PRUDENTIAL

Prudential Investor Conference

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Introduction

Mike Wells

Group Chief Executive, Prudential Plc

Opening remarks

Well, good morning everybody. Welcome. Thank you for coming out and giving us the better part of the day to what we think will be an interesting update on the success of the group, an update on the quarter, some operational initiatives that I think you will find are what you would expect out of the quality of the team, and a good view of some our team members: some of them new to you, some of the well-known in new roles. So I think it should be an interesting and productive day and, with your indulgence, let us get right into it.

Opportunities

We are in an interesting spot as a group. I think as the industry looks for growth, we are focussed on where our best opportunities are with the options we have on growth, distribution, products, channels and markets. A lot of what you are going to hear today is about the discipline we are using and our lens on when we acceleration a market, when we do not, how we allocate capital, when we will not, when we pull back, which markets we think have unique characteristics right now. However, we start the morning and we start the quarter as always at, I think, an enviable position. We are in the top investment markets, we think, for our products and services in the world. In almost all of them, we have market leading positions. We have great teams on the ground with local execution and I think we are disciplined and can demonstrate that to you on how we allocate capital and resources to them to produce the highest return in value for shareholders.

So when we look at our markets, the attributes we have told you time and again that we think are key are structural drivers. In Asia, that can be the infancy of the market. In the US, it can be changes in the regulatory policy around the Baby Boomers' options. In the UK, quite similar nature, a large asset management market where we do not see natural players emerging to solve what is a very large consumer demand in the savings gap. So we are going to walk you through a lot of those today but I think where I want to start the morning is the strategies working. I think the third quarter results, which I am sure we have all seen by now, demonstrate it continues to do so and we are going to give you a little more granular look at all those as we go through the day.

Custodians of capital

So one of the questions I think it is fair to ask the team is are we reasonable or good – hopefully good – custodians of the capital that is invested in the company that you have intrusted us with. I think there are a couple of ways you can measure that. One is what we choose to do, where we accelerate, where we tend to concentrate our capabilities, both in terms of fiscal capital and also our human capital. Then second, are we disciplined enough to back off of markets, products or channels that we think do not have currently the same opportunities they did before.

So it is kind of a unique, I think, set of options in our business. The things we have moved away from in some ways would be enviable year over year growth in terms of earnings impact for most of our competitors. That takes a couple of things. It takes discipline, it takes the support of your shareholders, obviously, and it takes options that produce growth elsewhere that allows you that sort of luxury. I think, finally, it takes other markets that you can grow in that you do not feel obligated to try and make a market or a channel or a product line look better than it is because your option set is limited.

Activities stopped and activities accelerated

So on the left is a series of things we have stopped doing as well as things we have accelerated doing and on the right is the outcome of that. If we are doing that correctly, it should produce more of what we see as quality earnings. How do we define quality? Fee and high cash return. Okay. Without defending or attacking the intricacies of insurance accounting, cash is a pretty good metric regardless of your background and how business is doing, and paybacks of that cash and reasonable timeframes is a good measurement on the velocity of the capital, and that is clearly one of our strongest lenses. Okay. It does not mean we do not like long term cash flows but, again, it is cash-centric. So fee based and insurance or technical revenue are the two we strive for as we measure quality.

On top of that, you are allocating it into a portfolio model, and the portfolio model gives us diversification from local event, local political, local regulatory risk. That can be in the UK, that can be in the US, that can be in Asia. At our group size and our footprint, probably our most significant risk is macro policy. I do not think it is interest rates, I do not think it is equities, I do not think it is irrational competitors. We can adjust incrementally to those sorts of things and hedge in or plan accordingly. However, we can with large franchise, large businesses in these markets, we are affected by local political decisions, local regulatory decisions, local capital model decisions, etc. So we need the flexibility to adjust that capital and effort to go somewhere else for a while or to back down or to alter our product set and I think we have demonstrated that. So the quality of earnings mix comes from: first, the decisions of where you will and will not allocate capital, what business lines you will stay committed to or not; second, what you are targeting and what is your definition of good; finally, the options that you have from the footprint, and does that translate into a sustainable business model.

So again, as you saw with the quarter results, not every market goes up at the same pace all the time. I do not think anyone expects them to, but the overall effect is excellent, and there is a lot of work behind that but I think the value of our model makes it very unique.

Structural demands

Shown you this slide before. So the structural demands, we do not have a market right now where there are not multiple J curves or compounding J curves. So in Asia, well-rehearsed, the infancy of the industry both in health protection and the wealth side, the emerging middle class, just the growing strengths per economy, the government programmes that do or do not support savings, retirement or health, all those things give us tailwinds, okay, and they compound. In the US, we have talked about the Baby Boomers. I joked one year we can almost name them all for you. We are in the midst of that wave. We are not anywhere close to the key value of it. However, we compound a very successful business model that is aimed at that space with new advisors, new channels and targeting new asset pools. So again, with capabilities, I think we have proven to you over time. In the UK, again, the second largest asset management market in the year, a material savings gap with retail consumers and we take two very trusted brands and lever some of the things that they are both capable of and get a better outcome, I think you will see it today when they approach the market individually.

So again, these give us multiple J curves that are on top of each other and gives us a fairly unique, I think, combination of options that is ours to execute on.

Value over volume

Value over volume. So I said there are markets we will walk away from, there are product lines we will walk away from, there is distribution we will walk away from. That does not mean we are not concentrating on other markets. The key here is we have enough places, enough businesses where we can put that capital, organic growth, to get the value we want. However, if we are going to get consistent growth for you – on the right-hand side – if we get value over volume, leveraging our capabilities effectively as a group and that efficient use of capital, you should see some consistency to metrics. I know I say this in a lot of meetings but the way to mess this up is to make mistakes on any of the attributes on the left. Large blocks of non-profitable business. Talk yourself into mispriced product that is strategic. Generally, means loser's money, right. Those sorts of things in our business, you put that on the books and you have that drag for a very, very long time in your business model. So if we get the left hand side right, we get not only great returns on an absolute basis on the right for you but we also get the consistency. So it is a key, key element to the future value of the company, the future value of the cash flows, the optionality we leave as a management team to our predecessors. Okay.

How do you get the strength of the franchise to a high level of recurring revenue and the right markets? Well it is staying disclaimed. We are getting better at the second one: lever our strengths as a group. That is a relatively new element of our DNA. We have done it regionally, now we are doing it more globally. We are getting better at negotiating relationships globally. We are getting better at dealing with vendors that are the full size of the PRU versus letting them approach a single business unit on pricing. We are getting better at sharing first with ourselves before we go external because often best practice in the industry is already somewhere inside this group, and people are getting better and better at sharing with their colleagues what is working. Again, you see that across regions, you see that across business lines and it is producing a much more levered outcome. It should, and as a shareholder you should expect it to demonstrate attributes of scale.

At our size, at our very meaningful size, we can invest in things that most firms cannot. There is only a handful of firms in the insurance industry that have the tech investment we do, that have the people investment we do, that have the capital to invest that we do, and we take that very seriously. So all those elements produce not only the good returns but again, the consistent returns we think are key.

Strategic priorities

Strategic priorities. I am going to let the teams get into the granular piece of this but there are key elements to these for us and I think they are important to spend a minute or two on. Asia, in some ways it is ours to lose. I just say that to put a little pressure on the time. I spend a lot of time there. I was with our Singapore team last week and Lilian, Nic, Raghu and the team and everybody at [inaudible] there.

There is a couple of things you need to know. One is at our size there, there is very few markets, as a lot of you know, that we do not have a material presence. That gives us a unique position to lever. Our agency models, our bank insurance, our operational platforms, our regulatory relationships, just the sheer talent, the ability to recruit talent.

One of the meetings I had, I met a bunch of folks that had just joined us, our young high potentials. These folks, anybody in Singapore would love to hire and we can get them. The other piece I think might surprise you is how fast we can move these business models. I think that is one of the pieces that has been underestimated at times. So I hear a variety of challenges to how we access consumers in markets. We see directionally having this huge agency force, this trusted agency force with consumers as an incredible asset, as we see the thousands of bank branches we have. It is ours to lever. It is ours to get further penetration with their households. It is ours to give them better tools. It is our responsibility to make sure that they have enough products and services to deal with an entry level client and a client who is maturing in their financial sophistication, okay.

As you all know, we start with a very high number of consumers and a relatively low relationship per household and our distribution folks are very focused on increasing those numbers. However, even in a market like Singapore where we have about one in three households, I would say now, owns our products. Certainly, when you are in Singapore it feels like more than that. When you have a shirt on with Prudential on it, lots of people talk to you. They can easily go up from there. A bank CEO standing here would not think 2.2 relationships per household is a particularly high number of product relationships, and nor do the consumers when you talk to them. So the upside you have on the market comes from the fact we have the scale and the establishment of trust, relationships, good execution historically in the markets and there is a consumer value that we have that, again, is ours to defend.

They do not know our credit rating, okay. What they know is we have done everything we have said for them. We are getting faster and better at anything from claims payment to the accuracy of the presentation that was made or the way we approached them on the last idea that the advisor had to improve the risk-off to de-risk their personal situation. You feel it on the ground and you feel it on the ground in China. I mean, there are a lot of markets – we are going to give you a couple of examples today – that I think might surprise you in how we execute in region. Going back to an earlier slide, now those best ideas are quickly moving business unit to business unit. Okay.

Health and protection

So health and protection. This is a market that we have a great leading position in and we need to get better. There is a lot of upside here for us. You will see a lot of resources in terms of talent, new capabilities coming online here because it is something we are already doing well, and the demand is tremendous, and we think we are a natural owner of that market. Then for the Eastspring team, the wealth market is clearly emerging, and we need to meet the clients however they want, those assets to come out of those heavy cash positions and into equites and into investment solutions. There is a variety of ways we can do that, and we will show you a few new ideas today.

US

On the US, well-rehearsed. So it is clearly emerging into sort of a two product in the retirement section we are in market, the traditional variable annuity distribution and then the post DOL fee based platforms. We go into that with the capabilities, the market leading products. Again, reputation, best outcome for consumers, absolutely key when you go to a new product test from the Federal Government. Okay. The capability, the scalability to do that. Again, within our own risk appetites. The proactive risk management, we keep looking at the risks in the US business. We have had a number of competitors try and find the bottom of a valuation on businesses that we stood up here pre-crisis and told you we would not write.

There is no question that the onus is on us to demonstrate the ability to manage risk consistently and differently than some other payers in that market have. We have. It has produced a very different outcome for our shareholder, a very different business, very different cash flow signatures, returns on equity and risk adjusted returns. We do not have an unlimited risk appetite in the US, as we have said before. From an M&A point of view, we are still looking at bolt-ons, we still have not seen any that fit our pricing parameters, we do not feel any pressure to do one. Okay. We know how to manage sales and our risk appetite on our product exposure, we have proven that to you year after year. We have a very, very different business in the US than our competitors. It is our responsibility to continue to show that to the retail consumer, the distributors and to you.

UK

In the UK, I was kidding the team yesterday and we were talking about some other presentation, it has been a long time since we have shown you what we can do in the UK. I am going to keep my comments to a minimum here. There are two very good businesses making a lot of progress on their capabilities, on the synergies, on the things they can do together that they could not have done alone. I am going to let them go through the key of it.

Capital light

One issue I did want to hit is capital light. So a lot of questions. A lot of interest in our decisions. Going back again to an earlier side, to first step back from the retail annuity business and bulks, right. Second, the management actions you have seen us do to de-risk that and reduce the capital exposure of that business. That is anything from reinsurance to some of the portfolio movements you have seen so far. Now, as we said before, we are looking at external options. We are in that process. We are not going to give you a lot of detail on that process because we are not trying to bias it towards somebody on the other side of the table, to be clear. So we want to keep our cards close to our vest until we have what is a definitive end to a phase of that.

However, I want to remind you of a couple of things. One, it is a liability transfer, not an asset sale. So it is changes multiple metrics as we transfer that, if we choose to do that, to a counterparty. The early stuff will unwind some efficiencies and covariance benefits. The latter tranches, the cash released on the capital side, on the reserve side is quite linear from there. Our view of what we will do with the capital, where the proceeds go is no different from any other capital we have in the group. First, what are our organic opportunism. Again, at this point we do not have a business that is not self-funding from an organic capital point of view. Africa being our newest probably not quite true. We do not have a unique demand in one part of the world from capital to another. So organic capital, we should not need any unique proceeds for organic growth but if there is something opportunistic that is in our partum or model we would look at that, we would opportunistically look at M&A. It certainly is not necessary to grow this firm and is not strategic objective and is not in our business plans to be clear. However, if we saw something, as you have seen us do in the past, that we thought was unique and distribution of product and market, we would carinal look at that. Then most importantly, we are the custodians of the shareholders' capital. It is the shareholders' money. So excess capital goes back to the shareholders. And we are fairly agnostic on how we would do that. We would look at that at the time.

So I do not want to get into – and the UK team will not either, you can try and ask but I think you will get the same answer – the process now of looking at the market. Until you are through that, we do not know what pricing will look like with counterparties. It is not a homogenous book. Some of the simplistic stuff that some folks externally have put out, there is a variety of books in there, there are products we have written. We understand the value of it, we understand the value of assumptions. We know how people price this. We bought them. We have acquired those blocks. We certainly know how this process works. So in timeframes, it is months to negotiate transactions and it is quarters to get through the part 7s. So just to control everybody's expectations and again, we are live in that now.

Key metrics

Favourite slide. I think this is the consistency of key metrics that says we are doing what we should do with the capital and the resources and the talent and the market footprint we have. I still think this is the single best lens to measure the performance of the team and it continues to look as it should.

Then the day. We are going to get a bit granular on some of the operational initiatives, some of the things we are doing, some of the things we think might be outside of your travel or normal scope of your day's resources to look at. So anything from some of the quarterly updates and metrics that we may or not typically issue publicly. We will just give you a little different feel. Sort of the order of battle and the US firms are going to succeed. Post DOL, what that has to feel like, what that has to look like, so you can tell where we are or by the same lens you can tell other competitors' likelihood of capturing those new markets. Then what do we expect out of the UK, what should that feel like, how can you tell that is progressing at a level that meets your expectations? So I think this has a little bit more operational focus than some of our investor conferences before but given the strategy is intact, it is working. It is producing very good results. Drilling down a little bit, we think, is appropriate.

Agenda

What is today going to look like? Mark FitzPatrick is going to come up and give you a financial overview next, and then we will have the team from Asia, a break, the UK, a break, the US and then we will all be up here for Q&A. Again, we are not going to leave without your questions answered and anything that you are concerned about unaddressed.

So I am going to end my comments there. I will be back at the Q&A piece and obviously talk to you at the breaks. With that, I would like to again thank you for joining us and ask Mark FitzPatrick to come up and walk us through the financials.

Financial Overview

Mark FitzPatrick

Group Chief Financial Officer, Prudential Plc

Welcome

Thank you, Mike. Good morning to you all. It is a real pleasure to be here. Thank you for taking the time and choosing to be with us this morning.

Overview

In my presentation today, I will cover two main topics. First, a brief overview of business performance in the nine months to 30th September this year. Secondly, I will provide some thoughts around how we look at capital and the characteristics of our approach and execution that differentiates Prudential from the peer group.

Q3 year-to-date financial highlights

So on to the first topic. The Q3 year to date financial highlights. We continue to make good progress through 2017. New business metrics in our life operations are moving forward and in asset management we are seeing the benefit for both sizeable net inflows and the appreciation in investment markets. New business profits increase by 17% in the first nine months at constant exchange rates, driven roughly equally by volume growth and the positive impact of higher period end interest rates. Favourable currency movements add a further nine points of growth. The performance remains broad based with new business profit up by 15% or more in each of our key three geographies. Looking forward to full year new business profit growth rates, please remember that because we use an active basis for rate of assumptions, these economic tailwinds will largely unwind at the yearend given the post Trump rise in yields occurred mainly in the fourth quarter last year.

Asset management

In asset management, external net inflows are strongly positive at 12.8 billion with contributions across the board. Overall, external assets under management have increased by 13% since the start of the year with roughly half the uplift coming from net flows and half from investment returns. The group’s financial process continues to be underpinned by strong and resilient capital position.

Asia

In Asia, new business has continued to demonstrate the strength of our regional portfolio with growth that is broad based, double digit and high quality. As a reminder of the scale of our Asian businesses, they contribute to 54% of our group APE and 65% of group new business profits year to date. Viewed on a country basis, Asia has delivered growth in new business profit across nine out of 11 countries with seven growing double digit or more. This includes Hong Kong, where we are seeing the benefit of our focus on protection as we continue to reposition towards a richer mix of sales. Outside Hong Kong, APE sales were up 24% overall, highlighting the permanence across the region. Likewise, through a distribution lens, Asian growth in new business profit has seen double digit contributions from both agency and bank assurance with improvements in productivity and activation levels in agency and renewed momentum in our bank assurance partnerships.

Product view

Finally, on a product view we are growing in the areas where we are strongest. Sales from health and protection are 16% higher overall and unit linked business is also up strongly by 27% selecting improved market sentiment.

So over the year to date, the characteristics of our life business in Asia continue to play out. That is diversified recurring new business of high quality that is driving compounding growth. In asset management, net inflows from external retail and institutional clients combined with positive market performance mean that Eastspring's external funds under management are up 17% year to date.

US

In the US, Jackson counties to outperform the industry. Second account assets, the main driver of the fee based revenues, are up 13% since the start of the year, mainly due to asset appreciation. Importantly, net flows remain strongly positive and based on the latest market statistics, Jackson continues to capture close to all of the industry's net inflows. Looking further ahead, Jackson's recent launch of products structured to suit the fee based advisor market positions it well for new longer-term growth opportunities in this large untapped asset pool. Our US continues to break into new advisor relationships, which bodes well for the future.

New business

M&G Prudential's new business flows have remained strongly positive through the period in both Life and asset management operations. In UK Life, new business levels are benefiting from continued demand for PruFunds risk managed product range, particularly through the flexible structure of our popular retirement account. You will be aware from recent media articles that we continue to work with the FCA while they determine the appropriate approach for assessing the cost of redress for non-advised annuity sales falling within the thematic review. We hope to be able to update you on this process when we report our full year results in March.

Investment performance

In asset management, the improvement in investment performance continues to drive positive net flows in both the institutional business and the wholesale and direct channels, where new business is at record levels for the nine-month period. With market appreciation also having a favourable impact, average external assets for the first nine months are 13% higher in asset management compared to 2016. The merger and transformation of our life and asset management businesses is ongoing and we are pleased with the progress we are making at this stage. John's team will provide you with an update on this shortly.

Full year disclosure

In relation to the reporting disclosure of the full year, the costs associated with this will be taken in restructuring costs within operating profit.

Summary

So in summary, across all the group new business flows are adding to our sizeable stock, our earning drivers are moving forward and the focus on quality is intact.

Capital management

Now, moving onto my second topic, that of our approach to capital management. Our approach is not new and is not changing. This section describes the approach in practice of what has been in place for many years. The consistent application of this approach across the group is what underpins our progress on many different earnings and cash measures and is the basis for our continued effort to enhance the financial profile of the business. So starting at the top of the diagram on the left hand side of the slide and working around clockwise, we invest our capital in new business opportunities that are of sufficient scale and exhibit the right characteristics in terms of quality, return and payback. Which together with managing it to good effect while the business is in-force, should generate compounding effects and compounding levels of organic capital generation. This in turn provides the group with greater financial and strategic optionality and resilience. It is the strength and quality of this high velocity capital model that sets Prudential apart. It provides a key source of strength and resilience, underpins the growth and the dividend, it drives feasibility to adapt a challenge and opportunity without compromising overall delivery.

Organic growth model

Now first and foremost, we operate an organic growth model. The scale of the structural demand in our key geographies and our chosen market segments means we are not short of options about where to invest our capital. The success of our growth and the speed at which we can redeploy our capital is highly aligned to the type of business we write. That is why we are so meticulous in prioritising value over volume and focusing on business that has a capital light signature. This not only reduces the upfront capital burden but also means our investment has been repaid more quickly, enabling capital to be recycled in new organic opportunities. Now that is not to say we will not consider counter cyclical or inorganic opportunities and strategic investments as well. In more recent years, this includes the addition of significant new reach in our bank assurance partnerships across multiple markets in Asia. Deals like these have the ability to generate many years of customer revenues but they too are assessed by comparison to the quality and sustainability of our organic growth options. Asia’s share of the group’s new business investment is material and growing given its relative capital efficiency, strength of returns and scale of the opportunities available. As a result, Asia now accounts for two-thirds of group new business profit and is likely to continue to grow in proportion over time following these capital allocation principles.

New business adds

My next slide shows what I think is truly distinctive about Prudential. That is the speed at which new business adds to the existing stock of future cash generation. Now the chart shows the value of the undiscounted future cash flows that are expected to emerge from the in-force portfolio not free surplus over the next 40 years and how this has moved from yearend 2011 to 2016.

So there are three main points I wish to draw to your attention. First, in the five years since the beginning of 2012, the group has added 30.8 billion of undiscounted future expected cash flows through the new business it has written.

Second, it is clear from the chart how Asia underpins the group's outlook for cash generation and how it is Asia's new business growth that has been the primary driver of the increase in stock of future cash flows, accounting for over 60% of the total.

Third, that the additions from the new business are multiples of the unwind from the in-force portfolio. So adding more to the stock than is coming out, repeated year after year, creates a powerful growth dynamic that drives the outlook. The strength of this compounding effect is that in just five years the group has almost doubled the value of these expected cash flows from the in-force portfolio.

However, the success of any capital management strategy rests not only on disciplined allocation of capital but also the ability to manage and return the business. It is only through effective management of our in-force portfolio that we can have confidence that returns will be delivered to the level expected and that payback is achieved within the anticipated timeline. It is our ability to continue to write new business with an attractive economic and cash flow profile, while at the same time managing the overall portfolio for value that rein-forces the strength of these capital dynamics.

Balance sheet

Turning now to the balance sheet. At the end of September, our Solvency II surplus is robust at 12.8 billion, equating to a cover ratio of 201%. Operating capital generation remains the key driver of our position, helping to absorb the adverse impact of market movements in the period and funding the cost of dividend payments. Within operating capital generation, management actions which were taken in the first half of 2017 have added 0.2 billion. Whether you look at this at a local level or a group level, what we are aiming for is largely consistent across the piece. That is the capital position that has four main attributes. One, it is composed of high quality sources of capital with growth largely driven by operating cash flow generation. Two, it is able to fund organic growth ambitions within the parameters of our risk appetite. Three, it is resilient to market and regulatory shocks with sufficient buffer to absorb any impacts and enable the business to meet their strategic and financial objectives. Finally, it has headroom and flexibility to be able to take advantage of market dislocations and other business opportunities as they arise. By meeting these aims, we would also expect to be able to demonstrate to all of our key stakeholders, including our regulators, customers and distributors that we are omitted, responsible long-term operators in the countries in which we operate.

Debt capital

Now I have included in the appendix A slide that demonstrates the quality of our debt capital, which is dominated by perpetual fixed coupon instruments. So although we have ultimately need to replace bonds grandfathered under Solvency II by 2026, we have the flexibility of time to effect this in orderly fashion. As such, we recently announced that we will be recalling 1 billion of grandfather tier II sub-debt, 6.5% in December, having issued 750 million of Solvency II qualifying tier II perpetual sub-debt in October.

To illustrate how the capital we have generated is deployed, I have shown you on this a five year consolidated view which should moderate the impact of one-off items. So starting on the left-hand side of the slide, this highlights how, for our life operations, active management of our 2011 in-force portfolio and the compounding benefit of subsequent editions of profitable new business has delivered strong growth in the level of expected surplus generation. Taking the five years together, this totals 11.1 billion.

Surplus

Moving to the chart in the middle, the 11.1 billion of surplus generated is comfortably in excess of the amount we recycled into investment in new business. The headroom here is a critical element of the capital velocity of the group, demonstrating the benefit of writing business that is low strain but high return and with rapid payback. After new business strain, the majority of what remains was remitted as cash from the life operations to the group, investment and other variances roughly net off with a small benefit from Forex, and the balance is being used to rein-force the capital position of our local businesses as they continue to grow in scale. The chart on the right shows how capital remittances of 5.6 billion from life operations and 1.8 billion from asset management was used to cover the growing dividend and also corporate costs which primarily comprise interest and other central expenses. Over the period, within the total dividend paid of 4.6 billion, the annual payment has doubles from 665 million in 2012 to over 1.2 billion in 2016. Reflecting the increase in commitment that our growing dividend represents and the growing scale of the business, I believe it is appropriate that our central liquidity buffer also increases in size. We have always maintained a buffer above our central outgoings and will continue to do so. So in practical terms, growth in cash to the centre will, under normal circumstances and over time, principally follow growth in free surplus rather than drawing down on cover.

Returns and dividends

Finally, in this section, I want to cover returns to shareholders and reiterate our dividend policy, which is unchanged from what we outlined to you a year ago. This is a retrospective policy by which we mean we assess the affordability of the dividend annually based on the performance of what the group has actually delivered. Given the strength of the group's capital generation and our approach to many conservative cash and capital buffers which I have just highlighted, we have a high degree of confidence in our ability to grow the dividend by 5% per annum, even under stress. As we have done in recent years, we will continue to use a broad range of financial measures to assist the potential for additional distributions, which we must also consider against competing uses of cash, such as investing in opportunities that might accelerate our growth. We believe this policy has served the group and the shareholders well resulting in the progression of the ordinary dividend as shown on the right.

Conclusion

So in conclusion, the operating progress of our businesses to date continue to demonstrate the key attributes of the growth: namely strong market positioned in the right markets, broad diversification and delivery across geography, product and channel, and the ability to adapt at pace to new opportunities and changes in market conditions. The capital dynamics of the group remain distinctive to Prudential, in that they are underpinned by the growth and quality of the sales finance new business that we are adding year after year, which results in strong compounding capital generation.

With that, I will now hand you over to Nic and the team. Thank you very much indeed.

Asia: CEO Perspective

Nic Nicandrou

Chief Executive, Prudential Corporation Asia

Opening remarks

Thank you Mark. Good morning everyone, and let me start by saying what a great pleasure it is to be addressing you today as the CEO of Prudential Corporation Asia. I have been in the role for exactly four months. Over this time, I have travelled extensively across the region, and I have spent time with the senior management teams of every single one of our 26 businesses. I now have a much better sense of the incredible size of the opportunity in the region, of the sheer scale of our operations, and the very broad and deep set of capabilities across our businesses.

So for the next 20 minutes, I will share my insights in each of these three areas, and I will outline our strategic priorities in the region. Lilian and Guy will then provide you with more colour and context for our insurance and asset management businesses respectively. I will then wrap up the PCA session and take your questions.

Structural trends

So while the industry context is fast evolving, often in response to changes in customer behaviour and to the regulatory and political landscape, the industry's mandate remains well aligned to the growth and prosperity agendas of both consumers and governments. Importantly, the structural trends remain intact. The multiple growth curves that underpin the strong demand for savings and protection across the region will provide tailwinds over many decades.

Growth in working population

The first structural trend is the growing working population, which is predicted to increase at over 1 million people per month. This means that between 205 and 2030, some 178 million people will reach working age in Asia, roughly equivalent to the combined population of the UK, France and Italy. By 2030, around 50% of the world's working population will be in Asia. So with a current custom base of just 15 million, we have plenty of headroom to grow.

Economic growth potential of the region

The second trend relates to the significant economic growth potential of the region, with GDP in Asia predicted to increase three times faster than the US and be nearly twice the size of the US economy by 2030. The implications of this on wealth creation in the region are profound with private financial wealth predicted to rise in the next five years from $53 trillion to $78 trillion. Today, Eastspring managers are £130 billion of customer savings, so we have plenty of headroom here as well.

Expanding protection gap

The third trend is the expanding protection gap, with out of pocket healthcare spend in Asia being four times greater than the US or the UK. By 2020, this health gap is expected to amount to $161 billion.

Uninsured and undersaved

Finally, Asians today are relatively underinsured and under saved, with penetration averaging 2.4% across the region. And of course, with 65% of personal wealth in Asia currently held in deposits, compared to 14% in North America, insurers have plenty of runway even today, never mind in the years to come.

Opportunity

The opportunity set is therefore one of a kind in our industry and it is no coincidence that competitors find the region attractive. However, what will continue to differentiate the winners from the losers will be the discipline and quality of execution.

Footprint

When it comes to execution, PCA has all the key attributes for success. The first attribute is our footprint: we have 26 businesses across 14 countries covering most of the opportunity set and giving us access to 3.3 billion Asians. I do not believe that we have any major or obvious strategic gaps in our current business portfolio.

Businesses across the maturity spectrum

The second is that we have businesses which operate across the maturity spectrum with lifespans ranging from 94 years to 17 months. There is little going on in the industry that we are not doing or pioneering. We can, and we are, accelerating collaboration and sharing across businesses, to further drive our progress.

Scale

The third attribute is our sheer scale in the region: we have 14,000 employees, over 600,000 agents, access to 10,000 branches, and a 15 million customer base with 24 million policies. We have top three positions in nine of our 12 life markets, giving us a balanced portfolio by geography, by distribution channel, and by product. Scale is a key competitive advantage that we will increasingly look to lever going forward.

Eastspring

The fourth attribute is that in Eastspring we have the largest retail fund manager in the region ex-Japan. Eastspring benefits from the reliable and growing life business inflows providing it the headroom to develop investment strategies which it can also deploy to third party clients. With a presence in ten markets, over 250 investment professionals, 3,000 staff, and £131 billion of AUM, Eastspring's growing capabilities are an essential component in serving the growing wealth needs of Asians. I do not wish to overplay this but in the regional context Eastspring is a unique asset for our shareholders.

Workforce

And the final attribute is our diverse and highly talented workforce, with a mix of over 40 nationalities, a very rich blend of experience from insurance and from over ten other industry sectors, and with millennials making up over 70% of our staff, we have a diverse, vibrant and highly capable workforce, focused on delivering results and on out executing our peers. The combination therefore of our broad capability set, wide business footprint, and significant opportunity in the region, is what underpins PCA's future growth trajectory in Asia.

Strategic priorities

I talked about execution being the differentiator, and this starts with having a very clear strategic roadmap. PCA's strategic priorities fall under four broad categories.

Enhance the core

The first is what I would call enhancing the core. There are a number of aspects within this category from broadening our flagship product set, expanding our distribution reach, indeed leveraging it more fully to provide our existing customers a second and third product; establishing new routes to market through non-traditional partners; and seeking to work differently with more traditional channels. Now, we hope to update you soon on our in-flight initiatives here.

We are also looking to accelerate the work to automate the back end and digitise the front end of our businesses. In the next three years we will step up our annual CapEx technology spend from £50 million to £100 million. This increased spend will aim to deliver near full e-submissions across our businesses, straight-through processing making our businesses mostly paperless, policy issuance in minutes, faster claims payments and query resolution, accelerated product launch times, and enhanced stability to connect with the broader cloud based ecosystem.

Create best in class health capability

The second priority is to create a best in class health capability. We are already one of the leaders in this space and we will accelerate our efforts to participate more broadly in this business segment. Over time you will see us offer more comprehensive and flexible coverage, expand our routes to market, and provide a wider range of value-added services. We will build out our presence in the SME segment which will provide us with more data and give us greater scale leverage. To enable this, we will look to bring in new capabilities with the appropriate levels of expertise.

Accelerate Eastspring

The third priority is to accelerate Eastspring positioning it to play a greater role in Asia's rising wealth needs. Today, Eastspring is primarily an Asian focused, value-based manager. To this strong base we will add a range of investment strategies and styles through a combination of built and rent approaches. We will complement this by enhancing our distribution and add digital tools to both enable sales and offer a B2C alternative.

We are progressing with the modernisation of our front and middle office by deploying Blackrock's Aladdin platform across Eastspring's operations, which will enhance our ability to scale this business at pace.

Expand presence in China

The fourth priority is to expand our presence in China which given its size in the region is clearly important for our success. China will be material to Prudential long before Prudential is material in China. Both Lilian and I will come back to this opportunity later in the presentation.

Capability spectrum

Now the ambition embedded in these priorities is significant, but it is well matched with our capability set. Our current capability spectrum and bandwidth is both broad and deep and anchors our financial and strategic progress. As shareholders what your investing in is our ability to leverage our scale and presence to deliver value to a broad range of stakeholders.

As you can see from this slide, we are making strong progress across multiple dimensions such as developing relevant product and services, improving engagement and meeting customer needs, digitising our businesses from front to back, enhancing distribution efficiency, growing our talent, and promoting financial inclusion and CSR.

Lilian and Guy will showcase live examples of these capabilities from across the business. When you stand back from the various examples they will share with you, what you will see is an organisation that is highly progressive, and which is implementing modern tools and solutions at scale, in a live environment. Before they do so, I would like to briefly touch on two specific areas.

Strategic priorities in motion

China

China has been in the news lately and our progress here is nothing short of stunning. We currently operate in 74 cities, giving us access to 76% of China's GDP and to 940 million of its population. During October we were granted a licence to conduct business in Szechuan, which is currently the fourth largest province, with a population of 87 million. We have deployed our Asia playbook with great success in this market. By operating a quality-led, well-balanced business, we have been able to grow our presence, scale and profitability at pace.

Today we have one million customers with two million policies, which is substantial in any context except in China where this represents only 40 bps of market share. Even so on a 100% basis, China is now our third largest contributor to MBP in the region, up from eighth in 2012.

However, the story is not about our current position but about the future potential. The leverage in value creation as we gain every extra basis point of market share is considerable. Not only do we have a long way to go in penetrating the current market, if the CRC's 5% insurance penetration target by 2020 is achieved, the size of China's life market will exceed that of the US, adding further momentum to a pre-existing large base of uninsured Chinese.

The picture remains the same in asset management with China expected to garner almost half of the world's inflows over the next five years. The upside for prudential is indisputable: we have an expansive toolset in terms of products, technology, distribution and people to deliver sustainable high-quality growth. China today is one of our most advanced operations, when it comes to both automation and integration with the country's highly evolved consumer and payment platforms. From onboarding customers in 30 minutes, to cashless claim reimbursements, and everything digital in between, we are punching above our weight in terms of operational capability and can go toe to toe with anyone in this market.

I am excited by not only the significant headroom for growth here, but also by the option to increase our participation following last week's announcement son the further opening up of both the life and asset management markets.

Eastspring

The second area that I want to briefly touch on is Eastspring. Asset management in Asia is another space where there is significant runway given the rising levels of private wealth and the sheer size of savings currently held in deposits. Savers in the most developed Asian markets are increasingly seeking more sophisticated global and local strategies while those in the more nascent South-East markets are simply looking to participate.

Eastspring's success in attracting third party flows has been primarily driven by the strong demand for local equity and fixed income products. In contrast the proportion of AUM deployed in multi-assets, infrastructure, alternatives, quants, emerging market debt, is modest. As Asia investor demand for these types of assets is already significant and rising we are developing strategies to capture a larger share of these flows.

In the course of 2017 we have recruited a number of senior investment professionals. In infrastructure, multi-assets and active quant. And we are starting to secure some sizeable mandates. While we are developing these capabilities in house, we are also looking for opportunities to partner with other asset managers, leveraging our distribution and relationship footprint. We already have this in place with our internal partners M&G and PPMA, and we are in active discussions with external parties.

Today we are pleased to announce that we are strengthening our existing relationship with Blackrock, by entering into a strategic partnership in Asia. This partnership will combine Blackrock's leading iShares ETF offering with Eastspring's Asian investment expertise, distribution reach, and asset allocation capabilities to create unique investment solutions that meet the growing savings and investment needs of our client base in Asia.

In China, alongside working with our joint venture partner in the retail segment we are separately looking to tap into three other significant opportunities. The first is the growing non-retail or private onshore demand. The second relates to the rising inbound flows from overseas investors. And the third is capturing the outbound flows from Chinese investors. We have started the process to establish and resource wholly foreign owned entities and secure the appropriate registrations and quotas. Over time this will be very additive to our business.

Performance

I would now like to change tack and give you a quick flavour of our more recent trading performance. As we principally focus on the financial KPIs at the end of each quarter, it is easy to lose sight of some of the truly astonishing operational metrics which speak to our scale. Every month this year we have recruited on average 15,000 agents; handled two million customer interactions; and processed nearly 200,000 claims.

So far in 2017 we have added over a million new customers, with our annualised customer retention rate has remained around the 95% level. Mark has already covered the nine months sales highlights and net flows, so I will draw out just two key points.

The first is that our sales mix remains high quality, with H&P sales up 16% across the region. And the second is that the performance continues to be broad-based, with Asia ex-Hong Kong growing at 24% and with seven of our markets delivering double digit growth.

In fact in the course of the third quarter, the year on year sales growth rate accelerated in the important markets of Malaysia, Singapore and Indonesia. The benefit of this high quality and broad sales mix comes through in our reported MBP which was up 15%, supported by 16% increase in the contribution from health and protection. These results demonstrate that we are in the privileged position of delivering strong progress in 2017 alongside having considerable growth runway going forward across multiple dimensions.

I would now like to turn over to Lilian first and Guy second, who will cover how we are executing in various markets, and how we are adding to our current capability set. Lilian?

Asia: Delivering from a Position of Strength

Lilian Ng

Chief Executive, Insurance, Prudential Corporation Asia

Introduction

Thank you Nic. We pride ourselves as having an advantage platform with proven track record of delivery. And to capture the growth potential as highlighted earlier, we are always innovating and differentiating. What is setting us apart now, and in the future, are: our delivery of customer experience as the source of competitive advantage; our investment in digital capabilities to empower our salesforce and customers; our end to end redesigning of processes for efficiency; and our fit for growth culture to execute.

Now let me show you how we are deploying these capabilities in the businesses.

CITIC PRU – China

Accelerating value creation

Other than the Qi[?] scale, the standby CRRC[?] for the healthy development of the insurance sector makes the growth potential more attractive. Regulations are increasingly favouring products with more insurance risk elements, and at the same time curbing products designed for quick returns.

Extensive footprint

CITIC Prudential strategic focus is to expand distribution reach for value creation. We have reached across 74 cities in 18 branches, and present in all top ten provinces ranked by gross return premiums.

Being in the right geography gives us the leverage to frame a fast-growing, active and performance-driven agency force.

Building sustainable scale

The three strategic pillars for CITIC Prudential are training, productivity and growth. We have implemented a full-time manager training scheme combining classroom training and eLearning with on-demand content. Productivity for this control group grew 31%. And we are mobilising eLearning using Alibaba Cloud. Our recognition system is structured to drive productivity: this has resulted in 58% growth in our MDRTs.

We are continuing to deploy the general agency model for efficient expansion. Agents within this 11 GAs[?] made up 11% of the agency force, but contributed to 25% of sales. On bancassurance side, we have adopted a customer-orientated strategy to broaden and deepen our partnerships. Our insurance specialists are scaled to deliver solutions to fit customers. The result? Bancassurance sales are 88% regular premium. And with product margins three times higher than that of our competitors in this space.

For the next round of innovation and expansion, we are piloting an online to offline model to broaden reach with four banks.

Making it easy

So with China having the world's most digitally savvy populations, CITIC Prudential has a versatile marketing and servicing digital platform, branded 信诚保险[?] which literally translates as 'trust, easy and through'. Now, XYT makes it easy for customers across all touchpoints from sales to serving and to claims. As Nic mentioned, each one only takes 30 minutes including underwriting and verification, with ePolicy delivered in seconds. Now, 信诚保险 is available on mobile device, webpage account, and WeChat account, and carries a handle through chatbot.

In 2016, 信诚保险 introduced eClaim. Before eClaim, the process time for seven days' hospitalisation would take 18 days. This was reduced to 11 days with eClaim. And when we added WeChat Claim payment, the overall processing time reduced to 1.58 days.

The innovative WeChat claim was recognised in the 2016 insurance service innovation award by the China Insurance Post. At the same forum, CITIC PRU was also presented with the ten most impactful claims award, the only foreign insurer winning both awards. The video you saw earlier was the story telling you what that award was about.

Usage rates for WeChat claim is now[?] 99%. We are ready to move onto the next innovation, and starting in Hubei province we are offering cashless arrangements with panel hospitals, and aim to cover 200 hospitals over time.

Now, CITIC Prudential is an all rounded performer. Strong sales momentum, and ranked first amongst foreign insurers in terms of net profits, return to shareholders, and risk management. And we are the only foreign insurers to be awarded an A rating for the annual service assessment by CIRC in 2016.

Pru Hong Kong

Fit for growth

The Hong Kong life insurance sector experienced double-digit growth over the past decade, a reflection of the strong demand for insurance. The onshore market grew in excess of 20%, driven by a wealthier and health conscious population looking to diversify risks and protect families and wealth. More than 70% of our target customer bought insurance and medical plans.

Drivers of demand

Now a survey said that while consumers carry out research online, face to face advice is important. Consumers are willing to pay a premium for service, brand reputation and financial strength. These attributes and purchase preferences are also relevant to mainland Chinese visitors to Hong Kong. Hong Kong is an attractive destination for the 25 million mainland Chinese visitors every year. More than 58% of the visitors come to Hong Kong to manage their personal wealth, and for 27% of them this is their primary goal. This pool is our target market.

Prudential Hong Kong has a fit for growth platform to tap into these continued demands. We have a well-diversified distribution, allowing customers to choose their access point. Our agency force has 18,000 professionals, with 20% being MDRTs, the largest in the market. The long-standing partnerships with Standard Chartered Bank continue to serve the insurance needs of the customer with over 150 specialists.

Now, our customer connectivity platform is digital first. This platform only serves the customer the way they want to be served. It is also powered by intelligence to provide insight, enabling the next best offer for them. As actions speak louder than words, I would like to show you a short clip on how we have made it easy for the customers.

[VIDEO PLAYING]

Customer solutions – making a difference

Now, as you saw from the clip, we offer innovative solutions with value-added services that are beyond just paying claims. Last year, we were the first insurance company in Hong Kong to offer customer access to a DNA-based health and nutrition programme, myDNA. A survey was conducted immediately to evaluate the impact of myDNA on the lifestyle of the users. 88% of the respondents said, 'It helped me to understand more about diet and nutrition.' 94% used myDNA to live healthier and/or to lose weight.

We are now offering the next generation of innovative solution, with myDNA Probe. This is a precision health programme to understand risks of developing the three highs: diabetes, blood pressure and cholesterol. This also comes with an e-health coach, to offer unique lifestyle intervention programmes.

The testimonials from our clients said we have made a difference. This is what the customer values and we have subsequently launched myDNA in Singapore, Malaysia and Vietnam. The approach to providing value proposition to customers is recognised by the industry. We have won the Hong Kong insurance award for outstanding customer service for the third consecutive years. Now, the fit for growth platform that Prudential Hong Kong built and evolved has enabled the translation of the top line revenue as earnings, and delivering strong growth over the past five years.

Pru Indonesia

Building on success

The Indonesian insurance market has often been referred to as the most attractive within ASEAN. There have been successes in growing the insurance, but penetration remains low, with only 18 million policies. 50% of the population is below age 30, and the size of the consuming class will triple in 15 years. The outlook in this is positive. Now, with Indonesia being the place to be, we are investing capabilities, resources and platform to execute.

Market-leading agency management

As for our connectivity platform to enhance customer experience, we have also built out a digital platform to provide seamless experience for the agents. The agency workbench we formerly called PRUforce is an all in one marketing activity tool that provides frictionless recruitment, improving onboarding from 20 days to two days; interactive online training anytime, anywhere; and tracking of achievements including commissions and productions real time.

Let me show you how this works.

[VIDEO PLAYING]

Enhancing customer experience

The workbench is strengthening the efficacy and productivity of the salesforce and with capacity to support the 5,000 agents we onboard every month, and to allow agents to focus more on what they are good at – selling – and less on servicing, Prudential Indonesia is moving to an integrated servicing model direct to customers. To do so, process at each touchpoint has been assessed and redesigned to enrich customer experience. I would like to show you our PRUcheers initiatives.

So using data, intelligence and user experience, we develop a business engine to perform pre-assessment of claims. Cases are automatically classified by complexity. Lower risk cases are passed through the green lane for settlement in minutes. High-risk claims are passed to an assessor that can [inaudible] to their skill sets.

This has reduced turnaround time by 15%, and allowed more focused training of our assessors in managing claims. With PRUcentres, we bring service to customers, by upgrading the 400 GAs across the country to service our customers. The GA offices are provided with analytical tools to prioritise service calls, and dedicate resources to train, monitor and track. We plan to open eight best-in-class service centres, covering 75% of our customer base.

Now, let me show you how customer outcome is at the heart of all we do.

[VIDEO PLAYING]

With our scale of over three million policies and experience we are making revolutionary improvements at all fronts, and we are extending capabilities not only to make a difference for Prudential Indonesia, but also for the Indonesia life insurance industry.

Pru Singapore

Transforming customer experience

Singapore has a well-developed insurance market. It is a cash rich society, with 40% of the wealth in cash and deposit. The protection cap is very significant, as $402 billion in aggregate, giving headroom for selective growth. Singaporeans still look for face to face advice, and this is our strength with our exclusive distribution in agency and partnerships. For agency we have an attractive platform for recruits; we contributed to a third of the industry new agents, and over 70% of recruits are millennials. Activity and productivity are enabled by digital tools, as evidenced by our consistent leadership in the regular premium space.

Leveraging exclusive distribution

For bancassurance, our long-term strategic partnership with Standard Chartered Bank and UOB[?] continued to deliver for the partners and the customers. Over 80% of sales are regular premiums, compared to 60% for the industry. Now to capture the health and protection gap, we have an all-embracing platform to drive awareness, and to formulate bespoke customer solutions. We have seen a 45% increase in protection cover per policy this year.

Digital

Our journey to embrace digital actually started more than a decade ago in Singapore. Our approach covers the entire spectrum of the customer and salesforce experience. Now with technological advancement, we continue to innovate to address changing customer behaviour. The potentials are enormous.

Next digital wave

Partnering with IBM Watson we have launched askPRU, the first in the market insurance chatbot linked to the back-office engine. askPRU is designed for the agency force and provides real-time information relating to customers insurance plan. askPRU is also trained to [inaudible] users on the intent of their enquiries, and to stimulate real conversations. We are also piloting an industry-first machine learning solution to assess claims in seconds. The goal is to provide a frictionless customer experience during their moments of truth.

From their humble beginning in 2004 when we first launched the point of sales on a computer, Prudential Singapore has moved to the next digital wave. PruOne Express is the fourth-generation digital point of sales portal, with quotation prepared in just three minutes, and the latest fingerprint authentication. Let us see how this works.

[VIDEO PLAYING]

We are not stopping there. We just announced a partnership innovation yesterday. Prudential Singapore and Starhub[?] launched a blockchain-based digital trade platform to support the growth and the aspiration of the SMEs. So, our well-advanced investment into digital to empower distribution and customer has led to sustainable profit growth over the year. The capabilities invested precision as well to deliver in the future.

Pru Malaysia

Optimising platform for growth

Malaysia is a multi-ethnic, multi-cultural society, where 69% of the population are Malays. Almost all Malays are Muslims, needing sharia-compliant insurance solution called Takaful. Both insurance and Takaful penetration measured in terms of the number of policies is relatively low.

Now, given the diversity, Prudential have a two-pronged approach to expanding insurance and to lead Takaful. On the insurance side, medical and protection on a unit-linked chassis remain our core proposition. We are accelerating recruitment on key urban areas, focusing on millennials aspiring to be their own boss. Our sales force is supported by PruDreamPlanner[?], a first in market interactive and animated financial needs analysis, linked to a sales platform, PruWay Plus[?].

Takaful

On the Takaful side, we lead the space on bespoke solutions. When Malay was first launched in 2010, which aims to fulfil the spiritual needs, with double protection during holy pilgrimage. Warisan, launched in 2016, won the innovative solution awards by the Malaysian Takaful Association. This solution embeds the concept of Hiba[?], which means a gift. Hiba allows one to distribute asset voluntarily, to nominate a beneficiary, without going through the prolonged inheritance procedures under the Islamic inheritance law. Now, with the awareness of [inaudible] planning, the average sum assured for Warisan is more than 400,000 ringgit. This is seven times higher than the market average.

Our two-pronged strategy has allowed us to serve 2.2 million customer, and deliver 10% profit growth over the last five years. We remain bullish on the growth opportunities in this market.

Pru scaling up

Now, to further diversity, we are scaling up high performing businesses as growth engines. Leveraging regional capabilities, we are investing in distribution, improving customer experience and transforming operations. Right now, Philippines and Cambodia have fast-growing economies; the very low insurance penetration and rising middle class make favourable outlook for life insurance. Both Thailand and Taiwan are sizeable markets in terms of total premium. Our focus in this market is to optimise values from partnership distribution through a scalable business model. We have employed various partnerships models including distribution exclusive and product exclusive.

Summary

So we know where to play and we know how to play, and we are committed to extend capabilities and know how to execute. We are investing in people and digital is now a way of life. So as we say, we are always innovating and always delivering, and with this I pass to Guy.

Asia: Eastspring Accelerate

Guy Strapp

Chief Executive, Eastspring Investments, Prudential Corporation Asia

Market opportunity

Thank you, Lilian, and good morning, to you all.

The growth story in Asia is increasingly compelling. Based on retail mutual fund market, Asia is seeing the fastest growth among all regions, largely driven by the demand from China. Asian mutual fund growth 2016 to 2021 is set to grow at 11%. Now, this would compare with an equivalent rate of 6% in the US and 5% in Europe. China's importance also increases over the period, with mutual fund growth at 13%. China is the largest asset-managed market in Asia, with retail mutual fund at £1 trillion as of the end of 2016. The mutual fund market there is expected to grow to £1.9 trillion by 2021, and account for 49% of all mutual funds in Asia. Over this time, Asian clients will become increasingly sophisticated and demand greater diversification. Eastspring is well placed to be a beneficiary of this growth, and I will demonstrate that this morning.

Well diversified

Our sustained growth in assets and profit is attributable to our unique competitive position, consistent investment performance and quality product solutions. Our diversified and growing client base is a mix of life, institutional and retail. Our asset mix remains diversified as well, with approximately 50% in higher-margin equities. Importantly, Eastspring has the largest geographic footprint in Asia, with on-the-ground expertise in ten markets; in six of these, we are top ten. Our nearest competitor is in eight markets, with four top-ten rankings.

Our priorities

I have shared these strategic priorities with you previously, and while the headlines on the left remain unchanged, we continue to recalibrate the initiatives on the right in response to the changing landscape, as well as at the completion of prior initiatives. Each of these is specifically directed to capture the growth opportunity I described on the first slide. I will take these in order.

Deepen investment capabilities

Deepening investment capabilities: historically, we have been a valuation-driven house, with a heavy Asian bias. While value as a style has underperformed, 70% of our value equity funds have outperformed their respective value benchmark over the past 12 months. We retain our high conviction to value style, while complementing this with new capabilities in quantitative equities, where we are running money for the life clients on low-volatility strategies. We are also introducing growth equity, which is specifically relevant given capacity constraints in some of our fundamentally driven flagship capabilities, such as Japanese equity.

In addition to diversifying our investment styles, we are also developing strategic product partnerships to fill product gaps. The partnership Nic announced earlier with BlackRock represents a case in point, as we work together on compelling new product design for our North Asian clients, which will emphasise Asia’s economic growth, technology presence and shifting demographics.

Enhance distribution and coverage

Secondly, enhanced distribution and coverage. China is currently a predominantly domestic market, with initiatives to support the opening-up of the market over the past ten years including QFII, QDLP, Stock Connect and Mutual Recognition. We expect further gradual liberalisation with the phased inclusion of China in the MSCI Emerging Market Index, commencing in the summer of 2018. I will make further comment on China in a moment.

Across Asia, we are monitoring opportunities to partner closer with our life client, and further build our Asian footprint. For example, Thailand’s mutual fund industry has matured from being money-market-centric, and is a logical extension to Eastspring’s capabilities.

Transform the way we work (Target Operating Model)

Our third strategic priority centres on what we call a Target Operating Model (TOM). TOM is a transformational programme which focuses on the way we work. There are three key outworkings: scale at pace, risk management and controls, and centralisation and standardisation. We are achieving this through Aladdin from BlackRock Solutions, BNP for middle-office outsourcing, and GoldenSource for enterprise data management.

Deepen our investment capabilities

I will speak to each of these three priorities in a little more detail. Our strengths in Asia include Japan Equity, India Equity managed in Mumbai through our JV partner, Asia Equity Income, Asia REITs, Fixed Income and Global Asset Allocation. These are all best-in-class award-winning capabilities. Our Japan Equity concentrated portfolios were soft closed in 2015 to help preserve the alpha enjoyed by clients, and continue to gather flow from those existing clients.

The Equity and Fixed Income performance in India has helped propel ICICI Prudential Mutual Fund Company to the coveted number one position in India, as measured by total funds under management. They now sit in the scale ahead of HDFC and Reliance.

The Asia Equity Income product has led in that sector over the past five years through a distribution partnership with Okasan Asset Management in Japan. In Fixed Income we continue to see flow from retail clients into Asia bond strategies as well as institutional mandates from sovereign wealth funds and central banks. We have been awarded, but not yet funded, £750 million from one such client.

We are now adding to these well-established capabilities. We are expanding our quantitative solutions team with a multifactor capability launching in December. This will supplement the existing low vol product I mentioned a moment ago. We are also seeking to commercialise alternative assets, especially infrastructure, with steps now in train to seize co-investment opportunities. We are leveraging our high quality Global Asset Allocation team by building multi-asset solutions for our third-party clients.

Eastspring is also procuring global capabilities through Prudential affiliates and external partnerships.

Recent product successes

To recap on recent product successes on the right side of the slide, Asian REITs was launched in 2013 and now has £900 million of funds under management. The inflow into this product in 2017 was £730 million. This product was remarketed in Japan earlier this year to capture the growing demand from retirees looking for stable high-yield product.

IFC

We also signed a landmark agreement with the IFC, a member of the World Bank Group, under the Managed Co-Lending Portfolio Programme to deploy $500 million, or £380 million, in emerging market infrastructure. The underlying investors being the life businesses in Hong Kong and Singapore.

India umbrella fund

The India umbrella fund, launched through a successful IPO in Taiwan, raised £258 million, and is an India-balanced fund and India bond fund. This collaboration is with ICICI-Pru and was launched in Taiwan to access growth opportunities in India.

Assets in Japan

Also of note, although not shown here, is the capture of £260 million of assets in Japan, also into Indian strategies, namely Utility and Infrastructure Bond Fund, the India Consumption-Related Equity Fund and the India Infrastructure Equity Fund.

US Bank Loan Fund

The US Bank Loan Fund was launched in 2014 and has raised £254 million. This is a collaboration with our colleagues at PPMA and marketed in Korea earlier this year. The product is positioned to diversify clients' portfolios to US dollar-based assets, especially given the geopolitical tensions in the region.

Finally, the Asian Low Vol Equity product was launched in 2016, and raised £213 million in an innovative strategy designed to deliver higher risk-adjusted returns and an attractive dividend yield across market cycles.

Enhance distribution and coverage

The second strategic priority is to enhance distribution and coverage. As stated earlier, China is the largest asset market in Asia. On 10th November China announced that they will liberalise the foreign ownership limit applying to domestic fund management companies, which is currently 49%. The foreign shareholding limit will be raised to 51%, and after three years the indications are that there will be no limit on foreign ownership. The timing is yet to be determined but is expected to be in coming months, as soon as regulators implement the policies that are required.

We continue to build on our strong partnership with CITIC-Pru, and we are in the process of establishing a WFOE, as Nic explained, a wholly foreign owned enterprise. As well as recruiting to establish an onshore investment and thereby increasing our focus to service and support clients in China. Our institutional client segment is important for us, and although institutional FUM only accounts for 6% of our assets as at September 2017, our focus is to build on this £8 billion of institutional assets via recruitment and energising consultant coverage.

We are also building technology-based enhancements. An example of that is shown here on the right-hand side with ICICI-Pru's iTouch app. As at September 2017, we have 147,000 customers registered on IPRU Touch. That is a nine-fold increase on the number of users from a little over a year ago. The app gives timely access to quality content, generated around market news and updates, and creates compelling engagement opportunities for customers. Through IPRU Touch ICICI is the only asset management company in India to offer instant paperless onboarding technology. Some 30% of purchase transactions at ICICI-Pru are now digital.

Eastspring is exploring opportunities in selected local markets to experiment and pilot robo-advisory and digital tools. We are doing so in Taiwan and Malaysia where we have direct retail clients.

Transform the way we work

I referred to the TOM programme earlier. We are investing in processes and infrastructure to enable rapid growth, further enhance risk management and control, and build out our investment capabilities. We are introducing best-in-class tools for portfolio and risk management, providing a common operating platform which creates scale quickly. Improved data quality will strengthen investment oversight, and introduce uniform risk reporting, thus aligning data governance and enabling improved regulatory reporting.

Record FUM and strong results

To close, I will share highlights from the 2017 Q3 results. On the right-hand side are the metrics relating the half-year PBT which itself represented another record. On the left are the flow and FUM numbers as at September 2017. The Q3 closing FUM of £131 billion was 14% higher than the prior year, and was lifted by favourable equity markets and strong inflow. Year-to-date September net flows from third parties were £2.8 billion following inflow from the India Equity Funds distributed in Japan and managed by ICICI-Pru, Asian REITs, CITIC-

Pru which launched new funds in the institutional space, and continuous inflow from Europe and the Americas into our Japan dynamic equity strategies.

In conclusion, Eastspring is well-positioned to capture the growth in Asia and will do so through appropriate investment in the business and disciplined execution. Thank you, and I would now like to pass back to Nic.

Strategic & Operational Update

Nic Nicandrou

Chief Executive, Prudential Corporation Asia

Asia

Compounding revenues

Before we turn to your questions, I would like to briefly remind you how our success of adding new cohorts of regular premium business each year translates into higher profits. For me, this slide articulates all the strengths of our business. We are a business with compounding revenues underpinned by high quality recurring income that is uncorrelated to markets. As you can see, we have achieved our current scale and profitability by driving penetration in the markets in which we operate by a mere 20 bps. Given the structural demand and the headroom across the region, I remain very positive on Prudential's future prospects in Asia.

Compounding profits

Compounding revenues also drive compounding earnings. Asia is now growing at scale and is well on track to achieve the third consecutive set of public objectives. For the reasons that I have already outlined, I expect us to maintain a growing earnings trajectory and even at our current scale I would expect the business to double every five to seven years. As the proof of concept is now well established we will not renew these objectives in March.

Key messages

By way of conclusion I would like to reiterate a few key takeaways. The first is that Prudential's prospects in Asia continue to be underpinned by powerful long-term structural trends. We have a world-class business in the region with all the right attributes for success such as scale, quality and leading market positions. We have a clear and ambitious set of strategic priorities. We have proven best-in-class capabilities. Finally, we are confident in our outlook, and very excited by the long-term prospects in the region.

Thank you for your attention. I would now like to invite Lilian and Guy to the stage to take your questions.

Q&A

Jon Hocking (Morgan Stanley): Good morning everybody. I have got two questions please. On China, Nic, you mentioned the opportunities from the foreign ownership limits being changed. How is that going to work with your relationship with CITIC? What is the credible opportunity you have there to increase the ownership in China?

Secondly, on the asset management side with this memorable WFOE opportunity, is that actually competing directly with CITIC who I think are active in asset management? How do you manage that relationship as you move to wholly-owned entities in China on the asset management side? Thank you.

Nic Nicandrou: Okay. In China, as I showed today, there are multiple growth curves. The opportunity just to continue to collaborate with CITIC is huge. All the developments that we have seen in the market effectively pivoting towards the kind of business model that we have. A business model where there is a very high content of health and protection. Roughly 40% of what we do in the market is health and protection. A business model where there is a very high content of regular premium business. Regular premium increased by 55% in China year-to-date. The developments are strong, and all the dynamics are very good. Of course, we would like to have a bigger share of that business, but we are alive to the fact that it is not entirely within our gift. As I said, we will do well in China whether we continue to over 50% or we are able to increase, on the back of what has been announced, our share.

Guy, would you like to just say a few things on the WFOE?

Guy Strapp: Jon, I see it as entirely complementary. The licence we have in the joint venture is focused on mutual funds and institutional segments. The WFOE that we are in the process of applying for comes with two arms. One is an investment management licence, and one is a QDLP licence. Our focus will be on high net worth individuals, so that the actual target base of clients is different. Then the product we take to clients will be different. China's focus will be on the joint venture delivering the domestic product and through the QDLP in particular we will be looking to bring Group product from outside of China as the market opens up to the domestic marketplace. As well as offering and attempting to secure greater QFII-type opportunities as offshore investors seek to invest into China. Very complementary.

Nic Nicandrou: Under the terms of the deal we are permitted to seek a second licence provided it does not compete in the same space as the JV. Currently the JV operates in the retail space. Where we have seen quite a lot of growth, as Guy has just mentioned, is in the non-retail private space. That is the part of the market that we will target. Thank you.

Oliver Steel (Deutsche Bank): Two questions really about the health and protection side. I think one of the strategic priorities in Asia that Mike talked about was expanding the health and protection business. There is a sense there that it is an expansion as a percentage of the business yet under Tidjane I seem to remember that he seemed to suggest that 30% of APE was about the maximum you could take it to. Any thoughts on where you could take that to?

Then secondly, I thought you were surprisingly modest when you were talking about your Health business, and saying it was one of the leaders. Usually you are not quite so conservative in your assumptions. Is there a sense there that you have slightly lagged behind the top leaders? If so, where, and what are you doing about that?

Nic Nicandrou: Okay, maybe I will say a few things and then Lilian can expand on. Maybe you are right, maybe I was modest. We are a very, very strong operator in the region, pretty much in every market. If you take Indonesia health and protection is 70% of what we sell. In Malaysia it is 50%. As you go into Singapore, Hong Kong, China it is in the 30%s and 40%s. It is a big contributor of our sales but, of course, that is not necessarily the only metric. 30% of sales is one thing. Health and protection delivers two thirds of our profitability. As you saw from our results today, and if you did any time series, it has been delivering strong double-digit growth in MBP over a long time.

The needs are immense. Inflation is running in the high-teens in many of the markets in which we operate. There is no social safety net, social welfare safety net. Therefore, people as they get wealthier, as they live longer take the opportunity to protect themselves.

It is an interesting space, because you have a number of the digital-only type competitors coming into that space looking to provide services. We have such a phenomenal footprint and presence across all the various markets that we are almost a destination of choice for many of these so-called start-ups wanting to play in this particular space. I see ourselves – and my ambition is for us to effectively be at the centre of an ecosystem that continues to be anchored on some face-to-face advice because ultimately this is a product that needs to be sold.

Attached to that, as I said, are a whole host of services. myDNA is an example of that. There are other initiatives we are working on and I think over time we will look to use things like myDNA and other services to extend what we currently do. Adopt if you like a premium-to-premium type model. It is an exciting space but Lilian what would you like to add?

Lilian Ng: I think in terms of how we look at health and protection, there are many aspects. Obviously, there is the protection which is, you know, the mortality cover. There is the critical illness, and obviously there is the medical. The way we look at this is, as Nic says, creating that ecosystem. I think we use the term 'prevent, postpone and protect'. That is what we want to offer as products and services to the customers. That is why I think being modest is there is a lot that we can also add on and do more.

Blair Stewart (Bank of America Merrill Lynch): I have got three questions as well. First one, looking at the Q3 sales and VMB numbers as discrete, I think there was a slowdown Nic. I just wondered if you take out Hong Kong and the intentional actions you have taken there, would there have been a slowdown? I think you alluded to there possibly not being a slowdown. Hopefully that is clear.

Second question, if we look at Indonesia, you said that Q3 has been a better quarter. I just wonder if you can give an update on where we are with the development of a Takaful product there, and expectations for the future.

Finally, just interested in the joint venture with BlackRock or the collaboration with BlackRock on ETFs, is that something you are looking to build into the insurance products at some point in time, or is it just purely for Eastspring? Thanks.

Nic Nicandrou: Okay. I will take the first and maybe Lilian you can do Indonesia and Guy the BlackRock. In terms of Q3 what I would say is we are happy with the momentum that we have in Asia across the region and with the increasing focus that we are putting on quality. You are right, you have to look beyond the headline whether you are looking at Q3 or whether you are looking at the year-to-date position, because we have taken some deliberate actions that have the quality dimension in mind. You referenced that we have pretty much stopped doing business with brokers in Hong Kong. That was a decision informed by risk parameters at one level but also on quality because the brokers mostly sold with-profits business. They did not have a very high health and protection content. If you were to exclude, as we showed on the slide, the contribution from Hong Kong brokers our sales are up 13% year-to-date.

The other point on health and protection is significant. We have grown the contribution of health and protection across the region to our sales. It used to be around 25% in the first nine months of the year. Last year, that grew to 27%. In fact, the proportion of health and protection in our numbers at the nine-months in the third quarter specifically was 30%.

We are growing. There is a specific initiative that Lilian touched on trying to sell more protection at the point of sale when someone is buying a mortality or some other accident-type cover. The average sums I showed per policy again so far this year are up 30% on what they were last year. All of this is translating into higher MBP. MBP was up 15% across the region, 16% of that coming from H&P. As I said, for the MBP to move forward in a double-digit way you need H&P to deliver well because it makes up roughly two thirds of MBP.

What you saw in Q3 is no different to, if you like, the story that you are seeing in the year-to-date basis. Excluding Hong Kong, no, the rest of the businesses were up around 22% in discrete Q3, 24% at the half-year, so averaging to 24% for the nine-month stage. Seven businesses growing double-digit so strong performance. If you were to take the discrete third quarter the new business profits of that were nearly in that discrete quarter by around 10%. The drivers of value driven growth remain pretty much intact in the third quarter as we have seen earlier in the nine months. Indonesia?

Lilian Ng: Indonesia, I think your question is on sharia products. We do have a full set of sharia products in Indonesia. Whatever we launch on the conventional side, we launch a similar version on the sharia side. Actually, for our agency sales nearly 20%, about 18-20% of the business is coming from sharia-compliant products. We actually look to that. We are the number one sharia-selling insurer in Indonesia as well, and we actually use that and actually do strategic partnerships with either banks or partners, just focused on that product. Something that actually is a big strategic focus for us, and we do recruitment seminars just focusing on recruiting Muslim agents on that.

Nic Nicandrou: Thank you, Lilian. More broadly on the sales momentum in Indonesia it is improving. We are seeing some green shoots. If you recall what I said at the half-year, in the first quarter our sales were flat. In the second quarter they were up around 3%. We have seen positive high-single digit growth in the market in the course of the third quarter. Bank distribution is becoming more significant through the partnerships that we have with UOB and SCB. Banker sales in Indonesia in the nine-months grew by over 15% and they now make up 11% of our sales compared to around 9% a year ago.

Just to rein-force the point on the Takaful, the sharia business, it is also growing at a rate of over 15%. We are the number one player, and it is now equivalent to a sixth of what we do. There is a phenomenal opportunity there and it is one of the areas that we intend to push on hard as we go forward.

Guy Strapp: On the collaborative partnership with BlackRock, the gestation of that is more oriented towards thematic solutions. The first product that I alluded to, we are talking to them about is to leverage off the iShare ETF as a core passive part of a component. It could be a smart beta strategy within that and then have Eastspring active management. Again, looking at more the growth themes, consumer technology etc. We are looking at bundling that product together as we speak.

Having said that, the life companies already have about $4 billion invested in BlackRock ETFs via Eastspring. We make active asset allocation decisions, and one of the most efficient ways to execute at low cost in many of the markets we need to invest in for the life company is through ETFs. We have had a longstanding relationship with BlackRock on that side. If we were to come up with a product that was not too thematic, if you like, for life client consumption, then of course we would look at that and discuss it with our life colleagues.

Nic Nicandrou: The important thing here is that we want to try and innovate and just do different things. BlackRock is a competitor in many of the markets but there is no reason why we cannot combine our respective strengths to do something jointly. These are the things as you go forward that we are going to need to do more of, not only in Asia but in other parts of the world. Gone are the days where we are going to be operating purely by owning 100% of everything and trying to keep 100% of the economics.

To your question, can we apply this in the life business? It is something that we are looking at. It is just too soon at the moment in our thinking. The unit-linked market in Hong Kong has pretty much collapsed following some regulatory guidance that came out a few years ago. A lot of the concerns, particularly on the distribution side, was making sure that the appropriate set of advice was given on a contract of a unit-linked nature. With the advent of a lot of technology, robo-advice, but other type of tools at the point of distribution, there is an opportunity to look at again the business process and see whether we can use machines effectively to overcome some of the conduct-type concerns that have effectively stifled that market across Hong Kong.

At the point of doing that, clearly we may want to offer some more open architecture. Again, a collaboration with BlackRock on some of the strategies that they have can also support that idea. However, it is nascent in our thinking, but it just goes to indicate that as we build more capability, as we tie up with other people, it will give us as we build new technology, new routes to market, it will allow us to revisit areas that, using today's business model, are proving a little more challenging.

Greig Paterson (KBW): One question that hurts: I was just thinking about your comments about expanding your presence in health and protection and I was just thinking about your competitor, AIA, partnering with Vitality in Hong Kong, i.e. sort of moving into a non-traditional product. I was wondering if that is a threat and what is your thinking? Are you going to move into that type of thing? Are you going to start buying hospitals etc.? That is what I am musing about.

Guy Strapp: Okay, thank you for that. We are not going to start buying hospitals but Lilian, would you like to…

Lilian Ng: I think the way we look at it is, I think, as we described on the presentation earlier, it is how to be partnering in order to create an ecosystem for our customer with the value-added service. That is probably what Vitality is about, encouraging healthy living and we are doing that through myDNA, myDNA Pro and there are other things that you see us doing.

In terms of hospitals, I think we touched on what we like to do in CITIC-Prudential; we like to create a partner hospital that we partner with and create that seamless experience for our customers. Indonesia just launched their PRUmedical, or PRUhospital, network just recently.

So these are the types of things we are looking at, rather than just focusing on one single area.

Nic Nicandrou: Greig, the collaboration that we have with Prenetics is an example. MyDNA is something, now, that has been launched in four countries. It started in Hong Kong with the second iteration of that product, as you saw earlier in Lilian's presentation; we are doing it in Singapore, we are doing it in Malaysia; we announced yesterday that we launched it in Vietnam and that is effectively a wellness and fitness type programme.

With Prenetics we have, if you like, privileged access to some of the new things that they are bringing to market, either we have exclusivity on or we will get effectively to be the first to use it across our platform in our discussions with two or three other providers at the moment and we hope to update you on those at the next results or shortly after that. There is lots to do in that space and as I said, there are lots of opportunities to either support the prevention and the wellness aspect of our existing and potential new customers and there are lots of things we can do, if you like, to drive further our gathering of data, which is going to help us in a number of dimensions, be it in better pricing risk but also, through understanding customers, being able to provide additional services to them. It is an exciting space and more we can do.

The SME space is not to be underestimated. We are now present in that market; last week we launched a revised SME product, mostly around health and protection in Malaysia. In Malaysia, 90% of all enterprises are SMEs; they have 600,000 SMEs in Malaysia. Just in Singapore, the two bank partners that we have between them have 105,000 SMEs as clients. So it is an area we are going to put a lot more emphasis, as I see lots of advantages to be had from the extra data that gives us and the ability, if you like, to negotiate with the benefit of higher scale when it comes to third-party providers, such as hospitals.

Arjan van Veen (UBS): Thanks. Just one follow-up question on potential China changes in two parts, please. Firstly, on the CITIC relationship, can you talk a bit about what infrastructure they have that will help you expand the brand branches?

Then, secondly, on national expansion, the way you see the announcements last week, do you think that would allow you, even if the status quo stays in terms of ownership, to expand faster nationally, and hence use up some of that excess cash that Mike was talking about earlier?

Nic Nicandrou: Okay, do you want to comment on the use of CITIC's footprint in our current business model?

Lilian Ng: Yes, in terms of how we partner with CITIC within the CITIC-Prudential, obviously CITIC has a substantial bank network, so that is where we partner with them. As you know, in China, you need to have three different providers within the banking infrastructure, so we actually uniquely position ourselves in the regular premium space with the CITIC bank. We also work with them on the CITIC Securities in terms of tapping into their customers, so there are many ways. Also providing group insurance for the CITIC Group of companies. So there are many things that are happening. We work very well with our strategic partners there.

Nic Nicandrou: Thank you. Around 40% of our sales in China come from the banking side and CITIC is by far the biggest contributor of that.

On opening up, really there have been a whole host of messages that have been delivered over the last three, four, five months, clearly the most important one being last week on ownership. However, if you listen carefully to what was said at the nineteenth National Congress, everything was positive. They said that the conditions are right and therefore they expect further opening up of the market but in a controlled way. They want insurance companies to come back to their protection remit; again, this is what I meant when I said that regulation is pivoting back to our business model. They were very explicit about seeking to increase the number of insurance customers; the population is getting older, the government will not provide in terms of the welfare or income in retirement so the government does see that they need insurers to play a role and they are looking for the life industry, or what they said they would do is allow the life industry to benefit more from the growing need of healthcare and elderly care.

These are the public statements. Of course it is China. Ultimately all these statements need to be converted into policy. That will not happen overnight, but it does tend to happen quickly. A major issue, however, that needs to be unlocked before a number of these things go forward is the role that the CIRC will play going forward. Will it be the CIRC that will effectively specify the guidance and the rules, will it be the Ministry of Finance and if so who will be at the helm of that? At the moment we do not have a Head of CIRC. When that happens we will get more clarity about how, precisely, the authorities are thinking about implementing those key positive messages. As I said, we can tap into this with our current ownership structure and of course we can accelerate that in the event that we can deepen our ownership there.

Thank you for your questions and I am sure there will be more, either through coffee, lunch or in the final session.

Merger & Transformation Update

John Foley

Chief Executive, M&G Prudential

M&G Prudential overview

Morning everybody. Welcome to the UK section of the show. You will recall that we announced, back on 10th August, the merger of M&G and Prudential's UK business to create the new Savings and Investment operation. We operate in two of the world's largest investment markets: the UK and Europe, both of which are forecast to grow by trillions over the next five to ten years.

We think this is a really attractive market for two main reasons: growing demand for our solutions, particularly from transfer of risk to individuals, and the real need for differentiated investment offerings. The combined business of M&G Prudential has total assets under management of £337 billion; that is 8% up on this time last year, and more than 7 million customers. This is a real position of strength.

We are not immune to the challenges that face the sector. However, we have a grip on these challenges, and we have solutions that will enable us to deliver our vision. Our vision for M&G Prudential is a business built around and for the customer, one that is simple and efficient, digitally enabled, capital light, fast-growing and, above all, focused on delivery.

Business mix

We have created this business from a position of strength, and our business serves five distinct groups of customers. In the UK, we have affluent individuals buying our funds either directly or through intermediaries. Mainstream consumers who want savings and retirement solutions, typically bought through an IFA, but who also come directly to us and savers who own traditional insurance-based savings products. We also have a rapidly growing European business, with £40 billion of assets under management for the wholesale distribution market and we have nearly 800 institutional clients, including two-thirds of the UK's 50 largest pension schemes.

Assets under management

We must be doing something right. Europe has grown fastest over the last 12 months, with assets under management up 47% thanks to the popularity of products such as the M&G Optimal Income Fund; and in the UK, our assets under management for the Savings & Retirement Solutions business is up 43% and that is mostly on the back of the success of PruFund. As we said in August, there is growing demand from savers in the UK and across Europe for investment products which offer reliable returns, higher than cash but with low volatility of markets: Optimal Income and PruFund are designed to do just that.

Rationale for M&G Prudential

When we announced the merger in August, we thought the logic for combining these two businesses was pretty compelling. As we have got stuck into the detail, we have become more convinced than ever that this is the right thing to do and that the opportunities are potentially significant. We need to invest in our digital infrastructure to improve customer service, accelerate product development and widen customer choice. It is obvious that we should do this together. The merger and the digital transformation will bring efficiencies to our business; we will be able to deliver annual cost savings of £145 million by 2022, with most of the progress coming in the first three years. As importantly, we will be better aligned to the many growth opportunities that we see. Finally, the merger has landed well with colleagues, customers and other key stakeholders.

M&G Prudential objectives

These are my high-level objectives for the business: customers, building our business around them, and using our experience and insights to meet their needs, crucial; distribution, we will expand the range of propositions and the channels through which we deliver them; investments, producing good outcomes for our customers through our expertise and innovation; merger and transformation, creating a simple, digitally-enabled business with lower costs and an unrelenting focus on customers.

If we get this right, then shareholders will see the benefits of revenue growth, an efficient operating model and efficient use of capital. Of course, we are developing a set of KPIs, both financial and operational, against each of these objectives.

We see strong growth in four of our five customer segments as we seek to identify revenue synergies. The fifth group, our traditional product portfolio, will generate cash, give us scale as an asset manager, and provide a large, stable customer base. A good example of where we see revenue synergies emerging is from our combined strategic asset allocation expertise. This will undoubtedly further enhance our investment solution capabilities. We are also looking at UK intermediary distribution, and have identified a £3 billion sweet spot of firms with whom we can do more business; Clare will pick that up in the next session.

M&G Prudential leadership team

I will, of course, not be doing this on my own. There is a new leadership team who, together, have the breadth of skills, experience and energy to make this a hugely successful savings and investment business. Some of the team will be familiar to you; they were either part of the UK business or the M&G business. However, there are a couple of new team members who I should specifically mention, one of whom will be presenting today. Miguel Ortiz recently joined us from Boston Consulting Group as our Chief Operating Officer. As Senior Partner and Global Head of Life Insurance, he has been working with Prudential for a number of years and was well known to our team already; I can assure you he has hit the deck running. Keith Davies recently took over the role of Chief Risk and Compliance Officer, having previously been Group-wide Head of Internal Audit.

Agenda

I have asked the relevant team members to talk each of you through the objectives that I mentioned earlier and to answer your questions in a separate session that we will hold at the end.

Annuities update

Before moving on, I suspect you have some questions around annuities, but I want to clearly state our position, which is really to repeat what Mike said earlier. This slide encapsulates how we think about this business. It is, essentially, a closed book, with net liabilities totalling £51 billion spread across shareholder and policyholder capital. Our focus here is on optimising the capital intensity of the shareholder business, this is the £33 billion tranche. On the left side of the slide, we note the important components of our investment strategy, which will not be new to you but, as you can imagine, we are very focused on this investment strategy as it drives both customer and shareholder outcomes.

On the right side you can see the capital optimisation levers that we have been using for a number of years. Effectively, this is business as usual capital management that predates Solvency II and makes the portfolio more efficient from a capital perspective. However, there is one additional lever we are now considering, which is the potential sale of blocks of shareholder business. As Mike said, we are in the early stages of a process on part of the book, but we are under no obligation to complete the transaction. We will benchmark this exercise against other options that we have to optimise capital usage in this book and so, for these reasons, we will not reveal any information that we feel might prejudice our discussions and I know you will understand the commercial sensitivity here.

I now want to hand you over to Clare Bousfield, who will talk to you about savings and investments and distribution.

M&G Prudential: Customers and Distribution

Clare Bousfield

Chief Executive Officer, Insurance UK and Europe, Prudential Assurance

M&G Prudential objectives: customers and distribution

I am going to provide you with some information and insight around our customers, our proposition, the customer experience, the distribution and how we access our customers and clients. I will also talk through the growth opportunities across both customers and distribution.

Structural drivers of continued market growth

Starting initially with the structural drivers for market growth, Mike talked about this in his presentation this morning around the ageing population and the savings gap in the UK. Also, we as customers are demanding a lot more from our providers. We expect to be told, we expect to have real-time data about our investments and our savings, and we need to be fit for purpose in order to be able to deliver that.

We also have a challenging macroeconomic environment, extremely low yields, very volatile markets and a shift of transfer of risk to the individual which you can see in the chart below in terms of the DB to DC shift over the last few years, heavily driven by pensions freedoms.

M&G Prudential gross flows

M&G Pru has very strong traction in that market today. You can see the growth in our UK customers, both across the customer solutions and also the funds that we deliver; both of those have shown very strong growth in the last nine months. Across Europe you can also see the strength in the growth, where the M&G footprint has been extremely strong and there are great opportunities for growth. Again, our institutional business, which is a mature business, has shown steady growth over the last 15 years, with very strong customers, both in the government and the pension schemes. I will talk a little bit more about that later on.

M&G Prudential growth strategies

In terms of our growth strategies, for our UK customers we have a very deep product proposition with the PruFund, and it has been extremely successful. However, it is a very deep product proposition. What we are looking to do is broaden that, broaden our distribution reach, broaden our proposition, diversify the wrappers, but also extending the investment proposition, leveraging the investment strengths of M&G.

We are very strong in terms of pension transfers and cash transfers, driven by the smoothing and the diversified multi-asset investment solution that the PruFund offers. The brand strength across both M&G and Prudential is phenomenal and very complementary; those will provide excellent opportunities for growth in the UK market.

Across Europe, we have built the SICAV offering that Anne will talk about in more detail in her presentation. That was predominantly to address Brexit, but also broadened our proposition across Europe. We also have a significant opportunity to expand the reach of our wholesale relationships. We are very strong in countries like Italy but if you look across the European map, we have a good footprint but a great opportunity for growth.

Leveraging the insurance capabilities: a lot of our insurance companies in Europe are still embedding some of the changes in the regulations, dealing with the challenges of guarantees and the decline and M&G's proposition is phenomenal in terms of addressing some of those insurer's search for yield.

Then, on the institutional business we offer a differentiated and flexible proposition. We develop products alongside our clients; that is our key USP. We have strong, deep client relationships and we look to deepen those.

UK customers

Combined customer base

Just jumping down into the UK customer and giving you a little bit more detail around the customer base, there are a couple of facts I just want to pull out from this slide. On the savings and retirement solution customers, which is effectively all of the Prudential book that is open to new business, you can see that we have a very high average case size compared to what is typically seen in the market. That, again, is driven by the strength of the business. Both pension and cash ISA transfers are big drivers to why those pot sizes are so significant.

We have launched the digital experience through myM&G, focused on providing simple investment solutions for our customers. In late 2016 we launched the retirement account, that has been phenomenally successful with both the flexibility and the access to the PruFund. We will be looking to extend that across the full range of tax wrappers.

Across our more traditional products, we have been enhancing the customer experience. We launched MyPru a couple of years ago and see continued traction in terms of our customers logging in and being able to access information about them. However, as Miguel will talk about, we are looking to transform the experience for our customers and advisors by utilising leading technology. That is across all of those customer bases, recognising that the new propositions and the opportunity to be much deeper and richer is greater than the traditional book, where you want to give customers access to the data but not necessarily all the complexity of the products.

Customer philosophy

Behind this is our customer philosophy; fundamentally this is about delivering good customer outcomes. We have to recognise that the old approach of selling a customer a product, making sure it was fit for purpose, appropriate and we understood their risk appetite is no longer appropriate in the current world. People expect us to be there to support them throughout the lifetime of their product and their proposition and you cannot deliver that without a digital infrastructure to support it.

As customers, we all require help with the decisions that we make; they are complicated. We need transparency and our attitude to risk changes over time. We need to deliver that using the different channels that we operate, whether it is face-to-face advice, whether it is through web chat and guidance, or through mobile devices.

Right now, the strength of M&G's investment solutions is their strong investment performance and their innovation; that is the backbone to being able to extend that proposition. The PruFund fits a massive sweet spot in terms of a post-pensions-freedom environment.

Channel mix

Just looking at the channel mix, through the funds that we sell through M&G we work with advisors via platforms, the wealth managers and banks. You can see, in terms of the gross flows, the strength of flows from that distribution channel. We also work with the intermediaries on a kind of direct product approach with customer solutions where we are leveraging the investment capability, both with the PruFund and the funds that M&G offers. Thirdly, we have a direct-to-customer franchise, both through the advice channel in terms of Prudential Financial Planning, which I will talk a little bit more about, together with MyM&G and the direct channel within the Prudential brand. You can see the strength of flows that we have been able to deliver across that broad range of distribution channels.

M&G Prudential brand strength

The brand is a key strength, both the M&G brand and the Prudential brand. They are very complementary. The Prudential brand is much more around heritage, strong retirement brand, it resonates within the mass market and mass affluent. The M&G brand is much more focused with the investment and the sophisticated investor. They are very complementary, and we intend to leverage both brands taking the business forward.

Direct-to-customer channel

Then, just giving you a bit more into the Prudential Financial Planning business, this business was set up just over five years ago as others were pulling out of the advice market. That enabled us to recruit talent and grow the business quickly, as you can see from the chart on the right-hand side. What we have also been able to do is leverage that through referrals to expand outside of the Prudential customer base. This business was set up to focus on the direct customers that Prudential had acquired over a number of years and provide them with ongoing advice to meet their needs.

On the right-hand side there are some examples of the digital developments that we have done. The top one is around productivity and lead management for the PFP business. Then, as I have talked about, MyM&G, which was launched earlier this year and MyPru, as a tool to help our customers manage their existing policies.

Intermediary opportunity

John talked about the sweet spot that we have identified when we have been looking at our relationships across the intermediaries. You can see, on the left-hand side, that M&G has quite a broad range, a footprint across the different types of advisory firms, whether it is the networks, or it is the specialists from an investment, pension and wealth perspective.

From a Prudential perspective, we are very strong in the networks; that fits with the product and the PruFund. You can see on the chart on the right-hand side that what we have identified are places where we have a strong footprint, both from a Prudential and an M&G perspective, and an opportunity to leverage that further. You can see that translates into current flows of about £3 billion, and just under 700 IFAs. This is the start of the process; we will expand out as we work with these relationships.

European customers

Now I am going to go a little bit into Europe and institutional. From a European perspective, you can see the growth. This is a footprint that has been developed over 15 years of consistent growth. Italy is obviously a big stronghold in terms of the £15 billion of assets under management. However, if you look across the different territories and recognise the sizes of these markets, you can see the opportunity that presents itself. We have a small but growing business in Poland and we are looking at the opportunity around with-profits, the PruFund, the utilisation of the distribution that we have in Europe and how we can match those together.

Institutional customers

From an institutional perspective, again you can see the strength of consistent growth in the chart in the middle. Our clients are predominantly pension schemes but also banks and insurance companies. This all around the strength in alternatives and the investment proposition around yield, together with the emerging market and multi-asset propositions which Anne will talk more about in her presentation.

Summary

In summary, we believe we have a strong platform for growth. There is strong market demand, we have a very strong distribution footprint and a significant customer base. We do need a step-change in our customer focus driven by the market, what our customers expect and their needs, but we have two very strong complementary brands.

I would like to now hand over to Anne, who will cover the investments and the investment proposition that is fundamental to us delivering on the customer and our distribution.

M&G Prudential: Investments

Anne Richards

Chief Executive Officer of M&G Investments and Deputy Chief Executive, M&G Prudential

Introduction

Good morning, everybody, and Clare, thanks very much for that introduction. When I stood here a year ago, I talked about how we were developing our investment capabilities to take advantage of some of the structural changes that we saw going on in the industry and how we wanted to become much more agnostic about how we take those capabilities to market. We should be able to offer an investment strategy in a whole range of different ways, whether it is through a segregated mandate or an OEIC or a SICAV or a close-ended fund and whether we are taking that direct to a customer or an institution or through an intermediary or wrapped into an ISA or a pension. We should be able to offer all of these things through a whole range of different customer channels – direct, advisors, platforms, institutions – and across a range of different geographies, so we are not just a UK business but a European business and further afield.

Last year, we talked about creating that single investment engine with the broad distribution strength on multiple levels and multiple axes, and then underpinned by a really strong and simple operational platform, which could drive down our unit cost of manufacturing. Clare has talked about the customers and the distribution side of things, Miguel is going to talk about the operational side of things and the transformational journey that we are on to deliver that lower unit cost, and I am going to talk about the investment engine that sits in the heart of that process.

Over the next few slides, I am going to cover, first of all, a bit about our capabilities; secondly, a bit about performance – our annual report card, in a way; and finally, how we go about developing a new proposition for those customers and clients that Clare has talked about. All of this is against the backdrop of those structural changes we touched on last year going on in the industry: the trend towards private assets, the search for yield, absolute return, multi-asset investing, impact investing and so forth. There is lots going on, lots of challenges, but a huge amount of opportunity for us.

Investment capabilities

Of the total of £337 billion of assets under management, about 60% of that is in multi-asset strategies, which is a combination of dedicated, pooled multi-asset vehicles and allocated sub-strategies of the PruLife business. We cover the full range of public to private assets, from equities, fixed income, real estate, infrastructure all the way through to direct lending and other forms of alternatives.

You probably get a better picture of what we do if you drill down through that 60% in multi-asset strategies to the underlying portfolios that sit beneath them that we allocate to.

Here, what you can see is the depth, in particular, of our fixed income expertise, which includes what is really market-leading credit analysis. The little multi-asset segment that you see in there reflects our flagship pooled products on the multi-asset side, which includes both the very strongly performing M&G Episode Allocation Fund ranges, as well as the hugely important and highly successful PruFund range, which I will talk more about shortly. We really do cover the waterfront, from equities through fixed income and private assets, in terms of the capabilities that we have in-house.

Investment performance

UK domiciled funds

Last year, for those of you who were here, you might remember I talked about the fact that in investment performance there is always an element of cyclicality in how you perform. One of the things that you have to do when you are managing an investment management business is figure out what you can and should change, but also when you need to back the conviction of your teams' judgement and, when you look at the performance, I feel that we have the balance of that right over the last year. We have made some change, but there has been plenty of continuity to allow those conviction views to come good in the market.

Last year, we were able to talk about some green shoots of recovery in investment performance. This year, if you look at the quartile rankings of our open-ended funds, I hope you will agree that it is a pretty positive picture, whether you look by number of funds or, possibly even more importantly, by the assets that we manage in those funds. I would particularly highlight the column on the right-hand side of that page, which is since fund manager inception. There is really good, strong performance by our fund managers on a net of fee basis here.

Clare mentioned this, and I will leave it to Miguel to talk about this in a bit more detail, but many of you will be aware that we do have a lot of European customer money in our UK domiciled funds. Our response to that was to create a Luxembourg SICAV umbrella, which will give us the flexibility, if and when we need it, to help us manage our client money as we see the unfolding of the negotiations that are currently underway on the whole Brexit situation. Miguel will touch on that a bit more when he comes up just after me.

Institutional

On the institutional side, that is, institutions that are external to the Prudential Group, I have been wrestling with how to present to you, in a meaningful and succinct way, the overall shape of the investment performance that we are delivering for our clients there. The challenge for us is that a large proportion of the mandates that we manage for institutions are not measured against a benchmark. They could be an IRR over the life of a fund or it could be on a hold to maturity basis, so it is quite difficult to think how we can wrap all of that succinctly into a single measure and we have not yet managed to do that. What I have tried to do here is to show you, first of all, we have roughly one-third of our institutional assets which have a peer group ranking. In common with normal industry practice in the institutional space, these numbers are gross of fees, not net of fees, unlike on the open-ended funds that I showed you earlier. You can see that roughly two-thirds of the assets that we manage for clients who are benchmarked in this way are above median.

The next snapshot is trying to give you a little more granularity by different investment strategies. What we are showing here is a number of different strategies, the flagship funds that we have in each of those strategies. On the left-hand side of those bar charts you can see one of our Infracapital funds, where we are showing a cumulative IRR; again, I hope you can see that is a pretty strong number. The other bar charts on that page show you the individual flagship fund performance on an annualised basis relative to the benchmark over the three years; again, it is a robust picture of performance.

As I did last year, I want to give you two real-life examples of successful strategies that we run where we think we manage to combine both our very strong investment capabilities with a very clear customer need, because that is the sweet spot that we are looking for in terms of the proposition that we offer.

Flagship proposition highlights

M&G Optimal Income Fund

The first is our flagship open-ended fund, the Optimal Income Fund. Richard and the team of more than 20 investment professionals have been running this fund since its inception, which is a little more than ten years ago. The key to its success has been that it meets a real customer need. It gives both income and capital growth to customers who want a yield, but they do want to see some capital growth from the money that they are putting to work regardless, effectively, of market conditions. Performance has been extremely strong since the Fund's inception; it is something like 7.5% annualised, so that is more than ten years after fees over that period.

On the right-hand side, as was very well documented, you can see that it had a slightly trickier period towards the back end of 2014 and into 2015, which is one of the reasons that M&G went into net outflow, particularly in 2016, which we talked about a year ago. However, as you will be aware and as you have seen from the flow figures we talked about this morning, we have had a really strong recovery both in terms of performance and of course then in net inflows. The net inflows into this strategy year-to-date are not far short of £4 billion. AUM in the strategy is now over £20 billion.

One of the reasons it is successful is based on the fact that its structure is very flexible. It can take advantage of opportunities in the bond market regardless of where we are in the whole market cycle. It can move up and down the duration curve, it can move up and down the credit curve, it can even move into equities if it wants to. It is a truly flexible fund, it is very well-structured, and it is backed by a great team.

PruFund Growth investment

The second proposition that I want to highlight to you today is the one that Clare has mentioned already in terms of the PruFund. What I am showing you here is one of the key funds in our PruFund range. The PruFund range has six funds within it; this is the PruFund Growth Life Fund. It is a multi-asset fund, but it has the added advantage that it is able to use the strength of the inherited estate within the With-Profits Fund to smooth the investment return. It delivers a much more stable long-term journey for customers by taking out some of the short-term volatility that comes through from market returns.

Here you can see the investment returns year by year and then cumulatively overlaid by that smoothed path, which is what the customer received. It has had great success this year, both in performance and flows, acknowledging the fact that this meets that real customer need.

With-Profits Fund

Over the last five years or so, the assets under management of the PruFund range have grown to around £32 billion. This year, we have seen £8.4 billion of growth inflows, about £6.6 billion of net inflows. The PruFund range assets, in their entirety, are about a quarter of the total Life Fund assets of some £126 billion, invested, as you can see, in a highly diversified portfolio, which covers a multiplicity of different, for example, equity or fixed income strategies, but also covers both public and less liquid private assets. It is a strength of our combined entity that we have this strong fund, highly diversified in the way that it is invested.

When you look at how that With-Profits Fund has performed – and I would highlight the number at the bottom – you can see over ten years it is up cumulatively something like 84%, delivering really strong performance for policyholders.

Investment proposition development

Clare has talked a lot about customers and I am also touching on customers, but a key part of our success hinges on our ability to anticipate customer needs and then to develop the new products, the new investment strategies and propositions to meet those needs. The components of what we are doing are, first, identify the need – put yourself in the customer's shoes, what is it that they need us to do? – and then think about how you can combine that with some of the great ideas that come out of our investment teams to construct the portfolio that can deliver on that need. Once you have done that, sometimes the hard bit is how you turn that investment idea and that customer need into a tangible portfolio and that is where seeding portfolios can act as a real accelerator to getting these things up and running.

Underneath the three boxes you can see on the slide, there are some very live examples of things that we have been able to bring to life in this way this year. First of all, the search for yield, which is such a driver in this QE world that we are still in, and we have two very different examples there of things that we have brought to market: on the infrastructure side, Infracapital Partners 3 Fund; quite a different but nonetheless also very compelling offering has been what we have done in the floating rate high yield space, the Floating Rate High Yield Solution Fund, which we also got up and running this year.

On the right-hand side at the bottom, one of the other big themes that we are seeing going on in markets at the moment is the drive towards more impact investing. Examples of two very different funds that we have brought to market this year are, first, the High Yield ESG Fund, which was the first fund of that type to go live to market this year; and the Impact Financing Fund, which is a private debt fund focusing on investing in a way that has true societal and environmental impact in that space.

Our most recent success has been the announcement this week that we have reached a hard close of £1.25 billion on our newest infrastructure fund, our Greenfield Fund.

Recent product development

Going back to thinking about how we are matching customer need with an investment capability, this is a fund for very long horizon investors and it provides stable, inflation-linked returns through investing in a portfolio of greenfield assets that could be anything from green energy to health to high-speed broadband. It was made possible because of the fact we were able to seed the Fund through our own balance sheet, which then facilitated a very successful external capital raise.

Seeding new products

A strategic objective for us is to accelerate our ability to innovate and our seeding portfolio has increased from about £79 million last year to £193 million this year across a range of new funds, which you can see listed on the right-hand side of the slide, across a full range of different types of asset classes.

Summary

In conclusion, Clare took you through the range of customer channels that we have available to us to distribute our investment capabilities. What I hope I have left you with this morning is some sense of the breadth of those capabilities; their quality, as shown by the investment performance, which will not always look like that but it is nice to stand up here when it is looking good, so thanks to the fund managers for that; how we are able to continue to create new propositions as customer needs evolve and be very much led by those customers; finally, how we can use the combined strength of our balance sheet to support and accelerate bringing those new ideas to market.

With that, I will hand over to Miguel, who is poised waiting in the wings to talk about what he is doing to transform our operational platform and bring down that unit cost of manufacturing.

Merger & Transformation

Miguel Ortiz

Chief Operating Officer, M&G Prudential

Introduction

Thanks, Anne. John has talked about his vision for the M&G Prudential business, and Anne and Clare have highlighted a number of opportunities that we have in the business. I am going to spend a few minutes talking about the merger and transformation process that we are going through currently, which is all geared towards making that vision a reality and delivering on all these opportunities.

Why we are transforming

Six ways of transformation

I am going to begin where John started off today. On his first slide, John talked about the six ways in which we need our business to become different in the future. I am going to take a little walk through each of those, because we see them as very important themes that we are going to be repeating to you and to our own staff over the next few years. I will quickly talk about each one.

Customer-centric

We see customer-centric as being absolutely at the heart of everything we do and it drives our strategy. Why is that? It is because we believe that we do not just sell products to our customers, we sell solutions to our customers and if we want to keep doing that, we need to stay relevant to them. We need to get closer to them and we need to make sure that we are delivering things that they truly value.

Simple and efficient

Efficiency, again, is absolutely at the core of what we do. We know that we need to become more efficient, lower cost in order to deliver better value to our customers, to compete in the external market. The way we do that is by being simple. We are a very complex business occasionally and we know that wherever we simplify we create opportunity for ourselves and so simplicity has been the mantra that we are bringing to our transformation.

Delivery-focused

That links very closely with the point about being delivery-focused, which John called out earlier on. The way we are approaching being delivery-focused is we are taking what is a pretty large transformation effort and we are trying to break it down into a series of independent chunks. We want those chunks to be as distinctive as possible so that the delivery of those chunks can be done independently. What does that mean? It means that we minimise interdependencies between different initiatives. It means that we are able to explain those things very clearly to our staff and to people in the external market. It means that we have clear accountability for each piece of change sitting with a specific business executive, which is a very important change to the way that we have done things in the past.

Another thing about being delivery-focused is learning to work effectively with partners. Our view is that partners have a lot to offer us and they need to be an integral part of this journey. We want to work with large partners who have established solutions that we can take off the shelf and we want to work with smaller partners who can teach us new skills, who are more agile, who are more innovative than we are.

Fast-growing

You probably had a sense from Clare and Anne's presentations that we do not have a challenge here in terms of demand for our products. Our biggest challenge is to be able to scale up to meet the demand that we are facing from the external market. What we need to do is build the operating model and the platforms that can take this business on at the rate and in the way that our advisors and our customers expect.

Digitally-enabled

I imagine that every presentation you go to these days talks about 'digitally-enabled'. We probably have not talked about it as much historically as other people have, but that is not because we have been asleep at the wheel. We have been spending a huge amount of time investing in capabilities to make this a reality. What we are finding is that we can attract terrific talent in the UK and Europe to this space. People are really engaged with our transformation effort, and this, because it is so much at the core of what we do, is very compelling to people who have these skills.

Capital-light

Again, everything that we are manufacturing and selling at the moment for new business pretty much is capital-light. We see a lot of opportunity to expand the range of our capital-light products and we need to create the environment in which we can do that.

Ambition for transformation

Finally, we have some words on the right-hand side of this slide to describe the ambition that we have for our transformation. We want to become the best-loved and the most successful savings and investment business. That is a lofty ambition, but we think it is the right ambition and it sets the right tone for the way that we want to approach this market.

Merger & transformation programme

One structure

As you are all aware, we have a merger and a transformation going on at the same time, and our approach has been to try to bring those two things together under one structure. There are strong inter-relations between the way that we want to transform the business, and bring the businesses together. John, Clare and Anne have made reference to that in different ways and a lot of the same people are involved in trying to push those two agendas.

Merger sprints

On the left-hand side of this slide, you can see the merger activity that we have going on. I am not going to say a lot about that today because, to be honest, it is pretty self-explanatory. We have a number of initiatives going on across each of those different areas. We are on to our second set of sprints, trying to work out what the future operating model should look like, how we turn those opportunities into reality. All of those teams have joint M&G and Prudential people leading them, and the teams are working terrifically together. It is the smoothest integration that I have been involved in.

Transformation workstreams

On the right-hand side, you can see some examples of transformation workstreams and I am going to talk about some of those in a little more detail in a moment.

Merger & transformation timeline

This slide gives you a sense of the timetable for our merger and transformation. The main thing to take away from this is that by the end of 2020 many of our major initiatives will have completed, we still have some things in flight. By the end of 2021, we have pretty much finished things, but we expect the odd transformation programme to run out over a longer timeframe just because of the complexity of some of the things that are involved right at the tail end of that.

Merger & transformation financials

Let me talk about the financials related to merger and transformation for a second. We made a commitment to the market. Mike and John stood up and talked about the revenue growth and the cost savings that we will capture from merger and transformation. The commitment was £145 million of pre-tax cost savings delivered by the end of 2022. Our expectation is that we will deliver the majority of that on a run rate basis by the end of 2020, but clearly, as you saw from the previous slide, there are a number of things that will continue to dribble on beyond that and we stick to that commitment of having everything achieved by full-year 2022.

To give you a sense of where those savings are coming from and where we are investing, it is a mix of new business and in-force modernisation and then transforming our support functions where, clearly, the merger plays an important role.

In terms of new business, what we are trying to do is build a scalable, fixed cost digital platform and our goal there is to try to put on business at as low a unit cost as we possibly can so that as our business grows our cost base is staying more or less flat.

On the in-force side, we want to do pretty much the opposite. We want to variable-ise our costs as much as possible so that as that business runs off the costs are running off with it.

On the right-hand side, you can see a very rough split of where the benefits are going to come from: across back book modernisation, new business modernisation and then our functional transformation. Not surprisingly, the investment is split on more or less the same lines.

I am going to canter through a series of slides that give you a sense of some of the initiatives that we have ongoing at present, some of which are relatively new, some of which have been going on for a long period of time.

Transformation

UK retail savings

The first one is the transformation that we are doing at the front-end of our business in the UK, which we call our UK retail savings transformation. This is a transformation in part of our business that is very high velocity, it has a lot of engagement with customers, with advisors, we are taking on a lot of new business, and so it is very important we are able to deal with that in a digital way. This applies as much to the M&G business in the UK as it does to the Prudential business, so we are taking an integrated approach to addressing this opportunity.

What we are doing to support that is building a single digital layer that can support customers and advisors regardless of the channel they come in through. We are doing that with a terrific team that has experience of doing this in other organisations; we are not doing it for the first time. It is pretty standard to do this; if you go across other financial services organisations, it is pretty rare to find an insurance company or an asset manager that does this well. We are also building a new set of capabilities to help us to deliver this. We are approaching it as a digital business. We are approaching development in an agile way. We know that we need to experiment, we need to fail fast, we need to test and learn and this is not something that we are doing off to the side; this is an approach that we are taking absolutely at the core of our business.

In-force modernisation

In-force modernisation is about taking a series of legacy systems and consolidating them into a single platform. We are going to do this partly for the cost benefit that we get from doing that and partly for the benefit that we get in exposing the customer data and the financial data that we have within all these systems. What that allows us to do is to give our legacy customers access to the digital environment that I talked about before. It also allows us to modernise a lot of our internal processes and, frankly, we see a lot of benefit from exposing this data and then having data-led processes rather than manual processes.

European funds platform

Switching gear a little bit to something that we are well on the way to delivering, our European funds platform. Both Anne and Clare made reference to this. Not surprisingly, following the referendum we reacted pretty quickly to create some optionality for us. None of us know quite how this is going to turn out, but the referendum was in June 2016, by December we had already launched our Luxembourg funds platform. We did it in three months, which I think is pretty much the quickest that anybody has managed to achieve something like this. What is important to me is we did it while we were trying to do a load of other things transforming the business, which demonstrates that when you separate things out, when you do them as a discrete package of work you can do things extremely quickly, and that is our approach to everything. We are not going to let other things slow down key initiatives.

Investment operating model

Another example that has been referred to earlier and that both Guy and Nic referred to is the implementation of the Aladdin platform. Aladdin is important for us as an example of an area where we can partner with an established player who has capabilities that we should be leveraging. We are buying an off the shelf solution and we are not heavily customising that solution; we are adapting to the way that it should make us worth rather than the other way around. This is something that has allowed us to halve the number of systems that we work with in the UK. It is a project that we have developed alongside our partners and our colleagues in Group Digital. Al-Noor Ramji and I work very closely on a bunch of things and this is a good example of where we have done that together.

Culture

Finally, let me just talk about culture. Culture is always at the heart of any transformation. It is, clearly, also at the heart of any merger. The thing that I have been very positively surprised by since I joined is how much energy there is to transform the business. Whenever you talk to people within Prudential, within M&G, within M&G Pru, what you find is that there is a huge amount of energy around the 'why'. People get the market opportunity, they get the fact that we need to change in order to do that. There is also a huge amount of interest around the 'how'. We have had pockets where we have delivered things extremely quickly extremely well and everybody wants to be a part of that and we have to tap into that energy. However, as we know, we cannot be complacent about that. Having the right mindset is absolutely critical to getting a transformation to work and we are putting a lot of energy into taking people on the journey around why we are doing what we are doing, what it is that we are doing, making it simple and then talking about the 'how' and making them a part of it.

I am going to hand over to Grant now.

Financials

Grant Speirs

Chief Financial Officer, M&G Investments

Introduction

Thanks, Miguel, and good morning. My colleagues have already provided you with an overview of the current position of the business as well as an insight into the size, scale and breadth of M&G Prudential. They have also talked about the opportunities and some of the challenges that we face. However, it is important to emphasise that we are approaching these changes and challenges from a position of considerable financial strength. If we continue to execute across our strategic objectives, which my colleagues have already talked about, we will grow revenue, we will improve the efficiency of our operating model and we will utilise capital efficiently.

Financial metrics

As you have heard from Anne and Clare, we have large and extremely well diversified customer groups and deep-seated investment expertise across the entire range of asset classes, all of which is highly complementary when it comes to the generation of cash and profit. These are the two key financial metrics that I will focus on today. We will share other KPIs with you in future periods.

In terms of how our profit and cash are generated, on the one hand, we have a significant number of UK customers in traditional savings and retirement offerings. This in-force book of business is extremely large, some £150 billion as at 30th September 2017, highly persistent, and sufficiently mature that through the continued careful management of costs, capital and asset mix M&G Prudential has the ability to generate significant and predictable profits over the coming years. On top of this, you can add the fast-growing PruFund proposition, which exhibits a lot of the same characteristics from a profit and cash perspective.

On the other hand, the business also has significant scale and diversity in unwrapped investment funds and institutional products. These investment products require very little in the way of capital support and the payback, from a profit and cash perspective, is more or less immediate. As at 30th September, M&G Prudential had around £154 billion of assets in these types of investment propositions. Although the flows from these customers are less predictable and can be quite lumpy, the business is very well positioned to continue growing through the distribution of current and new capabilities to our existing and expanding customer base in both the UK and Europe.

The combination of stable in-force business and fast-growing, capital-light solutions means that M&G Prudential has the ability to generate sustainable profits and remit cash to our shareholder whilst still growing as a business.

Fund flows and AUM

The past nine months have been very strong from a growth perspective. PruFund continues to perform very strongly and has had record net inflows of £6.6 billion to September 2017, highlighting the ongoing appeal of the outcomes delivered by this proposition. These strong inflows more than offset outflows from other, more traditional propositions.

The improved investment performance across the UK-domiciled fund range and continuing strong institutional fund performance, as highlighted by Anne, has also led to growth, with M&G gaining £9.9 billion of net new business in the year to September, compared to outflows of £8.1 billion in the same period in 2016. What is particularly pleasing is that these inflows have been across a wide spectrum of different capabilities, covering equities, fixed income, multi-asset, real estate and alternatives. The flows experienced by M&G Prudential in the year so far compare very favourably to those of our UK peers. These flows, combined with the positive market impacts, have resulted in assets under management reaching £337 billion as at 30th September 2017.

Summary

In summary, M&G Prudential is a well-diversified business with considerable scale that has generated significant levels of cash and profits in the past and is well positioned to do so into the future. With that, I will hand over to John for a few closing comments.

Conclusion

John Foley

Chief Executive, M&G Prudential

Thanks, Grant, and thanks, everyone else. This merger is about the creation of a savings and investment business built around customers and their changing needs; a business which is simple and efficient; a business which uses digital transformation to lower unit costs and improve customer outcomes. We are uniquely positioned for growth in capital-light business, with scale, two great brands and a full set of investment capabilities.

We start the merger and transformation from a position of strength. We are only three months into this merger and, in that time, we have put together a new management team who have hit the ground running. We have developed a transformation strategy and an integration plan. However, what has given me most encouragement is the creativity, energy and enthusiasm across the teams for this merger and the opportunities that it presents. With that, we will conclude the formal presentation and answer any questions you might have.

Q&A

Nick Holmes (Société Générale): I wanted to ask about the annuity book, and in particular the growing debate about the risk margin. I know you use transitionals, obviously, so it is less relevant to you, but is there a possibility that if Brexit leads to some dilution of the Solvency II rules, you could become more annuity-friendly and less eager to divest your annuity book?

John Foley: I think it is fair to say that, certainly from my perspective, we like to keep our options open for as long as we possibly can. We have no expectations in that regard and I think we just press on as we are doing. If things change, we will review it when they change, but it strikes me that these things are never really clear at first blush, so we will just press on with what we have embarked on.

Jon Hocking: I have three questions, please. Firstly, on the digital layer that you are building, I wondered what the ambition was in terms of how competitive you are going to be in each of the verticals. If you look at the workplace business, the intermediary business, are you going to get to something which is genuinely competitive in each of those verticals?

Second, if you look at the product that M&G is known for and the product that Prudential is known for, you have a similar multi-asset focus. How do you prioritise your offer to the customer? How do you decide in which channel or which wrapper you lead with a PruFund offering or you lead with an M&G offering?

Finally, on the direct advice business or the advisory business, how serious are you about building that? If you look at your advisor numbers, you are running at about 10% of the market leaders. Is that something you can really build or is it just an adjunct business?

Miguel Ortiz: I think our approach to the digital layer, as I outlined, is that we want to try and be focused on delivering the best customer outcomes and the best advisor outcomes that we can as we are bringing on business and as we are dealing with them. I think our first step is to meet our customer needs and I think once we get to a strong position, then we will review the situation. It is very hard to know how our competition is going to evolve, but as I say, at the moment, our priority is to address the needs that we see out there in the market rather than to compete with anybody in particular.

Anne Richards: The best way to think about this, I suppose, put simply, is that the M&G investment bit is the 'Intel Inside' of the PruFund. So the majority of the assets that are being managed within the PruFund are managed by M&G. So the question is, really simply, what is the best way of putting a wrapper around that multi-asset capability? Some people want to buy a straightforward multi-asset fund that might have a cautious or a more growth-oriented strategy, and some want something wrapped and smoothed, and that is quite channel-specific and quite client-type specific, so it is not the case that there is an internal competition on that. It is simply deciding what is the combination of requirements that a customer has which will make you prefer a straightforward multi-asset fund, for example, versus a smoothed PruFund type of product. It is a simply different sort of wrapper around a core investment capability.

Clare Bousfield: I see the advice, guidance, the way we interact with our customers and our advisors being a lot more seamless than where we are today. You are right, we have an advice business with PFP that is in the top ten in the market in terms of size and capability. I think we have a lot of opportunity to enhance the productivity of that, but also leverage the advice and the quality of the advice from a broader and more seamless approach to how we interact with our intermediaries and our customers. However, it is absolutely core to our business.

Greig Paterson: Regarding your inherited estate or orphan estate of £8.6 billion, I know you use it to take a more aggressive asset allocation on the PruFund which then can finance the strain, which has actually been a big asset and a competitive advantage, but I was wondering to what extent you could use that to, for instance, boost the capital in Asia or maybe the US by buying off them and turning intangibles to tangibles. Is that part of the agenda at some point?

John Foley: Candidly, no. There are some very clear rules around the application of the inherited estate, and we look at various opportunities from time to time. From a UK context, we have some ideas that we may bring back, but from an international perspective, no.

Andrew Crean (Autonomous Research): I have a couple of questions. Where does the workplace business fit in, given that that is going to be a low-margin scale business over time? Secondly, I know you have talked about alternatives for the annuity business, one of them being whether your with-profit fund could buy into it. Is that credible, given the fact it already has annuity exposure, and are there risks that you might unbalance the with-profit portfolio by doing that?

John Foley: In terms of the workplace business, that is a business that we currently get top-ups, so it is not an active business for us. It will become an active business when we have managed to digitise our platform. We think there is a lot of opportunity there, but we need to do first things first. In terms of the annuity business, yes, you are right. The chances of us transferring any of that shareholder book into the policyholder book is remote, but we look at it because policyholder risk appetite changes and that could be something that we would do. It is one of our options but I would tell you it is a remote options.

Question: What are your views on liquidity in bond markets, particularly given the substantial size of the flagship fund?

Anne Richards: Bond markets are big and liquid and there are obviously different challenges at different points in the market cycle, but when you particularly at optimal income and the flexibility that it has and the way in which it is weathered a number of different market conditions, we are pretty confident that it has the levers within the fund to be able to take advantage of different phases in that bond market cycle. However, obviously we are in a big fixed-income business. We do stay close to a lot of the things that are going on underneath the surface in that and the key thing is to make sure that the client demand and the proposition that you are offering, you do not have that underlying liquidity mismatch.

Arjan Van Veen: Could I ask one question on the cost savings of £145 million and the investment of the £250 million? It is quite a long period of time to get them out. How should we think about how they emerge, even over time, more back-ended, and as specifically I suspect the investment is earlier than the cost savings coming out?

Miguel Ortiz: I think the short answer is yes. As with any programme, we are going to need to invest in order to get cost savings out. As I said on the slides, the majority of these programmes will complete by the end of 2020, so I think on a run-rate basis we will be close, but we will not be all the way there until the end of 2021 to get the full-year 2022 benefits.

Abid Hussain (Credit Suisse): Can you briefly talk about how you can realistically variabilise the cost base of the in-force book? A simple solution seems to me to be to just dispose of more of the legacy assets?

Miguel Ortiz: So I think there are a number of ways in which you can variabilise the cost base. Typically, what people do in our industry is they work with partners to do that. We see industry utilities starting to establish themselves and clearly the more of a utility that you have in the market, the easier it is to variabilise. In terms of disposal, that scale is very important and very valuable to us and so for the time being, our plan is to continue to leverage that scale.

Oliver Steel: I have three questions. First, I appreciate you have set up the Luxembourg operation now, but you did see significant outflows from the European funds of the European money after the Brexit vote. Therefore, if we have a hard Brexit what sort of comfort do you have that having that Luxembourg operation is sufficient, or is the fact that you are a UK fund manager just going to be bad news for you?

Second, what percentage of your shareholder annuity liabilities or assets are in illiquids?

Third, I do not know if it is appropriate now to talk about the remittance up from the UK or whether that is something for later on, but I think you said that the UK remittance would not be affected by the restructuring charge. However, I think I also heard that you were putting the restructuring charge into the operating profits of the UK business, so I am just wondering if that is something you want to comment on.

John Foley: To take the third one first, we will cover that one later when we do the group session. In terms of the Luxembourg issue?

Anne Richards: Nobody has a perfect crystal ball on that. The knee-jerk reaction immediately post the referendum result was quite a visceral reaction on the part of some of the customer base, combined with a reaction to the very sharp fall in the currency, I think. It was quite a visceral response, and actually we saw those funds stabilise and go into net inflow very, very quickly. If you look at the breakdown of our flows, we have been in significant net positive flows from the non-UK customer base all the way through since the back end of last year. That gives us some comfort that we are through that initial visceral reaction.

Clearly, having got the umbrella up and running, the next important piece of the work is to make sure that as the conversations between London and Brussels evolve – and nobody really knows at this stage where we are going to be and the equivalence delegation market access point of view – we have the flexibility to work with the customers and to be led by our European-based customers as to what is the right shape. It may be that some will continue to hold UK OIC[?], and not be concerned about it, but that we have the flexibility to move the assets through a set of parallel fund structures in whatever way the customer base wants us to do it. By getting the SICAV up and running, we now have that flexibility, and what we are in now is that ongoing conversation.

We have a little bit more clarity on timelines now, with the result of the government's various comments over the last week or so, so we know what we are working towards. We are pretty comfortable with the plans that we have in place. I cannot say with absolutely certainty that the scenario will not repeat itself, but it would not be our current working assumption.

John Foley: As for the annuity illiquid question, I am afraid I do not have that information off the top of my head.

Gordon Aitken (RBC Capital Markets): I have a couple of questions, please. First, on the merger, the model in the UK in recent years has been to separate out asset management and administration. There are companies who still do both, but there is really very little overlap between these two businesses and there are very few synergies. I was just wondering why you are going down the merger route and everyone else seems to be going in the opposite direction. Second, on the annuity redress programme, are you happy with the provision that you have set up and is there a likelihood of a fine coming? Thank you.

Clare Bousfield: On the annuity programme, the programme that we are operating is running according to the projects and our expectations. As Mark commented earlier on, we are working closely with the FCA around the redress calculator. We would expect to give an update as part of the full-year results announcement.

Anne Richards: On the first one, it is an interesting question. With the picture that we have tried to paint for you today, I think this idea of the administration, I am not quite sure what that means. For us, what we have is more than seven million customers and of course a broader distribution footprint beyond just the individual customers. These are all different people, different institutions that have a need and I do not think, if you think about the manufacturing of the investment offering and the customer base, that separating those makes a lot of sense. We are no longer an insurance business, we are a savings and retirement business. Whether that comes from what might have been traditional UK Life type of offered products versus what you have traditionally had in an asset management business, to us they are converging. To me, this is one business with multiple different routes to accessing customers and to meeting customer needs, and that is the vision that we are trying to paint here. That is my reflection on that.

US Strategic & Operational Update

Barry Stowe

Chairman and Chief Executive Officer, North American Business Unit, Prudential Plc

American retirement challenges

Good morning. It is always a pleasure to have the opportunity to talk to you about our business in North America.

Everything that we say today is sort of grounded in the fundamental premise, something about which we are deeply convicted, that is that the principal product that we sell – variable annuity written with living benefit guarantees – is an incredibly virtuous product, and a product that is uniquely useful in the environment in which most pre-retiree and immediately post-retiring Americans find themselves. Generally speaking, they are under-saved, and they have few places to turn that will allow them to generate a stream of income on which they can fund their retirement while also offering them the opportunity to grow their asset base, so the product is genuinely unique.

Disconnect

You think about our product in that way and then you look at this slide and there seems to be something of a disconnect, because we have this very virtuous product, and we have 27 million Baby Boomers – approximately one-third of the Baby Boomers will have retired by the end of 2018 and there will be another 50 million to go. Interestingly, the 27 million who will have retired by the end of next year, that is the segment of the Baby Boom generation who are most likely to have had some exposure to a defined benefit pension plan at some point in their working life. The later you came into the workforce through the 70s and into the 80s, the less likely you were to have ever had the benefits of a defined benefit pension plan, which obviously, in the absence of that plan, that even highlights the need for a product that provides a guaranteed income in retirement such as a variable annuity. Therefore, you would look at this and say, 'Well, gosh, you would expect that the sales of these products would be taking off like a sky-rocket,' and yet, as you can see from the red line, that has not exactly been the experience.

Reasons for the disconnect

There are a couple of fundamental reasons that we should talk about. Why are sales declining in an environment when the product is incredibly useful, uniquely useful? Two things. One is regulation: how this product is viewed by regulators and how they have interceded to add regulatory burden to a product that is already very highly regulated by both state insurance commissioners, the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA) and the Department of Labor (DOL). Also, beyond regulation, there is a more fundamental issue with how the product is perceived by the general public. Many people will tell you, 'Gosh, annuity products are very complicated,' and they are actually not that complicated. They will say they are expensive, but when they say expensive they are comparing a variable annuity that includes a very important, very valuable guarantee versus a mutual fund that offers no guarantee.

DOL update

Let us delve into some of these questions. First of all, on DOL, we talked at length about DOL when we were together about this time last year. You will recall we brought Secretary Seth Harris, the Obama-era Secretary of Labor, with us to talk about the fiduciary rule and what it was meant to do. One of the things we learned that day is what it was meant to do is not exactly what it has done, because in the preamble of that piece of rule-making by the Obama administration was the suggestion that the Department of Labor strongly believes that more people should have guaranteed income products in retirement. And, of course, you saw on the previous slide what the effect of the rule has been: unintended consequences.

What has happened in the past year

Let us just focus on what has happened since we were together last year. Of course, there has been a change of administration in Washington. Shortly after taking office, on 3rd February, President Trump issued a memorandum asking that the rule be looked at, and he had questions about whether it was limiting access to advice or making it more difficult to buy a guaranteed retirement income product, and so on and so forth. It took quite some time for the Department of Labor to fully respond – and some would suggest they still have some work to do to fully respond – principally because of all of the different cabinet members which President Trump nominated and which required confirmation by the Senate; the Secretary of Labor, Alex Acosta, was the last to be confirmed, so he has really only been in the seat at the Department of Labor since early summer. What Secretary Acosta has now done, as you know, is proposed – and there is process that has to be gone through before his proposal becomes effective – an additional 18-month delay in the full implementation of the Department of Labor fiduciary rule. That takes it to July of 2019. That is the projected effective date. We should complete that process and the delay will become fully effective, and the expectation is that that will happen very soon.

Harmonisation of fiduciary standards

What we are hoping for and what we are led to believe, and we get this from conversations both with Secretary Acosta and with Treasury Secretary Mnuchin, both of whom we have met with on this topic, and they have both told us that they believe the most logical endgame from the government's perspective, from industry's perspective and from a consumer's perspective, all aligned, is a harmonisation of the fiduciary standard between the SEC and the Department of Labor. And what that would accomplish is a single fiduciary standard that would apply to all advice given to all classes of assets. (When I say 'classes', I mean qualified and non-qualified.) Obviously, that takes an enormous amount of confusion out of the equation for the typical retail consumer, who is trying to understand today why their advisor is theoretically performing in different ways when they are talking about the money they accumulated in their 401(k) versus the money left to them by their grandmother as a legacy. To simplify that will be very important.

It is also complicated. I think that is one of the reasons why the delay is 18 months not six months or nine months, because there is a great deal of work to get the agencies working together, but our understanding is that that work is happening now, and so we are optimistic that, while there is a lot of work to be done, we will get to the right place on this.

Evolution of industry

This has been a complicated time and obviously the delay and the work that is going on is a good thing, but it is still a delay and there is still an element of uncertainty and that continues, obviously, to mute the market for these products. It has been a very complicated thing, obviously, for the distributors, who it impacts most directly. An enormous amount of time and expense on the part of the broker-dealers who directly face this new regulation. There have been some other consequences that you could suggest are positive as well, and that is that I think it has caused the industry to focus on where we are going with respect to advice, and I think in the end it has served to accelerate a trend that was already happening, but it has made it happen more quickly. I think that ultimately it is a good thing for manufacturers of these products.

We talked last year about these two different marketplaces. There is a marketplace for advice, where the product is sold, and the advisor is paid in the form of a commission from the manufacturer of the product, and we talked about the fee-based advisory model. We have had an inflection point here in the last couple of years where the total fees collected exceed the total commissions paid. In the end, we, as a company, are agnostic about how advice is paid for. In the end, I think it is up to the consumer and what he is more comfortable with. It is a conversation between the consumer and his chosen licensed advisor. We are agnostic, but what we also know is that by being agnostic, by being willing to create products and so forth to get at this advisory market, it opens an enormous opportunity for us to talk to advisors and their customers, people with whom we have never really had any material interaction at all.

Scaling the opportunity for our industry, and for Jackson

We showed you this slide last year, and it shows you how much is actually out there in terms of savings and where it sits in terms of the channel or the different models for advice-giving. Obviously, the largest channel is the wirehouses, regional broker-dealers, register investment advisors (RIAs) and so on and so forth. What we talked about last year is the fact that most of the money is on platforms where the majority of the funds are advised on a fee basis versus on a commission basis. Again, we have never had access to those. I will remind you again, if you look at the red line, it shows you how much of the assets are actually invested in a variable annuity versus the total assets and this is a story we told last year but it is worthy of repeating. The independent broker-dealer is the one channel where you could suggest by virtue of that level of penetration, that we – and not just our company but as an industry – have done a good job of penetrating that channel. It has always been a commission-oriented channel. Again, that is probably about the percentage of assets that we should have in that channel, perhaps a bit more. However, if you look other places where we are present – the wirehouses, the regional broker-dealers, particularly the hybrid RIAs which tend to be populated by advisors who have generally come out of an independent broker-dealer or out of one of the wirehouse platforms and are transitioning to an independent shop with a fee-basis model – we have been present but we have not been impactful. The two fastest-growing areas are those RIA channels, which work only on a fee basis, and then the fee-based advisors within the wirehouses. In terms of selling our products that are driven really by the living benefits that we attach to them, the death benefits and the withdrawal benefits – those are the greatest opportunities and it dramatically multiplies the scale of the market that we can address.

One thing worth pointing out is that you can look at the wirehouses and say that it is a gigantic amount of money, and obviously within there, there are some high-net-worth individuals and ultra-high-net-worth individuals who may not find that they really need the guarantees that we write. If someone has $2 million or even $3 million or $5 million, they are probably scratching their heads and saying, 'Is this really enough? Do I need to lock in some level of guaranteed income for the rest of my life to ensure I can continue to maintain my lifestyle?' Somebody that has $25 million or $50 million, invested with the private bank at a Morgan Stanley or a Merrill Lynch or a Wells Fargo, by virtue of their success and the absolute scale of their assets, they have written their own guarantee. Yet, there are still ways that we can be useful to them. You may have noticed in the financial press recently that we have just launched our private wealth and trust initiative, which is really based on essentially a fee-based version of the Elite Access product investment-only, and that is a very useful tool in helping ultra-high-net-worth individuals direct their money as part of their estate plans on a tax-free basis. There are opportunities there, but the principal opportunity, again, is this mass affluent marketplace who seek advice on a fee basis and to whom we have had very limited access in the past.

Evolution of industry

How do you demonstrate value to advisors?

The question, then, is what is it that you actually have to do in order to be able to interact professionally and promptly and efficiently, and demonstrate the value of what we can do to these advisors? That falls into a few categories. You have to have the right products. We have to change the narrative around these products and make sure that people understand what they are, because, as I said earlier, one of the drags on sales is the fact that the products are misunderstood in some respects and viewed as being more complicated than in fact they really are. We have got to get the selling agreements in place, in some instances with advisors we have never had selling agreements with before. Finally, ultimately, there is a technology dimension of this. We have to make it easier to interact with us to buy an annuity. The one thing that has always been immensely complicated is the process through which one has to go to purchase one of these products, particularly if you view it in the context of how easy it is now to buy a mutual fund or to purchase specific securities. It is much more complicated to buy an annuity.

Product launches

This is a graphic depiction of the workstreams that we have going on now. Let us talk about each of these things that I rattled off earlier. We do have to have the right product in the marketplace and I am delighted to say we have that product in the marketplace today. We have launched advisory versions of our core product, the Perspective II. That is the product to which we attach the living benefits. That was launched earlier this year. We also have the investment-only that has been launched. I would not want you to get too excited about the sales of those. These things take a while to get traction, so the sales, relative to our total sales, are still relatively small, measured not in the billions, but unfortunately we have to take a zero off to count these sales today. However, the thing that is very encouraging and speaks to the idea that there is an enormous pool of assets advised by advisors with whom we have never had relationships, is that if you look at the sales today, close to a quarter of the sales of the Perspective II advisory product, this new fee-based product, have been driven by advisors with whom we do not do business – new advisors or people who have dropped off. They may have written for us some years ago but have not written for us for years.

If you look at the investment-only version of that advisory product, 54% of the sales are from people that have not historically sold for us, so the most encouraging trend to me is that we are meeting these people, they are finding the product resonates for their clients, and we are starting to see the flows come. I find that very encouraging.

Changing the narrative

We have talked about this last year. An enormous amount of work has been done on this already. Jackson as a company is out, principally with digital and print, talking about the importance of annuities. When people Google annuities, very clever ads pop up that try to, in a very simple way, outline the benefits of these products and why they are useful and try to debunk some of the myths around them. I would just encourage you to watch this space because, as we get into the first quarter and go through next year, you will see more and more and more activity ramping up around the value of annuities, why a guaranteed income in retirement is critical for most Baby Boomers, and I am hopeful that this work is going to be very impactful, so just watch this space.

I should also point out that the work that is being done here is not limited to the consumer space, although that is very important. We continue to meet very regularly with regulators, with political leaders on Capitol Hill and within the administration, to highlight the importance of these products and the unique role they are capable of playing in American retirement.

New selling agreements

Again, as we enter this new space, we have to go and sign up and authorise different advisory firms to sell these products. In some instances, they have never sold the products before. In other instances, they are some of our largest distributors: people like Merrill Lynch who are already signed up and, in fact, for qualified money, Merrill Lynch made the decision back in June that they will sell no commission product at all. They just went cold turkey and they are only selling product on a fee basis, so we are already on their platform. We are already on the platform of Raymond James and of Wells Fargo. We have 106 distribution companies now signed up, with more to come, so the product is being adopted very quickly at the corporate level and is rapidly working its way down to the individual advisors.

Technology integration

If we have the products out there, and they are easy to understand and they are compelling, and the narrative is evolving and people are starting to understand that annuities actually seem like a very clever thing and they should probably have one as part of their retirement plan; and if, when you go to your advisor and suggest it he says, 'Yes, I actually have that product here on the shelf,' or, better still, the advisor is saying to the customer, 'This is one of the things we ought to be looking at': when all those things happen, obviously sales of these products are going to increase nicely and I am very optimistic about that. The real endgame is the technology link. I talked about how tortuous it is sometimes to go through all the paperwork to actually buy a variable annuity. When we get to the point that we have changed all this other stuff and it is actually easy to buy a variable annuity because the product is embedded in your advisor's wealth management platform, then that is the point at which I think the entire marketplace really takes off. Our expectation is that this is a product line where, although it has dropped from $160 billion to perhaps as little as $90 billion in flows this year, I expect it to start quickly moving back up as an industry and we expect the volumes ultimately to be higher than they have ever been before.

Because of our proven track record of outstanding performance; because of our clear capability in terms of risk management, product pricing, product design; because of our highly competent front end, the job we do in educating advisors so they sell the product properly: there is no doubt that we benefit disproportionately from that rise in the marketplace.

Now I would like to have Chad come up and get into a little more detail, particularly from a technical perspective, on why we are so uniquely positioned and how this plays out.

The Jackson Difference

Chad Myers

Executive Vice President and Chief Financial Officer, North American Business Unit, Prudential Plc

Overview

Thank you, Barry. Good afternoon, everyone. As Barry mentioned, I want to spend a little bit of time on really what differentiates us from the market. Since last time we met, we have had a couple more observations in the US industry in terms of spin-offs and other such activities that have, I think, specifically with respect to variable annuities, heightened the importance of thinking about the differences between how different companies have competed, different approaches they have taken to the market, and why Jackson has been successful while others have struggled. I am going to spend some time on our approach to the market, a little bit on our value proposition to the consumer, which really gets back to our current sales success, and then a usual health of the in-force business check-up.

Variable annuity industry history

Here I have broken down between a couple of different periods that we think about in the history of this and this may be a repeat for a lot of people, but I think it is worth keeping in mind as we think about where we are today, where we have come from.

Just thinking about the first period, the pre-crisis era, we had a relatively steady increase in equity markets, we had reasonably high interest rates and we had an industry that was very anxious to sell variable annuity products. There was a lot of money to be made. We got into that point – really more of a price war, a feature war. We had companies that were mispricing products, were not doing a phenomenally great job of hedging, none of which mattered during this phase because it just looked like higher profits and higher sales and that was all fantastic. I think what we also saw was that because of some of those pricing mistakes and some of the aggressive behaviour within the industry, you see the historic high in sales that came around at that point, because it was a very consumer-friendly product, a very cheaply-priced consumer product, so there was a lot of demand, a lot of supply, and we saw a very significant increase in overall sales.

During this point, it is important to remember that Jackson stayed focused on pricing, on our hedging. We were not terribly excited about the direction of some of the activity that we saw there, and we did end up losing market share during this period of time, but we did so willingly and for all the right reasons.

We step forward to the next phase, where we saw the financial crisis hit, and this is where we saw a lot of carnage in the industry. All those pricing mistakes, the hedging that was not done correctly, resulted in significant damage to a number of our competitors. We saw a very significant supply shock to the market. We saw some of the longest-standing, biggest competitors out there completely withdraw from the market. Those that stayed in on balance were increasing prices 50% to 100% from where they were. So you had two things going on here, with basically the supply withdrawal that came out of there and also just the increase in pricing, a little bit less demand. We saw a drop-off in sales over that period of time that was fairly precipitous. Importantly here again, while others had significant issues, Jackson came through this part quite nicely. We saw actually a slight hedging gain throughout this period of time, so we came through this part of the crisis unscathed and in a really good position to be able to compete for sales. This is the point at which we saw both relative market share and absolute sales start to move up, even though we were in a declining overall market.

Then finally, the period we have been in for the last six, seven years or so, where we have had this relentless move upwards in equities, coupled with interest rates that have continued to drift down towards historical lows, but a very good pricing reaction in the market, where, because there is still good demand for these products, still a limited supply, there is the ability to reprice products to take into account lower interest rates and other things. We have got to a period here where, a very good time to write variable annuities, and we saw some bounce-back in the overall sales levels – basically in a channel there from about 10 to 15 – until we saw the DOL come in, which Barry talked about, has basically caused a fairly significant shock to the market, as well, with respect to the distribution side.

Variable annuities

Again, this has been a very, very good time to write variable annuities. Unfortunately for most of the industry, they have not really taken advantage of this opportunity over this period of time, and also, unfortunately for the customers of a lot of the variable annuity products who have offered more restricted offerings that do not have a lot of equity participation, a lot of the consumers have not been able to participate in the strong move up we have seen in the equity markets.

The other thing it is important to note here is, especially for context for some of the blocks we see out there in the market or some of the companies now that are more VA-centric that have been spun off, is, the decrease in interest rates from basically 2006 to where we have been over the last several years has been hugely damaging, specifically to the GMIB writers; the GMIBs are just more interest rate-sensitive. That has been a pretty significant headwind for those companies. A lot of the GMIB writers back in the day did not actually hedge the interest rate risk, or they only partially hedged the interest rate risk. What we have seen is a pretty significant headwind for them. Again, as a refresher, GMWB has been what Jackson has written over the years. It does not have the same level of interest rate intensity; a little bit more of an equity-focused product, and that has done quite well over this period of time.

Cumulative net variable annuity flows

In fact, if we look at the overall picture for the last seven, eight years or so, what you see is, in the period that you would want to be writing VA, Jackson has written a lot of it. We have cumulative net flows approaching $100 billion in the post-crisis era, compared to the industry, which has been spending a lot of time trying to run off back books and get rid of unprofitable business that they have sold. The industry as a whole has $70 billion, $80 billion net negative flows over this period of time, when you really wanted to be selling the product. Again, a good difference for us in terms of the overall picture.

Investment freedom key to VA value proposition

Moving into the value proposition and why have we been successful when others have not, again, going back to the pre-crisis period – and this is little bit of a simplified diagram, but I think it gets most of the points across – if you think about what existed in the pre-crisis, you had three main products, if we think about it in access of income and growth; SPIA, the immediate annuities, what we tend of just as a pure, 'I pay out a premium, I get a guaranteed income for life, fixed payment, it is not going to go up, it is not going to go down, and I have no exposure to the markets, but I also generally have no liquidity; I have basically handed over my upfront premium for a series of payments.' Typically, the highest income that you can get with your premium at that point in time, but again, some of the other beneficial parts are not there.

Then we had the indexed annuities, which, at that point in time, were more of an investment type of product, where it was more like an equity product with training wheels, so the people who were a little more skittish about the market or could not take the risk, they would get some of the upside of the market and not take any of the downside of the market, but it was not an income-focused product; it was really more just focused on the asset markets.

Then we had the VA, which was a mix between the two, with theoretically unlimited growth potential: you can invest in equities, equities can go up infinitely, as we seem to have been seeing over the last several years. At the same time, fairly robust guaranteed income floors, not quite as high as an immediate annuity, but certainly a very differentiated product. That is where we stood pre-crisis, and it was a very healthy market for the VA; you can see why this would be very attractive relative to the other ones.

If we fast-forward to where we are today, the immediate annuities are still doing what they do. One of the interesting developments in the market has been that the indexed annuities, most of the writers have offered now some sort of guaranteed income protection, and they have done those at relatively high rates. It is a little bit of a strange concept, to guarantee a market product where the product cannot go down due to the market, but that is really how this developed, as more like an alternative to the SPIA with a little bit of growth potentially. Effectively, you shift away a little bit of the growth potential, you get some income, and you have a new place in the risk/reward spectrum there.

The VA is still the VA. This is really what we sell; this is what we refer to now as investment freedom. Those words did not really exist back in the pre-crisis level, because everybody competed in the same way. VA out to the right: same product we used to have, still have. Most of the market – in fact, maybe all of the market at this point – has moved into what we refer to as a restricted VA. By restricted, what we are meaning is, if you want access to a guaranteed income floor, what you are going to have to do is, you are going to have to go into a volatility-controlled fund, some sort of control-of-asset type of strategy or some sort of limitation on how much equity you can have, typically some sort of balance fund. Maybe you have an option of three or four balance funds that you can choose with one of the carriers. Because of the restrictions that are on there, what we are seeing is significantly less potential upside on the growth side, for really no trade-off on the income floor. These products are really more designed to protect the insurers' balance sheets, more so than they are to provide customer value. We have seen this movement in the market, and the restricted VA, as we are calling it, has been more challenged to growth of this period of time. It has also been a little bit more challenged than the DOL; if you look at the market share numbers, even though we also have been hit by DOL, we have continued to gain market share during this downturn that we have seen in sales due to that.

I think what you also saw specifically, this time last year, there was a lot of conversation about how VA was losing market share to FIA, and as an overall market, that was a true statement, because under DOL, the initial thought was that FIA was not going to come under the purview of the new DOL, why VA would. You had a lot of people moving in to the FIA out of the VA, and they were doing that because, if you think about it from a reps' perspective, if the value proposition is fairly indistinguishable from an FIA and you can shed all the compliance risk and everything else you have to worry about there, it does not seem like a particularly unreasonable thing for them to do. We did not see quite the same drop-off in the investment freedom type of VA that we sell, again, because it is a differentiated offering from some of the other things that are out there in the market.

Equity allocation below pricing assumption

One of the knocks that we typically get, since we are the lone wolf out there with the investment freedom, is, 'Well, you are taking ridiculous amounts of risk, and this is not sustainable, and this is going to cause you all kinds of problems.' We look at the equity allocation here, and this is something we have shown before in various presentations through the years. What this shows is our in-force allocation by equities, fixed income, our fixed account, and bonds. What we generally have seen over this period of time – and this goes back seven, eight or nine years, and actually looks very similar back past that – is that a typical consumer is going to buy the product. They can allocate however they want, but they are going to allocate about two thirds of it to equities. They are not going to do much in the way of rebalancing over time, and what will happen is, the market will re-allocate them up or down. What you see there is, we have been in a long bull market run, so we have seen allocations of equity drift from 70% to maybe 76%, 77%, over that period of time, as equities have outperformed all the rest of the asset classes. Very stable, very steady type of performance; we are not seeing the type of behaviour that everybody seems very concerned about. This was our experience pre-crisis, as well, and so we are actually quite comfortable with the types of allocations we get and the risk level that we get out of investment freedom. Certainly, it is a better consumer proposition, and obviously, is a path to success in the market.

Jackson's in-force performance is very strong

If I look at, again, the differentiation that we have between us and the rest of the companies out there, the huge amount of net flows that we have post-crisis mean that our book is a predominantly post-crisis book. In fact, if you look at both the GMDB and GMWB, roughly 90% of our in-force now is post-crisis. That said, we are actually still quite happy with the pre-crisis book. We hedged it appropriately, did not have any losses coming through the crisis. We have allowed customers to maintain high equity allocations, which means as the equity markets have recovered, so have their account values. What you see is, generally speaking, the pre-crisis book is not in the money. This particular book is quite healthy for us from a profitability perspective, and if anything, we wish it was bigger, not smaller; we obviously would not want to be launching buy-backs and trying to incent people to leave our policies here. We would actually prefer to have more and more of them. Again, post-crisis sales; it is the bulk of what we have. It is a very, very healthy book across the whole thing.

I think it is important to note within that, as I mentioned, hedging being what it was, we have not had to take any extraordinary write-offs, write-downs, good will impairments, any of those types of things, that we have seen out of significant assumption reworkings, again, from most of the industry, in part due to the fact that, again, when you deepen the money, you have all kinds of interesting things that crop up.

Assumption review update

On the assumption side, this is our typical annual assumption update. The good news is that there is really no news here to speak of. The magnitude in changes of the underlying assumptions have been modest, as they have been in past years. Generally, assumption trends that we are seeing for variable annuities: lower lapses. This is something that has been, I think, a feature for quite a long time, just incrementally lower lapses because we see a lack of attractive alternatives. If you are in a Jackson variable annuities with investment freedom and you bought the product five years ago, there is no way you can find a better product than that today in the industry, so that is going to lead, obviously, to lower lapses. We saw a slight increase in the longevity; again, it should not be a particularly big surprise. That is the general demographic trend that we are seeing, to a little bit longer-lived expectation and a slight overall increase in GMWB efficiency. Again, these are trends that we continue to see through time. They are very minor and very modest in terms of the magnitude, but these are the general trends that we are seeing.

In terms of the financial impacts of these, utilisation tends to be a modest negative across all of the accounting metrics. The mortality ones have been pluses and minuses; depends on, obviously, if people are living longer, it is good for DBs, it is bad for WBs, it is good for term life. There are different pieces there that are affected, but that is kind of a mixed bag. Then most of the persistency changes we saw from the overall assumptions were in VA, and just a refresher in terms of that little box at the bottom in terms of how the accounting works for persistency, again, if you ever deepen the money book and you wish you had not written it at the prices that you did, and people stick around longer that is a bad thing; that is not a bad thing for us from an economic perspective, but the accounting plays that a little bit differently sometimes. On IFRS for instance, we tend to see a modest negative there.

That is really a function of the fact that on the IFRS reserving, you have a couple of things. One is, the assumed equity rate is market-consistent, so effectively, if you have a 3% or 2.5% expected return over time, and you charge all-in fees of 300 basis points, then you can see where that might not show well on the accounting. Additionally, we get dinged for all the benefits that would come about from those who stick around longer, and we only get a portion of the fees due to the way the accounting works. More persistency is always going to show up as a negative there. EEV is the opposite, because it has equity risk premium embedded in the underlying assumptions, so positive equity growth is going to be a good backdrop for increased persistency. Statutory is really a mixed bag; it tends to be slightly negative, but very, very slight. Net-net, wanting to wrap all this up from an accounting perspective, really a complete non-event on statutory, a little bit of a positive on EEV, a little bit of a negative on IFRS, is really where we are expecting to have the full year shake out. Again, good news is there is not really any news there.

Standalone economic profile of guarantees remains very strong

Moving on to a graph that should be very familiar to you all by now; I think we have beaten this one well into the ground over the years, but it is I think one of our favourite slides; I know it is one of Mike’s favourite slides. That is what we used to call it: Mike’s favourite slide. What this looks at, just as a refresher, is, this is the guarantee fees only on GMWB, so we are looking at the benefits we are going to pay out, the fees that we collect; and I mention this in particular because a couple of our competitors have put out similar types of analyses and they will almost always include the core contract fees, the base M&E in there, which we do not. Obviously, we would have a very, very substantially larger number if we did, but we think this is the fairest way to look at the actual guarantees, whether you are charging correctly for it. Guarantee fees only against the benefits expected to be paid. Does not include any hedging. Uses prudent best estimate assumptions to come out of the statutory models, so there is a little bit of margin in the assumptions. Uses a gross 5% equity return. It ignores any fees we collected to date, ignores any reserves that we have up against the current liabilities, so it is just really a forward-looking cash flow, reasonably pure cash flow.

What you see is a similar story that we have shown in the past: very strong positive economics on the base scenario, a little over $9 billion the PV of the fees, in excess of the PV of benefits, down 100, which really just affects the discount rate. Since our fees are net-positive, you get a slight benefit out of that. Then the one we tend to focus more on is the down 40% instantaneous, and what we see there is still, with no effective hedging, no reserves, none of that brought in, that the fees just about cover the benefits in a down 40% instantaneous shock, again, with no effective hedging. Again, just for reference, if you look at a down 40% instantaneous shock off the current derivatives book, there is a pay-off of about $15 billion, so if you think about it in those terms, if you switched out the guarantee fees for hedging expense, if you switched out the benefits for effectively the hedge pay-offs, you get back to a similar type of analysis on a hedged basis. The economic profile continues to be very strong. We are quite happy with where this book sits.

RBC & cash remittance history

Another differentiator for us; we have written product at the right time. The markets perform well. What we have seen is what you would, hopefully, predictably see, is significant increases in cash flow coming off that book. Over this period of time, we have seen roughly a tripling of annual remittance back to group. Again, also over this period of time, if you take this period here and add the 2017 dividend that we already saw of $600 million, you have just under $5 billion of cash remitted to the group over this period of time, which, contrasted with the fact that Jackson was purchased by Pru for about a little over $600 million 20 or 30 years ago, it gives you a nice relief for that number. At the same time, we have been increasing remittances, driving a lot of cash flow, we have kept the capitalisation, the strength of the balance sheet, steady, averaging around 450% RBC over this period of time, which is supportive of our ratings, and gives us a good buffer for that.

Superior operating ROE

Similarly, in the good news category, ROEs – I have shown this slide before, as well – we compare this to the blue bar, which would be the industry, and I would say this is the better end of the industry; this is not the companies with the broken back books with lower ROEs, so it is fairly good group of comparators. They have seen some increase in ROEs over the period; they have obviously been working hard to get there. At our level, we are running about double the industry level; the green bar, again, just for a reminder, is, effectively, Jackson does not carry leverage at the Jackson level, so if you look at AA-equivalent leverage, which is what the blue bars would have, it puts you a little bit above 30%. As we talk about in the results, we rate our products north of 20% IRRs; the market clearly has been a backdrop or a tailwind for us, so it has given us a very, very healthy back book in terms of the cash, the ROEs, all the financial metrics we would look at. A very differentiated performance from what we are seeing from the rest of the industry.

Summary

Barry Stowe

Chairman and Chief Executive Officer, North American Business Unit, Prudential Plc

Before we take your questions, just to land the key messages: first of all, there is an enormous opportunity. We have been describing this to you. As Mike says, we can probably name every Baby Boomer by now. We have been talking about this for years. The opportunity is real. More importantly, Jackson is different. When you look at the industry, you look at our performance relative to the aggregate industry performance, we are different. From a consumers' perspective, we are different; we have delivered very strong value to consumers consistently over the years. If you look at us from a shareholder perspective, we are different; we have delivered, as Chad just showed you, almost $5 billion of cash immediately pre- and post-crisis. We are capable of benefiting from this retirement crisis, if you want to call it that, by delivering strong outcomes to consumers, strong outcomes to shareholders, and doing it all in a compliant way. To me, that is a very strong combination.

With that, we are happy to take easy questions from you.

Q&A

Arjan Van Veen: Just US tax, we did not talk about. So obviously, it is a very fluid situation, so could you maybe just comment a little bit on just the tax changes: in particular, to the extent it impacts any deferred tax asset?

Barry Stowe: Sure. Well, first of all, just so you know, we are deeply involved in the process. So we consider ourselves subject matter experts on the insurance component of tax reform, and so we have in many respects taken the lead. We spend an enormous amount of time in Washington. I am in Washington on this or the DOL pretty much every week that I am not here.

As recently as last week, we had some very important substantive and in some respects kind of a breakthrough meeting with Speaker Ryan and Chairman Brady on the House side. Later in the week, last week we had a very productive conversation in Nashville with Senate Majority Leader Mitch McConnell on the Senate version.

The two versions are different. The way this process is going to play out, Arjan, is the House will probably vote on their bill today. The Senate will take a little bit longer. If you have studied this at all, you will see the versions are quite different. There is a little more specificity around insurance in the House version than in the Senate. The Senate has just kind of plugged a number and seems very general in terms of the sources of the additional taxation they expect the life insurance industry to pay over the next ten years. In the end we will end up with a conference committee, what is known as a conference committee in the US, where if the House and Senate has two different bills, they will get together and work out the differences and ultimately reach a conclusion.

We are very wired into the process. As I said, we had some important meetings last week. We are in communication with, on the Senate side, the four key members of Senate finance who actually roll up their sleeves and write this stuff, which is Tim Scott from South Carolina, Pat Toomey from Pennsylvania, Rob Portman from Ohio and John Thune from South Dakota. Met with some of them last week as well. So you know, we will be monitoring this closely and being as influential as we can be.

On the DTA, obviously there is a mechanical link between the tax, the top tax rate and the DTA, but do you want to try and scale that a little bit?

Chad Myers: Obviously, this will be an industry-wide conversation. Actually, it will be not just the insurance industry, but across all industry wide conversation. Because it does impact DTAs, it will be probably more a conversation for the insurance industry.

So the basic trade-off is we are going to see lower tax rates going forward, so more distributable earnings going forward. The quid pro quo for that is going to be deferred tax assets will be carried at the new marginal rate which will be lower, whatever that is going to be. I mean obviously they are trying for 20, we will see where it ends up. That is why it is hard to kind of scale at this point in time.

However, effectively, think of it as some sort of impact on the DTA today for some payback in the future. The question just gets to be what the ultimate rate is and how quickly the payback comes and that we will not know till we have more specificity.

Barry Stowe: I mean if they do what they are trying to do, the impact of the tax savings themselves will be material, if they get there.

James Shuck (Citi): Thank you, I had two questions please. Firstly, just going back to the chart you showed about the opportunity essentially in the non-qualified space. Because obviously a lot of the Department of Labor reforms are around the qualified space and making sales effectively more difficult, you are highlighting the opportunity in the non-qualified space.

So I guess my question is really kind of what has changed there, because it is not clear to me that this is something that gets easier for you going forward. It may be something that you should have been doing before and it is an opportunity, but I do not really see as a result of the Department of Labor reforms what actually changes there? That is my first question.

Secondly, in the US business it is a very concentrated product. I think Barry in the past you have talked about variable annuities essentially being a de-accumulation product and you do not have any accumulation product as such. Can you update on where you are in terms of developing that type of product? Also, if you could just comment on the DRD as well, that would be helpful.

Barry Stowe: Well, the opportunity going forward is both qualified and non-qualified. Always has been, but obviously the DOL rule was applicable to only qualified money.

I think what is going to change and what makes this easier, if you will, is the fee-based product. It is not just that the adviser is compensated differently but we have gone to great lengths to simplify the language in that product, to make the charging structures very transparent to the consumer. So as opposed to getting this thing where an adviser comes to you and says, oh, we are going to sell you the P2, probably Level 4 and we are going to put a GMWB on there and a DB as well and you know people's heads are just spinning, they have no idea what you are talking about.

Now, what you are saying is we are going to come to you with this product. There is a platform of 160 funds that you can choose from to invest your money and most of these funds are already familiar to you. They are available directly or through your financial adviser or whatever, so they are instantly recognisable names. They are not proprietary funds, they are very popular and well-performing funds in the marketplace. Choose those funds, you are going to get a tax advantage and let me show you the value of that.

Then the real conversation that we need to have is how much you are willing to pay for insurance. So you think about it this way. You own a home, and you pay extra every year for that home because you choose to buy insurance. The reason you do that is because that is an asset, probably your largest assets, or certainly one of them and it is so valuable to you that the loss of it financially is something you would not even want to think about. So you pay potentially thousands of dollars a year to insure that.

Likewise if this is your pension pot and you are going to have live on this for the rest of your life, would you like to see a proposal for insurance that says that no matter what happens, if you make bad investment choices, if the market just goes all to hell, there is another 2008 and the recovery is slower, regardless of what happens that there is a stream of income around which you can budget your retirement lifestyle and that stream of income will never go away.

So the conversation with the consumer because of the structure of the product, because you are doing it in a fee-based environment where the cost of advice is now out of the illustration and we are now functioning on the same level as someone who is just looking at putting money into mutual funds, it completely changes the dynamic. I think that is the change.

There are other things. If the SEC and the Department of Labor do get together and harmonise the fiduciary rules so that everybody is working on the same basis regardless of whether you are talking about qualified or non-qualified money, that is great too. If we can get to the point where we have got the technology solution so it is easier to transact, that is great. However, the real difference is a product that is simpler, de-mystified, transparent. Does that answer the question? Do you want to talk about DRD?

Chad Myers: Well, DRD that is one of the parts that is going on in kind of like the meat grinding that they are doing on the tax side. So DRD, it appears that it will continue, it is just at what level. So there is DRD relative to insurance, there is DRD relative to all corporations. It looks like they are planning on levelling the overall deduction you can take across all industries to make it level with the new tax rate so that you do not get kind of a windfall. So an equilibration that is going on there.

Past that, as Barry mentioned they are still working through some of the insurance provisions to see how much is going to be off of various topics. DRD is one of the ones being discussed but we will not know until we see the bill. However, we expect that we will still have benefit to DRD.

Nick Holmes: The first question is on risk appetite. You have written a lot of variable annuity guarantees in the right part of the cycle since 2009. What is your view of the guarantee as a financial proposition if you like, if the next five years are not a bull market? Is that where you want to take the company?

Then the second question is looking at NAIC reforms. You have provided us with a very helpful update on policyholder behaviour assumptions. Wondered whether you could share with us your views of what the NAIC is planning in this respect. I think there is more disclosure that they are thinking of, and how you would want to respond to that. Thank you very much.

Barry Stowe: Sure. I will let Chad give a more fulsome answer, but fundamentally we believe with the consumer centricity of the product we believe we have the capabilities to write it, not just in bull markets, but in bear markets we have done that. As Chad alluded to, you have seen us behave differently in different markets and you have seen us willingly – not necessarily gleefully, but willingly lose market share and sort of withdraw when contract language and pricing associated with contracts got just too aggressive, so we stepped back. Because we take – again coming at everything from the standpoint of consumer centricity, we take our ability to deliver on every promise made extremely seriously as you would expect us to. When people are promising things that are complicated to deliver, then we do not make those promises and we will step back.

Chad Myers: We do not assume that the next five years are going to look like the last five years. The market is going to have to correct at some point given the valuations and all that. What I would say is the products are priced through the cycle, so the fact that we are generating north of 30% ROEs now is fantastic, but that is not our base case. If you thought about, if you think about it in those terms, [inaudible], but if you saw a halving of the market and therefore a halving of our fees, you are still going to be at mid-teens ROE on the product. So we are quite happy we wrote it at that point in time.

So you know, the long-term nature of the products will give us I think a very good cash flow signature over time. If you get a correction, again that sets things up for a very nice time when you write the next chunk. The existing book is well hedged.

The other thing I would mention on risk appetite just in general is to keep in mind we have had a very – and actually in the past, this is getting further into the past, we had a pretty good lift out of the crisis in terms of net flows and if you think about the growth of the block it was going at a pretty good clip, 20%, 30% a year type of growth for the in-force.

Most of what we are seeing right now is not off of sales, it is really off of the growth in the market. So our net flows, if you look at net flows as a percentage of the overall book, it is mid-single digit percentages. So it is not a runaway growth from that perspective. Most of what we are seeing really is how the market is driving itself. From our sales perspective, new business type of perspective where we are right now is actually comfortable because it is not really adding much to the overall risk pot if you think about it that way.

On the NAIC: so the NAIC should have received from Oliver Wyman sometime last night in the wee hours, a proposal from Oliver Wyman based on all of the Quiz 1 and Quiz 2 studies that have gone on, of which we have been a very active participant.

The next part of the process is the NAIC working group is going to take that under advisement. They are going to come out with what they view as what they would like to see given the various levers that Oliver Wyman has shared with them. They will expose that sometime next week publicly is our understanding, what their view is. That will be further discussed at the NAIC meeting in December, conveniently located in Hawaii in December and there will be more debate there.

There will be an exposure period, we are expecting 90 days post that for industry to come back on it. Then we will see it work its way up to the NAIC. Keep in mind at this point everything that has been going on within the NAIC has really been going on inside this working group which is, within the overall architecture of the NAIC is a relatively junior group. It will have to go up to these other committees, which based on conversations we have had with the committee chairs of the various committees has not had a whole lot of focus from the parent committees. So that will be more looked at there.

If it is significantly worse than people are expecting I imagine there will be a lot of conversation at those committee levels from the insurance industry. So there are positions that can be taken along those lines.

As I have mentioned previously, and I do not expect it to go this way, but if it is sufficiently poorly written or sufficiently penal, what is going to happen is it will incentivise companies to go set up captives to avoid the exact – it will incentivise the behaviour it was exactly intended to avoid in the first place. So there is always that option.

With respect to the policyholder behaviour too, I think where you were going, which is the disclosure piece. One of the bigger open items at the moment is whether or not there is going to be a standard scenario like there is now. Currently you have got the sarcastic version and the standard scenario. There is discussion about a standard scenario that would not be quite in the same vein that it is today. It would be more of a policyholder behaviour kind of capital add-on is the concept that you are looking at. That is being discussed as to whether that is going to exist at all. Some of the more conservative states are pushing for things like that.

There is also a lot of discussion about whether it would actually go into the capital formula or whether it would just be a disclosure item. There is a reasonable chance it just becomes a disclosure item. So things that we will still have to see on that. I would say broadly speaking if it lands the way we were kind of expecting it to, I think it is within the realm of what we expected it to come out, not a huge capital drain on the industry. Again, until the [inaudible], we do not know.

Andy Hughes (Macquarie): Thanks very much. Three questions if I could very quickly. The first one is I just want to understand if the lower lapse rates have translated into the stress scenario [inaudible] because you have sort of put those in one for one.

The second one was I guess about the standard scenario you just mentioned because I think you think your book is better positioned than the industry. So do you think that moving to a kind of standard scenario of some sort of policyholder behaviour assumptions will be particularly penal for you given that your book is very different?

The third question is about dividends for the – how you approach dividends from here and how your local regulator views the scenario for you to pay special dividends given all these uncertainties to do with tax and also the regulatory change environment. Thank you very much.

Chad Myers: So, on the first one, on that one cash flow slide that is updated for assumptions and if you went back and looked at the 630 one, you will see actually that the 930 down 40 is a little bit worse than the 630 was. Not meaningfully so but it is a little bit worse and that's due to the fact that we have lower lapses. You'll also see the base scenario is a fair bit better also due to the fact that we have got more persistency. So that is kind of the trade-off. So the new assumptions are captured within that.

On the policyholder behaviour piece, one of the things that we have been observing as they go through this, there definitely seems to be some disconnect between GMIB policyholder behaviour and GMWB policyholder behaviour. So and if you think about what products are out there, there is more experience with GMIB deep in the money because that is just more of where that product – the way that product was written and the way the market has gone, you get a little more experience on that. So we would not necessarily be fans of taking GMIB experience and putting it on to GMWB.

That said, what is a little bit thorny with this is that that which they are going to base their conclusions on is a very, very small sampling of competitors that submitted policyholder behaviour detail. So for instance, Jackson was not part of the policyholder behaviour study they went through and we obviously have one of the biggest books in the industry. Even Oliver Wyman in some of the papers has pointed out the fact that these deep in the money lapses which are the issue, if you are looking at the capital, that there is not a credible cohort in terms of enough experience within that cohort to be able to draw any great conclusions. So their own work is basically supporting that there is just not enough good data to be able to come up with a high confidence level scenario or set of assumptions.

So I think that is why it is probably more likely to push towards disclosure because there is going to be a lot of pushback from the industry. To take a less than fulsome lapse study with a lot of variance between companies and say we are going to apply this across everybody is not a particularly useful way to go about it.

Dividends. We are still well-capitalised from the perspective of a US insurance company, so we do not expect that the state is going to stand in front of any dividends necessarily. However, that said, we have NAIC coming out and we mentioned tax so we will have to see how all that shakes out for us and the industry when it comes time to pay dividends again but at this point we do not see any pressure.

Blair Stewart: Afternoon gents, thank you very much; two questions. Barry, just on DOL, do you think we will need to wait till we get to mid-2019 to see a return of confidence from the advisors, or is there something that can happen in the meantime, whether it is SEC involvement or something else, that can inspire more confidence in the VA market?

Secondly, on the product, you talked about the opportunity of all the advisors out there that do not sell the product and I guess cost is one thing that we often hear, the cost of the product. Have you thought about any alternative product designs that would lower the cost? I know some of your competitors have brought in a very low-cost VA and will be using ETFs and index funds that still gives accumulation optionality but at a lower cost. Is that something that you have considered or would consider?

Barry Stowe: In terms of DOL, there are already some green shoots appearing; the drumbeat from the field, from our external wholesalers who call every day on advisors, gets gradually more positive with each passing month so there is cause for some encouragement. I do not think that it is just going to kind of plod along and then all of a sudden with a new fiduciary rule we get this huge uptick.

I think also the messaging that comes is very useful when Secretary Mnuchin or Secretary Acosta, in whatever forum, opine on this, 'Work is underway,' or the new SEC Chair, Clayton. Soundbites from them are useful and cause encouragement. So, no, I do think it starts recovering, but it is really an important milestone that we get to July 2019 with the right kind of rule. However, it will take time.

Blair Stewart: Can I just ask, what is it you think advisors need to hear? Is it litigation-related?

Barry Stowe: Of all of the dimensions, it is the litigation as an enforcement mechanism that caused the most concern. In some respects, it is not actually what the advisors need to hear;

it is what the broker-dealer compliance departments need to hear. There are a lot of tickets that get written by advisors for these products and it varies from broker-dealer to broker-dealer but some of the broker-dealers are just so concerned about the risk they accept – and that is the principal cause of the risk – that they just knock back VA tickets. So that is really the message that needs to get through and Secretary Acosta has been pretty open about the need for a reasonable enforcement mechanism in lieu of right of private action.

Product. First of all, the ETFs are available on the advisory platform now so, as an investment vehicle, those are there. I think, actually, when you sit down with a consumer, as I said earlier, and you explain what the actual costs are, you can have a conversation and you can say, particularly if you look at the new advisory product and you compare it against an actively-traded mutual fund in particular, you can demonstrate that the costs are fairly equal before the guarantees, that the basic cost is fairly equal. When you bring in the tax leverage that is inherent in the annuity contract you can make the case that we are cheaper than the mutual fund. However, even if you set that aside and just say, 'We are starting from the point where we are the same price,' then we are having a conversation about what are you willing to pay for insurance and what does that insurance actually provide you. That is exactly the kind of conversation we have always had. I have done this to people; I sit down and take them through the presentation: what would you be willing to pay to ensure that you could get X amount every month forever no matter what? When you tell them the cost, most people I talk to say, 'My gosh, I would pay that. That is not expensive insurance.' It is really how you frame the whole thing.

Candidly, one of the keys to this and what really skewed the conversation was the fact that for years we had the cost of advice built in, which people did not really recognise. That made us look very expensive relatively speaking, compared to a mutual fund. With that out of the equation, you can have a straight-up apples-to-apples comparison; the product is very compelling.

Chad Myers: One clarification on that too: when we talk about it being apples to apples to the rate of the mutual funds, the prospective advisory product is designed to be competitive at the iShares level. So these are institutional-share-class prices.

Barry Stowe: Yeah, good point.

Chad Myers: One of the things we also brought in with respect to PA2 back under the other products as well was Vanguard as an option. Vanguard is obviously key in the advisory market –

Barry Stowe: And trades.

Chad Myers: – so we have Vanguard.

Barry Stowe: And to trades too, internal trades. The other thing that we provide that the mutual fund does not do is if you want to switch around, rebalance, within the mutual fund, even if it is a modest charge, there is a charge every time you do that. We give virtually unlimited ability to trade within the contract at no cost.

Chad Myers: It is a benefit relative to the mutual funds in terms of the no cost.

Barry Stowe: Yeah.

Chad Myers: However, yeah, Vanguard has already been very well received, I think that will give us some lift too.

Barry Stowe: I think that was it for us.

Conclusion

Mike Wells

Group Chief Executive, Prudential Plc

Conclusion

Alright guys, the home stretch. Hopefully everybody is getting settled. We showed you some of the compounding J curves in these markets from the difference in the various cohorts of the Baby Boomers coming through without DC plans, to some of the well-rehearsed capabilities and dynamics in the Asian market. Then the leverage of all the things that we are doing in the UK on top of the consumer's need to self-fund and get the money out of cash ISAs and our ability to compete the second-largest asset management business.

There is another thing I hope came across today. Most of you know this but I have been a little over 22 years with the group and we are getting a lot better, as I hope you heard today; not only do we have the breadth and talent to do all these things but to innovate with partners.

I will give you a quick anecdote. One of my first presentations to the board for Hawgram Barnes[?]; I was with the firm about a year. I had brought an IBM laptop that actually had the amazing colour capability at the time into our old boardroom, which had pop-up screens for the board members. It still had the two secretarials, where the note-takers could not see the board members, just to give you a visual of this. I asked our IT people the night before for a 24-pin cable. Does anyone remember these? You plug into a monitor with them; there are actually 36 on one end but 24 on the other. To give you just how focused we were that everything had to be built here, they did not have one, so they got one of the electricians and they built one. I get there in the morning and there is this firehose of 36 wires that has been taped together that they want to plug into the back of my new laptop; they are quite serious. They drag it down the hall like they found a large snake in the yard or something. We plug it in and it works, and I go through the presentation. I said thank you afterwards to the electrician. I said, 'Let me ask you a question: why would you not just walk down the corner and just buy a printer cable?' He says, 'You need to understand, that is not the way we do things here.' Okay, it is now.

I hope you heard Alibaba's Cloud in China. On that platform, almost all the transactions now are on WePay or Alipay. It is an almost cashless business model for us, including the payments out. You have IBM Watson, Blackrock's Aladdin, Microsoft's best technology, some of the smallest tech firms we have partnerships with. We do not have a bias going into this that all innovation has to be driven in house. We have to be a good partner for innovators and with our scale and our reach and all the various projects going on, they are leverage for us in our business model. So we need to be able to connect with them, we need to have client bases that they want to work with. We bring scale to a start-up, and we bring a large account to a large tech firm. Hopefully you heard that today.

The last point I am going to make before we go to Q&A is the quality of the growth. We are walking away from a lot of business that competitors are choosing to write. That could be product, that could be channel, that is countries, that is entire regions and we are very happy and very intentional on where we are doing business, who we are writing it with, the kinds of products we are doing and I think that is getting you the consistency of the returns.

With that, what would you like to know? Let us do some questions; what are you curious about?

Q&A

Greig Paterson: Hello. Three questions; two on the US. Some of your commentators on the RBC ratio relative to the proposals around tax change, because of the different bases used and the different components, said they thought that over 50 basis points hit on their RBC ratio. I was wondering, because you are a GMWB writer, versus an IB writer, whether yours will be larger or smaller. That is the first question.

The second question is: last year, for the first time in my memory, on a fair value basis, whether you adjust the IFRS or use EV, you may a £1.5 billion loss in your VA hedging programme. From my understanding, it was because of high equity markets and high interest rates and an overspend on a hedge, etc. However, one of the things I took away from that is the EV sensitivities were not very predictive, hence I missed it. We have had equity markets rise further and interest rates rise further. One of my worries is that suddenly we are going to see another below-the-line item and I am going to get a phone call from a shareholder going, 'Did you see this, Greig?' which happened this year. I wonder if you could give us some comfort on what actually went on there, why the loss for the first time in a long time and how we do not have to worry about it going forward.

The third question is: AIA has done three, maybe four, large bancassurance deals recently. I was wondering why you guys never did any of those. I was wondering if you just want to talk about the opportunity, why they are getting them and you are not. Maybe it is on price, I do not know.

Mike Wells: I will bounce these to folks. On US RBC, remember it is after the tax changes affect. However, let me flip that to Chad or, sorry, do you want to do it, Barry?

Barry Stowe: You said it was a GMIB writer that suggested that. I wonder –

Greig Paterson: Sorry, just a point, on the required capital, one is gross of tax, one is net.

Barry Stowe: Yeah.

Greig Paterson: In terms of tax ratios, the first thing that the ratios [inaudible].

Barry Stowe: That is right.

Greig Paterson: People said 50 basis points, I was wondering if you get the same number; higher, lower?

Chad Myers: It will not make a difference if you are a GMIB or GMWB writer; the impacts on that will be primarily driven by the C1 charges; that is the bigger issue, the credit type of charges. It depends on how big that book is and more to the point, where you are in the credit spectrum.

Mike Wells: Chad, while you have the mic, do you want to address the hedging comment?

Chad Myers: On that one, I do not think we have seen anything new going on in the hedging below the line. I think, as we have talked about over the years, depending on the market scenario, IFRS is a very market-consistent type of framework so you get all kinds of interesting answers coming out of the reserves versus what we are doing in the hedging. We hedge the cash flows; that is what the hedging is driven off of.

On your specific point relative to EV, maybe we can take that offline because I have to see exactly what you are pointing out.

Greig Paterson: On a fee value basis, if you adjust the IFRS, which you are able to do, it was also last year as well. So when you put everything on a like-for-like basis there was a big loss last year because [inaudible] went up and interest rates. I am trying to figure out whether you are going to have another loss this year, the programme is the same.

Chad Myers: If you look at IFRS below the line through the first half of this year it was certainly significantly reduced from last year, and I think well within our expectations. So, I will pass that on.

Mike Wells: Then, on the AIA comment, I will flip it to Nic. However, I think it is a fair assumption that any reasonable-sized bank deal in Asia, even the smaller ones, there is not a whole lot that people do not look to us given our capabilities there.

Nic Nicandrou: Maybe just to repeat what Mike has just said, we have line of sight of pretty much everything that is happening in the region. You would expect that because we have had some of the longest relationships and we are reaping the rewards of that.

However, as we have said before, we want to partner with people who will look to build exactly that: a partnership. We are not in it just to pay the biggest upfront cheque. Actually, we want our partners to make most of the money through the five, ten, 15-year period of the deal and that is the basis on which we do these transactions.

The other thing I would rein-force I think Barry has said many times. We would like more distribution but we do not need more distribution. On the banking side, as you saw earlier on in the slides, we have access to 10,000 branches across the region; that is one of the largest footprints by some way. Even though, with partners such as SCB, and now UOB, we have been cooperating, collaborating for a number of years – in the case of SCB 17 years – the sales from bank branches are going up strongly. In the nine months of this year, sales are north of 20%, with both of those names producing double-digit growth.

So, no, we do look at it but we will only do it where that is economic. One other development that is happening in the region is that we began to see non-exclusive, product-only type deals that one or two insurers are making with banks. That is not an area that we have looked at very hard in the past and it is an area we are going to be putting more focus on as we move forward.

Nick Holmes: A question for Mike: looking at the Group growth outlook, you have obviously achieved exceptional growth in the last ten years but this has come as much from the US as from Asia. Looking at the next five years, with the – I do not know how to describe them – challenges, or uncertainties, perhaps, is a better word, in the US, how confident can you be that Pru will maintain its superior growth? Could you actually share with us your conviction about whether double-digit growth is still what you think is truly achievable?

Mike Wells: I am not a huge fan, Nick, as you know, of forward-looking statements; my aversion to orange I think is part of that. The structural growth of the businesses are there. Think of Mark's slide on the future value of what we have already written in Asia. If you take the percentage of recurring earnings that we have now versus what we had, to your point, five or ten years ago, it is a completely different order of magnitude, both in the absolute number and the percentage of earnings. I think we have been very clear: we think Asia a growth-driver, earnings-wise. What is the natural growth rate in Asia? It is incredibly difficult to predict, even with the portfolio we have. I do not think we are missing a single market in Asia, with the exception of China. In every one of the markets that you want us to be huge in, we have a market-leading position; in China we have an incredibly fast-growing, very well-structured, very dynamic business with lots of upside. I would love it to be two or three years on, whatever metrics we think that will produce; that is structural. In the cyclical earnings from the US, from M&G, from PruFund, what you see again in the first nine months of the year is that the team, I think, was a little modest on this; it is outperforming their industry peers dramatically on net flows. So our ability to compete across cycles and get what growth is there – and these are off large numbers – I think is proven; it comes back to your assumption on markets.

The cyclical businesses will be impacted more by a different market climate; Chad has gone on about a correction, if that happens. The other thing I hope was clear today is the allocation of the consumers whose money we manage in various vehicles is fairly conservatively allocated. It is disproportionately value-centric on the equity side, it is pretty well diversified on debt and equities, so even our sensitivity to market movements is dampened by the way we have long term savers' conservative money.

I think our growth prospects in any market looks hugely competitive with anyone else. The question is what market do you want to throw at us, and then I can tell you what aspect of the performance we expect to come through. If there is a major correction in the US I think the resiliency of the capital on the balance sheet will be what we are talking about; if there is a major correction here it will be the sales on the with-profits and the more conservative bond funds. In Asia it is still about structural GDP growth, market penetration. The risk off trades tend to increase persistency and elongate sales in all markets but I do not see a derailing scenario for us. At the end of the day, our performance measuring has to be relative to other asset managers, other savings companies, the people that provide the solutions that we compete with.

As I have said before, I think the worst scenario for us is if every consumer globally though the easiest thing to do was buy a passive growth fund. That is the one that is actually the hardest for us. I know most of us have worked through that climate, when clients expected high-teen returns on equities without any risk. It is an incredibly difficult business climate if you are a risk-off provider. However, no, I would not go forward with what our forecasts would be.

The only other thing I would say about though is I hope it is clear today that everything with us is about evolving and evolving at pace, so I do not see anything in our short-term plans that would suggest we cannot compete with anybody in the markets we are in, which is also a factor in growth for us.

Andy Hughes: Hi, three questions if I could. The first one is the question I always ask on PruFund, John, which is: what is the shareholder share of accrued bonuses that you have not distributed so far?

Second question, on Malaysia: obviously the 25% potential sale is indicated by the regulator; would that sale be taxable, the proceeds? What would you do with it; presumably you do not need it in Asia?

The final question, I guess, is: on China, do you have a call option? I think a few of your competitors have mentioned they have a call option on the stake; do you have a call option on CITIC that you could exercise? Thank you.

John Foley: I can give you the same answer I usually give when you ask that question, Andy, which is that we do not disclose that information, but thank you for asking it.

Nic Nicandrou: There is not much to say at this point on Malaysia potential divestment beyond saying that we remain in discussion with the regulator and we will update you at the appropriate point what we do, when and if so, how. However, that should not detract from the great job that Malaysia is doing in our numbers. We have a phenomenal business there and we will drive value either organically or, if we have to make a disposal of some shape or form, then we will extract the value in that way. I was there only last week, I had the opportunity to see the team. I will talk to the numbers in Malaysia because they are in the public domain. We were growing at the rate of around 10% at the half-year; we stepped that up to 32% in the third quarter, so a big step-up. Malaysia year-to-date is up 18% and is growing three-times faster than the market, a number one position in both conventional and Takaful business, so a great place to do business and one where we continue to extract value, as I said, under whatever ownership structure we may end up having to abide by if the rules move in that particular direction.

On China, shall I move on to that one? No, there is no call option, certainly in the Life side there is not. The rules came up last week; there was no option to increase beyond the 50% level. However, let me have another go at explaining why we are excited there because it is critical. We have now been there for 17–18 years; we started late 1999, early 2000. It is no coincidence that we are in 18 provinces. Although there are no rules, there is nothing written down, that says foreign JVs will be licenced at one province, one branch a year, that is what actually happens. As we go forward, who knows? In liberalising and relaxing this, they may allow others to accelerate that, they may not. They key thing is we are there; we are there in all of those 17, all of those 18; we have access to 940 million people. We have 1 million customers, so we have the branches, we have the distribution, we have the admin centres, we are connected to all the social platforms, to the payment systems and we are selling business. The biggest opportunity for us is growing into that footprint. It is how do we turn and how quickly we turn the 1 million customers with 2 million policies into 2 million customers with 6 million policies; that is the main driver of growth and the main driver of value. If we can do that at the same time as taking our 50% and turning it into 60%, 70%, 80% that is fantastic and of course we are going to have a go at doing that.

However, that is not going to be main driver. The main driver is penetrating the footprint. If I am fortunate enough to be in the job for as long as Barry was, I see no reason why China cannot be as big, if not bigger, than Hong Kong; that is how great the opportunity is.

Mike Wells: Just, Andy, one more comment on that. We were in Beijing three weeks ago. I think this is just an amazing team; it has evolved. CITIC is a great partner, navigating China with a well-regarded major state-owned enterprise is a nice way to deal with the complexities and the local cultural issues, the difference between a Wuxi and Chengdu. They are incredibly valuable as a partner to us in this, so what you are talking about is economic interest, if we own more of it. If you said, 'Would you rather have 100% ownership or an excellent partner?' I would take the partner. I think they add incredible value. The relationship has evolved to where there is far more interaction at the board level and the team functions as a team versus the sort of stacking when the relationship was early of one of yours, one of ours. They are very open to best practice; the teams look at competing with mobile GI players in terms of quality, as you heard in some of the comments. They have built their solutions and their consumer front ends to be that easy and that effective, so it is quite a good partnership.

Again, if we were starting from scratch today, would you like to own more of the economic interest? Of course, it is a growing business. However, I would not trade that to not have them as a partner; they have been incredibly valuable.

Jon Hocking: Thank you. I have three questions, please. Firstly, you are doing a lot of super-interesting stuff, particularly in Asia, in terms of digital and customer journey, etc. Is any of that transportable to elsewhere in the group? I think in particular the UK, given you are starting to digitise the business. That is the first question.

The second question, I guess, for Nic: in terms of the extra IT expense you are putting into the business and with a lot of the business looking like it is going to be straight through in terms of policy onboarding, etc., I am guessing there is not a lot of gross margin erosion going on in Asia. Is this something where we can expect to see a margin inflection point at some point as this actually becomes ubiquitous within the business?

Then, just finally, I guess, for Barry: looking at the US business, the business had reinvented itself once from being a sort of fixed annuity shop to being a VA shop. If what you think is going to happen with VA does not pan out, for whatever reason, because of the regulation or distributor attitude, is there something you can do taking the capabilities you have in terms of admin, advisor relationships, etc., to reinvent the business again and take it into a completely different product direction? Thank you.

Mike Wells: So, John, on the digital, hopefully we showcased today that these are things we do in normal course; we do not have one team working on this separated from the company. I think that is a model but it is an actually quite difficult model, they tend to have the best toys and different rules. These are embedded solutions.

Specific examples, to your point: Aladdin, if you think about it, is across the group; the robo-advice technology that we are using, again we did small first-round investments in some of the small firms like the one we did in robo-advice you see in Taiwan and you will see in the UK. We are quick to use technology across regions; some of it is regional-specific. I have WeChat because of my son in China and I do not have the payment capability because I am a foreigner. Those sorts of things I do not see translating to foreign markets. However, India, if you looked at our fund management and our life JV, is incredibly digital, and there is far more sharing than I have ever seen in the Group.

Have we eliminated the need for any outside advice? No. Are we much more efficient in bringing the teams together and saying, 'We own this, try this'? Absolutely. There is an evolution. As a team we have probably seen 50 start-ups this year that think they are either disruptors or part of some, because some of them we would invest in, some of them we want to know how they think they would attack our franchise. If you think if you are a small fin-tech or insurance tech which is actually a thing, if we partner with you, it is as if we go into a building, so if you are in a building and we move in and sign a 20 year lease, the value of that building goes up because of our credit, and your building to raise money; it gets easier if it is a mortgage, or it happens to be – same is true of a small fin-tech; if they are small and we do an early round with them, that is credible, and if we do an early round and they have access to our capabilities, our data, our technology, that increases the value of their franchise, so these firms want to talk to us, and I do not think we want to own all of it. So, when we do that, we do that at the group level.

Alan Ramsay has been discussed a few times today; he is our head of digital, he works across business units, we negotiate across business units now in technology contracts, that could be anything from API, whatever it happens to be. So, again that goes to efficiency, that is using our scale, and I think we are fairly agnostic as a team of where something is created now. It is far less siloed than it has been historically, and I say that as of the ones who, as a poacher turned gamekeeper, I used to manage one of the siloes and we are getting beg enough where we need to show you that we can do these things as a group, and digital is a great example where consumers are consumers. What works in Northern Asia market in asset management works in the UK, and some of that absolutely carries across.

On the margin inflection point, Nic do you want to talk about the investment versus the variable cost.

Nic Nicandrou: Yes, we already spent quite a lot on technology in Asia, you may be surprised to hear, but you know, we spent somewhere between £200 million and £225 million a year, so we are talking about upping that by a further £50 million for the next three or so years. So, I do not think this in and of itself is going to have a direct impact on the margin. Margin, in my eight years that I have been with the group, kind of the biggest thing that moved it was country mix and product mix. It is the outworking ultimately of that, and of course the distribution channels, where the products come from.

So, as we move forward, I firmly believe that there are potential drivers of continuing to improve returns. Yes, on the one hand it is a much more competitive region, and competition may put pressure on margins, but as every one of our 600 thousand agents becomes a year more experienced, they will be able to be more productive.

As a year goes by and the GDP increases and penetration increases, those agents will be able to write bigger case sizes. And the work is the same; whether you are writing a £500 a year policy or whether you are writing a £600 per year policy, at least the fixed overhead. Then of course, as we get bigger, you get advantages of scale as well, so there are a number of other exponentials there or growth curves that come from, as we increase the productivity of our agency as case size goes up, and as we put more business through the machine. All of these things will in my view mitigate any competitive pressures, but the shape of the margins ultimately will continue to be determined by mix.

Mike Wells: The other thing I think we saw, in my older role in the US with technology is, you can handle more complexity with that increase in costs, and get a better service to the client, because the standard for us with consumers globally is not necessarily what our competitor does. I mean we talk about competitors in here because of your technical expertise and focus on them. Most consumers, they are coming from Google or a different consumer agent site to one of our platforms; that is their expectation level of interaction, of capability, of feel. So the standard keeps moving up with general consumer standards; it is not us being relative to a Met Life, or LG or VIVA; they do not go from their side to ours, they go from wherever they were doing their electronic bill pay or something to us. So, that bar keeps raising, but certainly some of our newer businesses for example have very, very low scalability, marginal costs, those sorts of things. The scalability for us is probably the one that I think is the most critical to get right. The question on growth; if we do not know where it is going to come, the last thing we want is to be in a market, and I have seen this with multiple competitors over the years, where our back office cannot handle the growth; that is one of the true failures of a business model, so these cloud platforms are much more scalable than our old mainframe platforms, and what we do not want is a fantastic year some place and then our service degraded because we are not processing quickly; those sorts of things. So, those sorts of benefits, you will not see if we do it right, but they are absolutely critical that keep all of those lines going up in the right direction.

Barry Stowe: US question?

Mike Wells: Sorry, US, Barry excuse me. What are you going to do next?

Barry Stowe: Well, it is a great question John, but the way I would think about it is, it is not like we are currently the manufacturer of the world's greatest fax machine and technology is going to displace us; people will retire, and we are not a VA company, we are a retirement company. As you say, we used to do fixed annuities. We transformed it into VA which was largely because of the emerging consumer centricity of the product at that time and the fact that it was, and now today perhaps even more so, is purpose built for the environment. However, we are emotional about VA in this environment. If interest rates were different, we have demonstrated the capability to build fixed; you will see us innovate in the coming months and years probably on index product as well. However, we are a retirement company and we think that given what we believe are clearly demonstrated superior capabilities in that space that for us to say we now want to become a cheap term rider or something like that is too far afield.

So, expect us to continue to be a retirement company and doing things around the edges of retirement because we will all age; I am living proof of that, and people will retire; they will need these products and as we tried to say in the presentation, as the years go by, the people that approach that conventional retirement, age 65, need these products even more acutely than the people that are retiring today. If I could be the Asia guy for just a second, you know, talking about sharing; years ago in Asia we looked at the idea of drawdown products, of de-cumulation products in Asia. However, this is going back ten years; we did market research and it did not seem to be very compelling because the view of the focus groups at that time was, I want to manage my own money, I know what I am doing, I am as smart as Warren Buffett and I can figure this out. However, the sort of socioeconomic change that is occurring in Asia, I believe, is, and will continue to result in cultural change as well.

The idea of the multigenerational household is a foundation of most Asian peoples' retirement plan is going away. Look at the mobility you see in China from west to east; people that never go back to the village; the parents do not leave the village. So, you have to think very differently about how people in that gigantic part of the world where we have this advantaged platform are going to think about retirement in the future. I would suggest it will be very different than the way they have thought about retirement in the past. You have to believe that there are skills, resident within this group, that not next week or next year, but over the next decade could be very usefully and profitably applied in Asia. I hope you are okay with that.

Peter Michaelis (Liontrust): One of the traditional ways that fast-growing life companies tend to get into trouble has been around mis-selling of products. Could you explain how you can give us comfort and how you get comfort actually that the 600,000 agents in Asia are not incentivised to sell the wrong product, because it is a natural bias given the information asymmetry that there is?

Nic Nicandrou: It is a very good question and a very important topic for us. There are so many controls in place in relation to that, starting from the level of education with the people that we take in across the region have to have; there are minimum levels, in some countries those are set by regulators, in other countries we set them ourselves. Every one of our agents is licensed, so they have to pass a certain level of exams and those exams get tougher depending on the products that they have to sell. The payment structure of products that we offer in the vast majority of cases, pretty much everywhere in fact, they have to be approved by regulators. So if you like, the load that represents commission is something that gets sanctioned.

In some other countries the regulators established limits after the commission that you have to pay, so really there is no give in that sense. The advent of technology and all the stuff that Lillian showcased at the very modern point of sales systems, allow us to ensure that in going through the needs based analysis, that suitability has been assessed, where required under the rules, or more generally, and affordability has been assessed. You can build quite a lot of the conduct type controls, kind of at the point of entry. There are the normal cooling off periods, we do not see a lot of products, a lot of people falling away during that cooling off period, and again they will be of different lengths depending on the market. We have happy goals, as we call them, to make sure that they – on a sample basis of course when you are writing a million policies a year, you cannot necessarily reach out to a million people over that period, but to make sure that people understand what they are buying. Then of course, you see what people do once they have, once they are with you, and the fact that, as I said earlier, 95% on an annualised basis, of customers stay with you is key, because it means that they did buy the right contract for themselves.

Finally, the fact that we are selling a regular premium product. Remember, 94% of what we sell is regular premium, it means the customer has been taken through the illustration, has been taken through what it means, that full needs based analysis, and has decided to commit a more modest amount than perhaps a single premium would be, but to do so year after year, often for 20 or 30 years. Now, to do that, believe me, they will want to make sure they understand what they are buying. So there are a lot of things in place, and we continually evolve them, because of our own standards or as regulations introduce new requirements. I could speak for an hour on the topic but kind of in the interest of time, hopefully I have given you some flavour as to some of the things that we have in place.

Mike Wells: Peter, we would do all the normal audit checks, down to an individual adviser level you would expect, and the metrics that Nic is talking about in persistency, you saw in the software that came up, that is one of the things on the agent's tools. So, you know, it is measured to the producer, same as the other business. The US can take a profitability by adviser as well; they look at surrender activity to see all those sorts of metrics, but I think Nic hit it in all the markets; if you start with a good product, and then you cannot do good business with bad people. You have to know who you are doing business with, you need local expertise, you need to monitor those situations, check what you believe is true, and we do that across the business units, and again going back to Nic's point on the persistency, that is probably the final scorecard. The clients should choose not to pay again if they felt it was not appropriate.

Mike Wells: Last question.

Blair Stewart: Thank you, no pressure. Nic, maybe you can help us cut through some of the noise in Hong Kong, I think you have given some data points, but just really what is going on with the underlying business there and the shift to health and protection, is one.

Barry, if your vision of the US VA market is correct, I guess it is inevitable that you will have to think about risk management and there will come a point where you will have to phone a friend. How do you outsource that in some shape or form?

Finally, for the UK team, I guess as the business migrates to capital like savings model, you will be paying very high dividends back to the group at some point, I guess. Thank you.

Nic Nicandrou: Okay, so Hong Kong, I guess as I said when I was answering the question if you like on the sales headlines for the region, I will repeat the same thing in Hong Kong, you have to look beyond the headline. The headline APE, because if you only do that then you will miss the quality story that is happening behind that. So, we deliberately pulled out the broker business in Hong Kong; we used to have a 30% market share or broker business in Hong Kong, that is down to a few percentage points. We will still do it, but we will only do it where the broker sells a savings product to a local Hong Kong resident, and only when they do that with some protection riders. So, we pull back from the big part of that market that relates to Mainland Chinese money, as I said, for risk and quality reasons. So, in the first nine months of 2016, 17%, nearly a sixth of all our sales in Hong Kong were from brokers, that is down to now 4%, a twenty-fifth, rather, of our business from brokers. So, that is a feature, and that was very deliberate in the way in which we did things.

The second thing is the push on health and protection, and really our main push in health and protection in Hong Kong, it is true across the region, comes from agency, so we have focused our agency resource on selling more health and protection. In the first nine months of last year, 25% of what the agencies sold in Hong Kong was health and protection, now that is up to 27% in the nine months of this year, and in the discreet third quarter alone, we had 30%; roughly one third of what agents were selling in Hong Kong was health and protection. That kind of gives you the trajectory in terms of mix. What that has meant, that the NBP that agencies produce for health and protection is actually up in the nine months of this year by 23%. It was also double digit in the third quarter of this year.

Okay, so that is the quality story that lies behind Hong Kong, and of course we have that happening in our other businesses as well. If you took the mix of health and protection, ex-Hong Kong across all our other businesses, that is around 31% in the third quarter of this year; that is how significant it is. The NBP of that 31%, in other words, the health and protection was up 27%. Okay, that is the quality story; 30% of mix in Hong Kong, 31% elsewhere, rising at 23% NBP and 27% elsewhere. However, just coming back to Hong Kong, really, do not judge us by quarter. If I took what Hong Kong did in the first nine months of this year, and compare it to what they did in the first nine months of 2015, you know, you still have a business. Okay, it went up and then maybe it came down a little, but you still have a business that produces 30% more APE than two years ago, and 76% more NBP, despite the withdrawal from the broker business. That is what we mean when we are saying we are going to be focused on quality.

Barry Stowe: Chad would tell you that the entirety of Jackson is one giant risk management function with a little distribution on the edges, and he would not be entirely wrong. Risk management is a daily, hourly, ongoing activity, and it is done in a very active way. Chad was talking about the very profitable cohorts of business that were written in the past, and he shows how the profits will emerge from those. The fact is, even since then, we have gradually de-risked by tweaking pricing, by tweaking product. The intensity of the risk that we write in a typical contract today is lower than it was several years ago, even though that has turned out to be a very profitable transaction in the past. So, this is something – and this is no surprise to you – is constantly front of mind.

What I really think will happen with guaranteed income retirement products, and you know, it is not going to happen in two year or three years, but in ten years, I think the purchase of some sort of guaranteed income in retirement will become as mechanical as today the way Americans when they turn 65, they sign up for Medicare, which is the government healthcare provision for people aged 65 and older. Because Medicare has large deductibles and there are co-pays and so forth, virtually every American citizen at age 65, just mechanically purchases what is called a Medicare supplement policy that fills the gap so that they have relatively full healthcare coverage in old age. This will become the Medicare supplement of retirement income; that is what will happen. I think ten years from now the volumes will be huge, which will require not just Jackson but the entire industry, to think about where the capital comes from to fund the liabilities that will be created.

We have had conversations, we think about this, we tried to think ten years out, and we have had conversations and have candidly been approached by some people, typically foreign investors, sovereign wealth funds, other large institutional investors in Asia and the Middle East and elsewhere who like us believe that there is an enormous opportunity around the whole topic of American retirement and are trying to get their heads around how they can participate. So, I think what you are suggesting might perhaps happen, will indeed happen, and there will be the opportunity for someone as capable as Jackson to write larger volumes of business and then beyond the parts of the business that we want to keep ourselves fully on the risk, there will be the opportunity for us to write more, and with co-investors or reinsurers, you know, we conceded to people, there is a variety of different instruments that you could do to accomplish what you are suggesting. However, yes, I think that will absolutely happen and it is not a new idea to us and something we were already working on.

Mike Wells: John, the UK, just the giant dividend we can expect?

John Foley: Yes, thank you for that question, it really helps when negotiating with the new CFO. It is what you would expect, that would be the ambition, it is our ambition, and the only word of caution I would make is that we have a big capital-intensive book that will unwind over a long period of time. So, I guess getting to that nirvana of real capital light, capital efficient, very agile, might take a little while as we do the transformation, but it is certainly on the horizon.

Mike Wells: Right, I think on that, on behalf of all of us, we appreciate your attention, your time, your questions. We will be around at lunch, as will all the extended team if you want to grab somebody privately and ask anything else. Again, thank you very much for all your support. Have a good afternoon.

Next year's investors conference in November will be Singapore; we will get the dates to you in just a little while. So, we will showcase that, again, we are transforming businesses. We will see you there.

[END OF TRANSCRIPT]