



# M&G Overview & Performance

Michael McLintock, Will Nott, Simon Pilcher and Grant Speirs

# M&G

## Agenda

**M&G Group overview**

Michael McLintock

**M&G Retail**

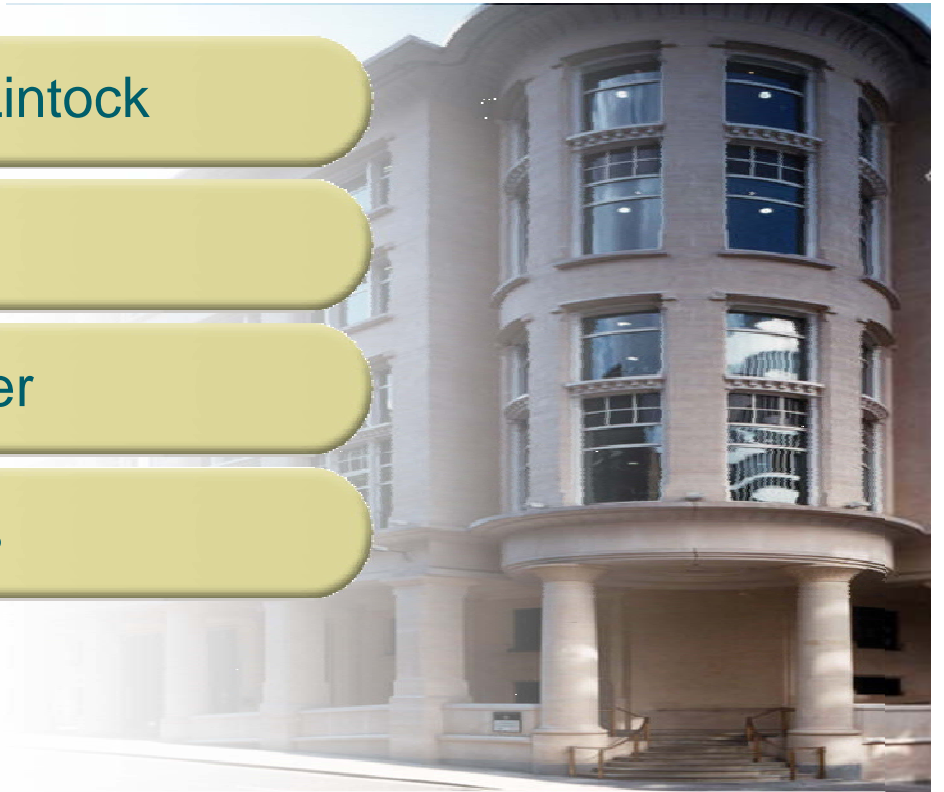
Will Nott

**M&G Fixed Income**

Simon Pilcher

**M&G Group Financials**

Grant Speirs



# M&G's strategic priorities



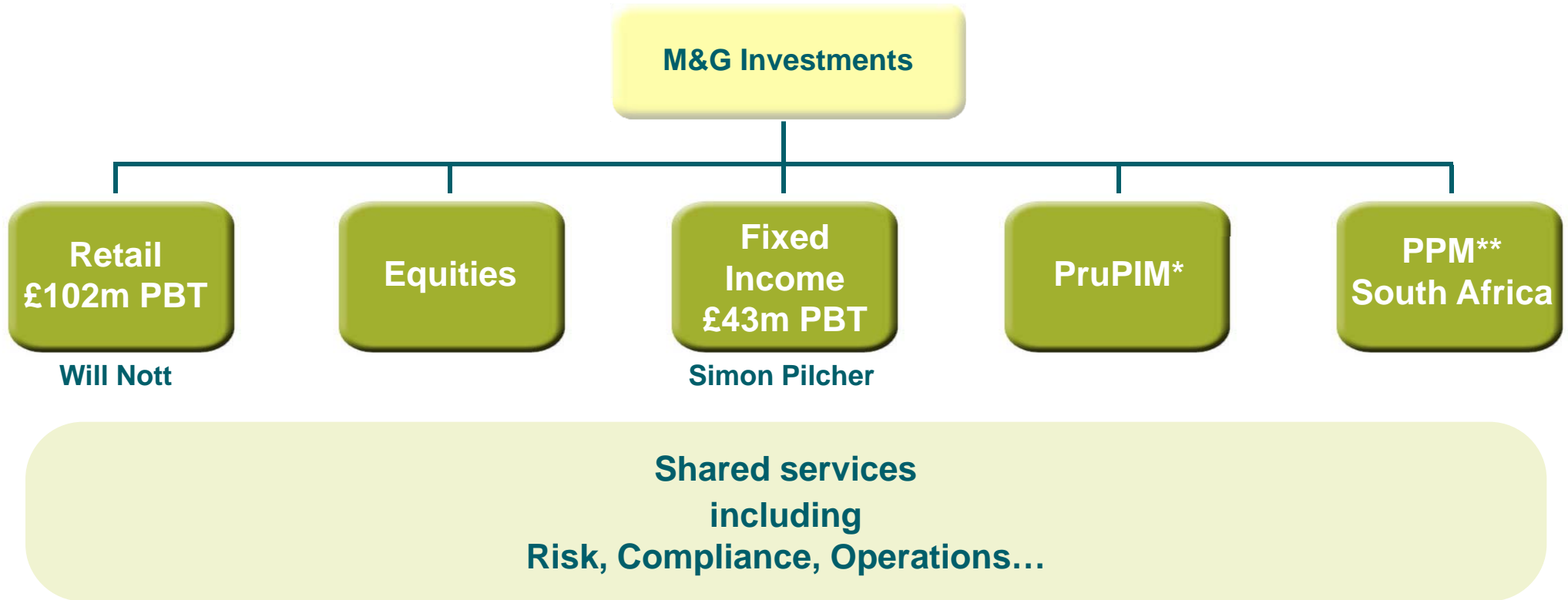
# M&G Group overview

- £191bn FUM invested in equities, fixed income and property\*
  - £83bn external funds
- Manage global assets predominantly on behalf of UK and European investors
- Pre-tax profit of £177m (2009 results)
  - £122m (H1 2010)

\*as at 30 September 2010

# M&G Group

Devolved business structure with centralised support



\*Prudential Property Investment Management

\*\*Prudential Portfolio Managers South Africa

# Our market-leading position

## Net UK retail sales

### 2<sup>nd</sup> quarter 2007

TOP TEN NET RETAIL SALES Second Quarter 2007 (£m)	
Invesco Perpetual	1,143.6
Schroder	779.4
New Star	657.1
SMP	547.0
Artemis	365.3
Jupiter	357.1
BlackRock	342.3
Standard Life	250.7
<b>M&amp;G</b>	<b>247.8</b>
Investec	224.4

### 2<sup>nd</sup> quarter 2008

TOP TEN NET RETAIL SALES Second Quarter 2008 (£m)	
BlackRock	879.2
Invesco Perpetual	813.9
SMP	571.3
<b>M&amp;G</b>	<b>410.9</b>
Jupiter	256.9
Mellon	240.5
First State	226.4
Halifax	156.8
Threadneedle	141.1
Martin Currie	133.0

### 4<sup>th</sup> quarter 2008

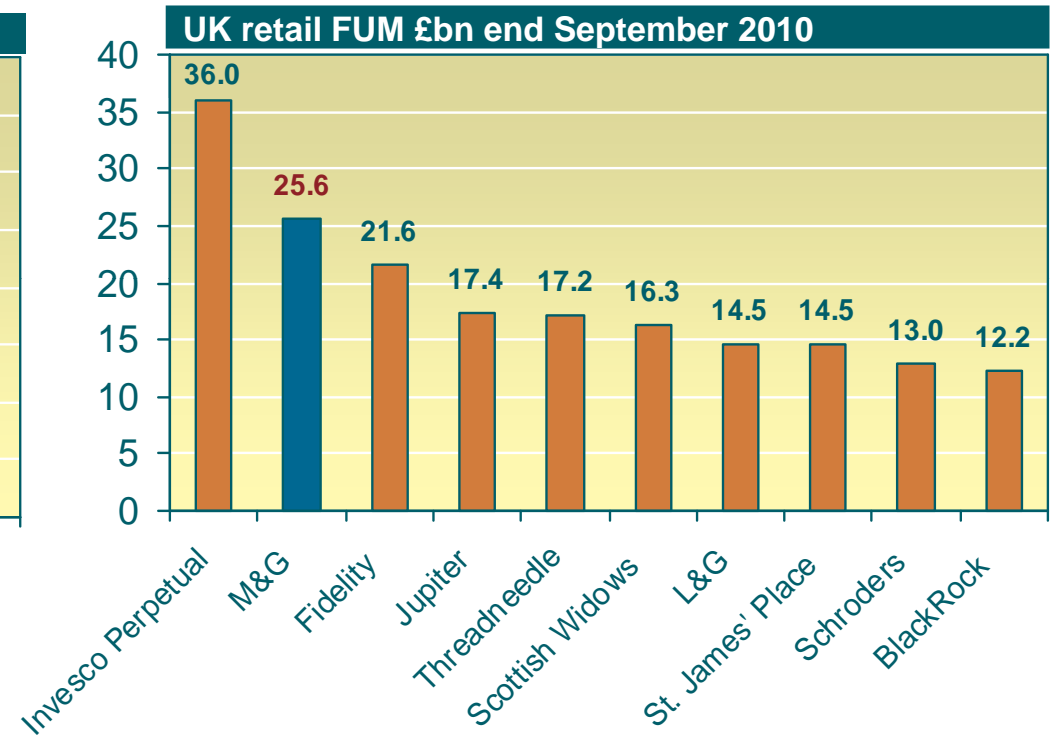
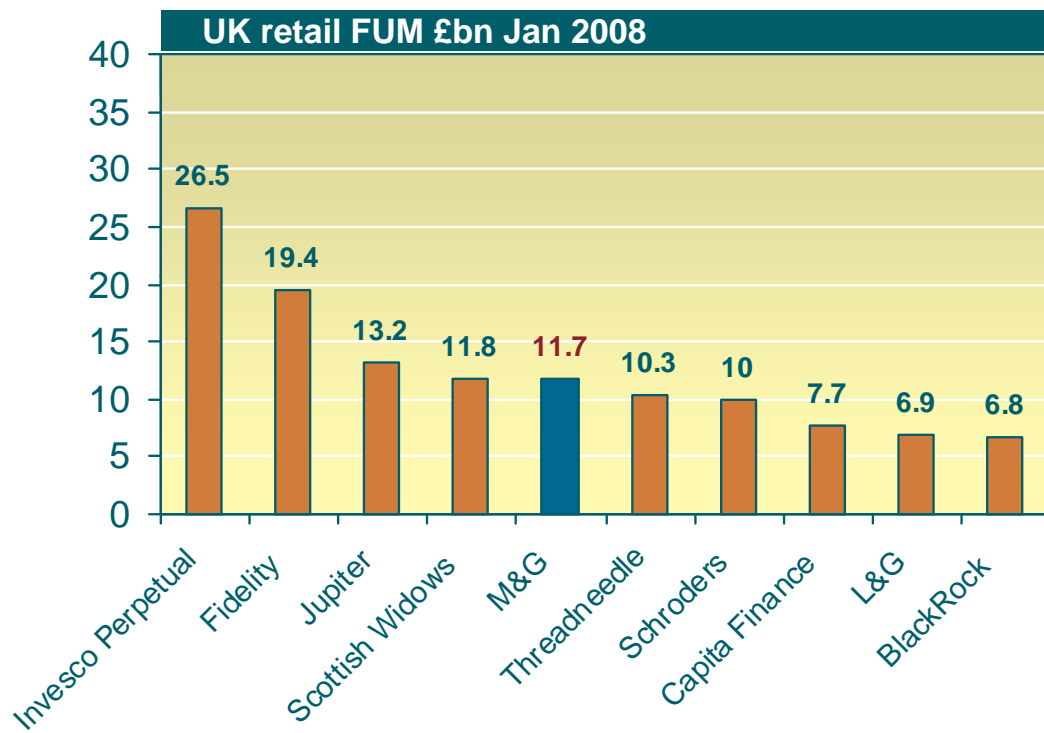
TOP TEN NET RETAIL SALES Fourth Quarter 2008 (£m)	
<b>M&amp;G</b>	<b>1,003.9</b>
Invesco Perpetual	765.2
Jupiter	468.7
SMP	458.5
BNY Mellon	356.9
BlackRock	301.9
Cazenove	171.3
Neptune	166.6
Schroder	130.2
First State	128.3

### 3<sup>rd</sup> quarter 2010

TOP TEN NET RETAIL SALES Third Quarter 2010 (£m)	
<b>M&amp;G</b>	<b>1,282.5</b>
BlackRock	1,032.3
Standard Life Inv	760.0
BNY Mellon	567.2
First State	520.3
Invesco Perpetual	357.8
Schroder	291.5
SMP	260.2
HSBC	250.5
AXA	245.4

**8 consecutive quarters at number 1 for gross and net UK Retail sales**

## 2<sup>nd</sup> largest UK retail fund manager



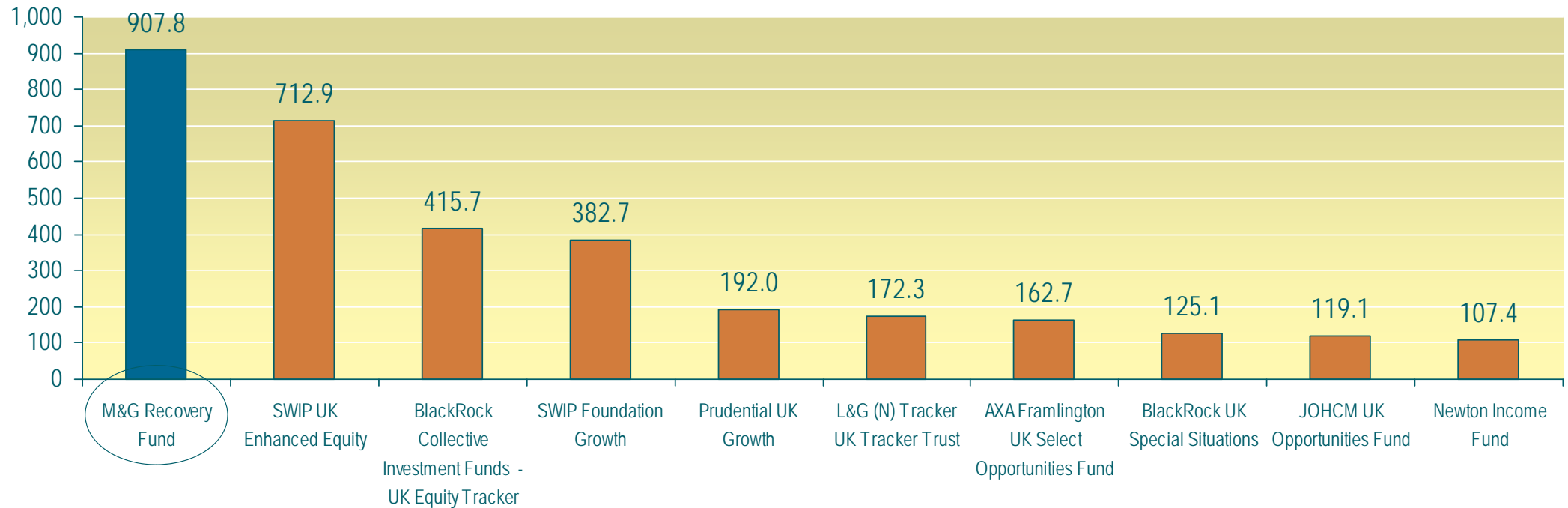
**119% growth in FUM in under 3 years**

Source: IMA

# How have we achieved this position?

## Strength across key asset classes in the UK

Est. net sales year ending Sept 10 (£m)



## Number 1 money taker in UK equities

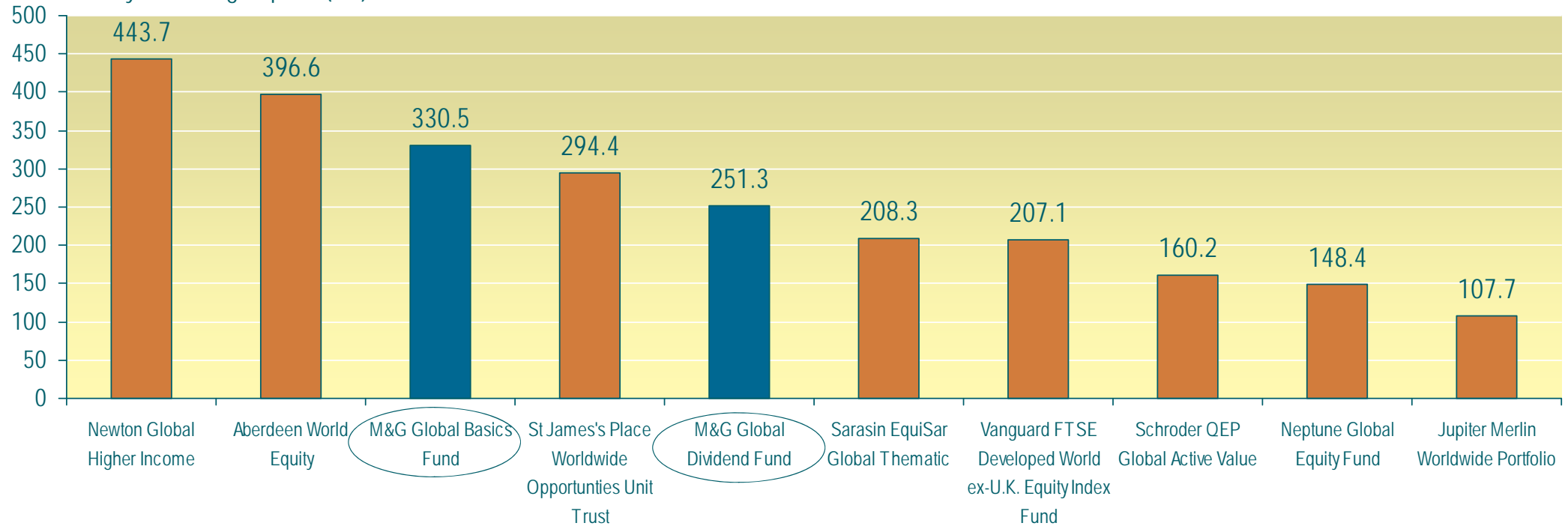
Source: Lipper FMI - Lipper FundFile as at end-September 2010. Figures in GBP. M&G data sourced internally and based on UK retail sales only (excluding internal flows).



# How have we achieved this position?

Strength across key asset classes in the UK

Est. net sales year ending Sept 10 (£m)



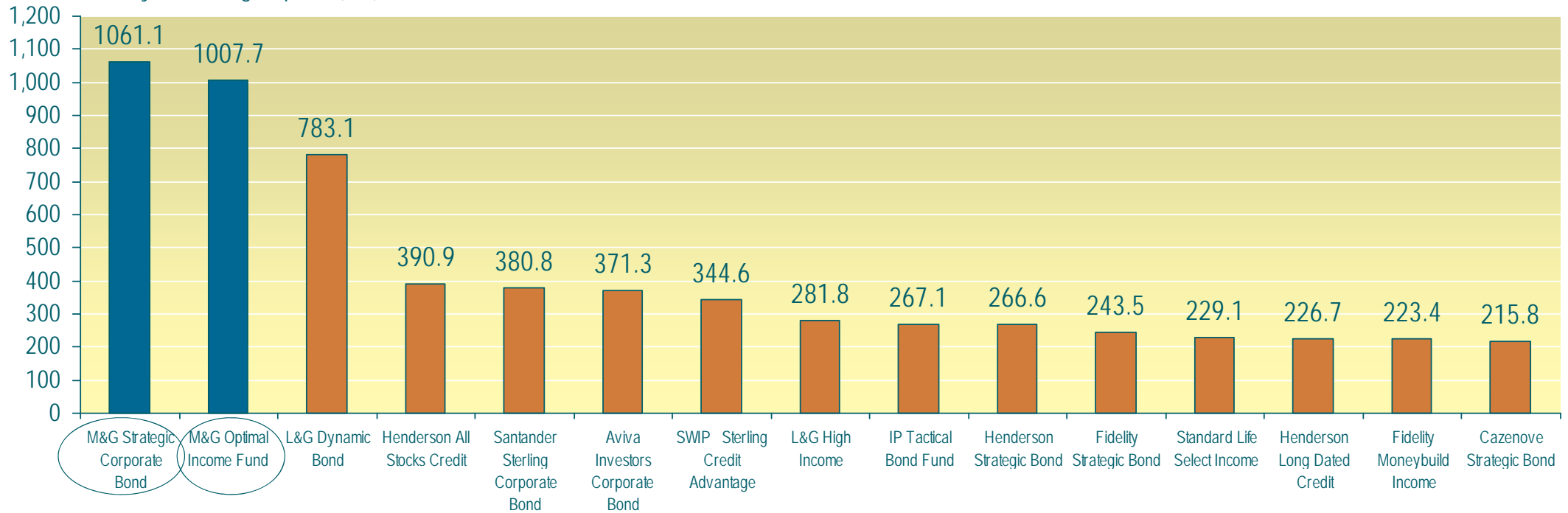
## Number 1 money taker in global equities

Source: Lipper FMI - Lipper FundFile as at end-September 2010. Figures in GBP. M&G data sourced internally and based on UK retail sales only (excluding internal flows).

# How have we achieved this position?

## Strength across key asset classes in the UK

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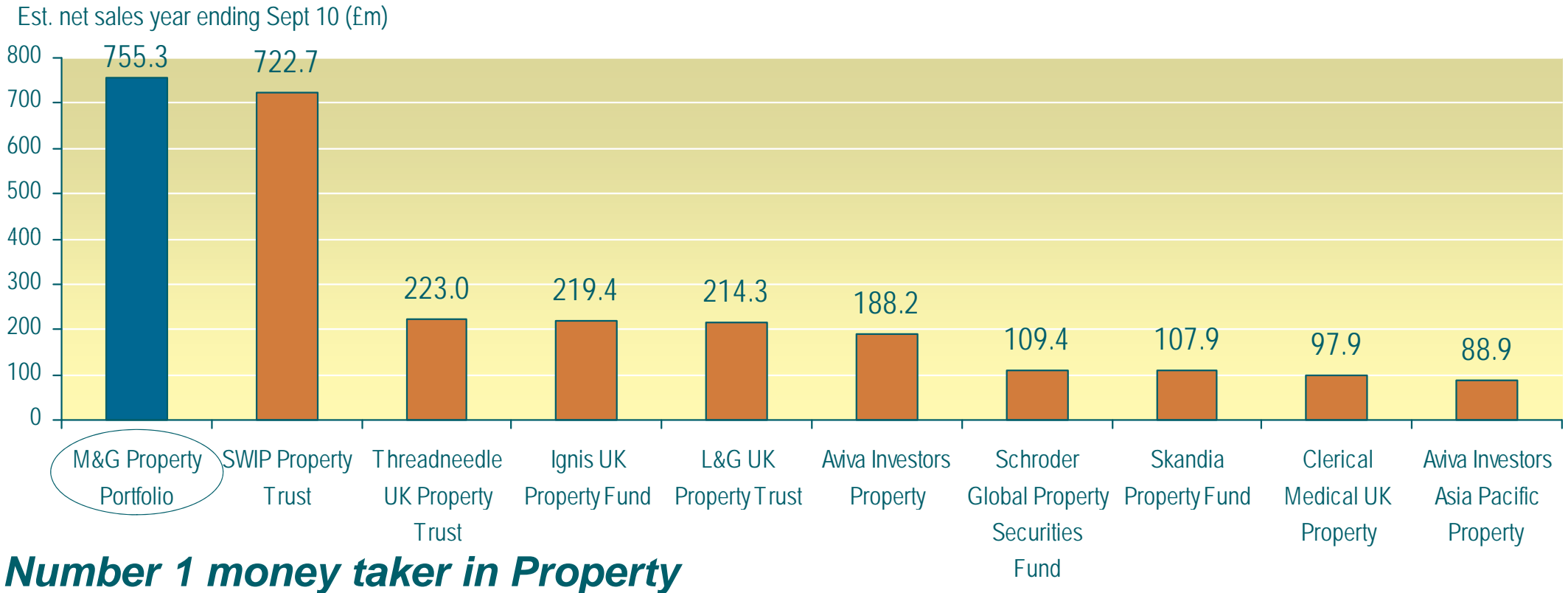
### Number 1 money taker in Fixed Interest

Please note that LV= Short Dated Corporate Bond and LV= Medium and Long Dated Corporate Bond have been removed from the top selling fund list as the majority of the funds' estimated net sales over the latest year are sourced from internal seed capital.

Source: Lipper FMI - Lipper FundFile as at end-September 2010. Figures in GBP. \*UK IMA fixed income sectors consists of the IMA £ Corporate Bond, IMA £ Strategic Bond, IMA £ High Yield and IMA UK Gilts sectors. M&G data sourced internally and based on UK retail sales only (excluding internal flows).

# How have we achieved this position?

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Source: Lipper FMI - Lipper FundFile as at end-September 2010. Figures in GBP. M&G data sourced internally and based on UK retail sales only (excluding internal flows).

# M&G Fixed Income

- One of the largest fixed income investors in Europe
  - 2006: 15% of top 40 UK pension funds
  - 2009: 70% of top 40 UK pension funds
- Dynamic and innovative investment approach
  - Pioneer new investment products and thinking



# How have we achieved this position?

- Investment-led
- Stable team with low turnover
- Strong identity around culture and brand
- Single fund management centre
- Focus on organic growth



# M&G Group

## Recognition for our investment leading proposition



Outstanding Investment House (UK)



Best Multi Asset House (UK)

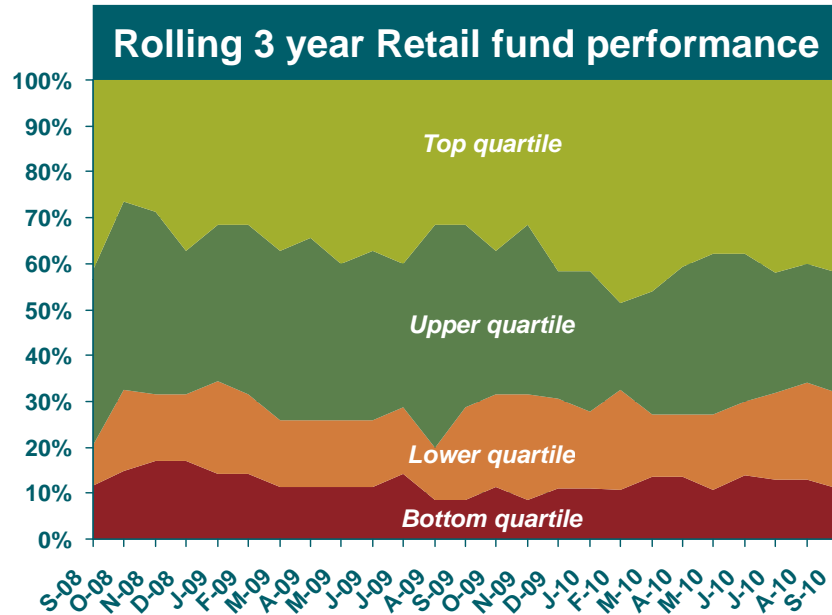


## M&G Retail

Will Nott, CEO M&G Securities

# M&G Retail fund performance

Long term performance remains strong



- 62% retail funds above median over 3 years
- 60% equity funds above median over 3 years
- 67% retail fixed income funds above median over 3 years

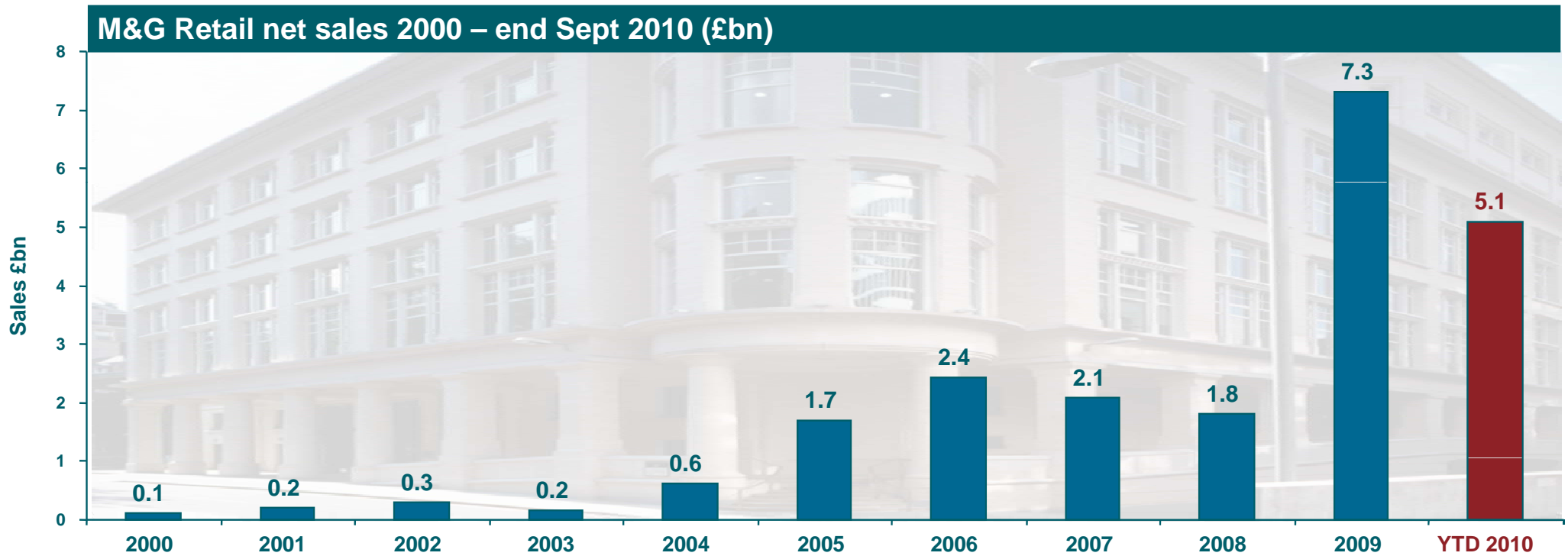
***Investment performance is fundamental to success***

Source: M&G management information



# M&G Retail today

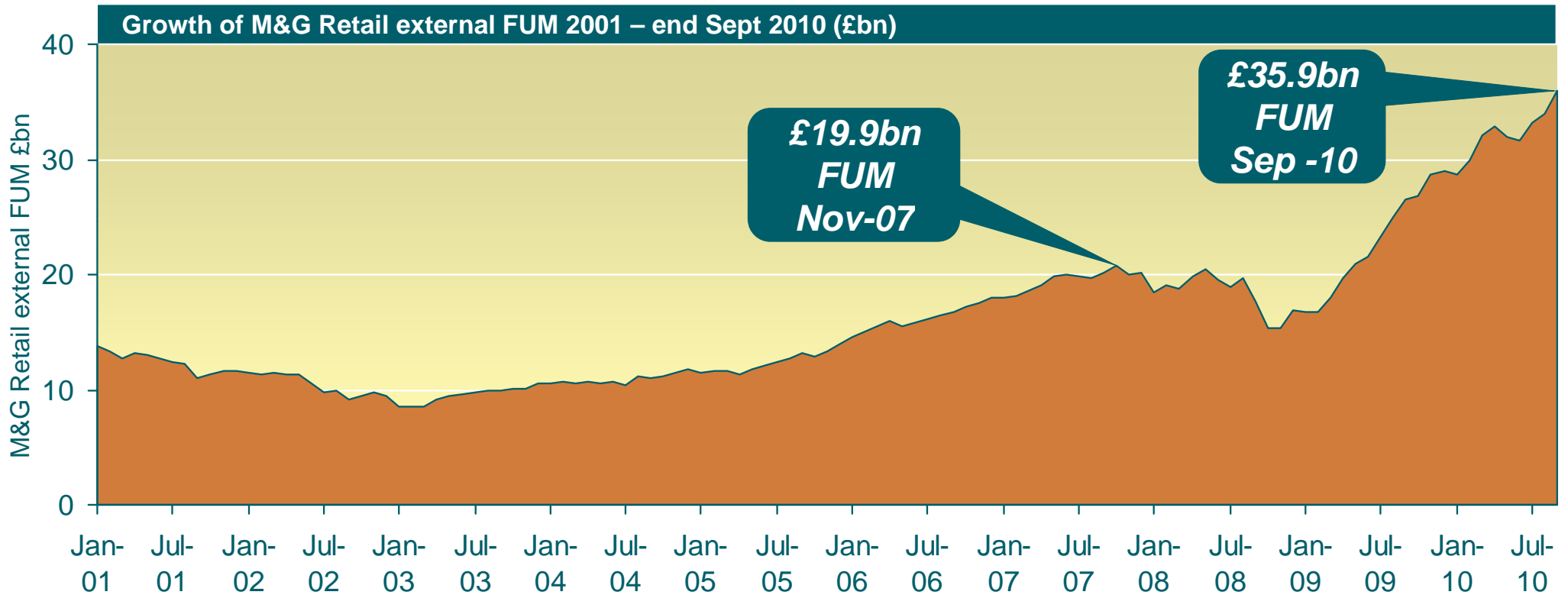
Transformation of the Retail business since 2000



Source: M&G management information

# Transformation of M&G Retail's asset base

Strong growth despite a challenging external environment

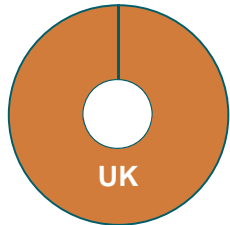


Source: M&G management information

# Improving the diversification of the business

By country

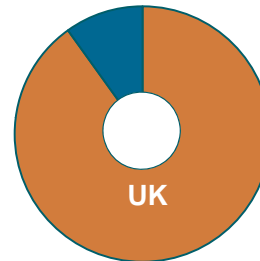
FUM UK vs. International 2001



Total FUM  
£11.5bn

FUM UK vs. International 2005

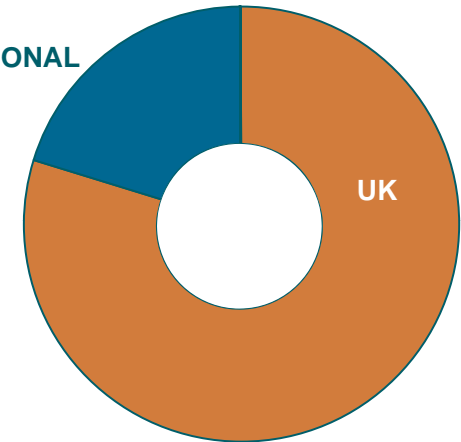
INTERNATIONAL



Total FUM  
£13.9bn

FUM UK vs. International to 30/9/10

INTERNATIONAL



Total FUM  
£35.9bn

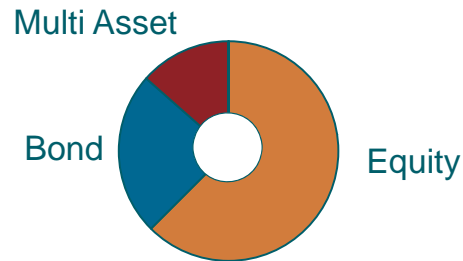
***Expansion into Europe diversifying the asset base***

Source: M&G management information 2001 and 2005 data as at end Dec

# Improving the diversification of the business

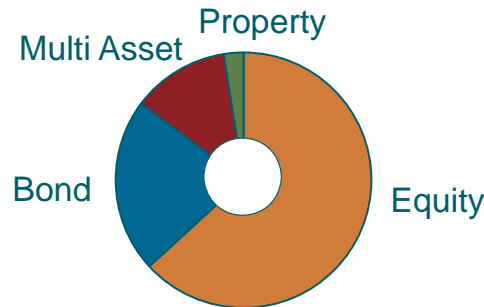
By asset class

FUM by asset class 2001



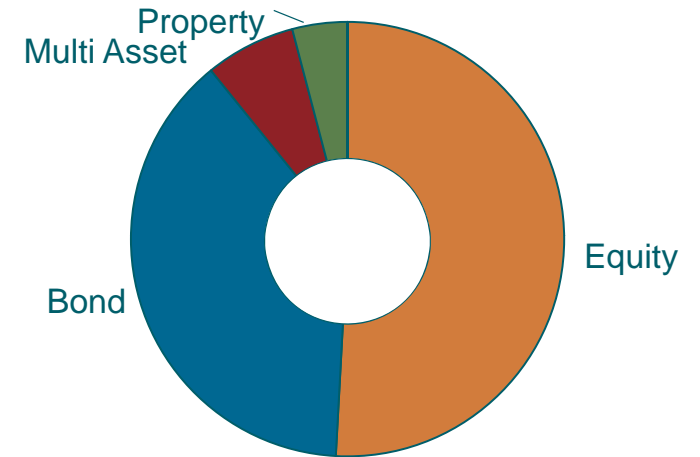
**Total FUM**  
**£11.5bn**

FUM by asset class 2005



**Total FUM**  
**£13.9bn**

FUM by asset class 2010 to 30/9/10



**Total FUM**  
**£35.9bn**

**Strong growth in fixed income assets**

Source: M&G management information 2001 and 2005 data as at end Dec

# Looking ahead

Significant prospects for future growth

	Size of Fund market (FUM at end 2009)	M&G Retail Market share
UK	£481bn	4.9%
Europe	£4,118bn	0.1%

*Opportunities for M&G Retail even without underlying market growth*

Source: IMA, EFAMA

# Opportunities for asset managers

European distribution is opening up

Personnel may be induced to place the products, often those developed in house...regardless of the suitability of the investments for customers.

*Consob, May 2010*



Bank employees or intermediaries may often be faced with inherent conflicts of interest

*European Commission, Sept 2009*

**We have to work together to identify ways in which we can ... raise standards and transparency across Europe**

*Financial Secretary to the Treasury, Nov 2010*

The lack of open architecture in Italy is bad for competition and causes improper conduct on the part of advisers.

*Consob, Nov 2009*

**The issue of restoring trust... will be dependent on creating more transparency in the industry**

*FT January 2010*

**Transparency and being open and honest with clients is a crucial differentiator for asset managers**



# M&G Fixed Income

Simon Pilcher, CEO Fixed Income

# M&G Fixed Income

Using management of internal assets as a platform for external growth

## Internal

Deliver outstanding investment returns to in-house capital through investment in innovative and attractive areas of the capital markets

## Institutional

Utilise skills developed primarily for internal client to build new business streams and diversify revenues

**Active fund management, particularly credit**



# M&G Fixed Income

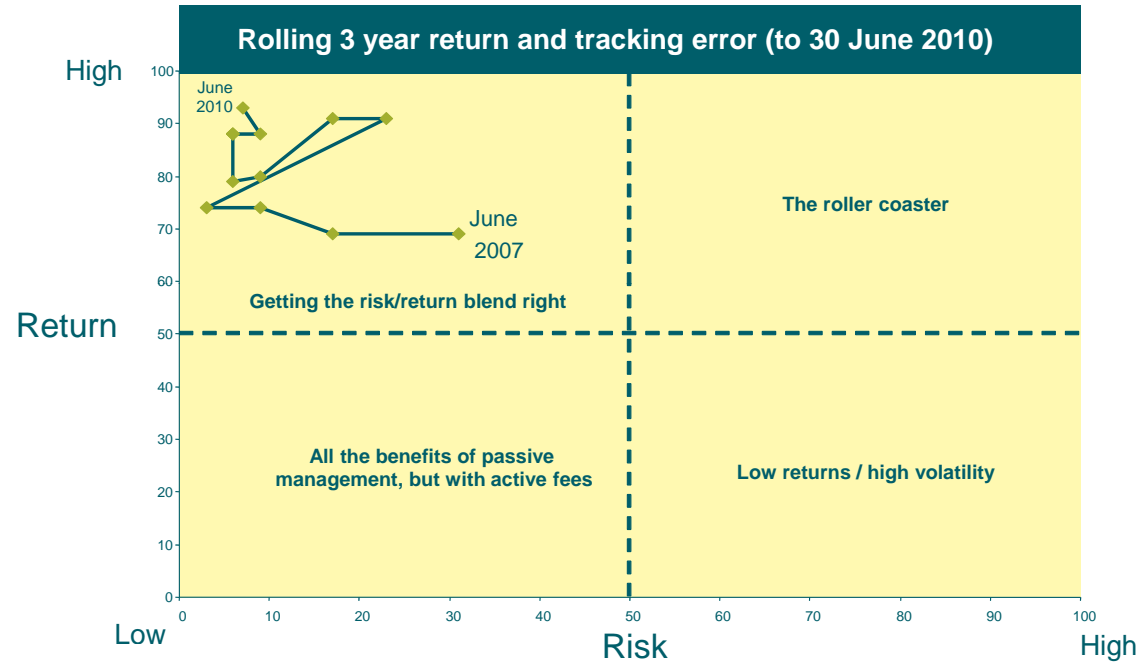
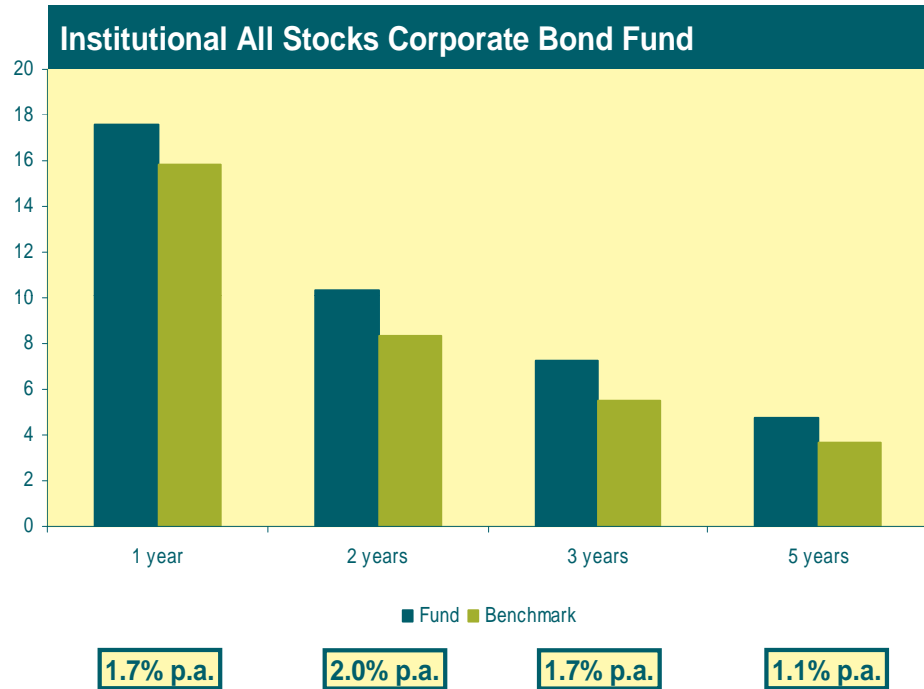
A broad and growing client base

- 256 mandates
- 224 clients
  - 22 have two mandates
  - 6 have three mandates or more
- Other clients from 26 countries - sovereign wealth funds, insurance companies and local governments



# M&G Fixed Income

Performance is a key component of success

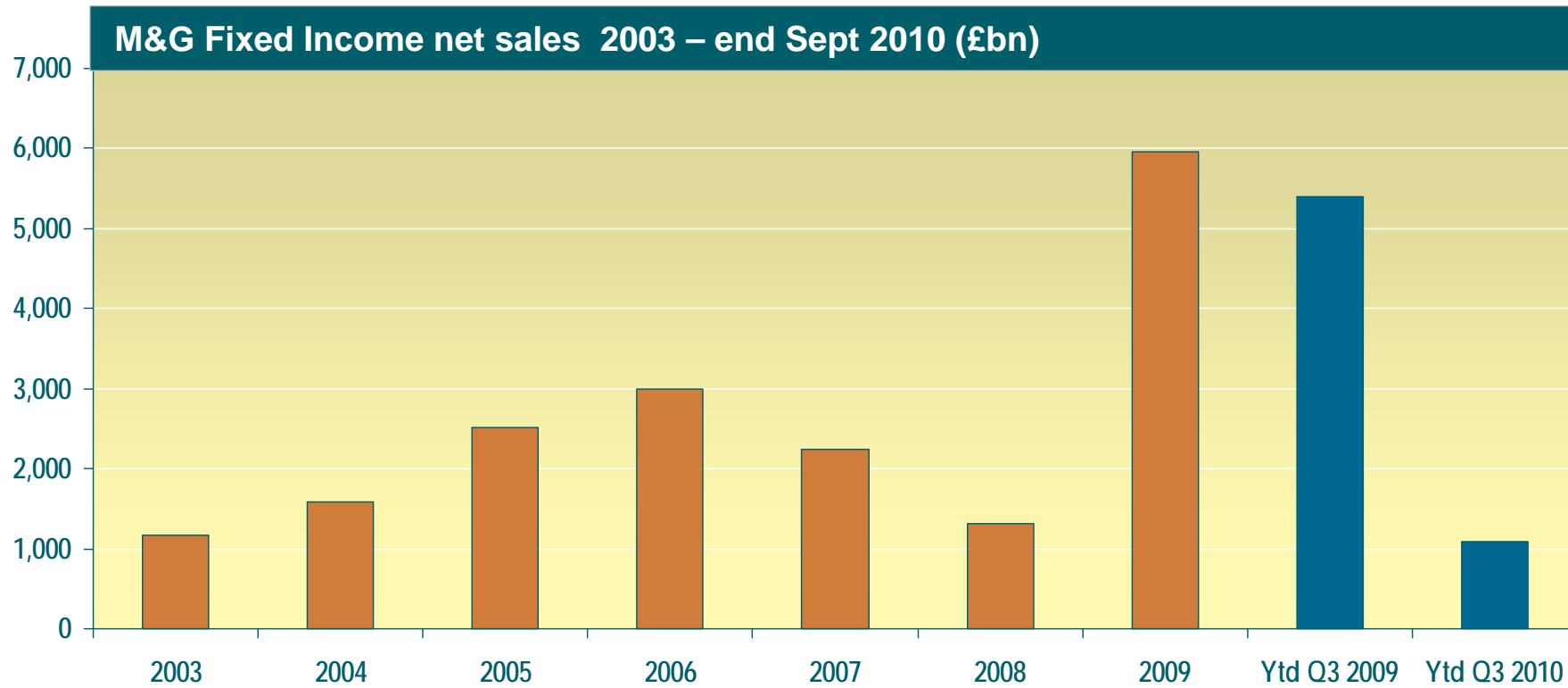


**100% of mandates ahead of benchmark in 3 years to Sept 2010**

Sources: M&G, Mercer MPA, 30 June 2010

# M&G Fixed Income

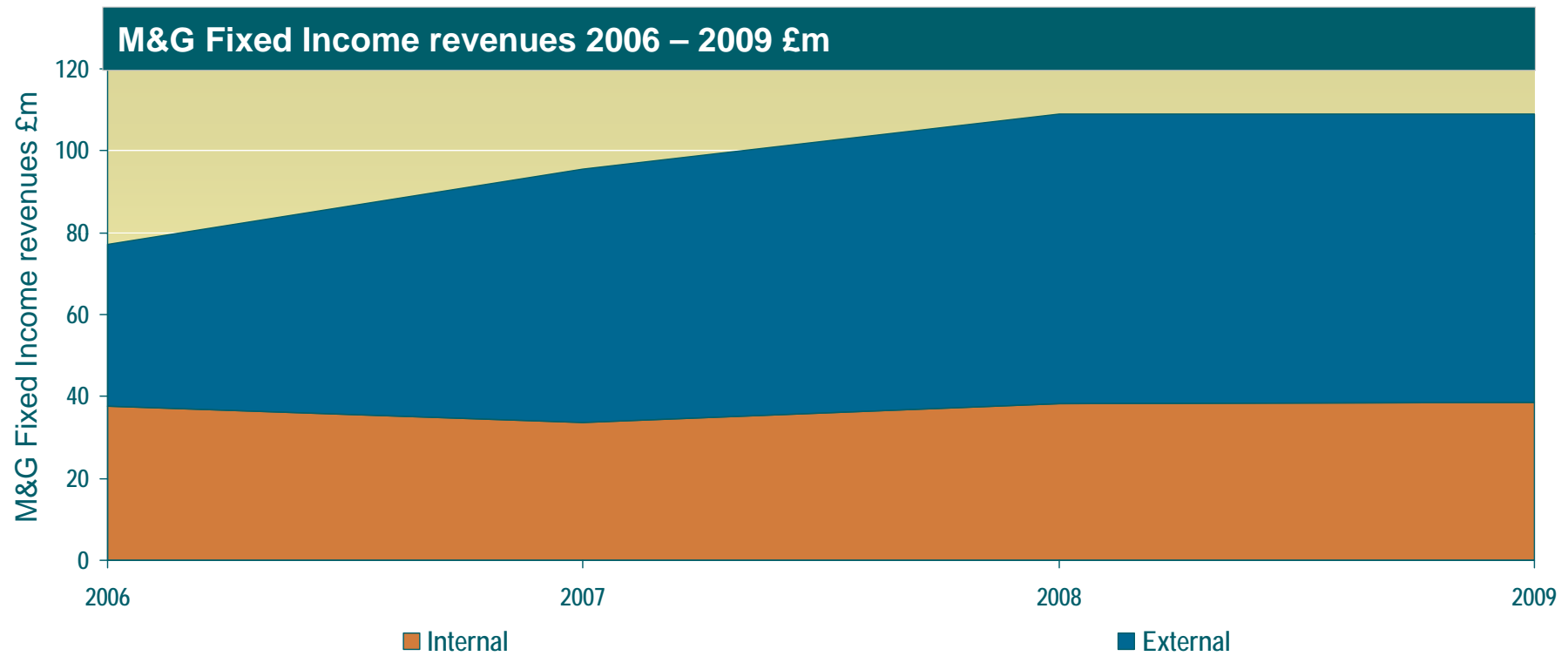
## Net sales history



Sources: M&G, management information

# M&G Fixed Income

## Growth in external revenues



Sources: M&G, management information

# M&G Fixed Income

Innovation enhances reputation, builds trust and helps to grow client base

- Social Housing
- Real Estate Debt Fund
- Secured Property Income Fund

# Secured Property Income Fund

What makes long lease property so attractive?

- Pension schemes need inflation-linked income
- Long dated bonds are natural investments but:
  - index-linked Government bonds are very expensive
  - increased supply of Government bonds may impact returns
  - conventional corporate bonds offer no direct inflation protection
- Long lease property can offer:
  - predictable cash flows
  - long duration
  - increasing inflation-linked income
  - security of owning the underlying real estate
  - potential for capital gain



# Secured Property Income Fund

## Example of long term bond-like income from property

- Let to Tesco Property Nominees Ltd with guarantee from Tesco Plc, rated A-
- 25 year lease with Tesco responsible for insurance and all repairs
- Rent increases annually linked to RPI with a floor of 2% and cap of 5% for first 5 years and 0% to 5% thereafter
- Adjoins larger retail park with 26 leading retailers
- Tesco pay £20.50 per sq.ft but rents next door are £40-42.00 per sq.ft.
- Tesco planning consent is open A1 with food but next door is open A1 non food





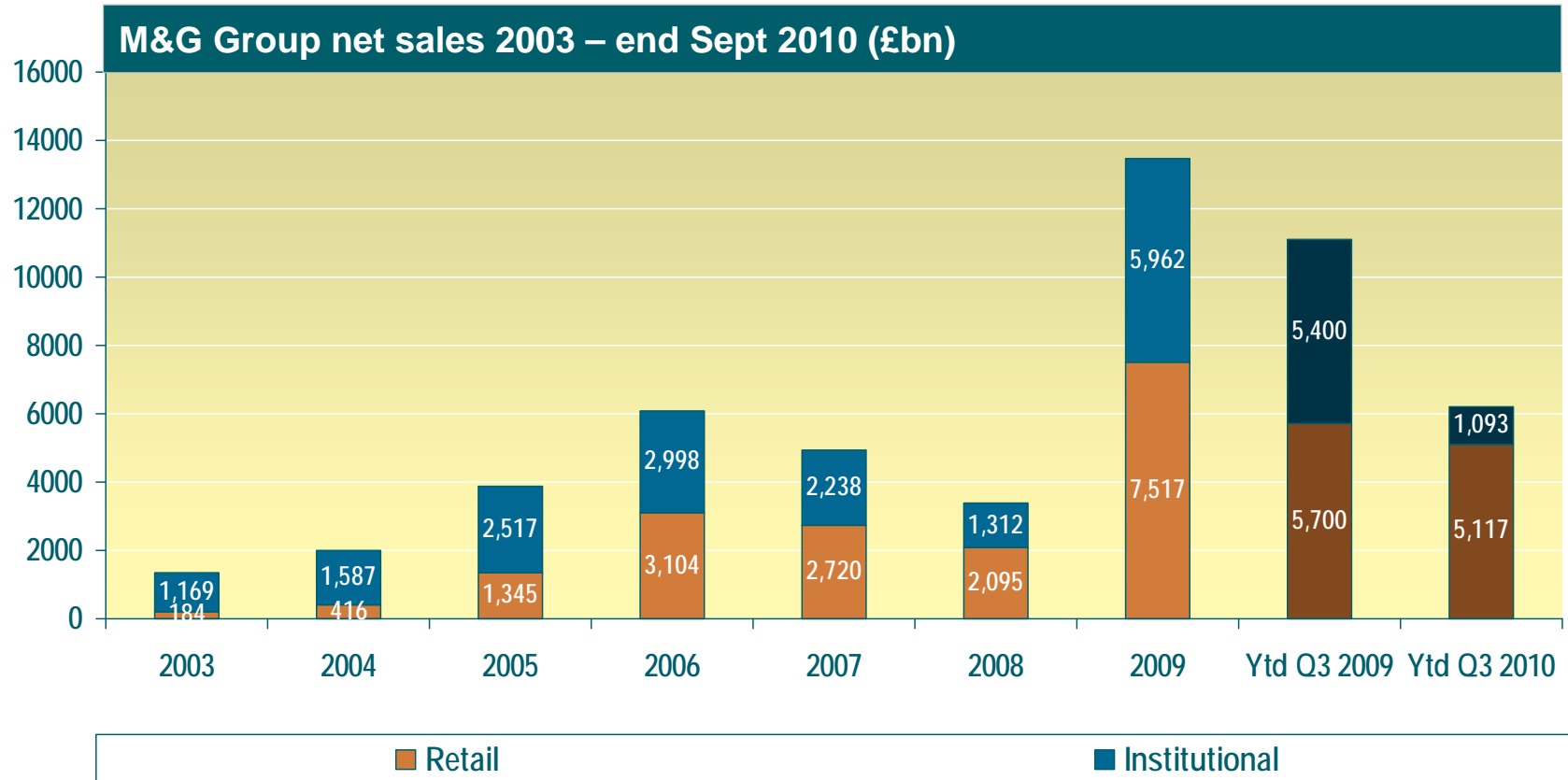
# M&G Group Financials

Grant Speirs, Group Finance Director



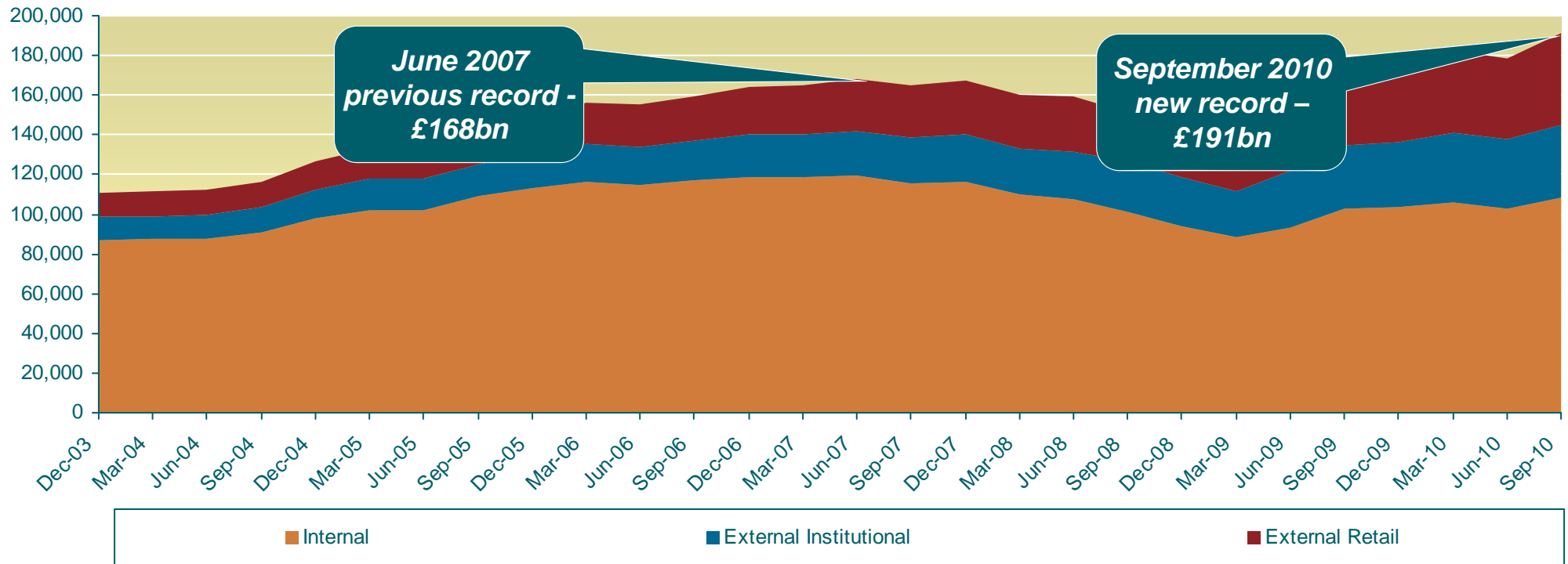
# M&G Group

Consistently strong net flows; exceptional in 2009 and 2010



# M&G Group

## Record FUM levels



**Despite FTSE All Share level being 16% lower**

Sources: M&G, management information

# M&G Group

Focus on growing higher margin external FUM

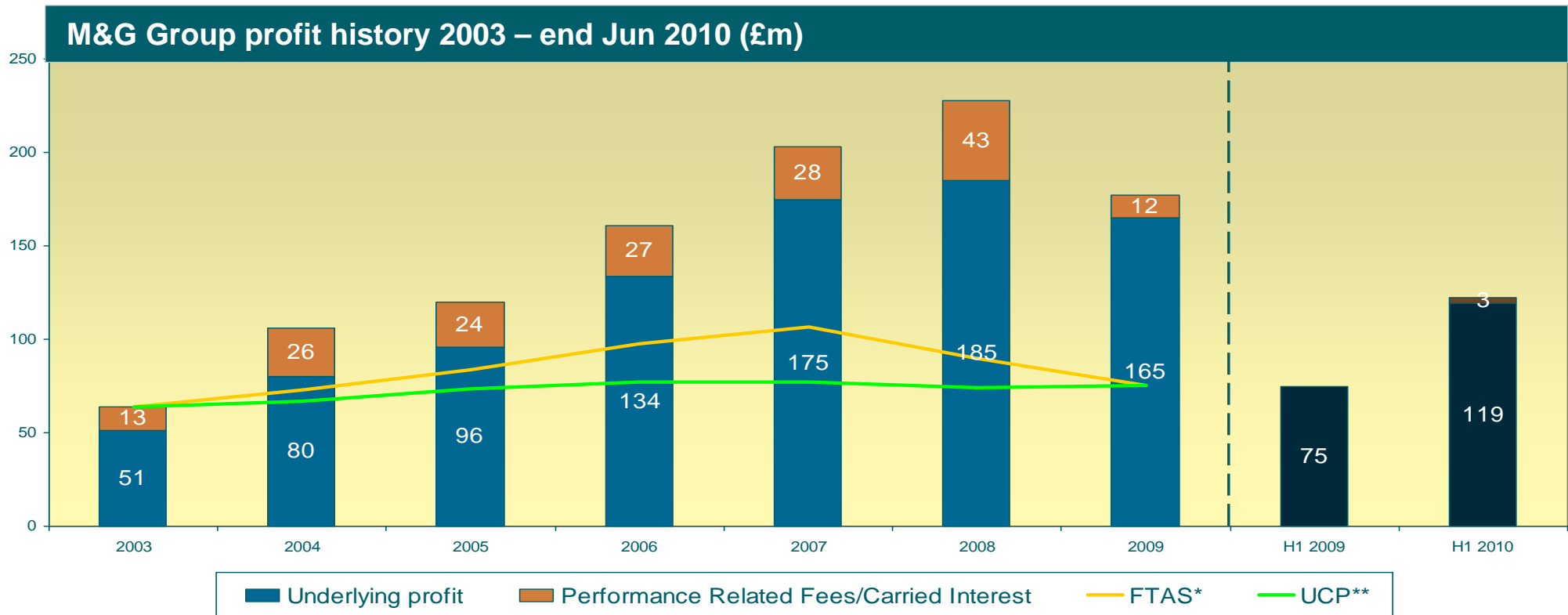
	FUM	Average net fee rates
External Retail*	£46bn	87 bps
External Institutional	£37bn	36 bps
Internal	£108bn	11 bps

\* Retail fees are gross annual management charges less rebates and commission payments

Sources: M&G, management information

# M&G Group

Strong growth in profits: outperforming markets



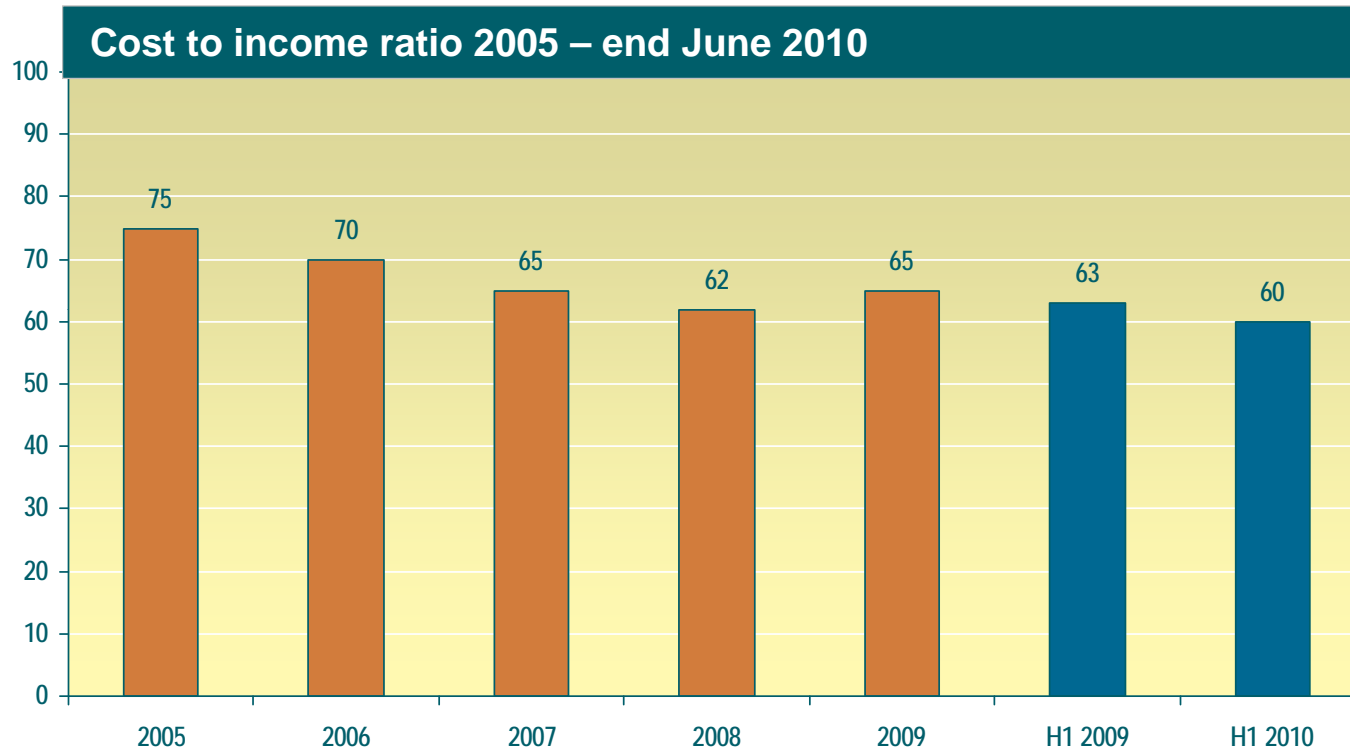
\* Full year average FTAS index rebased to 2003 (closing price adjusted for dividends and splits)

\*\* Average Sterling Corporate & Collateralised All Stocks TR Index (UCP0) Index rebased to 2003

Sources: M&G, management information; Bloomberg

# Cost: Income ratio

Good cost discipline through the cycles



- Excellent profit margins in comparison to our peers

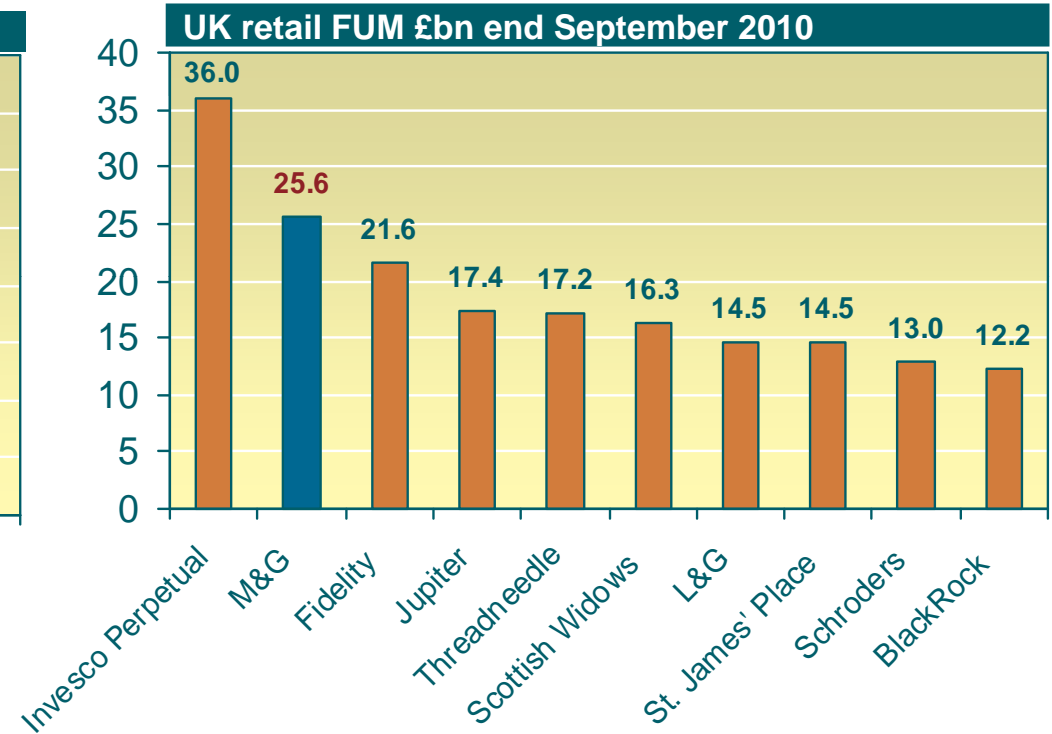
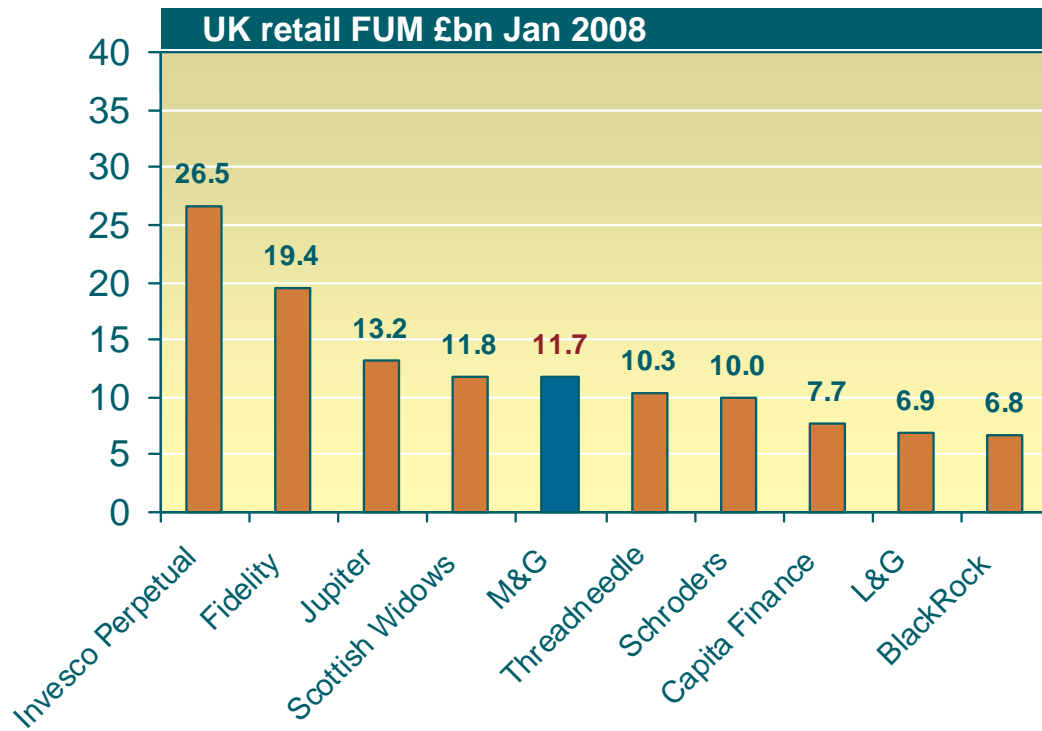
— M&G	36.7%
— Schroders	25.0%
— Aberdeen	22.7%
— Henderson	27.6%
— F&C	27.0%
— Gartmore	24.5%

- 36% of current cost base is variable

***Scaleable business operating platform generates operational efficiencies***

Sources: M&G, management information, full year 2009 competitor data Morgan Stanley research

## 2<sup>nd</sup> largest UK retail fund manager



**119% growth in FUM in under 3 years**

Source: IMA