Legal & General’s Asset Management Deep Dive – Q&A

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António Simões

I would like now to invite Eric back on stage to answer your questions. Maybe we'll start there on the right. Do the usual thing of telling us your name, and then if you can, limit your questions to three.

Michael Huttner

Truly, just to remind me, I'm sure you put it in your presentation, how much is the new investment that you're putting in to work in terms of money to cut costs and grow and stuff? Thank you.

António Simões

Thank you. Thank you for the question. I'll just give you the number, and then Eric should comment. Last year, when I set out the capital markets, we were here a year ago, actually, in a different place, 12th of June of last year, I talked about 50 to 100 million per year of investment. We actually invested last year 48, so just below that range. Eric, you should talk about, you've looked at this. How are you looking at the investment?

Eric Adler

I feel extremely privileged, it's one of the reasons why I joined, that we actually have a growth model – that we are thinking about setting aside this kind of capital for continuing to invest in the business. My sense is that we probably can stay to the lower end of that. I say that for a few reasons. I think a lot of these investments will be initially important to start catalysing new strategies.

And the work we've done in terms of prioritizing and really sequencing, because the challenge in a business like ours, we have such a breadth of things we could do, and we have this international platform, we could try to do everything at the same time, spend a lot of money and get distracted. So the discipline actually means that we actually can manage to the lower end of this, because if we take too much more on, we just won't be as quick as we will be if we do this in the sequential order we should. I feel really good about the buffer we have, but I think we can manage to the lower end of that.

António Simões

Thank you. Thank you, Michael. Abid, actually. I'm coming to the front row, sorry, and then come back to you.

Abid Hussain

Thanks for taking my questions. It's Abid Hussain from Panmure Liberum. I've got three questions. First one is on workplace savings. What proportion of the assets are managed internally? I think I read 50% goes into the in-house manager, and if that's correct, is that sustainable? What do you think is a long-term trend as you grow workplace savings? Does it stay at 50% or can it go higher, or would you expect that to trend lower?

Then the second question is on the review businesses. Can you share which businesses or which products are sitting in that review bucket at the moment and how much AUM versus cost spend is entangled in that bucket, please?

Then the final question is on private markets. Can you just help us to build a bridge between the current AUM, I think 57 billion, 60 billion in there versus the greater than 85 billion that you're targeting in terms of where is that going to be sourced from? It feels like quite a large chunk of that can be sourced from the growth in PRT and DC assets alone. Can you just build a bridge of where you're going to get the remaining growth from?

António Simões

Eric should actually take the second and the third, but just on the first, because I think it was something I quoted, so Abid. Actually, the 50% is not that number. We have 183 billion of… We're the largest DC asset manager in the UK, so over a quarter, 26%, so that's 183 billion. The 50% I quoted is that 50% of that, 94 billion, is our own workplace.

Think about it, we're top three players in workplace DC and Retail. Laura is sitting to your right – she will talk a lot about this in the second half of the year when we do the deep dive. Then in the other half, it's basically us as an asset manager working with other people that do workplace. That's the 50%.

Now, of the 94 billion that we have in workplace, the vast, vast, vast majority of it is within our own asset manager, close to 100% of it. This is a key differentiator, I'll put that on a slide. If you're just a retail workplace player, and you don't have an asset manager, or we have a smaller asset manager than us, you'll have a much smaller percentage of that coming into us. So think about it close to 100%.

It's true that when we do our private markets access fund, for instance, we then use, in some cases, because Eric also said we don't do all of the private markets, we sometimes do submanagers for that. But the key differentiator for L&G is that of all that workplace, 94 billion, it all comes into our own asset manager. Eric, do you want to talk about the review buckets and the private markets? How do we get from 57 to 85 billion?

Eric Adler

So review, I think the key things to take from the presentation, and they're important for the explanation, are number one, the word granular. So we went into a lot of detail. You can imagine a 1.1 trillion pound manager, we have a lot of strategies, and we have a lot of family strategies. We've gone through them in incredible detail, and so we've decided some that we've been able to reorient.

Frankly, some of the ‘review’ ended up in ‘maximize’ because we looked at them, realized we were good at it, we probably hadn't focused enough on it. We see a market opportunity, and with minimal additional cost (some of it's sometimes just marketing cost, just people knowing what we can do) we found our way clear to moving those to maximize. Others, clearly, we're going to deprioritise.

The easy answer is, because we got clients in all of them, that's something we have to manage delicately. And it's also why we did this exercise so early. It was within a month of me joining, because to do this right, when you have clients in these businesses, something I've learned over a lot of decades in this industry, even the ones we want to deprioritise, we're going to have to manage that over time. We have important clients in some of those strategies. So knowing what we're going to do early is the way this is going to happen organically over time.

The other key thing, because you mentioned AUM, you saw the building blocks that we believe in, we need them. What you're not going to see is some wholesale cutting off of one of those building blocks we just went through. What that means is, even internally when we look at the granular result of this review, it's less of an AUM topic.

Sure, there's AUM. It's more of an allocation of resources, where we're going to focus our energy. So that's been the work. But I believe in the breadth of our business, so we're not going to make some big call and try to be something we're not. I think our way to win is because we've shown good investment performance, frankly, across a lot of different things. That's the opportunity, but the discipline is what we needed to add to it.

Third, on private markets. Of course, when I said the name of the game is scale, the scaled businesses, I'd expect those to grow. The private markets access fund is growing every month, and it's so linked to the strength of our DC business. As long as we can continue to generate performance, I think that's a key area of growth. But so is everything we're doing across multiple UK housing strategies.

Some of the acquisitions, if you think about what we've done in six months, we've gone from a very strong UK-centric real estate investor, but a leader in the UK, with not a lot to talk about internationally. We now have a capability across the US, Europe, and Asia, and that's at a time when we're at a low point in the real estate cycles. We are now prepared from a capability standpoint to catch the inevitable wave that always comes in real estate. It's a cyclical business.

I can't predict when it is. Frankly, we've all been predicting it's in six months, and we've been doing that for three years, but it will come. I think that capability we have alone, when that market pops, that's going to be a huge area. But the most important thing to take away is the amount of irons we have in the fire.

That's why I don't feel the need to be spot on on any one of these. I think with everything we've got going and the internal balance sheet to catalyse this, that's where we feel pretty good about the 85 billion, even in a market today that's challenging. Again, if it lasts for three years, that's a different story. But these markets, they ebb and flow, and we feel very good. We have a path to the 85 billion in many different circumstances.

António Simões

Thank you. Thank you, Abid. Mandeep, we'll give you back the microphone. Sorry, we took it away from you earlier.

Mandeep Jagpal

Mandeep Jagpal, RBC Capital Markets. Three for me as well, please. First one on flows. Could you provide more colour on the current flow picture year to date, or maybe given your targets, the ANNR picture year to date for L&G? Second on M&A. Eric mentioned he wanted to maintain flexibility in meeting the AUM target. Given your surplus capital, could this also include further M&A? Which gaps in your proposition do you think it's better to feel inorganically rather than build yourself?

Then finally on retail clients, clearly potentially high revenue margin AUM available here. I think Eric mentioned L&G has more to do in wholesale channels, particularly internationally. Are you able to provide any more detail on which products and regions you had in mind in the first instance? How will you go about gaining traction in these markets?

António Simões

Thank you, Mandeep. Those should be mostly for you, the three of them, Eric. But maybe just a comment on M&A because as we think about M&A. Two things to say about M&A. First, we've been very clear that the entire L&G strategy is an organic strategy. We have all the building blocks in all of our three businesses to grow organically, and that's primarily what we're doing.

In asset management, we're looking at bolt-on acquisitions, which read small by bolt-on, in areas where we are bringing in capabilities. It's not exactly what you were asking, but there's that 85 billion of, particularly in private markets which is where we're making acquisitions, the M&A that we're doing is to bring in capabilities, so effectively not bringing in a lot of AUM.

What we're bringing in is teams, that then together with Eric and the expertise we have across the business, are raising other third-party funds that contribute to our 85 billion plus target. That's how I'm thinking about M&A. We talked about this last year that real estate was one of the key areas we were going to look at it. That's what we've done. Look at Taurus, look at Proprium Partners.

Then, Eric, you made a very nice comment earlier when you were presenting saying “we've avoided these areas that are very overheated in terms of valuation”. Several of you asked me this, private credit – yes, we already have investment-grade private credit capabilities ourselves, plus 40% of Pemberton. As you know, the valuations for private credit players have been very high, so we've been very thoughtful.

That's the other area where we could do more acquisitions, but we're not about to, from a shareholder value perspective, to do acquisitions that are extremely expensive. That's how we're thinking about the rest of M&A.

Eric, flows, any other comments on M&A, then retail clients, which I read to say wholesale, right? Because when we think about retail for L&G, I'm thinking about private banks, primarily. So it's not retail in the sense of broader retail.

Eric Adler

Flows, I think we'll wait until official results to talk about those numbers. We know we've been in a volatile first half – this is just a macro statement. And in many ways, we've done a round trip, so some of the capital markets are back where they were, but as you can imagine, the trip down has an impact on things.

What I'd say is when I compare flows to ANNR, what you've heard, I feel we're on a very good trend in terms of this track towards higher revenue flows, and you will see that over time in this differential between whatever the flow number is and the ANNR.

So I feel pretty good about it. Given the volatility we've had, we have to see what comes next. Every day, you can read the press and decide what that might be. But I think we're on the right trend on that. And we know that we still remain, with some of our LDI strategies, in an interest rate environment that hasn't settled yet. That's going to be a continued headwind. But again, this focus on ANNR, I think, is extremely positive. A lot of our confidence comes from the fact that, in spite of the challenging markets, the momentum feels good in the first half on this point. So more to come on details, but sentiment is strong.

On M&A, I think, Antonio, you said it. The key for me is exactly that. We're looking for capabilities. We're not trying to buy our way to 85 billion. We hope that these capabilities catalyse our way to 85 billion by then putting some capital behind them because we have that balance sheet, and then their capability hopefully allows them to do more than they could have by themselves. That is the synergistic acquisitions we're looking for.

We look for value, we talked about it, Antonio said it. We're not going to chase the crowd. Oftentimes, what everyone's looking for, the first deals might be the best in terms of capability. What's left is probably struggling to raise money sometimes in these overheated markets.

I think specifically of US private credit, which is clearly a structural area of continued growth for us, we're going to be focused on. But we want to make sure we find the right company, the right DNA. It has to fit within L&G's approach. We are a long-term client-focused investment manager, so we're going to be very picky about the quality and the mindset of teams, and we don't want to pay top of the market prices.

You will see us find moments of maybe temporary edging off of certain markets because I think softness in private, we believe the story is a one way story, it's still going to go up, but we will look for places where we think we can have good value. That's why we did two real estate deals. That was very clear. That's what we wanted to do. Our three big areas, real estate, private credit, infrastructure. So we are always on the lookout – build, buy, or partner on all three of those, but we will be very disciplined.

António Simões

You want to say something more on retail customers?

Eric Adler

Oh, sorry. Yes, of course. We've already started making inroads. I think when you look at how very successful growth, and I'm looking over at Sarah Aitken, so she'll wrap me on the knuckles after this if I say this wrong, she's our Chief Client Officer. But I think we've done an outstanding job of planting our flag globally in a relatively short period of time. The bulk of that was through institutional relationships. That's going to continue to be an area of strategic growth – that's our DNA, we've been doing that for a long time.

And we have started cracking some more of these retail, a little bit of foreign DC, the wealth distribution channels, working with private banks and global financial institutions to tap those clients. But I think the next step is high level of focus on specific regions and channels so that we can make specific investments.

Number two, it's channels that are compatible with our capabilities, and it's also channels that will be compatible with what we're trying to do in terms of filling in gaps. Nowhere will that be more important than the US, where we've got this fully self-servicing, organically-grown 200 billion business. We've had tremendous success in the institutional space, and it's the biggest market in the world. You've got every channel imaginable, but it's highly competitive.

The focus now with Jed, who's got experience in some of these channels, is which one is for us. There's some obvious ones, and we're showing wins already. Insurance for third parties, it's obvious. But there are other channels in wholesale, wealth, mass affluent, again, through the right distribution networks. We don't want to be a distribution network, but that's what we do. We just have to pick our spots and prioritise, put the investments there. I do think that will give us better results than we've had today. Today we've got good results across the board. I think this focus will really move us forward internationally.

António Simões

It's already working. Mandeep, thank you for the question. I was in Asia a few weeks back. We have one of, can't quote all of the clients because we need their permission, but we had a private bank in Asia working with them. I was last week in continental Europe, talking to a bank, all my trips to the US. That's where we have counterparts that are big clients of L&G, and we can go to those banks and say, well, we would like to distribute these products to your private bank. So that's working already. Thank you. Farooq.

Farooq Hanif

Thanks very much. It's Farooq Hanif from J.P.Morgan. Three questions as well, please. The first one, looking at slide 52, where you show this map of the flows in the next five years. If I exclude… So that's one where you show the captive flows from workplace, from PRT coming in, the outflows from DB and other. Then you've got this box called external, where you've not obviously given a number for what you're going to grow. But the gap in the numbers that you've given is roughly 30 billion, I think you've got 130 billion of outflows in that table and 100 billion of inflows. Do you think you can fill that gap with external flows?

When you show all these elements on the left in blue and a greater than sign compared to your outflows, are you talking there about margins or are you talking about flows? I just want to understand, essentially before market returns, where you see AUM, I guess, in the plan.

Second question is on cost. Again, you had a similar waterfall chart, where you show inflation, your cost discipline on the core business, and then the investment, the 50-100 million, where you've been very clear about where that's projected. Given that you've already got a cost of roughly 50 million in the numbers, are we just going to see really, really low cost inflation in the plan? Is that what you're trying to indicate with that chart? Roughly 1%, 2%, net of everything. If you could give some guide around that, that'll be helpful.

Then my last question really for Antonio and everybody. We've got the impression from various times that we've met you that you felt that this 500 to 600 million, you'd really like to be at the upper end, or it would be great if you could beat it. Wouldn't it be great if you could beat all your targets? But just what-

António Simões

Thanks.

Farooq Hanif

I know that the world is a different place now, but how do you feel about that now?

António Simões

Why don't I start there, and actually, I'll give Jeff first because your page is 52 and 53 on ANNR and cost, and then Eric, you may want to comment.

Eric Adler

Sure.

António Simões

Just how am I feeling about the targets? Look, I set the targets a year ago in front of most of you. The world has continued to be complex. Fortunately, the news flow is dramatic and not particularly positive at times. But overall, I set those targets before knowing that Eric was sitting here to my right, before he changed half of the leadership of asset management that's sitting in this room. I feel much more confident today that we can achieve and beat those targets. That's what I've said in my... ‘ideally, beat’ is the words I've used earlier.

Having said that, what I'm trying to also achieve is targets that are really ambitious, but at the same time credible. Let me give you two numbers because we've given them to you, but it's important to reinforce. On the ambitious side, we are saying that the fee-related earnings are growing annually at 9% to 15%, the chart that Jeff showed earlier. That is an ambitious target, right?

Yes, of course, as a CEO with some of my board here, I would love to beat that. I'm conscious in many of our discussions that that will be a catalyst for our shares to continue to perform better. That's the ambitious part.

The credible part is another number that I quoted earlier—and Jeff also mentioned, which is of the ANNR, which is the most difficult of the targets. The ANNR is the real number of the business growing beyond market movements.

I'm telling you that between PRT, and everything we're writing in PRT (we wrote more than 2 billion individual annuities last year), plus the DC flows, that those three in that chart that Farooq, you were just looking at, multiplied by a range, that we have over half of our ANNR comes from that. That's what we were telling you. That's what that old math that, in a moment, Jeff, will go through. That is telling you, and we're using very carefully the word underpin. That's an underpin to that ANNR target.

I would love in two reporting seasons—half year, full year—we're blowing the flows and the ANNR, and yes, I'll come back and say, "we're on track to beat our targets." It's too early to say that. What we're telling you today is, "here are the proof points, we're already delivering. These targets are ambitious but credible." They're certainly more credible today.

I think you said, "I'm extremely optimistic." I love that my CEO of Asset Management is extremely optimistic that we are going to meet them, but Farooq, it's too early for me to be changing those. Jeff, do you want to talk about ANNR and cost?

Jeff Davies

Sure. I think the slide you're talking about clearly have a lot of inflows. We hit all our targets and ambitions for each division, and continue to grow individual annuities, then we see significant contribution to ANNR from that.

I think what you were saying was, there's two things you were saying. One is, can we fill the gap? Absolutely, we believe we can fill the gap in terms of ANNR. That's everything Eric is talking about and where we find that externally. We won't necessarily, on the flow picture, fill the gap on AUM. If DB is in structural decline at 2, 3, 4 basis points, and you lose 100 billion of that, that doesn't matter if we're getting 20 billion at 50 basis points.

We're not so focused on where that will be. Where the total AUM lands will really be driven by market movements, as you said. We're not focused on, 'can we fill that?'. What we're focused on, we can fill the gap to the 100, 150 million of ANNR, because that is ultimately what delivers the growth in the actual operating profit.

That then brings me to the second one on costs. Eric's already said—he's actually said to me—he's not sure he can spend the 50-100, but certainly he'd be at the lower end of that 50 million range. Yes, we were signalling that we expect underlying BAU costs to be very low. We are saying that we will manage the total cost inflation to be broadly in line with the market returns, because that then allows for the new ANNR to drive all the profit growth and allows us to get an improving cost-income ratio. That's very much the way we look at the business.

We will continue to take action on underlying cost, and then we will look to invest where it makes sense. If we're not seeing the revenue coming through, then we will dial that back. If things aren't succeeding, we will stop and we'll look elsewhere. We'll be prudent on that.

António Simões

We've certainly been more deliberate on avoiding, not avoiding, eliminating cost duplication across all of L&G. Certainly, you've seen some of the actions, early actions that Eric has taken. I said that the main rationale was a client rationale to merge LGIM and LGC, but having merged them, we did have overlap between LGIM Real Assets and LGC, and so we've taken some of those duplications.

More generally, I'm doing that for L&G overall. We have Katie Morgan sitting here who joined us as the Group COO. We have Brenda, who's the COO for Asset Management. We're looking at efficiencies across all of L&G. That's more part of our story going forward. Thank you. Larissa. Then I'll go to one of… I have a question online, so remind me. It's Andy Sinclair, so before I forget him. Larissa.

Larissa Van Daventer

Thank you. Larissa Van Daventer from Barclays. Two questions. The first one, thank you very much for the information you gave us on the three times margin you get on bulks versus the pension fund flows that go out. With bulk volumes being elevated at the moment, can you give us a sense of how much of the outflows in the recent past have been pension fund outflows and how much of that has come back as bulk? We know it's about 10 billion coming back, but how much flows out and how you see that changing over the next three and a half years.

The second one is on the cost-income ratio. Thank you for the target. You're going for below 70 within the next three and a half years, but your 10-year historic average is actually 58. Beyond 2028, what would it take to gradually get back to that? Is that realistic expectation or has the world shifted so much that we should think in the 60s rather than in the 50s? Thank you.

António Simões

Thank you, Larissa. Maybe let me have a first go at it, and then I'll hand it over to you, Eric.

Jeff may have these numbers in his mind, but just doing the mathematics. If you think about the outflows of all the—I call it good cholesterol and bad cholesterol—some of these outflows are good cholesterol which is, they come to us.

We have roughly 20% to 25% market share. Those are the numbers, Larissa. If you think about it, the market in the UK is between 45 and 50 billion of PRT every year. You think of us as the largest LDI provider in the UK, in the largest market share of UK DB pension schemes. So when that comes to us, in a quarter of the cases, that's the good cholesterol. Obviously, when one of our competitors wins that PRT deal, that actually goes out. In some cases, the AUM that goes out is even higher because of the derivatives and how we look at that.

Jeff Davies

Which again will be a very low fee amount-

Eric Adler

It's low fee.

Jeff Davies

-Compared to what’s coming in, which is why it's three times on a deal.

António Simões

Then the only other thing on… That's on that. On cost to income, bear in mind that when the business was at that cost to income, it was a very different business. A lot of what Eric is doing, and indeed that we've been doing even before Eric's arrival, has been expanding into parts of the market that have higher cost to income.

This is the flip side of what we've just described as the very, very low revenue margin business, also has a really, really low cost to income. I don't see us getting into—actually, we were even lower than 58 at some point—that is not where the industry is now. A lot of the investments that we're doing, for instance, in private markets, they're much more profitable, but they have higher cost to income.

I've promised that by summer of 2027, I'll give you new targets for the following three years. For these three years, we're saying that we'll be below 70%, and of course, we'll update at every result. Do you want to say something on cost to income? You know the industry very well. You've been working for decades. You've been working in a part of the industry that has a higher cost of income, but much higher profitability rate.

Eric Adler

Maybe quickly, just because you ask the question, you talk about the outflows on the one hand. We're very focused on that business, and it's very driven by interest rates. We've been doing extremely well in a pretty negative interest rate environment. We'll see where that goes from now.

What's most important for us is we're working very closely with all of our clients on whatever journey they're going to take. If they do think they want to go to buyout, we're in there very early working with them to help, and that's just reinforcing that ability to create some of that into very good cholesterol, and that's why we have 80% retention-

António Simões

Eighty percent of the PRT, more than 80% comes from our asset management.

Eric Adler

It's from that. I feel that that dynamic is a winning dynamic for us in what is otherwise clearly a tailwind market that we're the leaders in, and we're committed to. On CIR, I agree. I think the world's changed a lot. When I think even about the ongoing investments, we will continue to invest in things like technology, automation, everything that can make us more efficient and reactive to serving our clients. That's what's winning mandates today.

I think that wasn't as critical as it was several years ago, and so that is cost-intensive. Ultimately, we're going to get under 70—we feel really good about that—the way to get to the bigger numbers is only through growth. If you really want to get to cost-income ratios that are going to matter, you can't pull it off from cost. The industry is now too complex. The most sophisticated investors, whether they're distribution channels or direct institutions, they want to do more and more with less GPs.

They are going to put… We're in a period of fee compression. Costs are already being looked at. We're being very disciplined. There's only so much you can do on that end. It's all about scale. That's why I think it is harder to get into those 50s, much harder. The only way to get there is to really be a leader. We're putting in place a business plan, we'll see where it goes in the long term, but the only way to get there is through the income.

António Simões

Thank you, Larissa. Compared to all of the other meetings that you have with other asset managers, we're in a stronger position because of where we start. We are the one asset manager that is increasing average revenue margin rather than seeing a decrease.

I'll come to you, Dom and Andrew, if there's questions here, but I'll go to the online—because there was a question from Andy Sinclair before I forget which is, "What's your long-term goal for asset management? Do you want to rival someone like BlackRock in the asset management space or Blackstone, Brookfield in the private assets infrastructure space? Or is this just about sticking to what you're already good at and doing it bigger and better." Eric?

Eric Adler

I think that's a really interesting question. What we've tried to lay out is, it's very hard to see. I don't really compare us to anyone because of the various untapped potential we have. We have an insurance balance sheet. We have the synergistic model we have between our retail and our institutional retirement businesses. We have the breadth of capabilities. We have the barbell. On any one of these statements I've made, you've already eliminated a lot of competition. When you start adding that up, I think we're pretty unique in many ways.

In an interesting way, we're already good, potentially, on a lot of things. The trick is, how do we put in place the discipline and the focus to maximize that? I really don't compare us to anybody. I think we have the potential to do a lot of things. Importantly, I mentioned it earlier because this is also a rarefied atmosphere across all of these capabilities, I can't think of a real weak investment performance link, because a lot of players when they do a lot of different things, there's always something that didn't really work out in a way that probably puts you in a bad spot for at least a long period of time with clients. We don't have any of that.

You add all that up… I think the trick for us is, how do we prioritise and sequence, because we can do a lot of things. We can do all of the above, and we have to do it in the way that makes most sense for us with our UK base, the capabilities we have, our DNA, our long-term client approach, our international footprint. So, feel great about it. The real challenge, again, we're not reinventing the wheel. We just have to put some discipline and prioritization into it because we can do a lot of things.

António Simões

It's a really good question, without quoting competitors–but I read a question–some of those have the barbell, some of those have the balance sheet, but we have the barbell, the scale, the balance sheet, and more than a quarter of the DC market. That's, I would say, pretty unique. Should we start here? Well, Dom, and then I'll come to Andrew. Dom, over there.

Dominic O'Mahony

Thank you. Dom O'Mahony, BNP Paribas, Exane. Thank you for the presentation. Three questions, as you'd expect. The first is strategy-

António Simões

You should say two next time, and if…

Dominic O'Mahony

Two and a half? It is actually two and a half. Strategy question. Your growth is going to be driven by the international side, and of course it's institutional international, or mainly institutional, I assume. How is the conversation with clients changing?

I'm thinking in particular about insurance clients, where you're having major regulatory change in some markets like in Asia, Japan. Some of the changes around the way that private assets, CLOs are treated in the US and Bermuda. Clearly, sovereignty to reform in Europe. Is that conversation changing, and how are you thinking about how you're orienting what you do to win in that changing game?

The second question is more of a numbers question. The balance sheet investments side, you're not looking for earnings growth. I might have guessed that it would grow. The balance sheet as a whole is growing a lot because of the retained earnings. You're reinvesting some of the disposals. Presumably, some of that will be captured within this segment. You've got the Pemberton business as well. What is offsetting that? Is it as simple as that actually more of the balance sheet earnings are coming in the other segments or something else?

Then just a super detailed question, this is my half question. Could you remind us what proportion of the 145 operating profit of the balance sheet earnings is the valuation uplift in asset management stakes? Thank you.

António Simões

Great. Why don't you, Jeff, take the second and the third? Then absolutely, Eric, you should take the "What are you seeing from clients?". Do you want to start there?

Eric Adler

I think the trick is, and we did put a lot of emphasis on international, we clearly want to grow that pie, but it's very important. That is while growing our UK position in absolute terms – our biggest right to win is here. We're the leader in DB, DC. We have all of these capabilities that many of them started here in a UK context on a distribution level.

When we think about some of the areas that we spoke about earlier that we're going to try to grow into more outside of the institutional space, we're already there in the UK. I really don't want the international to hide the importance of us maintaining and ideally growing our leadership position in a UK market so we think—and a lot of our competitors are very focused on—I think there's a lot of potential here going forward. Frankly, it's been a rough period of time for the UK. The structural potential here is huge. I just really want to make that clear.

Otherwise, internationally, we talked about some of the different channels. You mentioned insurance. The more it's complex for insurers in terms of their environment, the more we have a competitive advantage. We are an insurer, and we're an insurer in multiple parts of the world. You mentioned Bermuda, US. We now have this partnership with Meiji Yasuda, so some of those strengths are already playing out.

When they play out the most, it's when they like what we can do from an asset management standpoint, but also what we can bring from other parts of the business. That's the template of what we want to do. In many ways, any regulatory complexity will give us an edge. That's how we're looking at it.

António Simões

There is Meiji Yasuda, you mentioned it in your presentation, in a part of your presentation, Eric, which is, you think of Meiji, and interestingly, Dom—we're not talking about this now necessarily—but if you think about Japan as a market, Meiji Yasuda, we've had as a client for over a decade now. You think about insurance companies like them, they're investing $1 billion with us.

All of the discussions, and Jeff led a lot of the discussions with Meiji Yasuda, they like us because we're an insurance company. They like us because their actuaries talk to our actuaries and everybody's super… There is an element of… It's a serious point. There is a cultural affinity.

You saw the deal with Admiral. Us serving other insurance companies, it's a massive channel that we haven't actually tapped into. We can do that, as Eric says in the US, we can certainly use Bermuda much more than we've used in the past. Markets like Japan, they're a huge opportunity for us, particularly with a partner like Meiji Yasuda, which gives us lots of local credibility. Jeff, do you want to-

Jeff Davies

The balance sheet earnings. The overriding is that we've really just been conservative in what we've assumed there. We've taken a lower return, which means that the total balance sheet is still growing by 2028. The quantum and the 1.2 is bigger, but we've assumed a lower return on that and therefore a lower profit coming through. It is just hopefully upside when Eric and team work their magic on all the seed that we provide.

That then relates to the amount of… We've never given really the split of those. The vast, vast, vast majority of the assets are done on a through-the-cycle IRR assumption the same way as we do for active equities in the shareholder fund. Clearly, Pemberton has been performing well. That contributes most of the actual uplift on anything. That's the main asset that we would do on that basis. Before anyone asks, you can understand the valuation of Pemberton and what we're doing.

That is sensitive, especially to the other 60% shareholders around that. We do have to be a bit careful.

António Simões

There's one thing on the 1.2 billion, which is… Actually, Jeff made that point. The key point, and this is very different from before we merged the two bits of the business, the key deployment of that 1.2 billion is the seven times catalytic power that has on the fee side. When we had it within LGC, that wasn't the purpose. We were investing our own capital for the sake of our own capital, if you think about it that way.

Now, those capabilities that we're investing have a seven-time return when it comes to the party capital. That's where the real… That is growing at 9-15%, and that's an important part of it.

A lot of what is the rest of our balance sheet that's outside—that's like what Jeff leads a lot of that—so you mentioned corporate investment units, et cetera. None of that is happening within the asset management. That is separate. That is a separate part of our balance sheet. Thank you. Andrew.

Andrew Crean

It's Andrew Crean from Autonomous. Can I stick on this balance sheet investment issue? Could you tell us what proportion of the 1.2 billion is those valuation investments like Pemberton, and what are the profits? What you put in the P&L account is essentially a capitalized value, the growth in the capitalized value. What is the actual profits of those investments? I think Pemberton profits went down from 21 to 12 million last year. Not quite sure how all that works.

Then secondly, around that, you own 40% of Pemberton. Do you have an option, or has it expired, to buy the rest of the business in? One's a little bit worried when you're valuing these things on the growth in valuation, and you actually say that you think private credit assets are overvalued.

António Simões

I'll start answering that part, and then definitely Jeff should answer the valuation. You're right, we account for it as the valuation of Pemberton, we're very conservative. Jeff will say that in a moment.

In terms of the option, no, we don't have an option to go beyond the 40%. What we do have... We do not. We had it a long time ago. That is a strategic optionality that we don't have, but we are in a very different position with Pemberton. Think about when I was standing here a year ago—by the way, we didn't have that option a year ago either—but we were effectively a 40% owner, and we were basically an LP to Pemberton.

If you look at the Admiral example that we put up, that's a very different type of strategic partnership with Pemberton. We are now, together with Pemberton, serving a client like Admiral. That's the first time we're doing that. You could ask why we haven't done that before, but Sub-Investment Grade Credit, together with L&G Investment Grade Credit, going to a client and doing that together. That's a much more strategic value of the 40%. Do you want-

Eric Adler

Just very quickly, because I realised earlier in another example, I mentioned about our toppy market in privates, that is in my... Again, these are all judgments. In my judgment, that is a US phenomenon. It's not a European phenomenon. Europe feels that it's toppy, until they've spent time in the US. I can tell you right now, all of the US big private credit players are all over Europe because it feels like there's more, right now, value potential here.

That's a relative statement. We can all have our own opinions on what the absolutes are, but I want to make that clear. I think Pemberton's in a very advantageous, on a relative basis, part of the private space. It's also why we're so focused on more and more collaboration with them. We think there's a lot we can do where Admiral came from, frankly.

António Simões

We are like Pemberton and... Without stealing your thunder, Jeff, all of those valuations are transactional valuations. When we're talking about when many of our competitors went out and bought private credit, that is the premium that they're paying on an acquisition. The way we value it-

Jeff Davies

Is not like that.

António Simões

Good. Thank you. See, we finish each other's sentences.

Jeff Davies

We don't have 20 or 30 times multiples that we apply to these forward earnings. That's partly why it's quite sensitive, because we don't give credit to management for any new initiatives, nothing that has been launched, even if they've started raising some funds but haven't started to deploy, we don't give credit to that. We take a haircut on the more mature strategies that are already out in the market. Only when they show delivery, do we then increase our valuation on that. It is very conservative.

We do that that way. We do a discounted cash flow. We look at a multiple, it's always far less than that. It is really only Pemberton because we're not going to own the majority in NTR, so the accounting treatment is not relevant. It's really only Pemberton and a couple of small pieces of development land, some of which could actually be very valuable post-planning – deciding what we do with that.

Therefore, I can't tell you what proportion 1.2, because you'll know the answer for Pemberton plus a few bits and pieces, but it is much... The vast majority are on an IRR, 90%, but obviously in the years that Pemberton does well, you'll see that coming through. Where it isn't, then you get less of a valuation uplift.

António Simões

Thank you. Naseeb and... Sorry, go ahead.

Andrew Crean

Pemberton's earnings went down from 21 to 12, so how did the valuation go up?

Jeff Davies

Which year did they go down? Did the valuation go up? We did because we'd already had a haircut on what they'd done. They actually launched some new funds that actually moved it, so they'd moved forward dramatically. What happens in any individual year is obviously depends on cost and what they've deployed in that period of time, but I won't comment on the Pemberton earnings. I don't follow in detail.

António Simões

To reassure you, we are extremely conservative in the way we do the valuations of Pemberton. Thank you. Naseeb, and then I'll go to the other Andrew and then Andy Sinclair, another question, but I'll probably come first here. Naseeb.

Nasib Ahmed

Nasib Ahmed from UBS. Three quick questions. Firstly, on the double-digit revenue margin, do you have any expansion in the private market's margin within that from the 41 basis points to something higher, or is it just a mix shift from lower margin into private markets to get to the 10 basis points?

Secondly, everyone's talking about private markets. Consultants put out these projections on growth in private markets. Everyone's seen those. What makes you think that the margin from 41 basis points doesn't come down, given that everyone's chasing private markets?

Then finally, 25% of earnings are coming from asset management. I don't think you get to 50/50 by 2028. When do you to 50/50, if you've done the projection? Thanks.

António Simões

Ten basis points. How do we get there? Private markets, the compression. Why don't I take the last one, so you should take the first two, Eric. Look, we have signalled... We haven't told you what the number is. If you take this deep dive together with the institutional retirement deep dive, we have a lot of growth coming from PRT, and so it actually takes a while for the earnings to improve.

We believe there's a lot of upside from an asset management earnings perspective, but the mix, it takes a while for that mix to change. For a good reason, which is our PRT business continues to grow. I talked last time when I was here with Andrew about a golden year of PRT over the next 10 years. It's not in that immediate future that... It increases, but it doesn't increase in a material way.

I also don't want the objectives that I'm setting internally to be, that division needs to be X and this division needs to be Y, because I want them all to grow. That's what I'm saying, over time, L&G becomes more capital light and the fee earnings increases. Ten basis points and the compression on private markets.

Eric Adler

The simple answer is, we don't have to bake in fee expansion in the private side. We don't have to do that. As you see, when you look at the... I think we gave 10 examples of strategies that were already, and there's others behind the surface, there are other things we could do going forward.

I think that's, in many ways, our position and why we do feel we're very well positioned for this fee compression environment is that any one of those strategies, no matter where they find themselves on the 41% average spectrum, are accretive to us. We've built a very cost-efficient model, product by product. I think what we're doing is creating a lot of discipline in how to pull everything together in an efficient way, but because of the nature of our business, we are used to cost-efficient models.

The private space is particularly attractive for us because this is moving us up the revenue chain. We are obviously very attracted to markets as they stand, but as they do—and answering your other part of the question is—I do think as this sector becomes more democratized, you will, little by little, continue to see some fee compression around it.

For us, we're coming from a place that's just on another level from that. We're very well-equipped to deal with that, and we don't have to bake in fee expansion on the privates to get to these 10 basis point numbers.

António Simões

Nasib, I would see that as a competitive advantage. If you're an alternative asset manager who, by doing this, needs to keep on reducing their fees and compress their fees, versus ‘I'm at eight basis points, everything is upside’. Simplistically putting. The CEO of asset management can put this in a much better way.

Of course, we want to be very competitive and very profitable, but we have much more room to absorb from a fee compression perspective because of where we come from and the scale that we have. Andrew.

Andrew Baker

Hi. Thank you. Andrew Baker, Goldman Sachs. The first one, just clarification, please. The cumulative ANNR target, should we expect this to develop fairly linearly, or should we expect to be more back-end loaded? Then secondly, on your slide 52 again, curious that you didn't call out US PRT. Are you able to give us a sense of the flow expectations there and maybe also any indication on margin as well? Thank you.

António Simões

Thank you, Andrew. On 52, we did this on UK PRT alone, so it's just to be clear. We don't have the US PRT assumptions with that.

Jeff Davies

No, that's right. We haven't set targets. I mean, it was what, $2 billion last year. It was a record year. We obviously would like to keep continuing that. As would Meiji Yasuda, they very much have been pushing already for... We work together to continue to grow the volumes around that. We'd be looking to grow that over a five-year period, especially as they grow the balance sheet as well as they expand the business, maybe do more acquisitions, who knows? That would be a positive for us.

We do manage the vast majority of the assets for that business. We do use external, where they have other US skills, but as Eric and team grow capabilities in the US, we would look to take more on there. We use some specialists, but the vast majority is us – both treasuries, corporate credit, and investment-grade private credit that we do.

Eric Adler

Shall I do the ANNR? I'd say it a little differently. The targets aren't back-end loaded, but the potential has some back-end upside. What I mean by that is, all you have to do is look at one page, it's that private market its page. That is clearly, and we just talked about it with the previous question, the highest fees, therefore the highest ANNR generation potential for dollar… per pound, I still have to get used to saying pound instead of dollar, is very high on that page. There's a lot that we're just getting started on. As that kicks in, that's naturally going to fall to the bottom line, ANNR line.

We're looking at it as a... I wouldn't say it's linear, but we don't feel it's back-ended. If you really want to think about potential, as these things kick in, there is quite a bit of ANNR potential that by the nature of private markets, there is a bit of a lag. There is a J-curve in that space. As we move along that J-curve, there could be quite a bit of ANNR potential. That's how I look at it, versus saying back-end to target. I think that's how I think about it.

António Simões

If you think of linking the two points, for instance, with Meiji Yasuda—not only in PRT, we work with our own asset management and others—but we have in what is our US protection business, we then have an investment management agreement with Meiji Yasuda that they will continue – The entity that they've bought, they will continue – to use us as the asset manager, and they've committed the ¥150 billion, which are not yet deployed.

Back to the point about... We have all these strategic partnerships, all these things that we put on those slides earlier, they will continue to grow from an ANNR perspective. Completely agree with

Eric that there's more upside as we continue to grow. Thank you, Andrew. I'll come to Tom, and there's another question from Andy Sinclair online, but I'll go first to Tom.

Thomas Bateman

Hi, good afternoon. Thomas Bateman from Mediobanca. On the 15% DC allocation to private markets, could you just talk us through the mechanics of how that works? Can you automatically just shift 15% into that default, into the private markets' allocation, or is that something that happens over time and the fees gradually pick up from there?

Then the second question is just on the deployment of capital. I think you talked about affordable housing, I think it was 500 million you said, I might have got that number wrong – but how easy are you finding to deploy that capital? Similarly, on the private market space, how does the demand reflect your ability to go and put that capital into the market?

António Simões

Why don't you answer the second? Let me just take the first one on the allocations. This is what's aligned with all the Mansion House Accord and before that, the Mansion House compact. We were the first player to have, not an LTAF, many other players have an LTAF, but to have one where the default allocation has the 15% to private markets access fund.

Now, to go into the technicalities of that, in some contracts, we actually have moved the default already, and that's why we have the 1 billion. Those are where we have the contractual arrangements, where we've moved them to the default. We have the largest master trust in the UK. In the case of the master trust, and many of our very large clients, they are where the trustees themselves then need to take decisions scheme by scheme.

You can see again, back to the previous question, there's a further upside, and the one billion, in that case, doesn't grow linearly. It grows exponentially because more and more of the trustees, this is why making a comment on the politics or how we've done this externally, we and 90-plus percent of the industry have signed to the Mansion House Accord, but it's the clients themselves that need to decide, obviously, that they want to be in those strategies.

Now, the good news is that many of our clients have already decided that they want the private markets access fund. To be honest, if you are a cashier in a large supermarket or a partner in a professional services firm, what we are providing is incredible value because 85% of it is large scale, mostly index passive, and 15% is at very low fees, you have access to that illiquidity premium.

This is a great solution for the savers, and it's better for us, but it needs to be done scheme by scheme when the trustees themselves. That's why the Mansion House Accord is a positive thing, because we're encouraging the employees themselves, the employers themselves, to move and the trustees to move in that direction.

You can expect the 1 billion of the first, not even a year, we announced that in July, so a billion in less than a year to then grow as this starts to be adopted by more employers. Do you want to answer the other question? Affordable housing, how is it private market?

Eric Adler

Absolutely. In many ways, one of the things that's really important is to be able to do multiple things. I said it earlier, these are high barrier to entry markets. When there's volatility, often price discovery takes longer in private markets than public, so they're lumpy. That's the way they are. That's why it's important to have geographic spread and different strategies that you're capable of doing up and down the risk spectrum. That's the key to our business, because we will have moments where certain strategies are tougher.

Affordable housing is a classic one where it is hard—and this is a global, I spent a lot of time on it in the US—it's chunky because it's very linked to supply. There's a lot of being done in the UK to unlock some of that supply, but we will have lumpiness to it. The good news is the affordable housing fund happens to be in place where we are best in class. Even in a period where it has been hard to source residential assets generally—and I don't have the split between each, we have different strategies—but we did a billion pounds of transactions in the last 12 months.

This is a low point in the UK real estate market. I feel like things like affordable housing, as deals unlock, we're going to be right there and get our fair share of those deals as they come out. I feel really good about the overall growth, and what we're building is a platform where I don't have to be worried about the pipeline for the next three months or six months.

That is the key to privates, and that's why this diversification and ability to do multiple things is so important to hitting our 85 billion target with a bit of a lower risk on the outcome. I'm feeling confident because of this diversity, but that said, this is a notoriously hard market at times to get volume in. It happens to be a place where we're a leader, so I feel really good about it.

António Simões

Also, Tom, this is a great example. Actually, great question to finish in. If anybody has a second question, I'll come also to the question from Andy online. This wouldn't have happened without the merger of LGIM and LGC.

Come back to we're a leader in affordable housing. We've been a leader in real estate since the 1970s, and we've been investing for more than 50 years in the UK. Affordable housing, historically, we've led affordable housing mostly for our own balance sheet. That leadership position has been mostly for our own annuity book.

What we've now done since last year is actually distributed affordable housing to third parties, to have co-investment into our affordable housing platform. That is this strategy in action. That's the big change that we did, is more third-party money coming into key asset classes where we've historically done it for ourselves.

Jeff, I think the one online is for you. From Andy Sinclair, "What have you assumed for market returns?" Nobody asked this question. What have you assumed for market returns over the target period? That's that chart where we have market returns, investment, and ANNR.

Jeff Davies

Eric tells me it'd be 15% plus. Hold him to that.

Eric Adler

I did not say that.

António Simões

That's not what we assume. That's outside. Let me be clear.

Jeff Davies

No, we've been very conservative in it. Actually, what we've done is we looked at a range of scenarios at the low-end. Whether it's 3%, 4%, 5%, 6%, we're confident we can hit our targets around that. What really matters around this is that we manage the cost inflation in line with what the market is allowing you to do. That's the discipline that we brought in. That's very much the way we were looking to run the business.

However that plays out, in a low range like that, we are confident we can manage the costs, we can deliver and still invest in the business because we're keeping that BAU underlying cost low to give us the flexibility. Obviously, anything in excess of that will give us much more flexibility. Eric still doesn't think he'll need to invest the money, but clearly it will certainly help. It'll either flow through to the bottom line or we'll invest for future growth if it's justified.

António Simões

Thank you. Any other questions? If not, thank you. Thank you for coming today. Thank you for your questions as well. As you've heard, we have an exciting vision for the future of asset management. You can feel it in what I'm saying, what Eric is saying, how Jeff is describing it. We have good momentum on delivering that strategy. We talked a bit about flows in the beginning of 2025 and how we're feeling about the business right now. I look forward to seeing you again in August for our half-year results, and then later in the year, for our deep dive in our Retail business with Laura. Thank you.