

➤ CONVENIENT LIES,
INCONVENIENT TRUTHS,
AND "MONETARY
METHADONE".

A BUSINESS WITH A SOCIAL PURPOSE

GOLDMAN SACHS CONFERENCE

NIGEL WILSON, 11 JUNE 2013

EVERY
DAY
MATTERS



FINANCIAL HIGHLIGHTS.

Full Year 2012: Growing Earnings, Growing Distribution

- Earnings per share up 12% to 13.90p
- Full year dividend up 20% to 7.65p per share
- IFRS return on equity 15.5%

Q1 2013: Strong Growth in All Areas

- Operational cash up 13%, net cash up 19%
- LGIM AUM up 9% to £441bn
LGIM gross inflows up 81% to £13.6bn
- Record Individual Annuity premiums up 51% to £406m
Bulk Purchase Annuity premiums £357m

MACRO TRENDS POWERING L&G GROWTH.

Homogenous asset markets → **LGIM International**

Ageing populations → **Retirement Solutions**

'On the Go' lifestyles → **Digital Solutions**

Welfare Reforms → **Protection**

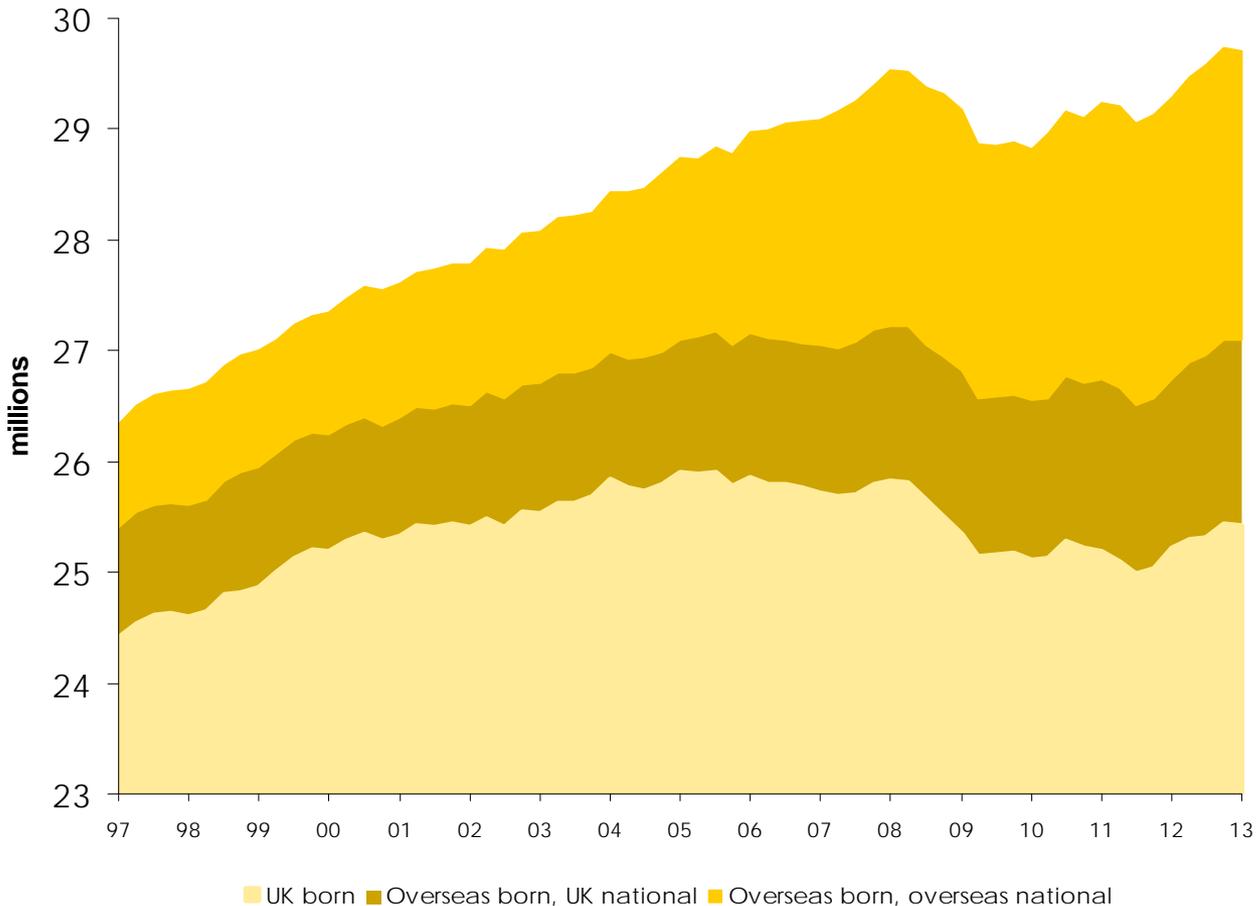
Retrenching banks → **Direct investments**

ECONOMIC AUSTERITY LEADS TO POLITICAL UNEMPLOYMENT.

	Pre 2010	2012 		2014
Sarkozy	55%	35%	34% Exit	
Hollande		Elected 51%	30%	2014 Euro elections. 29% approval rating
Obama	65%	50%	Re-elected	Senate and House of Representatives elections. 52% approval rating
Merkel	60%	63%	60%	Sept 2013 Fed elections. 60% approval rating
Abe	30% Resigns 2007	76% Elected		70% approval rating
Cameron	54%	36%	28%	2014 Euro Elections. GE May 2015 32% approval rating

Austerity casualties: Zapatero, Berlusconi, Papandreou, Monti, Papademos, Cowen, Sócrates

UK EMPLOYMENT AT NEW HIGHS.



1. Employment “surprised” on the upside
2. Labour mobility and flexibility

L&G: A SIMPLE BUSINESS IN A COMPLEX WORLD.....

- **“Club A” countries**
 - Low growth but control of currency/interest rates
 - UK, US, Japan, Germany?
- **“Club B” countries**
 - Fiscally bankrupt, high unemployment, lack of solutions
 - Spain, Greece, Cyprus....
- **“Club C” countries**
 - Growth economies: 7% growth for 10 years doubles size of these
 - China, India, Indonesia....



Concerns about...

2012:

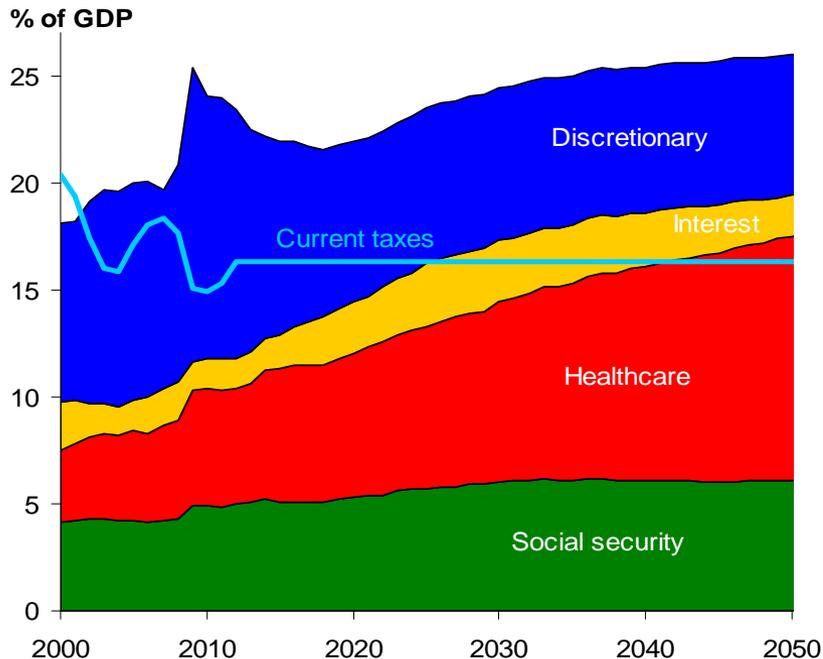
- US fiscal cliff
- Chinese ‘hard landing’
- Euro recession

2013:

- Japanese massive monetary expansion
- US taper and/or exit from QE
- Social and political unrest in Europe
- German and ECB position post the September elections

WELFARE EXPECTATIONS. CROWDING OUT WHEN WE NEED TO LEAN IN

US government spending v revenue



Source: Congressional Budget Office, Citi research

UK public sector expenditure on services

	2007-08 (£bn)	2011-12 (£bn)	% change
Pensions	99	127	28
Welfare	90	115	28
Health	102	121	19
Education	79	92	16
Total	370	455	23
Total Expenditure	583	695	19

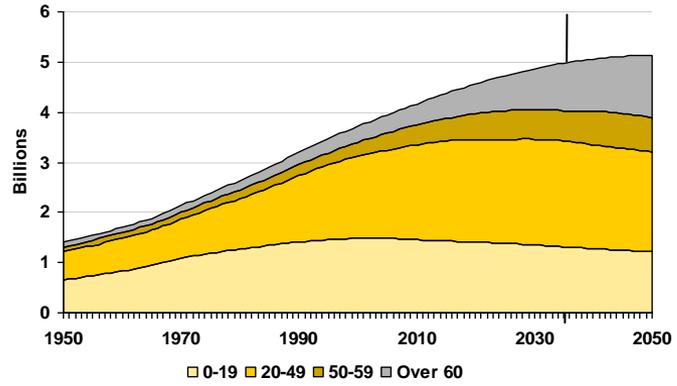
Source: HM Treasury - Public Expenditure, Statistical Analyses 2012

LONG TERM DEMOGRAPHIC TRENDS ARE FAVOURABLE FOR L&G.

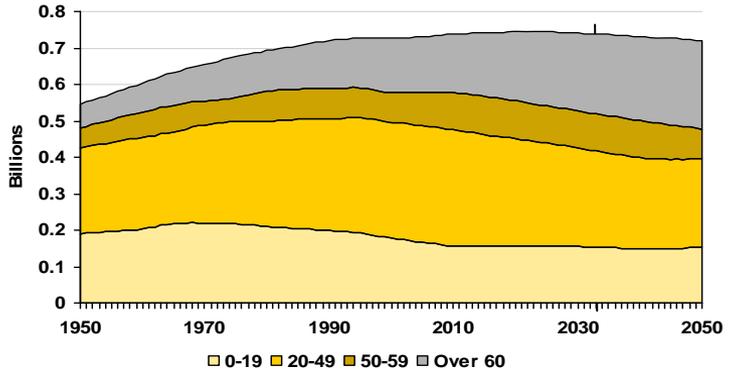
“The world is becoming grey. Over 60s rising from 600 million to 2 billion by 2050”

WORLD POPULATION GROWTH 1950-2050

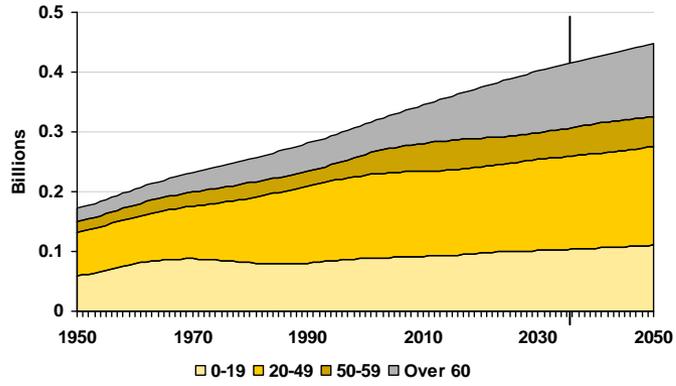
ASIA



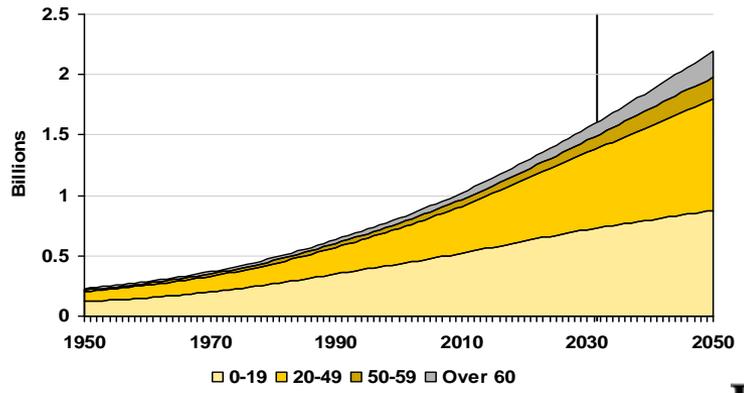
EUROPE



NORTH AMERICA



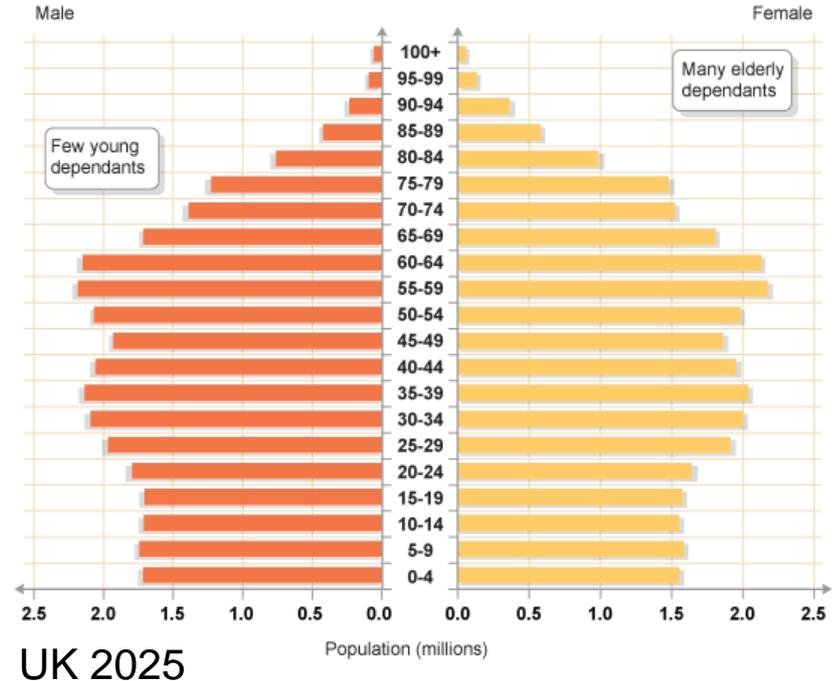
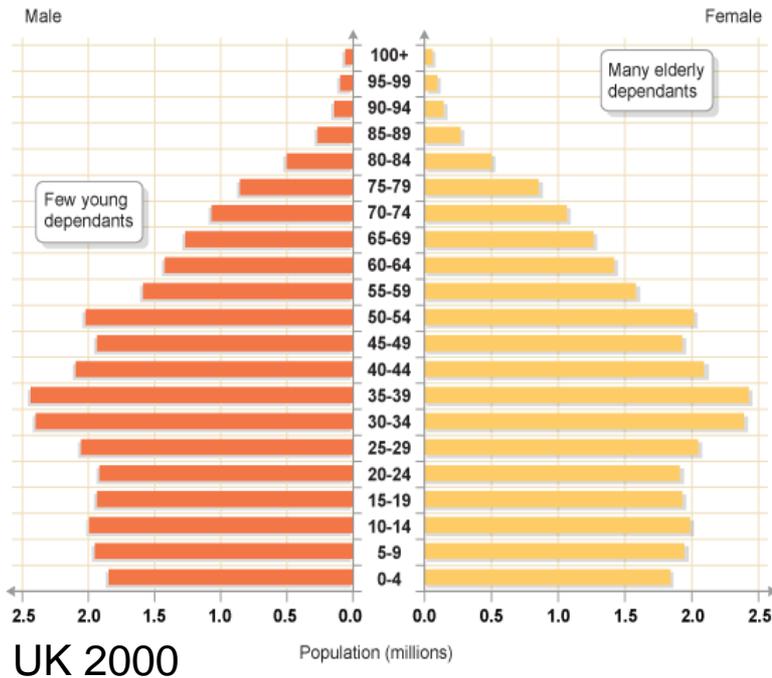
AFRICA



Source: United Nations Population Division, 2010 projections. Total projected world population in 2050 is 9.3 billion.



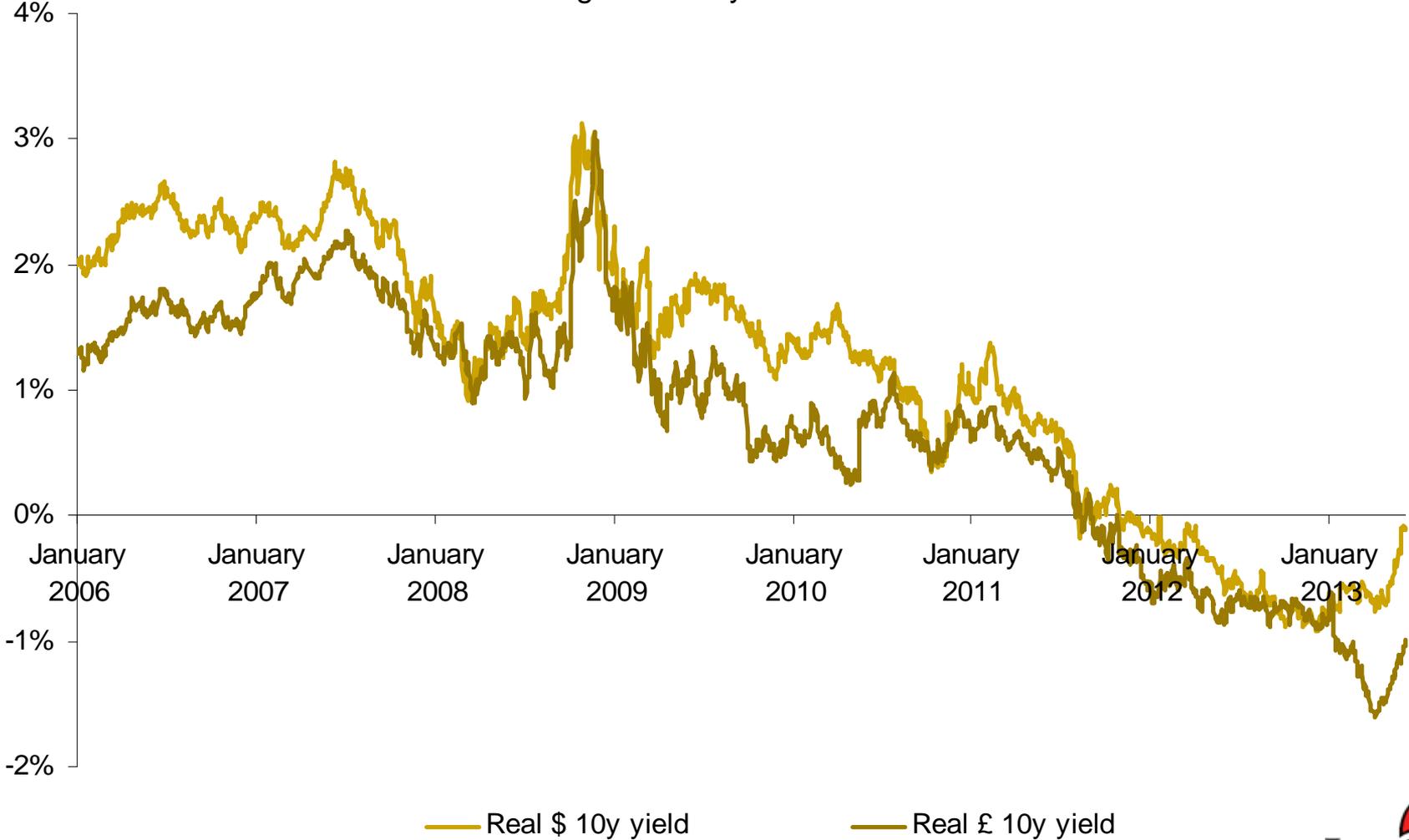
FALLING UK DEPENDENCY RATIOS BOOST NEED FOR RETIREMENT SOLUTIONS.



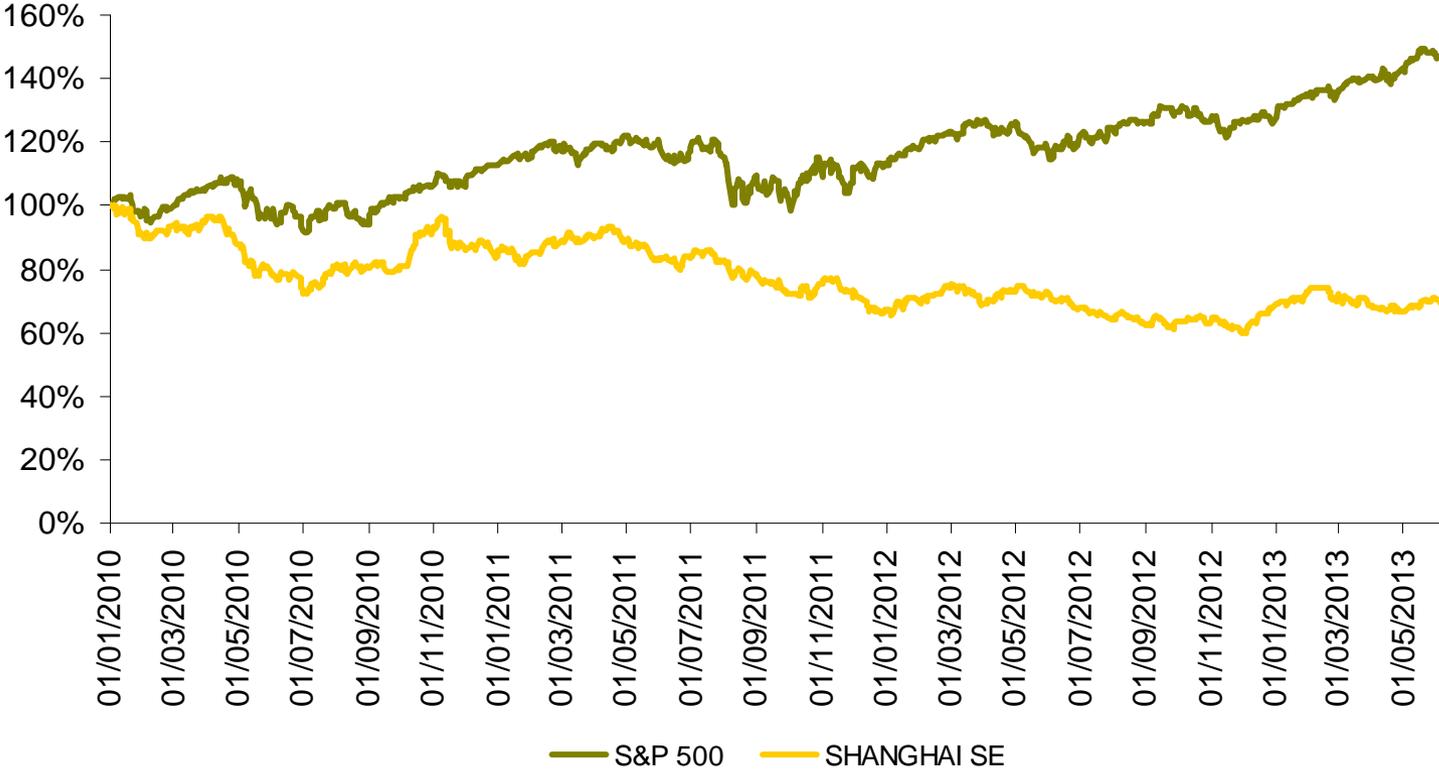
Dependency Ratio	1950	2030 (Est)
Japan	12.2	1.8
Germany	7.1	2.1
Italy	8.0	2.3
France	5.8	2.4
UK	5.9	2.9
US	8.1	3.0

SOVEREIGN DEBT IS AN ASSET BUBBLE.

Negative real yields



S&P 500 V SHANGHAI STOCK EXCHANGE.



Source: Datastream



3 SCENARIOS FOR QE.

1. Optimists – “Bernanke”

- QE has prevented negative output gap and deflation
- It can be slowly withdrawn when private sector deleveraging finishes
- Rates then rise gradually, inflation remains steady
- Positive supply shocks necessary e.g. shale gas

2. Middle Way – “The Rational Economist”

- QE will feed inflation back into the system
- Inflation will be tolerated as re-leveraging drives a short recovery
- Eventually rates have to rise, triggering second dip

3. Pessimists – “Southern European Politician”

- Deleveraging is deflationary, QE just inflates asset prices
- Stopping QE is impossible as asset prices and growth fall
- Financial repression keeps yields low until public confidence collapses

The captive creditor issue
Substantial increase in inequality

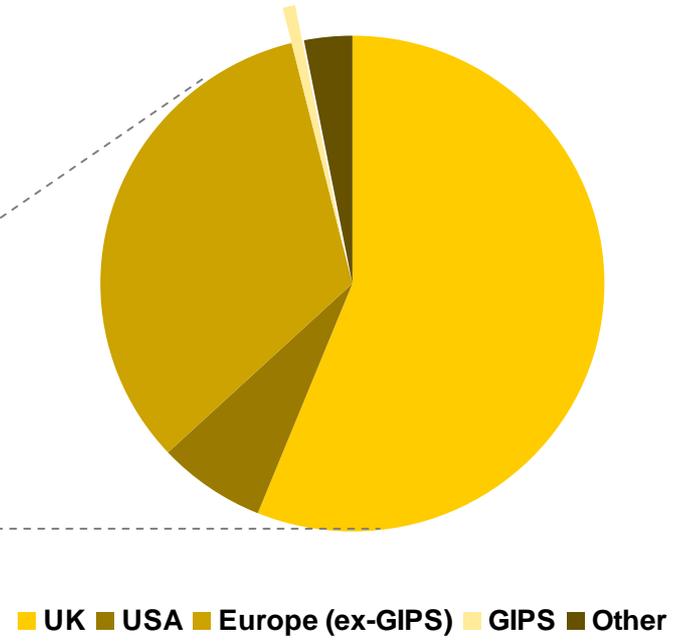
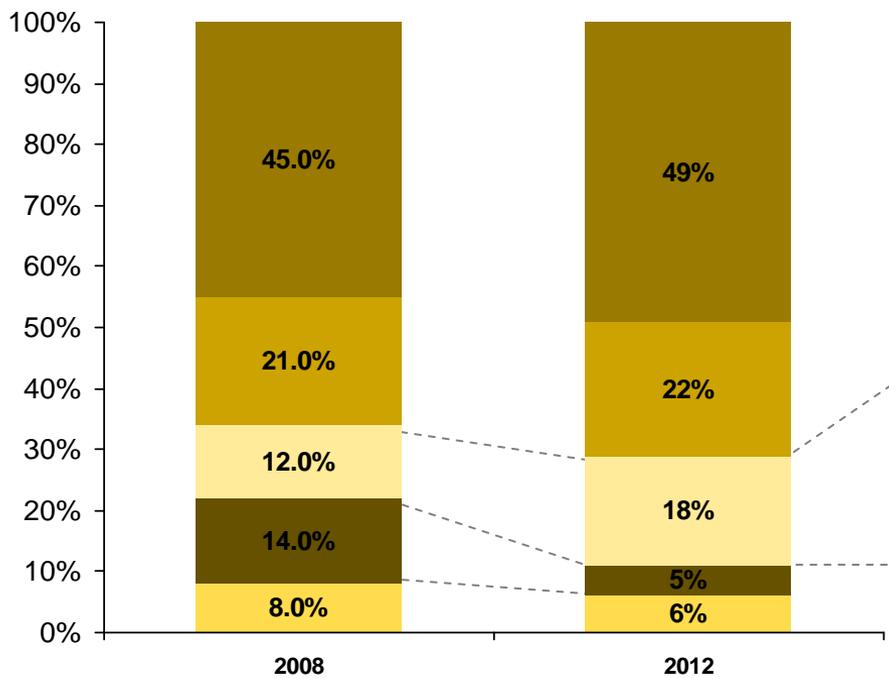
THE QE GLIDE PATH – A SERIES OF NUDGES.

Actions	Progress and Timing
Nudge back and then curtail large scale asset purchases	Recent Fed speakers have suggested tapering of asset purchases in the autumn and end QE early 2014
Stop reinvestments of agency Mortgage Backed Securities (MBS) principal and the rollover of Treasury Securities holdings	Late 2014 / early 2015
Nudge up forward interest rate guidance	2015
Drain reserves	2015
Nudge up short term interest rates once housing market “recovers”	2015 at the earliest
Sell trophy assets (real estate, gold)	Perhaps never / automatic run-off

L&G BALANCE SHEET MANAGEMENT.

Sector Exposure - L&G Total Debt Portfolio

Sovereign Exposure - L&G Total Debt Portfolio 2012 (%)



- Banks-Senior
- Banks - Subordinate
- Sovereigns
- ABS & Structured Credit
- Corporate



INVESTMENT DISCIPLINE.

“We seek economically attractive global opportunities, where we have management expertise, subject to statutory capital affordability.”

FORWARD LOOKING	Extensive LGIM resources	LGIM: 6 economists, 20 person strategic risk team, plus a large pool of investment analysts
	External Inputs	Industry standard Algorithmics software covering in excess of £350bn assets
	Prospective risk analysis	500,000 simulations and theme based scenario analysis
ACTIVELY REVIEWED	Regular review	Strategic asset allocation process with monthly reviews and second line challenge
	Bespoke mandates	Mandates uniquely aligned to business objectives; few ‘market benchmarks’
	Broad challenge	Inputs from Asset Liability Committee, Chief Risk Officer, Group Treasury and Investments, business units
TIGHTLY MANAGED	Clear hedge objectives	Low risk appetite for interest rate, inflation and currency risk across the Group
	Simple liabilities	Virtually no un-hedgeable options or minimal reinvestment risk in products
	Tight limits	Limited IGD sensitivity to interest rates, inflation and currency

POLICY GOALS AND APPROACHES.

- **Productive use of ‘trapped liquidity’ and unproductive assets**
 - Corporate cash surpluses, illiquid assets (e.g. housing)
 - Long-term equity culture
- **Facilitate investment**
 - Infrastructure (physical, digital)
 - Grow savings/investments via incentivisation/compulsion (e.g. Australia)
 - Regulation that reflects reality
 - SME’s via aggregation/securitisation
- **Fiscal consolidation vital to cope with debt and demographics**
 - Risk sharing (pensions, long-term care, protection)
 - Fairer, better incentives via tax: long term savings for government
 - Later retirement; a process not a ‘cliff’
 - Consistent accumulation and decumulation approach, with advice
 - Tackle “horizontal” and intergenerational fairness
- **A more resilient society via insurance**
 - Premium-based, not tax and spend

DIRECT INVESTMENTS - HOUSING.



- National Football Centre, St George's Park at Burton-on-Trent



- £116m accommodation project in Clapham for Imperial College



- Sentinel Housing, private placement
- Sentinel is a registered social housing provider in Hampshire



- University of Hertfordshire student accommodation project
- £145m infrastructure debt and equity investment for a 50 year concession period



- Unite Group
- £121m, 10-year facility



The Hyde Group
Making a lasting difference

- Hyde Housing Group
- £102m, 15-year facility



- Purchased alongside private equity
- Landbank of 9,900 plots

Banking austerity has expanded opportunity
Ready to play a bigger role in funding economic and social development



TRANSPORT AND INFRASTRUCTURE INVESTMENT.



- Tesco distribution hub at Reading



- Solaris direct debt investment
- Financing of 4 operational UK ground mounted solar parks



- Gatwick Airport, bond investment
- Gatwick has performed well during the recession



- Exchequer Partnership, bond investment
- PFI construction and maintenance of offices for HM Treasury at 1 Horse Guard's Road



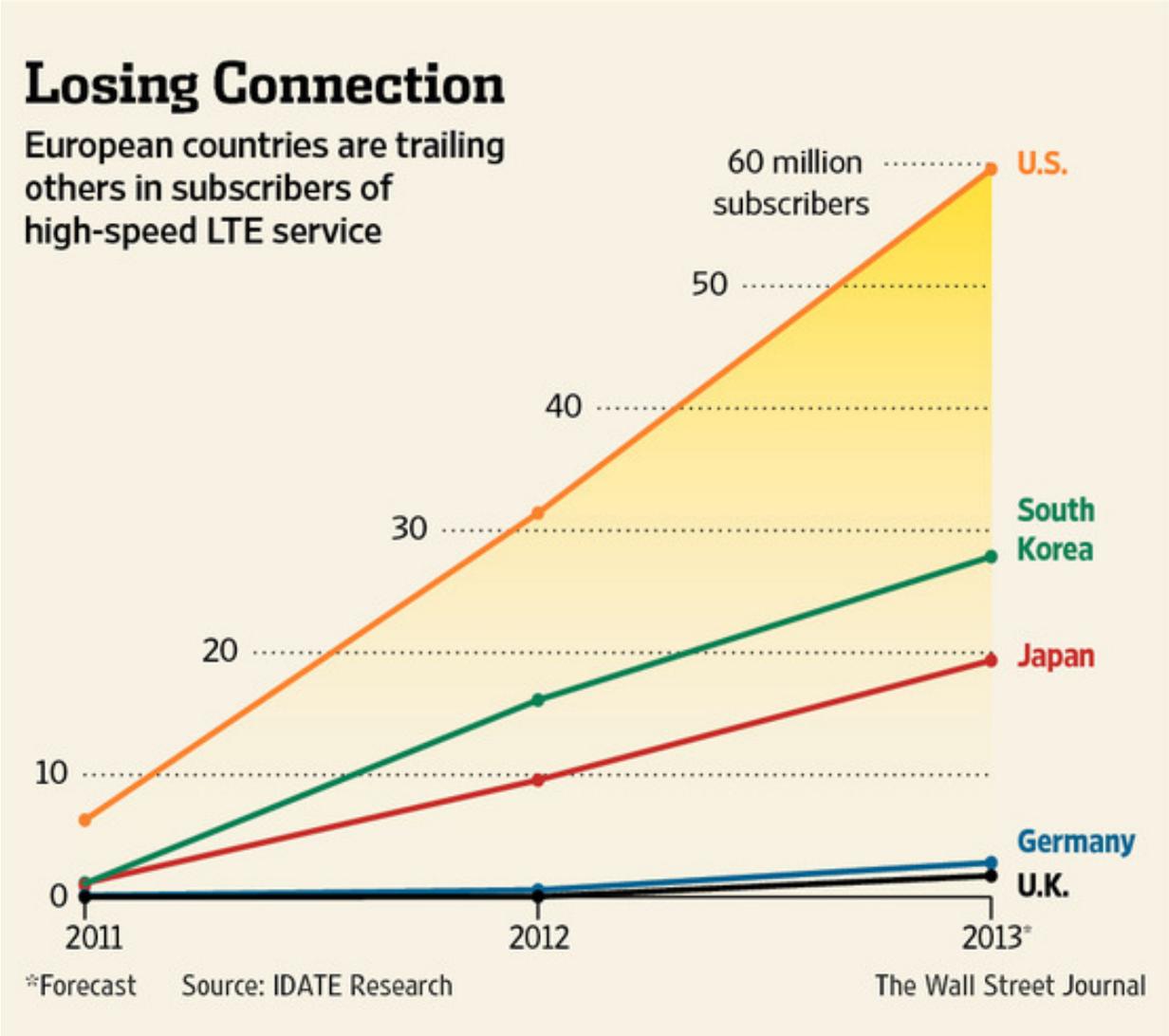
- Severn River Crossing, bond investment
- Like other early PFI transactions the Severn River Crossing was financed by institutions



- Alpha Schools Project, bond investment
- Construction, operation and maintenance of 11 PFI schools in the Highlands of Scotland



GLOBAL BATTLE FOR CONNECTIVITY.



QUIXOTE PROJECTS v REAL PROJECTS.

High Speed Rail, £35bn cost



CALA



Nascot Grange, Watford

Wind Farms, £3.2bn cost



Bracknell Redevelopment



LGIM Property

Airport in the Estuary, £50bn cost



UK Shale Gas

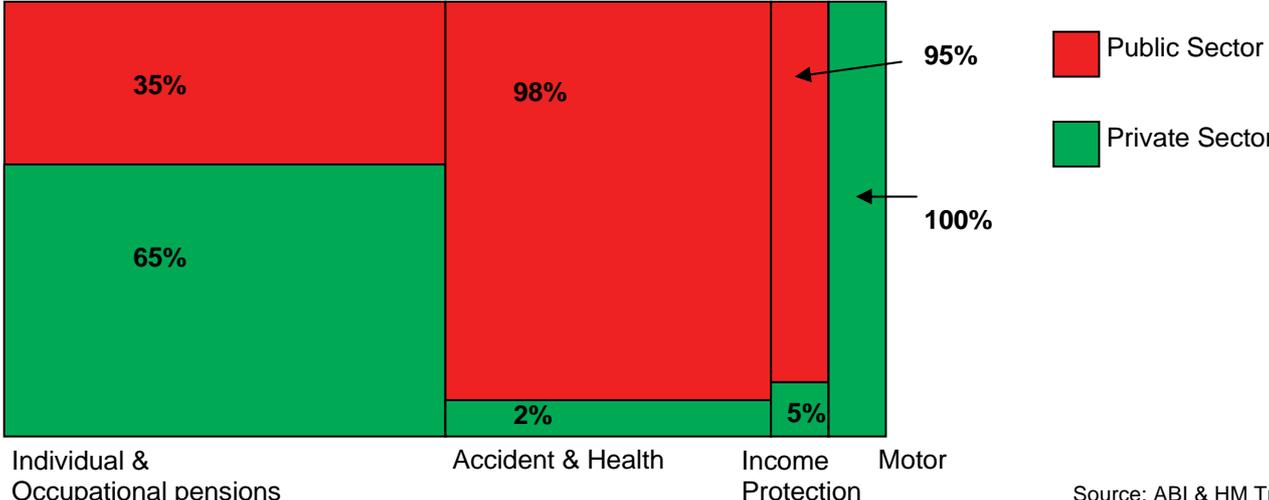


BGS, 2010

RISK SHARING: TIME FOR A 'NEW BEVERIDGE' APPROACH.

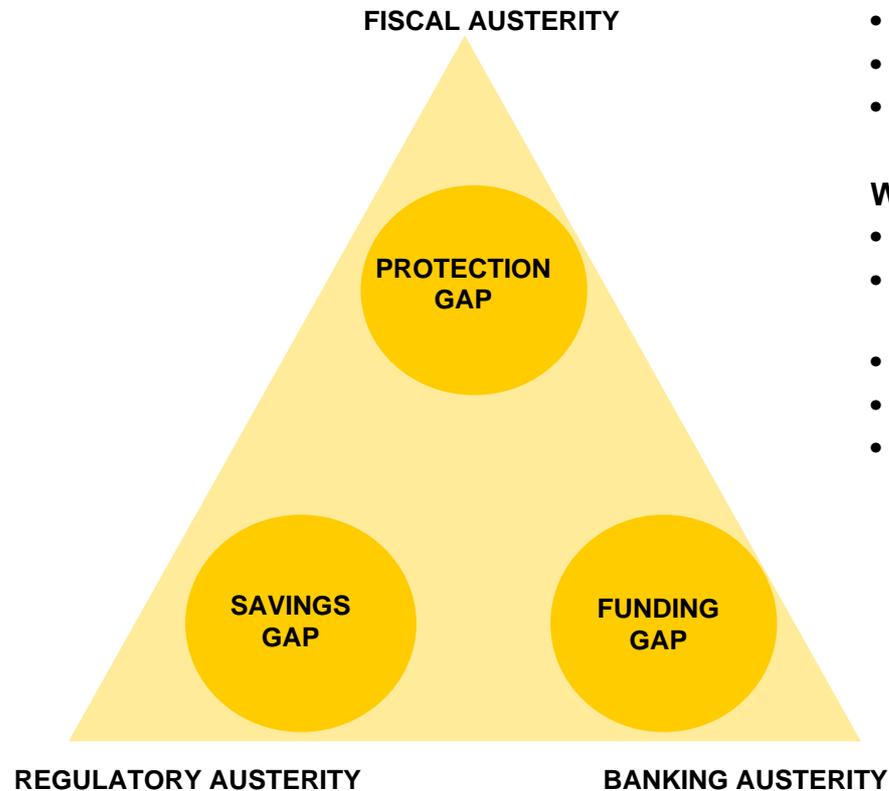
1942: 5 Giants – “Want, Disease, Ignorance, Squalor, Idleness”
“must be achieved by co-operation between the state and the individual”
Compulsion via National Insurance and Contributory benefits, but....
“should not stifle incentive, opportunity, responsibility, leaving room and encouragement for voluntary action by each individual to provide more than the national minimum.”

2013: State pension plus auto-enrolment in Defined Contribution
Unemployment benefits plus Income Protection (Individual or via Employer)
Disability Benefits/Statutory Sick Pay plus Group Protection



Source: ABI & HM Treasury Public Expenditure Statistical Analyses and Deloitte calculations

THE 'TRIANGLE OF AUSTERITY'. CREATES OPPORTUNITIES



The 'Triangle of Austerity' is caused by:

- Fiscal austerity: government finances under pressure
- Banking austerity: deleveraging reduces lending
- Regulatory austerity: policy forces 'risk off'

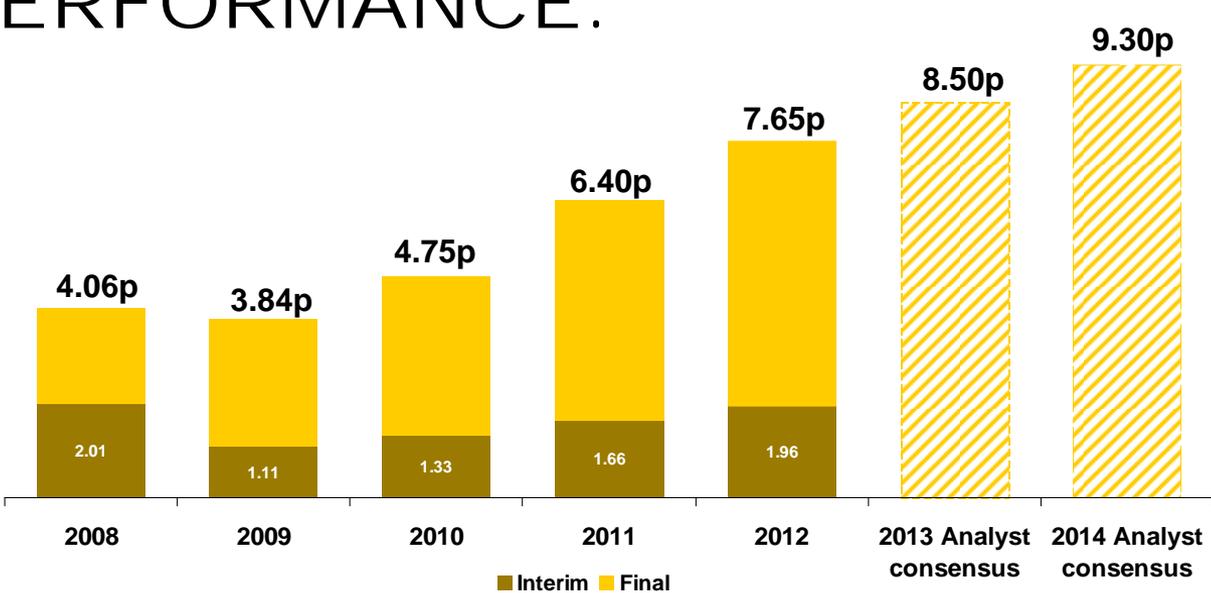
We are well positioned because:

- Protection steps in where government cuts welfare
- Leading auto-enrolment and RDR solutions to gain from policy incentives for long-term saving
- Leading DB pension de-risking solutions for corporates
- Funds available to replace bank financing
- Strong balance sheet: no need for regulatory deleveraging

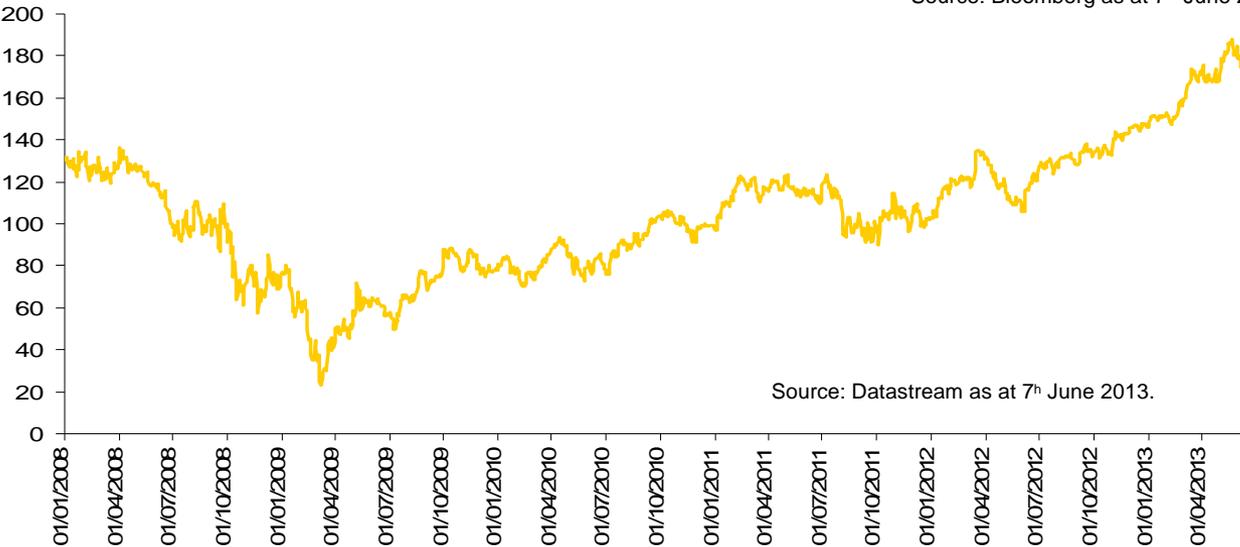


As a provider of protection, savings and investment management, with multi-billions of capital resource, we are uniquely positioned to address the three gaps exposed by the 'triangle of austerity'

SHARE PRICE AND DIVIDEND PERFORMANCE.



Source: Bloomberg as at 7th June 2013.



Source: Datastream as at 7th June 2013.

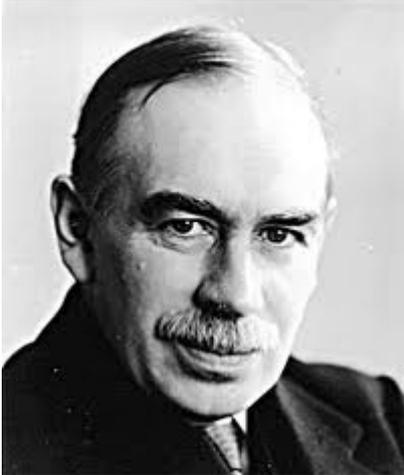


SUMMARY

- Macro trends create opportunities for growth
- 5 strategic responses:
 LGIM International
 Retirement Solutions
 Digital Solutions
 Protection
 Direct Investments
- Growing organically
- Disciplined Bolt-on acquisitions
- Strong, consistent cash generation
- Growing earnings



ECONOMIC TITANS.



Keynes



Beveridge



Bevan

TITANS OF INNOVATION.



Jobs



Gates

