M&G plc 2021 Full Year Results

Presentation & Q&A Transcript

8 March 2022

Welcome & Business Review

John Foley, Chief Executive

Slide 5 – Business Review

Good morning, everyone.

Welcome to M&G plc's full-year results for 2021.

These results demonstrate strong financial and operational performance from our business and are evidence that we are now at an inflection point.

Over the past twelve months we have generated £1.8 billion of total capital and delivered a £7.2 billion turnaround in external net flows. We also launched PruFund in Europe and accelerated our corporate strategy by acquiring high-value capabilities in wealth and asset management.

It is thanks to our continued strong performance and disciplined approach to capital management, that today I am pleased to announce a half a billion pound share buyback programme as a means to return capital to shareholders.

The quantum of the programme is a measure of the health of M&G's financial position, and of our confidence in the future prospects for this business. It corresponds to almost 9% of our market capitalisation at demerger and comes on top of an attractive ordinary dividend which we have consistently paid in full throughout the pandemic.

Before I run through the numbers, I want to remind everyone of what we have delivered since we listed our shares just over two years ago.

In a short period of time, and despite challenging conditions, we achieved all our demerger priorities. Let me take you through them, one-by-one.

Slide 6 – Demerger priorities

Let's start with our promise to launch a version of PruFund, our leading investment solution, outside the UK. In December, we obtained regulatory approval to market this new proposition, which we have called Future+, to European clients. In January, we rapidly began to roll it out in Italy in partnership with Intesa Sanpaolo, the largest local banking group.

Within weeks, we have started seeing the first inflows. Small volumes for now, but we expect them to increase over the coming months as we ramp up the sales efforts. We strongly believe that Future+ is a competitive differentiator that will strengthen our presence in Europe.

Secondly, we committed to stabilising our £53 billion Retail asset management franchise. Eighteen months ago, we announced a series of measures to broaden our offering and improve both performance and value for customers. That medicine is working.

In the second half of 2021 net outflows were only £400 million, with our international operations attracting net inflows. We have seen this positive trend continuing so far this year, with flows breaking even for the first time since 2018.

We are pleased with the progress already made, and we remain focused on further strengthening this Retail franchise.

Our third priority was to pivot M&G towards sustainability, and we have taken significant steps to embed it across the entire business. The compass for this journey is our 10 point sustainability plan, setting out our commitments to achieve net zero carbon emissions, and phase out thermal coal from our investment portfolios. We are directing more and more of our client assets into sustainable and impact propositions, both by seeding new funds and transitioning existing ones. Thanks to the continued collaboration between the Asset Owner and the Asset Manager, last year we were able to launch Catalyst and PruFund Planet.

Catalyst invests in sustainable private assets through a £5 billion commitment from the Life Fund. To date, it has completed 29 deals, supporting businesses that help tackle climate change, fight inequality, and drive healthcare innovation. Finally, in January, we announced the acquisition of a controlling stake in responsAbility, a pioneer in impact investing, particularly in emerging markets. Zurich has become the latest investment and distribution hub for M&G.

The fourth demerger priority was to transform and modernise our business, delivering annual cost savings of £145 million by the end of 2022. We achieved the full savings target a year earlier than scheduled, while investing for growth and absorbing four-years' worth of inflation. Paul will provide more detail on this in his presentation.

Last, but by no means least, we significantly outperformed on capital generation, delivering £2.8 billion in just two years – compared with an original target of £2.2 billion over three. Positive markets provided strong support, but even without them, we would have been in touching distance of our target one year ahead of schedule.

Slide 7 – Another year of strong financial performance

This slide shows the financial highlights for 2021 – more evidence that operational delivery is translating into financial delivery.

Assets under management and administration of £370 billion benefitted from another remarkable performance from Institutional asset management, which generated net inflows of almost £6 billion.

Adjusted operating profits were £721 million, largely in line with last year after netting off the difference in contribution from longevity assumptions.

Total capital generation came in at an impressive £1.8 billion – enough to cover almost four years of full ordinary dividend costs. It is a result that reflects a balanced contribution from the underlying business, management actions, and economic variances.

Growing the underlying business is our absolute priority, but in parallel, we always seek to improve the efficiency of our balance sheet. The recent performance proves this; in the 5 years I have been Chief Executive, we have generated £6.7 billion in total capital, £3 billion of which came from management actions.

Finally, at 218%, our Solvency ratio sets a new record, enabling us to deploy capital with confidence.

Slide 8 – Balanced capital allocation and a new three-year target

Here, I want to show you how we are allocating capital across competing uses, leveraging our strong financial position to offer attractive returns to shareholders, maintain an appropriate leverage ratio, and invest in the business.

The top left quadrant of the circle shows the cost of meeting our commitment to pay a stable or increasing dividend. In line with this policy, we announced this morning a final dividend of 12.2 pence per share, amounting to £311 million.

Through dividend payments alone, we have returned more than 52 pence per share since listing. That's equivalent to 24% of the company's market capitalisation at demerger.

The top right quadrant shows the half a billion buyback programme which we have already talked about. We expect it to complete within 12 months, and to result in a higher earnings and dividends per share.

In addition, we are ring-fencing £300 million to manage leverage. Setting capital aside now maximises our flexibility on timelines, allowing us to act fast if, for instance, interest rates were to change meaningfully and reduce the cost at which we could redeem debt.

Together, these three actions take total capital returns announced today to roughly £1.1 billion. This increases to £2.1 billion if we include the dividends paid so far. It is a truly remarkable achievement in just over two years since becoming independent.

The fourth and final quadrant shows the £260 million we have deployed to acquire strategically important capabilities.

This sum covers the acquisition of Sandringham, which completed in January, as well as those of TCF, responsAbility and of a minority stake in MoneyFarm – the fintech delivering D2C savings solutions to many UK and European customers.

Having met and exceeded our commitment on Capital Generation, I am also announcing today a new target for Operating Capital Generation of £2.5 billion over the next three years. A target that comfortably covers expected dividend costs, and that reflects the capital generative nature of our business.

Slide 9 – Aligning our business to customer needs

During the year, we have also refined our operational set-up to better align to customer needs and drive end-to-end business accountability.

Since October, Jack Daniels, our Chief Investment officer, has become Managing Director of the Asset Manager, while Clare Bousfield, previously group CFO, now leads the Retail & Savings business, our Asset Owner.

They both have clear visions, that complement each other as part of our "One M&G" strategy. The Asset Manager powers the differentiated investment solutions that the Asset Owner leverages to support customers along their savings and risk journeys.

It's worth recalling what the priorities are for each segment.

The Asset Manager focus is on further broadening its £72 billion private asset franchise, and its sustainable and impact investing expertise. The aim is to drive innovation in high-value areas of the market while continuing to internationalise our distribution and investment footprint.

In Retail & Savings, we aim to accelerate the growth of M&G Wealth by developing an integrated proposition that combines the capabilities we have acquired so far. At the same time, we will continue to focus on improving customer reach and reducing operating costs.

Slide 10 – 'One M&G', the competitive advantage at the core of our strategy

Our 'One M&G' structure is at the heart of our competitive advantage.

You have heard me talk about the symbiosis between the Asset Manager and the Asset Owner before. Over the past two years, we generated significant efficiencies by fully integrating the infrastructure supporting them, while ensuring they retain the freedom that they need to best serve their customers.

The collaboration between segments is a fundamental and differentiating source of value for shareholders. With £169 billion, the Asset Owner is the largest client of the Asset Manager and provides both a stable source of revenues, over £300 million in 2021, and continuous seed capital to develop new propositions. PruFund Planet and Catalyst being the two latest examples.

In turn, the Asset Owner leverages the Asset Manager's capabilities to generate value through asset trading activities; these delivered roughly £290 million of capital last year.

Before the Asset Manager started serving the Asset Owner it did not play in the institutional market. Today, twenty years on, the capabilities developed for the internal client are at the core of the £103 billion external institutional franchise that has delivered £6 billion of net inflows in 2021.

The results speak for themselves. Only a group with M&G's unique structure is capable of producing a £52 billion proposition like PruFund, which has now been made available in Europe through the Asset Manager distribution network.

The collaboration between the Asset Owner and the Asset Manager is clear evidence of the total exceeding the sum of the parts.

Slide 11 – Meeting operational milestones

Here is a recap of some of the operational milestones passed in 2021.

On Asset Management, I have spoken before about the almost £6 billion in net new wins for our institutional business. These strong flows have come hand in hand with significant improvements in our Retail franchise which we look forward to continuing this year.

I also want to draw your attention to the success of our Catalyst team. Its latest investment is the acquisition of Greencore Construction, which designs and builds ultra-sustainable homes that are climate positive – locking up more carbon than they emit over their lifetime.

On the Retail & Savings side, we have mentioned the launch of Future+ in Europe and of the sustainable version of this proposition, PruFund Planet.

To this I would add the expansion of our adviser force, with the acquisition of Sandringham increasing our number of advisers from roughly 250 to 440.

Plus, our partnership with technology company Ignite means we are now rolling out robo-advice in the UK – offering a cost effective option to all those falling in the affordable advice gap, a potential market of up to 6 million people.

Slide 12 – The growth opportunity from PruFund in Europe

Talking about operational delivery, I want to remind you of the growth opportunity that Future Plus offers. This is a compelling proposition, giving customers access to a globally diversified multi-asset fund, that leverages the With-Profits smoothing mechanism, as well as the distinctive private and public capabilities of our Asset Manager.

We chose Italy as a pilot market because of the large amount of deposits – 1.8 trillion euros – that we target by helping customers take a 'first step in investments'. The strength of our local team was also a key driver behind the decision; it enabled us to partner with Intesa Sanpaolo, the largest Italian banking group with almost 4,000 branches and over 6,000 financial advisors and private bankers.

The growth opportunity here is enormous. We play in an attractive market and have both the right proposition and the right distribution platform to scale our operations.

Slide 13 – Investing to accelerate corporate strategy in priority areas

We have complemented ongoing operational delivery with inorganic actions that add high-value capabilities in a targeted and strategic way.

Starting with the acquisition of the emerging markets investment team Port Meadow back in 2019, we have diligently sought out opportunities that accelerate our strategy by filling capability, proposition or distribution gaps.

The acquisition of responsAbility is a classic example: it brings new expertise in emerging market private assets, strengthens our impact investing capacity, and augments international distribution.

MoneyFarm is a great fit, too. This partnership gives us access to the rapidly growing direct investing market at a very modest outlay.

The aim of these investments is very simple: support long term capital generation and help us deliver sustainable growth to shareholders.

Slide 14 – Scaling capabilities and presence in high-value add markets

We do not think of inorganic actions in isolation – they must fit within our strategic priorities and complement organic efforts to grow the business.

Within Asset Management, Catalyst and responsAbility are both instrumental to our ambition to become an international leader in sustainable private investing.

In Retail & Savings, the investments in MoneyFarm, Sandringham and Ascentric contribute to the creation of an integrated UK Wealth Manager that can tailor to different needs. We can now serve customers across the full distribution spectrum, from digital to face to face, from self-serve to advised. Once fully integrated with our digital platform and investment solutions, this waterfront coverage will help us scale M&G Wealth and build back PruFund sales in the UK.

Our approach to investing in the business should now be clear. We selectively deploy capital to grow in markets where we have a right to play, that show supportive dynamics, and that have resilient and attractive margins.

Slide 15 – Divider slide: Capital Management Framework

I promised to expand on our approach to capital management.

The next few pages outline our framework; the guiding principles that underpin the capital allocation decisions we have discussed so far, and that will guide future ones.

Slide 16 – Delivering long-term growth and attractive returns

When considering how to deploy capital, our framework factors in four elements.

Our first, absolute priority, is to maintain appropriate financial strength and flexibility at all times. To assess this, we focus on three primary factors: Solvency; leverage; and liquidity.

Secondly, we have a duty to honour our commitment to shareholders and reward them with attractive dividends. Here, we expect to pay stable or increasing ordinary dividends, with any growth dependent on the development of the underlying capital generation of the business.

When deploying additional capital, we prioritise investments that can generate long-term sustainable earnings growth. To achieve this, as we have demonstrated, we combine organic and inorganic investments that have an attractive financial and strategic rationale. Whenever considering inorganic actions, we favour targeted acquisitions over large scale deals.

The final element of our framework is capital returns. We are disciplined custodians of shareholders capital, and our announcements today prove exactly that. We will always weigh the benefits of any investment against the financial attractiveness of capital returns.

Slide 17 – Financial strength covers three dimensions: Solvency, liquidity and leverage

As mentioned earlier, financial strength and flexibility are determined by three factors: Solvency coverage ratio, leverage ratio measured on a capital basis, plus holding company liquidity.

We manage our solvency to include a counter-cyclical buffer – effectively cushioning the business from market volatility by strengthening the ratio when markets are supportive and allowing it to reduce when they deteriorate.

You can see from the page that we expect the buffer to range between 160% and 190%. These boundaries are not hard lines that trigger immediate action, but rather indicative thresholds that inform our approach to capital management.

If we expect Solvency to exceed 190% for a sustained period of time, we will consider capital returns and competing uses. Conversely, if the ratio were to fall below 160%, we would start assessing the viability of de-risking actions. Let me reiterate this; we would START assessing, not immediately act, as we can operate below the lower boundary depending on specific circumstances.

It should also be clear that we will always consider investing in the business even if we are not outside the upper end of the range.

Turning now to the leverage position; this was 34% when we demerged in October 2019 and has since fallen to 28%. Over the long-term, we aim to retain the ratio below 30% albeit we can accept short-term deviations.

From a liquidity perspective, we want to retain enough liquid resources at Holding Company level to cover expected central outflows.

Slide 18 – Investments in the business and returns are competing uses of capital

I have talked about us being good custodians of shareholders capital, and about investments in the business and capital returns being competing uses of financial resources.

This slide shows how we assess and compare different options to make the best possible decisions in the interest of the business and of our investors.

We evaluate opportunities from a strategic, financial and risk perspective.

Earlier we covered the strategic priorities for our business, and you can see them reflected in the left most column on this page. We aim to grow our presence in Asset Management and Wealth Management, adding capabilities in private assets, sustainable investing, and distribution.

The middle column sets out the financial criteria we consider. We assess buy versus build scenarios (as we did with Ascentric), and review a range of valuation metrics, IRR criteria, and the potential for synergies. Our aim is clear, to ensure that any investment contributes to earnings and capital accretion over time.

The right-hand column captures the risks and opportunities we assess; most importantly, our ability to retain and scale earnings of the acquired companies. Cultural fit, execution and integration hurdles are other key considerations, as well as the impact of any investment on our financial strength.

Slide 19 – Planned uses of capital bring SII ratio to top of target range

Having covered our capital management framework, I want to show you the impact of our capital allocation decisions on the Solvency ratio.

Together, the actions we talked about take the ratio from 218% to 192% on a pro-forma basis. This excludes market movements that have occurred since the beginning of the year. As you can imagine, the unfolding of the Ukraine crisis had an impact on markets and on our Solvency ratio.

Nonetheless, we remain in an extremely robust capital position, close to the upper boundary of the range. Given this strength, you can expect us to build on the actions announced today, in line with our capital management framework. We will continue to assess opportunities to invest in the business, whilst always monitoring the attractiveness of further capital returns.

Slide 20 – Key messages

To wrap up, then.

2021 was a year of strong delivery for M&G, as we met or exceeded all of our major demerger commitments. We put in place a new organisational structure, that reinforces our One M&G strategy, and enables us to deliver continued strong financial and operational results.

It was a year in which we accelerated our strategy through focused acquisitions and took decisions to return more than £1.1 billion of capital, including a £500 million share buyback.

And we provided you with greater insight into our capital management framework and announced a fresh operating capital generation target of £2.5 billion for the period from 2022 to 2024.

Thank you.

Financial Review

Paul Cooper, Chief Financial Officer (Interim)

Slide 21 – Financial Review

Thanks John, and a warm welcome to everyone.

Slide 22 – Strong financial performance and positive external net flows

Today, I am pleased to present a set of financial results that demonstrate, once again, the strength of our business, and the progress we have made against all of the priorities we set out at demerger.

Total AUMA remained broadly stable, at £370 billion. But this high level metric hides a much more important message; external net flows were positive at £0.6 billion. These are the first external net inflows since June 2018, which we delivered thanks to yet another excellent year of Institutional asset management, and continued improvements in Retail.

Adjusted Operating Profit of £721 million, demonstrates the resilient and improving performance of our underlying business once we factor out reduced contributions from volatile sources of earnings such as asset management performance fees, longevity assumptions, and fluctuations in foreign exchange.

But the most impressive result is the £1.8 billion of Total Capital Generation. In just twelve months we generated enough capital to cover almost four years of full dividend costs. The Operating result of £1.1 billion was the primary driver, further supported by favourable markets.

With this performance, we have overdelivered on our £2.2 billion total capital generation target and did so one year ahead of schedule. And we have increased our Shareholder Solvency II ratio to 218%, 36 percentage points higher than at FY 2020, despite paying £466 million of dividends.

Slide 23 – In 2021, external net flows improved from £(6.6)bn to £0.6bn vs. 2020

Taking a closer look at Assets Under Management and Administration, you can see that positive market movements have more than offset expected outflows in Heritage and the completion of the part VII transfer to Rothesay, which reduced AUMA by about £10 billion.

As I said before, the important metric to focus on here is net flows from external clients. These were positive at £600 million, driven by strong Institutional net inflows of £5.8 billion, and by a reduction in Retail outflows from £11.9 billion to £3.8 billion. This marked improvement came despite two large negative one-offs, jointly accounting for £1.8 billion. Excluding them, underlying Retail net outflows were £2 billion for the year, of which only £400 million occurred in the second half.

Wealth and Other Retail and Savings net outflows of £1.4 billion mainly relate to PruFund in the UK, where sales have not yet recovered to pre-pandemic levels. Outflows have gradually increased as the book matures, but in 2021 we also saw some higher transfers out to other products, which continue to abate so far in 2022. I'll provide more colour on this in later slides.

In summary, external net flows improved by £7.2 billion. This is a significant step forward that we expect to build on in the coming months as we continue to stabilise the Retail franchise, grow Institutional, and roll-out Future+ in Europe.

Slide 24 – Adjusted Operating Profit by source

Here you see a breakdown of Adjusted Operating profit, the segmentation of which has been updated to reflect the new corporate structure announced at the end of last year. You'll find a mapping from the old to the current structure in the appendix.

We closed the year at £721 million – versus £788 million in 2020 – as we experienced headwinds from volatile sources of earnings. For example, Asset Management was impacted by £19 million lower performance fees, as some carried interest from Infrastructure funds did not reoccur. Within Retail & Savings, the review of longevity assumptions yielded £92 million less than the previous year. And finally, in Corporate Centre, a 2020 £15 million benefit from FX movements turned into a £4 million loss.

If we look at the underlying business drivers though, we can see how operational delivery has begun to translate into financial delivery across all segments.

Asset Management revenues increased for the first time since 2018, despite having to absorb the full impact of the Retail fee reviews announced in August 2020 and February 2021. These reviews are now complete, and we do not expect to undertake similar sized action on pricing again over the short to medium-term. While stabilising asset management revenues, we kept costs under control.

Retail & Savings – and Wealth in particular – benefitted from a much improved contribution from PruFund, £44 million higher year on year. The value of the shareholder transfer increased significantly, as we delivered strong investment returns to customers.

Finally, within Corporate Centre, Head Office expenditures reduced from £101 million to £95 million.

Slide 25 – Asset Management: Strong Institutional and improving Retail flows

Looking more in detail at the Asset Management results, there are three clear trends on flows:

Firstly, Institutional had yet another fantastic year attracting £5.8 billion of external net new money. Flows have been consistently strong for some time, with positive contributions from both public and private asset mandates.

While we performed strongly in our home market, Europe was the main driver of growth, with assets increasing from £16 to £21 billion in the year. The institutional franchise has been predominantly UK focused so far, and we see substantial opportunity to continue growing internationally as we are underweight in a number of large European markets. We are very confident about growth prospects here, thanks to strong investment performance, distinctive private asset capabilities, and a healthy pipeline of new business.

Secondly, the direction of travel of Retail Asset Management is very encouraging, though with work still to do. As you can see on the left of the page, outflows markedly improved every six months for the last two years.

In the second half of 2021, net outflows were only £400 million, compared to £4.3 billion for the same period in 2020. This result was driven by improved performance, better pricing, a new generation of sustainable funds, and growth in the sub-advisory space.

As John covered in his presentation, the positive momentum in Retail has continued so far this year. We are encouraged by these results but not complacent; and remain focused on further improving performance and broadening our offering.

Finally, in 2021, we completed the repatriation of £25 billion of internal mandates from our former parent company, increasing the assets managed on behalf of the asset owner to £169 billion.

Slide 26 – Asset Management: Stabilised top line and absorbed Retail fee reviews

Moving now onto asset management adjusted operating profit, which ended the year at £315 million.

Revenues showed an improvement year on year. This is not a minor achievement. In 2021, we reversed the trend of declining revenues that started in 2018, despite having to absorb the full cost of the retail fund reviews – which are now complete. Here again the continued growth of Institutional and Internal volumes played a crucial role, offsetting the pressure from Retail. The continued growth of these franchises, now accounting for about two thirds of revenues, also improves the stability of our top line, as their assets tend to show much greater persistency than Retail.

From a margin perspective, Institutional and Internal margins have remained substantially stable. The compression in Retail was expected, following the proactive action taken to reduce fees on the SICAV and OEIC range announced last year. The full impact of these actions is now materially earned through, and we don't expect to undertake new major reviews in the near future.

Costs, at £672 million, were broadly stable compared to 2020 and lower than 2019 on a like-for-like basis. This shows our continued commitment to improve efficiency, even as we invested to grow our capabilities in North American and Asia. As a reminder, it is as a result of these capabilities that we successfully in-housed £25 billion of assets previously managed by Prudential plc.

Cost control remains a key area of focus, and we also see it as a means to free up resources to continue to invest in attractive growth opportunities.

Slide 27 – Retail and Savings: Wealth

Having covered Asset Management, we turn to Retail & Savings, starting with the Wealth segment and its largest contributor to earnings: PruFund in the UK.

Adjusted operating profit climbed to £63 million, as the Shareholder Transfer more than doubled year on year, only partially offset by higher cost of hedging that resulted from strong equity markets.

The higher Shareholder Transfer was driven primarily by greater investment returns delivered to customers, and to a lesser extent by higher claims experience. As mentioned in the past, we expect gross outflows to increase gradually over time as PruFund matures and the older cohort of customers start accessing their savings.

PruFund performance has been consistently strong since launch in 2006, and as you can see from the chart on the right, it has continued to show positive momentum over the last 18 months, triggering several upward unit price adjustments. These adjustments increased investment returns and, in turn, lifted the Shareholder

Transfer, which is broadly calculated as one ninth of the net returns delivered to customers that redeem their policies.

An additional factor that will benefit customers is the recent decision to distribute £1.5 billion of excess With-Profits Fund surplus to PruFund and Traditional With-Profits policyholders. This action, due to the strong capital position of the Fund, will further improve customer outcomes and, in turn, the Shareholder Transfer.

Given lower PruFund gross inflows, we have been experiencing an expense overrun on new business since the second half of 2020. The negative impact from the overrun was £33 million in 2021. This impact will gradually reduce over time, as we work to improve sales and reduce acquisition costs. We expect that recent investments in expanding, integrating and digitising our Wealth franchise, will play a key role in supporting PruFund's sales.

Slide 28 – Retail and Savings: Heritage

Staying within Retail and Savings, this page covers Heritage and its two components: Traditional With-Profits, and Shareholder Annuities.

Traditional With-Profits continued to deliver a stable underpin to our earnings, with a result almost identical to 2020. The Shareholder Transfer here is not as volatile as for PruFund, since policyholder bonuses are declared once a year, further smoothing volatility, while PruFund more closely tracks markets through unit price adjustments.

Shareholder Annuities earnings of £415 million are around £80 million lower than prior year, mostly due to lower benefits from asset trading and longevity assumptions. These headwinds were only partially offset by a number of positives in the 'Other' line, such as improvements in expense assumptions, favourable short-term mortality experience, and the release of legacy provisions.

Asset trading was impacted by a couple of transactions that, while being capital and cash generative, had a negative impact on IFRS profits due to different valuation methods.

The 2020 longevity result benefitted from long-term assumption changes, but also from improvements in our base mortality model that did not reoccur, to the same extent, in 2021. The last CMI table we implemented was CMI-19, and we will review CMI-20 in the second half of 2022, continuing to retain a prudent approach to mortality assumptions.

The annuity book remains conservatively positioned from a credit perspective, with only 18% of the assets rated BBB, and 2% below investment grade. Downgrade experience in 2021 was limited and better than in 2020, while we also experienced no defaults. Detailed information on the annuity book by credit rating and capital ranking is available in the appendix to the presentation.

Slide 29 – Sources of Operating Capital Generation

Now onto capital generation, starting with the Operating result.

Underlying capital generation was £484 million compared to £577 million the year before, driven by the lower contribution from Retail & Savings, and, in particular, from the annuity book.

The primary driver here was lower expected returns on excess assets. These expected returns are locked in at the beginning of the year based on the interest rates on the first of January – which were extremely low in 2021. As rates rose through the year, we generated greater returns than initially expected, but this had to be recognised as a positive economic variance and not underlying capital. We expect this effect to partially reverse in 2022, as yields at the start of the year were higher than in 2021.

Over the longer-term, we estimate that the in-force book of annuities and with-profit policies will deliver £10 billion of underlying capital generation after tax, providing a solid underpin to our dividend policy for the foreseeable future. The run-off profile of the in-force book is very long dated and you can find more details in the appendix.

Other operating capital generation was again very strong, at £633 million. The largest contributions being £287 million from asset trading and a £153 million release of counterparty risk capital following the completion of the Part VII transfer to Rothesay – this was included in the 'Other' line.

We continue to see management actions as a key area of value generation, and we have a clear pipeline of initiatives that will contribute to capital generation in the coming years without impacting the level of prudence in our balance sheet. We do not provide specific guidance around their quantum and timing as they can be influenced by external factors that are not under our direct control. Nonetheless, our track-record should give you the confidence that proactive management of the balance sheet will continue to be an important driver of shareholder value in the future.

Slide 30 – Capital Generation

Total capital generation reached £1.8 billion on the back of the strong operating result and favourable economic variances of £0.9 billion.

The impact of economic variances roughly translated into a 21% benefit to our Solvency II ratio, driven by positive equity markets, higher interest rates and tighter credit spreads.

Thanks to these impressive results we significantly outperformed our capital generation target, one year ahead of schedule; in line with our commitment to deliver strong capital generation to shareholders over time.

Slide 31 – Shareholder Solvency II coverage ratio

Thanks to the capital generation result, our Solvency ratio strengthened further to 218%, up by 36 percentage points from the 2020 year end level.

The Solvency II debt leverage ratio reduced to 28% from 30% one year ago, continuing the downward trend that started when we became independent in October 2019 with a 34% level. We continue to remain comfortable with the debt quantum given our resilient capital position, the capital light nature of our new business, and the strong expected capital generation of the in-force business. As John has referred to, our strong financial position also gives us optionality when considering call dates as they arise in the coming years.

Slide 32 – Delivered target cost savings and continuing to focus on efficiencies

The last theme I want to cover today is our transformation programme.

Over the past four years, we have modernised the business, strengthened the control environment, and improved the efficiency of our operations.

We started this journey in 2017, and, as John mentioned, we have achieved £145 million of overall cost savings one year ahead of schedule. Thanks to our efforts, we have reduced the absolute cost base, while absorbing four years-worth of inflation and broadening our distribution and investment capabilities to pursue growth opportunities in Wealth and Asset Management.

After achieving the original cost target, we continued to invest to generate additional savings. Cost control remains firmly at the top of the management agenda and, amid a constantly changing environment, we will continue to drive operational efficiency to free up resources that can be reinvested to broaden capabilities and expand our propositions.

Slide 33 – Sources of earnings – Expected development

Before wrapping up, we want to provide the usual indications of how we expect the business to develop in the near future.

In asset management, we expect the Institutional book to continue to deliver consistent growth in assets and revenues, building on the strong demand for our capabilities in the UK and internationally.

Retail flows remain sensitive to market conditions in the short-term, but we are optimistic about longer-term prospects given the significant work we have undertaken over the past years to improve and broaden our proposition.

Within Retail & Savings, we know that PruFund is a compelling proposition, but we recognise it will take some time for UK sales to recover. In Heritage, we expect that traditional With-Profits will continue to deliver steady earnings; we have the same expectation for the Annuity book, albeit noting that returns on excess assets will gradually decline over time. We will review longevity assumptions in the second half of this year.

Future+, our version of PruFund in Europe, is clearly a new compelling growth opportunity, but having just launched, it will take some time before it can deliver a meaningful uplift to earnings. Nonetheless, it is worth noting that Future+ is structured like an asset management product, with recurring yearly fees as opposed to the back-end loaded Shareholder Transfer mechanism we have for PruFund UK.

Finally, expectations for “Corporate Centre” remain unchanged going forward.

Slide 34 – Key takeaways

To conclude, I want to reiterate today’s key messages. Over the past twelve months we delivered continued operational improvements and strong financial results; growing our Institutional franchise and making significant progress in both Wealth and Retail asset management.

We delivered £1.8 billion total capital, strengthening our Solvency ratio to 218% and allowing us to deploy capital with confidence as John has spoken about.

We have also set a new target of £2.5 billion operating capital generation for the 2022 to 2024 period. This is yet another ambitious target, comfortably covering our ongoing dividend cost. To achieve it, our priority is to grow underlying capital generation, while we continue to drive management actions to generate additional capital.

I would like to thank all our stakeholders for their continued support, recognising that these results would have not been possible without the commitment of our people, customers and investors.

Thank you.

Closing Remarks
John Foley, Chief Executive

2021 was a good year for M&G, as we delivered strong financial results and further operational improvements. This continued progress makes us confident that the business is now at an inflexion point.

We have built positive momentum on fund flows, extended our distribution reach through strategic investments, launched Future+ in Europe, and continued to drive competitive advantage from our unique Asset Owner Asset Manager structure.

Our actions on capital allocation demonstrate that we are disciplined custodians of investors' money, balancing long-term investments in the business with attractive shareholder returns.

Thanks for watching.

Live Q&A with
Luca Gagliardi, Director of Investor Relations
John Foley, Chief Executive
Paul Cooper, Chief Financial Officer (Interim)
Clare Bousfield, Managing Director, Retail & Savings
Jack Daniels, Managing Director, Asset Management

Welcome & Introduction by John Foley, Chief Executive

Good morning, everybody. Thanks for coming, it is really good to have the office open again, so we can invite you into the auditorium. It is really good to see so many of you have made it this morning.

We have done things a little bit different this year in keeping with the previous couple of years under COVID. We have recorded the presentations, which is good from our perspective, which means we do not have to do them up here live but also gives you a bit more time to look at the information. Hopefully, there are some answers to your questions in there, but it also gives you the opportunity to think about what other questions you might want to pose to the management team that I actually have in the front row here. So, if we get stuck, we have got them to ask the questions.

A couple of things to say before we get started, I am delighted to say that we are joined today by our new Chair, who joins us in March something. Edward, can you stand up and take a quick bow, so that is a job ticked, thank you for that. Also most importantly, thank you to Fiona for stepping up into that role for the last year, it is a very long time and done a great job, thank you for doing that.

I would also like to thank Paul, who many of you may or may not know, stepped up to the CFO role as we moved Clare into a new position, and we wish Paul the best with his new adventures sometime later in the year. I want to also thank the management team, you may know that we had a re-organisation back in the autumn and everybody's role changed in some way or another, so people had expanded roles, or they took on a new role. So, I would like to thank them for the gusto for which they have got on with the job.

But, most importantly, I want to take this opportunity to thank everybody in the company for the really hard work that they have put in, not only in achieving these results, but since we became independent, it is a testimony to everybody's contribution that we are where we are today. So, I really want to thank everybody and with that, over to Luca.

Q&A Hosted by Luca Gagliardi, Director of Investor Relations

Luca Gagliardi: I guess we will open to questions for analysts in the room. I will remind you of two things. First one, take out the microphone from the seats and ask the question into the microphone, otherwise the people online will not be able to hear anything. Secondly, please keep it to two questions maximum, so this way, we can give all of you a chance to speak. Then, obviously, if we have time at the end of the session, we can go back to whoever has got any additional question that have not been answered in the meantime. With that, no further instruction, I see a few hands raised, I did promise the first question to Nasib, so do you want to go first? Maybe introduce yourself, the firm that you are working for and then ask the questions.

Nasib Ahmed (UBS): Thank you for the presentation and thank you for the results, just three questions. First on your targeted acquisition.

Luca Gagliardi: Two questions.

Nasib Ahmed: Okay. I will keep it to two. On the targeted acquisitions. You have done some good acquisitions in wealth management and asset management. Are there any other areas where you think you can enhance your capabilities? Just compared to peers, where do you stand with regards to those capabilities?

Secondly, on the solvency ratio. I saw that you are focusing more on asset management, wealth and reducing focus on life. But as a ratio, if I project the solvency ratio forward, we know asset management and wealth management is less capital intensive than life. The ratio tends to go up over time, so it seems like there is more potential capital returns coming if you are at the 190% now and the ratio don't stop.

John Foley: On the acquisitions, what we have done there is that we have talked to you, since we became independent, about how we think about the business, how we are going to grow the business, what the strategy is. What you have seen us do is actually either acquire by inorganic means capabilities that we frankly did not have. Whether it is in the wealth space or in the asset management space, the acquisitions we have made, whether it be the investment in MoneyFarm or the Ascentric platform or Sandringham. This will provide us with the building blocks to take the M&G Wealth proposition forward at pace, it is our job to integrate these propositions and to scale them.

On the asset management side, we know that sustainability, despite all the questions that are going around in the market today about the different aspects of sustainability, we know it is here to stay, we know it is going to grow, and buying responsibility, as we have, will augment our capabilities, both in terms of sustainability as an investment proposition, because these guys have been doing it for over 20 years, don't forget. But also opens up the opportunity for us to scale that business with a different distribution network based in Zurich. So, with that acquisition, we get a scalable proposition in impact investing in the areas that we really want to grow as an organisation. That is both in terms of private assets and sustainability, obviously; but also gives us a new hub in Zurich, both from a distribution perspective and also an asset management perspective. All that augments what we are doing from a strategic perspective.

What you can expect us doing in the future, we have said before that we are not really interested in scale deals, because they generally speaking, do not work, and there is lots of evidence for that. But what we will do, is where we see the opportunity to accelerate our strategy, by doing more of the sorts of things we have just done, we will do them. That is what you can expect to see us doing in terms of acquisitions.

On the solvency ratio, well, that 160-190% range that we have talked about, that is the first time I think we have talked to the market about that range. That is why when we demerged from Prudential, we were at 170%, and that is why we have consistently said that we are comfortable with 170% because that is within the range of 160-190%. This is not new to us. This is how we think about capital management. That is why we have shown more details about our Capital Management Framework, which is really important that the market understands as we do the first share buyback, which is a very interesting opportunity, I think, for us and for shareholders. We thought it was appropriate to share with the market how we think about capital management, the capital framework, what goes into it, what might be the issues around it. As you can see, it is not clear-cut. There are very many aspects to how we think about the capital framework and capital management generally. But the result of all those machinations is that we are doing a £0.5 billion buyback over the course of this year and from what I have read so far, people seem to be quite happy about.

Andrew Sinclair (Bank of America): Two for me, firstly, just on the debt redemption. I thought it was generally a cracking update today. But perhaps the one area I just wanted to push a little bit, that was on the debt redemption. Why not commit to reducing debt sooner? You do not seem to have expressly stated a time frame from that, I think people are wondering if that is just waiting for calls. Is there any ability, desire, willingness to push to redeem debt earlier than waiting for maturities? That is question one.

Secondly, again, just looking at the capital generation and scope for more capital returns, £2.5 billion target. It looks to me like after dividend costs you are going to have comfortably over £300 million extra a year that is going to be generated over the next three years. How do you think about that? What could be the priorities for deploying that excess?

John Foley: Yes. On the debt question, the way we think about that is that we would not be doing any transactions that are uneconomic for shareholders. So, when debt is trading at a premium to where we issued, there seems little point in buying back the debt at said premium because that is not an economic transaction as far as shareholders are concerned. But we have decided to earmark, as you rightly point out, the £300 million for the first call date on the bonds on the £300 million bond. So, we are not going to do anything ahead of that, July 2024 unless markets change, the rates move sufficiently that we can exercise an earlier call on that. Not that there is a formal call, but we could get into conversation with bondholders around redeeming early. These are tortuous discussions if you have ever been involved in them. We have done them as part of the previous life, and they end up costing you a lot of money. So, for the optics, which is all it would be really, it seems just you are trading off the optics for the economics, and we do not have plans to make that trade.

In terms of the capital generation question and any excess, we live in a volatile world, Andy, so you have already planned out the £300 million excess that we hope happens. But what we have tried to do today is give you a lot of the inputs. We have given you the framework, we have given you the growth strategy of the organisation, we have talked a bit about the types of acquisitions that we want to make. And as we have always said, we have absolutely no desire to keep excess capital that we are not going to use in the business. So, as we have today, we have given £500 million through our share buyback to shareholders, which will probably take us the best part of this year to execute that. The share price today is probably about 10-11% of the market cap that we are buying back. It is significant, so do not expect me to make any comment about that subject at the half year. That is the way we think about it. You have got pretty much all of the inputs to the capital, the way we think about the capital framework.

Andrew Sinclair: Just to follow up on the debt. I realise the debt is trading above par, but if I look at some of your longer duration coupons or tranches that are out there, when you think about the coupons that are going to be paid, it is certainly still trading below the nominal plus the coupons that will be paid over that time. Will there still not be any willingness to look for some of those longer duration tranches and perhaps tender to take some of that off the table if not the full tranche?

John Foley: Yes, we could. I mean, the answer is the spends calculations around this are always tricky. Frankly, we would rather not get into those protracted negotiations with bondholders when we really do not feel the need to. We have got this first call date coming up, albeit 2024, and we have set aside some capital to call that. But, in the probably unlikely event, but you never know, that rates move such that it becomes an economic thing to call it early, well, we will enter those conversations. But there will be conversations with bondholders. You just cannot automatically do these things.

Andrew Baker (Citi): The first one is on the £2.5 billion capital generation, so that compares to I think it was £2.6 billion for 2021 to 2023 that you mentioned at the half year. I know that had the Rothesay Part VII in, so really flat if you exclude that. Is that the way to be thinking about OCG going forward, or are there growth angles and one-offs? I guess how do we think about growth on a medium-term basis there?

Secondly, just on the restructuring expenses. They were £146 million for the year, I can see some of that was Ascentric, other transformation as well as the building and things like that. How should we think about those restructuring expenses going forward versus a run rate?

Paul Cooper: Firstly, on the capital generation target. You are right. The difference between the £2.6 and the £2.5 billion is indeed the Rothesay perspective. But I think what we are able to demonstrate for the past two years is just the capital generative nature of the business. So, I think if you look at the management actions, we have been very pleased with what we have been able to produce over the past two years. That's about £1.4 billion, and I think there are two drivers on a prospective basis of that target. There is one which is we will continue to look for management actions. If you look at the realms of longevity, asset trading, hedging, those are all areas we have been pleased with, along with some of the non-recurring aspects of those management actions. I think the other aspect is just around those management actions, we cannot always tell the timing or quantum of them, so that does come into feature around that target of the £2.5 billion. Some is within our control, other aspects are without our control, for example, regulatory approval might be a component. The other aspect, though, and what you will see right throughout the presentation is the underlying capital generation and we have really been focused on that from both an organic means and an inorganic means. I think the actions that we have taken have really helped sort of underpin and that is where our focus will be to drive out the underlying capital generation.

On the £145 million cost savings, I think that is something that we have been really proud of. We finished that one year early similar to the capital generation that we have mentioned. I think within that, we have been able to absorb inflation for four years as well. I think it shows that we are very focused on cost control and cost management. One of the things around that will be, and one of the things that we will continue to do, is focus on efficiencies on a prospective basis and really look at reinvesting the efficiencies we have gained into growing the business. I mentioned it is complementary to driving the underlying capital generation nature of the business. That is something we will do, but just as a reminder, I know we have made this point in the past, but that £145 million programme was not just about getting efficiencies out of the business, it was also about improving the control environment, modernising the business but really ensuring that the customer experience and the customer journey has been improved along the digital lines. We covered a bit of that in the half year, so there is a broader aspect to that programme, and I think you should expect more of that going forward.

Andrew Baker: I was actually referring to the restructuring expenses below the line of £146 million from Ascentric and what you have done in the building and just how to think about that going forward? Will that be elevated going forward, or are those one-time things?

Paul Cooper: Yes. The aspects of it are very similar. The themes are very much how can we identify efficiencies. That is one aspect, the other one is we know, and John mentioned right at the start that we have got a different way of working, it is great to see people in the room today. But we have spent some money on the hybrid working and looking at how we configure our office space is another below the line investment. That is done. Then if you look at it prospectively, the other aspect is that we have spent some money on integrating the businesses that we have acquired.

Andrew Crean (Autonomous): Two questions. At the IPO, you set some tramlines, not targets for PruFund sales of between £5-£15 billion. You are hovering just below I think at the bottom end of that. Can you give us a sense over the next two years? I mean, you have got the recovery in the UK, which you have talked to a little bit about and you have also got the entry into Europe can you give us a sense as to where that might go over that time?

Secondly, the annuity business. Now that the high court has agreed with you, and you are actually allowed to transfer assets to somebody else. Is this business still core or should we view it as an asset, which you will be able to determine the right time to take action on it?

John Foley: Thank you for those. Let me take the second one first, because it is probably the quickest answer. We have been consistent with our explanation around the annuity business, I do not think we have ever said that it is core. But it is something that we manage very well, we do know our way around that business, it does generate capital and it does give us opportunities as we talk about one M&G as between the asset owner and the asset manager.

However, what we have always said around that business is that we keep our options open. You are quite right to mention, Andrew, that the way we think about that is that if we were to determine that it is not part of our operation or it was not valid to our operation anymore, we are probably in as good a position as anybody else to determine when that right time is and what we do about it, but that is not at the moment.

Andrew Crean: How much diversification benefit would you lose?

John Foley: Clare, on top of your head?

Clare Bousfield: It is difficult to say, Andrew, because of the diversification impacts of it, so I think we show in the capital analysis in terms of the split between the elements between PruFund and the annuity book that give you a sense of the amount.

Luca Gagliardi: Page 31 in the presentation gives you a little bit of idea.

Clare Bousfield: Do you want to take the PruFund while I am still up?

John Foley: Well, why not?

Clare Bousfield: A couple of things. I will come back to the comment around what we disclosed beforehand, Andrew. A couple of things I would say is, firstly, the team at the moment is massively enthusiastic about the PruFund. The performance of the fund over the last 18 months has been phenomenal, and it is absolutely doing what you would expect it to do, and you can see it from the graph in terms of in the pack. From that perspective, it is a great proposition, and it is doing exactly what it said.

Certainly, the pandemic has had its challenges, what we have seen is a shift towards a lot more digital platform, and that has been the big driver in terms of the acquisition of Ascentric. What we are currently doing is basically integrating that, putting the digital front end on to it and putting PruFund onto that platform so we would expect over time to basically see those flows gradually improve. But I think the one thing that I would say, is for me, I am very focused on the three elements of the value chain, so the advice, the help and the support. You can see the acquisition of MoneyFarm, the Sandringham acquisition has been critical, and we have seen a lot of consolidation in the advice market. That is something we are very much playing in, partly because it links to our strategy, but partly also defensive in terms of ownership of the customer. The scale point in terms of administration, if you look at our off-platform capability, one of the best in the market, the platform piece was the gap. That was the acquisition of Ascentric, again, we are very much at the scale side of that. As John said, not looking to do a lot to just buy scale in terms of administration. The investment proposition is fundamental and obviously plays in terms of the asset manager asset owner, we are one of the few in the market who has got a top quartile investment capability. That for us is what we want to basically play on from a wealth perspective. That was partly the reason for the acquisition of TCF, so the discretionary fund management capability, building that out, leaving us from mass market into more like mass-affluent in terms of where we go, but also leveraging the investment capabilities across the business and we leverage our footprint and scale in terms of using third parties to basically give that broad proposition.

So, from our perspective, we are very much in a place where we are building out that capability in terms of where we go broadening out PruFund, recognising PruFund's really strong proposition. So, I am very optimistic but do not necessarily expect everything is going to turn around tomorrow because there is quite a lot of structural aspects that need to happen. Then just to point out on your tramlines, that £5 billion, £10 billion and £15 billion, they were just scenarios, they were not tramlines or targets in terms of what we said.

Dominic O'Mahony (BNP Paribas Exane): I will just try to stick to two. Just on Future+, really exciting to see that rolling out. I wonder if you could spell out in a little bit more detail the structures. I think in your presentation, you say that the economics are more like an asset management product. I assume it is 100/0 rather than 90/10 but, maybe you can spell it out. In particular, could you explain how the distribution arrangement works and how the costs work? Is there an upfront load versus a stream? I realise it is small right now, but I guess it is the model for future rollout.

Second question, just on the dividend, technical point. I mean you say stable or increasing ordinary dividends. Is that a per share commitment or a cash spend commitment?

John Foley: It is a cash spend. If we keep the cash spend stable with the buyback, you will see that the DPS will inevitably rise, depending on what price we buy the shares back at, but it is likely that will rise.

In terms of Future+ obviously we cannot give away any commercial arrangements that we have with the distributors. We think of it as an Institutional product, and Claire has talked about that in the past. We do not own the end customer. Clearly, the reason we started in Italy, for example, is that there is way over €1 trillion of cash on deposits with banks, and they are not making any money, right. This is a first step into investments, it is really an important one. As we know from a track record perspective, it is a really good one. We believe the traction that the product will get will be very strong. However, it is early days. We only received regulatory approval towards the end of December. First sales in January or the end of January, so we are yet to see the proof of the pudding. But then we will roll that out and probably on different commercial terms as dictated by the different markets. We will probably elaborate on that this time next year when we see what is happening with the proposition.

Charlie Beeching (KBW): It is encouraging to see continued positive momentum within retail asset management in the period with a significant reduction in net outflows. Are you expecting to see positive flows this year, and what might derail that?

Just a follow-up on capital, it does seem like you have increased the level of Solvency II comfort from 170%, which I believe you did mention at the demerger.

John Foley: Sorry, Charlie, I did not get that last bit. Can you?

Charlie Beeching: It seems like you have increased the level of Solvency II comfort up from the 170% that you mentioned at demerger up to the 190% mentioned now. Could you just discuss the reasons for this? If so, would this be subject to change over time, for example, back to the 170% level?

John Foley: Okay. In the asset management business, yes, we have explained the medicine that we have been taking in retail asset management. The overall flow position in the business is strong, as you have seen, we have been in net inflows this year, so that is a very good position. The institutional business continues to do a great job and had another great year. On the retail side, we have launched new propositions. We have cut our fees, so we are more competitive. We have sought to review how the funds performing in slightly different ways. We have talked in the past about taking risk deep dives into the funds and having a more team-based approach and so on, which is not surprising given the success of the with-profit fund, which is how they manage that fund. So, there is no one particular thing, all of that has, I think has culminated in this position. The momentum is strong, so far this year we are in positive territory, which is good, but with the macroeconomic and geopolitical environment as it is at the moment, you would not expect me to predict where that might go. The one thing I will say, though, is that we honestly truly believe because we worked hard on this, we have the right propositions for customers, people want what we are now delivering to them. That has made a big difference, so the momentum in the business, the morale in the business is palpably stronger than hither to. So, Jack, was there anything you would add to that?

Jack Daniels: I want to just add a couple of things. I think we laid out six months ago, twelve months ago, what we were doing around the retail asset management business. John has covered a number of them. There were about four things that we were focused on.

One was the value for money points, and we reduced the fees and we have managed to reduce those fees and also maintain that top line revenue within the asset management business, so I am pleased about that. The feedback we get from clients now is that price is not an issue on the retail side anymore so that is very positive. Secondly was around proposition and relevance of proposition. What we are seeing is that some of our existing funds that are floating rate in nature or inflation-linked are getting some good flows as we see rates go up and inflation becoming an issue. Some of the funds we launched three years ago, Positive Impact, Listed Infrastructure, some good three-year numbers coming through, so we are getting some good traction there.

Then we are launching a new range of products around sustainability, so climate solutions, better health, diversity and inclusion, and they are getting a lot of interest from some of our intermediary clients. Third area was performance, we have seen an improvement there, still more to do. Performance is a bit volatile, particularly in some of our older and larger funds, but some of the newer funds coming through, performance is much better.

Then finally, working with our intermediary clients on what we call solutions, which is not necessarily distributing funds through their network, but working with them on more bespoke arrangements and developing strategies that they want, and they know that their clients want. That is important because you tend to see less volatility in flows in those solution products, and the pipeline there looks good. I think that is the other thing, pipeline does look pretty strong at the moment, as you can see the capital queue on the institutional side that is in the deck, but on the wholesale retail side, we are also seeing a decent pipeline.

John Foley: Thanks, Jack, then on the Solvency II question, look, we are a capital generative business as we have clearly demonstrated today, we like to think we are good custodians of shareholder capital. We want to be, in today's environment with the geopolitical macro uncertainties that there are, I think being at the top end of that range is a good position to be in. We do not manage to those exact percentages either, we do not take action at the point of 191% or 159%, but it does trigger a debate, we may take de-risking actions below 160%, we may not but it depends on the market environment. What we tried to do is just give you the context of how we think about it, so the rate of the Solvency II range, the thought process that goes behind the strategic acquisitions that we make, balanced against the returns to shareholders and how we think about share buybacks and so on.

So, I reiterate the point that if we have not got any interesting acquisition opportunities, then we will return excess capital to shareholders. But that obviously will depend on the macro environment, and it is a little uncertain at the moment. We are very happy to be doing the £500 million buyback, as I say, that will take the best part of the year, we think. Did I answer your question, Charlie?

Charlie Beeching: Yes, although it's not totally clear.

John Foley: Yes. Sorry, to be clear then, we would prefer to be operating within the range. But, in a normal, whatever normal market environment looks like, we have not had a normal environment for a while, but when we ever get back to one, we would expect to be operating within the range. But, the last three years, two-and-a-half years, we have had some interesting macro things to worry about, so we prefer to be at the top end of the range for reasons that I think are obvious. That said, notwithstanding operating at the top end of the range, we are still delivering for shareholders, keeping the dividend level and giving back a further £500 million as well as setting aside £300 million for the call on the bond.

Luca Gagliardi: Maybe, Charlie, the only thing to add there is that you said we increased the level of comfort from 170% to 190%. The 160% to 190% framework has always been in place internally since we demerged. So, we have not changed anything we have simply given the transparency externally and we were comfortable at 170%, as John said, exactly because it is within that range, so nothing has changed in a way, it is simply a different transparency that we are providing to you guys today.

Mandeep Jagpal (RBC Capital Markets): Two questions from me, please and in the absence of Gordon, they are both on mortality. First one is you announced £125 million released today, which is around 20% of the operating profit.

John Foley: Sorry, I do not know if others are getting this. I find it hard to hear you.

Mandeep Jagpal: You announced £125 million of longevity release today, which is a significant proportion of operating profit this year. Please could you let us know the split between base table releases and longevity improvement assumptions for this year?

Secondly, I noted in the press release that it states "future improvements in the assumptions will be a key focus in 2022 and alternative approaches in determining portfolio specific assumptions will be considered" so I assume the alternative approaches are required as the CMI ignoring 2020 and 2021 data. Could you just give us any insight into the approaches that M&G will be taking when taking these assumptions and the direction life expectancy is looking like it is going in, in your book?

John Foley: Thank you for those questions.

Paul Cooper: I will take that. If you look at longevity, really essentially the move from CMI18 to CMI19 that influenced our results was broadly neutral this year. Then, if you look at CMI20, we do not expect significant changes from adopting that either and I think that is principally if you look at the COVID environment, we have not taken any benefit in terms of changing assumptions from that perspective. I think that is partly what we were referring to, I think that is pretty consistent with the sector from that perspective. Now for the more specifics around the company, you would know that in 2020, we had quite a meaningful longevity release. As Claire mentioned before me in previous results presentations, a lot of that was to do with really examining the base mortality model and getting comfortable with refinements to the data in getting basically more, let us say, more comfort around that. So, that triggered the release in 2020, we have seen more of that come through in 2021, which is the 125 but just not to the same extent as 2020. Then prospectively, we would expect again some release but nowhere near the size of the 2020-2021 outlook. I think going back to the general view around the balance sheet, we are still pretty prudent from that perspective.

Alan Devlin (Goldman Sachs): A couple of questions, one on the acquisition of responsAbility, is that going to be managed as a boutique using your distribution or would that be incorporated into the wider M&G strategy? And if boutique, would we expect further similar type of acquisitions?

Then the second one just on capital and following up from the last question. What is the outlook for management actions and asset trading in 2022, particularly in this volatile environment? Does that make it any tougher or actually give you opportunities?

John Foley: Sure. Thanks, Alan. You take the second one I will take the first one. In terms of responsAbility, it has got a great brand in Europe, and it has a really strong reputation, so our strategy there is to actually, how would I say, distribute more product through it both ways. So, any of these acquisitions that we make, it is about what they can do for us and what we can do for them. We have a bigger distribution network, for example, so we will be able to scale that proposition more wont we Jack, so that is the point of buying it. Would we do more to accelerate the strategy? Absolutely, people have said, you are quite acquisitive because we have bought four or five different businesses. We have looked at a whole a lot more since independence, and you can understand the reason why, we identify what our gaps are, and we want to fill them quickly because we want to get on with it. You may see some more of those types; they do not really move the needle in terms of earnings. That is why they are small, and that is why we give you the aggregate number. But they are really important in terms of building blocks for what we are doing and how we see this business growing over time. I can also see us acquiring more teams and integrating those into the business.

We have not done anything in that regard since we did the Port Meadow team back in the end of 2019, but we are always on the lookout. I think the proposition that is M&G today with the power of the seeding from the asset owner to the asset manager is a very strong proposition for people who want to get on and do new things apropos the Catalyst team that we put together. That is a fantastic proposition, it is also to be working in that group of people, 25 people globally, looking at these opportunities, there are not a lot of people out there who can do that. I would not say it is unique, but it is quite a strategic imperative for us, it shows you where we are going. Naturally, we get questions around the mutual fund business, which is very important for us. There is no doubt about it, but, in terms of where we are growing, where we want to accelerate the growth, it is in the areas that are interesting, and frankly, where you can charge more by way of fees. Paul?

Paul Cooper: Yes, capital and management actions. I think it is similar to the earlier point I made, so that if you start out and look back on the past two years, £1.4 billion of management actions is pretty substantial and something we are pleased with. If you go back further to pre-public days, we have got a good track record of delivering on management actions. I think that should give a degree of comfort around that £2.5 billion target that we have set out today. I think if you look at the nature of that, certainly it goes back to what I said, we do focus around longevity, asset trading, hedging. We have covered off longevity in the earlier question. Certainly, to your point around volatility, we could see that that could provide potential opportunities for greater levels of asset trading on a prospective basis.

I think the last point is I would go back to what we have laid out today in terms of investment and building the business really which is not only to focus on the management actions, which we do have that track record of, but also to build out the underlying and generate that and grow that.

Steven Haywood (HSBC): Two questions, please. In the presentation webcast, I believe, Paul, you said there was £10 billion underlying cash in the Heritage portfolios. Can you just say is that discounted or undiscounted? Can you split that between the with-profits and the annuities business?

Secondly, quickly on the PruFund. Year-to-date, has there been any negative UPAs?

John Foley: You go first on the PruFund on the UPAs.

Clare Bousfield: On the big funds, there has been no negative UPAs, we launched PruFund Planet at the end of last year, and those funds are in the process of basically investing fully in all of the different asset classes. So, in a number of places, they have had been invested in public assets, whereas we buy out the private assets, that has caused some volatility in those early periods, but those were in very small funds in terms of impact.

Paul Cooper: Then the point I made in the script is. if you look in the back, really all that we were highlighting and, in the appendix, you see a point about the annuity capital generation that is thrown off. Really that should give a degree of comfort around, both I guess, the capital generation on a prospective basis, but also the ability to underpin the dividend. It goes beyond that, though. There are a number of other things like asset management and the capital that is thrown off by that is also another component.

Luca Gagliardi: Steven, for your specific question, the cash is not the present value of the cash. It is just how much cash will be going through the times. The chart shows you the in-force book, so its annuities, traditional with-profits and PruFund sold to-date. Just to be clear, it is only underlying capital generation. It excludes management actions and so on and so forth. We do not provide in this deck the split between traditional with-profit and annuities. We did in September 2019 when we demerged, we had a chart that provided you the shape for the underlying development for the annuity book. There is no reason to believe that it would have fundamentally or massively changed. Obviously, there are always movements here and there, but that gives you a good idea.

Larissa van Deventer (Barclays): Just two quick ones. You mentioned a 30% leverage target, is that an IFRS or Solvency II basis or otherwise? What calculation basis should we use? The second one is, you mentioned efficiencies on costs going forward. Shall we think about cost growth then being inflation related or should we add a buffer for growth?

Paul Cooper: Yes. On the first question, it is very much a Solvency II basis. On demerger, we were at 34%, and we have always said that we look to reduce that, and I think the steps taken bring us to 28%. Then as John mentioned, we have earmarked the additional £300 million. I think from a cost perspective, again, what I mentioned earlier, and one of the things we have been pleased about is the ability to absorb inflation over the past four years, and we have demonstrated that. I think the general aspect is we remain very much focused on cost; it is a high priority for management. But one of the things that we will be doing is looking, as I said, to reinvest the efficiency savings we get back into the business from a growth perspective. You will know looking around the room, we are very much a people business, so that is a great proportion of our cost base. And I am perfectly willing to and happy to invest in people, either from a retention perspective or from a talent perspective to acquire them to grow the business further.

Rhea Shah (Deutsche Bank): Just two questions for me. The first is going back into this investing into the business idea, how would that be split? Not looking at reinvesting the efficiencies, but in terms of the excess cash that you are generating, how will that be split between organic investment into the business and then inorganic bolt-ons and M&A?

The second question is, a lot of the Solvency II gain in 2021 came from market gains, now that is being crystallised into cash, how is your attitude to Solvency II investment risk changing? Would you look to reduce your market sensitivities?

John Foley: You can take the second one, Paul. So, how do we think about organic versus inorganic and which areas of the business? Predominantly, as you have seen, the M&G wealth proposition is potentially a fantastic proposition, we have got the end-to-end building blocks for all manner of different distribution to our customers in the UK, so whether that is robo-advice or whether it is direct or whatever. It is important to actually consolidate that and then build on it, and we will continue to do that. So, hopefully, you will see more of that going on.

In terms of the asset management side of the business, it is about sustainability, it is about making sure that we have the right positions in private assets and solutions, Jack has talked about that earlier. It is something we have always done, but it is a real growth area for us. The market would dearly love some of the capabilities that we have in this space. And we are attractive as an employer to people who have these capabilities because we already do it. So, they bounce ideas of one another and make the proposition that much more compelling from a corporate perspective. That is what you can expect from us going forward on the acquisition trail.

Inorganically, yes, absolutely, I mean I think the Catalyst team is entirely inorganic, fair to say, and organic, I should say. There are not many firms that could get £5 billion allocation of funds and then build a 25 person team globally to actually execute on the proposition, where they have already achieved £1.3 billion. They have already deployed £1.3 billion into different strategies, and we are talking about private assets here. So, these capabilities are going to be in demand for third-party clients, which is the whole proposition of what we are about with M&G, is seeding new propositions that benefit the internal client that we then sell to third-parties that you know.

Paul Cooper: Yes. On the second question, I mean, directly from a sensitivity perspective that we have put out in the appendix, you can see the risk sensitivities we are exposed, and we are very comfortable with that. What I would say more broadly, though, is that we have got a strong investment team that is constantly looking at the strategic asset allocation and the classes of investment we might want to either go into or increase or decrease. That is on a dynamic basis, so it is not just a case of looking at the great gains we have got from the market perspective in 2021. But you will know that, and John referenced it, we have been through pretty volatile periods over the past, well, certainly since demerger. And as a consequence of that, that team is constantly looking at, call it optimising the strategic asset allocation and the returns within a risk appetite so defined. So, we are very comfortable with where we are now.

John Foley: I think there are two things that we are very focused on as a team. One is costs, and we have tried to demonstrate that with the acceleration of the target that we talked about before. But I can assure you that is a focus of ours, the other is on capital generation and management actions, in particular. I think I said in my remarks, if you read them, that in the five years I have been in this job, we have generated £6.7 billion, £3 billion of which has been management actions. It is a very strong focus for us and will continuously be. It will not be the same every year, obviously, and it will not increase year-on-year, but we are very focused on this because it is a source of good income for shareholders.

Andrew Crean (Autonomous): Last two more questions. Firstly, if you believe John Glen is going to allow you to reduce your capital base by 10-15%, that is going to push you back over the 190%. Are you prepared to take the politically unedifying decision of handing back that ill-gotten gains back to shareholders?

Secondly, I am clear that you can dodge this question, if you want. IFRS17 in broad construct, you do not write annuity new business, with-profits business under IFRS4 is very, very conservatively accounted for, can IFRS17 be broadly neutral to you?

John Foley: To the first question, we will see. I mean I was at a function recently where the debate it seems to me is still raging. We have heard the Bank to be very clear that, overall, they do not expect any windfall capital gains by any changes that might happen as a result of Solvency II. So, on the one hand, you have got the politicians, and on the other hand, you have got the regulators. I do not know where this will end up, but we will definitely tell you how we are thinking about it when it is resolved. Paul?

Paul Cooper: IFRS17, so we have got a programme running. It is well underway, making good progress. I think to your point though and for the question, the majority of the business that is growing is completely unaffected by IFRS17 from a growth perspective. Then if you look really at how we run our business, it is completely off the Solvency II basis, so the dividend, capital generation, the solvency levels are all Solvency II. More to come in IFRS17 when we adopt it in 2023.

Dominic O'Mahony (BNP Paribas Exane): Two more questions, if that is okay. In the presentation, you mentioned that you recently cited to distribute £1.5 billion from the with-profits estate. Can you just help us understand how that is going to impact shareholder capital into cash? Is it remittable that the portion of that that it contributes to the shareholder? Indeed, is this at full year 2022 or 2021? Is it already in the numbers or is it new?

Then second question, you have been relatively acquisitive. Lots of very exciting capabilities that you have already been speaking about, I wonder if you could give us a little bit of a sense of the economics, a bit of the business cases for those acquisitions. It sounds like in the way you described them, you see significant synergies, mainly on the revenue side from cross-selling products and the like. What sort of IRR are you expecting on some of those deals?

John Foley: Paul?

Paul Cooper: Yes. The first one on the £1.5 billion it shows the strength of the with-profits fund. In essence, the way that that comes through is it gets apportioned out to the policyholders and then, basically, as they cash in, we get up to, or around one-ninth in terms of the shareholder transfer. That will come through in the future as claims are made. Can you repeat the second question, sorry?

John Foley: Just on the IRRs and the acquisitions. How do we think? I mean, the acquisitions are pretty small in terms of cost, and we are not breaking down the numbers as we have discussed earlier. Clearly, this is about acquiring capability, so we have given you the overall cost of these acquisitions, so you can better apportion the capital generation to the different elements as we show on slide 12, I believe, but I could be wrong. So, I mean any large-scale acquisition, of course you think about in those terms, but we are a capital-light business. So, we are expecting to push through product or push product through these. As I said, both ways, the important thing here is both ways, it is about putting product through those capabilities and also taking their products and pushing it throughout. I give you a very clear example of just that, which is when we talk about PruFund in Europe or as we call it Future+, we are using the asset manager distribution network to put the proposition into Europe. I mean this is what we have been talking about for the last three years, now I think you can see that we have got this inflection point where it is all coming together.

Luca Gagliardi: I am not sure if there are any other questions in the room. There was only one submitted online by Farooq Hanif from JP Morgan, it is probably more Paul material. He is asking about model changes that contributed to management action in full year 2021 and future scope for such changes?

The second question is around cash remittances. How should we think about cash remittances going forward? And how linked will they be to operating capital or total capital generation?

Paul Cooper: Yes. From the model change, in the nomenclature, we call it the major model change, but that is the sort of the application is when we put it into the PRA. We got a benefit this year, it was less than £100 million in terms of capital generation, I think it goes to the point that John made earlier, just around including the suite management actions. Looking at refining and improving our internal model is one of those tools available to us. We will look to continue to refine that on a prospective basis. Clearly, that is dependent very much on regulatory approval before we can take the benefit of that, and I am pleased that we got the approval for that major model change at the back end of last year that enabled us to take credit for it.

I think from a remittance's basis, you will see that the general principle is we have got some very strong operating subsidiaries that generate strong capital. And we distribute that and remit it up to HoldCo, what you will see is we like to have at least one year of outgoings at the HoldCo level. Then essentially, what dictates the pace and quantum of how much we will distribute up is really conditional upon the economic returns that are available within the subsidiary versus those that are available at HoldCo and the demands of that cash, so that is what will dictate the remittances.

Luca Gagliardi: Perfect. Good, I think there are no more questions. We can close it there, thank you very much for joining us today.