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# Legal & General

Curing the patient: from monetary  
methadone to the elixir of equity

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BoAML 22<sup>nd</sup> Financials CEO Conference  
September 2017



# 'Famous five' replace the big banks as the new global titans

	Market cap (\$bn)	
	2007	2017
Amazon	33.0	469.9
Apple	120.4	847.4
Facebook	-	499.5
Google	160.8	654.2
Microsoft	269.4	569.5

	Market cap (\$bn)		Rights issue
	2007	2017	
RBS	109.9	39.0	2008 - £12bn
Lehman Brothers	29.1	-	2008 - \$8bn
BoAML	224.9	254.2	2008 - BoA bought ML - \$50bn
Deutsche Bank	65.6	33.1	2017 - \$8.6bn
UBS	108.2	63.1	2008 - \$15.5bn

## What were they doing in 2007:



Apple launched the iPhone 29 Jun 2007



Facebook users just past 12m at start of 2007



Amazon launched the kindle 19 Nov 2007



Google had just bought YouTube for \$1.65bn

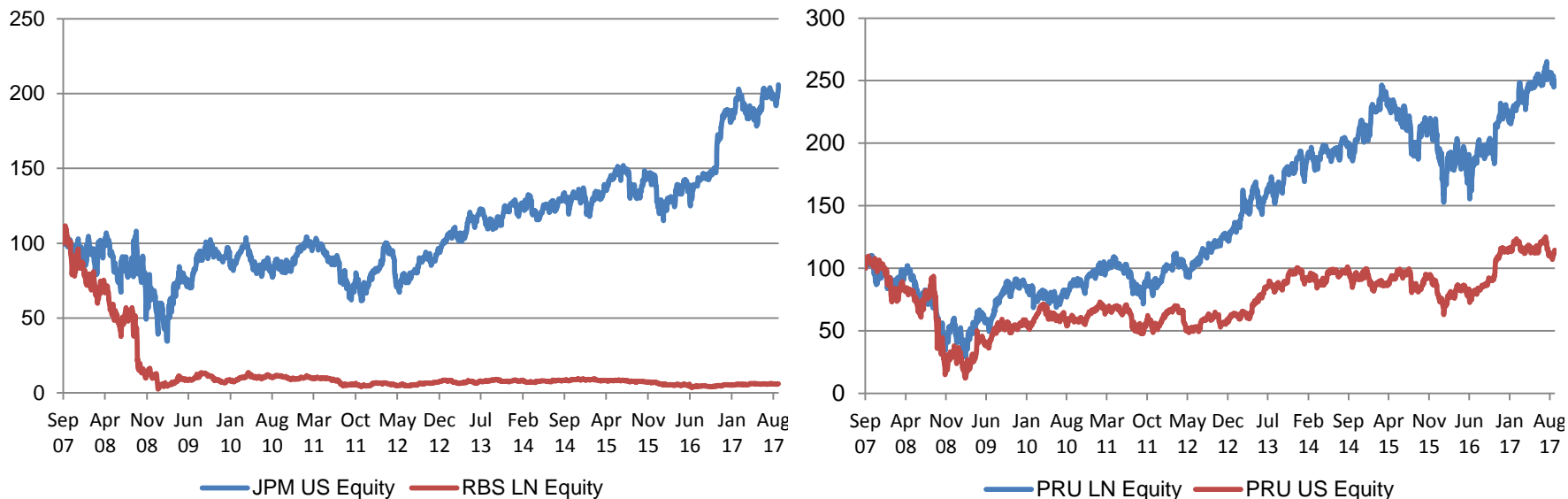
# FTSE 100: original constituents

Allied – Lyons	Commercial Union Assurance	Imperial Chemical Industries	Reed International
Associated British Foods	Consolidated Gold Fields	Imperial Cont. Gas Association	Rio Tinto – Zinc Corporation
Associated Dairies Group	Courtaulds	Imperial Group	Rowntree Mackintosh
Barclays Bank	Dalgety	Johnson Matthey	Royal Bank of Scotland Group
Barratt Developments	Distillers Co.	Ladbroke Group	Royal Insurance
Bass	CJ Rothschild	Land Securities	Sainsbury (J.)
BAT Industries	Edinburgh Investment Trust	Legal & General Group	Scottish & Newcastle Breweries
Beecham Group	English China Clays	Lloyds Bank	Sears Holdings
Berisford (S. & W.)	Exco International	Lonrho	Sedgwick Group
BICC	Ferranti	MEPC	Shell Trans. & Trad. Co .
Blue Circle Industries	Fisons	MFI Furniture Group	Smith & Nephew Associated Co's.
BOC Group	General Accident Fire & Life	Marks & Spencer	Standard Chartered Bank
Boots Co.	General Electric	Midland Bank	Standard Telephones & Cables
Bowater Corporation	Glaxo Holdings	National Westminster Bank	Sun Alliance & London Insurance
BPB Industries	Globe Investment Trust	Northern Foods	Sun Life Assurance Society
British & Commonwealth	Grand Metropolitan	P & O Steam Navigation Co.	THORN EMI
British Aerospace	Great Universal Stores 'A'	Pearson (S.) & Son	Tarmac
British Elect. Traction Co.	Guardian Royal Exchange	Pilkington Brothers	Tesco
British Home Stores	Guest Keen & Nettlefolds	Plessey Co.	Trafalgar House
British Petroleum	Hambro Life Assurance	Prudential Corporation	Trusthouse Forte
Britoil	Hammerson Prop. Inv. & Dev. 'A'	RMC Group	Ultramar
BTR	Hanson Trust	Racal Electronics	Unilever
Burton Group	Harrisons & Crossfield	Rank Organisation	United Biscuits
Cable & Wireless	Hawker Siddeley Group	Reckitt & Colman	Whitbread & Co. 'A'
Cadbury Schweppes	House of Fraser	Redland	Wimpey (George)

Only 28 of the original 100 companies remain listed on the FTSE 100. UK-focused businesses and conglomerates have been replaced by international juggernauts.

# The UK used to have the largest banks in the world

Share price indexed



## Market capitalisation versus book value

	Market cap (£bn)		Book value (£bn)		Market cap/ BV %		Rights Issue/Cash call
	2007	2017	2007	2017	2007	2017	
<b>Barclays</b>	41.9	32.7	21.0	56.2	200	58	2008 - £11.8bn, 2013 - £5.8bn
<b>RBS</b>	54.5	30.1	41.5	49.2	131	61	2008 - £12bn
<b>Standard Chartered</b>	21.5	25.5	19.0	51.1	113	50	2008 - £1.8bn, 2010 - £3.3bn, 2015 - £3.3bn

Source: Bloomberg as at 20 Sep 2017

## Different Causes, Different Effects since 2007...

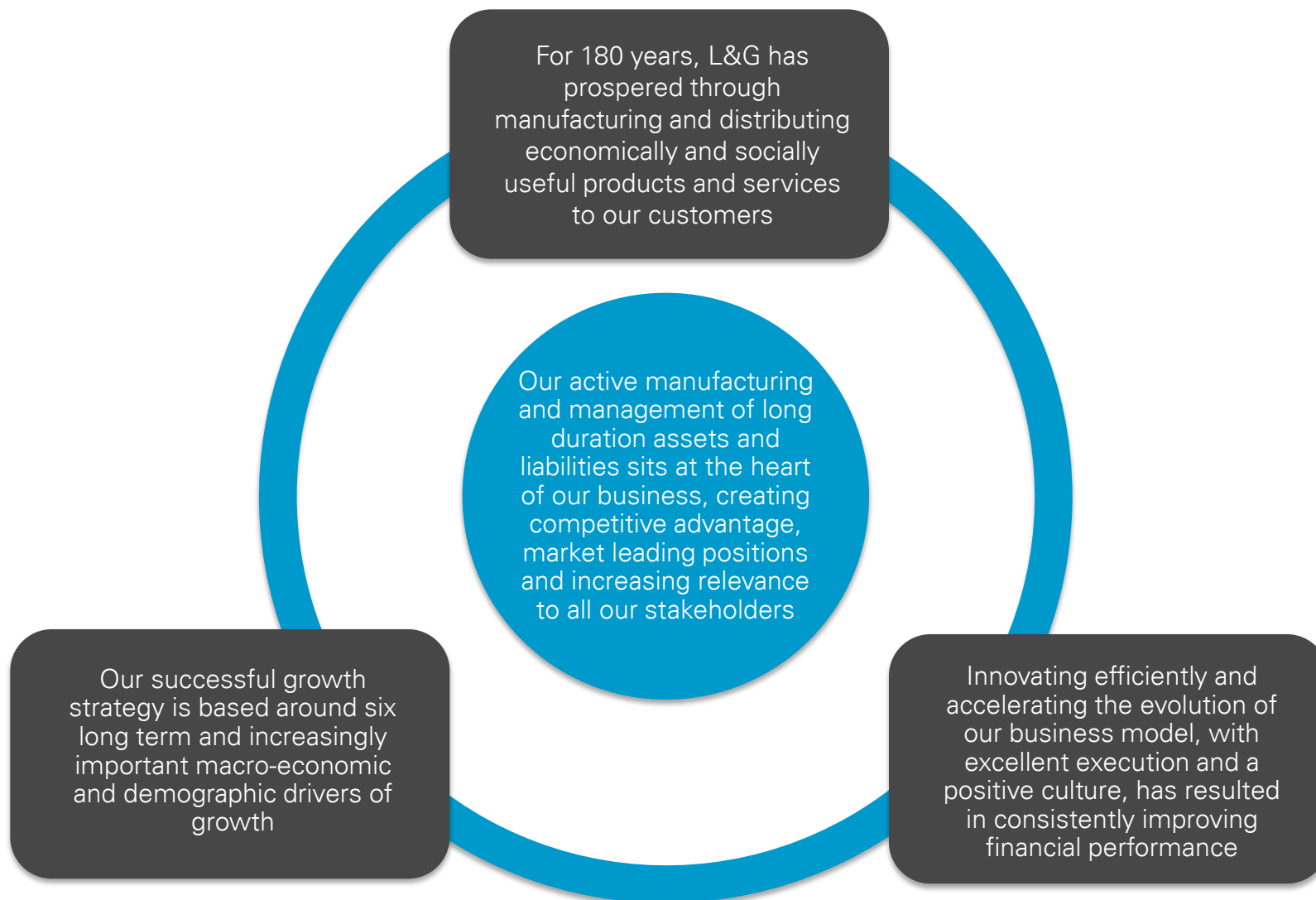
### **Some things no longer correlate:**

- Unemployment and Inflation (Phillips Curve no longer works)
- Money Supply and Inflation (Quantity Theory no longer works)
- Growth and Inequality (Kuznets outdated as middle-class hollows out)
- Costs of necessities and luxuries (time to reappraise price elasticity?)
- Employment and tax-raising capacity (“Uberisation” and the Gig economy)

### **But some relationships are unchanging:**

- Without productivity improvement, real wages remain static
- Housing supply fails to meet demand and prices rise
- Government Spending can’t cope with demographic change
- Crisis management remains a rear-view mirror activity

# Strategic overview: relevant, resilient and responsible



# Focused, high performing business

Operating profit £m	Divisions	H1 2017	%	Market position and share <sup>2</sup>
<b>Asset Management</b>	LGR <sup>1</sup>	<b>566</b>	51	<ul style="list-style-type: none"> <li>#1 in PRT, 30% market share</li> <li>#1 in LTM, 30% market share</li> <li>#3 Individual Annuities, 13% market share</li> </ul>
	LGIM	<b>194</b>	17	<ul style="list-style-type: none"> <li>#1, World leader in LDI, 42% market share in the UK</li> <li>#1 in UK Retail net sales</li> <li>#1 Manager of DC assets, #1 in DB</li> <li>UK #1 in Index, World #5, 4% market share</li> </ul>
	LGC	<b>142</b>	13	<ul style="list-style-type: none"> <li>#1 in City Centre Infrastructure</li> <li>#10 in Housing</li> </ul>
	<b>Total</b>	<b>902</b>		
<b>Insurance</b>	LGI	<b>151</b>	13	<ul style="list-style-type: none"> <li>#1 in UK Retail Protection, 25% market share</li> <li>#1 in UK Mortgage Club and Surveying</li> <li>#2 term life through BGA in the US</li> <li>#6 in Group Protection, 11% market share</li> </ul>
	General Insurance	<b>15</b>	1	<ul style="list-style-type: none"> <li>#7 in Household</li> </ul>
<b>Savings</b>	Savings	<b>52</b>	5	<ul style="list-style-type: none"> <li>Well managed run-off</li> </ul>
	<b>Total</b>	<b>218</b>		
<b>Operating profit from divisions</b>		<b>1,120</b>	100	

1. Includes £126m base mortality release, as a result of continuing greater than expected mortality experience

2. UK market position and share, unless specified

# Economic agents poor at predicting risk events

"Although I don't foresee conditions in the banking sector getting as bleak as during the credit crunch of the early 1990s... In the current situation, most banks are still in pretty good shape"

Janet Yellen

*December 2007*

"The GSEs are adequately capitalized. They are in no danger of failing...they will make it through the storm"

Henry Paulson

*(Two months before Fannie Mae and Freddie Mac collapsed and were nationalized)*

"Thus I continue to expect to see higher long term US interest rates in the decade ahead – treasury bonds that at times will flirt with double-digit yields and stocks, real estate, and other income-earning assets that perform in a more subdued fashion in the next two decades than they did in the past two decades. It is to this challenge that economic policy must now turn"

Alan Greenspan 'The Age of Turbulence' 2007

"I wouldn't say that a rate cut is completely off the table, but my own feeling is that we should try to resist a rate cut... I'd really prefer to avoid giving any impression of a bailout or a put, if we can"

Ben Bernanke

*August 2007*

"... we believe the effect of the troubles in the subprime sector on the broader housing market will likely be limited, and we do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system"

Ben Bernanke

*May 2007*

"Like the English batsmen preparing to defend the Ashes... and perfectly balanced in the crease ready to play forward or back according to ... the incoming delivery, so the monetary policy committee will watch the incoming data carefully, ready to adjust policy in either direction in order to keep inflation on track to meet the 2pc target in the medium term"

Mervyn King

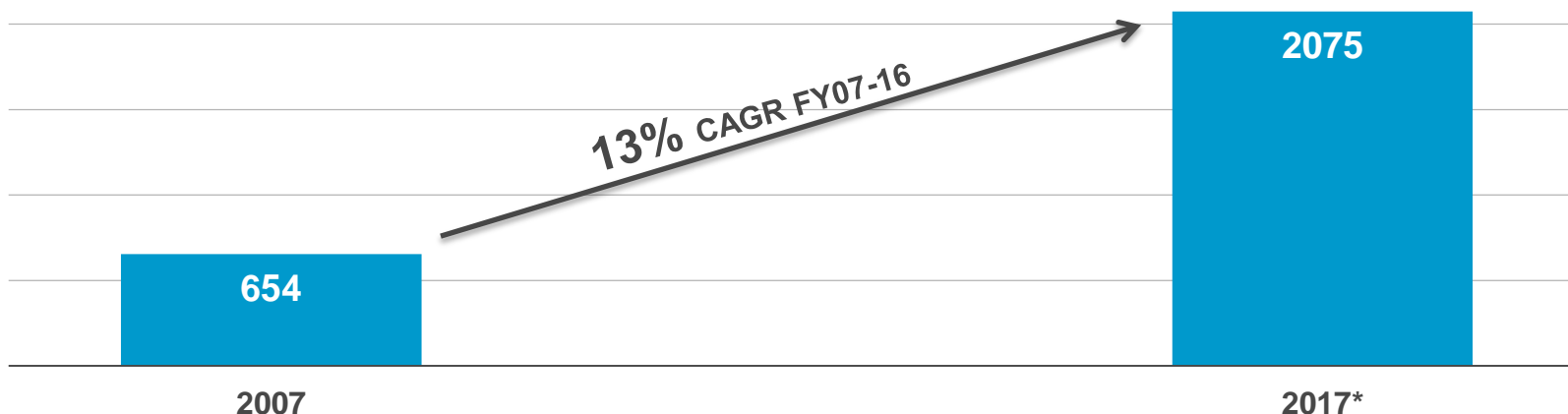
*Just before serially missing inflation targets*



# How we have evolved into a high growth company

2007	➔	2017
<ul style="list-style-type: none"> <li>• £297bn AUM; Top <b>50</b> global asset manager</li> <li>• £16.6bn of annuity assets</li> <li>• <b>UK</b> focus on with-profits, intermediated sales, individual annuities with multiple small international and peripheral UK businesses</li> <li>• Launched £1bn share buyback programme</li> </ul>		<ul style="list-style-type: none"> <li>• £951bn AUM; Top <b>10</b> global asset manager</li> <li>• £55.6bn of annuity assets</li> <li>• De-cluttered our business with <b>UK and US</b> focus on market leading positions in numerous growth markets</li> <li>• Created new businesses, Build to Rent, Urban Regeneration, Clean Energy, Future World Fund, and technological innovation e.g. SmartQuote</li> </ul>

## Operating profit from divisions (£m)

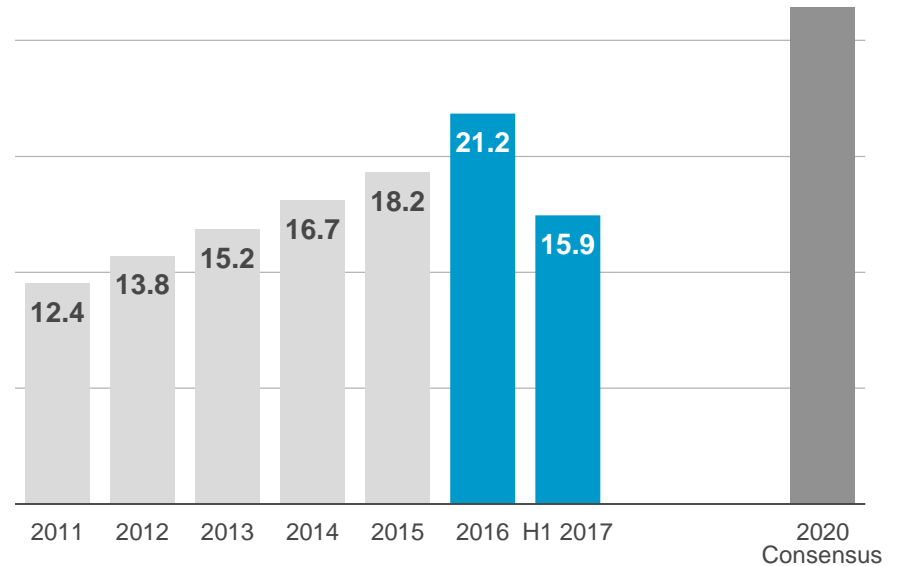


\* 2017 based on consensus as at 26 September 2017, not representing opinions, forecast or predictions of management.

Our financial ambition:  
A similar performance  
in 2016 - 20 to that  
achieved in 2011 - 15

### Earnings per share (p)

10% CAGR 2011 - 2015

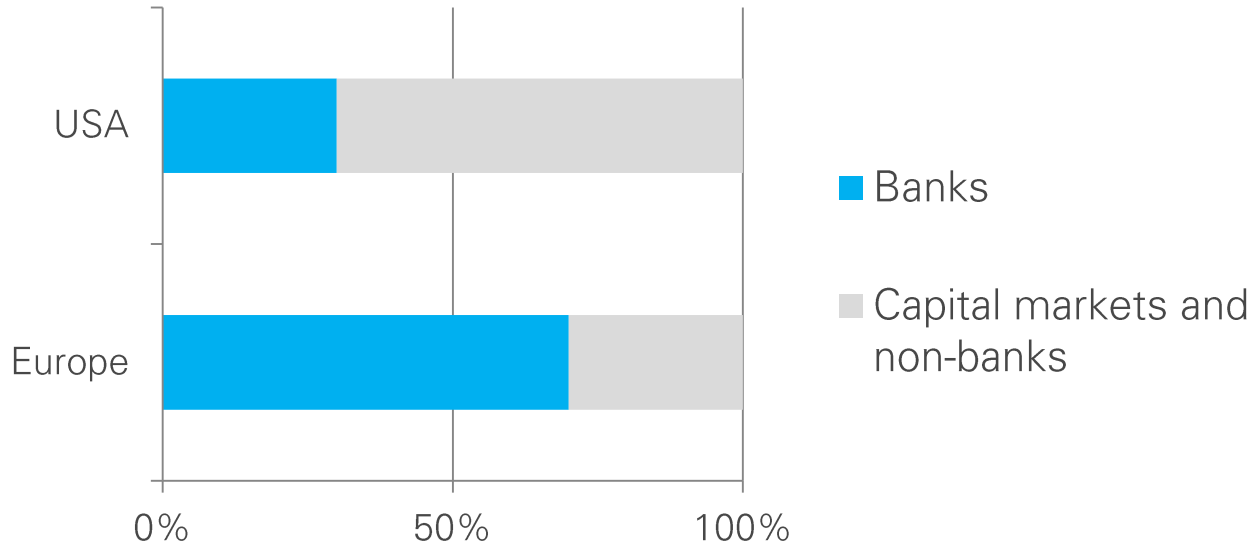


RoE % 14.9 15.4 16.1 16.9 17.7 19.6

A positive start: 2016 EPS up 17%, RoE 19.6%  
H1 2017 EPS up 41%

# Over reliance on banks in Europe


## Source of financing:



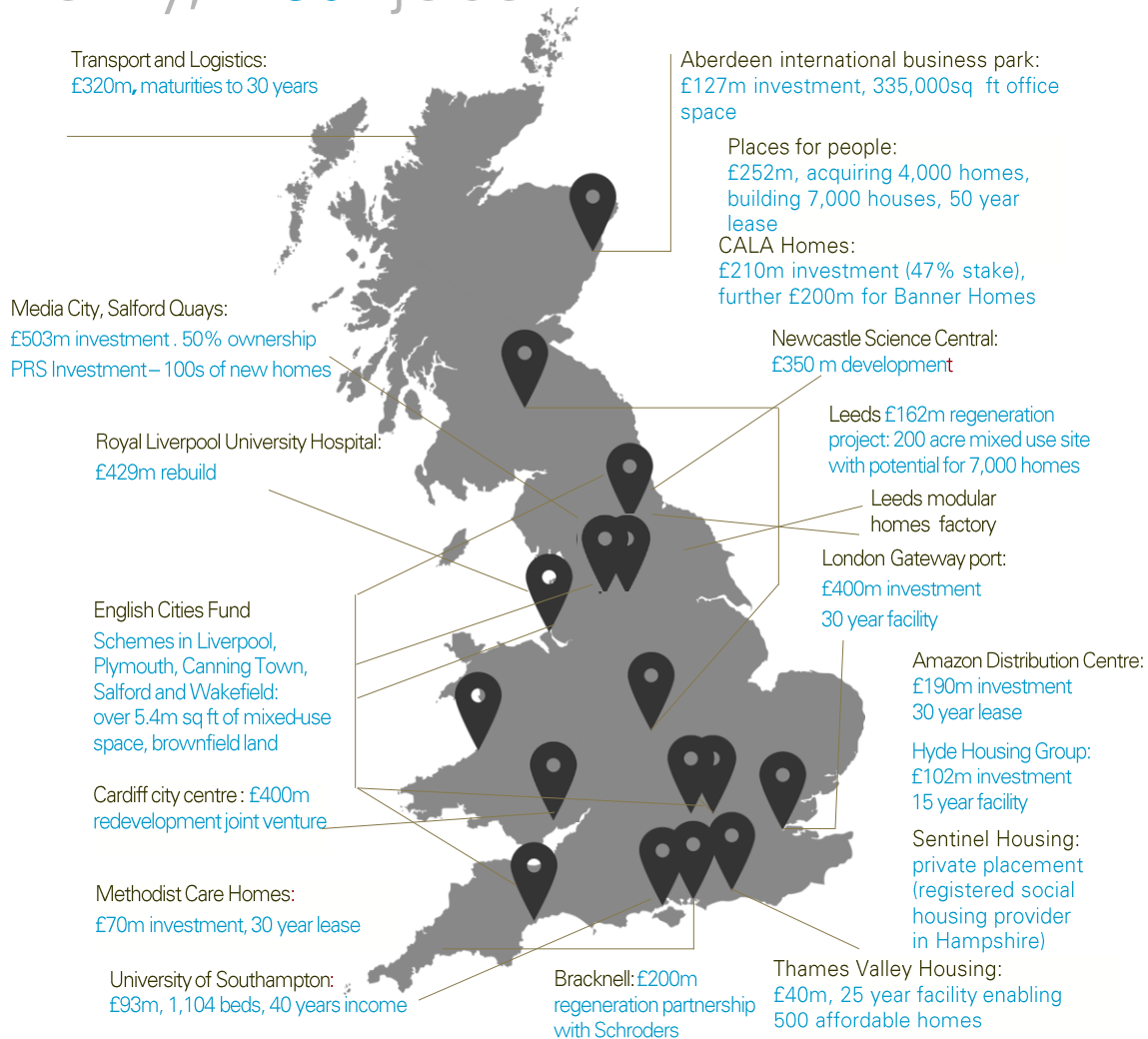
- To support stable growth, businesses must have access to complementary sources of funding which provide “the right finance at the right time”.
- Sources of finance need to be diversified and private sources of long-term capital mobilised.

# Long term direct investments: Real assets, Real economy, Real jobs

 **£15 billion**  
**direct investment**  
**programme with**  
**£12 billion**  
**invested to date**

 We focus on direct investments in three key sectors:

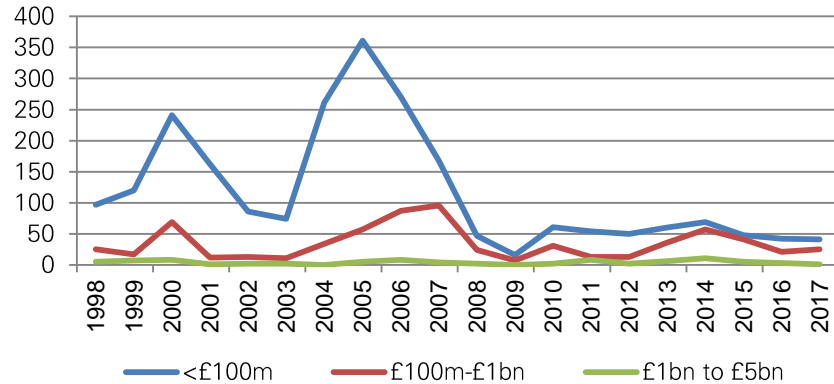
1. UK infrastructure
2. UK housing
3. SME finance



# Re-equitising society

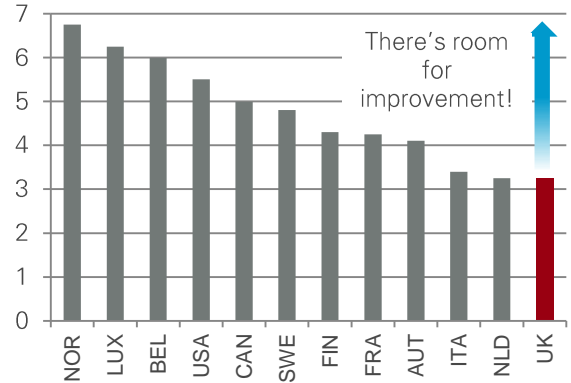
Equity shortage for scale-ups and growth companies

Number of IPOs by market capitalisation



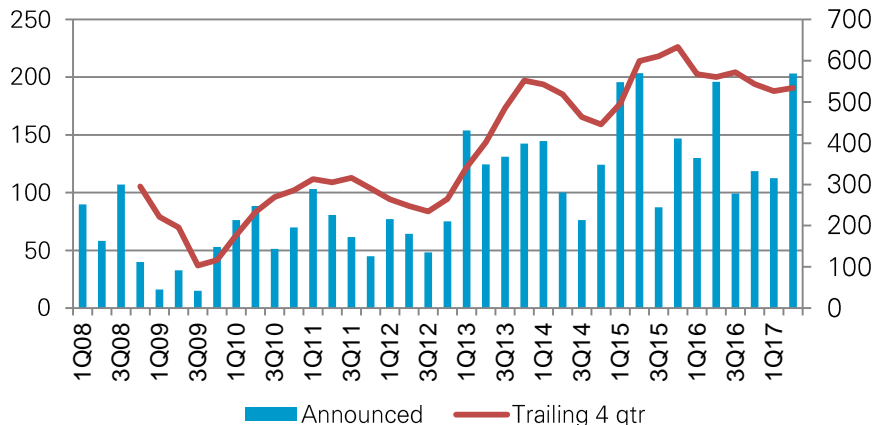
Source: London Stock Exchange 31 Aug 2017

% of start-ups growing to 10+ employees in 3 years



Equity removal through share buybacks

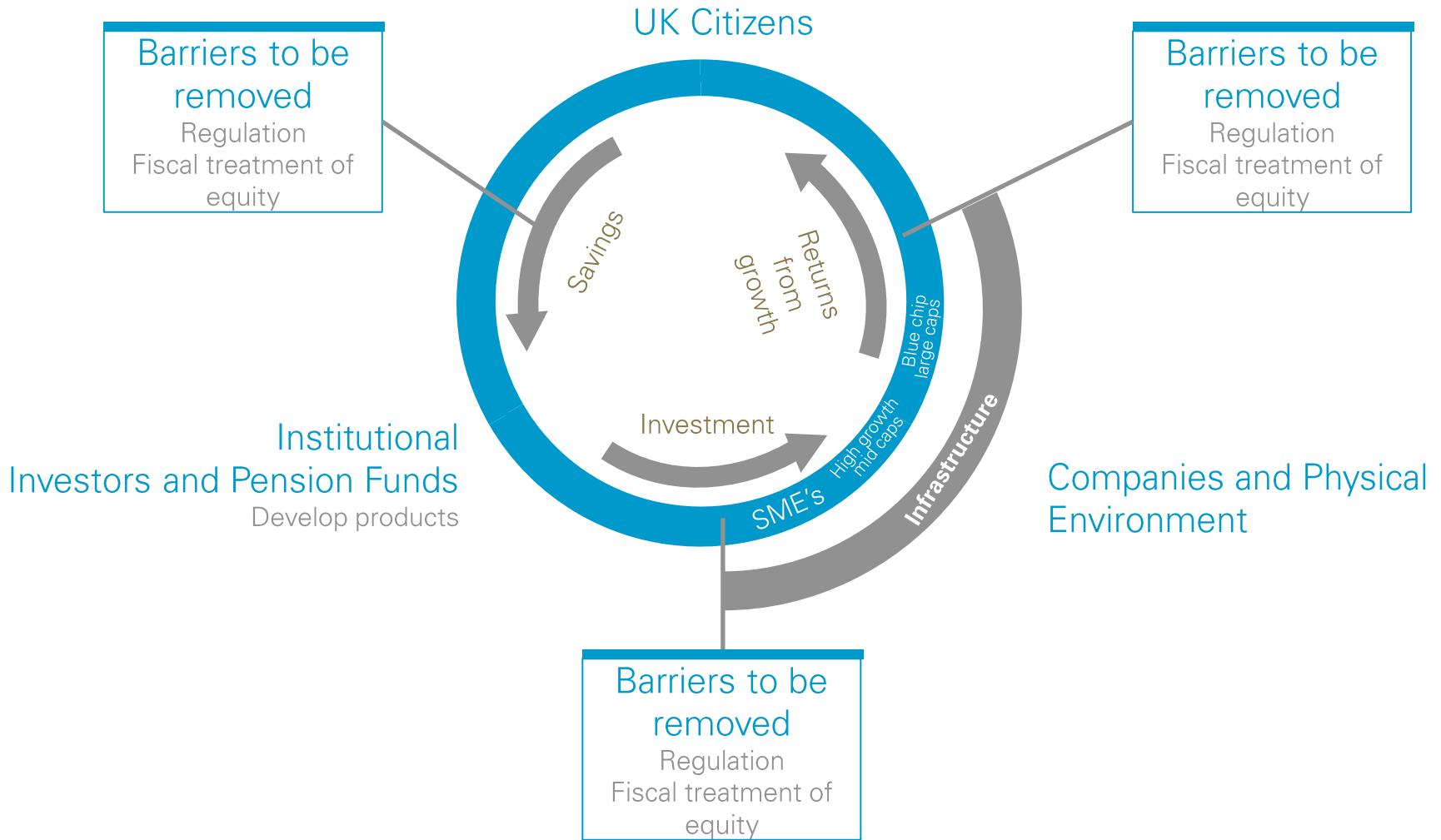
Quarterly share buybacks announced (\$bn)



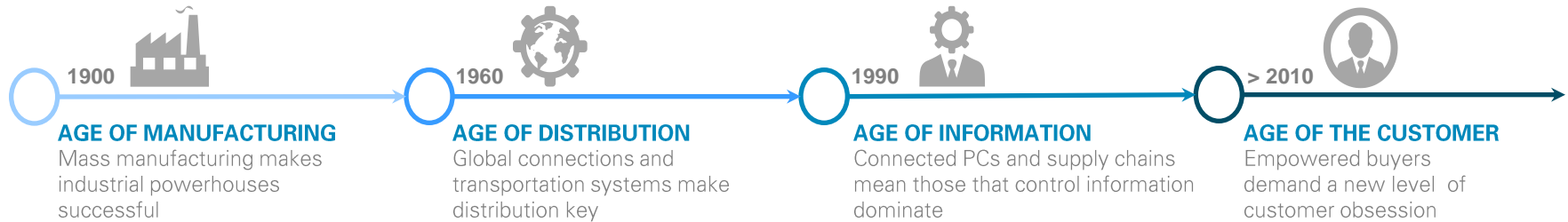
Source: BoAML 18 Sep 2017



# Appropriate regulation: Unlocking UK investment for productive growth



# Distributed knowledge is driving the age of the customer

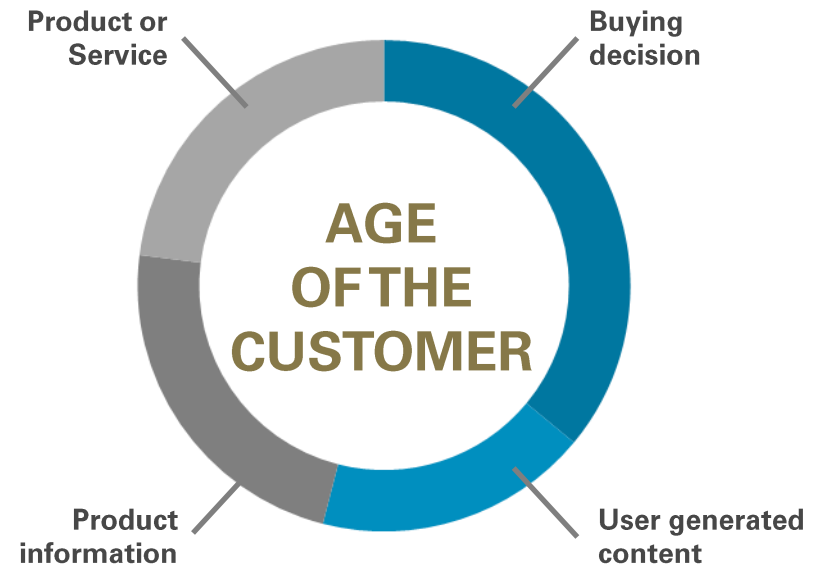
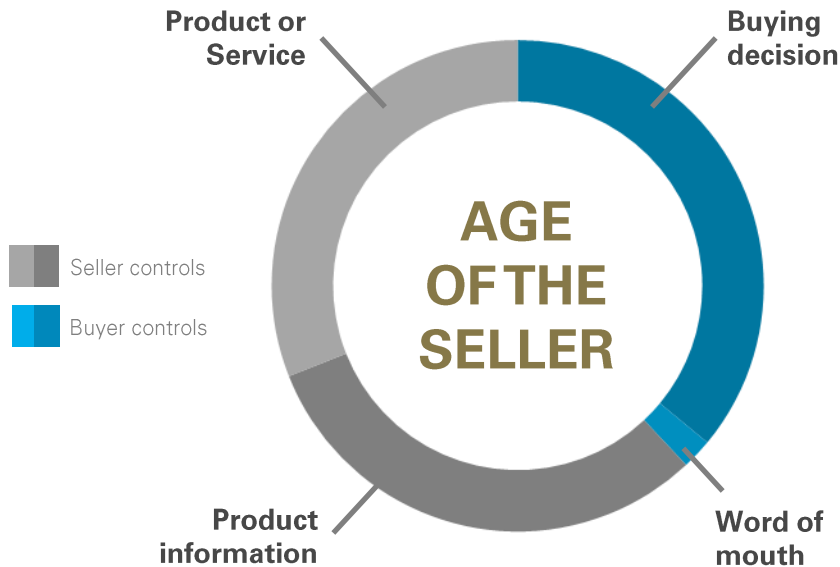


## Historically the seller held the power in the transactional relationship

Knowledge is causing the seller to be replaced by the age of the customer

## Virtually all products/services have or are being commoditised

For the first time in history, the rules have changed disproportionately in favour of the customer



# Values and behaviours

“Cultural outcomes in firms need to embody respect for public interest objectives, and there is no doubt that the definition of the public interest has expanded in the last twenty five years.”

Andrew Bailey, Chief Executive, FCA  
March 2016



## BEHAVIOURS

### Straightforward

How we communicate.

Building **trust** by doing what we say and saying what we mean. We're **fair** and **transparent**, open to feedback, always communicating in a **honest** and **genuine** way.

### Collaborative

How we work together.

**Working together** constructively; seeking out **originality in ideas** and valuing the **diversity** in our teams. We **engage** our networks and stakeholders to shape our ideas and manage the impact of our decisions.

### Purposeful

How we deliver.

Balancing **performance with principles** to do what's right for the business and our customers. We work with pace and energy, always **taking ownership** and demonstrating excellent execution.



# Our six growth drivers frame customer and macro-solutions

## Growth drivers

## Legal & General's Actions

## Broader Economic Potential

### Ageing demographics

- Optimise longevity exposure for corporates
- Deploy housing equity for old-age needs, add specialist housing for rightsizers
- Enable high-quality, independent living and financial security

### Globalisation of asset markets

- Provide value for money alternative to active equity
- Design solutions to fit newer liability-aware investing and diversified growth strategies
- Create efficient investment for a low-return environment

### Creating real assets

- Real asset investments as principal
- Development of new asset classes for third-party clients
- Driving city growth and re-balancing regional economies

### Welfare reforms

- Protection as a genuine welfare alternative
- DC, auto-enrolment and effective decumulation to enhance pensioner resilience
- Optimise focus for limited government spending

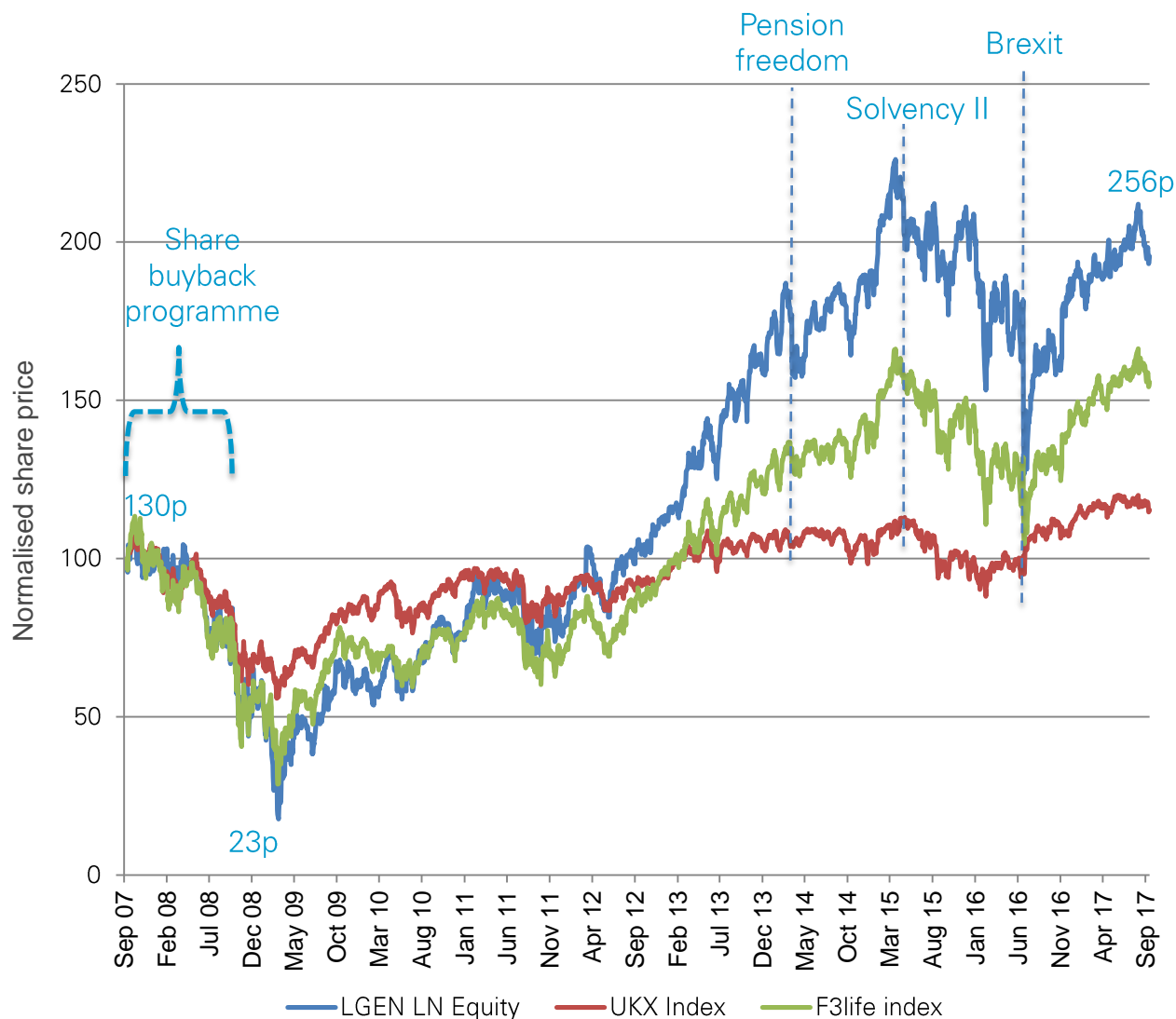
### Technological innovation

- Direct retail sales deliver customer power and choice, including digital advice
- Improve service efficiencies and lower unit costs
- Deliver deflationary effects of technology to consumers

### Today's capital

- Scale vehicles for scale-ups
- Financing efficiency and productivity improvements
- Higher quality, more productive jobs drive real wage increases

# Share price performance 2007 - 2017



10 YEAR TSR	
Legal & General	173%
FTSE 350 Life	115%
FTSE 100	77%

## Forward looking statements

This document may contain certain forward-looking statements relating to Legal & General Group, its plans and its current goals and expectations relating to future financial condition, performance and results. By their nature, forward-looking statements involve uncertainty because they relate to future events and circumstances which are beyond Legal & General's control, including, among others, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory and Governmental authorities, the impact of competition, the timing impact of these events and other uncertainties of future acquisition or combinations within relevant industries. As a result, Legal & General Group's actual future condition, performance and results may differ materially from the plans, goals and expectations set out in these forward-looking statements and persons reading this announcement should not place reliance on forward-looking statements. These forward-looking statements are made only as at the date on which such statements are made and Legal & General Group Plc. does not undertake to update forward-looking statements contained in this document or any other forward-looking statement it may make.

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