

Our investment case



Our business model

Our purpose

For 185 years we have provided financial services to customers across the UK. We are now a global provider of retirement solutions to corporates and individuals, and our skills lie in asset management and origination, longevity risk and technological innovation.

Our purpose is to improve the lives of our customers, build a better society for the long term and create value for our shareholders. This inspires us to use our long-term assets in an economically and socially useful way to benefit everyone in our communities.

This shapes how we work and helps us create our vision of Making a difference through inclusive capitalism.

Our businesses

Our ambitions are underpinned by five strong businesses, each of which is innovating and expanding globally, adding new products and solutions to their strategic goals:

- Institutional Retirement (LGRI)
 - One of the world's leading bulk annuity providers, helping companies de-risk their defined benefits while providing security in retirement to more than 1 million people
 - Building a natural pipeline of future pensions business through our close working relationships with clients throughout the pension risk lifecycle
- Retail Retirement (LGRR)
 - A market leader in individual annuities and lifetime mortgages
 - Ambition to be the UK's leading retirement brand
- Investment Management (LGIM)
 - One of the world's leading asset managers, managing pension assets for third-parties and in-house pensions worth over £1 trillion
 - Diverse sectorial and geographic distribution and asset production
 - Stewardship, creating a better future through responsible investing
- Capital Investment (LGC)
 - The Group's alternative asset platform, makes substantial contributions to shareholder value creation and is positioned to drive further meaningful growth in the future
- Insurance (LGI)
 - Leading data analytics / technology innovation to deliver efficient customer solutions
 - Our longstanding market leadership makes Insurance a hugely cash generative business

We benefit from scale in each of our businesses. Our businesses work together to deliver on our purpose and to drive synergies across the Group.

Businesses		How we create shareholder value	Assets and revenue	Growth drivers
Retirement	Legal & General Retirement Institutional (LGRI)	For both institutional and retail customers we use our deep expertise in the science of life expectancy to accurately assess the risks associated with each contract and, therefore, how much income we expect to provide to our customers. We charge a margin on the initial amount received in exchange for assuming the risk over the lifetime of the policy. We invest the margin and our customers' pension savings in high quality assets. This generates returns whilst ensuring we are able to pay policyholder pensions in full as they fall due.	Annuity assets: £87bn	Ageing demographics
	Legal & General Retirement Retail (LGRR)		Direct investments: £24.7bn	Welfare reforms Technological innovation
Investment management	Legal & General Investment Management (LGIM)	We have £1.3 trillion of assets under management across a range of asset classes. We receive fees for providing these asset management services to both individual and institutional clients through a variety of businesses.	AUM: £1.3tn	Globalisation of asset markets Technological innovation Addressing climate change
Capital investment	Legal & General Capital (LGC)	We generate value through achieving long-term consistent returns on the investments and also from gains made upon sale.	Direct investment AUM: £3.1bn	Investing in the real economy Welfare reforms Technological innovation Addressing climate change
Insurance	Legal & General Insurance (LGI)	We collect premiums for policies that make payments upon death (life insurance), diagnosis of a critical illness (critical illness cover) or inability to work due to illness or injury (income protection). We price using our experience of mortality and morbidity risks, and manage these risks over time. Value is generated through accurate pricing and the margin we charge on each. We further enhance value through the selective purchase of reinsurance at competitive rates.	Gross written premium: £2.8bn	Welfare reforms Technological innovation

Our strengths and capabilities

<p>Our business model is underpinned by the depth and breadth of our resources. These resources allow us to capitalise upon our strategy.</p> <p>They are key to our success and their continued development and enhancement is a constant focus for our business.</p>	<p>People</p> <p>Our experienced, dedicated professionals offer market expertise and honesty in their interactions with customers.</p>	<p>Brand</p> <p>We have a trusted brand with a strong reputation for stability, financial strength and a straightforward approach to business.</p>
	<p>Capital</p> <p>We are a long-term business with robust regulatory capital reserves. We invest our customers' pension assets and our own capital directly into the UK economy in a way which benefits society as a whole.</p>	<p>Customers</p> <p>The long-term nature of our business means we have a loyal customer base in the UK and, increasingly, overseas. We partner with companies throughout their pensions de-risking journey and with individuals over their lifetimes.</p>

Strategy

Our strategy

Our strategy is driven by six growth drivers that affect everyone.

In responding to these long-term drivers, our strategic priorities are set to deliver sustainable profits as well as positive social and environmental outcomes.

Our business model is aligned with our strategy, ensuring we derive maximum benefit for our stakeholders. Environmental, social and governance issues are central to inclusive capitalism and are inherent to all six growth drivers.

Our six growth drives

1. Ageing demographics

As populations live longer their pensions need to last longer too. Companies increasingly need to find solutions to their ongoing pension commitments. At the same time, individuals need to ensure that their retirement funds and other assets can finance longer retirements, with defined benefit and defined contribution pension assets at \$47 trillion.

Strategic priority

We aim to be global leaders in pensions de-risking and retirement income solutions, building upon success in the UK and US.

2. Globalisation of asset markets

Asset markets are increasingly globalised and growing – worldwide assets under management are currently \$89 trillion and are expected to increase to \$106 trillion by 2024, representing an opportunity for international asset managers. North America, Asia Pacific and Europe are all attractive markets which continue to expand.

Strategic priority

We aim to build a truly global asset management business, entering new markets and expanding our existing operations.

3. Investing in the real economy

Throughout the UK and beyond, there has been a long-term trend of underinvestment in major towns and cities, and we continue to experience a serious housing shortage, while Small and Medium Enterprises can also struggle to achieve scale without access to long-term capital.

Strategic priority

By investing capital over the long term, we aim to become leaders in direct investments whilst benefitting society through socially responsible investments.

4. Investing in the real economy

The need to protect people from financial uncertainty continues. This includes helping people take personal responsibility for saving for their retirement, and safeguarding their financial wellbeing and resilience.

Strategic priority

We want to help people take responsibility for their own financial security through insurance, pensions and savings.

5. Technological innovation

Consumers, clients and businesses look to digital platforms to help organise their finances and working lives. Technological solutions can increase security, improve the way we work and how we access information. This can mean the difference between success and failure in business.

Strategic priority

Technology and innovative solutions improve customers' lives and increase efficiency. We aim to be market leaders in the digital provision of insurance and other financial solutions.

6. Addressing climate change

Scientists, policy-makers, markets and regulators increasingly agree that we must move to a global warming trajectory below 1.5°C to avoid potentially catastrophic physical risks which will impact global economies, markets, companies and people. This implies transition to a lower-carbon economy, which in turn creates risk management challenges but also substantial new growth opportunities, including in renewables and innovative technologies.

Strategic priority

We are able to support the fight against climate catastrophe through the positioning of our own investments, our influence as one of the world's largest asset managers and managing our own operational footprint.

Financial ambition

Financial ambition

At the Capital Markets Event in November 2020 we outlined our new five-year financial ambitions after achieving our previous ambition of growing EPS at 10% p.a. (from 2015) in 2019, a year earlier than expected.

Cumulative (£bn)	2016 – 2019	2020 – 2024	2020
Cash generation ¹	5.9	8.0 – 9.0	1.5
Capital generation ²	5.5	8.0 – 9.0	1.5
Dividends ³	3.8	5.6 – 5.9	1.0

1. Cash generation is IFRS Net release from operations (excluding non-BAU mortality releases)

2. Capital generation is Solvency II operational surplus generation

3. Dividends declared. Assumes a flat final 2020 dividend, and 3-6% annual growth thereafter

4. The ambition is based on the aggregate performance over a five-year period. Performance may vary from year to year and individual statements may not be met in each year on a standalone basis.

Over the period 2020 – 2024⁴, our ambition is for:

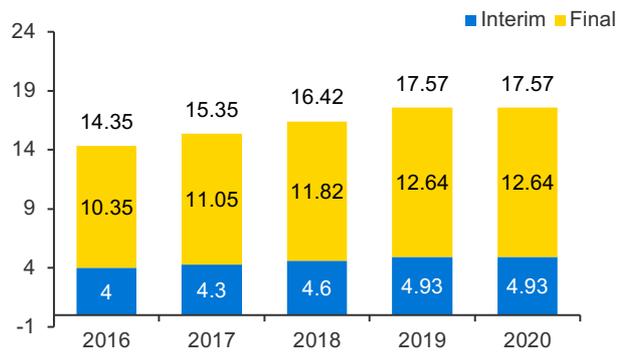
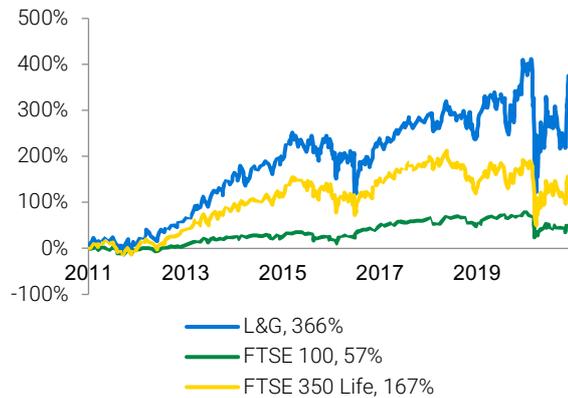
- Cash and Capital generation to significantly exceed dividends
- EPS to grow faster than dividends
- Net surplus generation (i.e. including new business strain) to exceed dividends

Despite the Pandemic impacting 2020 earnings, we have made a good start against our five-year ambitions.

Financial metrics

Total shareholder return to 31.12.20

- 10-year TSR of **366%** (FTSE 100, 57%)
- 3-year TSR of **21%** (FTSE 100, -5%)



Dividend per share (p)

- Dividend per share has grown at 12% CAGR since 2011
- New 3-6% growth rate dividend ambition stated at the Capital Markets Event in November 2020

17.3%

Return on Equity at 31.12.20

Over the last five years, RoE has averaged just over 20%

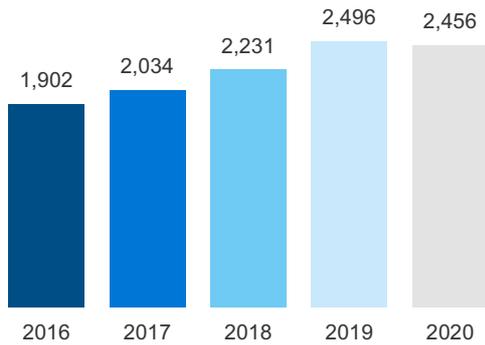
177%

Solvency II coverage ratio at 31.12.20

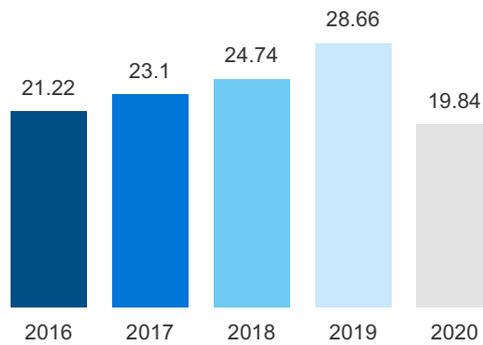
We provided an estimated mark to market Coverage ratio as at 5th March 2021 of 192%

Earnings

Operating profit from divisions (£m)



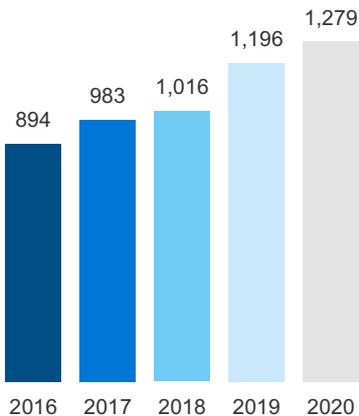
Earnings per share (p)



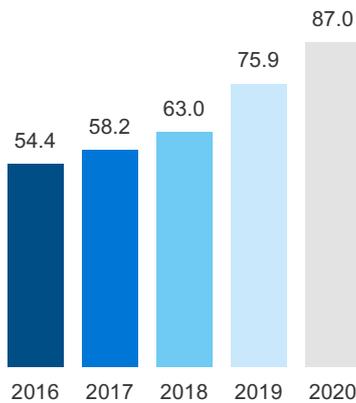
Notes:
 Figures include discontinued operations, but excludes mortality reserve releases
 In addition to the above, 2020 EPS also excludes Mature Savings gain on disposal

Assets

LGIM AUM (£bn)



LGR Assets (£bn)



LGC AUM (£bn)

