going forward? Thank you.

António Simões

Thank you. I think they're both squarely with Eric. You're doing my half-year review with him yesterday, which is, of course, we want to move faster. But again, to the previous question, we're not changing the targets, but we certainly want to beat them. With that, you want to talk about both the cost-to-income dynamic and the margin dynamic.

Eric Adler

Yeah, I couldn't be more pleased with the trend and the underlying substance behind them. We alluded to it in the answer to the last question. But I think we're now at a point where we've got a very good handle on where we want to spend to grow. Revenues have a lot of intrinsic factors to go along with tailwinds we've had in the market today, and we can go over those more intrinsic factors that give us a lot of confidence that we can continue to drive that cost-income ratio down.

Eric Adler

I don't think we want to be setting new targets now, but I'm really pleased with the fact that so far, ahead of 2028, we're close to it. I do think the trend will continue to be positive. Frankly, it's a similar story on the revenue margins. I described a very dynamic situation. We can do a lot of different things for clients, and they're asking for new types of partnership-like mandates versus the pure product mandates before. I really want to make sure the team has maximum flexibility to move across asset classes and across types of mandates.

Eric Adler

Without getting into where the revenue margin could get, again, very positive trend. We are moving towards more and more sophisticated strategies, more in the private markets. We think that trend will continue, and that's naturally going to have a positive effect on these numbers.

Andy Sinclair

Very good. Michael?

Michael

Thank you very much. Two, one is what I asked Laura before, but I wanted some numbers, the default decumulation. How much more do we get? I know it's 2028 or '29. Then, similarly, Eric, you've spoken a lot. I think you've danced around the pot, really. 500-600 million. Can you give us a feel? I know you don't want to raise guidance. I don't know how to phrase the question, but it looks like you'll achieve this one to one and a half years early. Is that the best way of asking the question? Maybe you can help a bit on this.

António Simões

Michael, on the first question, which is default decumulation, meaning the default DC fund.

Michael

Correct. You've spoken a lot about workplace, but the extra bit of workplace is this thing.

António Simões

Okay. Laura first and then come to Eric.

Laura

Default decumulation, which is part of the Pensions Review and the Pensions Act that is now in force. By 2029, all workplace DC Master Trust providers will have to have what's being called a default decumulation. Effectively, a default option for their members to go into. Members who don't actively choose to go into an annuity or something else will be put into a default decumulation, which we are designing alongside many of our competitors. That will look like a combination, if you like, of annuity and drawdown.

Laura

In the numbers that we showed, I think on António, it's probably one of your last slides where it showed just the annuity market going from 8 billion to 20 billion over the next decade, which is really a ratioing, how much do we think, how many people, the AUM, if you like, that is going into retirement. That number actually only projects what we think is happening today. It's just a simple ratio. The default decumulation bit, we think, will actually be additional to that. It's hard to give you an exact number on that, but you can think of that 20 as almost there'll be extra annuities on top of that, all else being equal.

António Simões

Yeah. That's why I've said that today, the standout performance today on the results is asset management. But the most exciting long-term point is what's happening in DC. I know several of you have asked me this before in terms of does it really generate money? It generates money, as we say, on the 180, but as Laura is saying, on everything else we can do on those customers, individual annuities, hybrid solutions in terms of decumulation and annuities. Eric?

Eric Adler

Yeah. Look, I think I couldn't be happier with where we're at in terms of the objectives we've set for ourselves in 2028. It's true, it's relatively early in that phase. But I think if I were to point to what I'm most pleased about, and António mentioned it earlier, it's the trend in terms of the quality of those earnings. The fact that we're now targeting something near 80% of that being fee-related earnings, I think that is what's really important qualitatively.

Eric Adler

Secondly, we know the other piece of it. There's fee-related earnings, there's balance sheet investments. I'm really pleased by, and Andrew alluded to it, the profit before tax number, right? Because what really is important is we also have a very good handle on the bottom line of our balance sheet investments. We are targeting towards 80-100 million of that in terms of operating profit. But the fact that we really got a handle, and as you said, the proverbial drawing of a line under the real understanding of that portfolio, I think we've got a lot of control over it. Those two aspects together, for me, are really pleasing. Clearly, we are fairly early in the game for the 2028 results, and we're on a positive trend. No question.

António Simões

My standard answer, next year, we'll update guidance. We'll update the new targets.

Andy Sinclair

Andrew Crean at the front.

Andrew Crean

Good morning. It's Andrew Crean. This is Autonomous. A couple of questions. Firstly, on the dividend cover, which is just breaching 100% on both IFRS earnings and on net surplus generation, what level of cover do you need to get to, to grow the dividend in line with the earnings and the operating surplus generation? Secondly, on the BPAs, I understand you're operating a leveraged gilt strategy, so you're backing them with more gilts. Can you tell me about the leverage, how much the leverage is, and when the leverage unwinds, what is the new business profit underlying and what is the IRR underlying?

António Simões

Thank you, Andrew. We can start there with Gareth. It's a structured sovereigns, and actually we should call it that rather than leverage. You could explain that, but it's a really good question for everybody, actually. Then I'll come back on your coverage point.

Gareth Mee

Bearing in mind that some people will be less familiar with this than you, Andrew. We trade really three types of structured sovereigns. We trade sovereigns on asset swap, where we use a swap with a bank and a government bond. We trade cash flow swap gilts and treasuries, and we also use forward starting, so where we like the future cash flows and we purchase those. The amount of embedded leverage, as you describe, differs. In some cases, there's no leverage, and in other cases, there is some leverage.

Gareth Mee

I think I said previously that with all of those, the way that we look at the transaction is that they've all got to be liquidity self-sufficient, i.e. that in very, very severe scenarios, even beyond Solvency II scenarios, we would be able to post the collateral of the underlying to cover that movement. If interest rates went up or down, then we could post the underlying government bond into the collateral pool. That's really important. That is the way that we make sure that we don't take on more leverage than we would feel comfortable with.

Gareth Mee

The point on the unwind. The first thing that we say to all of our banks is that we can, and will, if needs be, hold these assets to maturity. We buy these assets with a view that we don't have to do anything with them. However, we have seen lots of opportunities in the last 18 months to restructure the transactions. It's been a contribution to our back-book optimization profit, and we expect that to be the case in the future as well. We never need to unwind them, and we will only unwind them if we see a positive benefit, effectively an increase in our IRR. We've already seen that over the last 18 months, and we'd expect to continue to see that.

Andy Sinclair

That over 400 million that we're guiding for is after those costs of unwinding or changing anything. That's what we're guiding for.

Andrew Crean

Sorry, what's the IRR if you didn’t pursue a leverage strategy?

Gareth Mee

That's like saying what's the IRR if you chose to invest in different assets. We choose to invest in structured sovereigns because we think they're really good assets to back our liabilities alongside corporate public credit and private credit. At some point in the future, we might choose to trade out of them and into something else. But at the moment, we want to invest in structured sovereigns because we think that they give really good match to our cash flows, and we like the economics of the transaction.

António Simões

The answer, Andrew, has to be it would be above 14, otherwise we wouldn't write it. But it's true that we probably wouldn't write some of that business if we were not using structured sovereigns because simply the assets and liabilities. The answer is it's always above 14, and we have rejected, and actually, you should make the point, Gareth, many transactions where we decided simply not to quote because we didn't think that they were appropriate.

António Simões

Can I come back to your coverage point? It's an important point. My number one priority is dividend sustainability. I've been doing that for the last two and a half years. I know you know this, but it's worth for everybody in the room and dialing in. The 1.9 billion that I will have done of share buybacks of the 1.2, the 500, 200, have reduced the cost of the dividend by 300 million plus reducing the 5% to 2%. That was very clear when I met many of you in the buy side as well, for the first time, that dividend sustainability is my priority.

António Simões

What we're signaling today is two things: that core EPS now is expected to cover this year the dividend. That is important in that page 11, I think it is, where we show that by next year, that dividend coverage will continue to improve on IFRS basis. But also we need to look at the dividend cover from a Solvency II perspective, and I'm saying that NSG minus dividend will be covered by 2027.

António Simões

To answer your question directly, this is what I need to do next year. I need to say, "Now my new capital distribution policy for the next 3 years is going to be X, and here's what the dividend payout ratio is." I have a number in mind. It's not something we have yet agreed internally or disclosed to the market, but that's what the next phase is. Having made it sustainable, then there will be what is the right dividend payout ratio? I know you'll have a view. We have a view on that. But now I feel much more comfortable that the dividend today is much more sustainable, to be honest, than it was the day that I took over.

Andy Sinclair

Abid.

Abid Hussain

Thank you. It's Abid Hussain from Panmure Liberum. I've got a few questions, but I'm just going to stick to two. The first one, I'm afraid, is going back to the PRT margin. The move to the sovereign-based strategy clearly defers the value into asset optimization, as you've said. But can you just help us understand the underlying economics a little bit more? Just put a bit more color under it. For example, what was the cash IRR in the first half this year versus last year? Then could you perhaps give us an estimate of the lifetime IRR? I suspect that's probably closer to 20%. That's the first question.

Abid Hussain

The second one is on the asset management. The margin mix effect is clearly helping lift the revenues. Do you think that mix effect can still drive the numbers forward over the next few years, even if the public AUM remains in outflow?

António Simões

Look, I want to answer, but I don't want us to get too dragged into details. But I think from an IRR perspective, the simple answer, Gareth, you may add is the day one IRR is above 14. But yes, if I include the lifetime value… I'm not accounting for the additional rotation and asset optimization later in my 14%. So if, let's say, a deal is 15, let's say, clearly the lifetime value would be closer to your point. I'm going to make it up, just to use your number 20. That's true deal by deal. Anything else you want to say? Just brevity would be good.

Gareth Mee

Maybe just a reminder of how many deals we've declined and the fact that although we're really happy with the volumes that we've written, we have lost more deals than we quoted on, and we have declined to quote on 96 deals so far this year. We're looking for the areas of the market where we think that we've got a competitive advantage, and we will only be able to get something through our Group Investment Committee if we can hit our minimum 14% IRR hurdle. Historically, we've cleared that comfortably, and obviously, if that's a minimum, then we're expected to clear that comfortably this year.

Gareth Mee

The final thing is just we can't calculate a lifetime IRR yet because we don't know what the future opportunity is. But as António says, that sets a floor. The best way to answer your question is probably looking at some sensitivities of what you imagine that 400 million does over the lifetime and what that adds to your IRR.

Abid Hussain

Can I just test it? That business that you declined, is it because of the shape of that business, tighter spreads, or is it just competition?

Gareth Mee

Lots of the smaller deals, we think we've got a structural advantage where our asset manager has an existing relationship, and so that's why the number is so high at 98%. Particularly in the current market, we're seeing that that is important. With some of the smaller deals, we work on a sole insurer basis as well. If the client is not prepared to work on a sole insurer basis, we might decline those. In other areas, we're just seeing there are spots in the market where we don't think that we will be able to generate as much value for our investors as others. Those are obviously good areas of the market to decline. That's obviously what Laura does in her business as well. We're looking for the best parts of the market where we think we can add the best value. We've got the best proposition for our clients.

António Simões

It's just that point is important, right? We play in small deals, medium-sized deals, large deals, and in individual annuities. You saw that in this first half, the individual annuity margin went up by 0.8%, so 80 basis points. We also choose where we want to play across all of that being the largest annuity, and you'd expect us to do that to generate more value. Further upside on the margins and on the mix?

Eric Adler

Yeah. The short answer is yes. I think we can sustain this in public markets as well. We're obviously very pleased with what's happening in the private markets. AUM has gone up nearly 40% in 18 months on the private side. There's clear momentum there. But ANNR is positive on the public side as well, including in this first half, and it's quite broad-based, and it belies some real areas of strength in the public markets. That's both in certain asset classes, but also distribution channels that we're really growing into.

Eric Adler

Some highlights are private wealth in Asia through some of our global unconstrained bond strategies is seeing a lot of positive growth. We're putting a lot of effort into widening our ETF strategies, and that's getting a lot of very near-term traction already. I think it will continue in Europe, continental Europe, both in the institutional side, but also in the wholesale side. So that mix that we have, and all of that is in keeping with this moving towards higher revenue margin businesses. I feel it's very sustainable.

Andy Sinclair

Thank you. Question from Tom.

Thomas Bateman

Hi, good morning. Thomas Bateman from BNP Paribas. Just touched on it, Eric, but maybe coming from a slightly different angle in terms of the pickup in ANNR. How much of your DC funds are in private markets funds now? What's the allocation? I just want to get a sense of how much you've transferred so far, and what's the target level there?

Eric Adler

I actually don't have the weighted average number because we have different preferred strategies, different default strategies. What we see in the DC space and what's working for us, Laura and I, were really completely in lockstep on that business from end-to-end. You have solutions that still don't have a lot of private markets exposure, and we are winning some mandates where, at least at an initial phase, there's not a lot of private markets exposure.

Eric Adler

Where we are seeing more private markets positive, if you will, strategies, the overall mix is about 15%. We think over a cycle, the right mix for DC, if you are looking for material private markets exposure is 15% privates, 85% publics. Between the two strategies where we're getting a lot of momentum, we've got some weighted average between probably mid-single digits to a max of 15%.

António Simões

Also, Tom, it's important that this is the flows, right? I do the media calls just before, so I got asked a lot about Mansion House and commitments. Our private markets access fund is above 3 billion, which means for some of those default funds, we're already above the Mansion House commitment, which is the 10%, which Laura, you signed for me and you were there. Then the part of it, which is the UK, we typically allocate a third to the UK, which means that we're meeting the 5%.

Laura

Just picking up on what Andrew said about we have two default schemes that have private markets allocations that get to the average that Eric talked about. One, our Lifetime Advantage Fund, which has the 15%, another one, our Target Default Fund, which has 10%. Those are the flows that we're seeing most of our new schemes coming into, if you like. As António says, very aligned with the Mansion House compact.

António Simões

But it's a decision by the employer. If the employer doesn't want to do that, we would do what the employer wants.

Andy Sinclair

Kailesh, at the back.

Kailesh Mistry

Hi. Kailesh Mistry, Bank of America. Two questions. The first one is, just on the holding company cash, you talked about 1.5 billion at the holding company, and there's some excess in the operating companies. If you were to bring those up, roughly, what does that look like? Second question, it's just on the new cabinet, new government, however you want to call it. Can you talk a little bit about your expectations around policy and how that could impact your business, where you see the most potential change, if you like?

António Simões

I'll try to say something from a shareholder perspective, but do you want to talk about the… It's 1.4 billion, actually. Do you want to say that first and I'll come back?

Andrew Kail

1.4, and that's as at 31 December because that's dynamic. We give a disclosure in the pack in the RNS, which talks about total cash at a group level of being 3.6 billion across the group. That's not saying that that cash can move up from subsidiaries. It's just to give you a cash figure. The actual amount in each subsidiary and when it could move is clearly dependent on a number of factors, but just gives you a sense in the pack of the detail of total level of cash.

António Simões

Without making too much of a political statement, from an actual results perspective, there's two areas where we can see. We don't know what's going to happen on the 28th of October, particularly with the budget. But if you think about what we do as L&G, we do a lot of investments that are place-based investments. Think about affordable housing, think a lot of what we are known for, and we do well. We've done that across the country, actually. We do that with the Greater Manchester Pension Fund as it happens. So we can see more of that. I think that direction is good for us as a business.

António Simões

Second, something that I've said publicly, particularly from your business, Laura, DC, I've advocated for an increase of an 8% auto-enrollment contributions going to 12% over time, recognizing that we have cost of living crisis and employers themselves are under pressure, but a gradual increase. The numbers we showed today are assuming the current auto-enrollment rates. But as you probably know, there's a pension commission right now. If the proposals that we've put forward to increase that to 12%, of course, that's an upside from a workplace perspective. I think those things are good for the country, but they're certainly good for L&G.

Andy Sinclair

Before we go to any follow-ups in the room, I've got some questions coming through online. First of those is looking at PRT market volumes, some suggestion that maybe it could be a bit lower than previously expected this year with some large transactions moving into 2027. A question on why those transactions are moving into 2027, expectations for 2026, and as an extension to that, expectations for global or US PRT market volumes.

António Simões

I think, Gareth, you should address that. I think I answered the first question in terms of the longer term, but you should talk about '26 versus '27 volumes, Gareth.

Gareth Mee

Some deals are large and lumpy, and some of them will fall one side of the year-end, and some of them will fall on the other side of the year-end. So we don't know, as we sit here today, where some of those really large deals will land. But what we do see is the pipeline over the next 5 years being incredibly healthy. So it is possible that some will tick into 2027, but it's also possible that some larger deals will transact towards the back end of this year. It's much easier to predict longer-term pipeline than really super-short pipeline.

Gareth Mee

Global market volumes. US in particular, we see the US as being roughly similar size to the UK, but in dollar terms. If it's a 50 billion UK market, it's 50 billion dollars in the US. That market is a very large market as well, and so it could clearly grow too. We're active in Canada. That's a big market. We're also seeing whether there are other markets that could open up as well. António, your number on the 1 trillion golden decade over the next 10 years, there could clearly be upside to that as well. But that probably takes into account the current mature markets of the UK and US and Canada.

António Simões

Maybe just one point on the US, which is typically our market share in the US tends to be around 5%, so I'd say so. It was 40 billion more dollars. We tend to do 2 billion or so in the US. I think the big difference is what I said earlier when I was talking about the future. What we're now doing with Meiji Yasuda is quoting on jumbo deals. If you think about it, we had 5% market share, but we were playing only in half the market. We had 10% market share of the lower bottom. What we can do with Meiji Yasuda is effectively do double the volume because we're now quoting for jumbo deals, which is the market above $1 billion. I think everything else being equal, we could double the volumes of which we keep 80% and Meiji Yasuda keeps 20.

Andy Sinclair

Very good. Andrew, for a follow-up.

Andrew Crean

Yeah, quick follow-up. You've given us the asset optimization on the operational surplus generation. What was the asset optimization on the strain, both in first half '26 and first half '25?

Andrew Kail

Asset optimization, I think it's actually in the pack. Institutional retirement was about 10 million on the strain. I forget the retail. We'll give that to you after, Andrew.

Andy Sinclair

It's in the appendix slides, Andrew, on slide 43. We've got the details broken down. It was relatively small.

António Simões

But it's the biggest strategic point we made, which is the asset optimization we're doing right now involves very little strain. With credit spreads widening, it would include a bit more, but it always meets our capital allocation framework of more than 14% IRR.

Andy Sinclair

We'd be happy to deploy capital. We're well above our target range. Part of the reason why we're above our target range is because we're in a tight credit spread environment. If we get the opportunity of wider spreads, we'd really like to deploy capital and make a really attractive return on that. If those opportunities come along, we're happy to take advantage of them. Michael, for a follow-up.

Michael

You said you'd talk about defaults, or you said there were none, but do you have any numbers? Then the other question is on debt leverage. Maybe talk a little bit more about what the trajectory could look like. Thank you.

António Simões

Yes. I think both for you. Last time we had a default was 2008.

Andrew Kail

Yes, this is credit defaults. António's answered the question. It was £25 million in 2008 and zero. On the leverage, and again, we don't formally report it, but it's in the RNS, so that's at 33.9% as at the half year. As I communicated, the plan is to move that down. Over the medium term, we'll manage that down to levels that are obviously lower than that.

Andy Sinclair

Let's bookend it with Farouk.

Farouk

Last but not least. Thank you. On the balance sheet, investments in asset management, you've given obviously guidance of 80-100 million this year. Is the idea to wind that down as a percentage of the total profit? Or would you say the assets invested there are sustainable and will grow because you like them? I just want to understand that part of the future.

António Simões

Eric.

Eric Adler

Yeah, I'm happy to handle it. The real switch is that we use our balance sheet, ideally, to really incubate third-party assets. That's really a lot of what's been driving our FRE. I think for this year, the 80-100, we feel really good about it. We feel good about the quality of the assets we have. We have real estate. We know real estate is still in the downside of the market. We know interest rates are volatile, and that's why we feel good about how we're managing those assets. But in many ways, we want to use our balance sheet to maximize that FRE. So you will continue to see balance sheet investment operating profit. But that's why really the focus on that quality towards FRE is where we're guiding increasingly towards going forward.

António Simões

If we do it mathematically, it's 80-100, so let's assume it continues the same until 2028. It's maximum 20% of the overall 500-600. Really, you're thinking more like 85% or so of the operating profit is fee-related earnings. The fee-related earnings keep on growing, and you have the balance sheet investments really stable now in a sustainable way. That is the shape of that 2028 number.

Andy Sinclair

I think that brings us to the end of our Q&A, so I'll hand back to António.

António Simões

Thank you, everybody, for the questions. We've covered a lot. As you have seen, and as we've also just discussed through Q&A, we have a combination of, on one hand, momentum in the businesses, but also scope to accelerate that further. Although I'm not giving further guidance, but you can see the potential that we have in the business. Our next update will be on the 16th of November. As Andrew said, we're committed to be more transparent and update you more frequently, so you'll have the third quarter update on the 16th of November. But in the meantime, Andy and the investor relations team are always available. We hope to meet many of you over the next weeks and months. I hope you have a good summer break. Thank you.

Andy Sinclair

Thank you.

Andrew Kail

Thanks.

Andy Sinclair

Yeah, good job.