ANNUAL RESULTS 2021 – 9th MARCH 2022
PRESENTATION Q&A - Transcript

SIR NIGEL WILSON
I'll now open up the floor to questions. As some people are on video, we're going to hand round the mic. And if you just say your name so that people can hear online...

ANDY SINCLAIR, BANK of AMERICA
Andy here from Bank of America. Three from me, please. Firstly, it was on LGC. Great year for LGC, but just really wondered if you can tell us a little bit more about how much of LGC earnings are cash? How does cash compare to earnings? How much is just annual cash from things like CALA, mature investments? How much is disposal proceeds? How much marking up values? That's my first question. Secondly is on LGR, great to see that we're self-sustaining. What does that mean in terms of new business that you can write? You said you expect to be kind of self-sustaining in 2022 as well. How far can you push in terms of growth and still be self-sustaining? Are you able to push a little bit harder, even harder now? And thirdly is on the dividend. LGR: self-sustaining. LGC: I'm guessing starting to throw off more cash. Just really wondering what allows you to push from 5% growth up to 6% growth at the top end of the range? Is that feasible? Thanks.

SIR NIGEL WILSON
Well, why don't I start on the first one and leave the second one to you, Jeff? And, since the third one's an easy one, I'll answer the third question. I think the point you make on cash is very valid. We haven't given, you know, total breakdown of cash in LGC. It's quite a noisy year from LGC in that you're asking for realisation events and proof points. And so we've come up with a whole bunch of proof points, as you can see from the slides, you can reverse engineer how much we got for each of those things and you'll find that the absolute level of cash was greater than profits. But we don't think that's a fair indicator of where we intend to be because we will be investing for growth. Which covers your last point. You know, we very much see ourselves as a growth company and we very much want to invest for growth. We've got a much stronger balance sheet. We've got great scale already in our businesses, and there's lots of opportunities for growth in the UK. Jeff, do you want to catch up?

JEFF DAVIES
Yeah, I mean, we do expect based on our outlook for 2022 to be self-sustaining. We're not saying we'll be self-sustaining every year. We still have the ambition £8 to 10bn. We always say this is lumpy business. But equally, you know, we're talking about the amount of growth that we have in OSG that gives us a lot of headroom for additional

volume and a 4% strain. When you're creating billions of extra OSG, that gives you a lot of headroom to write additional business. So you know we stand by the £8 to 10bn, £40 to £50bn, but that could be £7bn, £8bn as we've done in other years. It could be bigger in other years. We can manage for value. We've got the optionality for the back book, but, you know, we're not limiting ourselves by any means if the business is there to be done.

SIR NIGEL WILSON
I think on the other point, it's sort of good news for shareholders in a sense that we've got much greater coverage over the dividend and a lot more capital. As Jeff has just highlighted, to invest right across the businesses and I know the four CEOs who were sitting in the front row here are all very enthusiastic capital investors for their particular business, and it's great to have that competition for capital across the world, actually, not just here in the UK. And we're expecting to originate new opportunities in America as well as the UK on a go forward basis. So I think, let's not be greedy. 5% is a pretty attractive dividend. We're on an amazing yield, and whether it's 5 or 6, I don't think it's going to make a huge difference to the valuation of the company. I think there's some other issues we've got to convince investors across the world that we are truly resilient and robust, as the evidence seems to suggest. Next questions.

ANDREW CREAN, AUTONOMOUS
Hi, it's Andrew Crean from Autonomous. Can I do three questions as well? Firstly, is solvency II reform - you've always said it would be neutral, but it could potentially be positive. If you do get a windfall, I suspect you're not likely to give a buy back. What would you do with the excess money or from higher interest rates, which you’ve just been flagging? I mean, is that likely to break your £8 to 10 billion BPAs upwards or what about other businesses? That's the first question. Secondly, you've flagged the 20% plus ROE is on an IFRS basis, if you do it on own funds, I think the return is more like 10 to 12%. Could you just give us some thoughts around the differential there? And thirdly, when you're creating the retail business, do you feel that you've got a weakness in D2C platforms? And if so, what would you want to do about that?

SIR NIGEL WILSON
I'll take the first if Jeff takes the second, and Bernie, would you like to answer the third question and explain why we're going to create a world beating platform? I think the good news on solvency II reform is that after a mere six years, we're finally making progress and it's demonstrable progress. As you saw from the sensitivity slide; a 25 basis point increase in interest rates of which the governing Bank of England promised 4 for this year is worth 5% for each of the 25 basis points. We show a 19% increase if there's a 100 basis point increase. We expect if we get a gain on solvency II coverage

ratio to be in the 5 to 7% range given the discussions that we've had which is positive and it's good and it helps but that's not a strategy changing difference for that. I think the good news is we have more headroom. Therefore we can take on more risks and some of the projects that we've got, it's fair to say that Oxford and Manchester and these projects, people want to accelerate them rather than decelerate. They want us to lean in to these investment opportunities. And the more successful we are, the more opportunities we get. You know, John's taking the whole Board up to Manchester to see the profound impact we've had, not just in Manchester itself in its current state, but also in the future, but in Alderley Park, which is an amazing Sci-Tech investment that we've got there, with over 230 start-ups on site, people are now visiting all these proof points that we have around the country, and that is doors leading to doors. So the extra capital that we have, we think we will deploy that for the long term, for the long term benefit for shareholders and hopefully at some point in the future that may give us further dividend headroom, but at the moment I think 5% is a really good number to have and it will stick to 5%. Jeff, do you want to take the second question?

JEFF DAVIES
Yeah, sure. Return on own funds, it's another metric, I mean, that's another way of looking at the business. Clearly, we can't really compare like for like at this stage, and you know, there's a difference in the metrics, new business being an obvious one for example - one gives you a profit on IFRS, one's a strain on solvency II - then comes out over time. I think, the thinking will develop around some of these metrics as you say in your commentary previously. As IFRS 17 develops and solvency II thinking develops, we will develop these metrics. I mean what's important for us on that metric in particular is the growth in OSG. I mean that's what ultimately drives the answer and that's what we're showing and we believe there's more upside in what we can do around that. The more we put capital to work the more it drives future OSG as the businesses grow.

SIR NIGEL WILSON
I think just on OSG, that's now one of the metrics we get measured on as an executive team for increasing the growth of the company. So we've added two solvency II metrics to the performance that all of us have to achieve. Digital…

BERNIE HICKMAN
Thank you for the question Andrew. What I'd say is our focus when it comes to retail savings is DC pensions. And we start from a really strong position there with one of the largest Master Trusts, LGIM being the biggest DC asset manager. And so we start with lots of customers, lots of assets under management, and we've got lots of opportunities to improve our retail platform. So yeah, that's a key part of what we're doing, bringing together the retail division. There's lots underway, the team have done a really great job

so far. There is lots more to do and we're pulling together all the expertise in technology, data, to deliver a significant improvement in that platform. And as we improve the platform, we're confident that we can keep customer money for longer and LGIM and us can earn fees and retail can earn fees from that. So we see it as upside optionality, multiple years of investment in the platforms to become one of the best in the market is the aspiration - very firmly centered in DC pensions.

SIR NIGEL WILSON
Thanks Bernie. I think the key point, Andrew, is that we have about 130 billion on the platform today, that's going to rise to 300 billion. As we invest in all of these new asset classes and we hope the DC pension reform comes around in the way that we hope perhaps when the Chancellor speaks in a couple of weeks time that will give us a lot more opportunities to put more assets that are more relevant assets onto the platform itself. And so that we will have a multitude of LGIM products which are proving very successful in Europe, largely to wealth and retail investors. But we'd like to put more of those on the UK platform and achieve more revenue, more profits out of that for LGIM and indeed for the retail division.

ALAN DEVLIN, GOLDMAN SACHS
Thanks. Alan Devlin from Goldman Sachs. A couple of questions, first of all on LGIM and the impact of higher interest rates. I'm thinking of the CEO of Allianz said that higher interest rates was great for their business. I just wonder, what you think the impact is on earnings and potentially net flows if interest rates continue to move higher given it is a fixed income solutions bias? And second question, just a follow up on the retail. Do you think merging the retail businesses, are most of the synergies going to be on the potential revenue synergies, or is it more of a kind of expansion of synergies, investing in them in the back office play? Thanks.

SIR NIGEL WILSON
I think on the latter one, Bernie slightly answered that already. We're going to have a much better, slicker customer journey and much more integrated across our platforms. You know, we're very confident that we'll get more revenue out of that. We don't think this is a cost synergy. It's a technology synergy, which I think Bernie articulated because we've got some outstanding teams; they're all going to work together now much more closely. We're pretty good at collaboration, but it's sort of easier when your colleagues are sitting in the same room working on stuff together. And I think that's been demonstrated across the group that this collaboration is a very important part. And Jeff gets a bit more hands-on on this than I do. On LGIM, I'll have a go. If you want to add anything Michelle I'm more than pleased for you to do so. I mean, there's just some maths around this - that we have a position in fixed income, which is a very attractive

position, but as rates go up, the revenue comes down. If you say it's a one on one calculation, but LGIM is definitely a wide variety of assets. And increasingly those assets, as Jeff articulates and I'm sure Michelle can add a few comments on, we've got a much wider range of assets coming. Our anticipation is that one more than offsets the other, but we can't predict exactly where our interest rates are going to go in the coming year. And at a group level, the interest effect is very positive, both on the balance sheet and on the P&L. But for LGIM, you know that diversification works sadly in the wrong way for LGIM. Set you up perfectly, Michelle.

MICHELLE SCRIMGEOUR
Thanks, Nigel, it's a really good question. And the answer is, it's really difficult to predict where things are going to land. What I would say overall for LGIM is the underlying business mix is roughly a third fixed income, a third equity and a third other, including private assets. So depending on where things land that would actually have a more neutralised impact. Nigel's right, the focus at the moment for our customers is on all of what's going on sort of geopolitical mix, ESG mix and also clearly inflation as well as rates. You're correct to say that there is an impact on LDI. It can though be positive as well as negative, depends on where the scheme is and its maturity, how close they are to buyout. And that will, as we've demonstrated with that virtuous circle that we have our ability to pass those schemes into buyout is actually really important. So overall, Nigel's correct that the impact overall is actually not a huge impact for the business. But as an asset manager, you will know when markets behave as they do it makes my life much more difficult. Thanks.

SIR NIGEL WILSON
It's great to see so many hands shooting up as well, which is really nice. We're going to be here for hours, Jeff.

LOUISE MILES, MORGAN STANLEY
Hey, morning it's Louise Miles from Morgan Stanley. Can I get three questions please? Two on LGR and then one on CALA. So my first one is, it looks like in LGR, the UK PRT - it looks like you had about 20, 21% of the market share this year. In previous years, it's been anywhere between 20 and 25, given the competitive landscapes in this market are you going to maintain margin and be at the kind of the closer end of 20% going forwards? So that's the first one. The next one is on the financials and LGRI. Just trying to think about forecasting this going forwards. In 2021, there was like a £212 million change in the valuation assumptions. That number last year was about 300 million ish. Can you just give us a bit of colour of what actually went into this number? I'm just trying to think about obviously these things are really lumpy in nature, but just trying to think about how that's forecasted going forwards. And then the final question I have is on

CALA actually. So obviously as a home builder, you said you've got a five year ambition to build 4000 homes. Obviously, home builders raw materials are really reliant on gas and the supply of gas and oil as well. Do you have any concerns about potential shortages in the coming years, and your ability to build the 4000 homes? Thanks.

SIR NIGEL WILSON
I'm going to answer the third question, which is one of my favourite subjects. The really tricky second question – Jeff’s volunteered to do that one. And then, Andrew can you answer the first question?

ANDREW KAIL
Yeah, good morning, everybody. The market share question is a really good one. But I think as Jeff's already outlined, our real focus is the market demand is there. We're expecting a 2022 market in the UK to be about the same size as the 21 market, so in terms of opportunity, but the discipline will bring, particularly around capital strain and pricing will determine where the market share is. So I think where the pipeline is, Jeff's already said, it's really active - we're participating in a number of conversations, but whether we ultimately transact will be very much around the discipline on pricing and the market share will be what it will be.

SIR NIGEL WILSON
Yeah, I think the market forecast is anywhere between about 35 and 60. So it's big and our pipeline indicates that it's a pretty big market for 2022. We have a lot of these umbrella deals. We have 11 signed now and they're a matter of timing over the years as to whether quite whether they come in 2022, 23 or 24, but there's a lot of repeat business that we're getting. Hopefully we can get some repeat business internationally as well because Andrew is now spending quite a bit of time in the US on the US business. Jeff, do you want to have a go on that really tricky second question?

JEFF DAVIES
Yeah, sure. I mean broadly they're equal in both years it's a couple of hundred million and they're really all excess prudence that is demonstrated by the assumption reviews, that’s pretty much business as usual. We had late retirement factors in 2020 which was significant. We actually had a little bit of work left to do on that so there was a few tens of millions extra left on that because we hadn't finished all the work to get to the detail. Then we had the spouse age assumption that came through this year of about 100 million. And then it was just the BAU review of the tables, which just shows the prudence that we have in the bases. And it really is just truing up those year on year, which was around 100 million. We continue to expect that to come through. We think we have prudence in the bases, in terms of reviewing these, but obviously it depends how

experience plays out, which is why we've been prudent in the trend assumption and the way we've adopted the tables. So our assumption is we can continue to manage this business for volume, for margin and hit the metrics that we need to as we said and applying assets to the back book at the same time.

SIR NIGEL WILSON

I think Jeff mentioned that we would slightly adopt in CMI in 19, so this was 2021 and whatever. There's a lot of natural prudence built into our model and I think Chris did some work on, it's about the same number every year for many years and it was most likely to be a similar number on a go forward basis, so as to summarise it. On CALA: we own Kensa, or the largest share in Kensa which is the largest ground source heat business in the UK. We've used air source heating for a long time in both our CALA homes and in our inspired villages homes.

And so we see it as a positive that what's happening, notwithstanding the tragedy of Ukraine, that actually sources of renewable energy are going to become more important. People want them as a feature in their house with a leading practitioner at an aggregate level in the economy, but also specifically in the housing industry. And I know John (Kingman) was looking at some of our houses last Friday - tremendously high quality, very sustainable. We've officially set ourselves a net zero target in operational terms for 2030 and I would be bitterly disappointed given their focus, effort, drive that's being put behind it.

ANDREW BAKER, CITI

Andrew Baker from Citi. Two questions for me please. First on LGI, can you give a little bit more detail on the model refinements and also some of the assumptions underlying the £57 million provisioning that you took? And then the second one is on the annuity self-sustainability. What would that look like if you were to retain all longevity risk going forward? I know that there is no requirement to do that, but just interested to see what that would look like.

SIR NIGEL WILSON

Thank you. So it's a hypothetical on a hypothetical. That's your strong point, Jeff. But you can have both of those questions.

JEFF DAVIES

Yeah, the LGI model refinements - this was really just looking at what is the profile of the cash flows now on the UK term book in particular. And it's much more likely that we will be holding real assets to back this business. Whereas previously we haven't had to hold any assets given the nature of the cash flows there. And so we will be setting up some reserves, therefore we already have assets that are around. We can allocate some of those, we looked at the yield on those assets and simply added some liquidity premium to the risk free in a prudent way. So, that’s £90 million when you discount such a big liability or asset, it is really just a small change on the liquidity premium. You had two questions really because the COVID one's separate. The other £57 million, we followed the same methodology, we looked at the latest projections in the US coming out of IHME and in fact they were constantly coming down once we were doing the process. And Tim had to keep changing his paper because we are seeing a real slowdown in the States which is great to see. And so we've done the same, we've projected that out, clearly no one knows what's going to happen the end of the year when the winter comes along again, but the assumption is at the moment that looks like what's covered by the projections. We added a bit more prudence for the impact on insurance populations versus the global population, if you like, because that is what we saw in the Q3 Q4 data in the US. So we basically followed the same methodology and added a bit. On the final question, well, what does it look like? It depends what the regulation is, we clearly wouldn't retain all of it unless there was significant reform on the risk margin. At that point we will look at what does it mean overall to the strain. I mean, we will still manage the quantum of capital that we're put into work and will want the same sorts of returns on that and we'll see what does that mean for the volume in the market and what's available. I mean, we're not going to radically change the model as a result of that, but we may decide to move either strain or volumes or paybacks, etc. But clearly we'll have to give you information of that if it's going to change what's happening on there. Cohorts of new business, we'll do it when the rules come through.

SIR NIGEL WILSON

Clearly, we've always retained all the individual annuity business and haven't reinsured any of that. So we're going to get a positive impact from that anyway, regardless of what level, whether it's 60, 70, 75, 80, doubt it's 80, but one only hopes,

DOM O’MAHONY, BNP PARIBAS EXANE

Dom O’Mahony from BNP Paribas Exane. Three from me as well if that's okay. Just on LGIM, the Asia AUM there - nearly 10% I think of the total now - could you just give a sense of what strategies these are, what geographies and really what you see as your edge and in terms of your strategy for growing that? Second question on LGIM. On the costs just in absolute terms, these have clearly gone up quite a lot over the last several years. Could you just help us breakdown the drivers of that and the extent to which this is essentially discretionary building out teams and capabilities? Maybe the Asia teams versus sort of the mandatory type cost. The third question maybe I should be asking the utilities companies this, but could you help us understand whether you think a significantly higher commodity price environment might start to impact bits of your credit portfolio. So I've got no idea how it flows through the economics of utility companies, who are obviously quite a big portion of the investment portfolio. So I'm sure you've been thinking about this very hard, so I'm just curious to hear what you think, thank you.

SIR NIGEL WILSON
I'll have a go at the third one. But Michelle, do you want to have a go at the first two questions on the mix in Asia by geography and the strategy by geography? And either you or Richard could answer the question on costs.

MICHELLE SCRIMGEOUR
Very happy too. So, on Asia. I would say we're starting from a really good base, but a huge amount more to go for. And we've been very deliberate in the way we go into markets. So we tend to go into market with one or two large clients, and they become really fantastic reference points for us. We also have tended to go into markets with index as the backbone. And actually that has been a really good story of then how you take your index proposition and then you move up the scale. And that's worked extremely well for us in Japan. And you know, where you can see now as an institutional investor in Japan, we are doing extraordinarily well. Elsewhere, our clients come from the region outside of Japan; Hong Kong, Taiwan, and other Southeast Asia. And I think the challenge for us is how we expand geographically in a measured way, but also by channel. So our business is predominantly institutional in region as it is actually across the whole of LGIM. And I really think there's an opportunity to expand what we do and offer our edge to more platform business, and that is part of the strategy. That actually does link to costs Nigel. So I'll pick that up as well. What we said at our Strategy Day back in November 2020, I think it was, was we would look to deliver operating profit around the 3 to 6% mark absent market shocks. But we would also continue to invest for growth and the strategy to modernise, diversify and internationalise is extremely deliberate. So we're being very targeted in where we invest, but we are absolutely going to continue to invest and as a result of that, we also said you would see that cost income ratio rise towards the high fifties - this is exactly what's happening. So it isn't a surprise. It's deliberate. But what I would also see that they're very clearly demonstrating is careful cost management. And yes, you're correct to say that costs have risen, but it's deliberate and the costs are rising less than they were in previous years. So I hope that helps. Thank you.

SIR NIGEL WILSON
On utilities, obviously, that's a very broad list of areas, not just energy companies, you know, water, transport. And increasingly, it'll be renewable types of assets, which are included in there. We weren't exposed to any of the retail companies in the UK, which is the sharp end of the business, which is where all the volatility takes place. The rest of them are pretty much regulated and they get paid and remunerated on their NAV in

effect, and having worked for them in the past, I know that they're pretty prudently run and the regulator has a pretty strong oversight over them and given the emphasis on energy security and resilience going forward, I suspect that they're going to continue to be a really good asset for us to invest in. But utilities, as I said earlier, is very broad.

OLIVER STEEL, DEUTSCHE BANK
Good morning, Oliver Steel, Deutsche Bank. One subject, but I think four questions around it. So the sourcing of new direct investments at LGR seems to have shot up last year from round about 2 billion to 4.6, particularly in the second half. So the questions are is that sustainable or why did it push up so sharply in the second half? What's the pipeline for the current year? What's the spread on those? Has it changed? And then also how much of those have you allocated to new business? And in as much as you've allocated a lot more to new business in the last 12 months, how should we then understand the new business margins that you declare?

SIR NIGEL WILSON
A good set of questions there. I'm going to let Laura answer most of those questions. I think in big picture terms we're underinvested in direct investments within the portfolio by £13 to 15 billion relative to where we want to get to. So there's a sort of stock catch up that we've got to get much of that will be through back book optimisation. But there's also a floor question which is how much DI do we use in the new business? Where is the DI? The good news for me is I used to travel around the country relentlessly and weekly but Laura has been championing that during this year visiting lots of the sites where there's huge opportunities I think for further DI.

LAURA MASON
Yeah so probably focus on the pipeline bit really in terms of we've now really over the last few years expanded our pipeline from the sort of flow of DI that we would get from Michelle's business through private credit, the property that we've really sort of stolen the march in the UK on in terms of long leases to increasing the supply from LGC. So in each of the sectors that we talked about in the capital markets day, clean energy, specialist commercial real estate and housing. Jeff mentioned the affordable housing, so we've got a significant flow expected to come through that. I think we said 1.5 billion. I think that's just from the affordable housing. So it doesn't include the suburban build to rent, shared ownership and other things that we're working on in the short term, and increasingly looking at ways to get, I suppose, the newer clean energy infrastructure assets into the portfolio so I suppose there's the sort of continuous growth spectrum working with Andrew's team in terms of how we take those assets and structure them for the current solvency II regime, which hopefully there'll be a little bit more wiggle room in that over the next couple of years as well. In terms of your question on pricing, I think

where we see the most value, it is on the sort of home grown assets, so the ones where we do get from LGC or some of the property assets working with Michelle's business. And those really are the ones where we use equity, sort of capital as a catalyst to create the long term assets. And those are where we see the higher the sort of 200 in the range that we gave in Jeff's slides - 50 to 200 - it's the sort of the two hundreds that we get through our self manufactured assets.

OLIVER STEEL, DEUTSCHE BANK
How much of that has gone into the new business figure and does that change the new business margin?

LAURA MASON
So I think we talked a little bit about the back book and new business strategy in previous years. Most of those assets have gone. We sort of hypothecated them to new business. But given the increase in volume, we expect to see, we expect to be able to have the flexibility to do both over the coming years.

SIR NIGEL WILSON
Yeah, we think we're going to be able to generate enough DI to do both, both back book optimisation and new business and be very competitive still in the new business market, particularly as you know, Michelle's team and Laura's team are working incredibly closely together both in the UK and I'm very hopeful and optimistic, but then I always am, about the US part of that coming on stream in 2022 or 2023. And then we'll even make Andrew Crean happy if that comes around. Thank you.

FAROOQ HANIF, JP MORGAN
Hi, thanks very much, it's Farooq Hanif from JP Morgan. Just on solvency II reform first. What's your view on potential increased competition from real asset private asset companies that want to get into the UK market because they see a better opportunity? And if you're not really worried about that, would you ever consider partnering or JVing in some way? With that, I mean I guess the answer is difficult because you've done well without them. But just wondered if you'd ever think about that. Second question on LGC, could you quantify possibly the fees that you're making on third party and where you expect that to go? And is that sort of wrapped up in the 10 to 12% or not? Just want some clarification. And then last question on the allocation of real assets to the PRT book, how does that come through in OSG is that just an operational increase in the spread that you're making? Is it a variance below the line? How should we think about modelling that, given that we now will focus on operating? Thanks.

SIR NIGEL WILSON
Jeff, do you want to do three? Laura do you want to do two? And I was going to do one. Just on solvency II reform in general. I think there's an intention from both the Government and the regulator to increase the scope of investments that we're going to have. Laura and Jeff both mentioned affordable housing. In terms of competition, we hope there's lots more people invest in the UK because the investment gaps are huge and there's other people who've got specialist investment areas. I'm excited that BP and GE, are going to invest in Teesside and the consequences of that, there'll be more demand for housing and for infrastructure and many of the things that we're involved in. We're very happy that other people are going invest in venture capital. We have this huge sci-tech business which, you know, needs more sci and tech putting into it. And again, that's something we encourage. I think we are happy to partner. We have a good partnership with Brookfield in America. PGGM, the Dutch pension fund are great partners for us in build to rent. In fact, they've upped it and said they want to do even more with us because we don't find any area across the whole of the UK that doesn't want more build to rent housing, that doesn't want affordable housing. There's 1.4 million people on the housing waiting list that we've got to address so our little bit which seems a lot to you guys is still a small amount in the big picture term. So where appropriate we're happy to partner but we will be fuelling this triple win for us - LGIM fees, LGC profits and LGR profits as well which has really been a source of our success and that's going to become even more apparent as we self-manufacture more assets going forward.

LAURA MASON
And on the fees, I guess you can expect a bit of a range in alternatives from 70 bps to sort of 120 bps depending on whether credit or more sort of complex equity or real estate. And I think we, in terms of how we've thought about the ambition for LGC, we have included at the moment that fee income in the profit forecast.

JEFF DAVIES
OSG in particular was your question. When we allocate to the back book, we'll have an assumption about that, we'll have factored that into OSG. So you would see – you wouldn't say it explicitly - but there will be an increased yield that is then effectively coming through as extra operating surplus generation above that rather than that being below that. And if we ever, if we then generated even more and put that in, that would give you an upside in the variance or if we fell short, but we would be allocating that to the OSG effectively.

FAROOQ HANIF, JP MORGAN
In your 1.8, have you got any of that?

JEFF DAVIES
Well, we've made an assumption what we think 22 is going to look like. We don't have a complete crystal ball, where margins and volumes of new business and how much we'll allocate to back book, but we've made an assumption about that. And as I say, we believe we can determine the best value around volumes of new business or allocation to back book to hit the metrics that we put out there.

STEVEN HAYWOOD – HSBC
Hi, good afternoon. Two follow ups and a new question for you. On the UK PRT and solvency II reforms, I wonder whether you're holding back on writing UK PRTs somewhat or is it just as you mentioned earlier, is it just pricing discipline that means you have a slightly lower market share? And then on solvency to reforms, again, the 50 to 200 basis points yield uplift to LGR from LGC, can you say where the top of this range can go to once the solvency to reforms come in?
And then, new question are you still interested in life back book acquisitions similar to what you did with Aegon several years ago? Thank you.

SIR NIGEL WILSON
I think on the first one, we're always going to maintain our financial discipline. I mean, we've got new members of the GCC now where Andrew and Laura have joined the committee. The last person who was on it was a chap called Kerrigan, who's enjoying his time in Asia with multiple quarantines as we speak, but we'll always be very disciplined. I think what we've added now is the flexibility to do back book and front book optimisation. Hopefully both here and in the United States. Do you want to have a go at the next two Jeff?

JEFF DAVIES
I mean, rather than say where does the top end go to, I would hope that the average will improve because obviously there's a certain set of assets at the moment that are very attractive to everyone who's got annuity books in the right to new business.
Therefore, you get increased competition on those assets, which is why we have to go out, manufacture our own to stay ahead of everyone and find more of those. The broader the universe, the more that you're just competing with the world and therefore you don't get specific assets competed down by annuity players that think they have advantage through matching adjustment, etc. So we would hope therefore to have a broader universe to look at and on average to be able to select from that at a better spread overall rather than where does the top end go? It won't stop us trying to manufacture some assets that get right near the top end, of course, but that will be done when there's absolute clarity on the rules.

BARRY CORNES, PANMURE GORDON
Morning it's Barry Cornes, Panmure Gordon. Just one question really. Nigel, you indicated that the valuation of L&G is lower than some of the other similar companies doing similar things. You've mentioned this before, at other presentations, just wondered what you think the reasons for that is and what sort of things you've thought about in terms of reducing that gap?

SIR NIGEL WILSON
Very profound question that we constantly answer. We haven't got the right answers so far. We must try harder. I think it was on my annual report for this year, John. The US investors look at companies like ours in a very different way because there are different examples in the States who do stuff that's similar to us and in fact they're converging to us rather than us converging to them. Apollo, Brookfield, Blackstone, and we very much see some of them as competing in certain areas in the UK. But not on some of the big regeneration schemes that we do, but affordable housing, build to rent housing are areas where they do compete. I think have definitely seen through a solvency II complicated Brexit, UK financial services lens in Europe and that's still the dominant area for the marginal buyer of our shares. I think our challenge in 2022 and beyond is to increase our marketing to the US investors and have them look at this in the way that they look at similar firms because as you'll see in the appendix our ROE is probably best in class and our DPS and EPS is as good as anybody else's and our book value per share growth is better than others. So from a purely financial like for like, we compare not only the same but probably favourably compared to others, but we're definitely seen in a different pool and we're looked at much more by the generalist marginal buyer as a yield player, and as a yield player, we're in the pack with lots of other people and our job and I think it's a collective job across the whole of the executive team, indeed, the rest of my colleagues, is to execute really well - and what we've articulated to you guys and perform at the upper end of the ranges that Jeff has presented to you and others at the various events, capital markets events, we've had for the last few years.

JAMES PEARSE, JEFFERIES
Hey everyone, James Pearse, Jefferies. Thanks for taking my questions. So you've spoken about growing LGC internationally with the folks in the US. Just interested to know what sectors you're looking to grow in and whether that U.S. growth is included in your profit targets in LGC? Also, how important is growing LGC in the U.S. with respect to your international PRT targets? Because, you know, you've mentioned about that market becoming more competitive, presumably growing, and LGC makes you more competitive there. Second question is on solvency II reform again. So the government

has discussed introducing an explicit allowance for default risk within the matching adjustment. Firstly, just interested to hear your thoughts on that because that feels like quite a recent development. And then if that is introduced, would you reconsider the quantum of your IFRS credit default reserve?

SIR NIGEL WILSON

Jeff, if you want to answer the second one? I'll just make a few comments then Laura you can finish off on, on LGC. We haven't assumed in our numbers that we gave you on the capital markets event expansion in America. That wasn't something we talked about at all. And until we've actually got a plan that's been signed off by all of the appropriate governance in the group, we'll talk about it after we've done stuff. But, the world is opening up for us as a company. We're already with Pemberton in nine or ten different European countries with NTR we're in four or five European countries. And, you know, I think having had many of my colleagues work in several different divisions, people really understand how all the other divisions work really well. And therefore, when we're collaborating, they're doing it from an informed source of how we work together collectively to improve our business performance, whether that's in Europe, in the UK or the United States.

LAURA MASON

I think the only thing I would add to that is when we are looking to expand internationally, we're looking for two things. One, where we can use the expertise that we built up in the UK in the sectors we have and secondly, ideally where we can use, looking at it from my perspective in LGC, use LGR funding to help growth of new businesses. So just as you've said it then sort of symbiotically helps LGR in terms of new assets for pricing, etc., there.

JEFF DAVIES

I mean Tim and many others are working closely with ABI, Treasury, PRA on this. Obviously the sort of things that are being talked about are generally supportive of within the bounds of what we're proposing within that and what we'd like it to look like. But more importantly, we have our own view of where defaults are and what does it look like. You know, we're not constrained by that. Nigel will tell you the £3.4 billion is obviously hugely prudent. You know, we're very much governed by what's the rules in IFRS 4 which goes all the way back to solvency I. That will be able reviewed as part of a move to IFRS 17. And you know, we'll look much more like a best estimate and more in line with what's in our own solvency II thinking and underlying it. And so that's how this will evolve as opposed to what does the regulator say is what you're allowance are. And so what that will drive is us optimising the assets that we source and that's why we're working closely with them for them to understand what does it mean for our portfolio…

what does it mean for the assets that you would look to put on the books so that we can do all the things we talked about earlier in terms of yield, uplift, etc.

SIR NIGEL WILSON
Okay. Any more hands up? I think there's two more to go.

NASIB AHMED, UBS
Thanks. This is Nasib Ahmed from UBS. So Jeff, you kind of answered one of my questions there on IFRS 17, it seems like the 3.4 billion credit reserve isn't going to be there. But can you give any other colour on IFRS 17 operating metrics that you're looking at? Second question on OSG and I can come back to Ed on this. There was in the analyst pack, there was a projection and on that the 2021 number was 0.9, but in the presentations 1.1, so what's the difference? And secondly, it runs up until 2040 in the analyst pack. Do you have any more OSG coming after that?

SIR NIGEL WILSON
Think they're all for you, Jeff.

JEFF DAVIES
IFRS 17, well we'll still have an operating profit and you know, we'll still have those, whether we've got a whole suite that we could use at the risk of confusing people. So we'll look at that as it develops and obviously there's discussions at CFO Forum in terms of what do they think will be useful disclosure and you'll probably all come up with some as well. So we'll need to pick the best of those and see what makes sense. You know, what will people want to understand about CSMs and everything else? So that will be down the track and it'll be the joys of all the education sessions in the second half of this year. OSG - it's just management action. So the 14 billion that we show is without management actions, we say 1 to 200 million. And from that you can deduce it's close to 200 million. Subject to rounding in the first year of the projections that we're showing. I suspect that that's the run off within the model and we go all the way to 2040. I suspect it's trivial beyond that. We don't really have many more liabilities beyond that, we will have some deferred annuitants who are very young, but otherwise it won't be much beyond that.

SIR NIGEL WILSON
Okay. One last question.

LARISSA VAN DEVENTER, BARCLAYS
Thank you. Larissa Van Deventer from Barclays. Two, one of which I think is quick, but both high level. In Asia-Pac and US expansion, what are the biggest opportunities and

the biggest hurdles? And possibly related to that on LGC earnings it's currently dominated by housing, but there is a lot of activity on the infrastructure and scientific development front. How should we think about the evolution of the earnings profile and over what timeframe?

SIR NIGEL WILSON
That wasn't the quick one right, the second one. So Laura do you want to answer the second one? Jeff do you want to answer the first one?

JEFF DAVIES
Sorry I didn't catch whether it was LGIM or LGC.

LARISSA VAN DEVENTER, BARCLAYS
LGC.

JEFF DAVIES
LGC US expansion. Well, I mean, we talk about this a lot. We talk about it internally, and John will be very strong on this, that the biggest barrier and an opportunity is making sure you have people who know what they're doing. And it goes without saying. But, ee are lots of people that sit in the UK well when we've done things well, it's doing what we've done in the UK and exporting that to another country, but making sure there is a combination of our people and local knowledge that really understands what's happening in the market and we're very, very focused on that and at all levels we will challenge who really knows what's happening. Plus have you got the people who have executed well? So whether that is infrastructure and urban regeneration or whether it's SciTech - who's done it really well here and who are they going to work with locally that really understands it and who's worrying about it every day? So that's the way that we manage both the risks and the opportunities of doing that. And that takes time to source the right people.

LAURA MASON
And in terms of the change of where we get our profits over time, I think you're right, I think over time we will see LGC being less dominated by housing and a much more distributed towards climate transition earnings and as well as the sort of infrastructure like earnings that you refer to in terms of, I suppose a combination of real estate and infrastructure and things like we're doing with Sci-Tech, etc., which I think we see a real opportunity for us given we were very much a first mover advantage in sectors sort of specialist sectors like that.

SIR NIGEL WILSON

Thank you. I was thinking Greg hadn't asked us a question because he wasn't here, but he's just come through, and so Greig Paterson wants to know what happened to annuity margins? What was the impact of Phoenix and Aviva on competition there? The annuity margin’s higher than it was in 2019 and a bit lower than it was in 2020 so it's in the middle of the last three years and that's kind of an average of where we would expect to be and there's all sorts of variables in that but it wasn't the Phoenix Aviva competition, it's a very big market as we're saying, whether it's 35 or 60 billion or whatever it is this year, we will get a respectable market share. We've got off to a good start and we're very happy with the margins that we've got so far. I know Jeff said we had around about a billion under exclusive but of completed I think the exclusive bit was about 50 and the completed was about 950 of it. So we've got a lot we've already completed. We're very happy with the progress for the rest of the year. I'd just like to say a big thank you again to all of my executive colleagues who are here with me today, but the rest of the organisation at L&G for delivering a great set of results in 2020 and also a great set of results in 2021. However 2022 is already in progress and we're setting a very high bar for ourselves in 2022 but we're very confident that we're going to deliver that. And thank you for your support. It's great to see you all here. Hope to see you at, at least one Capital Markets event in 2022, and obviously our interim results in 2022. And let's hope that COVID doesn't strike again, and that there aren't worse things happening in the world and that somehow, we can have a really good 2022 on many different levels.So thank you. Take care. Bye now.