



# 2025 Half Year Results

## Analyst Q&A

### **António Simões**

With that, I'd like now to invite Andrew, Laura, and Eric onto the stage to take your questions together with me and Jeff. Please state your name and your company, and if you can, limit your questions to three, please.

### **Abid Hussain**

Thank you for taking my question. It's Abid Hussain from Panmure Liberum. The first question is on asset management and net flows. Look, firstly, good to see the revenue margins tick up there to nine bps and trending in the right direction. But just wondering on the net flows, is obviously still negative - when do you think they might turn positive? I know you've got a number of initiatives across the private markets and elsewhere. So just net flows, when do you think they might turn positive?

Then the second question is on PRT. Just wondering if you're seeing any evidence of increased competition, or indeed, trustees looking to delay their transactions in the hope of possibly accessing any pension surplus they might have in their schemes?

Then the final question is on the management actions. How would you define the management actions? Is it just back-book optimisation? Is it anything else? Can you help us understand why they are repeatable, and why is the £300 million the right level? Then sub-part to that is, how did you increase your capacity? I think you called out that you've increased your capacity to do more. Just any colour on that, please.

### **António Simões**

Great. I think that's pretty straightforward in terms of the net flows, if I can ask Eric to do this. I think, Andrew, if you can give some colour on the PRT and then Jeff, management actions. Maybe just two quick comments. Just on management actions, we did the gilt strategy and therefore, that's providing more capacity. Jeff will give you the actual answer in terms of the management actions.

Just on PRT for a second. I've had many discussions over the last weeks and months. As you see, we feel pretty good about the £5.2 billion that we have written and the £42 billion of active pipeline gives you confidence that the trustees are coming to the market. I alluded to it on my slide, but we see actually new entrants coming in and that competitive dynamic.

Actually, I feel very good. I've talked in the past about a trillion opportunity globally over the next decade and another trillion after that. I feel pretty good about that. It's always been a competitive market, but we're not seeing that dynamic of trustees themselves holding back because the surplus point, we see much less of that and there was a bit of chatter six months ago around that.

Andrew will give you more of... But what would you start with the net flows first?

### **Eric Adler**

Yeah, no, thanks for that question. This is a really key point. ANNR is a net flow number. We have to think about that. It's weighted by revenues, and that's why we're so focused on it. So very excited. Obviously, it speaks for itself in the inversion of that tendency, and you mentioned that. I think we're in a unique position. The reason why in a market where you are seeing fee compression, that's a market phenomenon, we're actually targeting a growth over time in our fee revenue.

All that is linked to the importance of us thinking about this revenue weighted, because if we're just thinking about what is a very important leveller. So I will answer, the net flow is a number, it matters – it's the way you can look at the industry in a quick way. It is an important number, but we need to focus on the ANNR, because if we were just chasing net flows, we wouldn't be as focused on that change of product mix, which is a unique opportunity we have. That said, I'm actually quite pleased with where the net flows are, given where it's been in the past.

I think first half was one of our best net flow numbers. We all know we have a tailwind in what has historically been our largest market. From an asset management perspective, we are the absolute leader in UK LDI. As António mentioned, that is shifting. Now, DC is symbolically now above the LDI number.

But two things, it shows that in our non-LDI businesses, we're in a really good space, even in that more generic net flow number. But importantly, we're still winning in the LDI space. We're a leader in that space. What we're seeing is in the smaller mandates, there's still a lot of movement, and we're not vacating that market. We're actually getting wins there, which again is going to have a marginal positive impact on the ANNR number that's so positive.

But it does keep that net flow number, which is a benchmark. Everybody looks at it. I don't want to predict when that could go positive, but the first half is extremely encouraging in terms of our overall momentum. Even the net flow number, I think, is a positive development. What's really key to keep our eye on the ball on is that ANNR, which is our weighted net flow number.

### **António Simões**

Yeah, and we mentioned the run rate. The run rate of 15, you multiply the 15, and you do the math, 30, 30 times 4, 120. We're within the 100-150 million target of cumulative ANNR and that's really good to see because this is the first six months for that specific target. Thank you. Andrew, PRT.

### **Andrew Kail**

Yeah, sure. We've been in this market for nearly 40 years. We are definitely used to new entrants entering the market, it's always been the way and as António says, that's a huge vote of confidence in the market and of course, the recent transactions will change the competitive dynamic again for sure. So we're well used to that. Why do I remain very confident? For two reasons.

One, the market continues to grow. The market expands, and António gave some data earlier about just the size of the market that we can expect to see in the near term and then going out into many. The market's strength and the continued growth, that's hugely empowering.

But also then, why do we win? The reason we continue to have record results in the years as competition increases is because of the strength of our asset origination, our asset management relationships, the propositions that we deliver to clients, and the service levels we give both to trustees and to individual members. So I remain really confident that despite the competition, those capabilities and the growing market means that we're in a strong position.

Specifically, to your trustee question and their options, we have seen no evidence of any of our transactions or any of our pipelines, if you like, pivoting away from moving to buy-out and reverting. So there's been no evidence of that.

I think for sure there'll be trustees out there thinking about their options and their strategies, particularly around surplus. I have a personal view that actually using the calculation around a buy-out value is a catalyst to look at to crystallising what that surplus might be. We are aware of trustees who are thinking exactly along those lines as to what's really under my funding level, the options I have around surplus distribution and buyout as well.

### **António Simões**

Effectively doing both. Doing the PRT transaction, as Andrew says, and doing the surplus extraction at the same time. Management actions, Jeff.

### **Jeff Davies**

Yes. Before we come on to the latter half, there's a range of actions within management actions. As you know, some of the more material are reinsurance, both internal and external. We've talked before about, for example, warehousing some deferred lives, especially where we're not using too much capital at the moment, so we can take on a few of those. That gives us a lot of optionality around reinsurance in the future, for example. There's structuring that we do in assets and just generally the whole structure of the group.

Even some hedging can have significant impacts if you effectively optimise that under Solvency II. But then the largest with the reinsurance is the back-book optimisation that we've talked about, which takes a number of forms. There is the capacity that we're creating by bringing on so many liquid assets to simply put more direct investments in the back-book. So that's just a straight-through benefit, if you like.

We then can trade around things like the shape and along the curve et cetera, and we're definitely more active around that. Then there is the volatility or even, hopefully, maybe a long-term shift to slightly wider credit spreads, where you simply move the gilts into credit and capitalise on that.

That was something that we did post-liberation day during April and made some of the additional profit. We still have the option then to move that credit into direct investments in due course as well. And so that never ends, if you like, and you keep optimising. It is a bigger part of the business now, and Andrew's world has been put in a framework around this. We've executed very easily in April. António and I were both out of the office, actually. It was all done very easily. We had a framework. How do we optimise this? What do we do? There were processes being built around it, which makes it all much more part of business as usual and sustainable than it was previously.

### **António Simões**

Abid, the upgrade on the management actions. I really like this point that Jeff is making, which is more of it is on the back-book optimisation, which has also high-quality management actions, if you think about it that way. Thank you, Abid. Mandeep...

### **Mandeep Jagpal**

Hey, morning, everyone. Thank you for taking my questions. Mandeep Jagpal, RBC Capital Markets. Three for me, please. Two on asset management and one on PRT. The £15 million ANNR, you've given a breakdown of that, but can you provide a simpler split between internal versus external? Also, confirm if the ANNR includes M&A as the waterfall chart you showed the deep dive didn't have a column for M&A, but presumably this adds to revenue.

Second question on asset management on the private markets fundraising pipeline. You mentioned the digital infra fund. What is the target fund size, and when will you be raising? Are there any other new funds which do you think about contributing to privates in the near term?

Then on PRT margins, can you help build a bridge much from the 7.1% that you reported as the new margin compared to the accretion to the CSM risk adjustment, which is closer to three and a half percent? On the optimisation that you include in here, does it include items that have actually already occurred between contract initiation and the period end? Or is it, I think you mentioned, an element of expected optimisation that you might be able to do in the future?

### **António Simões**

How much of that is in the 7.1%? Is that what you're asking?

### **Mandeep Jagpal**

Yeah.

### **António Simões**

I think, Jeff, you should take that. Unless, Andrew, you really want to jump in, but I think you should do that. Then come to you first, Eric, on the two asset management questions. The 15 million internal vs. external and M&A, and then the Digital Infrastructure Fund, and other exciting new funds.

## **Eric Adler**

15 million, and again, rough breakdown in terms of the synergistic business model, it's less than half. So it is a big part of what we do well, whether that's moving some of our LDI business into PRT. Of the 15 million, less than half of that is really the internally driven. There's a big chunk of it that's part of the synergistic model because it's working in partnership with our retail business. So our DC part of that is quite significant as well. But that's true third-party money.

Then the remainder, which, again, I think is extremely... It bodes very well. It's a bit in keeping with the first question. We are positive on all the rest of the business. I think we've got some good momentum across all aspects. If you were to break down our business really simplistically, and I think the way you ask the question is a good way of doing that, we have the truly internal synergistic business model, which is our competitive advantage. So that's humming – that's doing really well. I think, specifically, the third-party business that's linked to the synergies, which, again, DC is a big part of it, that's going really well.

When you take all the rest, we've got positive ANNR in the first half on the back of a pretty different picture we've had over the last few years, as António said. So it's quite broad-based. Not surprisingly, in the near term, we're seeing our real strengths come to the fore, our real synergistic model strengths, our real third party, what makes us a leader in the UK, and what makes us able to go after certain channels in a way that's pretty unparalleled like in DC. So not surprising that's driving most of it. But I'm extremely encouraged by, you take that out, we're positive on the rest. So it's a really good start. Second question.

The second question-

## **António Simões**

There was a 1B, which is, is M&A included. At the moment, M&A hasn't made a big difference because actually, what did we do from an M&A perspective? An investment in Taurus, which provides, and the acquisition of Proprium Capital Partners. That's not included in those numbers. The second question was on the Digital Infrastructure Fund.

## **Eric Adler**

Again, this is pretty hot off the press. I think we're at the point where we can talk about it. I think it's not unfair to say that an ideal target is somewhere well above the half a billion pound mark, and I feel really good that if that were a low target, we're going to be largely there in the short term. I really can't say more, but the fact that I'm saying that should give you some confidence.

These fundraises, as you know, these fundraises, they happen in multiple series. And they can last in today's world, because it is a challenging equity private markets environment, these can drag out over 18 months to two years. So I'm feeling really good that we were able to get this off in this environment. I think that is quite rare. There's the big names that are still hitting headlines with equity private funds, but everyone else has been struggling, so I think this really shows a competitive advantage. And I feel pretty good that, in the near term, we're going to be announcing initial numbers that are very much in keeping with what I just said. So that's really strong.

Continued momentum on some of our existing products. António mentioned PMAF in the private space. Frankly, every time we talk about it, the number is a little higher because flows are just coming in continuously. So that is a very strong, best-in-class product we have. We're taking full advantage of it.

I think the living sectors that we've been talking about for a while, they continue to show momentum. UK living sectors, we are a leader in that space, and we are soon going to launch the latest in our Clean Power Energy Fund in partnership with NTR. We're in the process of marketing that. On the back of a final close that was above expectations, we hit almost €600 million to close the last fund. We had a good pipeline, so we should be back in the market by the end of the year because a lot of that money is already earmarked.

Those are the near-term ones and that's before we talk about some of the M&A that you can imagine. We're going to be very focused on Proprium. We're very focused right now on Taurus. So the whole theme of irons in the fire we talked about at the CME, I think we're starting to show the beginnings of that.

We have multiple routes we can go through and that's before talking about our private credit business, which I'm very pleased with momentum on separate accounts in that. Insurance, going after insurance, we've had the Admiral win, but we have a very good pipeline of continuing to grow that third-party business and investment-grade private credit.

### **António Simões**

The series of client wins is very impressive, I'd say. Eric has just arrived, but it's amazing what the momentum is in the business. We've included some of those here in the pack, and you can expect more of that to come. On the first question, we talked last time about an underpin, and that's how I think about it exactly as Eric said. There's an underpin, which is the strength of the two business sitting to his left. To underpin of the PRT business and the underpin of the amazing DC business we have.

But actually, the excitement bit comes then with the third party money. So I think you can see that. That's why I'm saying it's a turning point. In this six months, you see that working properly for the first time.

Jeff, the 7.1% and what's included.

### **Jeff Davies**

Yeah, that's right. We recognise, and the teams can help you guys on this. We recognise you can't calculate that number from it. We gave some of the information. So the biggest element that's not happened is the reinsurance that is not yet signed at the half year, and so we're using Funded Re for some of that new business. We say that we have allowed for 511 million of Funded Re in that 7.1. That is because we can't allow for it in the IFRS because we haven't signed it. Accounting doesn't let you do that. But this is the realistic view of the profitability of this business.

We do the same on the Solvency II, Solvency II strain because this is what we will execute, how we price the deals, . Then the other part on the back-book optimisation is, as I talked about earlier, the fact we're using the gilt strategy means we can deploy direct investments, private assets immediately to the back-book.

I'll use some made-up numbers just to illustrate. Let's say we're targeting 40% of private assets. The fact that maybe on a deal we might put 20% private assets and, make it up completely, 80% for the rest is gilts, et cetera, and liquid assets.

What we do is we say, well, that means we've brought on so much liquidity that we can deploy 20%, the leftover 20% of direct investments immediately in the back-book, and we are doing that on an ongoing basis. We've effectively done it straight away.

This is extra capacity that we've got that we immediately do as Eric's business simply flows through. We tell them how much we need for the year, and it simply flows through. Again, we have rules around that about, are we up to speed? Have we got the assets, the amount that we're using, et cetera? The split is, it's not quite 50/50, but it's roughly that. I mean, they can take you through the calculation with Funded Re, and then you can see how it comes through.

### **António Simões**

I think there are two reassuring points on these numbers, which is the 7.1%. There has been lots of chatter of the business being less profitable, it continues to be as profitable as it was last time we showed you the numbers. And second, exactly to Jeff's point, all of the back-book optimisation. We're not including that in the margin upfront. We are including the bits he described, but that's from a pricing discipline perspective. Talking with my team, we tend to price it between the three of us. There is an element of we don't want to give that pricing away. Like the back-book optimisation that we do later on, that's not in the upfront margin, which is really important. Tom.

### **Thomas Bateman**

Hi, good morning. Thomas Bateman from Mediobanca. Could you just update us on the outlook for US PRT, given the litigation in that market? In particular, I'm interested in, does the sale of your US entity and having to write out the Bermuda entity impact your ability to do business or could impact your ability to do business there?

Second question is just on the DC transition. Towards your 15% target in private markets, how much of your 100 billion has transferred already? I remember you talk about trustees having to sign off on the new allocation.

Then finally, it was just on slide 24 and how you were talking about OSG and the dividend, how the OSG would broadly cover the dividend. But I guess I'm thinking there's new business strain, and I assumed at the capital markets day that you committed to some level of recurring buybacks when you changed the dividend policy. So how – should I think about it as NSG versus total capital return, or should I think about it as OSG versus the dividend?

### **António Simões**

Yeah, perfect. Andrew on the outlook for US PRT. I'll say a word on DC transition, and maybe actually it's an opportunity for Laura for you to talk a bit more about DC from a workplace perspective. And then Jeff, can you come back on slide 24, which is, you feel very good about that slide. We worked a lot on it.

Just on DC transition. Tom, the overall... We are a signatory to the Mansion House Accord. This is putting the default fund into a 15% investment in the private markets access fund. But this is a simplistic way of putting it... each one of the funds, so you have the master trust, you have the different scheme arrangements. They are progressively, that's

why Eric was saying that each time we talk about the number it is exponentially going up, because each one of the schemes is moving to that default. But the simple answer is the fund is 1.6 billion. So the bit that we have that is in the fund is the 1.6 billion. But you can expect more and more of the overall DC... so think about it, we have 200 billion of DC at the moment, and we are 25% of the market.

You just do simple maths. The DC market is going to be 1.4 trillion by 2033, we hope, and in October, we'll talk to you about the ambition that we have in DC. We hope to be a quarter of that market. So there's much more to come. Not all of the schemes will allocate to the private markets access fund, because in some cases, you have some employers that immediately have decided that they want to move because they feel this is the right thing for their employees and their members.

Some other schemes, they themselves don't want to move into private markets, and so we are doing what the clients want. I think the good thing about from a private... from a Mansion House Accord perspective is there's a momentum in the market. Whereas the employers themselves, you probably saw this, there was an employer's pledge where the employers themselves are committing to allocating more to private markets. So you wouldn't expect the full 200 billion, for 15% of that, to go into private markets. But you can see, just do the simple math, there's a lot of upside. That's why the Private Market Access Fund and the fact that we were one of the first in the market to have that, we feel really good about that.

Andrew, US PRT. Then maybe Laura, you can say a bit more about the DC market and how excited we are about that, and then Jeff.

### **Andrew Kail**

A few comments on the US PRT market. Generally weighted to the second half anyway, that's structurally where that market has been for many years. We definitely, though, sensed a slowing down in the first half from a pipeline perspective at the overall market level, I think for two reasons.

One, just the general US economic environment means that... and don't forget in the US, you don't have the trustee interface, it's corporate sponsors doing it directly and therefore I suspect boards had other things on their minds than a pension transaction. So there were less jumbo deals in the first half than that we might have seen, typically. That said, that's not our typical market. We would write at a smaller end of that, so sub the 1 billion deals.

Litigation comes up in certain conversations, but again, it's typically at the big jumbo end of the market, not at the sub 1 billion where we play in that market. As António said, we've had good pickup, literally overnight on the US market with transactions coming through in the last few days. I think we're feeling very good about that.

To your point about Bermuda, not really a huge change for us. I think that the sale of Banner to Meiji means that we become a reinsurer, not a direct insurer. So banner will be under Meiji control. We've actually, even our own structure, though, use the Bermuda reinsurer as part of that structure. So we're just, in many ways just replicating the structure we have already, and so are Meiji. I think structurally, the way that team are being set up is in a partnership where Meiji will write the direct business, and we will reinsure 80% of that, but the team are effectively working as one, and we'll use a very similar Bermuda structure to what we've had in place already.



**António Simões**

Thank you. Laura, DC.

**Laura Mason**

A couple of things to say, really. You'll have seen that our net flows into our workplace business significantly picked up over the first half of the year. A number of reasons for that. We have very deliberately put a new leadership structure in place which reaches across both asset management and retail. We think this is a real differentiator in the market compared to our competitors.

Even just thinking about the investment side of things, we're seeing the people that we sell to, effectively the employers of these schemes, increasingly interested in the investment solutions that we're able to offer to their end members. We've also made significant investments in the front-end, the digital side of things, which we will talk a little bit more about in October, but really I think from having launched some of our digital applications, we've seen incredible uptake from members.

I think... I suppose, just finishing, and again, we'll talk a little bit more about this in October, the pensions reviews have really played, I think, to the strengths of L&G in terms of really encouraging scale members. Again, linking back to your private markets question, all providers of default scheme arrangements will need to have 25 billion of assets under management by 2030.

We are already there with our defaults, and our defaults are now having quite a significant part of the private markets access fund as part of those defaults. So as Eric says, as well as the new money coming into those, the contributions from the current defaults, just each month, the amount is ticking up.

**António Simões**

Great. Thank you. Slide 24, maybe we can put it up, actually, if they can put it up. Jeff.

**Jeff Davies**

I can tell you how we think about it. We very much look at the OSG that's being thrown off, what's being generated over the plan period, and we look at that OSG against the dividend first and foremost. So clearly there's coverage over that. What is left is for us to deploy across the business, put into our capital allocation framework, make sure the businesses are meeting the hurdles, et cetera.

We then use what is left for new business strain, but don't feel constrained by that. In any year, in particular, PRT could be quite lumpy. We are happy to eat into our surplus capital position for that new business strain because we're starting from a very strong position, and we've always said part of that is to allow us to write significant volumes should they arise in any particular period. As we get more clarity over that, we'd be comfortable running down those solvency levels. We've always said that. And it's not dissimilar on the buybacks – again, we've never said that it's covered from the flow necessarily... it's a capital allocation decision with the added benefit of reducing the cost of the dividend.

So we will always look at that and assess against it. We clearly have modelled out that we believe it's sustainable given a starting capital level, given expectations for, in particular, PRT volumes and strain, that those are sustainable, and that's why we made the statement, but not from flow necessarily in any given period and comfortable that we can, again, eat into a very strong surplus position.

We have the same happening with the Meiji transaction, which significantly reduces the cost of the dividend, gives us more flexibility around that, and increases that solvency position by another 7%, and so gives us more capital allocation decisions to make in the future. That's the waterfall we go through in the way we think about it. It just so happens that because of the very low strain, it'll be there or thereabouts covering... NSG will cover the dividend in this period and improve from there. But we wouldn't guarantee it to the point where if there are larger volumes, or we decide to deploy a bit more on strain.

But I don't think we're ever returning either to the 4% strain days. We've never actually been there. We say less than 4%, we haven't been there for many, many years, even when credit spreads were wider and we weren't using gilt strategies.

#### **António Simões**

Yeah, and we are very comfortable, actually. As Jeff says, we do this ourselves, we do this with our board, we do this with the PRA, they approve our share buybacks. So pretty comfortable with that. Thank you, Tom. Larissa, and then I'm going to do a question online because we have Farooq online. So after Larissa, please.

#### **Larissa Van Deventer**

Thank you. Larissa Van Deventer from Barclays. Three questions, one on bulks and then two on shareholders' equity.

On UK bulk annuities, what needs to be in place to maintain your current margins? They were similar now to FY24. What needs to stay in place for that to continue? Then on shareholders' equity – it declined from just over 3 billion to about 1.9 from FY24 into 1H. Can you help us understand the main reasons for the component parts for the decline and how much of that you expect to unwind due to market over time? Thank you.

#### **António Simões**

Thank you. Andrew, on the margins and PRT and bulk annuities. And then Jeff, clearly on equity.

#### **Andrew Kail**

Thanks. I think on margins, as you say, we've maintained them in a competitive market. That's partly because, as António said before, we stay very focused on pricing discipline. It's not about chasing volumes and where we don't see the margins we want in deals, then obviously we wouldn't compete. It really comes down to asset origination, including Funded Re as well, to make sure that we can competitively price.

The price in the market is often set by the competition, and we need to make sure that we're originating assets that can generate as the margin at the capital return we do. It tends to be a decision that we take transaction by transaction,

looking at the available asset sourcing, the nature of duration, et cetera of the transaction, because that could influence our decision about funded reinsurance and coming up with a strategy on a transaction basis that gives us the margin that we're looking to preserve and not chasing the market down on margins that aren't attractive to us.

### **António Simões**

Thank you. Jeff.

### **Jeff Davies**

Thanks. To some extent, looking at it is the same, a bit like the Solvency II waterfall that I showed. Looking in a half is a bit skewed. We paid out the largest part of the dividend, we paid out 500 million buyback all in a single period. So clearly that in itself has an impact. There is, of course, the items I mentioned where we're effectively transferring some of the equity to CSM and risk adjustment, which comes back as profit, like happens with the longevity, and that was 150 million or so of the investment variance that we had. So that's one of those things from accounting.

Then broadly, I mentioned the exceptional items in Eric's business with him coming on board, but also the half of it then of the investment variance is really just flat markets as much as anything. We have an assumption for returns, in our equities at 6, 7% as you would. But private markets, which is a lot of our investments were broadly flat. There weren't many transactions. There wasn't much mark-to-market and so the assumption in your op profit is a negative. Over time, you obviously assume that that should trend to a zero over time.

You should have offsetting items. We're very confident and happy with the position. We're very confident with the modelling we've done around all my answers to the previous question, and so we're happy with that. We're happy with the portfolio. We've done some trimming. We did set up the corporate investments. Eric himself has looked at some of the assets that we hold on the balance sheet and whether they're for the future and will actually ever go into funds. We're being honest about those where we take the write-downs, the rest is just a mark-to-market which has broadly been flat, to be honest, over the period. But because you're assuming returns above the line, you get a negative that goes with it.

### **António Simões**

If you want, Larissa, we can give you some more details, as I've said to some of you when we were meeting outside, we've tried to get as much feedback from you and try to improve disclosure. Hopefully, as you've seen, we're trying to be more transparent, and each time we ask us a question, next time, we try to give you information on that. Let me answer the question from Farooq, and then I'll come here to the middle section.

What concerns, if any, do you have around increased competition from private market players and others in the UK PRT market? This is from Farooq, as you know, from J.P. Morgan. Look, any concerns? I'm not concerned. If we think about it from an overall perspective, it's good to have a healthy market. So that's the first thing to say.

Second, it does validate the fact that this is an attractive market that continues to grow with good returns, and it is a validation of that, that very sophisticated investors want to come into the market. In some cases, it's different, the two

transactions we've seen. We have one new entrant, if you think about it that way, that bought PIC, and therefore, from that perspective, PIC is already a great competitor of ours, already writes a lot of business. So we have one situation.

In the other case, we already had Brookfield as an organic new entrant, and they've just bought, just as you've seen, or are about to buy it and therefore, we have one last competitor if you think about it that way. When we think about what are we here to do, to execute our strategy, we are the leader in the market, as I said earlier.

We feel that we have the right competitive advantages. We are the largest asset manager in the UK, which is different from any other player in this market, where 80% of our volume comes from our asset management clients, and then goes back to asset management, where Eric is originating the assets for the PRT business. Then on top of that, the partnership we did with Blackstone complements that, particularly in matching adjustment eligible US private credit.

We believe that we already had all the... It's a competitive market. It's always been, as Andrew said earlier, but we believe we have all the levers, and now we have one additional lever, which is the partnership with Blackstone. Good. Andrew. The Andrew in the second row rather than the ones in the first row.

Yes.

### **Andrew Baker**

Andrew Baker, Goldman Sachs. The first one, just on the Blackstone partnership. The asset management benefit is pretty clear. On the annuity side, you made a comment that improves your pricing power. I guess I'm just struggling to see how you get that because it feels like you're giving away some margin there. So any comments around that would be really helpful.

The second one, again, sorry to come back to these investment variances. I appreciate the market dynamic that you mentioned. A decent amount was on modelling improvements. Do you have any line of sight into that for the second half? Is there anything you can flag ahead of time on that. That would be helpful.

Then thirdly, just a clarification question. The 7.1%, I don't think you're saying that we just stick 7.1%, well, if market conditions stay as they are today, we don't just stick 7.1% as a normalised margin into the CSM roll forward because essentially that's split between back-book and front book. We just need to take a view of how much of that goes in the CSM versus how much is in the back-book. Is that a correct way of looking at it?

### **Jeff Davies**

100%, yeah. Whether it's exactly 50/50, not 100%, it'll depend on the amount of Funded Re at any point. But yes, if you split the difference in 7.1% and whatever, three and a half, then the bigger five-ish, six, whatever the number would be, would go to CSM, but there's always going to be some leftover, which is the DI to back-book, which then will come through. It has to come through the P&L somewhere, so that comes through in our back-book optimisation. It's the only place it can appear because it doesn't go in the CSM.

## **António Simões**

Thank you. Were those the three? First, margin and Blackstone. I think we should give that one to you, Andrew. We're very excited about the Blackstone deal, as you see. You made the point that asset management is very obvious, what we could touch on that. But on the institutional retirement part, which actually is our full annuity book, which, by the way, is retail and PRT, how does this give us pricing... that was the first point I made, Andrew, right in the slide... it gives us additional pricing competitiveness.

## **Andrew Kail**

Yeah, we've talked about putting up to 10% of our new business assets into Blackstone. Unsurprisingly, they weren't paying for originating assets for us. That's a perfectly reasonable request of theirs, and so when we've looked at the mandate we've agreed with them and the commitment, of course we've factored in those charges to the effect of the net yield we need to accrue from originating those assets.

Again, they've got a fantastic reputation, as António said, in originating MA assets at scale, particularly in markets that complemented what Eric already originates for us. If you like, the commitment they've given to us up to the value of the partnership is post-charges. It's hitting our hurdles and giving us the assets we need, reflecting the fact that of course, they weren't compensating for doing that. Very excited.

## **António Simões**

We were months discussing this, and I think why Blackstone is probably worth just rehearsing that for a second. Yes, we have lots we have capabilities ourselves to do lots of things. But the scale of originating that private credit in the US at scale so that the sliver of it that is matching adjustment eligible from a UK perspective, you need to have that scale. There's very few, I can count them on less than one hand, players that could do that. Clearly, we felt very strongly, and we also felt very strongly, that that came with a partnership on the asset management side that helps us get into new channels and to new products. There's a really growing client demand for hybrid public and private markets. Investment variance?

## **Jeff Davies**

So the simple on the modelling is, hopefully not, the teams tell me. But there's always work ongoing in a 90 billion portfolio – you don't have to change much to get an improvement change in the CSM. But we're not looking at big changes for modelling in the second half that we're aware of today.

There are investigations on an ongoing basis in a model that complex, which can go either way, of course. There is, of course, potential for longevity releases. We do look at that in the second half and so the impacts of that will depend where the longevity kicks in. If it's very old individual annuities, it has more of an impact than if it was more recent PRT at higher discount rates, then it would have less of an impact.

So there is scope for that, but we've not landed on that. We don't know is it a modest number or a more material number at this stage, but it shouldn't be huge. But it would naturally flow in the same way. But either way, it shouldn't be many hundreds of millions or anything.

**António Simões**

Thank you. Andy, Andrew, and Dawn.

**Andy Sinclair**

Thanks. Andy Sinclair from Bank of America. First was just on buybacks. You did a bigger buyback this year at Full Year 24 results because PRT was incurring less strain with the gilts based strategy. Should we be expecting similar for Full Year 25's buyback, given that you're still using that strategy?

Second, you generously gave me a cash generation figure for private assets at full year results. I couldn't find that today. So what are you getting for cash generation year to date on private assets? I think it was 850 million for the full year last year.

Third was just, apologies for missing the Asset Management Day, but one thing that you said quite a few times during that day was asset management is a higher ROE business compared to the rest of L&G. Maybe a pretty simple question, but what are the ROEs across your different business units? Because I can't really see that.

**António Simões**

Good. Thank you. You're excused. You were getting married, so it's okay that you're worrying. It was a great event for everybody else.

Look, on the buyback, I've been pretty clear about this, which is we will look at the full year results with our board. I have here one of my board members. We will look at what are the opportunities in front of us in terms of additional business, what has been the strain that we have incurred, what is our solvency position, and with the growth opportunities and our position, we will determine what's the right buyback. That's absolutely the framework. It will continue to be the framework.

As you know, and Jeff put it on one of his slides, we have a billion earmarked for the transaction with Meiji Yasuda, and we have the 200 million ongoing share buyback. We need to think about what is the right quantum and how many shares you can actually buy back. That is something we will do. Andy, I couldn't tell you today, meaning that is a decision we'll take in March, and it will depend on the rest of the pipeline for PRT and how much strain we will see continuing going forward.

My commitment, though, is exactly what I said to you over a year and a half ago, which is every single pound that we cannot deploy internally and where we have that access, we will return that to shareholders. When I said it the first time, it was a bit of a theoretical thing. We did the first 200 million last year, and we've just done 90% of the 500 million. Hopefully by now, you trust us that this is what we will do. In terms of cash, I think both questions for you, Jeff, really.

**Jeff Davies**

Yeah, cash generation. Obviously, we had the CALA proceeds in the previous period. Of the 850 or so it was 500 of that was CALA and a few other disposals as well. So there actually hasn't been as many disposed, hardly any activity

in the first half, very small number in corporate investments in quantum. So it's more in the 100 to 150 range, which is basically half of what's left over when you take the CALA out and some of the other disposals.

We would expect that to be higher in the second half. We said we think the majority of the value from the corporate investments will be gone in the 12–18 months. So we are hopeful of things under offer, et cetera, in the second half, but there's no chicken counting going on at this stage.

### **António Simões**

We have 0.7 left of the corporate investments unit, 0.7 billion. We should both answer on the return on equity. I think, yeah, we did make that comment, of course, a month and a half ago that asset management is a really profitable business, but it's in a context of... we have a disciplined approach, return on cash and return on capital needs to be above 14%. The reason why we say capital and cash is because the return on equity, if you think about it that way, Andy, from an asset management perspective, is extraordinarily high because it consumes almost no capital.

I think the bigger point from a profitability perspective is what is always in my strap line of the strategy, which is we become more capital light over time. Becoming more capital light over time is growing the asset management earnings. I think you should add, Jeff, you had a slide at the deep dive where 'why do we really like these earnings? We like these earnings because they are capital-efficient from that perspective, really high return, but they make the entire company more capital light over time, which is a pretty tall order when our PRT business continues to grow very strongly over decades to come, as I said an hour ago. Jeff.

### **Jeff Davies**

There isn't a huge amount to add, to be honest. The vast majority of our businesses don't have any capital or equity of note to them, so have very high returns. It's actually about return on cash. It's really the annuity businesses where we monitor for a pure return on capital to make sure that we are, for each portfolio over the year, really almost every deal, hitting those hurdles.

But obviously with the low strain at the moment, those hurdles are not an issue for us. So they're all going to be high returns, very high returns for the vast majority of business because they don't have capital. Then it's more like sensible numbers, but still high at the moment because of the low capital strain that's in those businesses.

### **António Simões**

But at the moment, the binding constraint is what the previous question from Andrew was, which is, well, your question as well on the buybacks, which is, how do we think about... We're not trading off a pound in each one of the three businesses. We're saying we have a hurdle for all the businesses, and they all need to meet that 14% return on capital and return on cash and therefore, if we can't then hit those hurdles, the rest we are returning to shareholders. Andrew.

### **Andrew Crean**

Good morning. It's Andrew Crean at Autonomous. Can I go back to slide 9 and just get some of the modelling which lies behind it? I think you're using the LCP models. LCP has sales peaking in '28 and then drifting down. By 2033, what

market share are you looking at? And what net flows to start year assets are you looking at, because by that stage I would think you're moving more towards a neutral position. That's first question.

Second question is on the retail annuities, what are the outflows per annum relative to the sales?

And then thirdly on management actions, clearly you've upped the asset optimisation, and you're looking for management actions of over 300 million. In terms of asset optimisation, what yield improvement on the portfolio, how many basis points does that compute to? And how long can you just keep, I just think it's about three points, but how long can you just keep lifting the yield basis for? I.e., what does medium term mean?

### **António Simões**

Got it. Let me start on this slide 9. I think Laura, you should talk about retail annuities outflows, and we are in a position where we're actually writing more than the outflows, but Laura will go into that. And then Jeff, can you talk about management actions?

Thank you for not asking the Pemberton question. It was one of those we asked as a question, and we put it on the slide also for you earlier in terms of disclosure. No, but seriously, we're listening to all of you and your questions, and we're trying to reflect that at results.

In terms of this slide, you're right, we are using industry assumptions, so LCP, so that is the underlying. We actually have a version of this, which we don't have here, with the flows themselves. This is our own book from a UK perspective, this is the 64 billion. As I said, this doesn't include international PRT or the retail annuity. We wanted to focus this specifically on UK PRT. And the net flows do continue to increase, of course the total 1.4 trillion, the number keeps on jumping down in terms of overall DB, but on the percentages, we get to 50% of the assets being insured within, and then it continues to grow.

We can give you the underlying assumption, all of you, the underlying assumptions. We feel that there's two things happening. One is the new business, and when do we cross that point where the annuity outflows are bigger than the new business. Our view, if you look at some of the numbers you did for us, that's later – i.e. we continue to write. And then you have this chart, which that's why we wanted to show this up to 2033. Our actual book will be growing between 6% and 8% and the difference between the 6% and 8% is 6% is the lower assumption of LCP, 8% is the higher assumption of LCP.

What are we assuming in terms of market share? We are assuming a consistent market share to what we have. Historically, we've had a higher market share up to 24%. We're at typically around 20%. We're not assuming that our market share increases. We're also looking at putting some pressure on Andrew. We're definitely not assuming that our market share decreases.

But there's an important point there, which is we target the profitability of the business and therefore, to some questions that were asked earlier if the market moved in a position where we felt the profitability of the business wasn't right, I don't have a volume target.



This is what we're assuming. If the market gets tougher and there's lower profitability, we're very happy to walk away from transactions as we have over the years and including in my tenure over the last year and a half. But Andrew, this is assuming the same as maintaining that same rough market share. Retail annuities, Laura, and then come to Jeff.

### **Laura Mason**

Yeah, so a couple of comments. I can't remember what slide it's on, but we wrote 2 billion of retail annuities last year, so you can see the increase over the year from that slide. So you'll be able to work out... that will give you some indication of what's rolled off. I think the other thing to say is that the majority...

### **António Simões**

Sorry? It's slide 22.

### **Laura Mason**

The majority of our... We can give you a bit more information on this afterwards, but just to give you some high-level numbers, if you see where we've gone from 17.4 to 19.8, we wrote about 2 billion of new business last year. The majority of our business is lifetime annuities, so the longer duration. We can follow up with a bit more information on that afterwards, but that should give you a good high-level picture.

### **António Simões**

But what's happening in our case, Andrew, is looking at that number, we continue to write more new business than what rolls off because we can see from the stock perspective. We can give you the inflows and outflows. But the dynamic for us, different then from other players, is that with the amount of retail annuities that we're writing, the book keeps on growing, so the 19.8 billion, we expect that book to continue to grow, whereas without commenting on competitors, but in many of our competitors, they are in actual structural outflows of there because the book is much bigger.

We're a very large retail annuities' player. The first half of the year was... A lot of people woke up to the fact that we kept on gaining market share. The market has been more competitive. The pipeline that Laura has for now actually is really helpful, is really encouraging. In the second half of the year, we're expecting a better second half compared to the first half in terms of retail annuities, which means that definitely by the end of the year, our book will be bigger again. So it keeps on going.

Management actions?

### **Jeff Davies**

I went through... there are a number of different backpack optimisation options that we're deploying, so there isn't a single answer to them, but they will all be giving greater than 50 bps uplift, but some of those could be hundreds, because if we sell a gilt and move into a direct investment, you're going to get a very large uplift on yield. We have areas where we've been selling corporate bonds and putting gilts in because of the relative spreads at the moment, the

amount of profit we've made on corporate bonds. And of course, if we're selling the gilts, just simply, sorry, on that one, we've always said we can get 50-150 (bps). We wouldn't trade if it's below 50 (bps). It just doesn't make sense.

Then you've got the selling of gilts to go to corporate bonds when you get volatility in that, which is the optionality that we've saved up, and clearly you get quite an advantage from that. But we need to look at those in the round around the gilts strategy. We certainly think that's very sustainable over the medium term. We call it a planning period whatever. We are comfortable that we can continue to execute on a book our size.

The £300 million back-book optimisation set up with processes and a structure in Andrew's team is very sustainable. We talked it through with the board, what's in the plan, what we're planning to do over that period. We're very comfortable for across £90 billion that we can trade, and we will trade with the optionality from the gilt strategy to get to that £300 million plus.

### **António Simões**

Thank you. Dom, and then I will come to Farooq again because I guess online, he gets one question at a time, so I'll come to that, which I think it's for you, Jeff, so you can look at it. Dom.

### **Dom O'Mahony**

Hi, thanks. Hello.

Dom O'Mahony, BNP Paribas. I'm afraid I've only got techy capital generation questions remaining, so apologies in advance. One hopefully simple one – really encouraging to see the guidance on the OSG growth greater than 3% for the full year. What's the baseline? The full year 24 number, normalised for the disposals. If you could give us that, that'd be very helpful.

Then, help me not get too excited on the asset trading. Your guidance here is set in an environment where spreads are basically public spreads, as tight as they've ever been, more or less. If they normalise, presumably you're very, very geared into that. One of your peers is extremely ambitious on the asset trading opportunity. Is there any reason I shouldn't be thinking, actually, this could be a very large source of capital generation for you as you think more about... You talked earlier about some of the processes that you put in place around taking advantage of spread dislocation.

Then the flip side, if I go back to that slide where you have the 6-8% growth in the size of the book. My hypothesis is that the book that is running off... (a) is more capital requirement-rich because you have more longevity risk, and (b), is more spread and risk-margin rich because you have more credit risk than the stuff you're putting in. So I would hypothesise that the OSG coming out of that book is not growing at 6 to 8%. It's probably growing lower if we exclude management actions. Does that make any sense or is that wrong? I'm judging from your reaction...

### **António Simões**

Give me one second, Jeff, to think about that. Just on OSG, yes, we can give it a normalised number, Jeff may have it.

But just on the... I think when it normalises... Actually, Andrew made this point. We have the first half of this year is a good example because as much as I talked about geopolitical and economic uncertainty, we haven't had that much volatility. We had it very concentrated around Liberation Day, and so most of the back-book optimisation for the first half was done around those days that we were both out of the office and coordinating.

But it's a good thing because we have a very disciplined framework that allows us to very quickly act on that. You're right that the bigger upside is if and when, and when the markets normalise, whereas here it was just the volatility we had for a week and then it went back. But Jeff, you should comment on that and also on the 6-8% on that slide 9.

**Jeff Davies**

Yes. So the OSG growth, you were basically the full year number. It is exactly what you said. It's the removal of the US protection and the 20% of the US PRT. I don't have the number off top of my head, but I'm pretty sure we published it in the March results and compare what that would have been with and without it. The number exists. Pretty sure it's in there.

If it isn't, we do need to tell people because if you don't know what the number is, you can't do the growth of it. So we'll find a way of getting that out, if that's the case. But I'm pretty sure. I know in February, we only give guidance of 'it was X million would be taken off', and then we said what the exact number was in the full year results.

**António Simões**

In the full year results.

**Jeff Davies**

I remember that.

**António Simões**

In the full year results, we normalised it. But if not, we'll send it to everybody.

**Jeff Davies**

But taking off the non-retained business agreed. Yes. We don't want people to get carried away with the... You do need some market volatility. We are sourcing assets. We'll keep the strategies going. We believe it's a very strong underpin to the OSG. But yes, there is clearly upside for the back-book trading in a situation where you get a prolonged period of wider spreads. It would equally change the way that we price new business, which we think would probably be beneficial to everyone, make a lot more sense.

But your assessment of that is right. It's just a case, when will that happen? What will that look like? What will happen to other markets at the same time and DI, of course, in those situations, tends to lag and take a bit longer to come through. So we almost certainly would be moving into credit at that point in time.

**António Simões**

On that, Jeff and I debated this a lot. We actually said explicitly more than 300 million on management actions, uncapped to some extent, rather than giving... Because we have numbers that could be much higher, but again we want, and hopefully trust us that way, we want to be realistic. We're doing effectively an upgrade to the guidance, but in a way that is thoughtful. I don't think we're in the game of giving you a very big number, but I think there is substantial upside. But that's what we said, more than 300 million, and we'll keep on updating you as we do it. That's the logic. The 6-8%?

### **Jeff Davies**

The OSG capital run off, really, was the question. The capital itself takes a very long time to run off on annuity business. It's very, very long, and especially with the amount of deferreds that we have written over the last, well, probably five years at least, as those have been more and more coming to market in PRT. And so there is actually quite slow run-off of the book if you think of pure capital run-off and what's happening there.

There's been more of an impact, to some extent, with some of the discount rate changes and higher yields and what's happening around that as anything else, because it is very, very long and only accelerates towards the end. It's even longer than, I think, the IFRS 17, because that has accelerated a bit more with the higher interest rates. There isn't anything particularly funny going on in any of that, I would say it's very predictable.

### **António Simões**

It's not fundamentally different. The older book versus the more recent book. Yeah. Thank you. Let me go to Farooq online.

It says, your CSM, new business margins in institution, retirement, and retail are low, even taking into account your gilt-based strategy. What is the outlook for this, and how do we balance what appears to be a low level of CSM growth against higher guidance for asset optimisation in terms of net earnings impact? Jeff.

### **Jeff Davies**

I think this pulls together everything we've been talking about.

### **António Simões**

I know. You probably wrote it a few minutes ago before we just said this. To be honest, yes.

### **Jeff Davies**

I think we've covered a lot of this. Some of it is the new business margins that we state are actually in line with what we said would happen under the gilt strategy, in line with what we had last year. We think there's probably some improvement we can make around the retail new business margins on annuities with some of the investment strategy, things we look at and deploy more of the gilt type strategies in that.

We're improving the retail protection margins as well. That market got very, very competitive a couple of years ago, as we said, and it's good to see the improvement coming through on that. But certainly then in terms of earnings growth, our guidance, we're very comfortable with that. We're seeing the back-book optimisation come through, which to some

extent is either embedded in what we assume a new business, as we discussed earlier, or is upside that is giving us more and more confidence in the earnings projections that we've given, if you like, and the targets that we're looking at. I think it is everything coming together around that.

**António Simões**

Great. Thank you. Other questions? Nasib.

**Nasib Ahmed**

This is similar to what Farooq just asked. On the new business CSM, if I look at just PRT, it's about 3% of PRT volumes in the first half. Jeff, when you presented IFRS 17, I think you got it to 0.8 to 0.9 billion for 10 billion of PRT. That included risk adjustment, I think. But that's 8% to 9% including risk adjustment, we're seeing 3% now. It can't just be gilt-based. There's something else going on, I think. Can you, if you go back, try and explain what's happened on the new business CSM relative to volumes?

Secondly, on investment variances, it seems like you're not of the view that you need to change the assumptions within operating profit. You've had negative variances for a few halves already, and real estate has not been returning returns. When do you change it, or have you already changed it for in 2025?

And then finally on the 300 million management actions for 2025, how much have you done in the first half?

**António Simões**

Jeff, squarely with you.

**Jeff Davies**

Yeah. So actually the 8-9% is more comparable to the 7.1%, I would say. The actual IFRS new business margin that we're talking about, that's the way we think of the business, the way we're looking at it, because in some of the... Some of it is just 'you make less pounds through the gilt strategy'. That is obvious and so you're simply not adding as much CSM as you were, but we make up for some of that with the DI to back-book. We don't then allow for some of the future surplus. Some of it is it was quite hard to predict when we were just moving into IFRS 17 as well. I wouldn't say there's anything more fundamental happened there overall.

IV... actually, it's interesting you say we constantly look at this, part of our accounting policy, et cetera, and we are looking, and we'll continue to look at this. It won't be wholesale across the piece because it is supposed to be through cycles, et cetera. You look at 150 years data to decide what equity returns are, and you don't change them because they've been different for even five years.

Similar for property as an asset class. But we will look at, is it segmented, are other asset classes suitably segmented, is there something fundamental going on? We do that on an ongoing basis, and we will continue. We have a couple in mind that we may do that for, but nothing that's material that we need to tell everyone about that impacts the results, et cetera.

The 300 million... Well, we talked about the management action, sorry, the backpack optimisation IFRS greater than 150 million. Quite a lot of that flows straight through into management action, of course, net of tax... slightly different number.

Some of those don't because they're in the new business strain as part of what we've assumed. And then we have executed some of the type of reinsurance, et cetera, in the first half as well. But generally, it's better to look over the whole year that we are safely going to be in that 300 plus for the year for management actions. I think given what we've stated, the targets, we will give more breakdowns of some of these, but it's not a million miles off halfway of what we need, to be honest.

### **António Simões**

Yeah. Going forward, we're giving the same guidance. They will be consistently above 300 million. Sometimes it's more skewed to one half than the other. Any other questions? Also, no questions online.

So thank you. Thank you for coming today. As I said, I'm very happy with the performance of the first six months, but I'm particularly pleased with the momentum on the execution of our strategy.

Thank you for coming today, and I'll see you on the 23rd of October with Laura, if not before, for the final of the deep dive into the three businesses. In the meantime, if you're having a break, I know that there's lots of insurance people reporting, so apologies for that, but if you are having a break, I hope you enjoy the summer holidays. I know that I will. Thank you.