Legal & General CMD 2024 – Q&A

12th June 2024

António Simões:

Great. I think I'm going to start as I did last time, right to left. So hold on with me there. I'm going to start Farooq there first, please say your name and if you can keep to the usual three questions without 1B, 1C, 1D. I think so.

Farooq Hanif, Analyst – JPMorgan Chase & Co

Thank you very much. I'll try and behave.

António Simões:

Yes, thank you.

Farooq Hanif, Analyst – JPMorgan Chase & Co

Farooq Hanif from JP Morgan. Just starting on asset management. It seems like you've been investing in that for a very long time. People have been complaining about the cost income ratio. So when will it ever end, I guess is the question, because obviously I think you're guiding towards a slightly increase in cost income ratio. Most people expect that to have been coming down by now. So when will it end? And why not just buy stuff instead to get that capability? So what's the kind of relative risk reward in that?

António Simões:

Yeah.

Farooq Hanif, Analyst – JPMorgan Chase & Co

I guess secondly, understanding CALACALA, let's say you did sell it. I get that the capital release might be low, but the cash amount that you'll have will be a lot. Even if you invested that in gilts, you'd probably get 40 to 50 million earnings. So is the idea that Corporate Investment unit profits essentially transfer into operating profits? So we just need to be clear that they can become part of core because you'll reinvest that money somehow or give it back. And I guess my third question is on being a capital light business. So is that just the transformation into asset management or do you think you can get more capital light in PRT? So I guess the question is the ambition to use funded re going forward? Thank you.

António Simões:

Great, thank you, Farooq. So I'll start with Asset Management. I'll mention something on CALA and maybe Jeff, you can add a bit on that. And I'll also address capital light. So thank you for sticking to the three questions. So Asset Management, I think if we step back what I've said during the presentation, and hopefully you got that from my tone and enthusiasm, we are very excited with the plans that we're putting forward in Asset Management. And it's a growth strategy. We believe that we have the right to win in the selected areas of Asset Management that we have focused on. So the overall strategy we're announcing today is a growth strategy. In order to grow, we are investing. And to be clear, you saw that slide earlier where I had these three buckets. And maybe let me explain that a bit better. In terms of having a scalable platform, this is something that Michelle and the team have been working on for a while.

António Simões:

I mentioned that the partnership with State Street we delivered successfully in January, the first phase of that project. So a lot of that investment has been done already, Farooq, is already done. But there is an investment that is about the scalability of the platform. And I'm thankful that the team has done a great job fixing those things and putting us in a good position because probably there was under-investment before that, and we've been catching up. The second bucket, which is where I gave the guidance on the 50 to 100 million per annum. And that will change. I just wanted to give you a sense that it's a manageable amount in investment for the size of L&G. That investment is exclusively on growth. That's about capabilities, that's about distribution. I talked about the 40% of AUM that's already international. And so that return and that growth has the same capital discipline of all the other investments we're doing.

António Simões:

So the investments in Institutional Retirement and Retail. So it needs to meet our hurdles and you will see those revenues come through. As you know well in Asset Management it'll take some time to come through. And that's why I'm saying that, and this is an important word, you should expect modest, modest cost increases and therefore an initial modest increase in the cost to income as it then comes down because revenues start to come up and compound. And your final point on that, is it better to acquire things? So when Jeff talked about the capital allocation framework in that slide, we've said because we wanted to cover everything conceptually, our strategy is an organic growth strategy, but we would be open to look at bolt-on acquisitions and the stress there is bolt-on acquisitions, that will be by definition, small acquisitions. And I think you're right Farooq, that it's almost like an alternative to hiring people.

António Simões:

Instead of hiring a team, we would do an acquisition. And the advantage there, by the way, is that then the track record of that team comes with them as well. So we are looking at that, but again, they're bolt-ons and they're limited. So that's the Asset Management point. In terms of CALA, I suspect I may get a couple of comments on this and questions. So let me be again explicit about this. We have been very transparent about the fact that CALA is not strategic, but that does not mean that we are in any rush to sell or to maximize value is the important objective here. And therefore I said I'm very open-minded about retention or sale as the best way to maximize value for shareholders. The impact of that, Jeff, you may want to add, Jeff mentioned that there's a capital implication, which is very small, low single digit from a coverage ratio.

António Simões:

You talked about 100 million. And what we would do at that time, and this is now true for all of our disposals, at that time, when we do any of the disposals, we take the proceeds of that through our capital location framework. So what I can guarantee you today is we have a very disciplined capital location framework. Any disposal, to use your word, would be recycled that way into the capital location framework. And if we have growth opportunities that are well ahead of our hurdle, we would pursue those. If not, we would return that to shareholders. And that's how we think about any of our disposals.

Jeff Davies:

Yeah. There's nothing to add to that.

António Simões:

Thank you. I sort of went on kind of thing. Thank you. So in terms of capital light, I think that's probably a simple answer which is we will grow. And this is important also because of the numbers that we're talking about in Asset Management. Asset Management has an advantage and a disadvantage as a business. The advantage is that it compounds over time. Right? So we have the 1.2 trillion, it keeps on growing and then we keep on having the fees as long as we do a good job for our clients and keep those mandates and keeps on compounding. So it takes longer.

António Simões:

But by the time we get to 2028, and of course we have estimated our numbers beyond 2028, right? So we're showing you the five year numbers, but we've looked at how this compounds over time, that business becomes a bigger and bigger and bigger portion of the overall business. PRT has many years to come and as you know, the store of future profit then delivers reliable earnings stream even after we stop writing big amounts of PRT. So that's the reason why it will take time. That's the only thing why that ratio. You may want to talk about funded re, which is the final point.

Jeff Davies:

Yeah, and I think you were talking about really the strain number. Where do we think we can go on that? We've kept it the same. That number varies. We can't predict the level of competition in the market. We can't predict where spreads will be, our asset sourcing, where we'll be on reinsurance pricing more broadly and funded re, but we will optimize to the strain for the reward that we're getting at any point in time. And actually, interestingly, we won't look at it as a volume target. We'll look to optimize that amount of profit that we're making from writing the transactions. So we'll be very disciplined on that, and that's the only reason we'll deploy that capital. So we can't say today we'll definitely be driving that strain lower, but we'll absolutely be working to do that with a combination of all of those assets, sourcing, pricing, and obviously use of funded appropriately.

António Simões:

So yes, that will manage strain. The overall message of a capital light business is not about funded re is about the mix between asset management and the PRT business fundamentally. Yes, Andrew, start from right to left.

Andrew Crean, Analyst – Bernstein Autonomous LLP

Good morning, it's Andrew Crean from Autonomous. Three questions also from me. I want to explore the buyback a bit more. You're not saying it's regular. What are you really saying on this? Should we expect if there isn't bolt-ons, that one should get 200 million a year or is it just at the discretion of the board? The second question is when you look at your Retail strategy, the glaring omission is a UK retail asset gathering strategy. Could you comment a little bit about that? And then thirdly, a numbers question. Within the Asset Management business, what is the profit of those assets being run for UK DB schemes, which is obviously declining? And secondly, what is the actual profits of UK workplace? You make a big thing of UK workplace, but I haven't got a clue how much it makes.

António Simões:

Yep, thank you Andrew. So I may ask Bernie a moment on the UK asset gathering. I'll give some first thoughts. And then the Asset Management question, which is the third one, we may want to go back to that slide on, not the slide, but the logic of the LGC assets. So first on the buyback, to be clear, we've said that we're starting with a 200 million buyback this year in 2024, and we have an intention to do similar sized buybacks. That's what we've said. So we're not being more certain than that, but we're giving that intention to do similar sized buybacks. On Retail, so we thought a lot about this. So the last five months have been a very thorough, detailed review of all of our businesses. And when we look at what we're really good at and what are our strengths, in Retail, the workplace pension business is a great way to acquire customers and to acquire customers that then we serve over the lifetime of those customers.

António Simões:

We are not different from other competitors, to your point, investing in big asset gathering because we're gathering our customers through that channel, through the workplace channel. And just to answer the point, and I'll pass on to Bernie, we have two ways in which we make money out of workplace, three effectively. So there's the administration part of it, which is why we don't make a lot of money. More than 90% of all the funds are then managed by Asset Management. So that's where the revenue profitability. And third, we're leveraging those customers over their lifetime to then offer them accumulation and decumulation solutions. Bernie, do you want to add to that?

Bernie Hickman:

Absolutely, Antonio. And yeah, we very much see the workplace DC business model as being our retail asset accumulation vehicle. Obviously that's focused on pensions, but as I've outlined, we will be offering those retail customers [assets] and other ranges of products during accumulation and obviously at accumulation we'd seek to ideally consolidate all of their assets onto our great value platform and then help those retail customers to make the hard choices at retirement, and therefore see annuity flows and drawdown flows. So that's where we see that our opportunities, given where we're starting from, it doesn't look at all attractive to us to be going after the admin IFA wealth space because we're already targeting that from an asset management point of view with Elgin, very successfully distributing their products into the IFA wealth market already. So we're already targeting that as a group. So there's not a lot to go for from a shareholder perspective to also offer an IFA admin platform. And we'll offer D to C, but the focus is on the workplace as the asset gathering opportunity.

António Simões:

On your numbers question. And I also want Jeff to comment also on the buyback to give you a bit more reassurance on that. So we showed the slide with slide 31 where we said 510 million of operating profit in LGC last year get split effectively in three ways. Jeff said four because there was both Retail and Institutional retirement. So Andrew, the Institutional retirement part in that slide was 142 million of that profit that's allocated to Institutional retirement. But-

Jeff Davies:

Yeah, I think you had a question. It was more, it's similar to the workplace, I think it was how much do we make from DB clients, if you like, within the asset manager I think was the question. And we don't separate it out because that partly isn't the way we look at it. And of course the biggest thing to remember there as we've said before is that does run off, but it runs off because they're doing PRT and we absolutely are a winner there. And if you look at it, yes, there's buy and maintain will be around for a long time, but there's also index and solutions in that. And you saw on the slide the four basis points, it's the four 5% basis point level. Clearly when those assets move across to a buyout, then we are paying a lot more to manage fixed income and we're charging the client that on day one of the buyout to cover the costs of managing the credit and the private assets that's back in the annuity portfolio. So we're a net winner from that, which is how we think about it on DB.

António Simões:

And Jeff, and we showed at the full year results, you probably remember we showed of the outflows we have from Asset Management, what part of it are the DB schemes. And in many cases, like the case of, I mentioned the example of goods. So we clearly lost that mandate on the good side because of the buyout, but then we get that money back as an internal client for asset management.

Jeff Davies:

Yeah. And on the buyback, we obviously chose the wording very carefully, the board are very clear on what they've signed up to. We've said we intend to pay out more than the equivalent of 5% per annum dividend growth to 2027. But we are changing the way that we do that. So we've already started, we will start with the 200 million buyback this year on top of the 5%, then the dividend growth changes to 2%. But in order to facilitate that distribution of more capital to shareholders, we would say we will undertake similar buybacks in future years to be able to do that. So that's where the capital returns will come from.

Jeff Davies:

There's clearly a decision to be made on will there be one more, two more, three more. You can do the maths and I think we can do the maths, that's two lots of 200 get you to exactly the same as 5%. So that implies that you need some beyond that. And we will look at those at each point in time of what the quantum should be based on the opportunities that we have to invest, et cetera, where the markets are. But clearly we've also looked at this in making that statement that we believe that is sustainable in conjunction with the...

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Jeff Davies:

... believe that is sustainable in conjunction with the PRT market, in conjunction with investment in asset management, in most of the scenarios that we would see as feasible that we're modeling out there. And so that's obviously how we've looked at that.

António Simões:

Yeah. It's important that we stress that we are distributing more and that by distributing more, we're doing more than the initial share buyback, and this point that Jeff is saying about both sustainability and flexibility to pursue growth opportunities. Go back to what I said first thing in the morning. This is a growth strategy, and we believe we have substantial growth opportunities ahead of us.

António Simões:

I can't quite see there, but yes. There first. You, but I don't know where the microphones are. Yes, there. We can just start systematically going from right to left, yeah.

Nasib Ahmed, Analyst – UBS Investment Bank

Thanks. Nasib Ahmed from UBS. First question on Retail, especially the decumulation phase. Face-to-face advice, that wasn't mentioned. Is that something that you're looking at, how many face-to-face qualified advisors you have at the moment? And would you look to grow them using a partnership model or a salary-based model if there is an intention of growing that advisor base?

Secondly, on Asset Management. I noticed you included 100% of Pemberton. May be a leading question. Why not increase the stake from 40% to 100? And are there any other stakes within that AUM that are included at 100% in your partnerships that aren't actually 100%?

Then finally, on distributable capital. Jeff, understand that you don't want to give a solvency range, but given current markets and your leverage ratio, you don't really mention HoldCo cash, but what is the distributable cash or capital at the moment given current markets? If you can give us a figure, that would be very helpful. Thank you.

António Simões:

Do you want to start there, Jeff, and then I'll come back to the face-to-face and the Pemberton question?

Jeff Davies:

Yeah. I mean, it isn't really a question of the way we look at the business. We look at maintaining that flexibility over a planning period, and being able to do things in different markets with different lumpiness of PRT in particular, whilst maintaining this intention to distribute more. That's the way that we look at it.

Jeff Davies:

We wrestled with what could be a cash metric. It just doesn't really make sense. We have lots of cash sitting in the insurance business that we can distribute out, and that is how we run the business, but we balance that against our liquidity needs and efficiency of not sitting in cash for too long. And, of course, the asset management business in particular is completely converted into cash and comes up. Those are the two main sources that we have, which are then other dividends that come out of businesses.

Jeff Davies:

We don't look at it and say, "How much could we just pass as cash at a point in time?", because that isn't a constraint on our business at any point in time. We'd really just look at what is the potential trajectory for markets rates, PRT volumes, how do we think about that, and can we then make sustainable comments about growth investment in the business, writing volumes, and being able to distribute more. That's just the way that we've looked at it.

António Simões:

Great.

António Simões:

And then on advice and how we think about it. I talked about hybrid advice and solutions, and actually here, working with FCA and thinking about what are the models of advice that makes sense for us, we're not building a big face-to-face advisor workforce. That's not our objective. But we're looking at these solutions where we can leverage technology and voice, effectively, to give what I said earlier, the best solutions for customers at retirement. Because at the moment we are accumulating a lot of our workplace pensions and the 42, the accumulation that I talked about earlier. What's important is that at retirement we don't lose those customers. It's really at that point that we want to provide that advice with more engagement through the accumulation phase.

António Simões:

In terms of the numbers, yes, we've been very explicit. There's a chart, as you saw, on the 85 billion, of which 60 billion is what we're doing as LNG, and then the 25 billion is the ambition of Pemberton. If you look at the chart, it goes from 12 billion of Pemberton currently to 25 billion. That's more than doubling on the Pemberton side. We've done this before, we just represented it as 100% of it, but we own 40% of it. We have a great relationship with Pemberton. Maybe Laura wants to add on that. And to be super clear, there's no other assets that have been sort of where the same thing happens. Your second part of the question, which is absolutely what we have in the 60 billion part, is all 100% owned by LNG.

António Simões:

A word on Pemberton?

Laura Mason:

Certainly, Antonio.

Laura Mason:

We've been with them from the start. We sponsored them, if you like, invested in them when they were a team of four about a decade ago. We are on their board. We support them operationally and have, I think, seeded every single one of their fund launches. And more laterally, actually being able to find ways for them to source assets for our PRT business through MA structures. So, a really good relationship.

António Simões:

Thank you Laura Mason.

António Simões:

There.

Larissa Van Deventer, Analyst – Barclays Bank Plc

Hi, Larissa Van Deventer from Barclays. My three across three different divisions, please. First on bulks. You mentioned 45 billion a year expectation, but for a decade. Do you expect the bulk market to be elevated for a longer period of time, or do you still expect the flows to be front loaded? For us to think about how we allocate that in our models. Then on Asset Management. What are the biggest near-term changes, and what is the related cost that we should consider? And the last one on the US. You have mentioned a couple of times that you see the US as a very attractive long-term potential growth market. When does the US start becoming meaningful in the numbers, or is the near-term focus very much in the UK for the next five years?

António Simões:

Okay, I'll take that one. Bulks and the 45 billion, I'll ask Andrew to add to that. Your second one was about Asset Management and the immediate changes from the combination of LGC and LGM. Was that it? Did I get that? And the related cost?

Larissa Van Deventer, Analyst – Barclays Bank Plc

And the related cost to implement.

António Simões:

Okay, got it. Okay. I might ask also Michelle and Laura to address this, and then I'll answer the US. In terms of the 45 billion number, of course we have an ambition for the next five years because this is a Capital Markets Event, and so it's about the next five years, but we've looked at the next 10 years. That's why we gave you that chart with what is going to happen in PRT over the next decade or so. Those are publicly available estimates. It will be lumpy, as I said earlier, but we see, Andrew, a lot of appetite. I think our pipeline at the moment is as strong as it has ever been, particularly for schemes above 1 billion. Can you talk about that?

Andrew Kail:

Yeah. Two points there. Short term, the pipeline we're seeing right now, I'd probably say, is unprecedented. The number of schemes, particularly in the over 1 billion pounds of assets, we're quoting currently across 16 of those. But I think your question was more about the tail and where do we expect to see it to go. The numbers we included on the slide were LCP estimates. We could have taken other advisors' estimates or some of our own data to say that the amount of the 1.3 trillion, and Antonio showed how we expect that to de-risk out over time, is what supports that number. So, yeah, we are expecting elevated market volumes going out for quite a long period of time into the future.

António Simões:

In terms of the Asset Management one, maybe Michelle, I'll ask you. The businesses are very complimentary. If you ask from a cost perspective, the integration is actually a very complimentary set of skills that we're bringing together. But, Michelle, do you want to talk a little about the planning that we've been doing. It's been a long time in the makings.

Michelle Scrimgeour:

It has been a long time, and Laura and I have been working together on this. Actually, we're announcing it today, but we've been working on this for some time. Now it's about how we actually make this work. We've said all along, this is not a cost play. This is absolutely about how we bring the best of what we do at L&G to more of our clients. It's what our clients are asking for. We have public and private, and we are now going to be able to blend those in a better way over time to a client base that we've been building.

Michelle Scrimgeour:

Antonio, we've spoken about this also, sort of how do we ensure that we have real diversification in our underlying product mix, and also our client mix, and also geographically. That is what we've been building on. This enables us to bring more of that to our clients. I would say the teams back at base are extraordinarily excited about this. The planning now it’s really Andrew start to execute.

António Simões:

Good. And thank you to both of you for all the hard work that's still to come to deliver this.

António Simões:

On your US question. When I think about L&G internationally, and that's why I wanted to have that particular slide on it, Asset Management is already international. When we talked about PRT, we talked about opportunities across different markets: the US, Canada, and the Netherlands. But then I wanted to focus specifically on the US overall because we're talking about making the most of the very strong position we have already in the US. Particularly, I've been traveling around the world seeing our different offices, it struck me that there's much more that we can do to connect our businesses within the US. I went to see our protection business in Frederick. It's a great business, really well run. I was really impressed by the technology there. I then went to Chicago, where we have our Asset Management business, which is the core growth engine that we're describing. Then in Stanford, Connecticut, our PRT business. We're already working much more closely together. We can't quite replicate the synergies that we have here in the same way given our scale in the UK, but we want the businesses to be more connected so that the growth is between the connectivity of those three businesses.

António Simões:

And don't forget that asset management is also connected to our PRT business here because we have a big annuity book and that origination. The strategy is more about the connectivity of the different businesses, but to manage your expectations over time. It's not as if the US is going to double in size. We're going to continue to grow that business.

António Simões:

Your question, Larissa, I think, was on the percentage itself. What I'm saying is we're making the most of the presence that we have in the US, and then globally for Asset Management and the two other PRT markets.

António Simões:

Thank you.

António Simões:

I'll start there, but actually, given that we have so many people online, I'm just going to read one question online. You mentioned bolt-on ... Because I was forgetting the screen I have in front of me. My team will start waving at me in a second. This is from Saleem at Citywire. You mentioned bolt-on acquisitions to drive growth. Will you be looking to make an acquisition in private markets arena as well to bolster your capabilities?

António Simões:

I think is very similar to the question I got earlier. I think it's a trade-off, really, in terms of if we can get the right teams. And we have been growing, for instance, in real estate equity and real estate debt in the US. We've been growing. The areas where we want to grow in private markets are the ones that we mentioned: real estate, private credit, and infrastructure. You can expect us to only play in that space. Clearly, I just said the US is an important market for us. So, yes, we would potentially look at bolt-on acquisitions, but for me it's a trade-off between that or hiring people.

António Simões:

I'll now come to the left side of the room.

Andy Sinclair, Analyst – BofA Securities:

Thanks. Andy Sinclair from Bank of America. Three from me, as usual. First was just on the balance of dividend versus buyback. A bit of choice to slow the cost growth for the dividend, I guess, offset by higher buybacks. But just how can we think about the dividend cover in cash terms, and what we can understand from that choice to slow the dividend cost growth, both over the 24 to 28 period, I guess, and then also longer term? That's my first question.

Second question was to do with the protection franchise. I'd say it's probably the one part of what remains core that doesn't obviously fit to me in terms of the flywheel of Legal and General. It didn't really seem to be on any of your synergy slides. Not many of the slides talked about UK protection, to be honest. Why has that remained in the strategic fit? I think it was only just to the good side of the line in the middle of your strategic fit slide, on slide 18. So just, why does that remain core?

And the third question was just ... It feels to me like there's no, shall we say, new area of growth or focus today. Should we think that Legal and General's core growth businesses, that the three lines that you talked about at the start will still be the three lines in five years time or beyond?

António Simões:

Thank you. I'll answer the three, but maybe on the dividend cover I'll look here to my CFO to say something. First, Andy, thank you. I would actually rephrase some of what you said. I would say more than offset. We are growing the dividend at 2%, and we're saying that we intend to distribute more than what we would've otherwise with 5%. So, we are more than offsetting one to the other, just to the point that you made. Our intention is to distribute more, and it's really important that what I've been doing, what we've been doing as a team is listening to shareholders, listening to investors. This is one of those areas that the certainty is that I'll upset a lot of people. But listening to investors, the combination of dividends and share buybacks is something that I got loud and clear. And with a combination of the two, we intend to distribute more over the next three years.

António Simões:

Dividend cover?

Jeff Davies:

I think it was the cash as opposed to the dividend, as such. Following on from Antonio's point, we are saying we are going to pass more pound notes out of the door than we would have been doing. By definition, we're very confident in how much cash and capital we've got emerging out to 2027. As I say, and there's a track record of this, you can see it every year, we simply remit what we need from the insurance company in cash. By definition, we are dominated by the annuity business, both Retail and PRT sitting in that insurance business. Therefore, the OSG is a good guide on what is being thrown off. And we convert that into cash as we need it and pass it up as we need it. So, we're very confident in that and very comfortable on it. That's why we can make the statements we can about passing it out.

António Simões:

Thank you.

António Simões:

In terms of your protection question, linked nicely to the dividends. The first advantage of protection for us is it delivers reliable earnings and helps pay for the dividend, in that sense. But there are diversification benefits, there are synergies. When you think about there's capital diversification, clearly, as we have annuity and protection. And in some cases where we aren't totally reinsured, we also have an actual diversification of the longevity and the mortality risk. I wouldn't read more into it than that.

António Simões:

In terms of areas of growth, it's a great question, Andy, because that's what I'm saying today. I'm saying there are no other areas. I am limiting our strategic flexibility. I'm saying this is the vision and the strategy for L&G going forward. These are the three growth engines: institutional retirement, asset management, and retail. And within those, I'm telling you what we're going to do and what we're not going to do. I believe it's an exciting story with a lot of growth, but it's a very targeted and a very disciplined growth strategy.

Andy Sinclair, Analyst – BofA Securities:

Thank you.

António Simões:

Thank you, Andy.

António Simões:

Can pass the microphone ... Yes. You decide, you decide, Andy.

William Hawkins, Analyst – KBW

Thank you. It's William Hawkins from KBW. Just like to clarify, I'm still not quite clear. The 50 to 65 billion PRT target, is that a gross or a net volume? I'm not sure if that's a gross figure and the amount that you guys will retain is lower if you're using third party capital, or if that's the net figure, so your actual volumes could end up being higher.

Related to that, I guess strategically, I know volume is a very simple figure to communicate, but the other way you could have communicated it internally or externally is the capital that you're willing to allocate to PRT business. And that could have been a good discipline internally and externally. So, don't focus on the volume, just find the best business for the capital. I'm wondering philosophically why you didn't decide to describe your business model in terms of capital allocation rather than volume.

And then lastly, sorry, I may just need to reflect more on the slides, but I'm still trying to get clear about how the margins in LGIM are going to work as a result of the restructuring that you've done. I've got an exit view the existing LGIM is doing about seven basis points of revenue margin and two basis points of profit on the old numbers. And my instinct would be that if you're throwing LGC into that, both of those numbers, first of all, go up because you are taking some profit for much lower funds. And yes, that may be dampened by costs, but that would be a second-order issue. That's a long-winded way of asking what's that seven and two going to be short term once you've made those changes.

Thank you.

António Simões:

Thank you. On PRT, this is the gross number. Then you asked me what's the percentage that we've assumed for funded re. The answer is it depends.

Jeff Davies:

Exactly, yes. That's right. Yes. It is a gross number because it will depend. We will have base assumptions where we'll have looked at a range of scenarios, and we will only be using the funded re if it's additive to our metrics. That could be 10%, could be 20%, there could be scenarios where we use 30%, you know? But over that period, it's difficult to tell. It would depend on our asset origination, spreads, et cetera. It's safer, if you like, to use that. And in terms of the capital point, well, we sort of have put a bound on it, if you like. 4% strain is net, if you see what I mean, going back to your number. Max of 4% strain times 65 billion tells you how much capital we think that we would be deploying on that business because that is how it works.

António Simões:

But philosophically ...

Jeff Davies:

Sorry?

William Hawkins, Analyst – KBW

Sorry, not distressed, probably but it's a slightly vaguer calculation, less than 4%. You could have said this is the capital that we have -

Jeff Davies:

Yes, because we haven't wanted to constrain ourself on capital. We know we can afford up to that 4%. It's still market leading. We've beaten it many years. But it will depend in any given period on how we choose to use funded. We may say, "Actually, there's better value in us retaining this and sourcing some assets down the line." Or, for example, it may be just that the business has a very different duration in a period of time. So, that number will move around. That sort of gives an upper limit, if you like. We're happy we can operate within that, if that's how it plays out over the period.

António Simões:

But I think it's a really important philosophical question, what you're saying, which is as Jeff says, we want that flexibility because we don't know what the size of the market will be and indeed what the profitability of that business will be. We're quite bullish about it. We're telling you about the numbers. But we will only write it at the right profitability levels, and that's super important. We have no volume targets. If you look at the slides, maybe I'm being kind of pedantic in terms of semantics, that is not one of the targets we're announcing today. We're giving you an indication of what we believe the 50 to 65 billion is, which, over five years, we don't want to do it per year because it's lumpy, but it's 10 to 13 versus what we said, 8 to 10. So, we're saying with the same risk appetite, we expect to write more because the market's more buoyant. But that depends on the market.

António Simões:

I think it wouldn't be right if I stood here today and said, "I want to dedicate X of capital to this business." Actually, if the opportunity is there, we'll do more. If we have mega schemes and all the schemes that Andrew was talking about, we want to do this for our shareholders. When the returns are there, we'll be very disciplined. So, I think philosophically the way we've done it is right, which is we want that flexibility of potentially deploying more capital if the returns returns are there.

António Simões:

On your third question. It's a great question, and I think we've sort of asked the question in sort of different ways. We have LGIM and LGC of LGC. Of LGC, 176 million of that operating profit goes to asset management, if you think about it that way. The other bits either go to the Corporate Investments unit, the case of Cala, or they are against our Institutional retirement and retail businesses.

António Simões:

Of the 176 million, yes, the margins, if you think about it, the revenue margins are higher there. You would expect for two reasons, hopefully, the margins to go up. One, because I said that the higher return strategies that we're pursuing: active fixed income, what we're doing in wholesale channels where the margins are higher, what we're doing in Asia and Europe. I gave in one of the slides, as you saw, all the new areas of growth. And all of them, they have a range because different clients would be paying different fees, et cetera, but all those ranges are higher than the current seven basis points. So, what you should expect is, on a weighted average logic, as we expand into those higher margin areas that the overall seven basis point goes up and then the two basis points is then a consequence of our cost to income. I'm not going to give you the exact number, but you can expect both of them to go up. That's our strategy. That's why we deliver a higher operating profit.

António Simões:

Thank you. Maybe now the next row and then ... Yeah.

Steven Haywood, Analyst – HSBC Bank Plc:

Thank you. Steven Haywood from HSBC. Three questions. On your DPS growth, sorry to ask again, but do you feel that UK equities, UK companies are not being rewarded for providing a substantial level of DPS growth? And do you feel that other companies should take your approach as well?

António Simões:

By that do you mean the combination? A lot of them have. No? Okay, but I'll answer that in a second.

Steven Haywood, Analyst – HSBC Bank Plc:

On operational surplus that you're generating, you've got the cumulative target. Can you give an indication of the growth that you see on a yearly basis, excluding the non-core, the non-strategic assets as well, so, whether it's a mid-single digit kind of yearly growth progression or something else on that basis? Then finally, your 14% cost of equity, just where did it come from? The underlying calculation would be very interesting.

Thank you.

António Simões:

Thank you, Steve. On DPS. Let's step back for a second. We pay more than a billion pound of dividends, and we'll continue to grow that this year at 5% and then 2%. We're not saying in any way that dividends are not important. Having listened to shareholders, I believe that the combination of dividend growth, which is still growth, and share buybacks is the right solution. I can't comment on other people, but many other companies have done similar things.

António Simões:

Jeff, on OSG. If we're at the top end of the 6 million, we will be growing OSG-

Jeff Davies:

It's broadly in line with the IFRS metrics. That is where you get to. It isn't smooth progression. It does depend. There may be more or less management actions in a period. But the vast majority from the insurance business is pretty smooth. Obviously, contribution from Asset Management goes up and down within that. And some of that OSG is naturally dampened because the SCR went down by about 2 billion recently because rates went up. So, you get less back. People need to remember that you've already got it in the solvency ratio as a result of that.

António Simões:

Thank you.

António Simões:

And Steve, your third was cost-

Jeff Davies:

The cost of equity, yes.

António Simões:

Cost of equity, yeah, yeah.

Jeff Davies:

Well, we're not saying that's a magic number. I bet if we did a poll, you would get many different answers and many different calculations. Lots of people who did economic degrees will give you all sorts of different ways of doing it. We have some very clever people, much smarter than me, that did it many different ways. We were comfortable that that was a sensible range. We even asked externals, and they came back in a similar range. We'll continue to monitor that to make sure that we know we can be disciplined in our deployment of capital.

António Simões:

And it's important for two reasons. We've had a lot of debates as a team. Actually, we came it several ways, as Jeff just said, including what is the alternative, what does the return needs to be in order to be higher than the alternative, which is to return capital to shareholders. That number came back to 14%. I've also been very clear in my slide that says at the moment that is 14%. It's important because embedded in our governance and our investment decisions. Again, it can fluctuate over time, so that's why we don't want you to believe it's a number that, you know, chiseled in stone and it'll never change. But at the moment, that is important. And every single new investment decision will need to meet that hurdle and all the other metrics that we talked about, like strain, IRR for the different types of businesses.

António Simões:

Thank you, Steve. Good question.

Mandeep Jagpal, Analyst – RBC Capital Markets:

Hey, good morning. Mandeep Jagpal, RBC Capital Markets. Thank you for the presentation and taking my questions. Three from me as well, please. First one on LGRI. With the ongoing DWP consultation, running on DB schemes for surplus appears to be gaining traction, especially amongst larger schemes. It's still very early days in terms of this new DB end game. How would your PRT strategy change if a higher proportion of schemes decide to run on instead of buyout?

Second on retail. There's been consolidation in the master trust space, including most recently yesterday by Mercer, which gained another master trust in its acquisition of Cardano. Given the focus on capital-like growth and the acquisition of customers, would you consider a non-core, non-organic growth opportunity here?

And then finally on solvency two. Last week, the PRA published the outcome of its consultation to the matching adjustment for solvency UK. Now the outcome is known, are you able to provide any color on how this new regime will impact the way you manage your annuity portfolio and the potential for change to the investment return?

António Simões:

Thank you.

António Simões:

First on DWP, I'll pass that on to Andrew, but my strap line is the market is so big and there's so much potential and there's so many trustees. I'm still to meet a CFO that likes to have an actual, having been on the other side of that. But we feel very positive, and of course, it is impacting the market.

António Simões:

Andrew?

Andrew Kail:

Yeah, I totally agree. In a sense, you answered your own question saying it's very early days. Of course, we're watching the variety of consultations. We'll track that through up to including change of government, et cetera, if that's what happened. To Antonio's point, I spend a lot of time talking to trustees. Buyout is still the gold standard. It's still what they're aspiring to do. So, will there be a proportion of schemes that voluntarily choose to run on? We have that today before any government consultation. It's well within trustees remit to run on if they think that's the best answer. The reason they're moving to an insurer solution now is because they think it's the right answer for the scheme and for the members. Of course, if rules change, they'll reevaluate that. But from all the conversations we're having, the buyout remains the gold standard. We're expecting, given the size of the market, the volumes we're seeing to hold up for the foreseeable future.

António Simões:

A lot of what I've done in my first five months is meet a lot of clients, and a lot of them are PRT clients or prospective clients. And I completely agree with Andrew. We've done those meetings together. There is still a strong incentive, particularly with the funding levels that we have right now, for that to continue.

António Simões:

In terms of retail master trust or more generally. I have said that bolt-on acquisitions are bolt-on because this is our strategy and the growth is organic. I have signaled Asset Management as an area where we want to build capabilities. I haven't fully ruled out other things. But really, we have the biggest commercial master trust in the UK with 27 billion, so we have the capabilities to grow organically. I don't see necessarily that. I'm not ruling it out because if there's something that absolutely makes sense for us, we would defend it. But the bolt-on acquisitions are bolt-on, so, small in size, and particularly to add capabilities that we don't have. We don't need that, necessarily, on the master trust space -

Jeff Davies:

Throw it back to me. Well, actually, we've got the PRA over there, so I would thank them because actually, it did come out slightly more positive than the initial consultation. There was some really good interaction between us and the regulator, the industry and the regulator. There were some more positives on that. So, if anything, yeah, from the publication of that, we think there is a little bit more we'll be able to do. We already have positive conversation around the sandbox, for example, which helps. And we have assets in motion that we'll be putting into the highly predictable category. Not a material change from where we thought we were, but yeah, slightly more positive. We'll be looking to get a little bit more uplift in our returns as a result of that.

António Simões:

Thank you.

António Simões:

I think I covered all of them, right?

António Simões:

So, if I come to one of the ones here online so I don't forget them. This is Andrew Morrison. You talked about not fully maximizing your synergy potential when you refer to what has been holding us back. Can you talk about the role that technology will play in achieving this and the role of the new transformation office?

António Simões:

Emma, as the new Chief Transformation and People Officer, can you talk about the role of the transformation office? And I'll answer then the question on technology.

Emma Hardaker-Jones:

Transformation's really all about driving change across the organization. We've touched on it several times through the presentation. The transformation office will really do three things. One is to relentlessly prioritize where we are going to invest resources on the change that will most closely deliver and underpin our strategy. The second thing is how we do things once and well across the group. We've talked about synergies, breaking down barriers across divisions, and there's a huge opportunity to leverage that once and well, mentality, which will help us be cost disciplined as well. And then the third area is about how we remove barriers to execution in terms of getting things done around the group. Technology clearly underpins all of that. We've had several examples today, the partnership with State Street in asset management, and at the other end the innovation around retail. But technology will both be a catalyst for change and a huge enabler of everything we do.

António Simões:

Thank you. Thank you, Emma.

António Simões:

Maybe giving you an example, I've talked about de-duplicating things and efficiencies. When we did this review, we've had nine different cloud solutions, nine, and we have four divisions, so you can see there's quite a lot of them. We've de-duplicated that into two cloud solutions, one with Amazon and the other one with Microsoft. Those types of technology provides those types of efficiencies, which, obviously, it's better to have the same standard. But at the same time we'll save some money on those two providers.

António Simões:

In terms of AI, I mentioned the retail protection AI and what we're doing there. That's basically for our own people as they read through policies to make it easier. It's a bot of bots, a bob AI. It's a solution where our people basically are able to access our policies in an easier way.

António Simões:

In the US, we're also doing augmented AI for underwriting. We saw this when I was there in Frederick, Maryland, where we're doing the majority of our underwriting in an automated way using AI. We were one of the early adopters of Microsoft Copilot. Now we're looking through what are the productivity gains of bringing AI into the normal solutions of Office 365 and other things.

António Simões:

There's quite a lot of work. I could go on in terms of technology, but as Emma said, it's both a driver of growth, a catalyst for growth, particularly in Retail, but also is a driver of efficiency. We'll be using technology that way.

António Simões

Come back to the room. Just going to go around, yeah. Thanks.

Abid Hussain, Analyst – Panmure Gordon & Co. Limited:

Hi. Thanks for taking my question. It's Abid Hussain from Panmure Gordon. I think I've got two or two and a half questions. The first one is on the capital generation target. I think the target implies around 1.8 billion per annum of OSG, or surplus generation. That feels like it's not much of a stretch. It's similar to what you were running, the run rate that you achieved last year and, I think, the year before that. So, just wondering why did you not set a higher target? Is it to do with the higher interest rate and the higher SCR, or is there something else as well? Any more color on that, please?

Then the second one is on private markets. I think some of your peers are also pivoting into private markets. Why do you think LGIM's going to win here? You said you've got a right to win. Can you just give us a little bit more color? Do you have the right pay structure, the remuneration structure to attract the relevant talent in private markets?

Then the sort of half question was still on private markets but on the yield pickup, on generating the returns. Is it getting harder? Is it getting tougher as you grow, as you double your assets, as everyone else tries to grow in this space to generate that yield pickup?

Thanks.

António Simões:

Thank you. I'll ask Laura in a moment on private markets. But, Jeff, is it a stretch? You're right. You answered your own question, it's the higher interest rates, but it's higher than the average of the previous period.

Jeff Davies:

Yeah, exactly. That's right. It does have growth within it. I'd say it's not linear ...

PART 3 OF 4 ENDS [01:45:04]

Jeff Davies:

... to have growth within it, say it's not linear across that. There'll be differences year to year, but the biggest driver is that we've already released a lot of the SCR. And so you get less growth if there's less coming out from that business. And so it's, the growth is very much in line with the IFRS metrics and what we've said and so we're confident on the delivery of that capital generation at those levels, which is, as you say, very much a growth based from the previous five years that we had.

António Simões:

Thank you. So private markets, and I'll ask Laura to add. So when I talked about the ANNR and the ambitions that we have overall, private markets plays a big part in that. So of that 100 to 150 million number that I gave. Why did I say that we have a right win? I was very explicit for instance, that we want to private equity. We don't believe we have the right skills to do private equity, but we think of real estate, you think of private credit and infrastructure, those are asset classes that we need to originate for ourselves and we have been originating. So in the case of Algin real assets, we've been doing that for more than 50 years in real estate. So we believe we have a strong right to win, my point, it's not obviously as you know, many people are doing that, so it's a competitive market as you say, but we focus on the things that we're really good at and so Affordable Homes, another good market.

António Simões:

I've talked about our intention to launch a fund there. That's something that we have done for ourselves and up to now that's been a really profitable business, which by the way is a great benefit to society, but it's really good for our PRT business. But now we want to bring investors alongside us. So that's the overall logic. Let me just answer maybe the remuneration question and then you can add to that. We already have very different remuneration approaches across the different businesses of L&G. I'm looking at that in detail to see what different structures we should apply to different parts of the business, but we own 40% of Pemberton and obviously their own remuneration structure is different from other parts of my business, or we have private real assets within LGIM. We already have different structures for those teams. So to answer your question, yes, I believe we can attract and retain the right people and we will continue to grow in that space. Laura, as the CEO of private markets.

Laura Mason:

Thank you Antonio. I would firstly reiterate some of the points that Michelle has made about the access to distribution that we already have in the Asset Management division. So we've already got a huge distribution channels through our public markets, which we will obviously, and as Michelle said, our clients there are looking for private markets products. Antonio's already noted we already have a real assets business in LGIM that we will continue to grow, and by bringing LGC together even more closely, working with real assets, what we are bringing, and Antonio mentioned this in his presentation I would say are three things, platforms, partnerships and investments that can originate assets, seed funds critical for the launch of private markets funds. So we really are bringing all of the component parts together to where, I would say in quite a different way to some of how our competitors are trying to do it.

António Simões:

Yeah, thank you. And as Laura says, we have our own internal client also requires private credit and other private assets, so I think that's another reason to believe that number.

Andy Sinclair:

And the yield pick up, is it still sort of easy to come by?

Laura Mason:

Yeah, so I think that's one of the things that has differentiated actually both our real estate business in real assets and what we've done in LGC because we are originator of assets developer, we don't have to take from the secondary market, we are able to form partnerships, long-term partnerships that mean we can originate assets and get the best of any market.

António Simões:

Yeah, Bruntwood SciTech is a good example that I put in one of my slides and then we had Greater Manchester Pension Fund coming alongside us because we are together with them originating those assets. Thank you.

Dominic O'Mahony, Analyst – BNP Paribas Exane:

Hello. Dominic O'Mahony, BNP Paribas Exane. Thanks for the presentation and really encouraging to see the focus on the fee businesses and the private assets and DC. That's really encouraging.

António Simões:

Thank you.

Dominic O’Mahony, Analyst – BNP Paribas Exane:

I've got one sort of clarificatory question and then two real questions. Just to clarify, so the OSG, the five to six, does that include the Corporate Investments, so CALA, or not? And secondly, does it include management actions, and if so, is it around the 200 million you've indicated per annum in the past?

Secondly, I may be slightly against the tide here. Why are you doing more capital returns when you get such attractive returns in your real asset business? If you look at slide 31, the assets going into the new private assets business got I think 17.6 return on those assets, that's well above the 14% cost of equity you mentioned and it'll be even more ahead of the WAC for the group. If you've got excess solvency, why not just reinsure less, generate more earnings?

Then the last question was really just, Jeff, you mentioned you're very happy to dip into the solvency ratio to write the new business because you're getting good returns and that's great. You also said you expect that to sort of tail off and then see the solvency ratio growing eventually. Thinking about the five to six, let's say you're doing two billion of OSG as an exit rate out of the plan, you're spending at least one and a half billion on capital returns. Your strain is going to be 400 ish million. You're not going to be retaining very much in pound notes and because your SCR is growing, presumably you're still going to be using up that surplus in a percentage point on a percentage point basis. How far out is that turn to flattening and then growing ratio? Thank you.

António Simões:

Thank you. So I give Jeff a moment to think about that last question and you may want to comment as well as on management actions, but just the OSG target does include Corporate Investment. So it's basically the totality of the company. It's actually quite limited that part of it, but Jeff can mention on that. Just on your second question, so we are exactly striking that balance between the strategy that we are announcing this morning is a growth strategy. We believe we have very profitable growth opportunities to deliver and to deploy our capital in this very disciplined manner. But also if you think about all of our businesses, it get to a point where we need to be disciplined and the hurdles, of course our business is incredibly profitable, we're talking about more than 20% return on equity. Those numbers are even higher than that. But the marginal opportunities, if they present themselves and if they're above our hurdle, we'll go after that. But there is also a limitation of the size of the market and how much we can grow.

António Simões:

So we believe that what we're presenting today is the right balance between those two things. How much we want to grow and take advantage of opportunities seizing the institutional retirement PRT opportunity ahead of us and invest for growth. And with that, with the position that we have today, we believe that we can distribute more to shareholders. So there's many ways to answer your question, but philosophically that's how we've thought about it. And we have that flexibility going forward. And let's say that we have a lot of mega PRT deals coming into the market and they are profitable and they meet our hurdle, at that point I'll be talking to shareholders and say, look, we are deploying more capital than what I said back on the 12th of June of 2024 because those will be returns that justify it. And so we're not not pursuing that growth if you see what I mean. But there's a limit to that and we believe that this distribution policy is the right one. Do you want to talk about management actions on OSG and then the final question on-

Jeff Davies:

Yeah, so yeah, broadly over that period, that's the right sort of figure to be looking at for the management actions. They vary. Sometimes we warehouse PRT business for example, and then we'll do an in-force reinsurance effectively a year later or two years later. We get better terms by holding onto that for a while that would come through. So a bit like the PRT is lumpy, some of the management actions can be a bit more lumpy as well as a result, but I think that's broadly a reasonable average over the period. Yeah, I said partly due to, we don't know when the volumes will come, what the business will look like, how much we decide to use funded, all the answers I gave earlier. There are scenarios where given where our capital levels are, we're willing for that to reduce as we write PRT business. Quite rightly, that then throws off, Antonio showed the 1.5 billion that comes back for invest in two to 400.

Jeff Davies:

We see that going down over time. It will very much depend over volumes if that's the scenario we're in and then that recovers reasonably quickly because you get so much being thrown off. And don't forget, the OSG also has the acceleration of the asset management and retail profits also flowing through into that. And so it isn't just looking at the component of the PRT in those scenarios that we'd be looking at.

Jeff Davies:

So you can't really give a timescale because it's one of those things, well what are the scenarios? What does it look like? What have we chosen to do with capital strain and managing it? But we're comfortable and therefore just wanted to say there could be scenarios where net surplus generation doesn't cover the dividend and we're deciding to use the solvency. And you will see the sum ratio fall in those scenarios. We just don't want that to be a surprise because there's big opportunities out there, but we think this is all sustainable over a three five year period in everything that we've set out and think make sense to us in many different scenarios.

António Simões:

Yep. Thank you Jeff. As we go into the next line, let me just read one of here online so I don't forget them. Can you elaborate how valuation factors into your buyback decisions, is there a level where they become less attractive? Yes, but not currently. So, yes. I hope the share price goes up so much that we don't want to do share buybacks. But I'm in your hands. Okay. Actually I'm going to Ambrose over there because he's on the left side and we skipped him earlier.

Ambrose Faulks, Analyst – Artemis Investment Management LLP:

Thank you, Antonio. Ambrose Faulks from Artemis Investment Management. Thank you for this. Given the increased sort of hedging though in your solvency too and your starting point of 224 percentage points, which already looks quite generous for the opportunities you have ahead of you, if you were to sell CALA or any of the corporate investments, you talked about going through your waterfall of where you could invest it, but you already have the opportunities, so why should we not be expecting that to come back as a significantly bigger share buyback?

António Simões:

Thank you. And just one. Great, Ambrose. Thank you. So look, it's important to actually rehearse this. So we've said using CALA as an example that the impact on our coverage ratio is low single digit percentages with Jeff mentioned 100 million in terms of capital. So in the big scheme of L&G is a small impact. I think the important point, Ambrose, is at that time, let's say that when we make any of these disposals, at that time, we'll take it through that waterfall.

António Simões:

It's not as if the 1.9 billion of Corporate Investments of the unit are being disposed of now. I said I'm open-minded about retention or disposal to maximize money, the value for shareholders. It may be that in some cases we need to invest in some of these businesses because in 12 months time it will be a better moment for us to dispose of them. So at that point when we make each of those disposal, I'm being very clear they're not strategic so they shouldn't be here in the long term. I'm being super clear about that. But the timing of it will vary and therefore at that point we'll then say faced with the gross opportunities that we have in the different businesses, is it better to invest to grow or to return more to shareholders. Do you want to add something to that?

Jeff Davies:

No.

António Simões:

Good, thank you. Thank you for the question. I'm going to back here. I think row three now. Yeah, there we go.

Thomas Bateman, Analyst – Joh. Berenberg, Gossler & Co. KG:

Hi, good morning. Thomas Bateman from Berenberg. Thank you for what's included and not included in the OSG targets. I'm just trying to balance L&G's dividend growth that was 7% not that long ago and then five and now two. With all of your growth ambitions, you've got a huge runway in PRT. You're wanting to grow in asset management, but that five to six billion does seem a little bit lighter than your EPS growth and obviously the dividend growth is much lower than that. Could you just help balance maybe the six to 9% operating EPS growth versus the 2% dividend growth?

The second question is on PRT volumes. I guess your 50 to 65 implies similar levels that you wrote in 2023, whereas LCP's forecasts, and I guess your own forecasts imply that there's a lot of growth there. I guess even 65 billion implies that your market share might fall in PRT. Am I reading that the right way?

And finally, it's good to hear that there's still a big opportunity in lifetime mortgages. I think you talked about the internal rating process and a lot of them are rated AA. Would you consider giving us the LTVs of those but lifetime mortgages?

António Simões:

So let me start with PRT and then I'll come to you, Jeff, on OSG and the lifetime mortgages. PRT, so you're right that what we wrote last year was particularly because of our largest ever transaction, which to remind you we did in December. So we could be sitting here having done the Boots deal in January and 2023 would've looked like a average type of year. But because we did the Boots transaction in December, we had a very large year. What I showed in that slide, and I know I went through 60 pages, but in that slide I'm showing, and I'm actually showing LCP projections. What we said there is actually we're using their data, maybe we've been a bit more realistic, but the 45 billion across the next few years is the same, actually even slightly lower than last year. So last year was a very good year for the industry.

António Simões:

What I'm saying is compared to the previous five years where the average was 25 billion, we're now seeing almost a new paradigm. So we used to have around 25 billion in the market and now we're seeing over the next 10 years, with bumpiness, as I said, sort of lumpiness, we will have 45 billion. It's important to say that we have no volume targets and we have no market share targets. And this is important to reassure you as shareholders that we are being very disciplined in the pricing and the profitability of that business. I'm very optimistic, I couldn't be more excited about the opportunity ahead of us, but if for some reason the profitability starts going down and there's too much capital coming into the market, and we're not seeing that by the way, but if that were the case, we just wouldn't write 20 25% of the market, which is what we tend to normally write here in the UK.

António Simões:

And so back to the previous discussion we had about how much capital we're going to deploy in this business, it's about the returns of that capital. So I'm very comfortable if you think about this, 50 to 65 billion, we're signaling 10 to 13 billion over this period. Again, like we've done before, we signaled eight to 10 and then there were several years where we went above 10. If the opportunity presents itself, this is not a target, it's a guidance in terms of what we believe will be there and how we've modeled our financials for the next few years. If the opportunity is there, we would absolutely not shy away from it. I don't want to take from today that we have any less appetite from PRT that we've had before. OSG.

Jeff Davies:

Yeah, well I think it was sort of OSG in relation to the dividend.

António Simões:

Yes, and the 2% and the growth.

Jeff Davies:

I think the 2% is a bit of a red herring because if we'd said we were growing at five or 6%, then it's completely consistent with what's in the EPS metrics and what you're seeing there. And we have said we will intend to distribute more than the equivalent of 5% dividend. And so the two is not relevant. I think you've got to look at it as pounds out the door that are equivalent to 5% plus dividend growth. And so that is completely consistent with the EPS. I can only repeat the same thing on OSG. You've already had two billion in the solvency ratio. That's why Ambrose is saying the solvency ratio is so strong because two billion of SCR was released because interest rates went up. And so that naturally means there's less to be released from the insurance business as it runs off because it's holding less SCR, which is why the solvency ratio has gone up. So they're completely consistent in terms of the amount of growth that's flowing into them. They're the same numbers coming out for the same growth in the business. On the LTM one-

Thomas Batemen, Analyst – Joh. Berenberg, Gossler & Co. KG:

Sorry, just if I may, the improvement in the solvency ratio isn't reflected in the capital returns to shareholders, particularly because you're not putting a solvency range in place. So we've got a higher solvency ratio, but that's not coming back.

Jeff Davies:

No, that's right. No, because we've said from that starting point, we've set out what we believe we could distribute in a sustainable way in many scenarios plus, right the PRT business that we think is ahead of us as well as investing in the asset management business for growth. And so we believe we can do all of those and make that statement today looking out to 2027 in a range of scenarios and be comfortable making that at the level we are today. That will change over time as the PRT market evolves, as rates change and where the solvency level is, and we will make different statements in 2027, for example.

Jeff Davies:

The LTM one, it's still roughly 30%. We've actually been right in business with lower LTVs because there's higher interest rates naturally in the market. And so the total book, the in force is still around the 30% level and yet as you say, they're very easily AA rated plus under the rating models. We work very closely with the rating agencies on that. They have very standard stress tests that we go through with them.

António Simões:

Yeah. Thank you, Thomas. Next question.

Rhea Shah, Analyst – Deutsche Bank:

Thanks. Rhea Shah, Deutsche Bank. Three questions. So firstly with the Asset Management business, you've given the target for private markets, AUM getting to the 85 billion. For the public markets, you showed that the industry is expected to grow out 5% per annum over the next few years. Are you targeting growth higher than that or in line with that? Then second, going back, the next two questions around capital. So the second one, in terms of the OSG target, are you able to split how you're thinking about this between the three business lines today? And in the next few years, are you trying to become more capital light in terms of the capital that is being generated? And then the third one around your capital allocation framework, your fifth filter was around assessing decisions against your risk appetite. So does that imply you do have a management solvency target range, but you're not disclosing that publicly or is there anything else you are assessing in terms of risks, for example, credit exposure or anything else?

António Simões:

Thank you. Maybe we can start there actually. And I'll come back to you on OSG, Jeff. So I think from an overall risk perspective, we're looking at all. So the reason why the filter is there is that you should be reassured that all elements of risks, all the potential risk, the conduct risks. So we wouldn't want to go into businesses that do meet L&G's risk appetite. You see what I mean? And that's what I'm saying. So it's a very broad statement. So it's not specific, there's this metric. But of course that includes all of the financial and non-financial risks that we normally monitor. So if I now think about this in practice, it's not a filter that, in those five filters, it wasn't a filter that ended up filtering things that didn't make sense. A lot of the things that became non-strategic was because of filter number two because they were not synergistic with the rest of L&G.

António Simões:

But I think it's a disciplined filter that we wouldn't want to go into areas, for instance, that carried a lot of conduct risk, for instance, as an example. So it covers all of the risks. I'm looking at my CRO here in the first row and he's saying yes, that's correct. In terms of asset management. So asset management, we've talked about the 500 to 600 million of operating profits in asset management. It's about growing that business. When we're growing the business, it's their business where the market impact is more relevant. So we've been reasonably cautious in terms of setting the targets because of two things. We are investing to grow that business. So there's an initial investment and growth, modest cost growth as I said earlier, that will impact the results. And then as we continue to grow there is the impact of markets.

António Simões:

So if the market's performed more strongly than what we have assumed in a conservative way, you'd expect us to beat that target. And when I look at my teams, I want them to beat that target, but externally we wanted to do this in a conservative way, conservative way so that we're not missing the target because the markets were not at the very high growth rate that we assumed. So it's a growth strategy and we will continue to grow that operating profit. Jeff?

Jeff Davies:

Yeah, I think the question was sort of is there a trend to be more capital light over that sort of three-year period in the OSG?

António Simões:

Oh, yes, splitting the question in terms of-

Jeff Davies:

Simplistically, no, the fundamental dynamics of the business are not changing over that three-year period. If you think that we're saying we're suddenly going to write 50 to 65 billion over five years, then that will still dominate in the same way as it has in the last few years. We will obviously look to be as efficient as possible on that. There's a secondary and a smaller element that we were very efficient on strain in the last two years, last year in particular, but then we wrote record volumes, and so the two offset. But fundamentally, while we're still writing both individual annuities and PRT at good volumes for the next two or three years, then that nothing fundamentally changes in the dynamics of the business. It's further out as we invest in asset management and that grows and eventually the PRT market tails off as we've said, but that could be 10 years away.

António Simões:

Yes, and Rhea, I think your question about would we split it between the different businesses and in a way we're giving you all the component parts, right? We said how much PRT, we're giving you the strain and we've given you the operating profit for the different divisions. So I think it's all internally consistent so you can triangulate that to know exactly where it comes from. Thank you. Second question for Andy.

Andy Sinclair:

No one else has. I will. Another are three for me.

António Simões:

Six questions, Andy.

Andy Sinclair:

Yeah. PRT, you've given numbers for the UK. Just wondered if you can give us an idea of what you're expecting internationally. You said that a lower proportion have been done internationally than done in the UK. Expectations there. In asset management, can you tell us what that 50 to 100 million is actually being spent on? I know it's small in L&G, but it's a decent clip. So what's actually being spent on. And thirds on M&A. I get you're being very clear, bolt-ons. But why doesn't something bigger interest you? I know that legal has it a bit of skepticism in general, but you're new, you're a refreshing view to legal in general. Why are you not interested in anything larger on the M&A front? Thank you.

António Simões:

This is when I take a rabbit out of a head right at the end of Q&A. My chairman has a bit of a reaction there. So thank you Andy. And in a moment I'll finish the question. So maybe a couple more after Andy, if you think about that. So in terms of international PRT, Andrew?

Andrew Kail:

Yeah. So we've not set a formal target as you've seen for international PRT. Antonio referenced earlier that we moved through the 10 billion in the U.S. since we started writing there. Last year we wrote about two billion dollars in the U.S. and I'll probably guide you to that's roughly where we'd expect that business to grow, but grow organically. We have a sort of a partnership based model in the U.S. as well. So we work extensively with third parties, but it's broadly along those lines for the next few years and we'd look for that business to grow organically. Bermuda, where we write both in Canada and then looking at be Netherlands market would be smaller than that and more opportunistic. But again, it depend, on as a reinsurer, how successful our partners are in the direct market and how we support them. But it would likely be smaller than the U.S.

António Simões:

Thank you. So in terms of Asset Management, so back to something I said at the beginning. So we have all the investment, Andy, that we're doing from sustainability and scalability of the platform. That's mostly the partnership with State Street. A lot of that investment has already been done and we've delivered successfully the first phase of that. In general, there was a lot of hard work from the team to do that safely for our clients. The 50 to 100 million is specifically that second bucket, which is the investment for growth. And a lot of it is under capabilities and a lot of that is people, if we're distributing in other parts of the world, if we're distributing to wholesale channel as distinct from institutional, if we're just distributing in Asia and Europe, last year we opened the office in Singapore, we opened an office in Zurich. So some of the investment is going towards that. But Michelle, do you want to-

Michelle Scrimgeour:

Yeah, and actually it's really important just to say that we're being disciplined and deliberate. So this is where we have really well thought through plans where we're taking a long-term view on the capabilities that we need, particularly in investment capability and also then from a distribution standpoint, where do we need to invest in order to sustain the growth that we see in the future? We're only doing this because we're confident in the long-term strategy for the asset manager. And actually we feel that's an entirely appropriate amount to be investing.

Andy Sinclair:

If that 50 to 100 million is significant element of that is people and those long-term capabilities, is that not just really recurring spend then and just increasing the expense space as opposed to one-off? What's actually one-off within that then?

António Simões:

Yeah, so some part of it is one-off. Some part of it is you'll have seen in... So last year for instance, we kept our cost base flat because we had quite a lot of efficiencies within the business and then we reinvested to grow the business and against an inflationary environment, which we still had last year, I think that was a great achievement by the Algin team, you can expect some of that cost to then be recurrent cost because that's people, but the rest that we're doing on technology et cetera, that's a one-off cost. And that's why I said the first bucket is-

Michelle Scrimgeour:

That's right. So Antonia what you're talking about in that first comment is how do ensure the platform really delivers the scale that we need to be able to put everything that we're doing on it. And that's really where the partnership here with colleagues in Legal & General capital coming together as an asset manager, it's putting all of that onto a platform and driving scale. So there's more to come in terms of scalability, but you have to make the investment.

António Simões:

And there's another important point here with let's call it cost avoidance. So let's say that I had not merged the two divisions, right? So what we wanted to do in private markets was to distribute those private market assets to third parties. Actually we would need to effectively replicate what we already have within Algin, in LGC. And so we're investing less, if you think about it, we are spending less because we're leveraging our existing capabilities. And by the way, I was also clear that in retail we have limited incremental investment because we are leveraging the capabilities we have. Which leads me nicely to your final question on M&A.

António Simões:

So I believe we're outlining a very credible, exciting growth strategy, but it's a very focused strategy. And most of what we're doing today is building on the strengths that we already have. So I can't anticipate, Andy, anything that's bigger than bolt-on, you can start defining what bolt-on looks like, but I think there's also a credibility from management team that we want to deliver and execute against this strategy. And who knows, in two, three years time I'm here again talking about another investor day and we've delivered successfully on these areas and it makes sense. The slightly bigger bolt-on makes sense. At the moment, my focus is organic growth, delivering on this strategy and delivering the targets that I promised you, over deliver if I can, to put some pressure on my team. Thank you.

Andy Sinclair:

That's very helpful. Thank you very much.

António Simões:

Thank you. Any final questions here in the room? Farooq.

Farooq Hanif, Analyst – JPMorgan Chase & Co.:

Hi, Farooq from JP Morgan. Very quickly, really sorry everybody. So there's a question earlier about management actions being in the OSG or not. I think they're not. If you could just clarify that. And secondly, going back again to what you're saying about capital distribution. In terms of payout to shareholders, I know you're trying to obviously keep this flexible because you don't know what the landscape's going to be, so you're being very careful in your language. But in an ideal world, do you think beating 5% is something that could go beyond three years if, let's say, the world didn't blow up and if you got to the capital light position that you wanted to, is there anything you can say on the ifs and buts beyond three years without breaking any rules? Thank you.

António Simões:

Thank you. Right at the end it's when we are kind of looser and then it's going to catch us. Jeff, on management actions we said. Go.

Jeff Davies:

Yeah, management, we said that they are in there. You were saying that on average they're sort of at that sort of couple of hundred level, but they're a bit lumpier depending how we've stored them up or not stored them up.

Farooq Hanif, Analyst – JPMorgan Chase & Co.:

Sorry, they're not in the OSG target are they? Because I don't think they have been previously.

Jeff Davies:

Yes, no, they always have. Yeah, they are in there. Yeah.

António Simões:

They've always been on our previous OSG target.

Jeff Davies:

Yeah. All right. We don't split them out and they've always been in there. Yes.

António Simões:

In terms of our intentions. You say something and then I'll finish.

Jeff Davies:

We will clearly set new targets in 2027 and the board will consider everything. You're right in all the things we'll look at, and who knows where solvency levels, how much PRT we've written, where the share price is, what the outlook is for the economy at the time, and how much we want to invest. And so we will make that decision at that point. Maybe no one's returning any money to shareholders at that point, but we will look to reward shareholders. Antonio said earlier, we pay out 1.1 billion already in dividends. We know that's very important for lots of our investors. And so that will be a core part of what we do. And we will look at the relative value of what we can do for buybacks versus investment in the business and where the share price is. So that won't change. That importance of recognizing why we're doing this is to build up lots of store of future profits, lots of capital being thrown off so that it will eventually be returned to shareholders or we'll make a case for why we're investing it in the business.

António Simões:

Thank you. I was reminded of the AGM we had last month where all of the retail shareholders came up to me and said, for us little guys, the dividend is very important. Our intention, to be crystal clear, for the next three years is to return more than what we would have otherwise with a 5% dividend growth. As Jeff says, we then need to look at our strategy going forward and we will keep on updating the market. So we will update the market when we give the new set of targets after we've delivered all of this. Now my focus is to deliver this targets for the next three years.

António Simões:

So thank you very much for coming today. Thank you for your questions. In summary, I believe we have an exciting, we have a clear vision for a simpler and more synergistic and capital light L&G. We have an ambitious, this balance of having an ambitious and credible strategy for sustainable growth with this sharper focus on execution and delivery and with the enhanced returns that we've just talked about with the balance between dividend and share buybacks. Our focus now is on delivering that strategy and I look forward to updating you on progress. Please stay and join me and the team over there for some lunch. Thank you.

PART 4 OF 4 ENDS [02:19:01]