Michael McLintock
Chief Executive
M&G

ASSET MANAGEMENT M&G

Global

The Group's asset management businesses provide value to the insurance businesses within the Group by delivering sustained superior performance. They are also important profit generators in their own right, having low capital requirements and generating significant cash flow for the Group.

We believe that our asset management businesses are well placed to capitalise on their leading market positions and strong track records in investment performance to deliver net flows and profit growth as well as strategically diversifying the Group's investment propositions in retail financial services markets that are increasingly favouring greater product transparency, greater cross-border opportunities and more open-architecture investment platforms. Wholesale profit streams are also growing.

The Group's asset management businesses operate different models and under different brands tailored to their markets and strengths. However, they continue to work together by managing money for each other with clear regional specialism, distributing each others' products and sharing knowledge and expertise, such as credit research.

Each business and its performance in 2009 is summarised on the following pages.

	2009 £m	AER[8] 2008 £m	AER[8] Change %	CER[8] 2008 £m	CER[8] Change %
Net investment flows	13,478	3,407	296	3,407	296
Revenue	457	455	–	455	–
Other income	13	25	(48)	25	(48)
Staff costs	(205)	(184)	(11)	(184)	(11)
Other costs	(100)	(111)	10	(111)	10
Underlying profit before Performance-related Fees	165	185	(11)	185	(11)
Performance-related fees	12	43	(72)	43	(72)
Operating profit from asset management operations	177	228	(22)	228	(22)
Operating profit from Prudential Capital	61	58	5	58	5
Total IFRS operating profit	238	286	(17)	286	(17)
Funds Under Management (FUM) (£ billion)	174	141	23	141	23

Note: See page 25.

M&G comprises the M&G asset management business and Prudential Capital.

M&G's asset management business

M&G is an investment-led business which aims to deliver superior long-term performance for third-party clients and the internal funds of the Prudential Group.

Our strategy is to recruit and nurture leading investment talent. We seek to create an environment in which this talent will thrive and so deliver the level of returns that our clients expect of us.

As at 31 December 2009, M&G's total funds under management were £174 billion, including £70 billion of assets managed on behalf of third-party retail and institutional clients.

For all our clients, our goal is superior performance over the longer term.

In the retail market, we aim to offer high-performing funds which are managed from our London headquarters and distributed in the UK and across Europe, mainly through intermediaries. The diversity of our retail product range proved its worth in the recent market turmoil, as investors bought both our equity and fixed income funds.

In the institutional market, we provide third-party clients such as pension funds with a range of traditional and specialist investment strategies, some of which have originally been developed for the Prudential internal funds.

For all clients, our goal is superior performance over the longer term. In the three years to December 2009, 38 per cent of M&G's retail funds delivered top-quartile investment performance[1]. Over the same period, 89 per cent of M&G's active institutional funds delivered returns ahead of their benchmarks.

Sales performance

M&G had an exceptional year in 2009, delivering record net fund inflows of £13.5 billion. This 296 per cent year-on-year increase in net new business can be attributed largely to the excellent long-term performance of both our retail and institutional investment management teams.

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Gross fund inflows rose 54 per cent to £24.9 billion. These record inflows and the recovery of equity markets in the latter half of 2009 led to a 23 per cent increase in M&G's funds under management to a total of £174 billion. As at 31 December 2009, 40 per cent of M&G's funds under management were for third-party clients.

M&G's Retail Business has had a particularly strong year, seeing net inflows jump by 259 per cent over the year to £7.5 billion. Gross fund sales were up 50 per cent at £13.6 billion. Sales of our top-performing fixed income funds accounted for the lion's share of inflows for most of the year before investor appetite switched to our equity and property funds during the second half as sentiment turned more bullish.

The UK Retail Business had an especially good year, with net inflows rising by 216 per cent to £6.0 billion from £1.9 billion in 2008. This compared with total UK retail net sales of £25.8 billion for the year (source, IMA, 12 months to end of 2009).

Similarly, the Institutional Business attracted an exceptionally high level of net new business. Net inflows were £6.0 billion, a rise of 354 per cent on 2008. They included the award of a single fixed income mandate valued at £4 billion and £0.8 billion of net new money into our leveraged loan funds. Gross fund sales were up 59 per cent at £11.3 billion.

Net sales remained robust in the fourth quarter. The Retail Business attracted net new money of £1.8 billion, more than double the £0.7 billion taken in the same quarter in 2008. Gross Retail sales were £3.8 billion. The Institutional Business took £0.6 billion of net new business over the three months, compared with an outflow of £1.4 billion for the same period a year ago. Gross sales were 93 per cent higher year-on-year at £2.7 billion.

Note
1 Source: Morningstar.

M&G: record fund inflows

In 2009, M&G attracted record net and gross fund inflows, at £13.5 billion and £24.9 billion respectively. This outstanding achievement was the result of excellent long-term investment performance combined with a deeply-trusted brand and a high standard of client communications.

Total funds under management for both internal and third-party clients reached £174 billion by the end of 2009. M&G's goal is to deliver the level of investment performance its clients expect by nurturing and retaining some of the best talent in the fund management industry.

Financial performance

The collapse in investor confidence in the autumn of 2008 and the subsequent economic turmoil had a limited impact on that year's results, coming as it did late in the year. Market levels are the single most important determinant of our profits. The average level of the FT All Share Index during 2008 was 2,743. Despite the recovery in markets from March 2009 onwards, the average level of the FT All Share Index in 2009 was materially lower at 2,327.

Continuing excellent investment performance in a number of M&G's flagship equity and bond funds gives grounds for confidence that M&G will continue to win a healthy share of new business.

It is in this context that M&G's IFRS operating profits fell to £177 million, 22 per cent lower than the record profits achieved in 2008. However, if performance related fees, investment income, carried interest on private equity investments and costs associated with the long-term incentive plan are excluded, M&G's operating profit would display an underlying growth of 14 per cent in 2009 (£182.0 million) over 2008 (£159.5 million).

M&G continues to provide capital efficient profits and cash generation for the Prudential Group, as well as strong investment returns on the long-term business funds. Return on capital of 76 per cent and cash remittances of £93 million in 2009 provided strong support for the Group's corporate objectives.

Our cost/income ratio was 65 per cent in 2009, increasing from 60 per cent in 2008. The increase can largely be attributed to the reinstatement of costs associated with the long-term incentive plan (LTIP), as the medium-term outlook for the business improved in light of strong fund inflows and recovering market levels. M&G remains focused on cost control.

Outlook

The collapse in bank deposit rates to near-zero provided an exceptional backdrop to M&G's sales performance in 2009 which will not be repeated in 2010. Net sales are expected to return to more normal levels this year. Nevertheless, continuing excellent investment performance in a number of M&G's flagship equity and bond funds gives grounds for confidence that M&G will continue to win a healthy share of new business.

Prudential Capital

Prudential Capital manages Prudential's balance sheet for profit by leveraging Prudential's market position. This business has three strategic objectives: to operate a first-class wholesale and capital markets interface; to realise profitable proprietary opportunities within a tightly-controlled risk framework; and to provide professional treasury services to Prudential. Prudential Capital generates revenue by providing bridging finance, managing investments and operating a securities lending and cash management business for the Group and its clients.

The business has consolidated its position in a period of difficult and volatile markets, focusing on liquidity across the Group, management of existing asset portfolio and conservative levels of new investment. Development of new product and infrastructure has continued, helping to maintain the dynamism and flexibility necessary to identify and realise opportunities for profit within acceptable risk parameters. Prudential Capital is committed to working closely with other business units across the Group to exploit opportunities and increase value creation for Prudential as a whole. In particular, Prudential Capital offers to the Group a holistic view on hedging strategy, liquidity and capital management.

Prudential Capital has a diversified earnings base derived from its portfolio of secured loans, debt investments and the provision of wholesale markets services. The business delivered a good financial result in 2009, considering prevailing market conditions. As a result of sustained revenue and maintaining a low cost/income ratio, IFRS operating profits increased by five per cent to £61 million, resulting in a cash remittance to the Group holding company of £82 million.

Asia

	AER[8]			CER[8]	
	2009 £m	2008 £m	Change %	2008 £m	Change %
Net investment flows	1,999	855	134	1,044	91
Total IFRS operating profit	55	52	6	61	(10)
Funds Under Management (FUM) (£ billion)*	19.5	15.2	28	13.9	40

*Third-party customers

Note: See page 25.

Introduction

Prudential's asset management business in Asia manages investments for Prudential UK and the Asian life companies and has also successfully leveraged these investment capabilities to build a market leading third-party funds management business.

Initiatives in 2009

Investment performance is one of the key drivers of success for Asia Asset Management. In 2009, 64 per cent of its funds outperformed their peer benchmarks or were ranked within the top-two performance quartiles among peers[1].

Fund launches were curtailed during 2009 given the market conditions; however Asia Asset Management did successfully raise new funds in 2009 including £300 million (US$469 million) from a Qatar Fixed Maturity Plan Series in Dubai, £220 million (US$345 million) from an equity fund in China and £109 million (US$170 million) from a target return fund in India. A new innovation was the Brazil Fund, launched in Taiwan that raised £94 million (US$147 million).

Asia Asset Management has continued to build its retail distribution network across Asia. For example, in Japan, the business has successfully established distribution relationships with mega distributors.

In China, CITIC-Prudential was awarded the prized Qualified Domestic Institutional Investors (QDII) licence in 2009 and in Malaysia, Asia Asset Management launched Prudential Al-Wara as its new Islamic fund management subsidiary.

Financial performance

Asia Asset Management total funds under management as at 31 December 2009 is £42.4 billion and includes £4.2 billion of assets from the Group, £18.7 billion from Prudential Corporation Asia's life funds and £19.5 billion from third-party customers. Compared to 2008, the overall FUM increased by 22 per cent (excluding the FUM related to the sold Taiwan agency business).

Third party net inflows were £2 billion driven principally by money market funds in India with strong net equity inflows in Japan and the UAE being offset by net outflows of equity funds in Korea and fixed income funds in India.

IFRS profit from fund management is £55 million, up six per cent on the prior year. Lower management fees were more than offset by stringent cost control. The asset management business requires very little capital to support its growth and in 2009 it remitted a net £33 million to the Group holding company.

Note

1 Based on a blend of 1-year and 3-year performance.

US Asset Management

PPM America	AER[8] 2009 £m	AER[8] 2008 £m	AER[8] Change %	CER[8] 2008 £m	CER[8] Change %
Total IFRS operating profit	6	2	200	2	200

PPM America (PPMA) manages assets for Prudential's US, UK and Asian affiliates. PPMA also provides other affiliated and unaffiliated institutional clients with investment services including collateralised debt obligations (CDOs), private equity funds, institutional accounts, and mutual funds. PPMA's strategy is focused on managing existing assets effectively, maximising the benefits gleaned from synergies with our international asset management affiliates, and leveraging investment management capabilities across the Prudential Group. PPMA also pursues third-party mandates on an opportunistic basis.

Financial performance

IFRS operating profit in 2009 was £6 million, up from £2 million in 2008, primarily due to performance driven income.

Year-end 2009 funds under management of £47 billion were as follows:

PPMA funds under management £bn

	Asia	US	UK	Total
Insurance	–	29	12	41
Unitised	4	–	1	5
CDOs	–	1	–	1
Total	4	30	13	47

US broker-dealer

Broker-dealer	AER[8] 2009 £m	AER[8] 2008 £m	AER[8] Change %	CER[8] 2008 £m	CER[8] Change %
Revenue	390	328	19	388	1
Costs	(386)	(320)	(21)	(378)	(2)
Total IFRS operating profit	4	8	(50)	10	(60)

National Planning Holdings (NPH) is Jackson's affiliated independent broker-dealer network. The business comprises four broker-dealer firms, including National Planning Corporation, SII Investments, INVEST Financial Corporation and Investment Centers of America.

The US broker-dealer business continued to grow through strong recruiting efforts. By utilising our high-quality, state-of-the-art technology, NPH's advisers receive the tools they need to operate their practices more efficiently. At the same time, through its relationship with NPH, Jackson continues to benefit from an important retail distribution outlet, as well as receive valuable insights into the needs of financial advisers and their clients.

Financial performance

NPH generated record revenues of £390 million during the year, up from £328 million in 2008, on gross 2009 product sales of £9 billion. NPH's 2009 IFRS operating profit of £4 million declined from £8 million in 2008. NPH increased the number of registered advisers in the network by nearly 10 per cent to approximately 3,478 at the end of 2009.

Curian

Curian	AER[8] 2009 £m	AER[8] 2008 £m	AER[8] Change %	CER[8] 2008 £m	CER[8] Change %
Gross investment flows	796	591	35	699	14
Revenue	25	24	4	28	(11)
Costs	(31)	(27)	(15)	(32)	3
Total IFRS operating loss	(6)	(3)	(100)	(4)	(50)

Curian Capital, Jackson's registered investment adviser, provides innovative fee-based separately-managed accounts and investment products to advisers through a sophisticated technology platform. Curian expands Jackson's access to advisers while also providing a complement to Jackson's core annuity product lines.

Financial performance

Curian's IFRS operating loss increased in 2009 due to the significant market disruption and lower average assets under management throughout the year. However, Curian's growth in deposits and assets under management rebounded in the second half of 2009. At the end of 2009, Curian had total assets under management of £2.3 billion, compared to £1.8 billion at the end of 2008. Curian generated deposits of £796 million in 2009, up 35 per cent on 2008. The increase in both deposits and assets under management were mainly due to the rally in the equity markets, with the S&P 500 index increasing 23.5 per cent during 2009, and several growth initiatives implemented by Curian throughout the year.

Note
See page 25.