Andy Sinclair: Thank you, Mark. Three questions from me. It’s Andy Sinclair from B of A Merrill Lynch. Firstly on the Future World funds, it seems to be a real growth focus for the coming years. I wondered if you could tell us a bit about the initial desire from different channels, different geographies, particularly thoughts on the US on these funds.

Secondly - a boring techy question from me - on the eight to 10% guidance on the operating profit growth what market growth have you allowed for within that eight to ten?

Thirdly on the personal investing, it’s a very interesting proposition but I was just wondering, how would you deem this launch to be a success, what do you see as the opportunity, what would you measure success on for this, how significant can L&G be?

Mark Zinkula: I’m sure the answer to the last one is number one in the country but I’ll let Helena provide more details on that. Future World fund; the original fund was the climate tilt fund that we designed in collaboration with HSBC a while ago and then it’s evolved from there but, Meryam, do you or Sarah want to talk more about the growing demand from other client bases for a broader range of Future World funds?

Meryam Omi: Yes. The Future World funds have started looking at creating very much a mainstream fund that’s good enough to be a default for DC schemes and that’s very different from what you’ve been seeing in the ESG space where you might have been screened out, it’s smaller universe and things like that, to really having something that’s diversified, tracking errors very small so that was the starting point.

From there we really grew it out across the spectrum that Anton was talking about where we just launched a multi-asset solution. Again a lot of the DC space is multi-asset so let’s create a fund that’s designed to be good enough to be a default so you’re not really compromising on the diversification and the returns but at the same time you’re really amplifying the fact that you are having better exposure to a broad range of ESG factors.

In the US space I spent about a month going around to a lot of different schemes and consultants and I would say that the market is slightly behind the UK or even continental Europe in ESG but there’s a lot of questions, particularly from public pension schemes, as Aaron described. So we see that the launch of first of all the climate-tilted index fund is going to gain quite a lot of traction but I do want to say that the long-term ESG funds in themselves are not new; I’m sure you’ve seen it from other funds and I think where we bring a difference to it is all the engagement and influence we’re doing so we really want to engage with the end members so this is not just any ESG fund that ticks your box. It’s really something that allows you to feel like you own the world, as we talked about, and we’re going to continue to send a message about how they can be part of the change that they’re creating with their own fund so we’re very excited about the opportunity in the US and Asia and everywhere else.
Mark Zinkula: Okay. Then the second question, market growth assumptions; I don’t have those committed to memory. Siobhan, do you recall? They’re reasonably conservative, I recall, but I don’t remember the exact...

Siobhan Boylan: Yes, it’s based on our asset mix and it’ll be a normal, standard market return, [overtalking].

Mark Zinkula: Yes, it’s the same assumption we use across the group.

Siobhan Boylan: Yes.

Mark Zinkula: Helena, what’s success from PI?

Helena Morrisey: Success? It’s UK number one - but also to grow the market obviously, as I talked about. We are setting out to win and we do have very high ambitions for LGIM and for the country but obviously it won’t be achieved overnight. We have built a business plan around being at least the same as the top taker of flows in the market and building implementation around their likely flows.

We are starting small, as I hope I’ve made clear so we expect to achieve our number one status over what I’d call the medium term and we won’t be just, “here’s our new release, here’re the improvements we’ve made and let’s hope that works”. We will be doing a series of releases, particularly around expanding the range of options that we have, personal pension and so forth. That will be in the first half of next year so I can’t give you a precise date we will be number one and this is exactly how big the market will be but that is what I would judge as success.

Mark Zinkula: You have to keep in mind, the defined contribution and D-to-C markets here are in very, very early stages and you have to think about them together in a sense so however this journey evolves in individual responsibility for their retirement it’s going to be in a combination of workplace and direct platforms as well as intermediated but in terms of the extent to which the pot [unclear] remember how that legislative focus evolves over time. We’ll give ourselves a lot of flexibility and a lot of workplace customers will end up being direct customers down the road.

Colm Kelly: It’s Colm Kelly from UBS. Thanks for the presentations. It’s been very useful, excellent slide today. Just a question on the specific drivers of the eight to 10% growth and again I apologise for the mechanical nature of the question but obviously the 8% growth in operating profit over the last, say, five years, the CAGR on that has been supported by very strong asset returns both on equity and credit. Given that those assumptions are now normalised it implies one of the underlying metrics; we’re going to see a step change in that; either we’re going to see a significant increase in the net inflows as a percentage of the opening assets from two to 5% currently or we’re going to see the margin on those assets stabilise, which isn’t something we’ve seen over the last few years and unlikely to do so, I suppose, given the shift increasingly towards solutions, which is a lower-margin product.
So in terms of your forecast on those key metrics, can you give some detail? Because that's ultimately driving the eight to 10% growth. And secondly just on acquisitions, management has always provided some colour on the potential both on acquisitions in the asset management space maybe in the US... Can you confirm - obviously it depends on the economics of that but if an acquisition is exercised is that going to be additive to this target or is inorganic growth factored into this target? Thank you.

Mark Zinkula: In regard to the drivers of growth, we went into quite a bit of detail today to look at how the business model's evolving so we can look at the fee rates on the existing categories of assets and channels but then also assess the direction of travel in those channels so solutions for example started out as LDI hedging assets which were pretty low-fee and on par with comparable segregated index mandates. But as that market's evolved it has been increasingly into pooled funds, active LDI, fiduciary management, a range of multi-asset funds; those are all higher-fee products and as we're seeing more growth - and the hedging assets are still great assets to have, they're still very profitable, it just takes more assets to get to profit but in essence the growth drivers are a combination of where we do expect to maintain around mid-single-digit net flows or at least outperform the market, I should say, so depending where the market's at in net flows we think we'll comfortably outperform. It'll be lumpy in the [unclear] channels, as you know, but not everything's like DC where you're in a cashflow stream; there's a wall of cash just waiting.

Then we aren't assuming acquisitions in the eight to 10% numbers so anything we do there would be additive to that figure. Any other questions?

Gordon Aitken: Gordon Aitken from RBC. A couple of questions for you. You put a slide up showing global index managers and your number five; it's just quite staggering how big the likes of Blackrock and Wenger and State Street are. How do you compete with those guys, particularly in the US?

Secondly illiquid assets; I know they're an excellent match for your annuity liability at that duration; they complement your corporate bond or they add some yield but investors that we speak to are less than convinced so I know your job is to grow your earnings but I think you also would like the stock to be re-rated so how do you reassure those investors who say, I don't think you should be getting involved in illiquid assets because that's maybe gone wrong for insurance companies before?

Then one final question. On the eight to 10% I think you've undercooked it a wee bit because you've shown - you're in solutions, you're in index, active to passive shift - you've shown these assets growing at nine to 10% and that's the assets and, as you point out, it's a scale game so you'd expect earnings growth to be higher than that. It doesn't look like too much of a stretch given you think your flows are going to be better than everyone else's so is that fair?
Mark Zinkula: Of course it's fair. I'll let Aaron take the first question. I'll add a few comments on the next two but I'll ask Bill to talk about illiquid investments and, Siobhan, if you want to talk about why you're sandbagging on the [laughter].

Aaron Meder: Yes, we are number five. Who asked the question, Gordon? We’re not going to close that gap overnight, we realise that. This is going to be a very long-term trend. We will start to close the gap.

If you think about what we’re doing today and the business that we launched in the States it was taking the model in the UK and bringing that model, which is very unique, to the US market. The initial assets that we won came from everyone above us. It's coming from the top players so we know that message is resonating. When we look into the future - and as we talked a little bit in my presentation - new flows aren't going to come from the traditional index space; that's not where we want to play. It’s going to be in ESG, it’s going to be in things like factor-based investing and we’re winning in that space as well so long-term we think our model will be adopted more. Every consultant that understands our story, hears our story gives us a buy rating.

We recently have heard in the ESG space from one of the top global consultants that we are the only manager they're recommending for ESG index strategies so as that space continues to grow, as the factor-based strategies continue to grow we expect to win more and more. But you’re right, it is a big gap but we plan on closing that gap quickly.

Mark Zinkula: In regards to private credit, Bill, do you have some comments on that?

Bill Hughes: Yes. I think it’s a good question. I think I would answer in a number of ways. I think the amount of illiquidity one chooses to take on or the volume of illiquid assets is an important consideration so it needs to be proportionate to liquidity requirements and that will differ from one company to the next but there’s no intention to be excessive in terms of having any exposure to illiquid assets because liquidity may well be a requirement that’s important.

Second of all, I think it’s a misnomer to contemplate the fact that illiquid assets are all illiquid and illiquid all the time and actually if you manage illiquid assets intelligently you can create liquidity in terms of keeping them clean and desirable so that’s partly about quality of management.

Then the third thing I'd say is it seems to me that the increasing demand that exists for illiquid assets to some extent creates more liquidity so I don’t think we’re taking a big position there at all.

Mark Zinkula: Before I turn it over to Siobhan, just a couple of comments on the eight to 10% guidance. I think the broad investment management industry - I talked about this quite a bit about the beginning - there are some trends that are putting pressure on the industry right now so on balance that would be comfortable outperformance relative to the broader sector.
We are investing in our business; we have a lot of opportunities and if nothing else we probably want to err on investing a bit more because - all the reasons you heard today, which is why our cost/income ratio may drift up slightly over the near term and that’s the rationale for that. But it is also relatively early days in a lot of these sectors or channels that we’re in so if you were to poll everybody who you heard from today on a base case and how they would define success I suspect how they would define success, the weighted average of that would be a higher number but again it’s still relatively early days in a lot of these channels. There’s clearly a growth trajectory; it’s just a question of how steep will those lines be and how much do we want to invest to accelerate growth in those areas over the near term. Is there any more you want to add, Siobhan?

Siobhan Boylan: I think you’ve covered it very well. What I was going to say is you have seen a variety of growth drivers that we’ve shown you in our businesses and we are clearly investing for growth to make sure that that growth continues to come through.

Mark Zinkula: We agree.

Siobhan Boylan: We agree for once.

Dom O’Malley: Thank you. Dom O’Malley, Exane BNP Paribas. Thank you for the presentations. Just two questions from me; just coming back to this point about the revenue margin and the projection for it to be roughly flattish, is there any material difference in the reasons that you’re playing in Asia versus the US? Because clearly it looks like you’re moving away from the UK in terms of the shift so just any comments on that.

The secondly I’m curious about the LDI competitive landscape in the US. It sounds a bit like you are leading in that product category. What is the competitive landscape there, is it just that the relevant players have been a bit sleepy, are there new entrants coming in, could you see more pressure there?

Mark Zinkula: I’ll take the first question and, Aaron, you take the second question. Yes, Asia’s going to be very different from the US and we’re not moving away from the UK; our business model evolved in the UK; I don’t want to... but yes, there’s significant growth opportunities in parts of the world that we’ve never been in before.

The US thematically; what’s happening in the pension space thematically is very similar to what’s happening in the UK with DD plans closing, maturing, derisking, gradually being replaced by DC schemes. The details are very, very, very different but conceptually it’s kind of the same trends going on so not surprisingly we’re playing to our strengths and developing products and the ordering night be a bit different and so forth than over here because of circumstances being different but yes, it’s relatively straightforward.

Asia’s a completely different ballgame. Sarah covered how Japan is different from China and then if you go a little bit further south Australia’s kind of interesting so we have a client there in the post-retirement space. We are looking to
get involved more in that region so it is a different puzzle for us to solve in that region, so to speak, broadly speaking in the Pacific Rim.

Then US LDI, the competitive landscape and how we stack up.

Aaron Meder: Yes, it probably depends a little bit on what specifically they’re looking for so we think of LDI as either level one LDI or level two LDI so they have level one LDI, straightforward, long-duration-type mandates and not a lot of customisation and to be honest, in that market there's 50, 60, close to 100 active credit managers and so it’s hard to describe the landscape. But we often win those mandates because, one, of the performance that you saw and then, number two, they like the fact that we can take them to the customised place over time and that gets to the level two LDI, I guess, marketplace; it goes from 60, 70, 80 active credit managers; now you’re only talking about a handful of people who actually do the real, true customisation and so that helps us win the level one LDI mandates, if that makes sense.

Then level two; we are talking about customised LDI mandates. I’d say the number one competitor by far when we think about who we compete against would be a firm called Nissa. It’s not a firm that - it’s a US-based firm based in St Louis, they have no presence here in the UK or broadly across Europe so a lot of people haven't heard of them but they would be the first entrant into the LDI market and probably are, I guess, our biggest competitor.

Greg Patterson: Yes, two questions; I'll keep to the trend. Greg Patterson, KBW. There's been a lot of entrance into people trying to originate illiquids and spreads have come off. We've even seen the PRA start to investigate internal ratings. We've also got Solvency 2; I wonder if you could talk about the threats there.

Second point is you seem to be pushing in SIP and workplace where we are seeing specific people exiting that market. What do you know that they don’t know given that they’ve been there for a while and tried it?

Third thing; what do you think about GARS, what do you think of the opportunities there and if you do have any capacity to enter that space, if you wanted to, if you thought there was an opportunity.

Mark Zinkula: Okay, I'll take a stab at the first one, give Bill a break for his private credit one. Workplace, Emma; why are we going to win when everyone else is giving up? And GARS; the fund that Anton talked about, which we call MATR, which has a three-year track record, would be a fund that is in the same category as GARS so I'll let him take that question.

With regard to illiquids - and there’s a bit of a theme here - there’s no question that - here’s the way I would describe it; we have a lot of illiquid liabilities in long-duration insurance and certainly pension assets that are backed by asset portfolios that have - quote - excess liquidity relative to the liabilities that they’re backing so it would make sense to go into illiquid assets, get some kind of a premium where you’re not taking really any additional ALM risk.
But the devil’s in the details and these are scarce assets, there is a lot of demand, there's only going to be so much supply, especially with large syndicated-type transactions so that's where at a time like this I think you have to be particularly careful and prudent in your underwriting and to the extent we can self-manufacture assets that gives us an advantage. That’s why we make a lot of noise about some of the regeneration activity or the linkages of LGR and LGC. We can basically be involved, Bill’s team, throughout the process in developing assets, managing assets; you have development capital and so forth.

Ultimately when you’re terming out or when you’re creating the final capital structure, terming out the debt, those are really attractive assets for us to be able to back our liabilities so it conceptually makes a lot of sense but you're right, there could be some people who end up taking risks that aren't being properly priced in that market.

Greg Patterson: Will internal growth force you to change your internal rating?

Mark Zinkula: No, I don't think so because this is where the strength of our real assets capability, the partnership with LGC and their ability to help us self-manufacture assets for LGR, just the scale that we have, I think, gives us a real competitive advantage and just the discipline we obviously have, the quality of the team.

With respect to workplace, this is clearly starting to consolidate so why are we going to succeed in this market?

Emma Douglas: I think the answer as to why people have moved out of the market is actually a fairly simple one so it tends to be around, they don't have enough scale so certainly the bundled business is absolutely a scale game and we’ve talked about, we’re now at break-even, we will be investing to improve operational efficiency, we are looking to move into profit, we’re opening those jaws of profit but if you don’t have those assets there in the first place - and quite a lot of people who've moved out of the market, I would say, would be relatively sub-scale so sub ten billion certainly in terms of bundled assets.

Greg Patterson: Standard Life?

Emma Douglas: Standard Life are still in the market but Salter Phoenix - and I think that's a slightly different strategic move that comes from Aberdeen's wanting Aberdeen Standard to be a purely asset management business. But for us it’s fantastic; the competition are moving out of this market. The market is still going to bundles and we’re there so I actually see this as a real positive. It's certainly generating a lot of conversations with people who have some of those providers as their DC provider and they’re worried about their long-term future and what’s going to happen to them so they are coming to people like us who are committed to be in that market for the long term so yes, it's a trend, mainly because of scale but it's absolutely a great opportunity for us.

Mark Zinkula: Anton, last question.
Anton Eser: Yes, we spoke about the three multi-asset strategies, strategic, dynamic and then there was the third one, the low-equity beta where we have the multi-asset target-return strategy which is the MATR fund, which is in the GERS, the global equity return space so that would be the equivalent of GERS, etc. We launched that in March 15 with internal seed. For a lot of these strategies getting through the three-year track record is just really important for buy ratings or intermediaries so we're through that and we actually have got our first external flight coming into that so we comment away from our competitors but we're top on a one and three-year basis so whether it's taking assets from existing underperformers or what we think's a growing demand for global asset returns we think we're really well placed for that.

Greg Patterson: You're top on the one and three-year.

Anton Eser: That's right, yes.

Greg Patterson: Thank you.

Andrew Baker: Andrew Baker with Citi. Just two questions, both on the vertically integrated DC model if that's okay. The first is, I think you mentioned 90% of the underlying funds are actually in LGIM funds in this model. In the US a lot of the DC administrators have run into problems with high allocations to proprietary funds on a similar model so fiduciary legal issues. What are the reasons this isn't an issue in the UK and is it a potential issue going forward?

Secondly, I think I heard you mention that you were the only vertically integrated firm in the UK that does this. What is the reason for being the only vertically integrated firm in this? Thank you.

Emma Douglas: A lot of the funds that we offer in DC are index funds so I think there's less likely to be that challenge because although we think our index funds are the best they're generally viewed as a commodity so I don't think there will be any legal challenge in the UK.

Then as the only vertically integrated index provider it's interesting because quite a lot of the asset management players in DC are moving away from the bundled side of the business and that goes back to the previous question; some of them have moved out because of scale so what it gives us is whilst we are going to be generating profit from our administration we're also generating revenue from the investment management side of the business so you put the two together and that's really a fantastic package to have. So a lot of our focus is on - the admin business has broken even, we're going to be generating profits going forward but let's not forget that as we build those assets 90% of it; we're also getting revenues for the investment management business so that's why I made the point because it's unique to have that and that really helps support your whole bundled business and your investment into that.

Mark Zinkula: Any more? Andy.
Andy Crean: Andy Crean at Autonomous. One question; from what I can see your D-to-C strategy was targeting the mass market and I would have thought the mass market, after they'd put 8% of their salary into the auto-enrolment scheme they won't have an awful lot of financial savings power left. So how do you target that D-to-C proposition, are you targeting on your workplace clients or is it really going to be a customer proposition and if it’s the latter why would it succeed if there isn't any money left?

Honor Solomon: You might not have been able to see the numbers on the build and acquire page but on the acquire, which are the people who haven’t invested yet, who tend to be younger. There are another four segments, by the way, where we don't think there is enough money that people have at least for now to invest but those three groups tend to be young professionals, people often with families who are now thinking about planning for their future, more rising up through the ranks that haven't invested yet.

I can show you the slide; it's in the pack - I haven't got a hard copy myself but it's got quite surprising household incomes compared with those who are already building and they're quite comparable except for people who are really close to the end of their careers. That’s why we’ve done the segmentation analysis; it’s no good us thinking, build it and they will come, if they don’t have the money but we are confident that although they’ll start small and our £42 billion of aggregate opportunity from this group is really dwarfed by the build group, this is the group that's going to grow because they’re going, they’re still developing their careers and they’re saving for their futures. So we think they have the wherewithal; they will start small though.

Mark Zinkula: Any more?

Honor Solomon: Sorry, I should just add that we are also going to be looking through the workplace - I mentioned the 10% of Emma’s leavers that are already signed up to marketing permissions and working together so we will be trying to acquire those customers as well.

Greg Patterson:: A quick one; just on a DC product; you spoke about a DC product that’s going to be launched, a DC platform, a defined contribution platform in the UK. Right at the beginning of the presentation you mentioned, we've got a big project and a launch of a new DC.

Mark Zinkula: D-to-C; that's personal investing.

Greg Patterson: No, defined contribution, DC.

Mark Zinkula: Yes, I think I said D-to-C.

Greg Patterson: Did you say D-to-C? Oh, sorry.

Mark Zinkula: Yes, it’s the American accent. Okay, anything else, is that it? Just when we thought we were going to have a drink. Don't feel guilty; this had better be good.
Abilash P T: Sorry. Abilash P T of HSBC. Just one quick question; putting LGIM in a group context it's roughly around 20, 21% of operating earnings. Growing eight to 10% per annum operating earnings where group target's around 10% earnings over the next five years to 2020, how do you think about where LGIM ends up in a group context in terms of contribution over the next medium term?

Mark Zinkula: Jeff, do you want to - Jeff Davies? Your question.

Jeff Davies: Obviously I expect us to hit 10% and that's Siobhan sandbagging again. Yes, the 10% EPS growth; there's 20% of longevity releases in that two billion of course this year so it's a bigger percentage of underlying earnings. Certainly, yes, the gross 10%; we have 10% as a group target, then it maintains around that 20, 25% level. We'd love LGIM to grow as quickly as possible and give us good, stable, diversified earnings. We believe there are other sources in the group as well that'll give us more diversified earnings.

Mark Zinkula: All right, is that it? Thanks again. I know it was a big time commitment by everyone, including the leadership team especially but thank you for taking so much time with us, hope you can join us for a drink afterwards and if you have any thoughts, questions, I'm travelling the next couple of days. Alissa would be happy to take the questions and anybody in the team obviously would be happy to meet with you as well. Thank you.