Prudential's Asset Management Businesses:
Strong performance, positions and prospects
Friday 19 May 2006
Session One

Mark Tucker
Group Chief Executive, Prudential plc

Good morning and welcome to our presentation focused on Prudential's Asset Management businesses.

All three of our operations – M&G in UK and internationally, PCA Asset Management in Asia and PPMA in the United States - are highly successful, and you will of course be hearing much more about the drivers and dynamics of this success during the day.

Overall profitability has doubled over the last five years, even though share prices are broadly at the same level as five years ago, so we are not riding on the back of share price inflation.

2005 was a particularly strong year in terms of net flows, which increased by 58 per cent to just over £5 billion and at the end of 2005 the Group had £46 billion of external Funds Under Management. This momentum has been sustained in 2006 performance to date, with M&G net inflows up 38 per cent on 2005; and Asia net flows up almost 150 per cent.

However today we do not simply want to tell you how well we are progressing. We want to go a bit deeper. First, we should like to give you a feel for what underlies the success in each case. They are three very different businesses, with different operational targets, performance challenges and success drivers. All three though share the common feature that their ability to deliver results is underpinned by really excellent and sustained investment performance.

Second we shall be painting a picture of where each stands today in its markets in terms of external fund management operations; and giving you some idea of our market ambitions and the development strategies we shall be pursuing to build further on our success. As you will see 'optimising opportunity' means different things in each case and the role of PPMA in particular has been intentionally very different from that of M&G and Asia.

Finally, in addition to their role as external fund managers, these businesses play a vitally important role as the managers of our with-profits and unit linked insurance funds.

The consistent outperformance we have achieved for these funds has been a major source of competitive advantage and has created significant value, which we can apply flexibly to benefit policy returns, pricing and profitability depending on product type and our view of market opportunity.

These businesses add value to the Group directly through their retail and institutional fund management activities, through their contribution to the success of the life operations and as a cash and profit generator for the Group.

You will notice I refer always to 'the three businesses' and this is a conscious decision on our part. We have not created a single combined 'global' fund management operation. This reflects our view and experience that close relations with the regional life operations and a measure of regional management integration are one of the prime requirements for successful delivery of investment performance, matched to local customer and local distribution needs.

However this does not result in a 'regional silo' mentality and you will see throughout the morning areas where the operations cooperate. The businesses work very well together, and we continue to look for opportunities to expand cooperation where there is a commercial benefit in doing so.

In the course of the morning we shall be introducing you to a number of senior members of the team, who will be talking about their particular areas of activity. They are of course the visible tip of the iceberg. Performance of the

type Prudential's asset management teams are achieving is built upon expertise, flair and teamwork at all levels. We have a great team, with strength in depth.

If you don't already, I am sure at the end of the morning you will conclude, as we do, that our asset management businesses are a key strategic asset. That covers everything needed from me by way of introduction, so I shall now hand you over to Michael McLintock.

Michael McLintock
Chief Executive, M&G

Thank you Mark, good morning everybody. I just want to spend a couple of minutes briefly setting the scene briefly before handing over to Leandra Knes Johnson of PPMA. As Mark has said to you, this is explicitly a regional asset management model. There are three asset management businesses, each one covering the three geographies in which Prudential operates. So PCA Asset Management in Asia - £26 billion of assets under management growing fast, covers the Asian markets; M&G here covers the European block with £149 billion under management and PPM America with £41 billion under management covers the American markets. And there are many models in asset management and everyone will think that theirs works well for their particular circumstances; we’re very clear that this works very well for us. We’re close to our customers, we’re close to our markets and as importantly, we are close to our key staff so that the regional management knows exactly how morale is and who’s doing what on the ground in their particular markets.

At the same time we do work well together; we manage money for each other on a very clear regional basis, so America manages the American assets, Asia manages the Asian assets and in M&G we manage the European assets and there’s very little exception to that. We sell each other’s products, that’s a growing area of interest for us. The most notable way in which we’re making a lot of progress here is with the sales of M&G product into Asia through PCA Asset Management. We share credit research, that’s particularly strong between London and Chicago and I think a lot of the shared credit research that we were able to put through during the bear years of 2001/2/3, explains much of our very good performance on the fixed income side during that difficult period. And we share Life fund accounting on a common platform here in London.

Now the programme for this morning, I’m going to hand over to Leandra to talk about PPMA and then Ajay will talk about PCA Asset Management and then we’ll have some questions and answers if there are any in the break and then we’ll move onto M&G specifically where I’ll give an overview, Phillip Johnson my Finance Director will talk about the numbers, Simon Pilcher who heads up the wholesale and fixed income activities will then give you the low-down on all that and then John Foley will talk about Prudential Finance; and then another break and I hope you all won’t run for the door at that point because there’s some good stuff to come, with Martin Moore talking about the property business and then Gary and Will doing their own special on the Retail business which I think you’ll enjoy.

Just a quick word about Gary and Will talking about M&G’s Retail business; you’ve probably read in the news and we put out an announcement that Gary, who was head of M&G’s UK Retail Business, has moved over to Prudential UK to work directly for Nick Prettejohn, running a number of the important business lines there and we are very excited about what that offers us in terms of the scope for shared activity between us and the UK business. Before Gary went over to Pru UK he ran the UK Retail distribution business and Will ran the International distribution business and with Gary going over, we’ve pooled those two divisions together to create a single retail distribution operation. So Gary will talk about it with the context for where we are now and then Will will tell you about how we see things going forwards.

Leandra Knes Johnson
President, Chief Executive Officer and Chief Investment Officer PPM America

I see many familiar faces out in the audience and I’m conscious that a number of you were with us in Chicago for our briefing last November. So I’m actually going to give you an abridged version of PPM America. However in November we did not discuss our strategy so I would like to highlight that; additionally we did not spend a lot of time on cross group collaboration, although as both Michael and Mark say, it’s been really essential to PPMA’s success. So I will dwell on that a bit more this morning as well.

PPM America was founded in 1990 and is headquartered in Chicago. We manage a little over $72 billion in assets primarily for our affiliates. We are the number three asset manager in Chicago as named by Crane's Chicago Business following Northern Trust and Nuveen; Nuveen aced us out by less than a billion dollars I might add! In any case we additionally find that the recognition of being third largest is very helpful to our recruiting effort as well as adding scale to PPM and giving us good bond allocations. We hope you will agree that we have a wide range in expertise across both bonds and equity although we are primarily a bond shop.

PPMA's strategy is to be a manufacturer for Prudential of strong US bond and equity performance. What I mean by that is we are primarily an internal investment manager and certainly our focus is on institutional towards that end. In fact the red sliver which you can barely see on this pie chart that says 1 per cent represents our external bond mandates, although we are looking to increase that particular piece of the pie. You'll hear a bit about that today.

When I say we are an internal manufacturer, it's probably best to give you some examples. One perfect example is our partnership with Asia. We produce bond product for Asia. The 7 per cent piece of the pie, representing our Asian AUM, would actually have been non-existent if we were presenting in 2000. We have grown from zero assets in Asia to close to $6 billion now by manufacturing products for them. In many ways, it's the perfect partnership within Prudential. We produce performance and through their strong distribution capabilities, they're able to sell product throughout the Asian region. So that is a good example of how we look seriously at growing our external business.

The US market is a little different. It's highly competitive on the institutional side which means that fee levels are razor thin, sometimes in the 6 to 10 basis point level. So I think you'll agree with us that if we can achieve our target performance bogey of 25 basis points, year in and year out, on the $72 billion that we manage, it's in fact the appropriate way for us to provide maximum value for the Prudential shareholder. So that is really our strategy: to focus on making sure we are an excellent manufacturer for Prudential, hence providing value through performance to our shareholder.

This slide shows how we're organised. Again those of you that were with us in Chicago will see it's very similar to what we presented before. The blue boxes on the bottom show our assets under management and asset types, so it's divided by how much we manage in the various asset categories. That set up is fairly typical. The red boxes represent firm wide functions. The two that flank the outsides - Workouts and Operations and Finance are also fairly typical for an asset manager. But today I would like to spend a few minutes on the other two boxes - Portfolio Management and Credit Analysis.

We consider these two areas to be strong, competitive advantages. On the portfolio management side, it's the embodiment of our client focus. We have people that we call client quarterbacks, people that call the plays within the firm for our clients. They are the people that make sure that our clients achieve their business objectives within PPMA. We'll talk a little bit about that process in a second.

Credit underwriting where we have always been a credit shop, not a duration shop. We have eighteen analysts which cover our forty industry sectors. Fourteen of those senior analysts have over eleven years experience each and the other four junior ones carry about three years of experience. A unique thing that occurs is we underwrite and go to committee on each and every name that goes into Jackson's portfolio. I know of no other US insurer that does this. Rather others tend to rely more heavily on rating agencies. Again, we're proud of our credit analysis function and consider it a strong competitive advantage.

So, how has all this turned into performance numbers? Well, we're proud to say that on the matrix which we determine with our clients on an annual basis; Jackson did very well. On the loss provision side, we had a $20 million credit exposure loss bucket versus $135 million used in pricing. You may think that $135 million is arbitrary but in fact, it is not only the number which is used in our pricing provisions, but additionally is determined based on quantitative research using such analysis as the Altman default Study. So that is a fairly rigorous number on the Jackson portfolio that we manage.

The entry spread level is really telling you how much we were able to achieve using private placements and other kinds of assets. We were also able to provide 18 basis points of excess spread over the general public bond index. It sounds like more when you recall that in 2005 that OAS was close to 80 or so, so it is quite a variance and we're proud of it. Last but not least, our corporate return again, at a bogey of 25 basis points, came in at 43 bp for a one year and 46 bp over the index on a three year performance horizon.

Our UK fixed income side also did extremely well. On the one year side we knocked the cover off the ball with 77 basis points versus a 25 basis point performance target for the one year and 23 bp for the three year. We hired a very strong mutual fund manager from Merrill a few years ago named Tony Balistreri. Tony manages the Life fixed interest fund and has really excelled within PPMA. This could be another example of an area where we

could increase external assets. Tony would be a strong candidate for manufacturing mutual fund type performance that perhaps Asia or M&G could distribute. This is another way that the red 1 per cent line I showed in the first or second slide, might increase.

On large cap equity - we will go over that really quickly, because we under performed last year! Actually what occurred was we have a value equity strategy and as most of you probably know, last year some of the wonderful value related stocks, particularly retail, auto and apparels, started the year looking very cheap, so we invested in them. Bad news is, they ended the year even cheaper so we underperformed by 70 basis points in the first year. However our value strategy is a long term investment strategy. In fact we have outperformed the S&P in eight of the last thirteen years and the value index in five of the last six; this was the only year we did not. Additionally the good news is, we pretty much already made the underperformance back already year-to-date because those sectors have come back in 2006.

Looking at Asia, we manage about thirteen different funds for Ajay's team. We look at upper quartile comparisons for those funds as they vary all over the board. Additionally his growth has been so rapid again, going for zero to 6 billion, that sometimes it's almost difficult to get index comparisons. One of the accounts we manage for Ajay has 2000 per cent turnover because his team is so adroit at bringing in assets under management. So although it is little difficult to get index comparisons, we feel we're doing well on the Asian side as well.

Alignment with client objectives - we have developed performance matrices annually for each and every one of our clients. I've mentioned Jackson's; but we would also meet with Ajay's team as well to make sure that we have Asian client objectives. We then design them to be consistent with their business so that we make sure that they are happy with the kind of performance we're delivering. We have 90 per cent of our compensation based on our investment performance and with the goal of manufacturing US assets, we think that this is the appropriate kind of target. The other 10 per cent is based on cost control and productivity. We then publish these metrics across the firm.

We use a highly technological method, so I'm actually hesitant to share it! It's a one page sheet and green means good and red means bad. I'm making light of it, but by publishing a one page sheet to everyone within PPM America, from the receptionist to the most senior portfolio manager, which has established client metrics along with how we're doing year-to-date, I cannot tell you the power that it has had in changing behaviour across the firm. It's been quite motivational and key to our recent success - basically ensuring there is clarity around where the team needs to go, and publishing those appropriate metrics on a regular basis. We do that monthly. Additionally every quarter, we have all employee meetings where we put everybody's results up on a screen. That also has a powerful motivational effect.

This slide is difficult to read but it is in your handout. The point is to remind you of Jackson's focus on cost control. I'm sure you remember that from November. PPMA is no exception. In fact, here you will see that amongst our 130 peer group in the United States, which have a 22 basis point cost, our cost are much less at nine basis points. With our internal focus, it's very important we keep costs in control.

The next area I want to focus on is cross group collaboration which is an extremely critical part of our success. We have a lot of cross-group collaboration. It has been going on for a while, but it is true to say that, under Mark, there is an enhanced focus and priority on this. Basically, there's three areas I would like to address with you this morning, although there's actually a number beyond that. The first is IT - that is the fect area to leverage expertise across the firm. And there are so many examples of it; I have just listed a couple of examples on this slide including CDS pricing systems and ABS systems. The point is we are always looking for ways that we can share costs in a highly expensive area and share technology in an area where it's critical that we, in financial services, be leading edge.

The second area that I'll address is credit underwriting. Michael alluded to this, and we have a wonderful relationship with Simon Pilcher's team, which I'll go into in just a second in more detail. When I say that we support M&G's synthetic CBO business, though, I want to be very clear, we do not make the credit decisions there, but we rather give them, access to our database and conversation flow on any US names. They do the same for us on the European side, and it's very synergistic. The third area is back office operations, again, we share a lot on contract negotiations, and additionally things like lessons learned on bank loan processing again. This is also a relatively long list, but I think you can envision that any kind of focus on sharing best degree practices has been very positive for the entire group.

I know want to spend some time discussing PPM and M&G credit underwriting collaboration. We feel that this has been an invaluable tool over the last few years - really the last five for us, where there's been heavy emphasis on cross group cooperation. M&G provides support and opinions for all of our European issuers and

vice versa for their US names. This is not an ad hoc situation but a formalised process. Remember, we have a committee for every name that we invest in. In that committee, we ask the credit analysts the M&G opinions. Now, that doesn't mean, given our clients' focus and parameters that we might not invest in a name which M&G did not. But let me tell you, it is very rare that we proceed on a name which M&G in Europe is bearish on, and it is with a lot of caveats and management understanding as to why we are doing that. We strongly respect and appreciate their opinions. So, obviously, their knowledge base in the market here is invaluable to us across the pond. Additionally, there are bi-weekly calls between Jim Young and Steven Wilson-Smith…our Chief Credit Officer and M&G's head of credits. They discuss market conditions and specific names. There are also regular face to face meetings.

Last, but not least, our goal is really to work together to make sure we not only find opportunities for each other, because over the years we've become very conversant with each other's investing techniques, but clearly to avoid blow-ups, which leads on to my next slide.

Over the next two slides I will give you a couple of examples of how this co-operation works in practice. The first example is Dana Corporation. I'll be honest with you, this is my favourite example because it reminds me of an Oliver Stone movie in terms of its timing.

Dana Corporation is an auto parts supplier, which M&G held in a synthetic CBO. This CBO only triggered a sale when there was a bankruptcy. So you could have credit deterioration and hold a name, but you needed to sell before bankruptcy. We had been speaking to M&G about this for a while, but a week before Dana filed, we told M&G that we were feeling very bearish about the company. Of course, they sold out, Dana filed and we all rode into the sunset together. So that's my favourite one because of its timing, but I assure you, there's numerous less dramatic ones.

Parmalat – we really tip our hat to the M&G credit folks for this one. Parmalat was the darling of the US private placement market from '97 to 2002. It was heavily marketed and my team had lots of pressure to invest in it from investment banks but they, in conjunction with M&G's feedback, felt that it was not the appropriate place for us to play. You know the ending to that story. Parmalat filed in 2003. Neither M&G nor PPMA had any exposure. This all sounds relatively easy in hindsight, but I assure you, before this occurred; it was a heavily pushed private placement in the US market.

OK, I can't possibly finish my presentation without pontificating a little bit on the US economy. Basically, we're consistently baffled with the textbook numbers that it continues to produce. We have had a lot of wildcards thrown at us – oil, budget deficits, war. It just seems to keep going. It's delivering textbook conditions, year in and year out. We do think corporate fundamentals are strong, and sincerely so. We meet with most of our management regularly, and balance sheets are in good shape.

The flip of all this is we are not the only shop in the US that has figured this out. US Corporate spreads are quite tight. So you'll hear in a second that we've actually gone away from credit in some of the Jackson sectors. We are underweight high yield – bottom line here is we do not feel you're appropriately paid for taking a lot of risk in the US right now. So, if anything, due to strong corporate fundamentals, we're side-lining here. You'll see in a second that our high yield exposure's at a pretty much an all time low in Jackson now.

Remember that Jackson is a portfolio that funds liabilities, so it really pays us to be asset-liability neutral. However, in terms of strategy, we are at the lowest credit investment levels that I can certainly remember, in my ten years here. We are concerned that you're not being paid to take corporate risk, and as a result, we are in more in higher quality structured assets instead. Additionally, even within the corporate portfolio, we're quite defensive. We tend to be underweight on things like technology and telecommunications and overweight banking and brokerage, which is unusual for us. Additionally, on high yield, we have a higher quality portfolio than we normally have and less exposure, both strategically and tactically. You'll recall that Jackson decreased their allowable investment amount on the high-yield portfolio several years ago, from 10 per cent to 8 per cent. And tactically, we're actually at 6 per cent because we feel that right now, you're not paid for quote "junking up the portfolio". It's tempting because we're trying to find places to garner spread, but we do not think now is the time to dip down into low-B or triple-C land – you're just not being paid for it.

I should have put this slide up at the beginning of my presentation, as it says it all. The problem loan portfolio remains very stellar for Jackson with only about $15 million of book value. So we think this is proof that our process has been working. Additionally, Clark Manning, the Chief Executive of Jackson National Life, was very vehement when we had much higher levels of problem credits a couple of years ago, that we needed to take our hard medicine then. As a result, you can see this strategy has worked. We now have a very clean portfolio at Jackson.

Now for my splashy ending. In summary, an investment management shop is basically its people. Our attrition rate at PPMA is half the US industry, where voluntary attrition is about 6 per cent, whereas US financial services voluntary attrition tends to run at 12 per cent. I am very proud of that statistic and it has been the same for the last 5 years. What I am most proud of is our strong highly credentialed people without whom we couldn't possibly deliver these kind of results for shareholders.

And finally, along with our people, you will have heard today, and will hear more as the morning progresses, about how important being a part of the Prudential global network is to us.

So with that said, I'll turn it over to Ajay.

Ajay Srinivasan
Chief Executive, Fund Management, Prudential Corporation Asia

Good morning everyone. During the course of my presentation what I'd like to do is just present to you the Asian fund management business, talk about its position in the markets in which we operate, its performance, and its prospects going forward.

Let me start, though, with the key messages I'll be delivering through my presentation. First, Asian markets are large, growing rapidly, and very attractive. In November 2004, when I presented to a group of analysts in Ho Chi Minh City in Vietnam, I set out seven reasons why I said the Asian market was attractive. These were the large population, the growing wealth, the high propensity to save, the low penetration of mutual funds, the continued trend toward professional wealth management, regulatory reform and the economics of the market. All those reasons are still valid today. But what I want to focus in my presentation, is really the growth of household financial assets and the growth of the Asian mutual fund market since you were out there last.

Second, I'd like to share with you the three ways in which Prudential creates value. We do this through solid and consistent fund performance, for both our internal and external clients, and by delivering profitable growth across our wide geographic footprint. We believe we have today a distinct and advantaged platform in Asia, and I hope to demonstrate that through the presentation. Last, I think as a result of our track record and the tremendous growth opportunities in Asia, we believe we're ideally positioned to take advantage of the fantastic environment in which we operate. Let me now turn to why we believe Asia's an attractive market for Prudential.

This chart shows the strong growth in household financial assets in the four years ended 2004 for Asia, ex-Japan. As the chart here shows, household financial assets increased by 15 per cent per annum over this period. Equally interesting though to us is the fact that two thirds of this growing pool of household assets lies in cash and deposits. Let us now look at the same data with Japan included. With about £7 trillion in household financial assets, Japan is quite simply a £7 trillion gorilla. Japan clearly dominates the Asian landscape today in terms of financial assets. Including Japan, the growth in household financial assets drops to 10 per cent - not one you would describe as a pedestrian growth rate. Even with Japan included though, you'll notice that cash and deposits still account for more than 60 per cent of the £10 trillion of household financial assets that lie in Asia.

Having seen the growth, let's now turn to see the pool of household assets in Asia, including Japan, and how that compares with the US and the UK. Only two points really to make on this chart. One, if you look at Asian household financial assets, they're sizeable – more than half that of the US, and close to three times that of the UK.

Second, back to the point I've been making so far, as the solid red column here shows, there are significantly more readily-investable assets in Asia, in the form of cash and deposits, than in other parts of the world.

Moving onto the mutual fund industry and the growth in this sector. The mutual fund industry I think has been one of the beneficiaries of the growth in household financial assets. The industry has grown strongly over the last four years, as shown by the 20 per cent increase, but exceptionally strong growth in 2005 driven by stronger equity markets, for one, but also stellar growth in Japan and Korea. As the table on the right hand side shows, Japan dominates the region, in terms of the mutual fund market. All the markets put together are less than the size of Japan. And yet, although Japan is the world's second largest economy, it ranks only ninth in terms of the world market in terms of mutual fund size. Equally evident is the dominance of north Asia and the rapid growth in

markets like China and India. Japan and Korea together account for 80 per cent of the Asian market. And if you see where China was back in 2002, you'll see it's come from the back of the pack to become the third-largest market in Asia.

The growth in the mutual fund industry at a rate faster than household financial assets, has meant that penetration has increased quite smartly. However one only needs to look at the proportion of mutual funds in household assets in Europe and the US as this chart shows, to realise the substantial potential for future growth. In household financial assets of £10 trillion today and growing sharply, a 1 per cent increase in penetration levels translates to £100 billion increase in the size of the assets of the industry.

With that backdrop of the market what I want to now do is move onto talking about something even more exciting, the growth and development of our business in Asia. Let me start now by setting out what we do, how we earn our revenues and how we add value. Simply put, we do three things and these are set out at the bottom of the chart there. First we manage the Asian Life Fund plus allocations from the UK Life Fund, the out performance we generate on these funds creates value for the group. Second, we work with our Asian Life companies to help design, manufacture and support the sale of investments and products, which I think as you know is becoming increasingly important part of PCA. Third, we have built and continue to build a material and profitable Mutual Fund business across Asia, and I'll talk in more detail about that. All these sets of activities are held together by the combination of regional centres of excellence and local market knowledge and I think that combination makes our model quite unique.

When we set out to build this business in Asia and over the last few years that this business has grown and developed, we've relied on these five pillars to both inform our strategy and monitor our progress. The customer sits at the heart of everything we do and as I've just described, we have three kinds of customers. There's the internal life client and the external client, be it an individual or an institution. For the internal client our aim is really to deliver top quality product and performance. For the external customer however, our approach is a bit wider. We set out to build a leading presence in markets in Asia where the opportunity was large and where we believed Prudential had significant competitive advantage. We then looked at the market to identify where pools of assets lay and in future would lie, and then built products to meet these customer needs. We then set out to build multi-channel distribution, adjusting our model based on the different country markets, because every country in Asia has a different distribution model. And finally, we set out to build them a heritage of the Prudence icon and to create a trusted retail investment brand.

Going step by step, I want to talk to you first about the Life Funds and then ILPs and then the Mutual Funds. So starting with the Life Funds first, this slide basically demonstrates the value added to our Life Funds, through a tactical asset allocation and through active stock picking. As you'll notice on this chart, we have a very strong track record in both Asian Equity, as well as Asian Fixed Income, over one year and three year periods. If we take our four biggest Life Funds and look at the value added by our out performance against the benchmark, we've added close to £200 million of value in the last three years. Moving onto Balanced Funds for our Life clients, I think these benefit from our track record on both the Equity side as well as the Fixed Income side, and overlaying all of that of course is the tactical asset allocation.

As the chart here shows, through a combination of tactical asset allocation and stock selection, we've added considerable value. In fact our Singapore Managed Fund, which is about £800 million has probably the longest track record in Singapore and has a track record second to none. In the Fixed Income arena we're continuing to build up a very strong track record, as this chart shows, our cumulative returns on our Asian Fixed Income portfolios is comfortably ahead of the composite benchmark. Our performance in managing the ILP range for our Life companies has been equally strong, as the table on the right demonstrates. And the table here really shows that the ILP's we managed are the Hong Kong and Singapore which are down for about 60 per cent of our total ILP's and usually they are market benchmark or a peer group depending on what the mandate is for us to manage them. The investment link product accounted for 63 cent of PCA's APE in 2005 and we believe this performance has and will continue to support the growth of that product line for PCA.

Moving now to our Mutual Fund business, I'd just like to share with you some of the key milestones in the growth of this business. Our first Mutual Fund business was set up back in 1998 in India, as a joint venture with our partner ICICI. Today that business is ranked number one in the private sector with assets in excess of US$6 billion. In 1999 we entered into a joint venture with the Bank of China in Hong Kong, primarily to enter the Mandatory Provident Fund business. Today that company is ranked number four in the Mandatory Provident Fund sector and manages assets of about $4 billion. We acquired a company to enter Taiwan in late 2000 and

that company today manages close to $4 billion. We had Greenfield start-ups in Japan, Singapore and Malaysia in 2001. Our business in Japan, as Leandra referred to, has raised close to $5 billion today, and both Singapore and Malaysia are top five in their markets. In late 2002 we entered Korea with an acquisition; the fund there has tripled since we acquired the company, to well over $6 billion today. In 2004 we launched our Luxembourg domiciled range of products and continue to grow that product line extensively. And finally in 2005 we obtained licenses in China and Vietnam. As some of you may have read, we launched our first fund in China last month and raised $375 million from over 77,000 Chinese customers.

As a consequence of that geographic expansion over the past few years, what we have today is a wide geographic footprint which allows us to track growth opportunities across a wide range of markets in Asia, while at the same time controlling risk through the diversification event. But merely planting flags in many countries is clearly not our strategy, as the table on the right shows, we build substantial businesses in each of our markets and are continuing to grow our market share across the board.

As the chart on the left hand side shows, we've been fairly successful in growing our retail franchise with an estimated customer base of over 1.7 million people across Asia. In terms of products, we've been looking to increase the margins on our business by moving to an equity rich mix of products, as this charts shows, we've been reasonably successful in doing that. Equity now accounts for 36 per cent of our mix compared to half that amount in the same time in 2003. When we consider that this is on an asset base that has grown from £6 billion to £11 billion over the period, I think you will start noticing the impact that this will have on profitability.

Moving to distribution mix, as I said earlier we have adopted a multi-channel distribution strategy tailored to our local markets. Every market in Asia has its own distribution mix: China and Singapore are dominated by the banks; Japan, Korea and India have a more reasonable mix between banks, security brokers and individual IFA's. And therefore it's important for us that we tailor our model to the market in which we operate. We operate through various channels therefore across the region, including banks, security brokers, our own branches that deal with walk-in customers, agents and financial advisors of different shapes and sizes. We estimate in total that we probably have over 40,000 points of sale across Asia, allowing our customers to access us when and where they choose.

This chart is merely indicative and what it's meant to show is really the strength of our partnerships in the region, and by no means is an exhaustive list of the distributors with whom we work with. We've seen banks increase their share of the distribution by almost every market in Asia, and we think we're indeed fortunate to have a number of leading local, regional and global banks as our distribution partners. At the same time the security brokers account for a large part of the pie in markets like Japan, Korea and India, and again I think we're fortunate to have some really strong relationships in that area.

This chart gives you a quick summary of the performance of our Mutual Funds and demonstrates the strong performance that underlies our asset growth. We aim to have three fourths of our funds in the upper half against the peer group and as this chart shows, we built a good track record in support of that goal.

I talked earlier about the strength and heritage of the Prudential brand. What this chart does is looks at a piece of work we did to gauge our icon awareness against that of some of the other leading brands in the market. As the chart here shows the awareness for the icon is a big strength for us and something that allows us to build the retail investment brand I referred to earlier. Recently we've been awarded the most trusted brand in Singapore, in a process where customers alone voted for the brand that they trusted the most. This is something that we truly cherish, because it recognises exactly what we're trying to build.

As Michael McLintock mentioned in his opening, there is an increasing amount of work that's going on between the Pru's various fund management businesses, and I think Leandra referred to a lot of that as well. What we've done in Asia is launch some of M&G's most successful products across a few markets there. What I wanted to do at this stage was just share with you a very short TV commercial that we used to launch the Global Basics Fund in Singapore. What this TV advert meant to show you is how we're leveraging what we have in the Group but then tailoring it for the market in which we operate in.

ADVERT

In her presentation, Leandra referred to people, Michael referred to people, and I now want to refer to our people. People are at the heart of our business and I think in many ways we are as good as the people we have.

We believe we're really fortunate to have some of the best talent available in Asia. This slide does is give you a sense of the diversity of the team as also the makeup of the team. On the left what you'll see that we have over 900 people in our business across Asia and we have what is really a multicultural team. This brings us the local knowledge that I referred to earlier in my presentation. On the right hand side we have the aggregated functional split of the team, showing that roughly half our team are in sales and fund management and the other half in support functions.

In growing a multi-country presence like ours in Asia, one of the things we have consciously done is to build regional centres of excellence, this not helps us keep costs under control but allow us to avoid reinventing the wheel and to rollout initiatives across all the countries that we want to roll them out to. We have two geographic locations where these centres of excellence reside. In Hong Kong we have our regional equity team, which manages financial mandates and also overseas our individual country teams. Also in Hong Kong we have investment services, IT and risk management. In Singapore we have our regional product development team that works with each of our countries and also with other parts of the Group to deliver products. Also in Singapore is our regional operations platform and our regional Fixed Income team. These regional centres of excellence work with each country to drive standards and to allow a sufficient rollout of initiatives and to allow us entry into new markets in the most effective manner.

Moving next to numbers. This slide shows a strong growth in our funds under management, as captured by the chart on your left. As of Q1 2006, our fund was close to £28 billion, the highest it has ever been. Mutual Funds are the single largest source of that fund, accounting for 41 per cent of the total. As we announced with our first quarter numbers, we had a record first quarter in terms of net flows. On the right hand side is a break up of those funds under management, based on where it is managed, as against where it is sourced. Given most of our UK and Asian Life monies are managed from the regional centres in Hong Kong and Singapore, you’ll see that they account for the largest chunk of the pie. You'll also notice that while we have a fairly large business in Japan, on the pie chart the fund looks quite small because our funds are managed either by Leandra's team in the US or by our regional team in Hong Kong.

The strong growth in our top line, backed by the changing product mix has meant a really strong growth in our underlying profitability. As the left hand side chart shows, our Q1 numbers were strong, with a year on year growth increase of about 100 per cent. I must add though that the first quarter is a time when there is a timing difference in some entries and often some write backs with bonuses but while these numbers are not material, what I want to do is caution you against extrapolating a 100 per cent growth for the rest of the year.

As the chart on the right hand shows, we are now seeing the benefits of economies of scale coming through, with our cost as a percentage of net revenue decreasing smartly. This chart shows the benefits we derive from operating leverage, as the chart shows our fixed costs and this includes people cost, property cost, depreciation, IT; has reduced as a percentage of our total operating costs and has grown frankly slower than our top line. This is in spite of our growing our businesses from 7 operations in 2001 to 10 operations in 2005; further increasing revenue therefore should translate to improvement in operating margins.

I just want to end this section with a couple of slides that show you how this growth translates to our position in a regional context. This slide is derived from the work done by a magazine, called Asia Asset Management and shows that in terms of money sourced from Asia ex-Japan we ranked fifth when the study was done last. This is an annual study and it will be interesting when the study is done next in June this year to see what the ranks look like. There is a lot of good news on this slide, but I think the good news for you is I do not intend to go through all the awards we won! All I want to say on this slide is that 2005 was a record year for us again, in terms of awards and it does feel good when a number of our ventures, and you’ll see many of them on this chart, with awards for a variety of things from customer service to brand, to advertising, to fund performance and for being the best fund house.

To end this section on the position and performance of our business then let me just summarise, as I started out, by sharing with you why we believe we have a distinct and advantage platform in Asia. I have shared with you the geographic footprint we have built and the advantages of that. We now have nine operations across Asia with scale. I have also demonstrated the growth of our retail franchise across all our ventures - 1.7 million customers and growing. I have talked about the advantages we have built in terms of designing and delivering products to our various clients. The multi channel distribution we have put in place and the reach we have built with that has also been discussed with you - 40,000 points of sale and growing. I have shared with you our fund performance and the strength of the people and systems we have. And finally we have seen that all that has

translated into good financial numbers with economies of scale, strong net flows, strong growth in top line and even stronger growth in the bottom line. I think it is this combination of factors, not just one or two but the combination of the factors that makes our position distinct, advantaged and unique, and that is what gives us confidence that we believe we have a platform for sustainable, profitable growth into the future.
Let me now therefore just move ahead to the last section of my presentation and talk a little bit about the future. In order to tell you where I think we're headed, let me go back to the blocks I used to describe our strategy earlier on. In terms of geography first, we have seen continued strong growth in our established markets and believe there is plenty of room there for future growth. The North Asian markets that I discussed earlier, dominate the landscape for the Mutual Fund industry today and we've seen very strong growth in our Japanese and Korean businesses in the last two years. Since I last made a presentation in Hiroshima in 2004, our Japanese fund has grown by 73 per cent and our Korean fund has almost doubled since then. North Asia therefore remains a key area of focus for us. I've also mentioned our successful launch in China and the rapid growth of that market and this is a market we will look to deepen our presence in, through broadening distribution and through offering new products.

In terms of new markets, we're looking at entering into the Middle-East this year, through an office in Dubai. In terms of customers next, we've seen a very strong growth in our retail customer base and we will look to continue the growth of that area. Our target retail market segments, mainly the mass affluent customer is a growing part of the market, you just have to look at the demographics in China and India and the number of people getting into the middle class over the next few years to understand what this market is going to look like in the next 5 to 10 years. But in addition to this, we see two interesting developments. We see an opportunity to migrate to the high network segment at one end and to grow the life cycle funds that we have launched so successfully in Singapore and Korea through our Life businesses.

We're also gearing up to respond to the retirement needs that are emerging in Asia, through the demographic changes in some of the larger markets. In terms of product we see a continued opportunity in the offshore product range, be it our own Luxembourg domiciled products or M&G's range of OEIC's. We've also had success in launching structured products, mainly as deposits to move money away from the banking system into the Mutual Fund area, and we believe this will continue to grow.

We announced a few days ago in the press that we are launching a joint venture with PruPIM in Asia to enter the real estate arena across the Asian markets and I'm sure Martin Moore will cover that in more detail in his presentation. Finally we had very good success in our Indian business catering to the high network segment of the market through segregated accounts and we believe there are opportunities to roll this out to other parts of Asia in due course. In terms of distribution, we believe we will continue to increase the depth and breadth and of our multi-channel approach, strengthening our strong relationships in each country but then adding and building on the strong relationships we have with global players.

So with that, I come back to the messages I started with. The Asian markets are large and attractive. Prudential Asset Management creates value in multiple ways, has an extremely strong track record and has built a distinctive and advantaged platform in Asia. And finally we believe through the platform we built and our track record, that we are ideally positioned to benefit from the substantial opportunities that lie in Asia. Thank you.

Michael McLintock
Chief Executive, M&G

I now want to give you an overview on M&G; we regard the business and the drivers of the business as pretty simple. The bedrock obviously is clearly investment performance. We’re an active investment management house and therefore we have to be able to deliver good consistent investment performance to have a right to occupy our space in the market. But if we can do that then we ought to be able to generate net sales and if we can generate net sales then we accumulate assets under management and we’ll be generating profits growth. And of course crucially we’ll be generating cash and that’s one of the critical reasons why Asset Management fits well within Pru’s portfolio of businesses because we are a big cash generator and we are not a capital consumptive business. Of course, profits will come if you also control your costs and I think and I hope you’ll agree by the end of this presentation that we’ve got a good track record of controlling our costs.

So how have we matched up against those criteria? On this slide are some of our retail funds, I can’t fit everything into the slide but over the last three years 41 per cent of our retail funds, our unit trusts, are top

quartile. A more significant statistic I think is that over that same time period 24 per cent of our funds, 24 per cent of the total universe of equity funds, (we have a bigger range than almost anyone else in the market because we are the oldest group and one of the biggest) 24 per cent of our equity funds are top decile over last three years. And that's a critical point because as fund flows in the market are increasingly concentrated, money is going to people who don't simply have top quartile performance but you've got to be in the top decile to get the money. It's a fiercely competitive market.

On the sales front, taking our sales as a whole, in 2005 we had record net sales of £3.9 billion. And in first quarter of this year we've already achieved 45 per cent of that total. So the money is coming in through the door in good volumes at the moment.

And then profits – our underlying profits are up 150 per cent since 2001. That's a period over which the All Share index has actually dropped and I think particularly in the earlier phases of that time period, 2001/2002, our profits' performance was notably good relative to our competitors, reflecting our good control of costs early into the bear market. And again taking the quarter one 2006 figure, our profits are 42 per cent up on the same figure a year ago.

So at the moment M&G is performing exceptionally strongly. Why is that? First and foremost as an active investment house we are clearly totally dependant on our people. We do have a very good team and a history of good people retention. At the M&G board level, we have an average length of service of 16 years and the retention rates through the fund management team are equally high.

So we've got good stability of staff which is an absolutely critical factor in a good asset management model. Why have we got good stability of staff? Well I think we pay them reasonably well and that's obviously vital. You can't guarantee you're going to pay your staff absolutely top of the tree and even if you did that wouldn't guarantee people would stay with you. There's got to be something else that keeps people in the organisation - what makes M&G different is that we have an investment led culture which we believe is absolutely fundamental to our business and to staff retention. M&G is not a sales driven business. We love sales but we're not setting out simply to try and pump money in to the latest fashion or fad. We look to put the investment case first, the long term investment case. And investment integrity runs through our thinking and that is vital in attracting and retaining good investment managers.

A further factor is that we operate a very devolved management structure. We don't try to refer everything up to a central commissariat and take all the decisions at the top. We consciously farm everything out and down. Authority is devolved in this business, consistent with the view that the smaller the business entity typically, the more focused it will be and the better the decisions and the better disciplined it will be in running its business. So there is lots of freedom down the organisation for people to get on and run their particular part of the business as they see fit. And that gives rise I think to the entrepreneurial environment we have here. We do have a very good track record of innovation. We are always coming up with new ideas, investment led ideas, bringing new products to the market, and you'll hear more about that later.

And finally, we have a very well diversified model. We've got assets in all the major asset classes of scale and that gives us the balance which I think was a very important factor behind our very strong profit performance during the bear market.

Looking next at our market position - we have almost precisely the same amounts of assets invested under management in fixed income and equities and we have £17 billion in property and £500 million in private equity. It's difficult to exactly establish our exact market position as the data is unreliable but we're certain we are one of the largest fixed income managers and we think we're in the top two fixed income managers. We are virtually certain we're the largest active equity manager in London. Our typical position on the share register of the UK quoted companies is 2.3 per cent and we are one of the top two institutional property fund managers in London. So we have scale in each of the main asset classes.

Just to talk a little bit about some industry themes – the opportunities and the challenges. On the challenges side of the balance sheet the demand for alpha is clearly a major driver in the asset management market today. The days of delivering a sort of 'index plus a little bit' product are dead. There are lots of factors behind that, fundamentally I think it's due to lower market returns and higher fund management fees which means that it simply doesn't wash to come out and try and provide a sort of closet index product. If you want a closet index product why not go and get an index product because people are now offering it for virtually no fee.

So if you're going to attract money you've got to be offering genuine alpha. And this was a very important factor behind the delivery of our very good equity investment returns because about four years ago we took a good look at our equity process and realised that we were constraining the portfolios too much in a number of areas. As a result, we freed the whole process up and this has really come through in the real alpha that we've added on our equity funds over the last few years.

Another challenge is the demand for non-correlated returns, simply the fact that there's an increasing appetite out there to invest in assets which don't behave in line with the conventional quoted equity and fixed income markets. Both our internal clients - the Life Fund and indeed the annuity fund, have a tremendous appetite for accumulating more efficient diversified portfolios, investing in these non-correlated and new asset classes. So that's given us a chance to respond to this trend early.

Boutiques and hedge funds are another challenge – the asset management industry is always regenerating itself and that's one of the great features of the industry. There will always be new people starting up whether it's in boutiques or hedge funds and that's life. It's clearly a significant challenge for us, with £149 billion under management and 2.3 per cent of the London market, you could say we're a bit of a leviathan. How do we create an environment that keeps really good people? That's been a big challenge for us and I hope you'll agree that we've pretty well succeeded in that through the culture that we operate here, keeping things small, being investment led, giving people freedom.

And finally, inter-mediation – this tends to go under the heading of disintermediation. I never understood why it is disintermediation, to me it's intermediation. There are intermediary bodies coming between us and our end client. Most obvious on the retail side is the growing proportion of our business that is going through IFA's rather than direct to the end customer and then the emergence of these new fund platforms such as Cofunds, Fidelity Funds Network, Selestia etc, who are an extra mouth to feed in the feeding chain and we've got to be able to take care of them and pay them their dues too. So it becomes increasingly difficult for us to know who our end customer is and we have more mouths to feed when getting our product to market.

On the opportunity side of the equation I think there's a continuing shift from opaque to transparent savings vehicles. We live in an age where transparency's a great buzzword and it's certainly true in the savings market. Savers today have a preference for wanting to put their money in straightforward investment vehicles where it's clear what the underlying product is trying to do and what the charges are. And I think that's a very strong underlying trend running in favour of unit trusts / OEIC's, call then what you will; it's the same thing to us. We happen to operate Open Ended Investment Companies here but it's the same as unit trusts.

Concentration of fund flows is another opportunity – it's much more a winner takes all environment than it ever used to be. We saw this trend in America some while ago and the UK has gone down that same path. So if you've got the sweet spot performance, money will come to you in much greater amounts than you would have expected 7 or 8 years ago. But if you haven't got the performance you can expect to lose the money. So it's a much more volatile market but if you're in the right place it's a good place to be.

Open architecture - I think there are very few banks or life insurance companies left who are going down anything other than the open architecture model. The idea of actually simply having a tied fund management product that you're trying to stuff down your customers' throats, that really looks like a passé idea and banks and life insurance companies are now wanting to offer their customers the best of what's out there. And that's a very powerful trend in our favour because of our distribution model and because it opens up lots of distribution channels that were previously closed.

And finally portability of product – changes in regulations and the opening up of international markets means it's now possible to sell a single product structure, in our case the Open Ended Investment Company, the OEIC, across the world. So we are selling exactly the same fund with exactly the same performance track record into Europe and into Asia in the markets of Korea, Singapore, Malaysia.

Turning to our strategy, we pursue distinct strategies according to the type of business that we're addressing here at M&G. The internal type of business, this is satisfying the needs of our massive internal clients - the Life Fund and the annuity fund. And here most obviously we're looking to create value through delivering either out performance or just as importantly on the annuity side, liability matching. And it's these clients that have developed this voracious appetite for moving into non-correlated asset classes. And our strategy has been to

build up our skills base to provide the sorts of fund management skills that will meet that need as the assets shift into non-correlated asset markets.

On the institutional side, the great opportunity here has been to take those skills that we've developed to meet the need of our internal clients and build third party revenue streams and new profit centres. Simon Pilcher will talk about this strategy later this morning.

On the retail front, we've got this great opportunity to get maximum leverage from having portable products that we can sell around the world and great investment performance so our strategy here has clearly been to put the foot hard down on the gas.

Looking next at Prudential Finance's distinct strategy which John Foley will talk about in more detail later. This is a wholly new profit stream that we've created over the last five years that's come together as a result of managing the Pru's balance sheet and combining it with our very strong positions in the equity and fixed income markets here in London.

Will and Gary will talk about the retail side in greater detail, but it would be remiss of me not to give some mention to the strength of our retail investment performance. I can't really trump the Jeff Prestridge quote on the right hand side of this slide. The performance of our retail funds is extremely strong. I'm not here to knock the competition; we have friendly battles with Invesco, Fidelity and Schroders and of course many others. All I'm showing here is the fact that Invesco, Fidelity and Schroders probably are our most obvious rivals in terms of size and the number of funds that they operate. This graph simply shows you that relative to them we currently have got significantly more funds in the top decile over three years. If you took the entire universe of our competition there would be people with more funds in the top decile - I think New Star and Artemis would be there, but they have many fewer funds than we do. The players on this graph are all bigger and longer established.

So the message I want to leave you with today is that M&G have been applying a consistent strategy now for a number of years and we're reaping the benefits. It is a powerful combination having exceptional fund performance and a very strong profit growth and it puts the business into a sweet spot. We are firing on all cylinders, with very strong performance whether its in equities or fixed income or property or increasingly our alternative asset classes. With that I'm going to pass you on to Philip who'll talk about the numbers.

Philip Johnson
Group Finance Director, M&G

Good morning everyone. The key metrics for assessing the performance of any fund manager are relatively simple and today I'm going to talk about M&G's exceptional sales and profit performance, and three ways in which M&G distinguishes itself. Firstly the diversity that we have in our business in terms of revenue and profit streams. Secondly our top line growth, a growth that's driven by more than just markets and thirdly our record in driving this gain to the bottom line.

It might be hard to believe but over the past four years average UK equity market levels are actually flat although in between there's been some more interesting times. But at the same time M&G's profit has actually doubled, in fact, at an underlying level up 150 per cent or over 40 per cent per annum over the past three years. This is a long history of out performing markets so the question is how have we done it?

Well firstly our revenues are exceptionally diverse, far more diverse than might appear from just looking at our funds under management. This £150 billion of FUM equates to almost £400 million of revenue in 2005 and a good split between the asset classes. Allied with our strong product capabilities, market presence and the new opportunities we uncover in each of these areas this gives us an ability to prosper in a wide range of market environments. And you can see on this slide the very significant growth in revenue that we've had over the past five years. I should point out the specific numbers behind this slide are in the appendix. The first key factor is markets. This is obviously important as it is to the business model for any fund manager. And to give you an idea of the sensitivity, every hundred points on the All Share is roughly £5 million to our revenue and every 1 per cent parallel shift in the yield curve, if that were possible across the whole range, is another £5 million.

But markets themselves are less than half the story. In 2005 we put on £60 million of revenues and markets only contributed some £20 million of this figure. There are three main ways in which we are growing faster. Firstly, new activities which we are developing such as Prudential Finance, Property and Structured Credit which you'll hear more about later, and these activities contributed some £20 million of the revenues. Secondly, we have increased our fees in areas where we had very strong performance and fees that were below market. This increase only contributed £3 million in 2005 but the fees only went up at the start of quarter four. And finally, new business, which can be a very powerful gearer to the progress in the fund management business, contributed some £15 million. I'd just like to talk about this in more detail.

The slide here shows our net new business, not our gross but our net, because net is ultimately what drives revenue and profits. You can see our record in delivering funds under management over the past four years. During this time frame our external FUM has gone from £20 billion to £36 billion – that's 16 per cent per annum – despite the fact that '02's inflows were offset by declining markets, so it's really more like 25 per cent per annum over the past three.

On the retail side you can see the impact of the sweet spot that Michael outlined between performance and the very strong distribution capability that we have in our business, together with the international expansion that Gary and Will will talk more about later. The South African business, although it is separate, has also had tremendous success. The same drivers - the best performance in the South African market together with some market leading product. Overall these retail sales numbers were triple the previous full year record in M&G's history.

On the institutional side you see the benefits of the diversification between the numbers of different products and channels and the continued innovation we have in developing new areas. In particular I want to draw out Structured Credit and Property - these are attractive because of three main reasons; the flows are big, they have very high retained fees and a long life span. Just as an example, a leveraged loan CLO can be €375 million in size, we keep 70 basis points on an average life span of 10 years so it is very good business. This new funds under management clearly brings with it new revenues, and the slide shows how we have developed this over the past four years. The bottom line is that this is £35 million of revenue that did not exist in 2001.

We run our business deliberately for maximum scalability. For example, our European business, although we have local sales teams on the ground, uses the same retail marketing infrastructure and distributes the same OEIC as we distribute in all markets. And this cost discipline is key to M&G's profit performance.

Within M&G we do keep a very close eye on costs but this is a people business and the majority of our costs is people related. The critical aspect here is ensuring our incentives are aligned with the key drivers of value to both our shareholder and our clients. And we've consciously done this. Bonuses for example in the front office are paid on investment performance and our LTIP, our long term scheme, is driven by profit growth geared by investment performance. This alignment does however mean that if the individuals and the business are performing exceptionally, our costs will rise - I suppose if there is a good cost in this business that should be one. However, we have a very strong record over the past five years in absorbing these costs, in fact if the LTIP that we put in after the acquisition was not building to maturity, 2005 costs would have been the same as 2001.

Next looking at cost progression, we reacted very early to the bear market and took out £40 million of cost from our business, which clearly didn't have an impact on the effectiveness of delivery. At the same time we have invested in the business and will continue to do so. We run the business in a series of bottom line focused units taking a long term view. We are not obsessed purely with costs, and a great example of this is our European business. It was difficult when we launched, in fact our European business was losing £15 million at the bottom. It would have been too easy to have closed it if we had just focussed on the cost line, but we believed in the proposition, we did pay close attention to the cost line and took out £5 million but our faith in the business has now been repaid through very strong growth, the business is now profitable and a key driver of our future prospects.

The combination of the revenue expansion and this cost focus has driven our cost income ratio down by almost 20 points over the last three years. This ratio compares well with our big multi-asset peers who are around or even over 70 if you believe some recent disclosure. But in a growth cycle, when the value of new revenue acquisition far exceeds the benefits you can get from cost synergies, we must not miss opportunities to spend to accumulate where this makes sense. However the key point is that we are keenly aware that we must pick these

areas carefully, remain focussed and disciplined to our strategies, and ensure there is more than commensurate revenue gain to benefit from the natural gearing that we have in this business.

As I've said, we run M&G on a bottom line basis, and here I have shown the diversity of the profit streams, far more diverse than a simple analysis of our funds under management might suggest. We have five main business lines within M&G, but these business lines work together, not in isolation. For example we have recently taken our leveraged loan product from the institutional line into the retail area, and our securities lending business clearly works very closely with the internal clients. And this diversity gives us a number of options for growth in a variety of cycles.

We hold our investment income in Central rather than allocating out to the businesses, plus small unallocated central costs such as internal audit. In the right hand pie chart I have split out the two parts of Prudential Finance, that's Prudential Finance and Securities Lending. Over the past four years, this diversity of underlying profit has stood us in good stead. The internal business provides us with a very strong, stable base. Its importance is not so much in the underlying profit, but it supports innovation, new asset classes and our infrastructure and it allows or even encourages us to take these capabilities outside a higher margin. In addition, although not shown on this graph, we have the potential for earning significant performance fees through our internal client, and I will touch on this in more detail in a moment.

Within the external business lines the two main areas of growth have been Retail and Prudential Finance. The growth in Retail in particular shows the classic sweet spot of any fund management business with strong net sales and market appreciation aligned with a very strong discipline on costs. For example we took out £12 million by outsourcing our transfer agency business in Chelmsford, this was a complex project, delivered on time and to budget.

One business that is not shown clearly on this split is our Property unit. It is an autonomous business unit and as Martin Moore will tell you about later, it has doubled its profits over the past two years to £27 million. It's one of our main business units and is very important to us.

On top of our underlying profit, we get a substantial contribution from our performance-related fees. Our performance-related fee line, the top of the two on this slide, is predominantly from our life and annuity fund clients and it's critical for you to note that these fees are aligned with the investment demands of our client. For example the Life Fund pays its fees on the four main asset classes that we manage, on the relevant risk adjusted benchmark over a rolling three year period, aligned with the long term horizon of that fund. These fees can be positive or negative depending on whether we out-perform or under-perform, in a range of approximately plus £25 million to minus £15 million which shows in a sense how exceptional '01 and'02 were, when all the main asset classes were at their maximum. In the long run we target an outcome of £8- £10 million, which we have been delivering consistently over the past three years.

The carried income line comes from PPM Capital, our private equity business which has an exceptional track record. It has delivered 18 per cent per annum returns to fund over the past 17 years, that's 8 per cent above the relevant public equity benchmark per annum, and verging on the top quartile if you believe the Sunday Telegraph. As Philip Broadley, Group Finance Director of Prudential plc mentioned at the '04 and '05 full year results announcements, it is important to note that these numbers were exceptional and we do not expect them to recur.

As we look forward into the future, we see additional areas where we will be earning performance fees; for example, in the Institutional area where people increasingly are not willing to pay active fees for passive performance, but are happy to incentivise us when we deliver that out-performance. And on Absolute Return, which Simon Pilcher will be talking to you in more detail in a moment, which is a global macro hedge fund which barely existed in '05 and did not contribute to our performance fee line. However if it grows throughout the year, clearly it has been performing and if it has been performing clearly there will performance fees. It is important to note that although these numbers come below the underlying profit line, the underlying profit line contains the incentive costs and there is a formidable match between the two areas here, in fact the performance fees are obviously more than the incentive costs in question.

We have a tremendous track record on the UK Life Fund over the past five years; it's up 1.3 per cent per annum over the past five years against the strategic benchmark and 3 per cent per annum over the last three against our peers. That's created £3.5 billion of value to the fund, and that's before you even consider the impact of the

asset allocation switches out of equities into bonds and property in 2000 and back into equities in 2003. To call it unrecognised might be strong, but it's undeniably important to all parties.

Looking now at our balance sheet, M&G is not a capital intensive business, its regulatory requirements are relatively simple at three months expenses and growth does not require retention. Its profits are also highly correlated to cash and this has consequent benefits to the Prudential group. The two areas that I would point out in particular are because our profits equal cash if we drive our profits, we drive cash for the group, and we have a strong record here. And secondly, because our profits are cash, this makes us very efficient in terms of being able to remit the majority of our earnings throughout the year as we make the profits.

In terms of the holding company cash flow that Philip Broadley presents, there are three things that I would draw out. Firstly we generated some £20 million of cash above the M&G Group level, so it doesn't get picked up within the Group company cash flow. That's above the £91 million that we generated in 2005 as seen on this slide. Secondly there's timing, as with everything, in the past we've remitted surpluses, last year there was £16 million of cash which was available for the Group, but not taken out within that time period. It's available for the Group to take at any time. And thirdly, as Philip Broadley also said in his presentations, we do invest some capital back into our business to support growth, and we have strict criteria as to what these must satisfy.

Firstly they must have a very high return on capital, secondly a very rapid payback, and thirdly and most importantly, because these two factors are not enough in themselves to justify investment, they must support the creation of new profit streams. The two areas which we invested in in '05 were Structured Credit and Prudential Finance, both of which you'll hear more about in a minute.

I'd like to finish by illustrating the continued momentum that we see within our business. In the first quarter we had record net retail sales of £820 million; that was up 350 per cent on the prior year. And if it wasn't for the strong momentum we saw through the back end of last year, it would have been double the previous full year record that M&G has ever delivered. The institutional side by its nature is lumpy, as you can see in '04 where we lost one single client, (I should point out that this was the result of a strategy change not a performance issue), but a good start with another £1 billion of net flows, and again these strong levels of new business can only continue to drive profits forward.

And on profits, a similarly strong start to the year, £44 million of underlying profits was almost the entire full year in 2002. The 42 per cent growth, I should point out, does get a bit harder from here as markets clearly have gone up during the course of '05, but again these contributed less than half the increase to our P&L of £6 million, we had the fee benefit again and flows contributing the rest. This ability to drive revenues through to the bottom line continues throughout this year.

Just to sum up, M&G has been delivering exceptional sales and profit performance, driven by the diverse nature of our business, the strong top line growth and our disciplined bottom line focus. As you'll hear throughout the morning, we see strong momentum continuing and new, exciting opportunities ahead of us. And with that, I'd like to hand over to Simon Pilcher who is head of our fixed income business. Thank you.

Simon Pilcher
Chief Executive, Fixed Income, M&G

Well good morning everybody, I want to talk to you about our fixed income business and the wholesale businesses that I run. What is our strategy? Our strategy is quite simple; our strategy is to deliver outstanding investment returns for our in-house capital, our Life Funds and our annuity funds, both through innovation and through active fund management, particularly in the area of credit, and then to take those investment credentials externally and to exploit them, to exploit them such that what we're delivering to our clients is not a product that is purely reliant on the most recent three months performance but is differentiated by the quality of the investment capability that we have, the types of things that we're investing in and thus producing a more robust business model and consequently greater longevity accompanied by high fees and good profitability.

Let me give you a bit of idea of the sorts of thing that we're covering. You will see on the left hand side, the client types that we have and the significant money that we're running on behalf of the Life Fund and annuity arenas,

but also increasing quantum on behalf of institutional, CDO's. The hedge fund area was a small area at the end of last year but as I'll go on to explain is growing fast.

We're very much focussed on the management of credit, you'll see investment grade corporate bonds is around half of the money that we run, but an increasing diversity of esoteric to you perhaps, and innovative asset classes, whether that's project finance where we are involved both as private equity investors and as long term senior debt providers, private placement, leverage finance and the such like, and I suspect the quantum that we have invested in government bonds is rather small relative to most equivalent sized operations, it's quite an unusual shape to a large fixed income fund manager.

I've mentioned credit analysis, and credit analysis really is at the heart of what we do, we are focussed on European credit. Leandra has already told you about the co-operation that we have with her team, that works fantastically well from my perspective. We also work with Ajay's team in Asia, but the reality is that 90 plus per cent of the globe is represented by European and US credit, and that's why the degree of co-operation is so crucial between my team and Leandra's team.

Reflecting that importance, what we do is invest a significant amount of time, effort and man-power in that credit analysis. We employ career professionals who are specialists in the areas that they focus on and that common resource insures efficiency, not only a common resource for my fund managers, those running the institutional money, the Structured Credit portfolios, the internal clients, but it's also a common resource to support John Foley's Prudential Finance business and other areas of the group, not least PPM America.

What I want to show you is the areas that fixed income covers, this is a slightly busy slide but you will see that there are a number of things within this group that perhaps you wouldn't be used to seeing in the fixed income world. I haven't got the time to go in depth into each of them, I'm not for instance going to talk about our property finance and private placement arenas, Martin Moore will touch on some of the areas where we're co-operating with him in property, projects and infrastructure finance, we have, as I've mentioned, within my group a private equity business focussing on infrastructure.

The first area I want to focus on is annuities, and the reason for that is fairly simple, it's a huge business, it's a huge business for Prudential and it is clearly a huge business for me and my team and is of vital importance. We run these portfolios in a manner as to minimise the capital requirements, through cash flow matching assets to liabilities, there is no point taking a large interest rate risk in this business given, how inefficient that is from a capital perspective. My team work incredibly closely with our insurance colleagues ensuring that all new business that is brought onto the books is appropriately priced taking account of market conditions - where is the yield curve, where are credit markets etc and also the nature of the business that's being taken on. Is it likely to be long duration or short duration, is it a bulk business, if so what are those assets and how much risk are we effectively taking on in needing to migrate those assets such that they actually do match the liabilities that we perceive.

We're incentivised to work closely with our colleagues and to ensure value creation for that business, not only when they take on of that business, but arguably more importantly, over the lifetime because these are incredibly long term assets, and we need to sweat those assets to ensure great returns for the Pru shareholder. And this next slide suggests that we're quite good at it.

Over 2005, there was close to £200 million of value created for that business through a combination of improved cash flow matching, thus reducing the capital requirements of the business, improving the yields on the portfolio without reducing credit quality, and insuring default minimisation, indeed credit quality upgrades, again without yield sacrifice. Another key area for my team over the years has been innovation, seeking new assets or alternative ways of investing to boost the returns on the portfolio. An example of that would be the inflation swap market which today is pretty mainstream, but was effectively invented by my team, such that we can create synthetically inflation linked corporate bonds to boost returns for those inflation linked liabilities.

Next turning to property, where we worked very closely with Martin Moore's team. Our focus in particular is on properties that have got high quality tenants and long-dated leases and over the years have produced some really exciting, and this is a fixed income person speaking, some really exciting assets for that portfolio. We're constantly using derivatives efficiently to improve the cash flow matching and to ensure the ongoing flexible management of that portfolio. I think this is a real success for us; it's not something that M&G generates vast

performance-related fees from, but it's clearly of vital importance for the group and it consequently receives significant effort and attention from my team.

I want to turn now to look at the institutional business, this I guess should be characterised as the traditional institutional business, the business of running money on behalf of principally UK pension funds, but a few other insurance companies as well. There are two key main areas for us here, first, the management of segregated fixed income portfolios and you'll see that we've had solid investment performance in recent years in all major categories and that investment performance in 2006 has started the year in strong shape. That itself has then lead through to increased new business wins and I think we're pretty happy with the position that we've got to with that business. But clearly the market place here has changed. Clients historically were very happy to have 0.5 per cent per annum out performance but increasingly they aspire to generate much higher returns from their fixed income assets and we are currently working on developing what we call our Alpha Opportunities Fund which will be targeting much higher returns. It's essentially our best ideas fund.

Our pooled business is about taking the skills of the entire business, both fixed income and equities, and offering it to clients who are willing to purchase in that pooled vehicle. Historically this has been business that has attracted money both from the defined benefit and defined contribution markets and has been servicing both the M&G investment led proposition as well as the Prudential led packaged solution for clients whereby they are receiving more than investment, but also a whole series of reports through to the company.

We've produced consistent what I would call core product performance. Again, this is a market that historically has wanted 0.5 - 1 per cent out performance per annum, and we've given them that. And that's been one of the key reasons why this particular business has grown year in, year out, even at a time when many fund managers have seen outflows from their pooled business. But what we're excited by is the potential to take our high performing, particularly equity colleagues' funds into this arena, and to turn that into future growth. Tom Dobell's specialist UK equity fund is a particularly exciting product, which has been pulling in good amounts of money in recent quarters.

Leverage finance is essentially the process of lending money to LBO's. Historically, this was the domain of the banks, the commercial banks only, lending at the most senior and secured end of the capital structure. In 1999 this was exclusively the domain of the UK banks, but that was the year in which we concluded that this was an appropriate area for institutional investors to begin to compete. We are now one of Europe's largest players. I think we have an outstandingly strong track record and reputation, and it's that, coupled with our relationships, not only with the investment banks who are bringing these deals to markets, but frankly in today's market, where there's a new hedge fund being set up every week, that's trying to access these markets as well, our key area of differentiation is our ability to have good relationships with the private equity sponsors. In particular the top tier private equity sponsors such as Permira, Cinven and Charterhouse, and to get to the position whereby they actively want us in their deals.

This is a market where allocations are determined not by who's willing to pay the most for the asset, but who is in the best position to ensure that they will have a strong relationship with that sponsor going forward and thus is effectively invited in. So, one of our key strategies here, having initially started investing for the Life Fund, has then been to take this very attractive asset class increasingly to a new range of clients. Starting with Collateralized Loan Obligations but then out to the institutional, or as Michael's already mentioned, into the retail arena.

We think we've been very good at that, and I think this slide here really epitomises in essence what the strategy of the fixed income business is. We start innovation for those clients who are willing to take our view as to where attractive markets are. The Life Fund did that in the early years, and has had fantastic returns. And you'll see that the range and number of our external clients has grown and with that, not only marginal fees, but clearly profitability as well.

Structured Credit – formerly we might have called this the CDO business, but as the business evolves and grows in the range of products that we're looking at; we now call it Structured Credit. But it is built on the bedrock of managing CDO's for third parties. We are one of the largest European players in this market; probably one of the most diversified players in terms of the different asset classes that we play in, managing now a total of fifteen different CDO's with outstanding success. We're the only manager globally to have issued investment grade CDO's in 2001 and 2002 and not have them downgraded. We had two CDO's, they are the only two CDO's that

were not downgraded, globally. Indeed our most recent CDO's, in our synthetic area, have been upgraded due to the excellent credit management that we've been undertaking there.

And our leading position means that we're in great positions to work not only with investment banks, but also with investors as we grow that business in a way that minimises our capital requirements. Only £10.3 million has been invested in all of our deals over this time period and this has generated very attractive annualised income, we are annualising £11.6 million pounds a year of income from this business. It's fast growing, it's a sustainable franchise, it's an area that's innovative and that we expect to continue to do well.

The last area I want to touch on is our Absolute Return business. The root of this is in our management of the Life Fund, and in particular, the tactical asset allocation of the Life Funds, where we've had an outstanding track record over a long period. The same team has been in place for six years without a single change either hiring or losing people, and has delivered eighteen and a half per cent per annum, or in pound notes terms, around £400 million per annum of real value for the Life Fund.

The team are focusing on asset allocation decisions, looking at the major currency, bond and equity markets, it's a behavioural finance driven philosophy. We have a long term understanding of what value is, the market is periodically blown off course by greed or paranoia, and we will effectively take positions that are contrary to those that appear to be the wise thing to do. It requires courage, it requires consistent execution, but you'll see that the returns have been fantastically strong.

We took the decision last year to take this outstanding team out to offer the product externally. And Episode was launched in August 2005, opened externally in October 2005, and has been taking in money very quickly since then. Indeed, one of the features of hedge funds is that the larger the fund is, the quicker it can grow because clients are only willing to be so big a percentage of any individual fund. So it's been pleasing to see, month by month, the inflows to that fund growing significantly.

The fees on managing this money are very attractive, and as Philip Johnson mentioned, in essence there were no fees in 2005. In addition to the money that is going direct into that hedge fund, we also run, for a small number of large institutional clients, exactly the same strategy but on a separate account basis. We estimate capacity to be $1.5 billion, and at the rate of inflows, I'd be extremely disappointed if we didn't reach this by H1 2007.

In conclusion, we are a credit shop and we have an outstanding track record. We have put in place the infrastructure to run our in-house money, and I think we do that outstandingly well. And we're now seeking to take that money and experience externally in order to grow our business, and to increasingly garner attractive fees.

We work very closely with our colleagues, whether they're in the insurance business or in Chicago. It's dynamic, it's innovative, and frankly there are new ideas coming to me every other week. It's a great place to work, and I think the outlook is pretty positive. I am now going to hand over to John, and he's going to tell you about Prudential Finance.

John Foley
Managing Director, Prudential Finance UK

Good morning, everybody. Prudential Finance has two roles. We're the internal banker to the group and its subsidiaries and we're M&G's business unit, leveraging Prudential's banking relationships and M&G's market position profit. It's the latter role that I'm going to talk about today.

Before I go on, I will give you a brief overview of the business. Pru Finance was formed in 2001. It employs twenty people comprising bankers, lawyers, accountants, tax specialists and risk managers. As I said, we're the internal banker to Pru plc and the Group companies. We fund the Group across the curve, and ensure the company remains highly liquid. We actively develop, seek out and evaluate capital market solutions good to the Group's capital management programme both in an overall Group context and in relation to specific product design.

Pru Finance generates revenue by making short term investments in transactions that have a strong symbiotic relationship with other Group entities and which fulfil very strict risk reward criteria. We achieve this by leveraging the significant market clout that Prudential enjoys with its bankers, together with the exceptional team of investment managers and analysts in M&G and speaking on behalf of my colleagues of course, the wide experience and entrepreneurial flair of the Pru Finance team.

We operate within the Group's economic capital model, which you will no doubt have heard about before and using similar methodology to Basel 2. As with any business, we have stringent performance measures, which include the obvious ones, like profit and return on capital. Additionally, though, we are measured equally on our ability to churn capital, keeping the momentum high, not sitting on assets; and also, what we call our symbiotic, or value-added performance. Since our whole raison d'être is to squeeze more value from Prudential and M&G strengths, and the relationships that we enjoy with our banks, these measures are highly relevant.

With the exception of securities lending business, Pru Finance has neither clients nor customers. As I've said, it's an investment business, acting directly on behalf of shareholders. We do have partners, however, and our partners are predominantly the investment banks. As in all partnerships, both sides need to bring something to the table. Banks bring deal flow; we bring market knowledge, specifically in relation to structure, price, tenor, et cetera.

We prefer our investments to remain confidential, at least from the general market. The banks are happy with this approach, as they generally are keen to collect all the credit for any given deal. For us, this means we can challenge deals hard, and we can walk away at any time if any aspect of the transaction doesn't meet our criteria. As you might expect, we and the banks are subject to strict confidentiality agreements, both in relation to specific deals and proprietary structures that we might invest in. All the plc's banking relationships, with the exception of M&A, are managed out of Pru Finance. This gives us the ability to leverage those relationships to Pru's best advantage. Of course, we need to operate in a rigorous and challenging risk management environment, which I will talk abut in greater depth in a moment. And finally, we need to have smart, talented executives, who can operate at the same intellectual and experience levels as our colleagues in the partner banks.

Well, that's the two minute version of Pru Finance. So, I'll go through some of the other elements of our business in a bit more detail.

Today I want to give you an insight into our business activities and deal flow; give you an example of how we bring value to other Group entities; outline the risk management framework that we operate within, and give you some performance statistics. I also have a slide at the end that talks about where next.

On this slide I have listed the major activities of our group, at least in terms of revenue generation. Now, as with most things in life, it's not what you do, but how you do it that makes the difference to performance. So, in the short time that I have available, I want to talk about how we run our business, rather than the 'what our business does'. And just a glance at this list will indicate that our areas of activity are fundamentally connected with Pru and M&G's businesses. This is a cornerstone of our philosophy, and is a theme that will run through my presentation.

So, in the area of bridging transactions, we've worked with our partners on more than thirty deals over the past few years. The majority of these transactions have been high grade, secured, whole business securitisations. M&G managed funds have a natural appetite for the long term paper that results from these types of securitisations, and is in effect the market for the resulting term assets. We believe this combination to be a unique proposition.

Property financing – you've heard a lot about it already this morning. You're going to hear some more from Martin Moore later. It's a significant business, an area of expertise for Pru and M&G. It's currently a tremendous source of activity, and indeed has been for my group over the past couple of years.

Securities lending is an activity that traditionally makes a lot of money for the investment banks, but peanuts for the actual lenders or owners. We have been at the forefront of opening up new markets and sources of revenue, by working with our clients and our partners in the investment banks. We have adopted a different approach from most of the other major lenders, who still carry on this business on an agency basis. We have agreed a risk sharing arrangement with our clients that incentivises Pru Finance to recruit talent and to open new higher

margin markets, which in turn generates more revenue for M&G and our investing clients. We are evolving this business from a volume to a value proposition.

Free launch funding – as you know, many fund management operations pay banks to warehouse assets before fund launch, sometimes, even when we're taking ownership of the risk. Pru Finance can and does provide this finance at the pre-launch stage to M&G funds, where required, thereby retaining more value in-house.

And finally, arbitrage investments. We apply tax efficient techniques to investment opportunities, where they are available, and indeed where they make sense. We only invest in established jurisdictions, apply the same stringent criteria as with our other investments, high quality assets and so on; we insist on core structures to ensure liquidity, but most important of all, we don't invest in tax led or tax aggressive structures, or in transactions that are pre-tax negative to our P&L. This is a clear example of where the breadth of our relationships enhances the flow of ideas that we are sharing. And in all of these areas, we only invest where there are at least two ways out of the transaction, and that's a golden rule, and, where security is available on cash generative assets.

I don't have time today to run through these activities in detail, but thought it might be useful to give you an insight into our highest revenue generator in bridging transactions. Our confidentiality agreements don't permit me to disclose the actual deals that we have financed, but this representative sample of photographs will at least identify the types of assets that we seek to invest in. These include water companies, toll roads and railways, nursing homes, cinemas, pubs, hotels, office buildings and other infrastructure projects.

The key message that I want to leave you with is the excellent security that we enjoy over these high quality cash generative assets. These deals have been short term bridges to securitisations. Pru Finance is only interested in the senior position of the capital structure, and so benefits from a significant cushion from the equity and MES providers. These deals are highly rewarding, paying significant margins and often generous fees. I have to be careful here, as I don't want it to get back to my colleagues in the banks, that I'm happy with the returns we earn on these deals, as I do have a certain reputation to live up to. But the point I want to emphasise here, is that if Pru Finance were another entity seeking to jimmy its way into this business we would be (a) likely to be some way down the food chain in terms of value; (b) need to build the analytical skills and expertise from scratch; and (c) I think we would be pressured into doing deals to get the machine moving.

It is the strength of relationships with our bankers, combined with the market presence of Prudential and M&G, that ensures our seat at the top table. But it's not all one way. We have worked hard to become the partner of choice for the banks. We're still working on it, and we will need to keep working on it. We want to see all the deals that are out there, even though, given our tough investment criteria, we're unlikely to do more than a small percentage of what we see – in fact, less than one in ten. But we need to see all these deals, in order to fully understand the market dynamics and trends at any time.

In order to make this a sustainable proposition, we have created a model that links Prudential originated deals, and we have an increasing number of those, with those banks that partner with us in our business activities. This diagram depicts our philosophy. Deals originated by investment banks and shown to Pru Finance, are reciprocated by deals originated by Pru Finance and shown to investment banks. This is what I mean by 'partnership'. And when combined with the commonality of ethos between these two operations, stringent management and efficient capital management, I believe you have a powerful combination.

And we're building an enterprise that is a sustainable growth proposition. There are four elements that convince me of this. First, deal flow. Whilst we might expect one, maybe two investment banks to suffer a deal drought, it is unlikely that they will all suffer the same fate at the same time. And as you know, they tend to merge before it gets that far. Second, in partnerships, we can't envisage a circumstance under which Prudential and M&G falls from grace with the investment banking community and thirdly, and most importantly for us, our analytical capability. M&G will continue to retain and recruit top investment managers and analysts. And of course, finally, the Pru Finance boys are a loyal bunch. But our activities of the past are not necessarily a guide to the future. We will invest in areas for only as long as our criteria can be fulfilled. We will not compromise on asset quality or returns, period. And before you ask, risk and capital management are key drivers of the compensation structure of the senior members of the team. Our incentives are fully aligned with the ambitions of Pru and M&G.

Now I said I'd talk briefly about the value-added dimension of what we do. And in addition to fulfilling our strict criteria on investments or not only fulfilling our strict criteria on investments, we must also demonstrate to our

approvals committee, that every deal that we propose, adds something to our symbiotic relationship with other business areas outside of Pru Finance. The added value does not necessarily need to be a distinct revenue number, although it often is. It can be the achievement that non-financial value enhancements. We can add value in a variety of ways, and let me give you just one example to illustrate the point.

In property where PruPIM is not only a significant fund manager but also a significant premises manager. Pru Finance recently warehoused property and arranged the financing and subsequent leverage for a third party investor. We strongly promoted PruPIM's credentials, not only as the fund manager but also as the facilities manager. The professionalism of the PruPIM team gave considerable weight to our proposal and together we won both mandates, both made money but crucially both analysed the risks for PRU M&G and got comfortable with them. Pru Finance and PruPIM together partnered an investment bank to bring the transaction to a swift and profitable conclusion. This added value requirement of our philosophy is non negotiable. Pru Finance has set out its philosophy including this value added dimension very clearly to the FSA and the rating agencies and it would be imprudent to say the least to stray from this course.

Now turning to our risk management practices, culturally as I'm sure you're very well aware, the taking of a management of risk is an extremely strong discipline in a group like Prudential M&G. Pru Finance benefits from this and from the fact that much of the risk management and oversight infrastructure already existed before we came along. That said, in Pru Finance we don't solely rely on other risk experts in M&G and the wider group to evaluate our proposals. We have our own risk managers who are our first line of defence if you will. Our team, while small numerically is very experienced in the risk management of credit, treasury products, operations, legal, accounting and tax. We own the deals and we are accountable. Nothing goes to the next stage approval process until a proposal has been thoroughly tested in our team. Beyond Pru Finance we must meet the requirements of the M&G analysts and risk department.

As you can imagine with £149 billion under management in a range of asset classes from equities to government bonds, M&G has an extremely high calibre risk management and analytical team and we in Pru Finance benefit from the experience of that team. Once we have carried out the full due diligence on the transaction,and we together with the M&G analysts are prepared to and enthusiastic to recommend it, the deal is put before the Prudential Finance approvals committee. Now this committee is chaired by the Group Finance Director Phillip Broadly and comprises a bunch of people including the Group Chief Risk Officer Andrew Crossley, Group Tax Director Nikki Maynard, Simon Pilcher and Philip Johnson who you've just heard from and other senior representatives of the group that may be appropriate from time to time. And last but not least Mr McLintock.

Our deals are monitored daily by two separate risk departments and reported at least monthly to the committee. As you would expect in addition to the specific deal approval process that I have explained we are also required to operate within an overall limit architecture governing each major risk category. So we have overall limits in relation to credit risk, interest rate and foreign exchange risks and liquidity risk. These limits are modest, reflecting a business that has small FX or interest rate mismatches from time to time rather than a trading operation.

So what's the financial outcome of this business? Well our profits have quadrupled over the past four years to just over £42 million in 2005, against the capital base of £34 million back in the business. We have kept a tight control on our costs and that cost income ration reflects a fully loaded cost base and we have maintained a high return on our capital. Over the past four years we have churned over £10 billion of financing, maintained low staff turnover and built the strong reputation of the major banks.

I have given a snapshot of how the asset side of our business looks today. A book size of some £2.6 billion, which has an average weighted rating of A+ and an average weighted expected duration of one and three quarter years, in our experience the actual duration tends to fall someway short of the expected. The current average weighted margin is 112 basis points which doesn't include a significant amount of fees.

Now in the 20 seconds I have remaining I want to show you a slide that looks at the next phase for Prudential Finance. As you know we have informed the market that we are in the process of bringing the Egg's treasury function into the Pru Finance fold, thereby consolidating the Group's treasury functions and increasing our leverage over banks. We're also intending to bring M&G's Global Money Markets Group into this team to better manage that service to our investing clients. A number of colleagues are working through the detail now and we

will be in a position to give greater clarity in the months ahead. This we believe will be an exciting and rewarding development for the group. Thank you very much.

Martin Moore
Managing Director, PruPIM

Well good morning everyone, I'm Martin Moore and during a number of the earlier presentations today you've heard reference to PruPIM well PruPIM is an acronym which stands for Prudential Property Investment Managers and its M&G's Real Estate Business and it's my pleasure here this morning to tell you a little bit about that business. What I want to do is put the business in context, talk about the market, and describe our business, telling you about some of our recent successes, our recent achievements and importantly looking at some of the exciting opportunities we see ahead of us as we stand here today.

Now I don't know how you feel, but certainly from where I stand it seems that property has moved from very much of an edge of stage to a central stage position over recent years, in fact unwittingly, Michael in his introduction reinforced that, because he talked about equities, bonds and property and alternative assets, and probably if I'd have been here five years ago he'd have been talking about equity and bonds as property as an alternative asset. So we've moved from edge of stage to central stage and certainly we are seeing an extraordinary level of interest in our markets, an almost insatiable level of investment appetite for real estate today, which I think is demonstrated very clearly by this chart here. What this does I think is show two things, it shows the consistently diverse range of organisations that are fishing in the property pool, but what it does show is the extraordinary level of activity and this captures investment into UK real estate, the extraordinary level of activity we've seen over the last two years where investment has been run at about £50 billion a year. Probably about twice the average longer term trend.

Now why is that? I think there are a number push factors and a number of pull factors. Clearly earlier in the decade there was a disappointment to the performance of equity markets and linked to that, something we heard about earlier, there was a reawakening of the appetite for non-correlated assets, a reawakening of the benefits of diversification. Of course property tends to perform to a different rhythm from other markets. Also the relatively high dividend yield that property generates was another attraction, I guess directly linked to the relatively low cost of borrowing and the easy access to debt, and last but certainly by no means least, the quiet impressive long term performance record that we now see from real estate as an investment class and this is demonstrated on the second market slide. And if you look at the group bars on the right hand screen, the red bar represents all property; the other colours represent different sectors of our market.

All property over ten years to the end of quarter one 2006 has generated returns of around 13 per cent per annum. Much more extreme numbers if you look at the bars on the left, the one year numbers to March 2006 where we're seeing total returns over 20 per cent. Now anticipating a question that may occur later, do we believe these levels are sustainable? No we don't. The consensus view as we stand here today, would be that markets are likely to deliver returns more in line with those long term numbers over 2006, there'd be a range of views around that and we would probably be at the lower end of that range.

Next I want to talk to you about M&G's Real Estate Investment Management Business. As Michael said in his introduction, we are one of the largest two real estate investment mangers in the UK with at the end of last year, over £17 billion invested in direct commercial property. Often the scale of our enterprise surprises people. Particularly when they read across and look at us in the context of the very largest quoted FTSE property companies and show here on the bars are British Land at £14.5 billion, Land Securities at £11.5 billion although they announced higher numbers, I think on Wednesday this week up to about £12.9 billion, and Liberty on the far left at just over £7 billion. So the scale of our enterprise is significant, only number two to Morley. We have a team of around 300 people primarily based in London and within that we have a widely regarded research team and we have a great group of fund investment and asset managers with a really impressive track record.

Now if our widely respected research team with their market forecasting abilities is one point of distinction, when we compare our business with others, then so to is the fact that we have a development team of about 20 strong, development experts and project managers. So we don't just focus on investing created product, we go out and build our own too, across all sectors, all geographies within the UK. That can be hugely beneficial to our investment clients who enjoy the higher returns that this type of activity can deliver and it's also good news for our business given the higher level of earnings that this specialist activity can generate. So we have a development team of about 20 strong, within our investment and asset managers we have a focus on sectors,

so we have people that are really deeply involved with an expert in the retail sector, the commercial sector, industrial and logistics and so on. Then at a fund manager level we have fund managers who are not distracted and are very much focused on business stream and individual client relationships. So to have 300 people within a fully integrated model, the range, the breadth of skills that we have is, again a point of distinction in itself. It's not the way that many of our competitors choose to organise themselves but it's fundamental that philosophy that I have that this is the best model to both drive and deliver efficient business products but also to drive investment performance too.

Now I'm going to come back during the later part of the presentation to look a little bit more in some areas at investment performance, but at this juncture I thought it would helpful to talk a little bit about the business performance. Now for those of you that were here back in November 2003, you may have heard me saying about we've grown underlying profits, from £8 million in 2000 we pushed through £12 million in 2002, and given that we were almost at the end of 2003, you may have heard me say that I was expecting out turn for that year of something just over £40 million and that's represented by the charts here. But we have seen very strong profits growth in our business over the last two years, taking us up to a position of just over £25 million underlying profit contributions to M&G for 2005.

Now what I want to do over the second part of this presentation, is use the business stream areas here, as almost chapter heads to walk through our business and to look at some of the drivers that have helped influence that growth and that delivery of profits, but also to look under those same chapter headings at some of the interesting opportunities we see ahead of us.

Before I do that I want to spend a couple of minutes discussing how a real estate investment management business like ours actually earns fees. Where do the revenues come from? And there are two or three principal areas. The first nor surprisingly is the fund and asset management fees that we earn, largely based on the average value in any one year or any one period of assets under management. The range of fees can vary enormously, depending on the type of fund, the type of product, the geography and most of them would usually have some form of performance ticker linked to those fees. In addition to that, which forms the majority of our earnings, we can as I've mentioned or touched on earlier, we can earn fees from the specialist areas of activity such as development. Thirdly we occasionally will earn transactional fees, for example, if we are able to acquire opportunities from the market without there being a third party broker involved, we will share the savings that we enjoy with our clients. And fourthly, they have represented by these little two boxes, the same Buying Force and Ascent, fourthly a modest but increasingly important revenue stream from joint ventures that we have formed over recent years to leverage our skills and to sell our services, if you like, into the wider real estate market. Buying Force is a procurement business, a joint venture with DTZ, which is a global firm of real estate advisors and Ascent is a small but quite fast growing specialist property insurance brokerage business and Ascent was a joint venture with Teesland.

So that's where we earn our money from, so now let's look at the various chapter headings starting with our Life Funds. Now not surprising these are large funds these, these are mature funds and these are hugely important to our business, but the focus here and the way we will add value and drive value in this area, with these mature funds will be to continue to focus on delivering consistently strong performance. Building on the, what I believe is, the enviable track record that we have created over many, many years. The top chart captures the prudential life fund, over 11 billion and over ten years which is the figure shown here, you will see against it's bench mark we have delivered out performance of 1.4 per cent per annum over that ten year period, which is a record that I'm enormously proud of. And if you went back even further, if you look back over 20 years, you'd see that this fund is the best performing property life fund, over that whole 20 year period.

Scottish Amicable which is smaller, in the second chart, obviously we can't talk about a 10 or a 20 year track record because we've only run the fund for the past five years, but already our out performance credentials are beginning to shine through I believe. We are delivering out performance of 0.6 per cent per annum over the past five years from this fund and that number has been quite significantly suppressed as a consequence of some fundamental restructuring that we had to implement during the first 24 months or so of our stewardship of that fund. What this business really gives us, it may not be the main driver of growth as we go forward, but it does give us a fantastic foundation. A fantastic infrastructure that we can then lever effectively and efficiently to support other fast growing areas in our business. And one of those fast growing areas of our business is what I have called our institutional business, which is something that has seen strong, steady growth over 2005.

The Pru Pension Fund that we run, PPL has grown through net investment over 10 per cent last year and with the upper quartile performance that we are able to deliver and continue to deliver in that area, I see no reason why that momentum will slow. I believe that that growth will be sustained and may even accelerate as pension funds are showing greater interest in property than they have done over past years. This performance is key - having a good top quartile performance record has enabled us to grow our business in this area, but performance isn't the only driver. It's important I believe to anticipate market changes and try and be one step ahead of the game.

We are one step ahead of the game, and an example of this is that we are the only real estate investment business in the UK to have received international accreditation for our environmental management systems. So what you may ask? Well it makes good sense but I believe with the influence of UK government, with increasing pressures coming out of Brussels, the whole area of socially responsible investment is going to become a big thing in the world of property over the coming years and if it does, in this space with pension funds or further a field, we should be very well placed to capitalise on those opportunities.

So a great performance is important; developing new skills and trying to be ahead of the curve is important and so to are new relationships, building new partnerships. Over the last year this is something that we have focused on and had a significant degree of success with and indeed. We've built two or three key relationships in this space, people that like what we do, they like the skills that we demonstrate, they want to buy our services and in some cases they want to co-invest alongside us. So this has been a very important growth area for us as demonstrated by this next slide, where you can see that in this space, through these partnership relationships we've put on one and a quarter billion of assets under management over the past 12 months. I don't begin to believe that that level will be maintained but I do believe that there is a really good opportunity to both grow these existing relationships and get some investors from North America, from this country and from the Far East too, to grow existing relationships but also to bring some new relationships onto our platform as we look to the future; so a really important area for us.

Now on the next slide I have coined a phrase, 'collaboration dividends' and it's something that I really passionately believe in - pursuing collaboration dividends wherever they may exist within M&G or within the wider group. A great example of this is work we've done over recent years with Simon Pilcher and his fixed income team. We have built a really impressive and a very strongly performing portfolio of properties with what we call bond like characteristics. These are properties with strong credits, long leases and often leases that have some form of indexation, rather than more traditional periodic steps to a market rent. The performance has been very strong and our breadth of market networking contacts has helped us source opportunities to support Simon's business in a way that others might have struggled to do. The reason why the bar has jumped quite dramatically in quarter one 2006, was that in early May, you may have read about it in the press, was the acquisition of the new headquarters building in Docklands, left of State Street and it was about a £200 million transaction. The fact that the vendor, Canary Wharf, was very well known to us, undoubtedly helped us deliver that attractive investment opportunity to Simon and his team. But we're not content just to stop here; we see real opportunities for growth in this area. Both to grow and support future internal demand that we can see in the space but also we believe there is going to be a very strong external demand for this sort of product and for the unique combination of skills that Simon's credit team and the property skills can bring, and that's an area that we are now actively looking to exploit.

We want to grow these existing areas and we want to develop new skills too in new areas and one example I would give here, again working with and supporting Simon's team, is helping the nascent business that he is looking to grow, investing in a property debt/property mix in the investments as part of the CMBS market. Again the skills that we can bring to bear should be a helpful platform to help that business grow and if we look to see how the CMBS market has grown in the States, we think this could be a very exciting area of growth for our businesses over the coming years.

So we're trying to exploit collaboration dividends wherever we can. I have talked about working with PF UK with John Foley, I have also talked a little bit about working with Simon Pilcher's team, and now I want to talk about another area that's been really, really important for us which is the way we've been able to make two and two equal more than five, through working with Gary Shaughnessy and Will Nott in the retail area.

Back in March 2004, we launched our first M&G branded property fund. This was a Guernsey based offshore property unit trust, and over the first two years of its life, it's grown to something just under £600 million. I have to say if I'm honest; it's exceeded our original planned expectations. So it's been a hugely important area for us

and has made a significant contribution to the quarter one figures that you heard about from Michael and Philip earlier one in terms of M&G sales. Building on that success, we launched our second M&G branded fund at the end of last year, you can see that this is growing very strongly too and we have no reason to believe that that will not continue to grow. The third point here, the creative sourcing, again has given us a real edge as these funds have grown so fast and money has flown in and the fact that we've been able to manage levels of liquidity so successfully in the way we have is really testament to the breadth of skills we have within the team and the extraordinary market network that they have. The effective liquidity in both of these funds today is well under 5 per cent which is an outcome that we're very pleased about.

Another thing that we're very pleased about is the number platforms that are now supporting these funds. This is really important to the way the funds themselves grow into the future, property in some cases has provided the key to unlock a door to a wider dialogue that previously had been firmly locked shut. So on the back of these funds we've been able to do our bit to engender some broad and I hope productive dialogues that M&G can now take forward with some of these other organisations.

As I look to the future in the retail space, I see a long stream of opportunities. We are already looking at opportunities to repeat the successive fund launches in the retail space in the charity sector - the area that M&G have some great relationships in. We believe there is a real appetite for an M&G fund of funds, and when I look to the landscape beyond the end of this year and look into the new world of REIT's, I believe that our track record, our expertise, our brand, our whole philosophy, our customer base and our distribution channel gives us some really exciting opportunities in this landscape as well. So if I am here in two or three years time talking to you about what we've achieved over the two or three years prior to 2009, what I hope I will be saying is that we have developed a wider range of direct funds, we have begun to develop and successfully manage a range of indirect funds and then we actually have capital out on the REIT opportunities and have a range of listed funds too. So that would be my vision for the property business as we look forward over the coming years.

The fifth and final area that I want to discuss is international; our activities, our ambitions going way beyond the UK. Over the period at the end of the last decade and early this decade we undertook a voyage of discoveries, some extensive research to decide which markets would be appropriate for us to consider investing in outside the UK and over the last three or four years we've turned that research into implementation and we're beginning to build some really good momentum. This is not the total product of our efforts but it's indicative of where we have been investing; we've been investing in North America, Continental Europe and throughout the Asia Pacific region too. A real momentum building and gathering pace and we intend to maintain that. We've invested to the end of last year about £1.2 billion in those markets around the world and really importantly and I think really excitingly, if you look at the results we've generated, we can look back three years, we can't go back 5, 10 or 20 but if you look at the returns we're showing from the multi-regional global portfolio, if you like over three years, total returns of 27.7 per cent over that three year period are extraordinary and something that we clearly want to build on. Some of the ways that we will do this have already been touched on by Ajay - we announced this week the creation of a joint venture with Ajay's business in Asia, it's going to be based in Singapore and we believe that is going to provide us a really exciting opportunity to grow our business in that region working in partnership with Ajay's team. Looking beyond Asia, I have a picture of creating a global range of funds, not just focused in Asia Pacific but in Europe and working with Leandra and PPMA in North America too; so today UK, tomorrow the world from a pulpit perspective anyway!

So in conclusion, what I hope I've demonstrated is the excitement I feel about the prospect for this business. We have a very efficient, well integrated, well run business; we have a very broad skills base which is a point of distinction with many of our competitors. We have an extraordinary impressive track record and long may that continue. We are determined and we are doing, not just talking about delivering on the collaboration dividends that we see around the group. We have grown our profit strongly and we see really exciting potential as we stand here looking into the future.

Gary Shaughnessy
Chief Executive, UK Retail M&G

Over the next half an hour or so, Will and I are going to talk about two things. I'm going to talk about how our retail business has grown so rapidly over the last few years, growing not just in terms of asset growth but also in terms of proper growth, and Will is going to talk about why it's only just started and why we believe that growth is

going to continue on from here.

Just a quick look at the market, looking over the last nine years, Ajay's figures were very impressive but I think the European retail asset growth have been equally impressive, a 9 per cent compound annual growth rate over the last 10 years or so, despite a bear market in the middle of that. And we can guess where that's going to go from here. Currently the actual underlying asset value plays a big part in that but its not just about asset growth, and what we have seen over the last 10 years is a big move, as Michael McLintock mentioned from opaque to transparent products and the beneficiary is this market place. And so we're seeing a lot of money coming in through unitised products on the one hand, but we're also seeing a big move towards open architecture, and Will's going to talk about that more. But money that would traditionally have gone into in-house managers or through the banks is coming straight into this market place. This doesn't really account yet also for any significant up tick in the savings ratio.

So it's a big market but its an extremely competitive one and if you look at the European market there are more funds than there are stocks registered in Europe and if you look at the UK market there are more funds in the UK than there are stocks registered in the UK, and so with just 47 funds which seems a lot to us and getting our message across and being heard is clearly a very difficult thing to do. In terms of getting that message across there are a few things that are absolutely critical. Fundamental to our business is exceptional investment performance. If you don't have exceptional investment performance, you just do not have a seat at the table anymore and that's the reality. Having said that, there are a number of managers who've got good investment performance and still haven't been able to convert that into sales; why? Well, it's not enough anymore to have the performance, what you also have to have is an attractive and scalable product range, so one that's not hand driven and equally when you do get success you need to be able to get and manage the in flows that come alongside it. Breadth of access to distribution and we're going to talk about that a bit more and critically once you've got that business the ability to retain it, consistency is a key indicator for us, and the market needs to recognise you for what you've done.

So we're going to go through each of these areas, starting with performance. And this is a chart that I know the competition generally would give their eye tooth to be able to put up. To have 16 fund managers or 16 funds where the fund manager concerned is top quartile since they took over responsibility for the fund is obviously great news for us, and I think as you look down that list what you'll see is the spread of asset classes and the spread of individual funds that we're talking about. So we're not just strong in one area, we're strong across the board which gives us tremendous resilience as the market moves around in terms of its appreciation of different asset classes. I'd particularly like to highlight, Tom Dobell, and the Recovery Fund, there has been a bit of a market myth that you can't outperform if you manage big funds. Tom's a great example of where he's used the style of the fund to take big positions in companies that he buys into and help work with management, to change the way that they work and create a turnaround position, which has flowed back through in value to unit holders. And that performance is top decile, but since Tom took over the fund five years ago, he's well into the top quartile.

One of the noticeable things for me though about the investment management market in terms of the retail market is that you can't sit on your laurels. There's a huge amount of change, there's a huge amount of innovation going on behind the scenes and M&G I think has really been at the forefront of that innovation over the last 10 years. Just a few examples, M&G corporate bond fund was the first retail corporate bank fund into the market, nearly 10 years ago it is now £3 billion in size. We followed that up with the first ever high yield corporate bond into the retail market, over a £ billion in size. When everyone was talking about technology, we launched Global Basics out in 2000, that fund has been a key fund for us over the last several years. It's seen significant inflows, not just in the UK but in Europe and now in Asia and that's now £1.6 billion in size and more recently, Martin mentioned the property portfolio, that's the offshore fund of £0.5 billion, Simon mentioned leveraged loans, the two funds together nearly £0.5 billion and then more recently at the back end of last year, the onshore property fund £0.5 billion in size. So all very significant sized funds in the retail context, and these combined, over three quarters of our net sales this year have come from funds that were launched since 2000. So as you can see, the process of innovation is absolutely critical to our success going forward.

But performance is important, one way to manage that is diversification and I think M&G's got a very well spread retail business, both in terms of funds under management and the net sales. You can see from the chart here, in terms of our funds under management nearly half of them come from the direct customer base, now that's not a large market going forward, but it is a critical market in terms of the value of the business and therefore retention is crucial. What we've seen though is we've been able to exploit a wide range of growing channels, both in terms

of discretionary, rapid growth in Europe and in international, emergence of Asia which we've got very high hopes for and also open architecture through the Life platforms in the UK. So a very well spread book of business. What that does mean is that we're not as dependent on performance in terms of retention as you might imagine. So the direct business is very focused on absolute performance, whereas the discretionary business if you've got performance, you get new sales but obviously the corollary applies and if performance goes off the board you can lose business. We've still got the retail IFA and the direct business on mass for it.

Promotion managing redemptions - that really is the key indicator for us in our direct business. This shows our market share. We monitor redemptions almost ruthlessly to make sure that our share of redemptions are below our market share of either sales and this really has been about doing simple things well. If you've got good performance it's important that investors know it, equally it's about the communications that we've put in place and I'm going to talk a little bit about our outsourcing administration. One of the critical things that we did which a number of competitors didn't do, is when we moved out administration we kept the contact centre because communication with our customers is a critical part of ensuring that we keep our redemption rates down. So we could have taken cost out, but we focused more on getting the redemption rates up and thus overall value.

Moving on to our international business, there's a bit of a clue in the line on this chart but three years ago when we talked to you about international, we were talking about just under £100 million of assets under management. And it was a tough time for international, as we were in the middle of a bear market, launching into an extremely competitive market space, and I think we said at the time, we believed in the opportunity but we couldn't see exactly where it was going to end up. Interestingly enough we're in a similar situation with Asia, but we've seen exactly the same start of the growth curve and we hope we're going to follow the same path. No pressure on the PCA at all! But for the international business now to have €2.7 billion of assets from where we were three years ago clearly is an extremely strong and impressive growth curve.

One point to stress on our international business is we're not trying to expand everywhere. What we're trying to do is make sure we expand where we believe the margins justify it and where we believe we are advantaged. So our distribution in Asia, clearly we're in an advantaged position and we've seen strong growth in Singapore, we've seen strong growth in Korea and in Malaysia. In Europe we've extended our capability in Europe, following that those numbers that you've seen on the previous chart, launching in Spain last year and in Switzerland. And we're also looking closely at the Middle-East and obviously we've got South Africa. One of the key parts of this is all of this distribution is based on the same underlying product structure. So it's the same right away across the world. So Graham French is managing M&G Global Basics, he's getting money flowing in from the UK, from Europe and from Asia, all on the same cost base, all the same fund accounting; so it gives us a great benefit of scale.

Brand is all about a whole variety of things and its certainly not just about marketing and for M&G it's about our heritage; it's about our performance, our people and the service we provide. Well the marketing mix does play a part, and I guess the message I'd give you here, I'm not worried about the award winning advertising, what I'm worried about is not outspending our competition but outthinking them. And that's what we've done over the last few years, we believe, our awareness figures support that, our cost for response and conversion support that. And what we have done is we've actually decreased our marketing spend over the last few years by focusing very selectively on where we can acquire the right type of individuals and on the trade press in particular. There are lots of samples in our marketing as well, which we can show you later.

I mentioned recognition of that success. We have four AAA rated Citywire Fund Managers which is again impressive by anyone's standards. I'm afraid impressive is a word I'm going to keep using today, but I couldn't think of anything else, but we again have been rated across Europe, it's not just in the UK, but from the Lipper award those ratings across the continent and we have a variety of press comment that supports the positioning that M&G has and the really impressive performance. It's easy for me to say this but I thought it might be better to show you a couple of people who represent their views on M&G on this clip.

VIDEO

Jeff Prestridge: I've gone through the performance, statistics of each type and by the market standard awards and if I financially look at them, I close the book with a smile on their face.

Lawrence Lever: I mean it's quite interesting the Chief Executive of an asset management group calls up at the beginning of last year and they say, "Who do we think is going to do well", and we could see in the numbers that

M&G was going to do well because you can't get a rating from Citywire unless you've got 13 months continual performance running a retail fund, but you can still be ranked in terms of your absolute numbers. So we could see people like Aled Smith for example, doing really well in the rankings and we knew, when he had his 13 months performance he would come straight in as he did, as a AAA rated manager. M&G's been around, it's done it for 70 odd years and long may they do it for the next 70 years.

Two comments I wanted to pick up about that video, I don't know how many of you know Jeff Prestridge, he's a great guy but the only positive thing I've ever heard him say before I heard that, was about the West Brom and professionally he is cynical about any financial services company and that really is quite a remarkable statement from him in the context of him as an individual. Lawrence, I think also demonstrates how sophisticated the rating agencies are becoming, it's not about hearing the performance but you need to understand the "How you got there", "Why you got there", and "How sustainable it is". Can I just mention, he's view of West Brom shouldn't discredit any positive views he has of us.

Hopefully what I've done over the last few minutes is demonstrate that we think we scored a big tick on all of those criteria, but that’s wasted if you don't have strong business management and you don't turn it into profits and into sales. In terms of managing our cost base, we've picked up on this to some degree but what we have done is ruthlessly focus on where we add value and where we don't have value. Administration for us was a hygiene factor. You need a level of administration that's acceptable. It can't be any less than that but over investing in it wasn't giving us any extra return. Earlier on in 2002 we conducted what at the time was the largest ever outsourcing of transfer agency in the UK over retail fund manager and it was conducted on time and to budget. A significant reduction in our cost base, but outsourcing isn't an abdication, since then we've had to be extremely focused with our outsource partner, in terms of their service standards, their service delivery and also the way that we've set the contracts up, means that as we can push them to increase their cost savings in the way that they work with us, some of that benefit flows back through to us again. We've also kept that cost base down, particularly by other initiatives such as rationalising the Scottish Amicable Fund range, so it's not just one activity that's got the cost down, we've kept it down and followed it through.

And this slide I don't think I need to spend too much time on because I think we've already touched on it, but I would like to add a couple of points. Putting our fees up was quite a bold move at the time that we did it last year and what I think it does prove conclusively is that if you charge a cheap price for active management in the market, it doesn’t get you any extra business at all, what people are focused on is the returns that they get post fees, and if your performance is good you should charge the right price for it otherwise you're wasting it; if your performance isn't good then giving it away won't give you any material benefit. The other key thing it focused for us, is the ability to make sure that our distribution fees were at the right levels for our distribution partners, and as Michael mentioned, it really has unblocked a number of live relationships for us. That’s also clearly up a figure, whereas the operational figure is an absolute one, the price increase figure is geared, and therefore the net new sales that are coming through are also coming through at the higher fee rates.

Clearly business management doesn’t work unless we take advantage of the fact that we have a financially strong parent, and a number of the initiatives that we talked about today wouldn’t have happened if we weren’t part of the group. The growth and expansion into Europe relied on the Prudential's capital and it relied on their support at the time when it was fairly tough back in 2002. That’s now a very material and fast growing business. The property funds I think are a good example of taking the capability the crew has within its unit linked finds, and turning that into a retail environment. We couldn’t have done that if we didn’t have both the property management capability, and the also the size of assets to make sure we started with liquid funds. Moving forward from here, I think for me one of the key attractions of my new role is how we keep on exploiting developing those links further. And I just wanted to pick up Egg, which is a new entrant back into the group in totality. I don’t know how we can size this at this stage, but the opportunity to access 3.7 million relatively affluent customers, three quarters of million extremely affluent savings customers, is one which I think we’re looking at how we can grasp, and how we can make the most of. And that’s very exciting from my perspective.

So how does that strong business management come through in benefits, starting from investment performance, our UK business was 75 years old this year, but I think we’re pretty sprightly, and 75 per cent up Q1 2006 versus 2005. Add on top of that the remarkable growth in Europe and the new emerging business in Asia, and in totality Q1 2006 is about 125 per cent up on 2005 Q1. And as you can see it’s not a one off, it’s a trend line. This graph is, I have to say, slightly misleading in terms of profits at both ends. At the start of that, the negative figure there represents the fact that we were investing in the business. So it represents the investment made in the outsourcing and it also represents the investment we made in the expansion to Europe. At the end of that, the

2005 figures, as I've mentioned they don't really include the full year benefits of the price increases that we've seen, and the net sales benefit we've had over the last couple of years obviously compounds, so it creates a great start point for us in 2006. So I guess at both ends of the curve, it's important to dig deep. But you can see the trend line emerging and it's been quite a significant change over that time period.

So that's what we thinks changed over the last few years, and how we've delivered a rapidly growing business. Will is going to talk about why we believe that's only just started.

Will Nott
Chief Executive Officer, M&G International

Thank you Gary, and thank you everyone for staying on for the last slot. What I want to talk about today is how do will take this business further and on into the future, and capitalise on some of the key strengths we've identified here. What it takes to win going forward is pretty much what Gary said took us to win in the past, and I'm going to start with exceptional investment performance. You don't see a retail asset manager these days winning assets without exceptional performance. It's just a fact of life. It's the world we live in and over the last three years we have won a number of awards, below these house awards are individual product awards but we haven't shown these on this slide. Looking ahead, the key question is, how do we achieve this performance, and is it sustainable? Because that's the link, that's the key to our future growth.

How has it been achieved? We've created the boutique culture, we've got some very, very, very, talented fund managers at M&G; you saw that in the performance numbers and they are unconstrained in their benchmarks. We took off some of the constraints about four years ago and basically gave them more autonomy and more freedom. And we have built an absolutely first class investment infrastructure to support these guys, and that's what's delivered the numbers.

Going forward, is it sustainable? Well it's sustainable if we have two things; the first is if we have the talented investment managers. If we retain this talent, we will win and at M&G we have got incredibly low fund manager turnover. The average tenure of a fund manger is approximately nine years, so there's some real veterans in our camp. But there are one or two who have only been there just over a year, for example Mike Felton. So the average of course is bought down by some of those newer mangers, but the total average of nine years is very attractive. And Michael pointed that out; stability of the team over the longer term is what sustains our future potential. And the compensation, all clients ask us this now, Leandra mentioned it, they want to know how the fund managers are rewarded, and it's very much linked to performance. It's the most important part of their compensation and in addition to profits, but there's nothing in their compensation for sales, but obviously profit is very linked to sales because as assets grow, so do profits. So one is talented fund managers, and the second is the infrastructure. And we really have built some first class infrastructure. The analysts are not just a bank of analysts who are doing independent research which the find managers are taking no notice of, which happens in many of the fund management houses around the city, and I'm sure you're well aware of that. The fact is we've embedded some of the key analysts into the fund manager team, so they work as bespoke research analysts, and it's a very, very important differentiator.

Portfolio and strategy risk; we've built that team up over the last five years, we've got a team now of about 8 to 10 people in that team, if you include some of the index tracking team that support it, and it's very, very crucial. I can assure you in the sales process now we are finding something between 25 per cent and 50 per cent of the due diligence done by buyers is on the risk team, and how the risk team support the fund managers. So they're happy to buy Alpha but they want to know it's well controlled. We have got a superb risk team, and the portfolio analysts work day to day with the fund managers on the desk. They cover up a lot of the investment writing, a lot of the material that the sales guys need, and they stand in for fund managers, they represent the find managers when the find manager is unavailable. And that gives us more capacity. Mike Felton, who recently joined M&G as one of out top UK equity focused specialist managers, was quoted in the press the other day as saying that's the reason he joined MM& is, " They've just got superb investment infrastructure, and I just didn't have that at my old shop".

Going forward, you may well have known M&G for its UK equity capability, and Gary's highlighted that. I just want to draw your attention to some of the things that can give us asset growth in the future, one of which is our global equity team. We could have talked to you about four years ago in 2003 when we talked about the global equity capability, but it was in its infancy, it was only set up in 2000. We've got two Citywire AAA rated fund

managers. It’s a very, very strong team, and it’s been recognised by the market, and I believe this is going to be a franchise which we’re going to capitalise on and turn into assets going forward.

Just to highlight that, a lot of the recent success in equities has come from the global equities fund. You can see some outstanding performance, don’t be surprised by the bar dropping on the right, that’s just the year to date first quarter but the trend is very strong there on the growth of that fund. But if you look out there's more products in that global equity team, one of which is our global leaders fund run by Aled Smith. In your packs handed out today you will find an interview with Aled from Citywire where he covers how he runs the fund, if you’re interested to go into it in more detail, but suffice it to say he is AAA rated in five European countries. He’s probably the top global equities manager in Europe, if not the world. And he’s got a big future, big potential – just look at the numbers he’s delivering, even over the last year, he’s out-performed by some 18 per cent the global benchmark.

Now what's exciting to me is that this is a product which is just getting a marketable track record. So it’s five years old, Aled’s been running it for three years, and it’s becoming an important valuable product, you can see the asset growth.

Turning next to fixed income, Simon’s covered our investments capability, which is really almost peerless. One of the asset classes Simon talked about was the exciting new leverage loan asset class. We've found a vehicle to put it into the retail market at the top end through private placement, and you can see some very, very nice growth. We are very excited by that product. We see huge demand for income; the yield compression going on now is causing problems for distributors, its casing problem for customers, "where do they go for yield". We think our innovation and technology capability in the fixed income arena is going to keep us in a market leading position. We’ve always had a strong position in fixed interest and we see nothing to change that going forward.

The next area I want to talk about is the future of property as a retail asset class. You heard from Martin Moore about the exciting performance his team have delivered; the attractiveness of this asset class, as people look for diversification, and look for other income generating assets, and you saw the numbers he’s producing in international property, we are incredibly excited about that going forward. Just to look at what’s happened in the recent past, I think gives you an idea of what property could be for us as a retail asset class in the future.

So I have touched on global equities, fixed income, our leverage loan capability, the property technology, all of which are very, very encouraging for us going forward. Gary’s touched on pricing, and why it is critical for us to price our product correctly, and we've seen with Simon’s hedge fund, the profitability. What the market is prepared to pay for Alpha, and there’s no doubt about it that as we go forward, one of the most important things we can do is price this Alpha correctly. So we are not, and I emphasise, not a sales driven company. We are a profit driven company, and therefore, we have to be very, very careful how we price our products as we go forward. Profit is going to be in short supply, and everybody wants it. If we've got it, then we should price it accordingly.

Now I want to talk briefly about industry trends and open architecture. What does it really mean to us? Well, for us in the UK, we had traditionally been dealing through IFA’s and direct. We are now dealing through banks, as they're opening up their architecture, and we’re also dealing through life and pension links, and this is a very, very big new trend for us. The opaqueness in the life industry’s product, is now being unbundled in to a more transparent product, where you can see the components of the product. It’s very clear what it is, and it’s very clear that all the life companies want to link their products to the underlying asset management product in a unit linked form. So we've been growing in our retail market in the UK whether it is the PEP, ISA market and the unit trust market, but that was only a segment of the total savings market. There's been a huge amount of money going into investment, bonds and pension products and now all of that has been diluted now to the underlying asset management products. So for us the UK market size is probably doubling, possibly more, and that's going to be quite meaningful going forward.

In Europe what does open architecture mean? Well in Europe most of the distribution is through the banks still, particularly Southern Europe where it's about 80-90 per cent, in Northern Europe it might be a little bit less. Nevertheless banks have now really committed to open architecture. We thought we saw this trend in 2002 when we first launched and then we had the bear market and we thought, "Oh, dear the banks are backing away", and they're suddenly saying, "No, we don't want to do it". Actually they've moved through that and they're now opening up very, very rapidly. And in fact the currency today is for institutions to have unbundled asset management and distribution. Lippert is going to be a big driver in the unbundling process because its best

execution and best advice are forced upon all distributors across Europe. It's actually become increasingly more difficult to justify giving your clients only in-house product. You have to be very, very skilled at making a case for that, therefore they're all bringing in very professional buyers to look at third party options for asset classes they either don't manage or could be managed better and that's given us a very big opportunity and most of our growth is going to come from that economic sector. And finally Asia, this is clearly one of the fastest growing markets in the world and if we can link up with Ajay's business the potential must be significant.

So open architecture provides opportunities and it provides challenges. The opportunities are the rise in the professional buyer, the gatekeeper, a window to go through; if we get that right, once you are through the gate, the opportunity is enormous and you get the large volumes. However, to give some balance, I should point out the challenges. Client loyalty diminishes, so the brand in some senses doesn't hold the customer in an open architectural world in the way it might have more traditionally done in the retail world, because they are professional and things change or for whatever reason, they can change their mind and redeem as fast as they bought. The fund managers ability is absolutely critical in this environment, if fund manager teams move, as they have done from time to time in the City; (we luckily have been fairly immune from that trend), but if it does happen it can cause some redemptions and again, asset allocations. The market can also cause some of the professional asset allocation teams to reassess their weightings and redeem, through no particular fault of ours but just because of a market theme.

So the challenge is that we do get greater volatility, you've seen are profit figures but I will caution you, don't necessarily extrapolate those forwards, but add a note of caution to them, but in the short term there is nothing to stop us. Our mitigating strategy is simple - diversification by country, by channel and by asset class, and I think the more countries we're in, the more channels we're in and the more assets, actually a little bit of volatility in any one of those shouldn't harm us too much. On this next slide is a rather stark example to wake anyone up who's not taken my point about our volatility and the fact that redemptions can happen. This is a competitor of ours and this is the data comparing their fund and what happened when their European Fund team left the house. So it can happen.

Next I want to look at the criteria that professional fund buyers are applying to fund selection. In this survey fund mangers placing more than Euro 1bn in 2005 were asked what the most important criteria was in fund selection. The one that scored the highest was fund manager experience and style – M&G are very well placed there. The next is performance over five and three years, this is critical. Next is fund ratings; Gary showed you a list of our fund ratings, external verification is absolutely critical in this market. You can't just talk about your own product without somebody else verifying it and you don't need one, you need them all to verify it. So fund rating is important and it is very, very helpful to have Lawrence Lever from Citywire being so positive about M&G and some of our fund managers coming out of mid-ratings.

The next criteria the survey identified was reputation and brand. At M&G we've got a big brand, a big reputation in the UK, but what does it feel like outside the UK? How well are we known, and what is the point of brand and reputation? I'm really asking a slightly rhetorical question, what does it mean in this open architecture institution world outside the domestic market? Well for me it's absolutely clear; the only thing we can do is give a first class service. You've got to give them everything they need to be comfortable with the decision, to trust in placing very large sums of money with you, and that service standard must be incredibly high. And we've developed some sophisticated reports, half yearly reports, risk insights. Some examples are shown here on the slide and I have included a quote from an Austrian bank saying, "My thanks for the half yearly report, which is really exemplary and it strengthens me in my decision to add the fund to our range".

So just to conclude, the market growth is enormous and the potential for us to do well in open architecture world clear. What is going to make the difference of whether we succeed or don't is the quality of our product, the quality of our investment teams and the productivity of our performance. And if we can deliver that, if we remain investment led and focus on that, there is really very little constraint to our growth. So our growth needs to be managed intelligently, making sure that we protect all those products. They are extremely valuable, the products, our team, our track record. We need to grow the pace, and we will incrementally add new products so that over the longer term we can be excellent in every franchise going. I don't believe the school that says you can only have a reputation for one asset class, that. We can be excellent in global equities, excellent in European equities, excellent in property, excellent in fixed income, excellent in UK equities and we can win assets in every one of those asset classes.

I've been with M&G for 20 years and we've never been in better shape than we are right now, and the market opportunity has never been bigger than it is right now. Thanks very much.