Asset management: optimise

M&G has continued to focus on delivering superior investment performance for our customers while maximising the strength of its distribution capabilities. It has pursued business diversification both across geographies and asset classes.

£228bn

assets under management

Eastspring Investments recently became the largest retail asset manager in Asia[1], and continues to build a cohesive regional presence, penetrating the offshore segment more effectively.

£58.1bn
assets under management

Note
1 Source: survey conducted by Asia Asset Management Magazine as at 30 June 2012 (based on assets sourced from Asia ex-Japan).

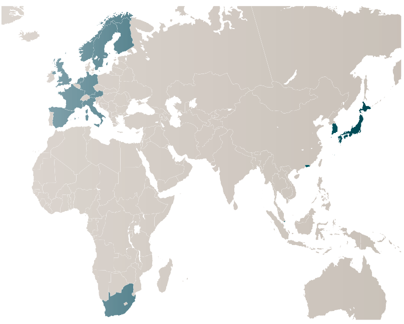
Asset management

Asset management: optimise

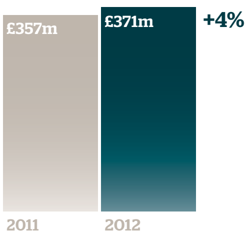
M&G

'M&G has had a record-breaking year in terms of net sales, funds under management and profits. It continues to execute against its strategy and deliver strong performance for both clients and its shareholder, the Prudential Group.'

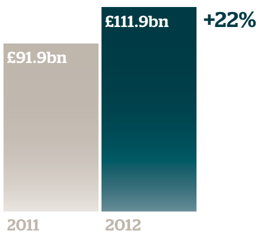
Michael McLintock
Chief Executive
M&G



Total IFRS operating profit



External funds under management



M&G		AER		CER	
	2012 £m	**2011** £m	**Change** %	**2011** £m	**Change** %
Gross investment inflows	36,464	25,981	40	25,981	40
Net investment inflows:					
Retail business	7,842	3,895	101	3,895	101
Institutional business	9,039	490	1,745	490	1,745
Total	16,881	4,385	285	4,385	285
Revenue	728	662	10	662	10
Other income	6	4	50	4	50
Staff costs	(289)	(270)	(7)	(270)	(7)
Other costs	(147)	(134)	(10)	(134)	(10)
Underlying profit before performance-related fees	298	262	14	262	14
Share of associate's results[note (i)]	13	26	(50)	26	(50)
Performance-related fees	9	13	(31)	13	(31)
Operating profit from asset management operations	320	301	6	301	6
Operating profit from Prudential Capital	51	56	(9)	56	(9)
Total IFRS operating profit	371	357	4	357	4
Funds under management[note (ii)]	£228bn	£201bn	13	£201bn	13

Notes

(i) The 2012 figure represents M&G's 49.99 per cent proportionate share in the operating profit (including performance-related fees) of PPM South Africa following the divestment transaction in 2012. 100 per cent of operating profits were included in 2011.

(ii) Funds under management includes M&G's share of the assets managed by PPM South Africa at 49.99 per cent and 100 per cent for 2012 (£4.4 billion) and 2011 (£7.9 billion) respectively.

Market overview

M&G is the UK and European fund manager of the Prudential Group with responsibility for investments on behalf of both internal and external clients. It is an investment-led business with a clear focus on generating superior long-term returns for investors, whether they are third-party clients or the funds of Prudential's insurance operations. This is achieved by creating an environment that is attractive to talented investment professionals.

Against a backdrop of continued political and macroeconomic uncertainty, M&G continues to deliver strong investment performance. Over the three years to 31 December 2012, 20 funds representing approximately 61 per cent of retail funds under management (FUM) produced first or second quartile investment returns. The performance of funds managed on behalf of institutional fixed income clients also remains extremely strong with all actively-managed mandates meeting or outperforming their benchmarks over this period.

Business performance

M&G has had a record-breaking year in terms of net sales, funds under management and profits.

Total net sales for the 12 months to the end of December 2012 were £16.9 billion, 25 per cent higher than the previous full year peak of £13.5 billion in 2009 and 285 per cent higher than net sales of £4.4 billion in 2011.

The strength of net flows, together with increases in equities and bond values in the year, have led to an increase of 13 per cent in total funds under management, to an all-time high of £228 billion. The FTSE All Share Index has increased by 8 per cent over the year and the sterling corporate bond index has increased by 15 per cent. Building on the strength of the net flows generated by the business over recent years, M&G was the largest retail fund manager in the UK[1], measured by funds under management. M&G's total UK retail FUM is £41.2 billion, as noted by the Investment Management Association at the end of December 2012.

Underlying operating profit for the year was £298 million, 14 per cent higher than the previous best of £262 million in 2011. Total operating profit for 2012 was £320 million.

This caps a decade of extremely strong growth for M&G. Since 2003 net fund sales have increased at an annual compound rate of 32 per cent and external client assets have grown at an annual compound rate of 19 per cent. Over this period underlying profit has grown at an annual rate of 22 per cent.

Retail

In the retail market, M&G operates a single fund range from the UK, which it distributes both locally and internationally through increasingly diverse channels. Assets sourced from investors outside the UK now account for 29 per cent of M&G's total retail FUM.

Its reputation for delivering superior long-term investment returns and a high standard of client service enabled M&G to attract a record level of net fund sales in the retail market in 2012. Excluding the results of our South African associate company, where our shareholding reduced from 75 per cent to 49.99 per cent during 2012, total net sales were £8.2 billion. This is 15 per cent higher than their previous high of £7.2 billion in 2010.

In the UK, M&G's core market, net sales totalled £3.0 billion, 30 per cent lower than the previous year, but still sufficiently high to rank M&G as the top selling house for the year. M&G has ranked first for both net and gross fund sales in the UK for four consecutive calendar years, an unprecedented achievement. Fund sales slowed in the second half as a direct consequence of a decision in July to limit flows of new money into two of our best-selling sterling corporate bond funds to ensure continued flexibility in the management of the funds. We expect UK net sales to continue to slow in 2013.

By contrast, net fund sales in mainland Europe increased sharply. Following a minor net outflow in 2011, the business generated a record £5.2 billion of net sales representing 67 per cent of total retail net sales in 2012. Over the year M&G saw retail assets sourced from European clients grow by 75 per cent to £14.4 billion (2011: £8.2 billion). Today M&G has offices in 15 different countries and its retail funds are registered for sale in 20 jurisdictions.

A core pillar of M&G's retail business is to offer a diversified range of investment funds and so be well-placed for changes in investor trends. The demand for conservatively managed portfolios for most of 2012 saw strong inflows into the M&G Optimal Income Fund, a highly flexible international fixed income fund, and into the M&G Global Dividend Fund. In Europe, Optimal Income was the fourth best-selling fund, while Global Dividend ranked ninth over the year to end of December 2012 and was the top selling cross border Equity fund in 2012[2].

No fewer than 10 of M&G's retail funds, across the major asset classes of fixed income, equities and real estate, each attracted net sales of at least £100 million during the 12 month period.

The £8.2 billion of net retail inflows in the UK and Europe were partially off-set by a £0.4 billion net outflow from funds managed by M&G's associate entity in South Africa. These redemptions were entirely from the PPM South Africa Dividend Income Fund, which was closed on 31 March 2012 ahead of the implementation of new tax legislation on 1 April 2012, which would have had a materially adverse impact on the treatment of the distribution made by the fund to its investors. Fund flows into other retail funds of the South African business have been positive.

Institutional

In the institutional marketplace, M&G's approach is to leverage investment strategies developed primarily for Prudential's internal funds to create higher margin external business opportunities. M&G offers third-party clients, such as pension funds and sovereign wealth funds, an innovative range of specialist fixed income and real estate strategies, including private debt opportunities and infrastructure investment.

Notes

1 Source: Investment Management Association, data as at end of December 2012.
2 Source: SimFund Global. Data as at end of December 2012 in EUR. Based on estimated net sales of funds classed as fund market 'International' (registered for sale in more than five countries). Excludes Money Market and Alternative funds.

Asset management continued

Asset management: optimise

M&G

The institutional business attracted a record level of net funds in 2012, predominantly into fixed income strategies on the strength of its outstanding record of outperformance. At £9.0 billion, net inflows were 50 per cent higher than the previous best of £6.0 billion in 2009. The 2012 inflows include a single £7.6 billion mandate which is expected to be partially or wholly redeemed within the next 24 months.

M&G continues to grow its business with external institutional clients, including the provision of alternatives to bank lending. The M&G UK Companies Financing Fund, a loan facility for medium-sized companies launched in the wake of the 2008 credit crisis, has increased its total commitments to £930 million across 11 individual loans. During the year, loans were made to three new clients, while a fourth advance went to an existing borrower.

Other innovations for third-party clients include a series of investment strategies to manage long-term inflation-linked liabilities. The business successfully launched the M&G Inflation Opportunities Fund and the M&G Debt Opportunities Fund, which complement the existing M&G Secured Property Income Fund, a portfolio of long-lease properties with inbuilt inflation-linked increases. This last fund, which has total investor commitments of £1.3 billion, has delivered an annualised return of 7 per cent above the retail prices index (RPI) over the past three years.

In infrastructure, Infracapital, M&G's unlisted infrastructure equity division, led a consortium (comprising Infracapital and other parties independent of Prudential) in the acquisition of a 90 per cent interest in Veolia Environnement S.A.'s (Veolia) UK regulated water business (now renamed Affinity Water). Affinity Water is the largest regulated water-only company in the UK by turnover. The acquisition is the first investment for Infracapital Partners II LP, which has current commitments of £358 million.

Financial performance

M&G continues to execute against its strategy and deliver strong performance for both clients and its shareholder, the Prudential Group. M&G's 2012 financial performance continues the momentum from the strong full year results recorded in both 2011 and 2010, with further growth in profits and improvement in operating margins.

Total revenues, including other income, were £734 million, an increase of 10 per cent on the 2011 position. The increased scale of the business following the strong growth in FUM over recent periods has generated operational efficiencies. Combined with a focus on cost discipline across the business, this has resulted in the cost/income ratio[1] improving from 61 per cent in 2011 to 59 per cent for 2012. Underlying profit for the full year rose by 14 per cent to a new record level of £298 million. Following the addition of performance-related fees and profit from our associate investment in South Africa, total operating profit for 2012 was at a record level of £320 million. Although affected by the reduction in our holding in our South African business, this is an increase of 6 per cent on the 2011 position of £301 million, which had been the previous record year.

The profit from the South Africa entity represents our proportionate share of its operating profit which, following the divestment transaction in the first quarter of 2012, reduced our ownership to 49.99 per cent. For 2011 and prior periods, the results of the South Africa entity were fully consolidated within our operating profit.

Given the ongoing strength of its financial performance, M&G continues to provide capital-efficient profits and cash generation for the Prudential Group. This is in addition to the strong investment returns generated on the internally managed funds. M&G remits a substantial proportion of its post-tax profits to the shareholder. During 2012 cash totalling £206 million (2011: £213 million) was remitted to Group.

Prudential Capital

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

Markets have remained difficult and volatile in 2012, and as a result the business remains focused on liquidity across the Prudential Group, management of the existing asset portfolio and conservative levels of new investment. Prudential Capital has continued to invest in developing its capabilities, by seeking to maintain the dynamism and flexibility necessary to ensure that the treasury and wholesale services remain robust in a period of increased regulatory change, and to identify and realise opportunities for profit within acceptable risk parameters. Prudential Capital is committed to working closely with other business units across the Prudential Group to exploit opportunities and increase value creation for Prudential as a whole.

Prudential Capital has a diversified earnings base derived from its portfolio of secured loans, debt investments and the provision of wholesale markets services. IFRS operating profit was £51 million in 2012 (2011: £56 million). In 2012 a total of £91 million (2011: £67 million) cash was remitted to Group.

Michael McLintock
Chief Executive
M&G

Note
1 Excluding performance-related fees, carried interest on private equity investment and profit from the PPM South Africa entity.

Asset management continued

Asset management: optimise Eastspring Investments

Eastspring Investments	AER			CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
Gross investment inflows[note]	9,036	7,824	15	7,707	17
Net investment flows[note]	1,626	633	157	599	171
Total IFRS operating profit	75	80	(6)	79	(5)
Funds under management	£58.1bn	£50.3bn	16	£49.8bn	17

Market overview

Prudential's asset management business in Asia manages investments for Asia's third-party retail and institutional clients in addition to investments of Prudential's Asia, UK and US life companies. It has operations in 11 markets, including Indonesia which was successfully opened during 2012, increasing our asset management footprint in the region.

Markets remained challenging in 2012. Equity funds struggled to gain traction, due to poor investor sentiment in the face of weak macroeconomic signals. Fixed income and regular yield products remained in favour.

In November 2011, Prudential announced that its Asia Asset Management operations would be rebranded Eastspring Investments. The new brand, which was officially launched in February 2012, is enabling the business to establish a cohesive regional presence, thereby penetrating the offshore segment more effectively. It also supports distribution to new markets outside Asia and we have recently opened a distribution office in the US.

Eastspring Investment's leading presence in Asia was acknowledged when it was ranked the largest retail asset manager in Asia (based on assets sourced from Asia ex-Japan), as at 30 June 2012, in a survey conducted by Asia Asset Management magazine. Eastspring Investments also received multiple accolades for its investment capabilities, including four fund managers from Singapore, Malaysia and Indonesia being named '2012 Most Astute Investors in Asian currency bonds' by The Asset Benchmark Research and the joint venture business in India being recognised as the 'Best Debt Fund House of the year' in the Morningstar Awards 2012.

During 2012 Eastspring Investments delivered excellent investment performance with 65 per cent of funds exceeding their benchmarks or were peer-ranked within the top two quartiles over a three year period.

Business performance

Net third-party inflows (excluding Money Market Funds) of £1,626 million were driven by net inflows in India, Taiwan and China. Specifically, strong fund-raising was seen in India for our fixed maturity plan range and open-ended bond funds, while the Taiwan business saw a successful launch of the Emerging Asian Local Fixed Income Fund in the first half of the year and the Global Aggregate Strategy High Yield Bond Fund in the second half. In addition, Taiwan's existing range of onshore and offshore bond funds also generated significant net inflows in 2012. In China, both the CSI 500 Index Fund and the Tianjin Split Bond Fund launched in the second half of the year attracted positive flows. The positive net flows were partially offset by redemptions from an institutional client in Singapore and another in Korea.

Total funds under management (FUM) reached a record £58.1 billion and represent a 16 per cent increase from a year ago on the back of strong net inflows and positive market movements.

Financial performance

Fee income rose by a more modest 3 per cent, reflecting a change in FUM mix, with a higher proportion of internal, institutional and retail bond funds, all of which attract lower average annual charges. At the same time costs have increased as we continue to invest in the development of the Eastspring Investments platform and expand into new markets. IFRS operating profit was, therefore, 6 per cent lower than the prior year at £75 million.

Note

Gross and net investment flows exclude Eastspring Money Market Funds, that had net outflows of £226 million in 2012 (2011: net outflows £512 million).

Asset management continued

Asset management: optimise
United States

PPM America	AER			CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
Total IFRS operating profit	6	4	50	4	50

Market overview

PPM America (PPMA) manages assets for Prudential's US, UK and Asia 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 derived 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 2012 was £6 million, compared to £4 million in 2011, principally reflecting the increase in funds under management over the period.

At 31 December 2012, funds under management of £64 billion were as follows:

	AER							
	2012 £bn				2011 £bn			
	US	UK	Asia	Total	US	UK	Asia	Total
Insurance	38	15	1	54	32	15	–	47
Unitised	2	1	6	9	1	1	5	7
CDOs	1	–	–	1	1	–	–	1
Total funds under management	41	16	7	64	34	16	5	55

Curian	AER			CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
Gross investment inflows	1,550	1,684	(8)	1,704	(9)
Revenue	69	51	35	52	33
Costs	(54)	(45)	(20)	(46)	(17)
Total IFRS operating profit	15	6	150	6	150
Total funds under management	£7.1bn	£4.7bn	51	£4.5bn	58

Market overview

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

Business performance

At 31 December 2012, Curian had total assets under management of £7.1 billion, compared to £4.7 billion at the end of 2011. Curian generated deposits of £1,550 million in 2012, down 8 per cent from 2011. Curian's asset growth continues to benefit from its prior investment platform expansions and its significant expansion in 2012 of the firm's wholesaling team and new distribution territories.

Financial performance

Curian reported an IFRS basis operating profit of £15 million in 2012 compared to £6 million in 2011. This increase was primarily due to higher net revenue from a larger book of assets under management.

US Broker-dealer National Planning Holdings, Inc.		AER		CER	
	2012 £m	2011 £m	Change %	2011 £m	Change %
Revenue	528	491	8	497	6
Costs	(510)	(477)	(7)	(483)	(6)
Total IFRS operating profit	18	14	29	14	29

Market overview

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

NPH continues to grow the average business and revenue per representative. By utilising high-quality, state-of-the-art technology, Jackson provides NPH's advisers with 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 revenues of £528 million in 2012, up from £491 million in 2011, on gross product sales of £10.5 billion (2011: £8.6 billion). The network continues to achieve profitable results, with 2012 IFRS operating profit of £18 million, a 29 per cent increase from £14 million in 2011. At 31 December 2012, the NPH network had 3,540 registered advisers (2011: 3,636 registered advisers).