



Anne Richards

M&G

Agenda



M&G's key capabilities

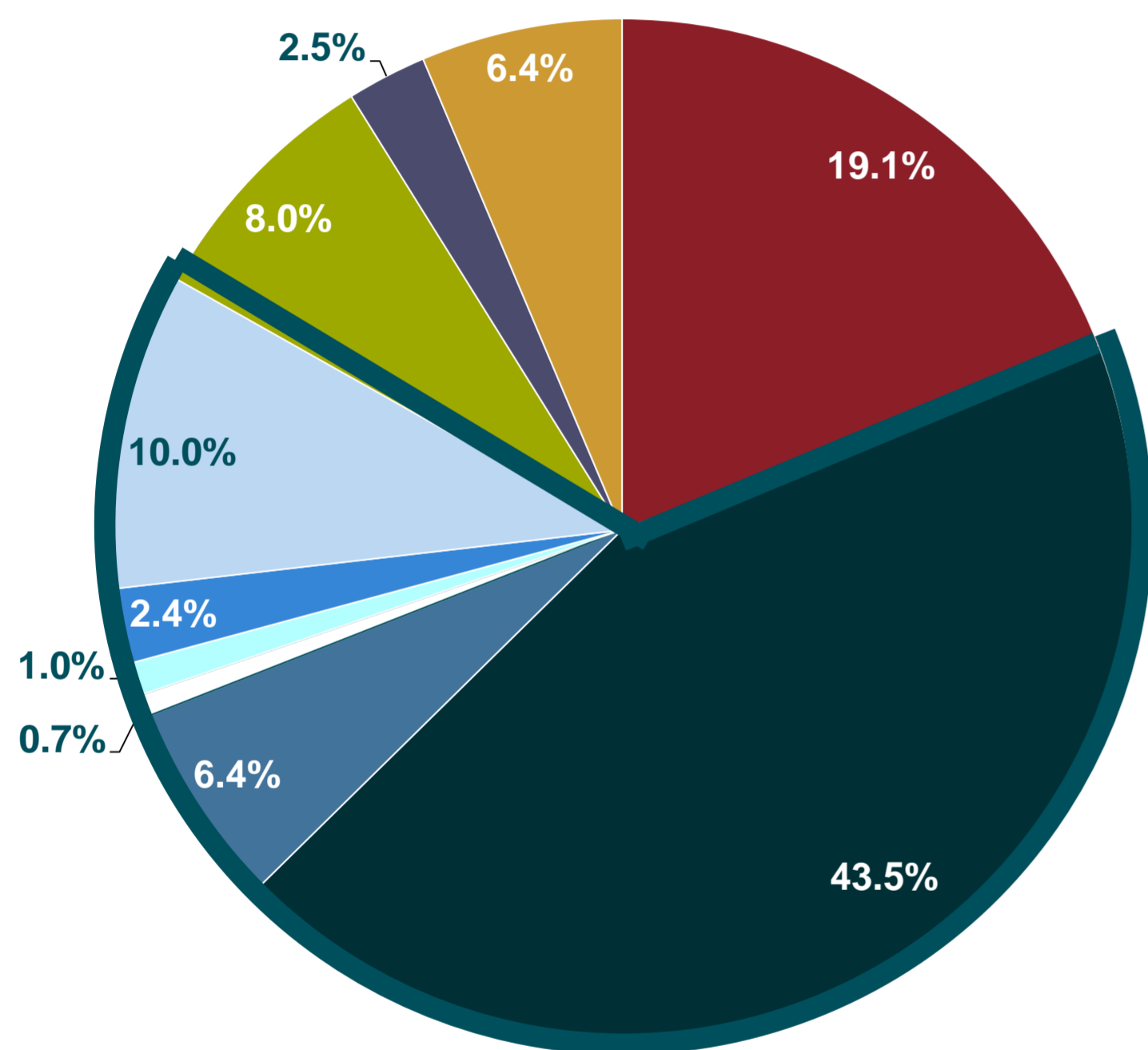
Rising to cyclical challenges

Adapting to structural change

The future

M&G's key investment capabilities

M&G Group assets under management by asset class (%), 30 September 2016



Total AUM: £266bn

Fixed Income

- One of Europe's leading bond managers with one of the largest credit analyst teams in UK / Europe



Equities

- Unconstrained, conviction investing

Real Estate

- Managing assets in the UK, continental Europe, Asia and North America

Multi-asset

- Top-down 'macro' approach, with a strong valuation framework

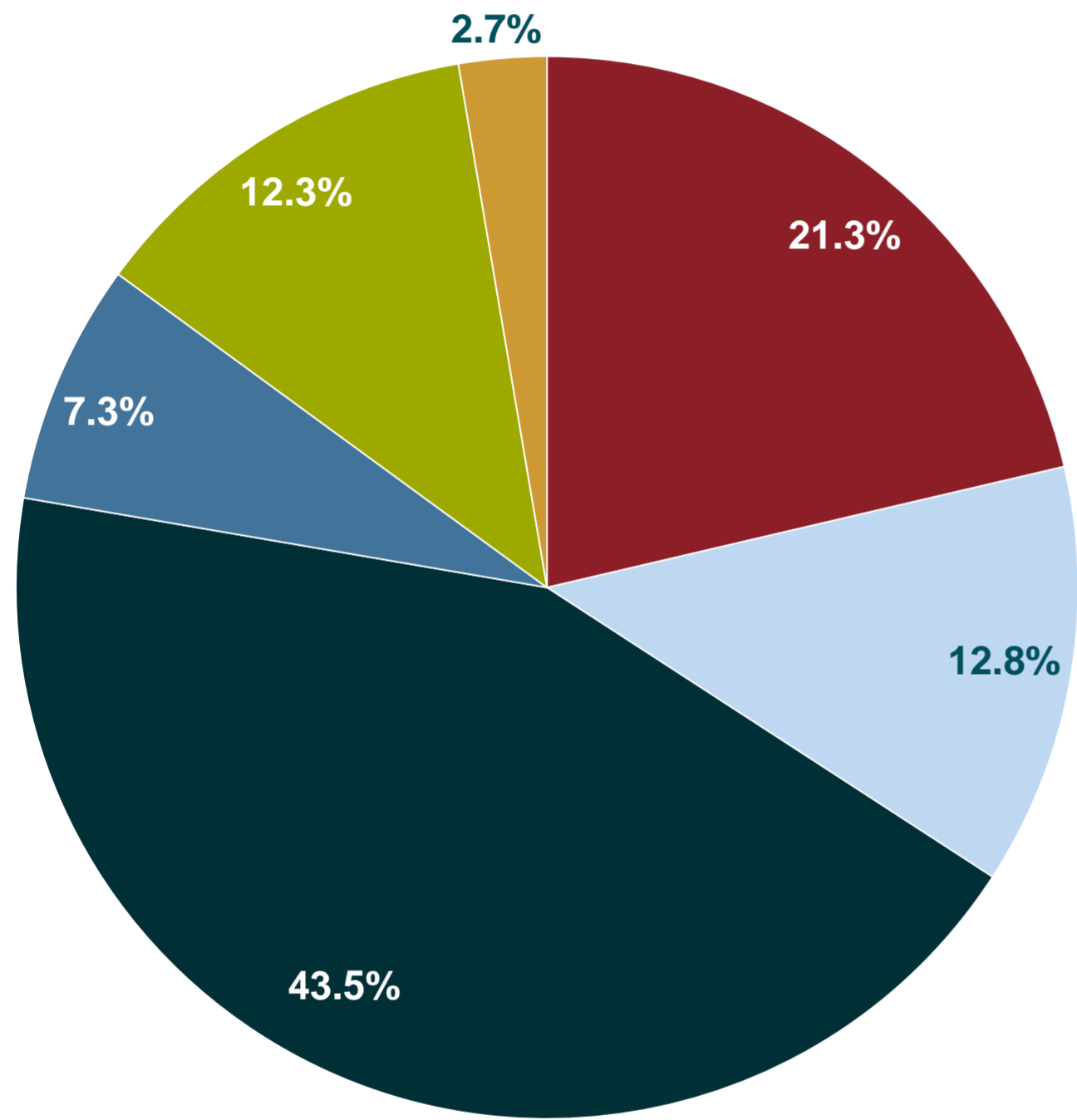
Alternatives

- Full range of investment disciplines including real estate finance, direct lending and infrastructure equity investment

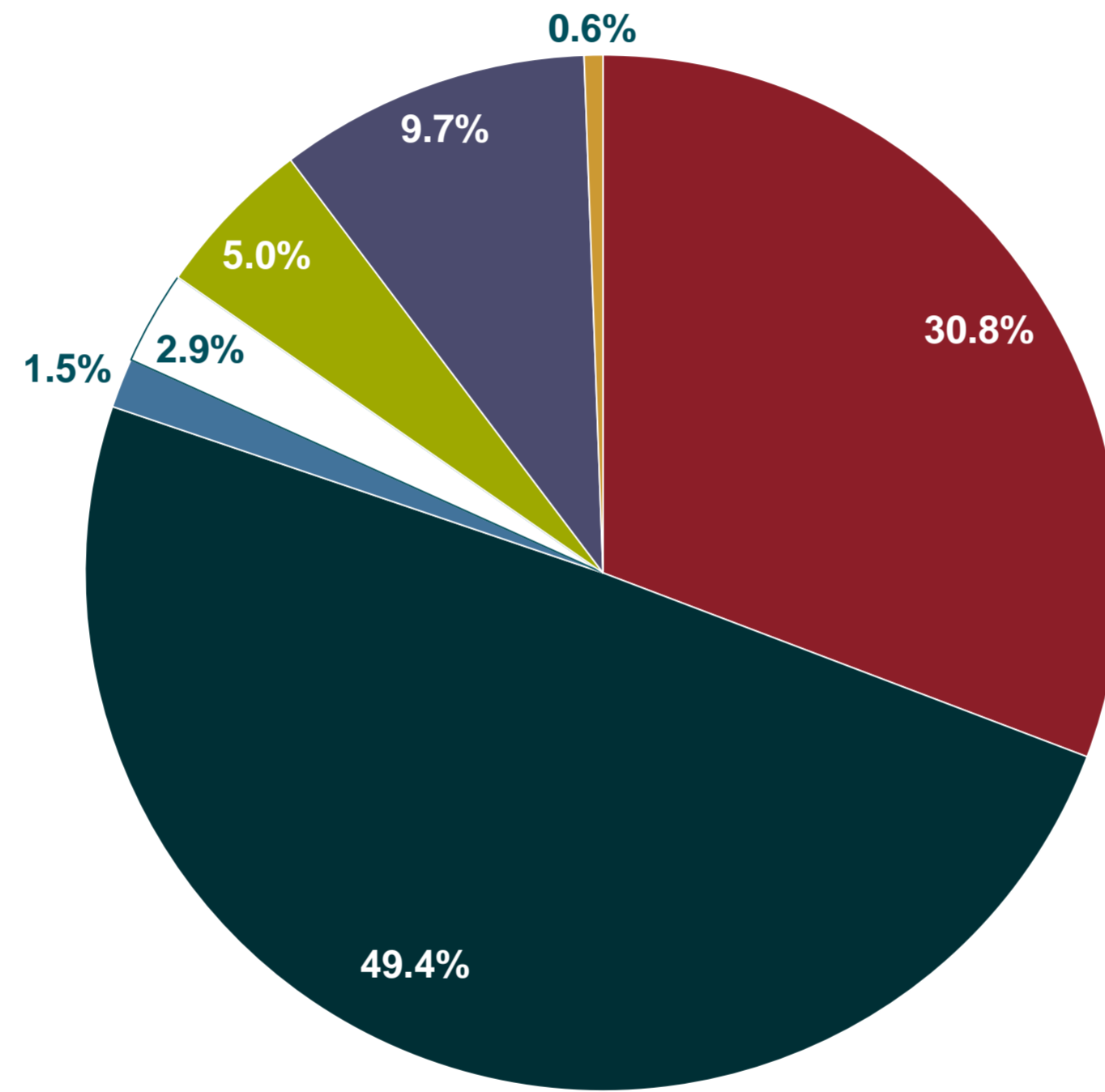
M&G's investment expertise: supporting the needs of a diverse range of clients



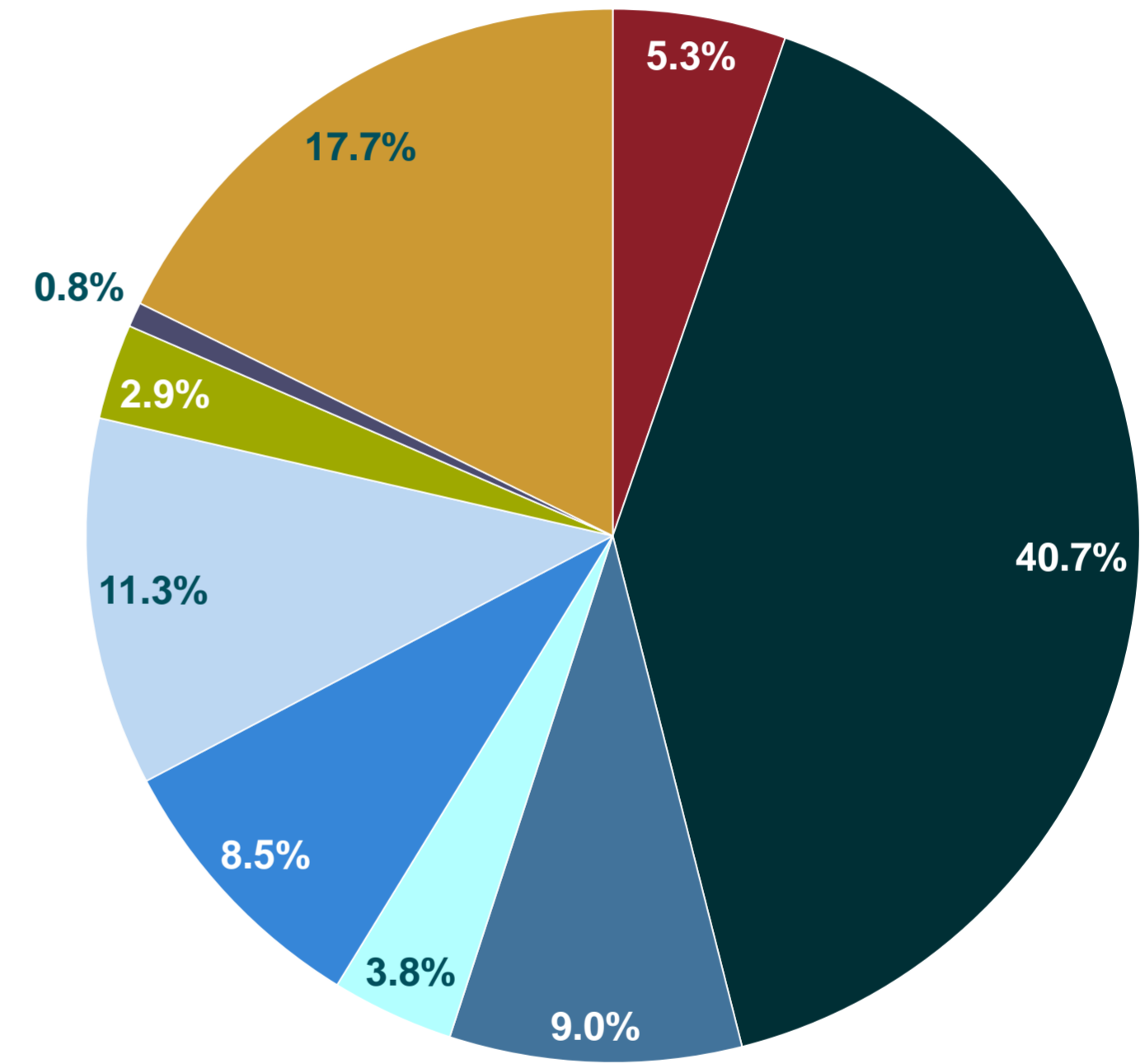
M&G Group assets under management by client type and asset class (%), 30 September 2016



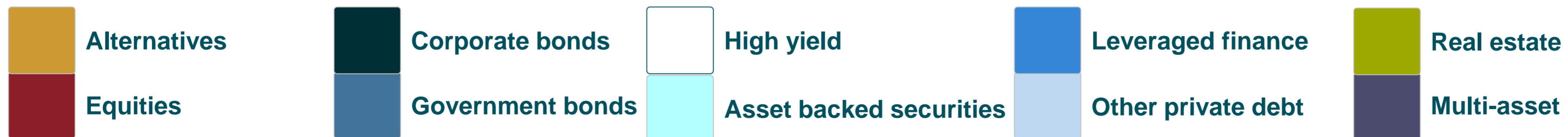
Internal AUM: £130bn



Retail AUM: £62bn



Institutional AUM: £74bn



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M&G's key capabilities

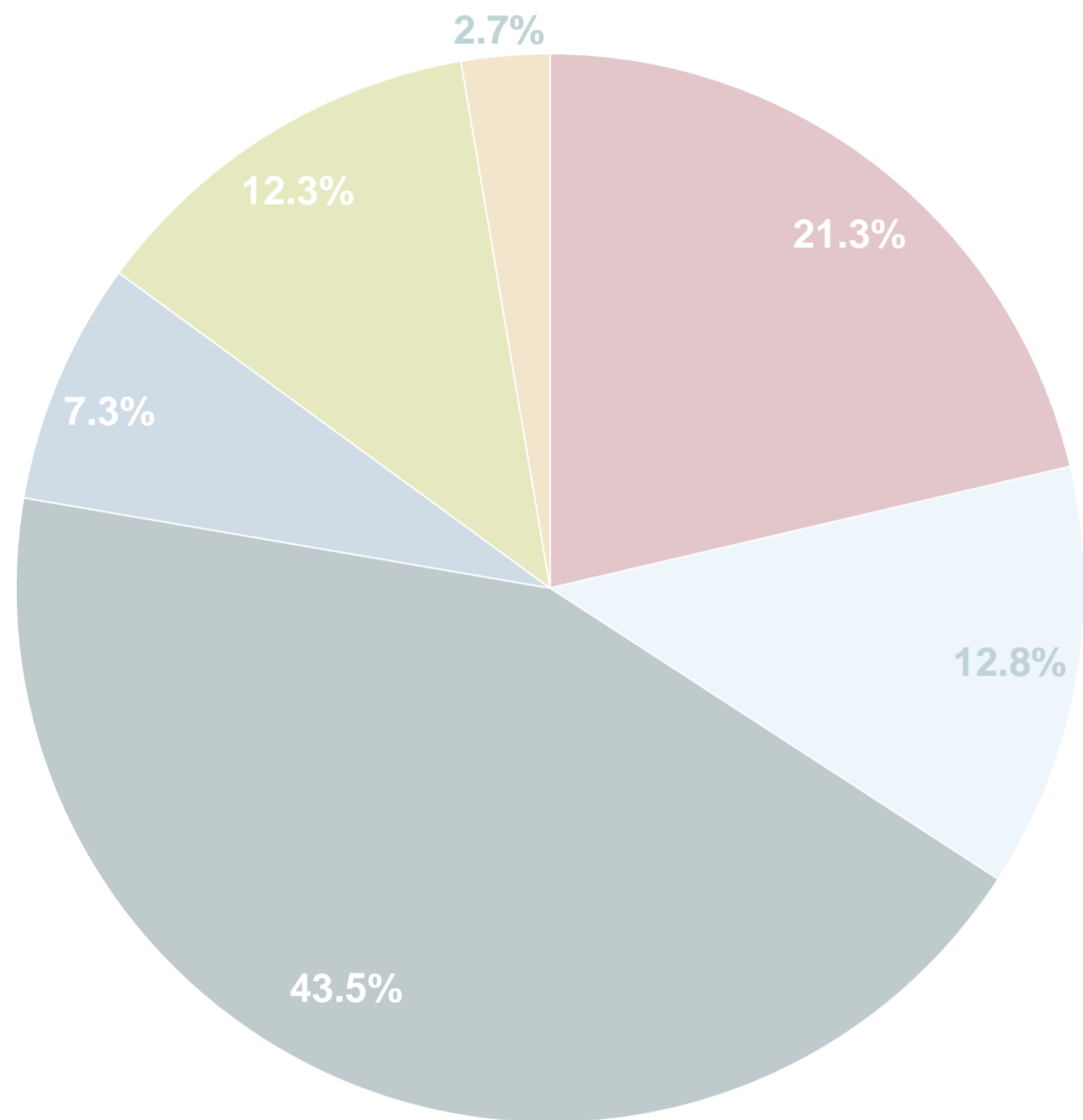
Rising to cyclical challenges

Adapting to structural change

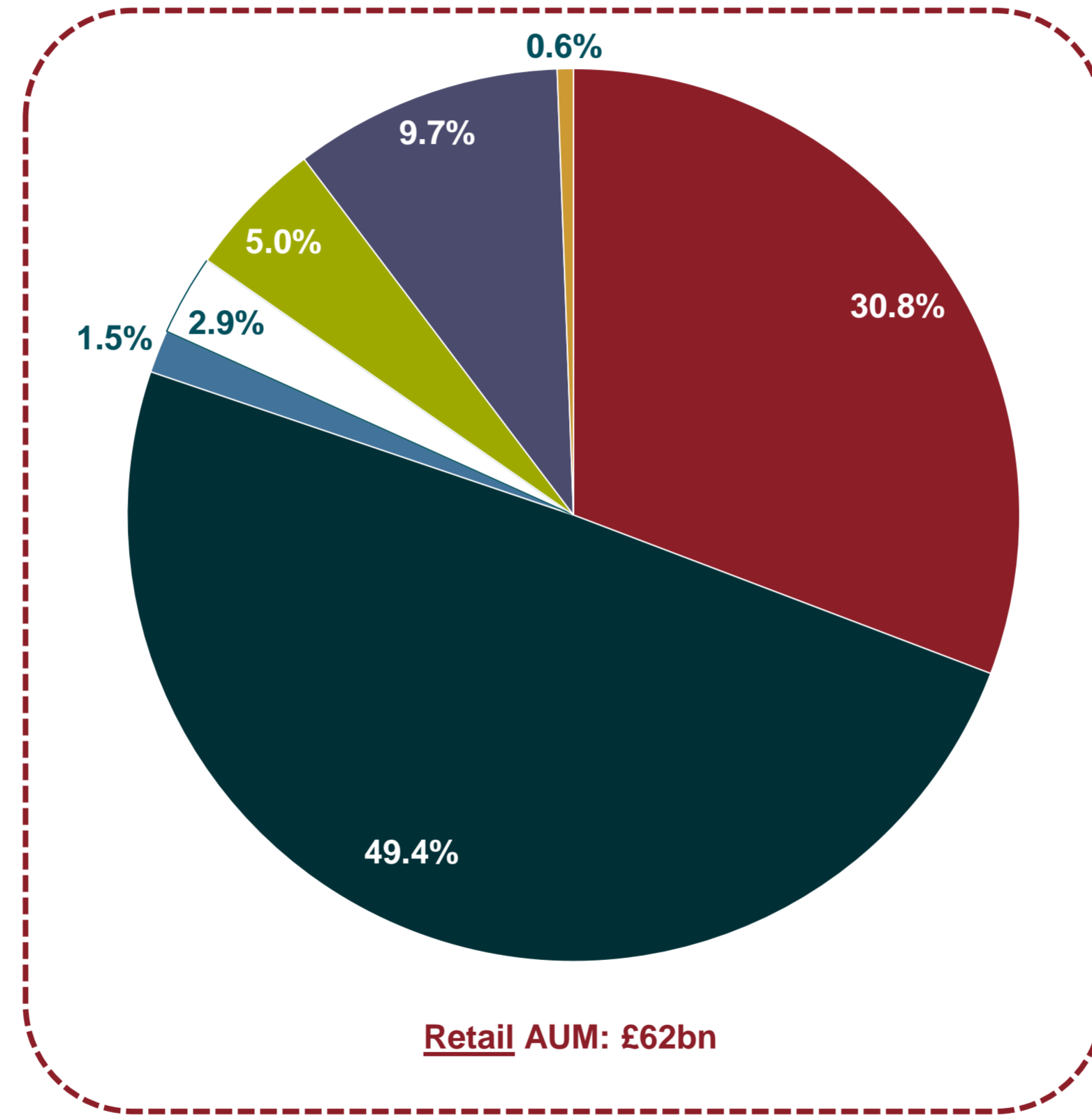
The future

The OEIC range is the major part of retail assets

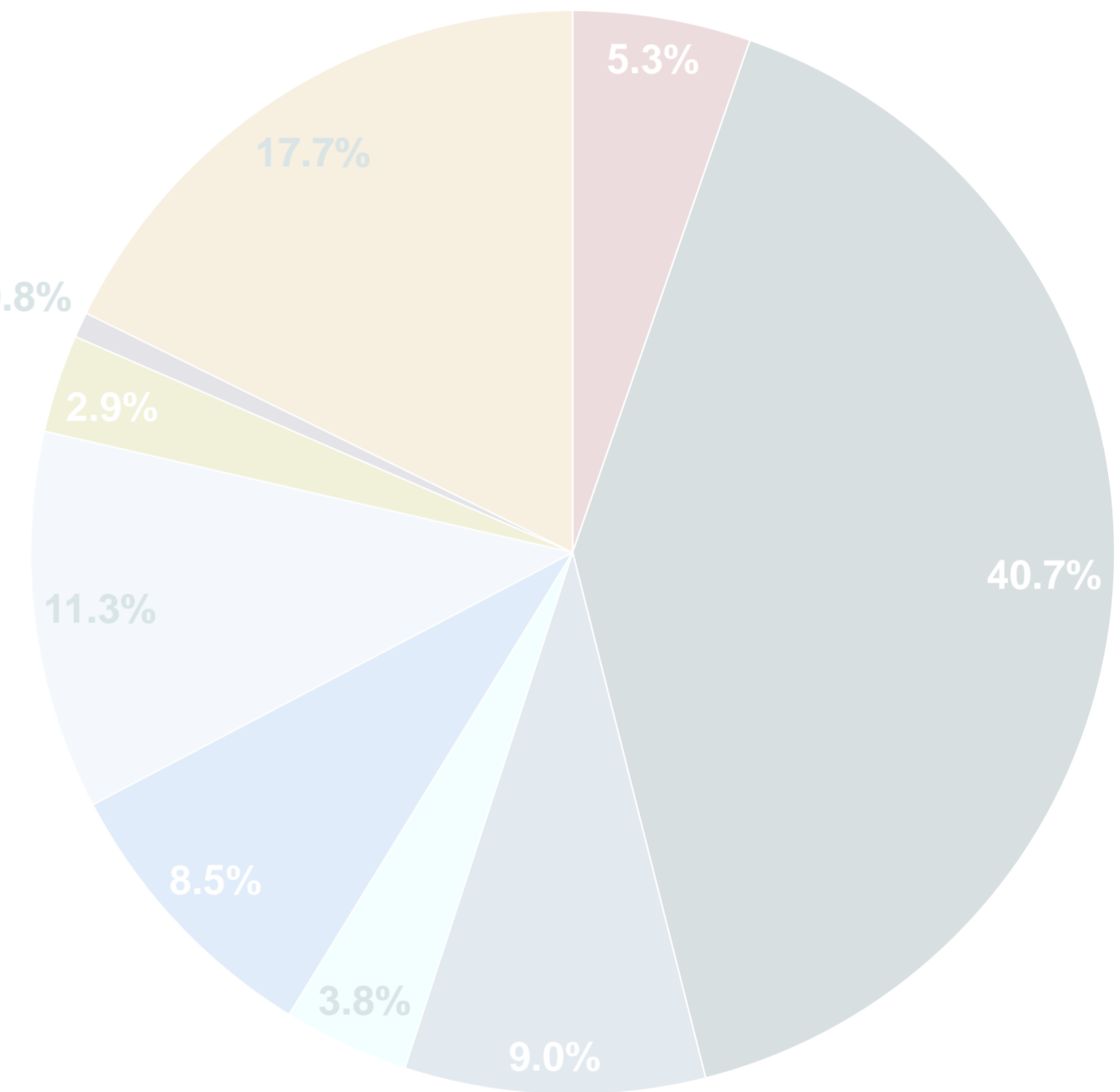
M&G Group assets under management by client type and asset class (%), 30 September 2016



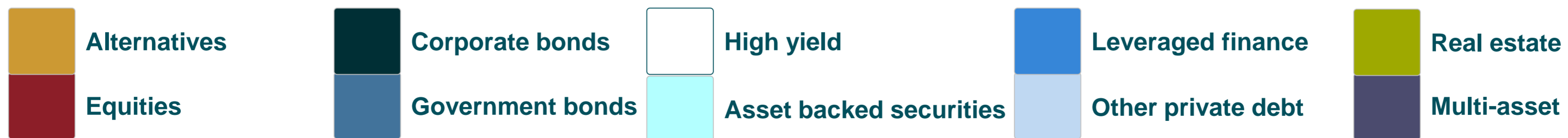
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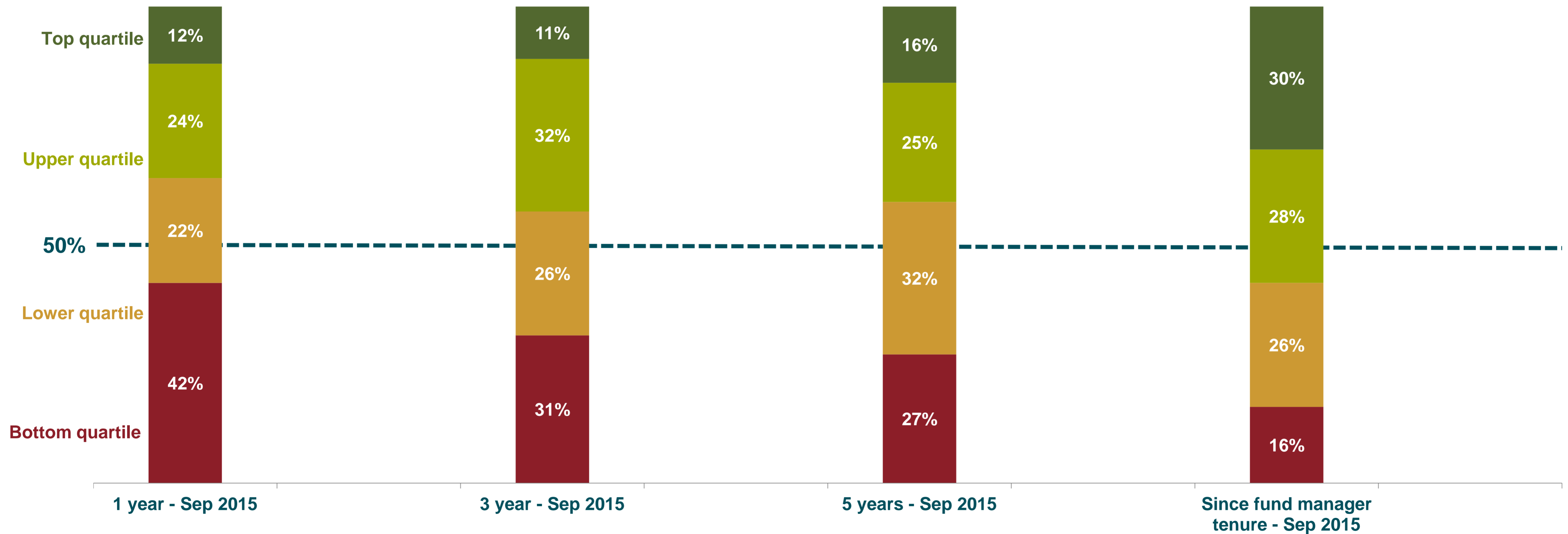
Institutional AUM: £74bn



A year ago only 36% of our open ended retail funds had above median performance over one year...

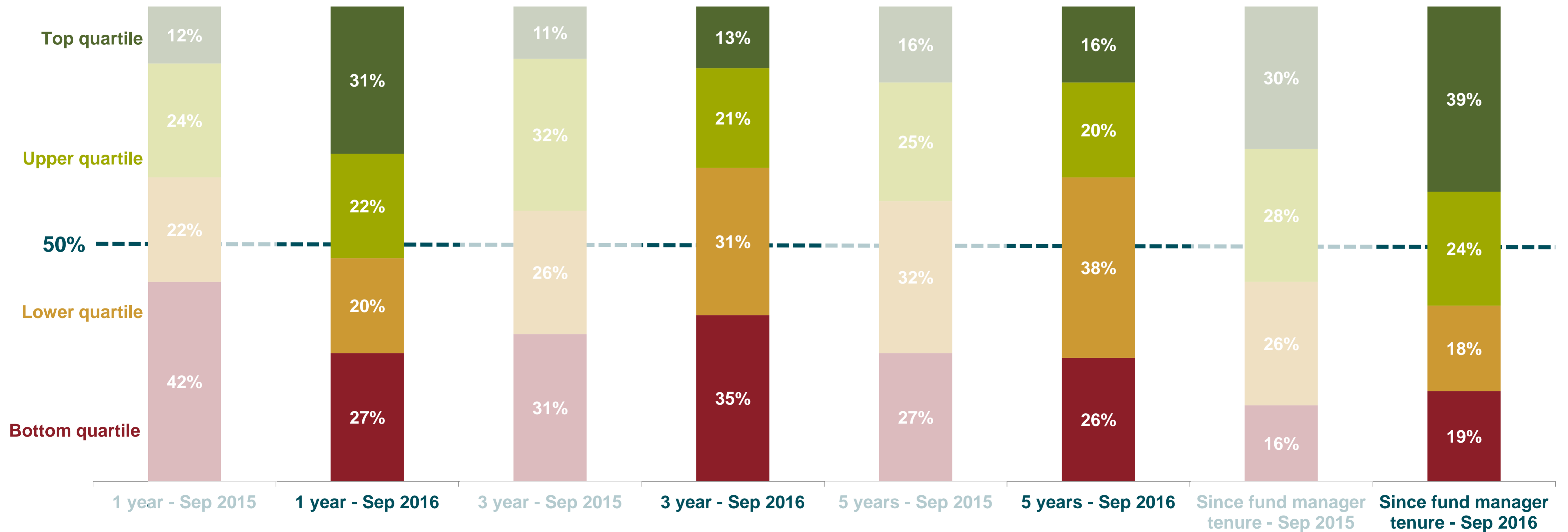


M&G retail investment performance weighted by number of funds (%), 30 September 2015



...that has improved to 53% at the end of September 2016

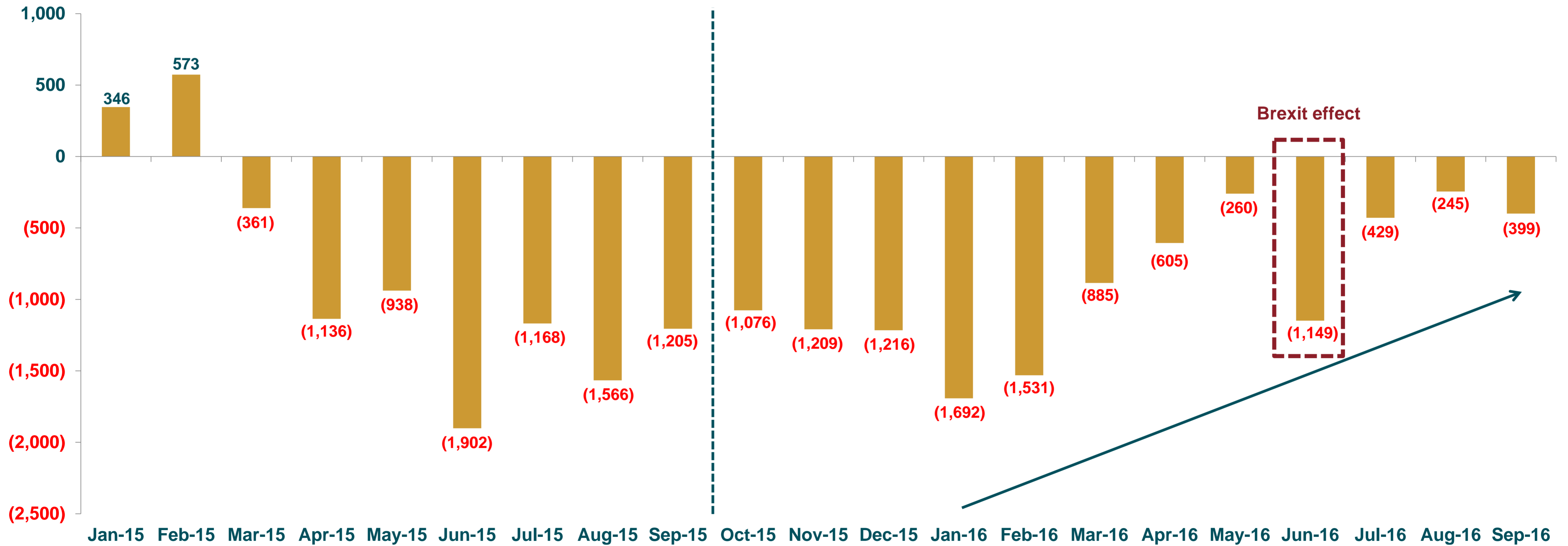
Retail investment performance weighted by number of funds (%), 30 September 2015 and 30 September 2016



Shorter-term UK OEIC fund investment performance is improving

Pace of outflows from retail funds is slowing as investment performance improves

M&G Group retail net sales (£m), January 2015 – September 2016



Fund outflows are stabilising

M&G Optimal Income Fund has led the recovery in performance



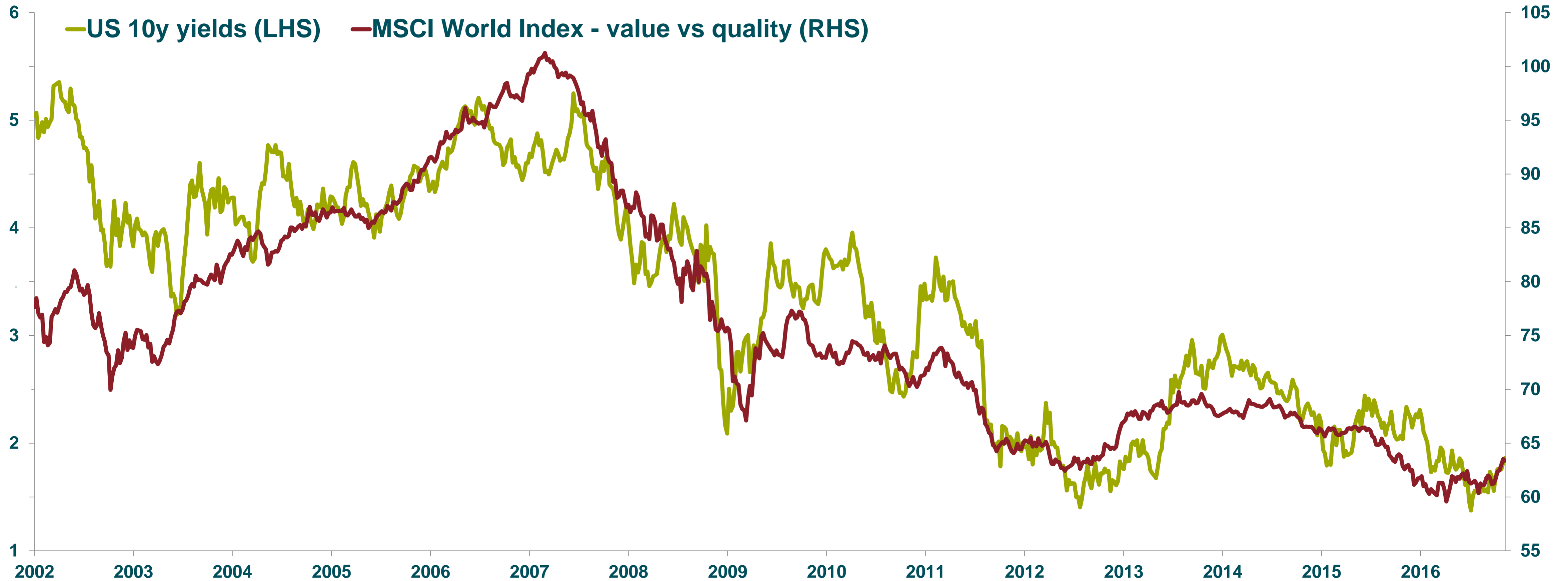
M&G Optimal Income Fund investment performance, 31 December 2015 and 30 September 2016

Sector	1 year		3 years		5 years		Fund manager tenure*	
	Return % p.a.	Quartile	Return % p.a.	Quartile	Return % p.a.	Quartile	Return % p.a.	Quartile
M&G Optimal Income Euro A-H	(1.62)	4	3.36	2	5.8	1	7.12	1
Morningstar EUR Cautious Allocation global sector average	(0.04)		2.88		3.19		2.66	
M&G Optimal Income Euro A-H	5.68	1	3.45	2	6.39	1	7.08	1
Morningstar EUR Cautious Allocation global sector average	3.4		2.81		3.78		2.61	

- The Fund has been positioned short duration, long investment grade and short high yield credit
- The Fund has an excellent long-term performance track record with returns exceeding 7% p.a. since inception

Market environment has been testing for M&G's equities style for some time

Global value vs. quality stocks vs. 10 year US bond yields (%), 2002 – October 2016



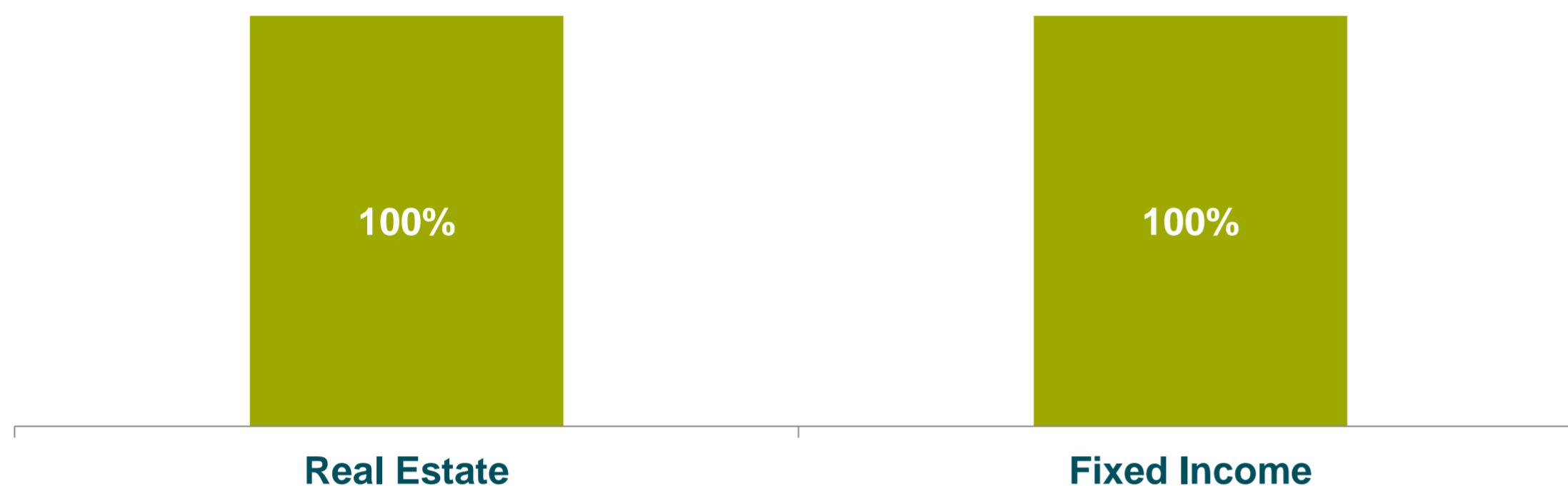
An unusually long period of underperformance by Value

M&G's institutional client base

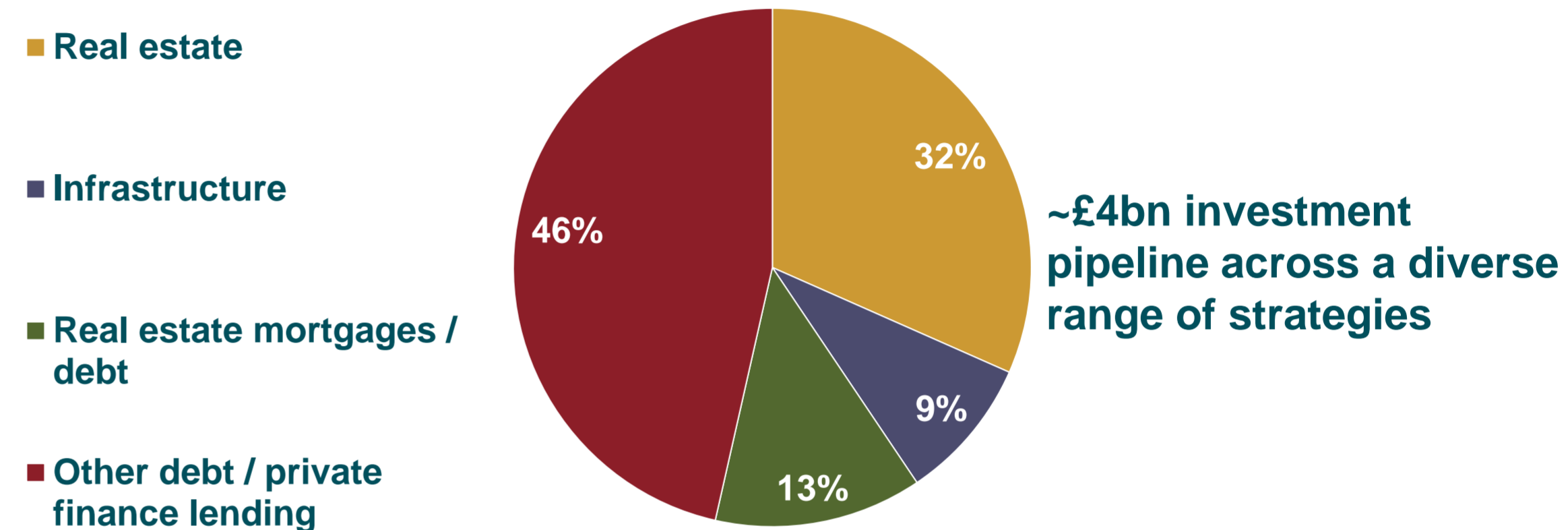
Strong performance across a range of metrics



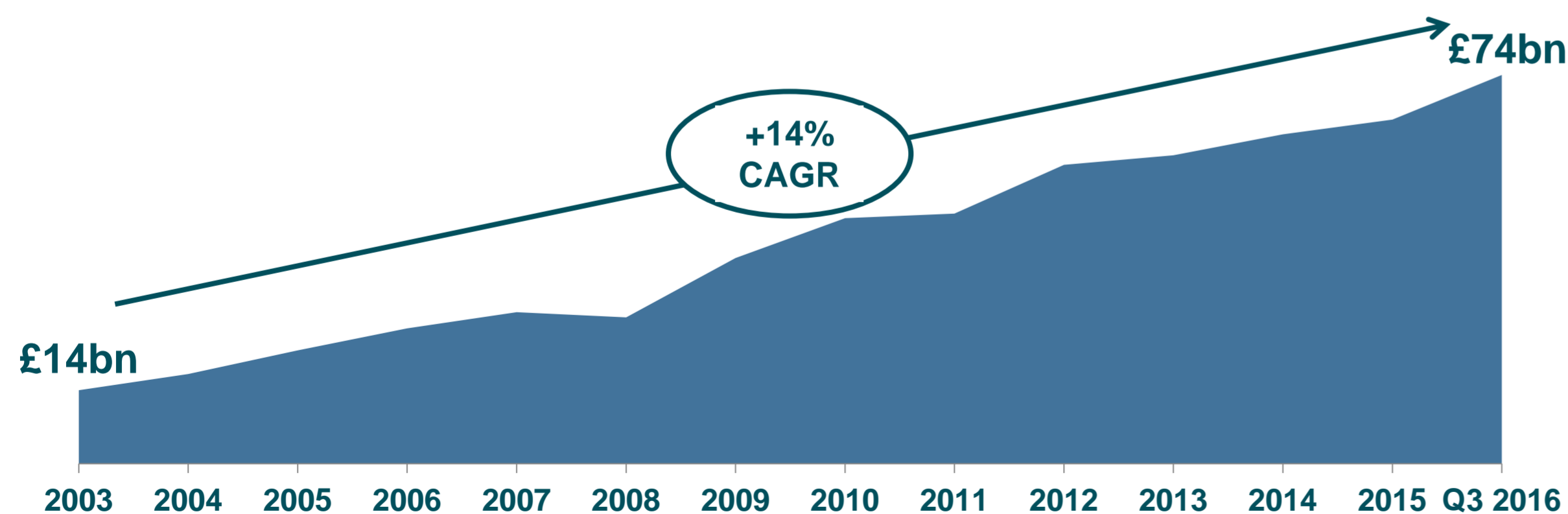
A number of funds outperform against benchmark(%), five years to September 2016



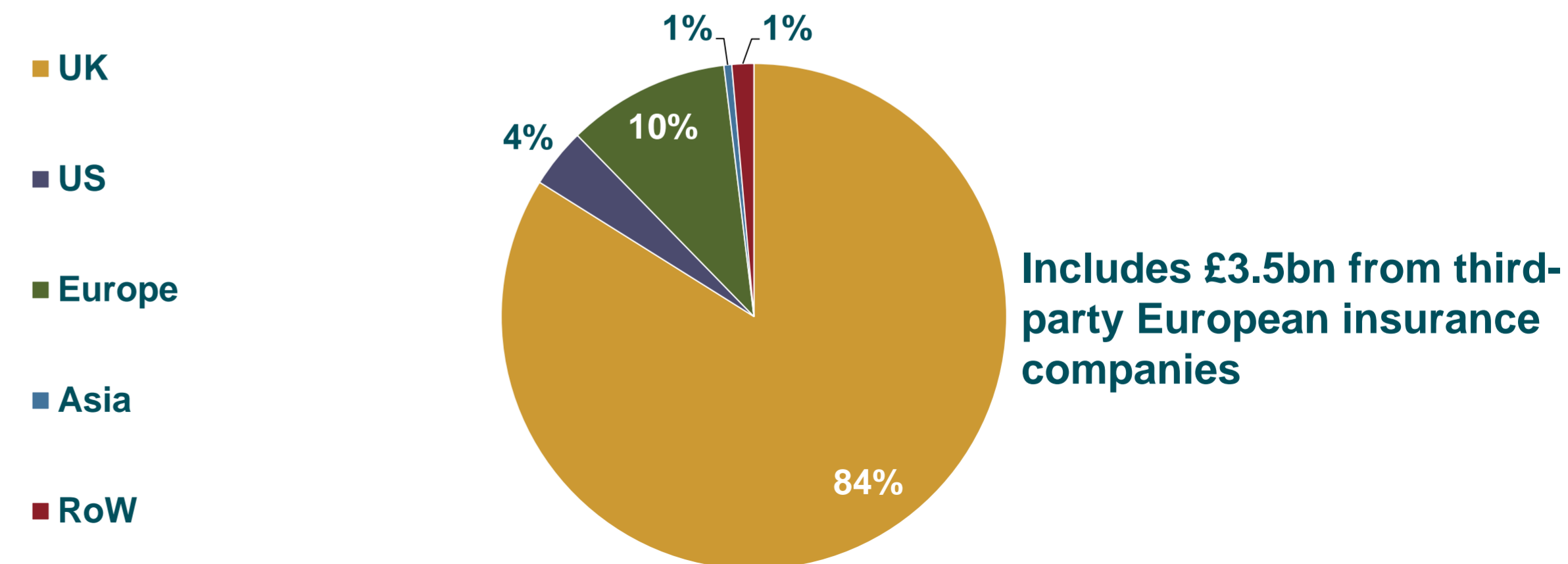
M&G institutional pipeline (%), 30 September 2016



M&G institutional AUM (£bn), 2003 – Q3 2016



M&G institutional client base by geography (%), 30 September 2016



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M&G's key capabilities

Rising to cyclical challenges

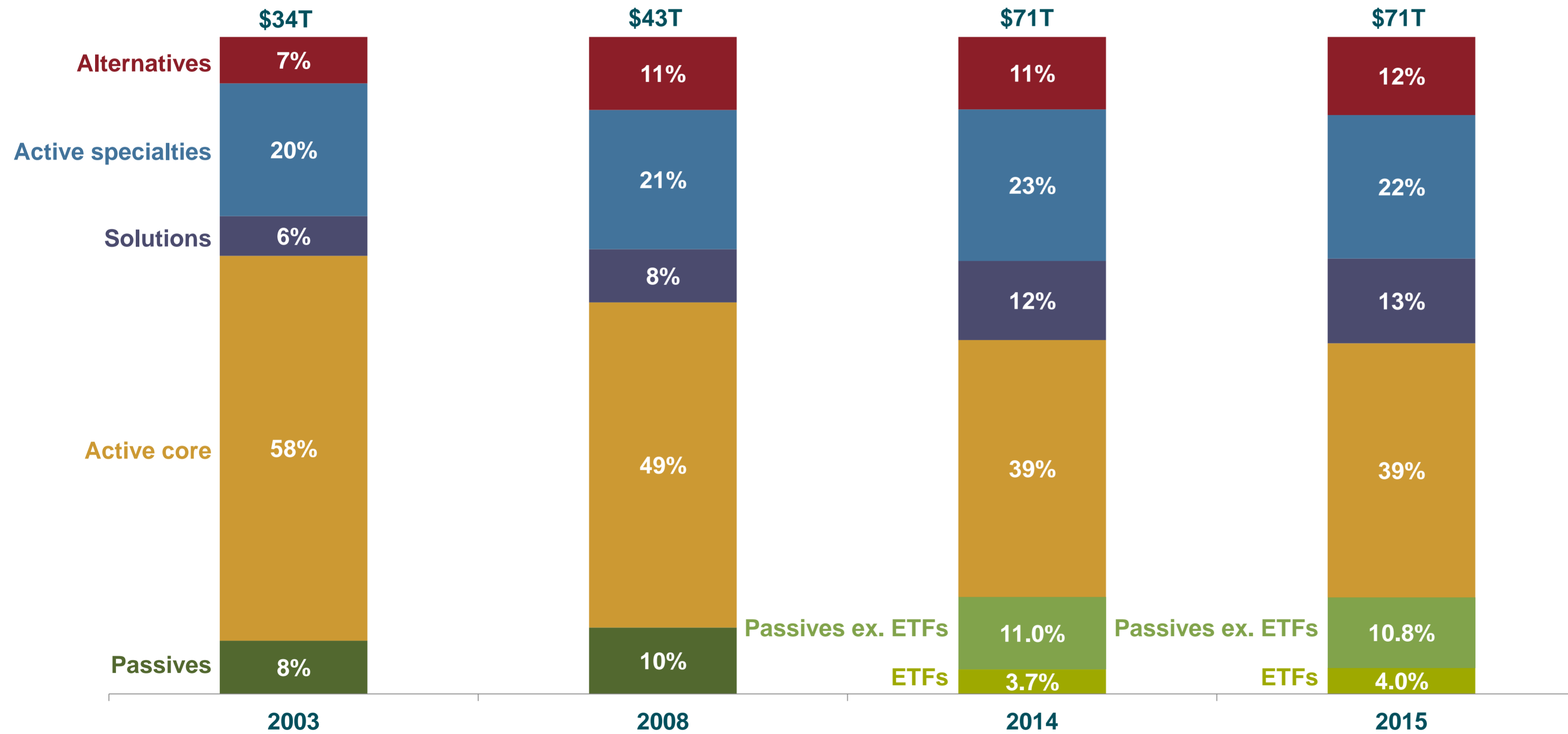
Adapting to structural change

The future

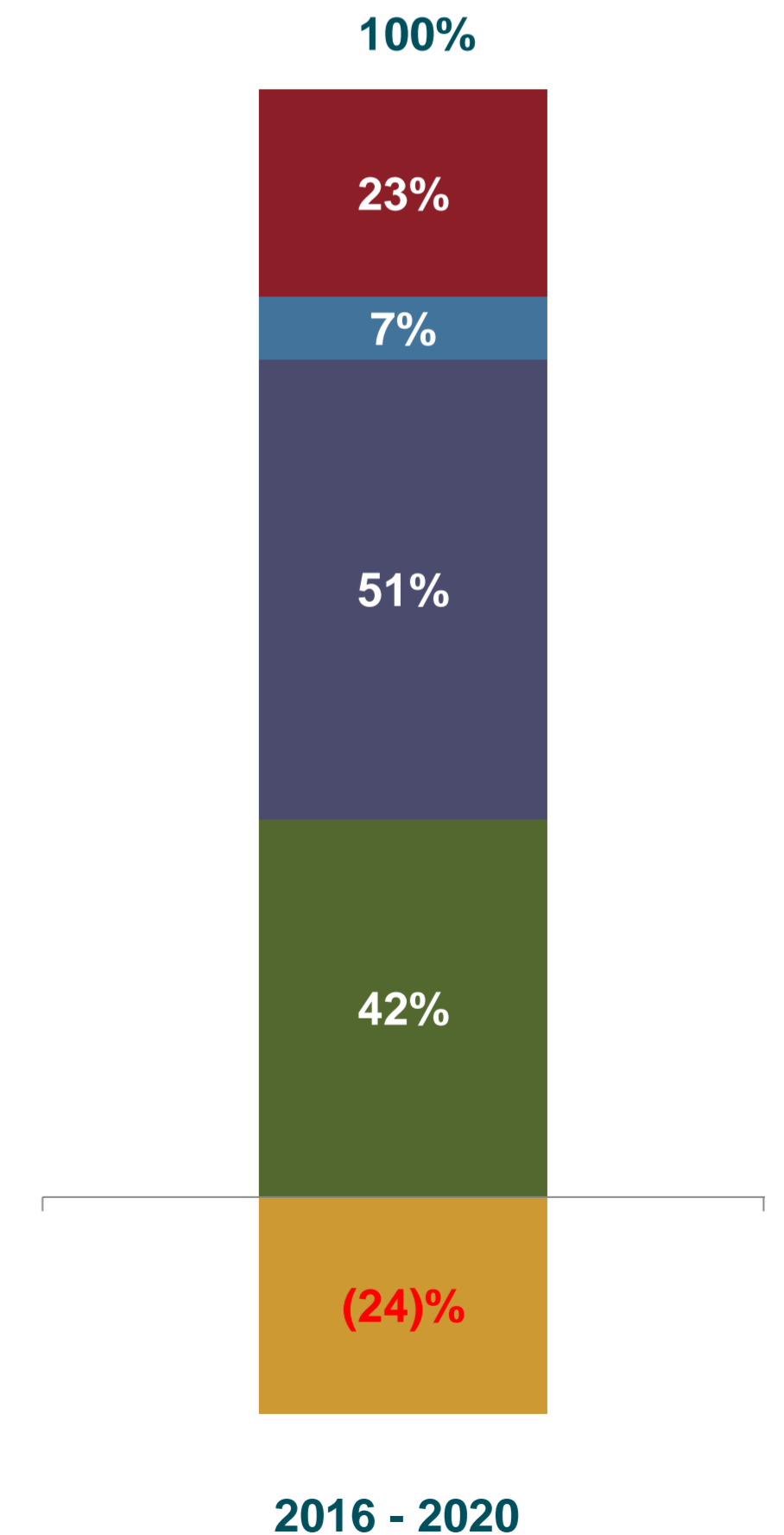
Changing demand leads to strong growth prospects for alternatives, solutions and passives



Global AUM split by product (%), 2003 – 2015

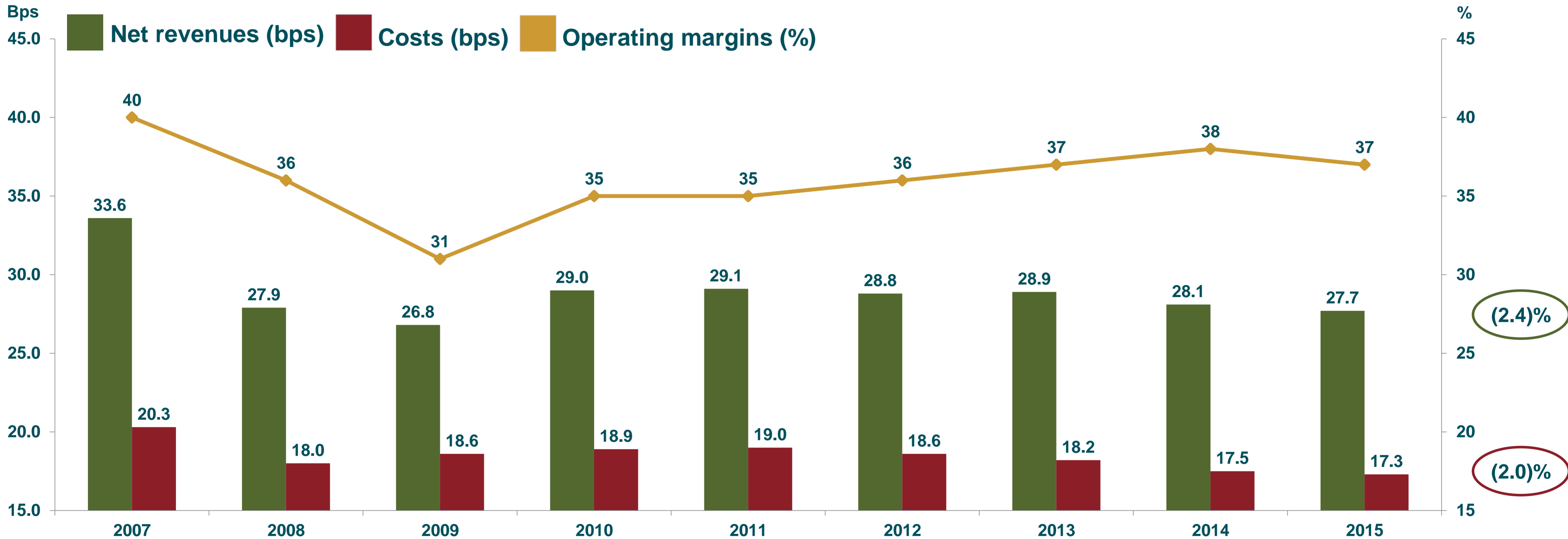


Estimated share of cumulative net flows 2016 – 2020



Global asset management industry faces margin pressure with an increased focus on costs

Net revenues and costs / AUM (bps) and operating margins / net revenues (%), 2007 – 2015



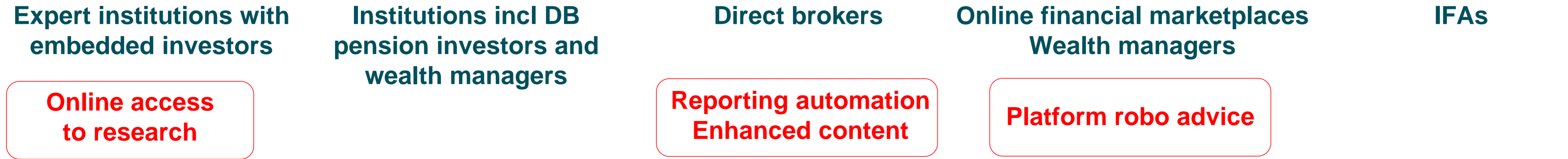
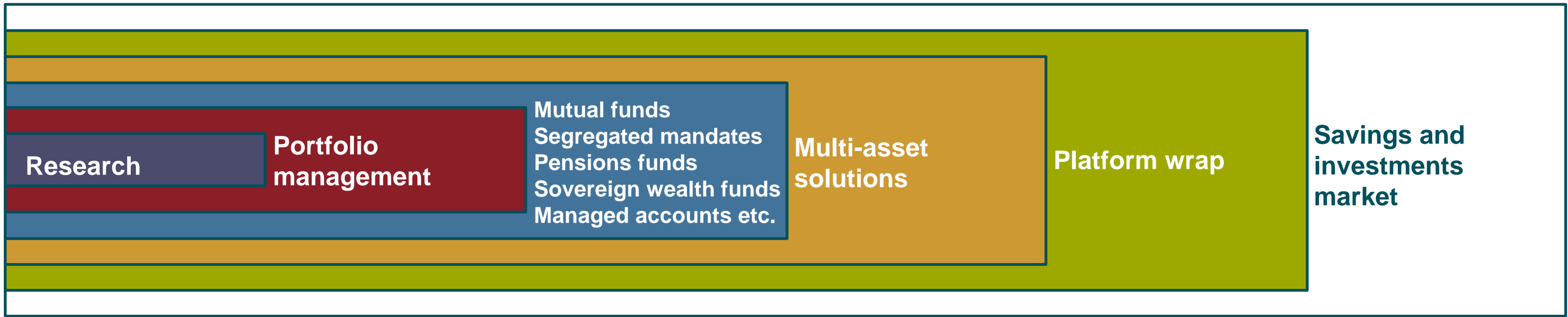
CAGR

(2.4)%

(2.0)%

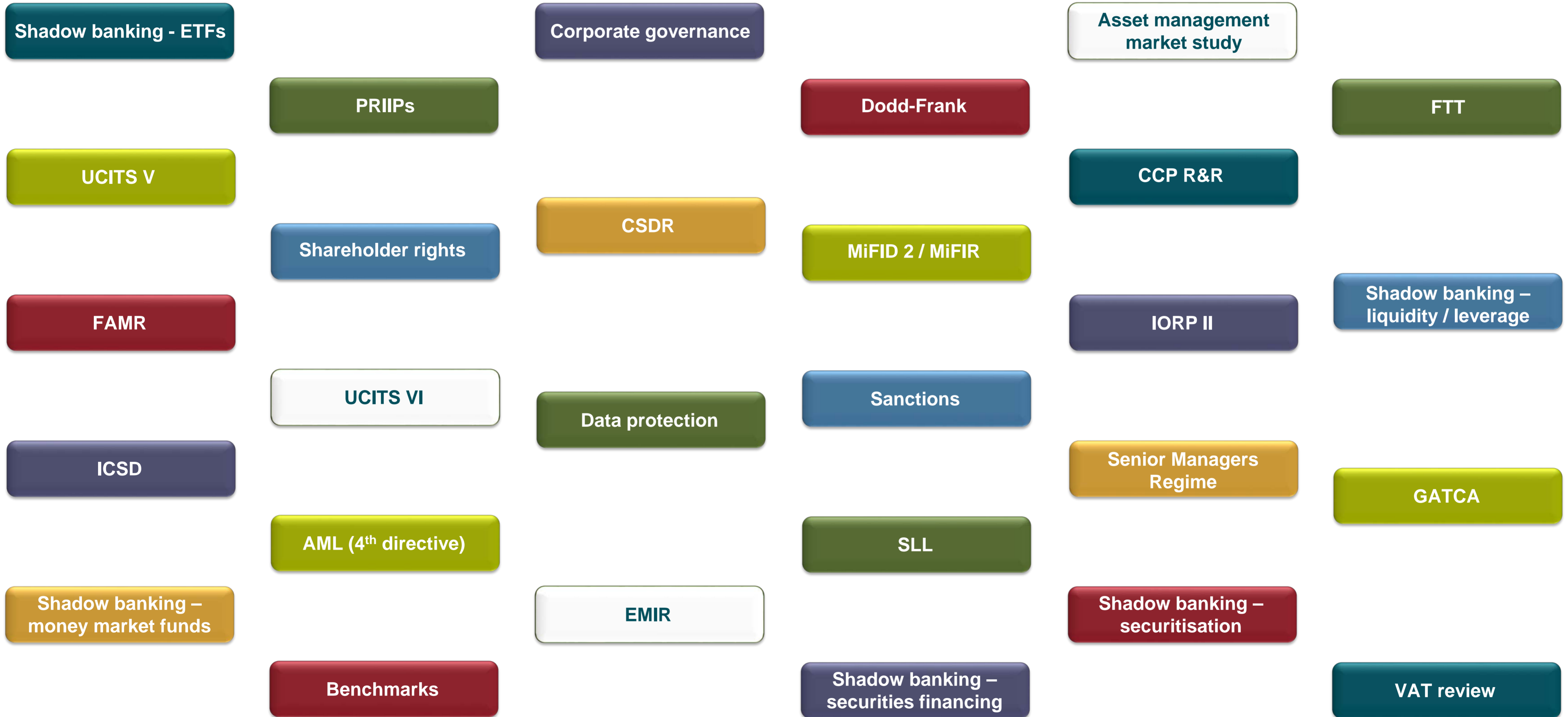
More complex distribution landscape

End customers



Intermediated / institutional customers

Wave of regulatory development



Developing new capabilities led by investor needs

Long lease real estate

Private debt

Absolute return solutions

Distressed debt

Commercial real estate debt

Infrastructure equity

Infrastructure debt

Direct lending

Private equity

M&G Inflation Opportunities Funds: overview

Alternative investments case study



- Strategy launched in October 2012
- Current AUM of £1,950m
- Consists of two co-mingled funds and three single investor funds
- Targets:
 - UK RPI +2.5% p.a. on a five year rolling average
 - Duration of 15 – 20 years
- Invests in a range of assets with contractual links to UK inflation
- Returns generated by credit risk and illiquidity premia
- Risk mitigated by seniority, security and bespoke covenants
- Clients predominantly UK pension funds seeking to match liabilities

Proven track record with all funds ahead of target returns

M&G Inflation Opportunities Funds: portfolio overview

Alternative investments case study



M&G Inflation Opportunities Fund portfolio breakdown (%), 31 October 2016



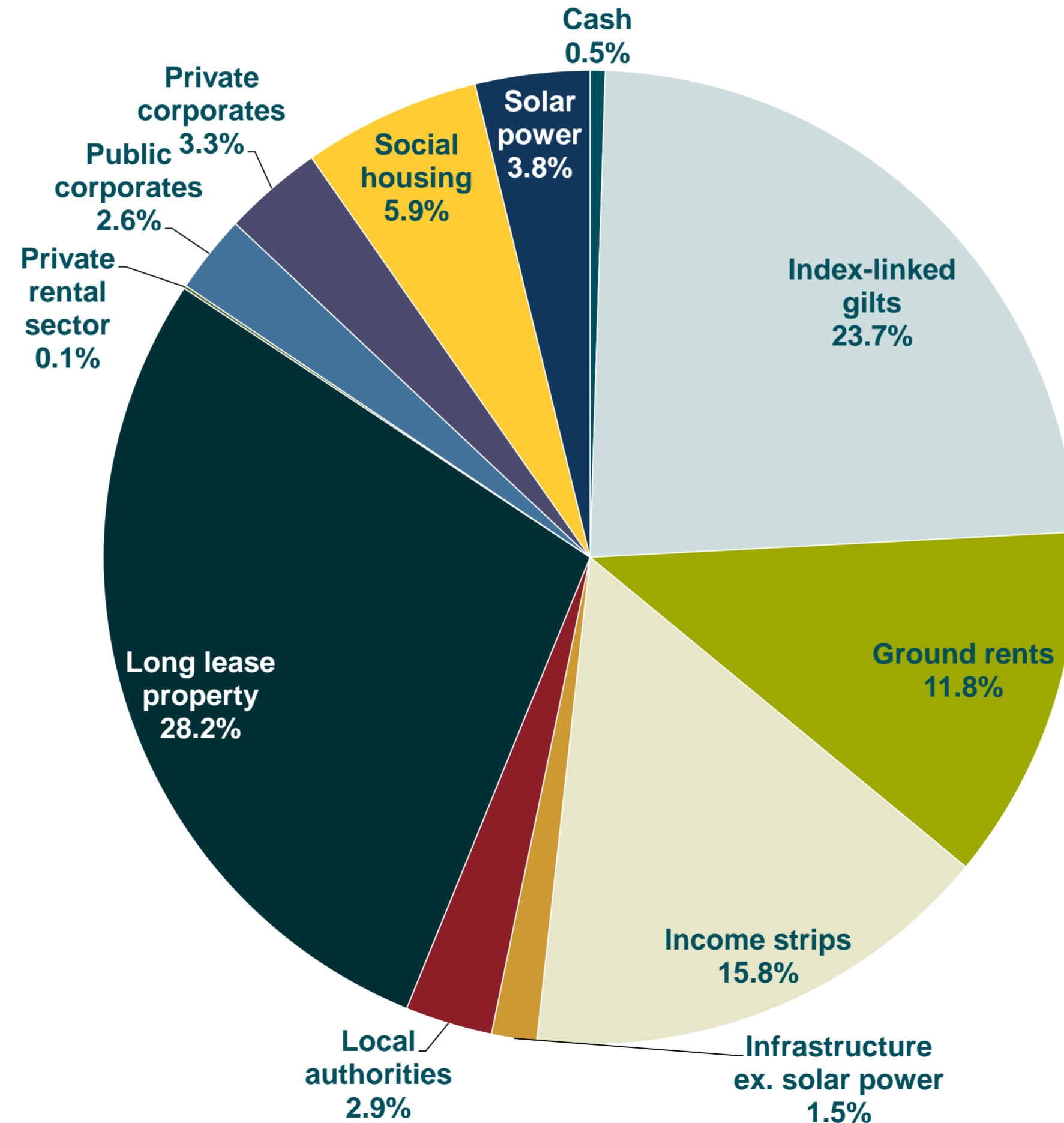
Drax power station



Sainsbury's superstore - Dulwich



Islington and Shoreditch housing association



Student accommodation for the Royal College of Music



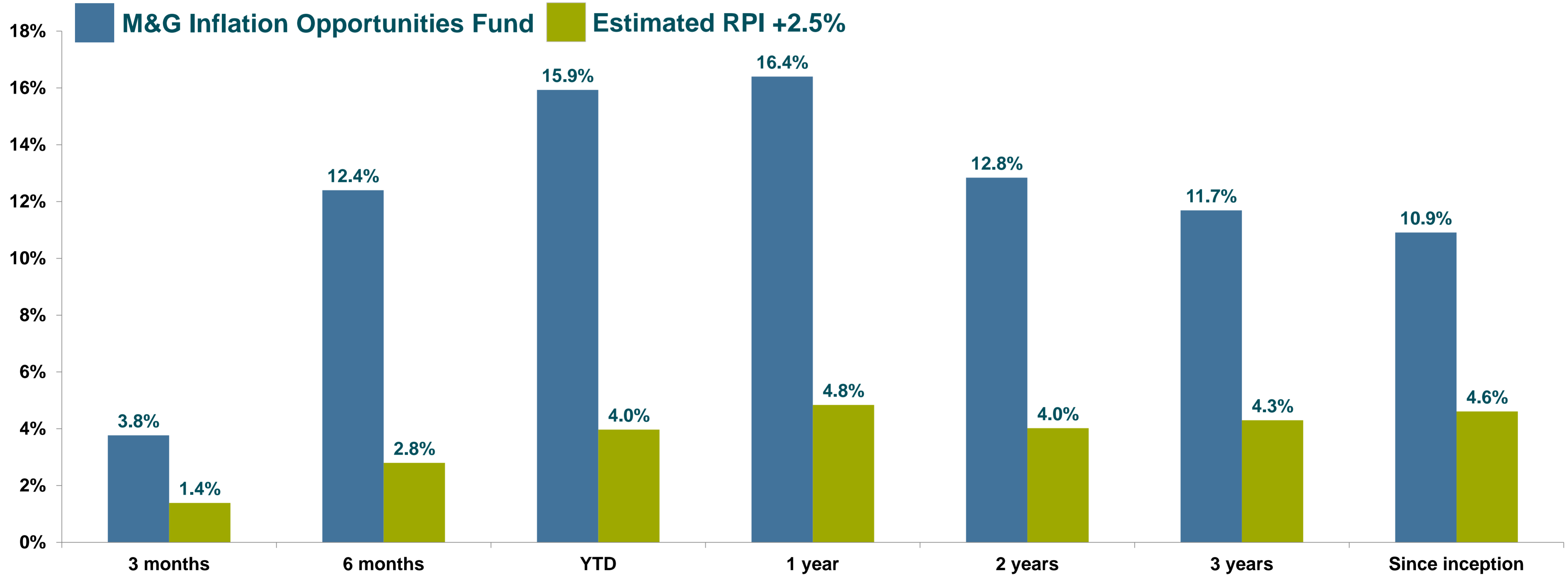
Lightsource solar

M&G Inflation Opportunities Funds: performance update

Alternative investments case study



M&G Inflation Opportunities Fund performance (%), 31 October 2016

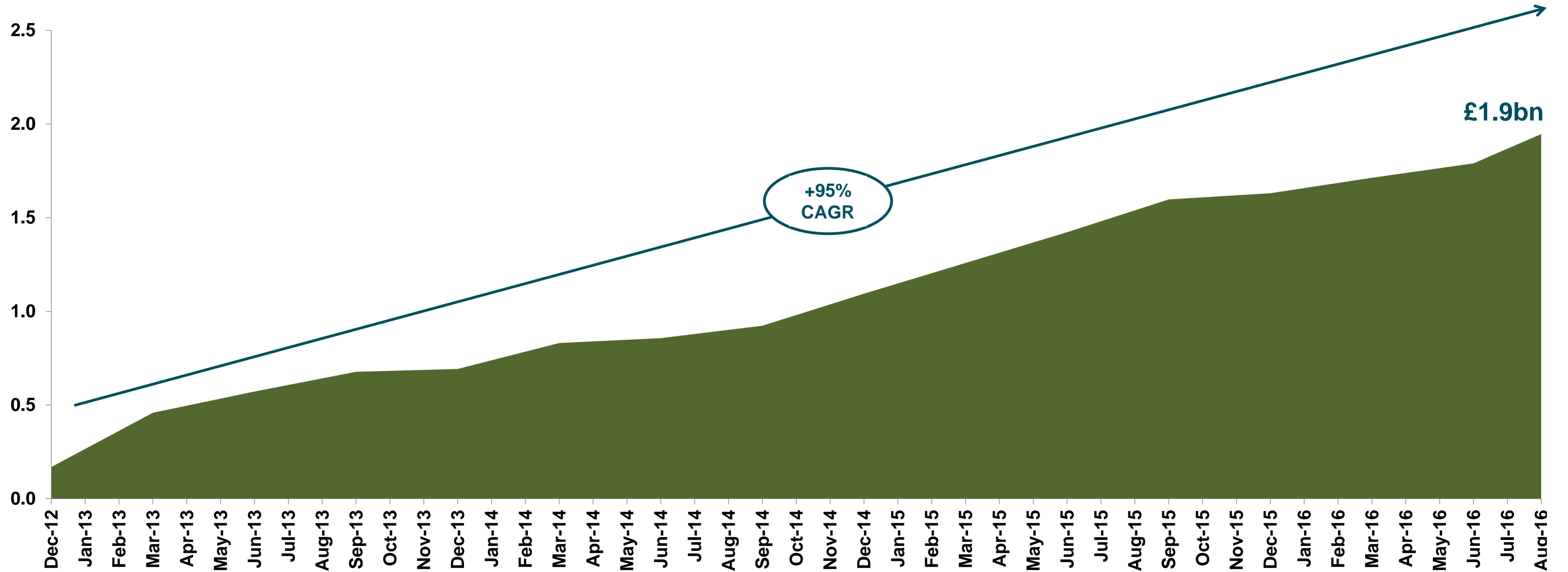


M&G Inflation Opportunities Funds: NAV growth

Alternative investments case study



M&G Inflation Opportunities strategy NAV growth (£bn), December 2012 – August 2016



Simplification and scalability are key to meeting industry-wide margin pressure

Data and digital

- Aladdin system implementation
- Website rebuild project to improve the functionality and user experience of M&G's websites
- Investment in marketing automation software enabling data-driven marketing plans and customer analytics



Fund structures

- Development, integration and implementation of a new business operating model
- Creation of a Luxembourg 'super' management company structure
- Establishment of a European ex. UK MiFID firm



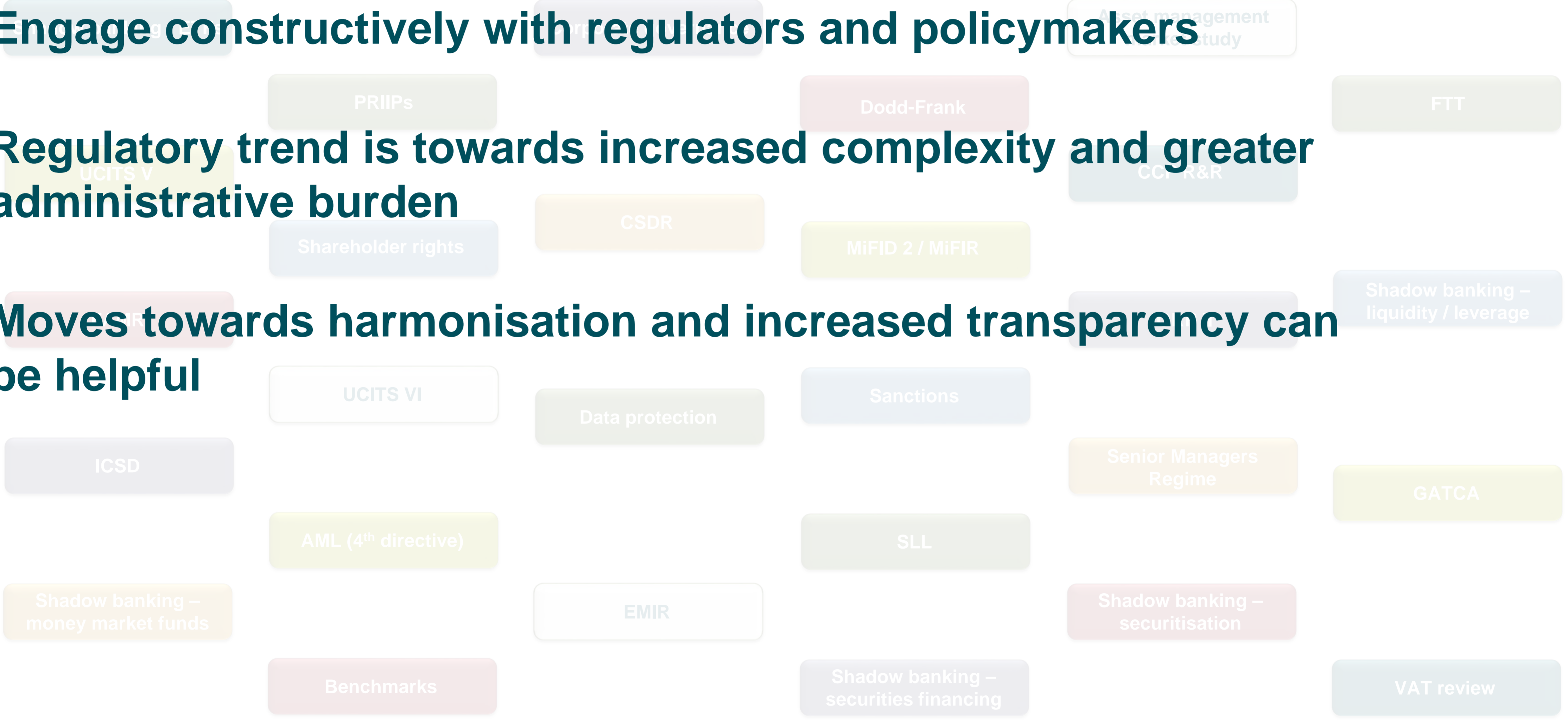
Adapting distribution to meet increasingly complex customer channels



- More emphasis on sub-advisory opportunities
- Joint-product development opportunities
- Digital distribution
- Strategic partnerships
- Brexit

The regulatory tide shows no sign of turning

- Engage constructively with regulators and policymakers
- Regulatory trend is towards increased complexity and greater administrative burden
- Moves towards harmonisation and increased transparency can be helpful



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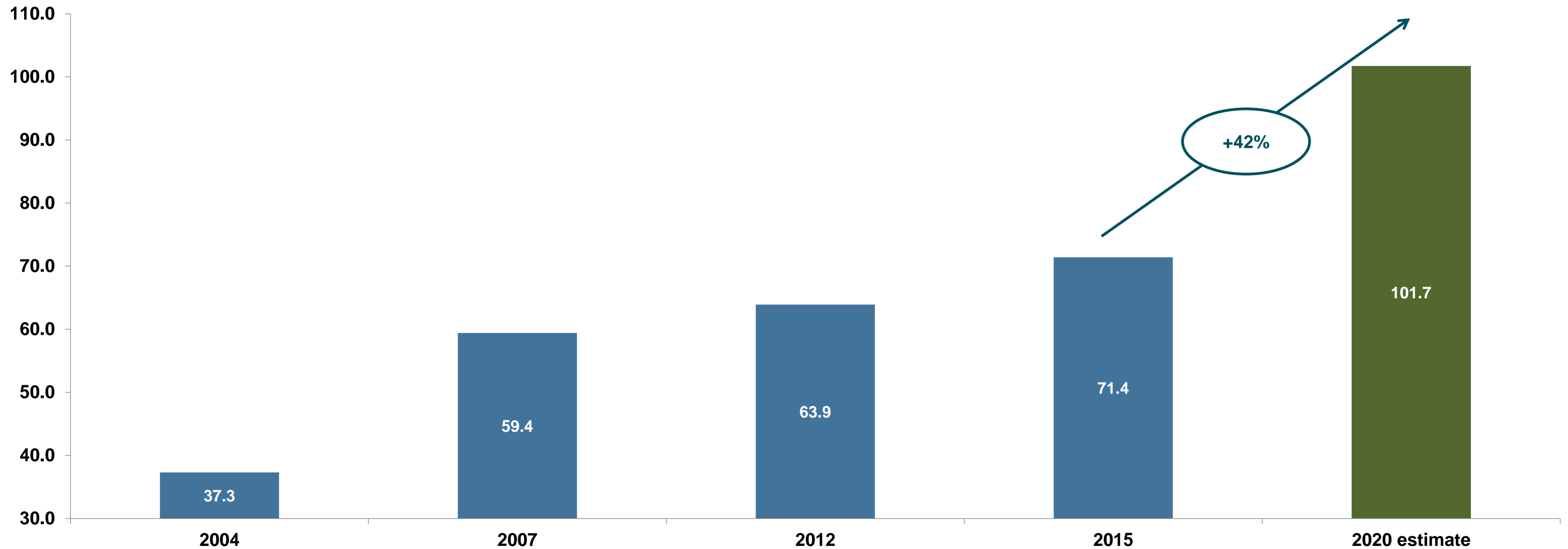
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Asset management is a growth industry

Global AUM (USD trillion), 2004 – 2020



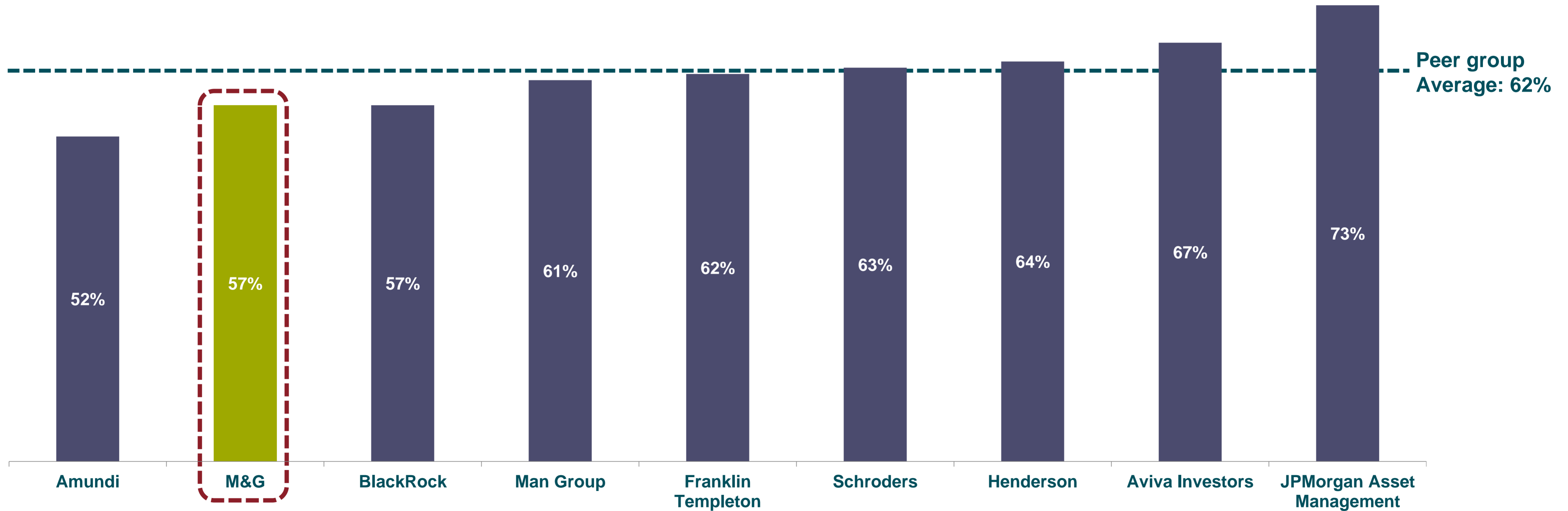
For M&G to succeed requires...

- Right capabilities to meet customer demand
- Investment performance that offers value for money and meets customer expectations
- Distribution aligned to an evolving customer base
- Careful management of costs
- Investment in simplification and scalability

M&G has a competitive cost / income ratio by industry standards

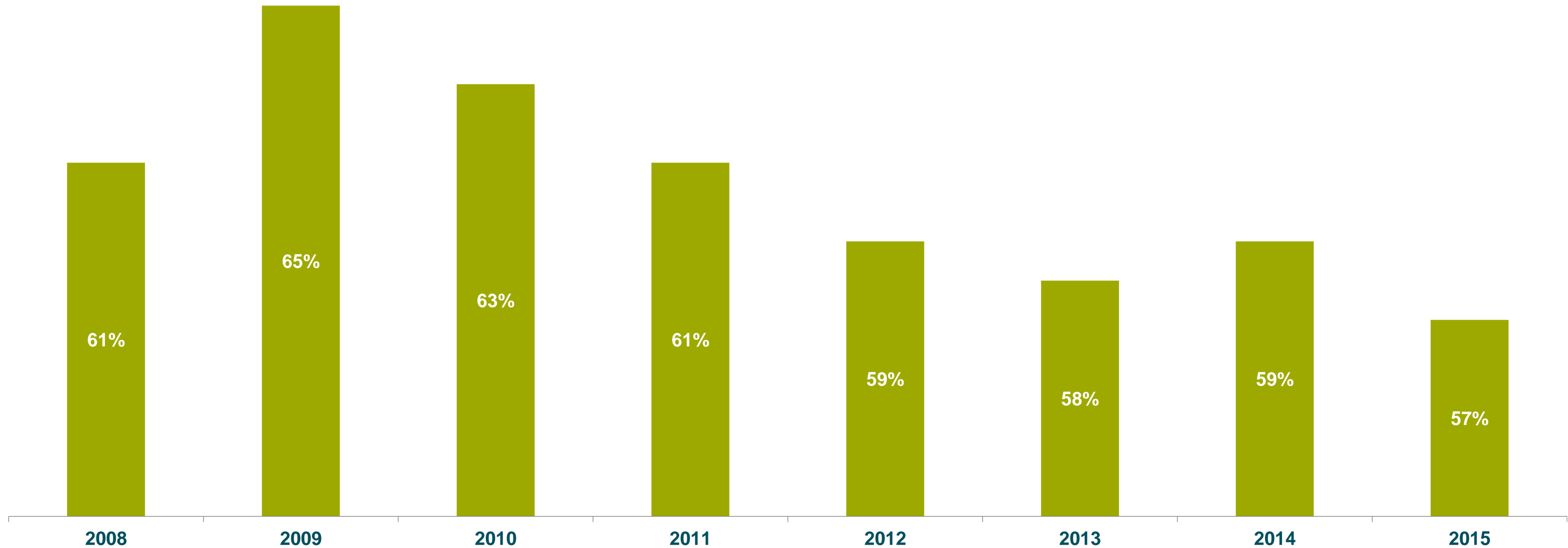


M&G Group cost / income ratio vs. industry peers (%), 2015



Investing for growth will see the M&G cost / income ratio rise...

M&G Group cost / income ratio (%), 2008 – 2015



...but it will remain below the peer group average over the medium-term

M&G has a tradition of developing creative investment ideas which meet client needs, and a proven ability to convert these ideas into assets under management