Capital Markets Event
Legal & General Capital
14th October 2021
Q&A - first session after Housing

Laura Mason - Nigel's going to join me on stage now and we'll take some time for questions on what we've presented so far. For those of you joining by webcast, please send your questions by the platform.

Nigel Wilson – can each of you announce your name and your organisation, when you ask a question. Greig then Andrew. Andrew, why don't you go first as you're nearer the mic.

It's Andrew Crean from Autonomous. A couple of questions in terms of your growth ambitions, I think you've grown by, in the first four and a half years, by two point three billion, and you're looking to grow by one point six billion in the next four and a half years, which I think is a growth rate of about nine percent. You put up a slide there saying, Alternative Assets were going to grow at 10 percent per annum. So that would imply lost market share. I'm sure that's not how you'd like to portray things, but could you give us a bit of explanation behind that and whether you'd be applying some more pressure on Laura to up her targets? Then the second question is, I didn't really understand the incremental future fee generation for bringing a lot of excess or third party capital in. Can you not start charging them performance fees and management fees to incrementally increase your revenues? And how much of your revenues are you planning to get from third party fees?

Nigel - Yeah, I think I'll answer the first question and then talk a little bit about the second one, because I think some of that is going to be revealed when my colleagues get to speak. And so you're right, I hate saying that but you are right, it doesn't easily trip off the tongue, that the numbers we put in are on the measured, prudent side, I think, as to what we could achieve as a group. And I think you've seen in Kevin's presentation that there's a degree of ambition, but it's in one sense, not going as fast as it was in the past in terms of the projections that we're presenting to you today. When we added them all up, we felt as though that was sufficiently ambitious to keep people like yourselves and our investors happy that these are deliverable and realistic across all of the business. But if you look at the underlying maths, which you've highlighted very quickly there I might add Andrew, we're hoping to get away with it just for today, that we could easily do better than that, because the markets are in our favour.

And when you listen to all of the presentations, that's one of the conclusions that we hope you arrive at, that actually these are well grounded, not extravagant in any way or not overly aggressive forecasts for the future. We've captured that in the word ambition rather than forecast. But as you rightfully said, I think I'll be pushing a little bit harder with everyone across all the different businesses in terms of what we think these businesses are capable of delivering. But we feel as though we've got to take investors and analysts along with us. And if we'd put down some of the targets that we've already achieved today, three or four years ago, you would have just said, well, actually, those are just ridiculous, you know, that they are way too ambitious.

As Kevin said, we've grown CALA’s profits 10 times. You know, if we'd said, by the way, we're going to grow it 10 times, you would have been very sceptical about it. But that's what we've managed to deliver.

And I think when you listen to the other presentations, you'll get the same feeling. On the question of fees, I suggest we cover that after you've heard the presentations on SME finance. And rest assured that the people who are sitting in the room are pretty aligned to your own thinking.

And, you know, Pemberton, who you're going to hear most about from Symon, are the most advanced in terms of the businesses, but they're all following a similar trend. If you look at the numbers we produced just in our half yearly results, we only had 14 billion of ambition. We're at 25 to 30 today, and that's only a few months later. If you extrapolate that, you will come up with some ludicrous numbers. But we have enormous opportunities. And the point that we made subtly in the presentation is we think that the government will change the rules around DB and DC pensions and encourage them to invest in absolutely the sort of assets that we're talking about today. And if that happens then all bets are off in terms of what we can achieve, given that we are by far the biggest pension provider in the UK. But it's a natural trend.

These are the assets that society wants, the government wants to see. We’re market leaders in pretty much all of these asset classes. This would be a massive opportunity, we think, in addition to the one that we've articulated today in DB in DC.
And the fact is, as Laura mentioned, NatWest Group Pension Fund came in to co-invest alongside us with a huge financial commitment, I think, but to build out our Later Life living business, which is hugely successful in America and Australia and Korea and New Zealand, lots of places around the world. Massively underserved, when we knocked on the door, we suddenly realised there is huge potential and we got planning much easier than we had expected. So that's why we wanted to bring in one of the UK's largest, maybe the largest, pension provider to co-invest so we can keep those assets, develop those assets and really realise the potential for this business opportunity.

Hi, thanks, Andrew Baker, Citi. I guess similar, but slightly different to Andrew's question. So, if I look at slide 18, the total NAV growth goes from, it basically increases like 400 million from 2021 to 2024. Obviously, there's mix changes within that, but I guess, what's the constraint to the total NAV growth of LGC? Is the ability of LGR to generate surplus capital or the ability to...

Nigel - I think looking at it through the long lens, I mean, we've tried to produce reasonable projections around it. You know, clearly, if we do better, we will invest more capital because we're actually not capital constrained really in any way.
We didn't want to produce, you know, numbers that were so ambitious that you guys would come away highly sceptical. We wanted to get you on the side that actually these are all quite well grounded numbers. They're very realistic.

And I think as you'll see from the management team today, they are all convinced that they will be able to deliver those numbers or even better. And they're absolutely capable compared to the market opportunity. You're right in the sense we could have put much bigger numbers in there if we'd wanted to.

But the key theme was we would actually, even if we keep the capital constant, we can deliver a fantastic return for our shareholders with amazing momentum behind all of the subdivisions, because you'll see they've got the same J-curve momentum behind these businesses.

Andrew - No, that's really helpful. And I guess just one more point of clarification. The 25 to 30 billion third party capital, is that L&G’s share or does that include all Pemberton assets as well?

Nigel - all Pemberton's.

Andrew - OK, great. Thank you.

Thank you. Larissa Van Deventer from Barclays. I had a similar question on the fee sharing, but I'll park that until after the later presentation. Two questions. The first one is on slide 29, you show the 25 to 30, that was just mentioned, how do we think about that target versus the 20 billion target that was there previously? And then you didn't speak much about modular homes, recognizing that it is fairly new, but it's also fairly new to the U.K. How do you see demand for that housing sector? And how should we think about break-even points considering the capital investments of the factory in Leeds?

Nigel – Laura is going to take the first and I'll take the second.

Laura – Yeah, so to answer your first question, they're apples and apples numbers. As Nigel said, we've increased how ambitious we're saying we're being at the moment, but they are the same numbers.

Nigel - on modular, we were very excited the other day, the chancellor spent three hours at the factory, which surprised us, three hours just to spend in the factory, but he just about managed to make a house himself in the journey round, if anybody hasn't seen the videos, he was so enthused about it. We're getting real take-off right now with three sites up and running. Selby, which is very close to the factory, is in a great position. Bristol, which several of the Non-Executives went down to see with me the other day, and we have a big pipeline now. I mean, we're seeing modular is really happening. We want to get to about 3000 units and we're about 15, 16 hundred units right now going through the factory. We look as though we have a terrific order book for 2022 and beyond.

And people are recognising that there's something to be happening, something very positive about precision-built housing, where everything works day one when you walk in it. And we think it has an important role to play. Interesting that several of our competitors we listed are investing in this. So, Goldman's invested in a Swedish modular housing organisation, earlier this week, and this is one of the things that's going to happen. You know, it's another J-curve business that we've got that’s generating real momentum. Clearly, it was hard to get it going during the pandemic for obvious reasons, so we lost 18 months while that was happening. But it's allowed us to, you know, improve the technology, improve the productivity of the factory. And if any of you were so enthusiastic, you want to go and visit it, we'll be delighted to have you. There's more demand for questions in this section than we had anticipated. I promise we'll get everyone out in a reasonable time.

Thanks, Alan Devlin from Goldman. Two questions. One. If you hit your 40 to 50 billion PRT target and need 15 to 20 billion of real assets, how much of them will come from LGC? i.e. how important is LGC to LGR?
And then the second question is to clarify the 2025 target, 600 or 700 million, does that include the third party fees? i.e. include your share of the Pemberton profits. Just to clarify. Thanks.

Nigel - I will answer the second one and then Laura can do the long answer that's required to the first one. The second one is yes.

Laura - First one, I mean, Alan, I guess all of the UK investments have come from a combination of LGC and LGIM managed assets. And I think one of the LGC assets is becoming an increasingly big proportion of that. We've talked quite a lot over the years about the urban regeneration assets, which have given us a real sort of benefit compared to our competitors. And increasingly, we're now starting to see them from our operating businesses, like the affordable housing example.

We didn't explicitly say this in the presentation, but we'd expect the same model from the urban regeneration and some of the other asset classes that we're going to be talking about later. So, it's quite a significant proportion now, but will be growing. And I think the other thing is all investments are not created equal. And so actually these assets, where we do sort of create them ourselves and they're not sort of just the ones that everyone else and our competitors are competing for, we get disproportionately higher benefit from a yield uplift.

Nigel - self manufacturing is very important. If you looked on the slide, you'll see things like affordable housing, which are demonstrably just in LGC. But if you looked at the Sky Project or the Oxford Project or the Cardiff Project, what we want is everybody to collaborate. And we say, “this is an LGC project, this is an LGIM project”. It's just not the way we operate as a firm. The two teams work very closely together, and often there’s people from both, or all three parts of the group, LGR, LGC and LGIM, represented on the board of these companies. So, it is a truly collaborative, synergistic solution. But the self-manufacturing component is definitely rising as we're adding the products. And you'll see that very clearly in the next section when Wes in particular talks about what we're doing. And indeed, Laura talks a bit more about clean energy, which are further areas where we're going to have new asset classes going into the LGR portfolio.

Hi, afternoon. Just one question from me please, is Abid Hussain from Shore Capital. Just a big picture question, really. You mentioned at the beginning some listed peers. I'm just wondering, what's your ambition with LGC down the line? Are you sort of thinking of potentially listing this business, given that the pace of significantly higher valuations?

Nigel - No, I think it's a very interesting question. We're still in the very, very early stages, we think, in respect of LGC and, you know, things within LGC that we will be listing and PodPoint you're going to hear about shortly is one of the many examples of portfolio companies that we've invested in, that have truly exciting futures. So, we're going to talk much more about the micro rather than the macro, you know, the macro is LGC is a very important part of the group. We're really happy to have it as a part of the group. It's very synergistic. So, therefore, you know, breaking any one of the bits out is really difficult because of all of the collaboration and transfer pricing. And that would obviously have to change.

What we're trying to do today is just give everyone, you know, a reasonable understanding of what's going on in the business, what the dynamics of each of the different lines of business are and where we are on the journey.
And, you know, maybe in three or four years' time, you know, we'd have a wider discussion of the topic that you've raised. But today is really focusing about the four lines of business, which is good, what's the potential of those businesses, and why, in aggregate, you know, they're valued at a much less than book value when even the book value is probably a very prudent estimate of what the underlying bits of the business are worth.

Greig Patterson, KBW. Two things I was thinking; one is, you know, the stock of alternatives that you have to generate up to two twenty five. You've got the Alternatives in LGC, which is three point five to five. Then you've got third party Pemberton, which is I think 13, up to 25 to 30. But there's two other big components. I think you've got ambitions to increase the percentage of alternatives in your current 80 billion annuity book. Plus the 40 to 50 billion also has alternatives. I wonder if you could just give us a ballpark, how much alternatives LGC will have to generate over the next three years.

And that's question one. The second one is obviously for Solvency 2, you sell bonds once they've been downgraded. So that's the reason why you never have any defaults. So, the key question to me is rather what has been the rebalancing post downgrade costs since 2008? Because that's a true reflection of the actual default downgrade and default cost. So maybe for another day. I know it's a complex calculation.

Nigel - why don't I take the second one. And (Laura) you take the first one. I'll take the second one first. To say that is just not true, that we sell bonds when they get downgraded, Greig. The best example of that is we have about two percent double B. So the portfolio is ninety eight percent investment grade, and that doesn't get sold when it's downgraded. As it turns out, the biggest example of double B is Tesco. We held onto Tesco all the way through. We were convinced by the management team.

And so, it's a myth that we actually do that. We ask the people to trade out of bonds at times, but it's very much a buy to maintain portfolio, not a very high turnover portfolio. So, you know, at the end of the day, you know, we've upgraded the investment grade portion from 90 to 98 percent, Greig. You know, it's gone upwards over time and, that maybe partially explains why we've had so few defaults over time. And so, it's left us incredibly well positioned. We've got an investment grade portfolio that very, very rarely defaults. I mean, Symon's much more of an expert on that than anybody else in this room by a long way. Why don't you grill him afterwards about what the real understanding of the bond market is? Because I know he and others were very impressed by the fact that we've had zero over a long period of time.

But it's actually that we've only got a little bit of universe that sits within the “likely to default” area. Now, you know, our triple B minus component of our portfolio is tiny as well. You want to go to the first question?

Laura - Yeah. So, I mean, there were a few numbers there, Greig, but I think the key thing, probably, to takeaway is that we're trying to increase the alternatives, or we’re aiming to increase the alternatives within LGC in terms of our actual NAV. Some of that will be through increasing the third parties that we've got, you know, as we said, driven by Pemberton. And then the asset creation platforms that we have that make up part of that NAV will be generating the assets for LGR to create the sort of 40 to 50 billion pounds of PRT business.

Greig - And there's another 20 to 30 billion that needs to be originated…

Nigel - it depends where you put lifetime mortgages in that. But for the eight to ten billion, I'll just use eight for the moment, so say, four, is we want to do per annum, one of which is lifetime mortgages, so let's call that three. The three across LGIM and LGC, you know, we've got more than that in the hopper, I mean, if you just look at that one slide that Laura put up, the four billion for Oxford, a lot of that is going to go into the portfolio, one and a half billion for Manchester. We put down £1.7 billion for affordable, we didn't put down anything in that for build to rent which is going to be half a billion to a billion per annum.

We're not short of opportunities right now Greig, we're feeling really good about the capability to back the portfolio. Jeff and I have just been going through the budget reviews and we've certainly got lots in the hopper and it looks a lot better. The other part of that is it's allowing us then to generate assets for third parties. One of the reasons we didn't do it before, we didn't have any spare. We required every bit of asset that we generated for ourselves, for our own business.

Now, we've realised we have tremendous capabilities around this. If you take NTR, you know, do we think there is third party money going to flow into NTR offshore wind and onshore wind and solar and the like? I mean, you can answer that yourself, Greig. You know, the answer is yes. And we've got a great distribution vehicle for that. It's called LGIM. And so you'll see us do different things than we've done in the past to generate third party capital into these businesses as well.

Hi, I'm Louise Miles from Morgan Stanley, just a really quick follow up question, actually. So on slide 24 and what Greig was talking about as well, when you’re originating these assets and as you start to have the excess from LGR to potentially give to third parties, how do you actually decide which ones go to LGR and which ones are going to go to third parties? You know, because obviously some of them are going to be more…

Nigel – it’s trivial in many instances. There's a thing called the matching adjustment, and the matching adjustment means…

Louise – so that’s literally it, the ones that are eligible go to…

Nigel - Yeah, there's lots of non-matching adjustment assets that we'll create in certain situations. Some of the ones that are matching adjustment we might split and give to third parties at the same time because our risk appetite or whatever for a particular, you know, for something that's, a billion or half a billion in one particular asset, we'll say, well, actually, we'll take 400 million and our third parties... We've only done it once so far. And we made one phone call to get rid of the assets, which just tells you something, you know, there's huge demand for those assets if we wanted to do it. But now we've got the capability to do exactly that. I'm going to pass back and sit down and we'll start again.

Q&A - final session

Laura Mason - we've got one here from Oliver Steel at Deutsche Bank. As Nigel said, the government is looking for pension schemes to invest more in alternatives. What percentage is held currently in alternatives in LGIM's DB and DC pension funds? And what percentage does the government have in mind?

Nigel Wilson - It's a very good question. Sadly, I'm not quite sure what the government's going to announce or when it's going to announce. But, clearly, we've positioned our portfolio to be able to put these assets into DB and DC pension schemes. Apart from the IV, Inspired Villages, that's the only one that we have a direct investment by DC or DB at the moment across the portfolio. How much could that be? You know, in France, social impact investing is 20 percent of the portfolio.
And I suspect the government's going to start with a much, much lower target than that. But whatever happens, it's good for us because, you know, we are by far the largest player in the pensions industry here in the UK.

Laura - And another one from Oliver. If pension schemes are allowed to invest more in alternatives, what is the risk that this lowers the available investment returns for both LGC and LGR?

Nigel - Yeah, I think if you just go through Pete's presentation, you know, the size of the opportunity in the UK is way beyond the capacity of firms like ours to invest in it, because there's such a shortage of scale-up capital in the UK. It's actually quite upsetting at one level for us, because there's an enormous number of entrepreneurs, brilliant start-ups right across the country. I know when I go around any of the universities, whether that's Newcastle or Manchester or Bristol, Oxford, Cambridge, Sheffield, there's brilliant entrepreneurs in those universities desperate to get more capital to grow, very different from MIT, which is where I went to, or Harvard or Stanford in America.

And we have to replicate that model. And if Sir John Bell was here, and John and I presented together at "Downton Abbey" on Sunday, he would be telling you how much the life science industry in the UK is short of capital right now. And that capital is not available right now to really scale up businesses in the UK. And we've got an interesting experiment, right now, where we've announced we're going to IPO PodPoint. It will be really interesting to see whether this is an asset that the UK wants to invest in or whether it's actually international markets that ultimately invest in these types of assets. As Pete mentioned very briefly, Current Health, which is one of our very successful businesses, has been sold to the Americans. And we have a lot of people looking at some of our businesses.

That's why Laura mentioned further realisation events. We weren't expecting that to happen quite so fast. But it does, because there's brilliant innovation businesses here in the UK, which are not fully valued in the UK, they're fully valued on a global market, and a global market prices very differently from UK institutions, because the UK institutions simply don't have enough capital right now. And I think if Rushi does change the rules, I think that's really positive for us. And we're hoping that his visit to the modular factory was the swing factor in getting him over the line to realise that these are great things going on in the UK and we'd love to see them happen over here at scale. Shall we open questions now to the floor. And again, can you just say your name and the institution you're representing?

Good afternoon. It's Stephen Haywood from HSBC. Sorry, three questions, but kind of follow-ups really from previous questions. I think Louise mentioned about the matching adjustment part of the movement of assets from LGC to your PRT business. And how does this change, do you think, with the UK solvency 2 review? And do you think this sort of shift of assets increases massively so you can allow more different types of assets into your PRT business?

Nigel - that's such a good question, I'm going to pass that on to Jeff Davis.

Stephen - second question then was actually, I might have missed it, but I'm following on from Alan's question earlier on the fee part, the third party fees. Did you actually mention whether this was included in the 600 to 700 million target or not?
And then the final question, which sorry about my ignorance and solvency 2, but LGC capital, does it come under the solvency 2 regime, and as it's part of L&G Group, does it have to? And what are the potentials it can do, if it doesn't come under solvency 2.

Nigel – if Jeff takes the first question, then Laura takes the second and third.

Laura - Yes, OK.

Jeff Davies - And Laura was hoping I was going to take the third as well. Yeah, so in terms of assets that are allowable after any review of solvency two, we've said we're looking to widen the universe of assets. I don't think, you know, we're going to see some huge softening of the rules by the regulator. But if there's that move away from, you know, complete fixity of cash flows that we keep going on about, then that does mean lots of the things we've been talking about here would be available to move into that portfolio.

And we would need to do less of the structuring that we do around affordable and we do around build to rent, you know, which is a saving and actually an efficiency in the yield that we'd be able to offer. If there's a bigger universe, all of a sudden, to Nigel's point, there's a lot of assets out there… more than we can all invest in. And it also would mean we'd have more available than we'd be able to pass to third party investors.

And we're already doing that in the secure income asset fund that we've done through LGIM, where pension funds can do the same thing as we've been doing for our annuity liabilities for some time.

Laura - And on your second one and Alan's earlier one, I think the way that we're thinking… maybe the best way to think about it is that the majority of the third party assets at the moment are from Pemberton, and therefore that is part of our profit projections. But as we said, there's also a lot more room to do more of that, that isn't there. And on Solvency two and LGC, yes, at the moment, LGC is under the solvency 2 umbrella. I think, probably, a couple of points to make.

Firstly, that the capital charges on these types of assets diversify quite nicely away from the annuity business. And secondly, we probably reached a steady state and capital use now. So as we realise investments and reinvest, the capital won't really increase from here.

Nigel - Yeah, and Pete was sandbagging his number as part of a budget negotiation with Jeff and I, so there's I think plenty of upside to go for.

Thank you. Hi, this is Ming Zhu from Panmure Gordon, just two questions, please. First, a quite general question: what's the biggest challenge in LGC and what sort of competition are you actually facing? And my second question is a bit more specific. On slide 38 and in the other housing business, you're operating profit, that is almost like triple in four years' time. And your implied return, you know, that's sort of going from 10 percent to the 14 to 16 percent. Could you just give a colour? Because that looks quite ambitious. If I'm just looking the numbers, could you just give a bit colour in terms of what have you got to achieve that? Thank you.

Laura – shall I talk a little bit about the first one.

Nigel – you can do them both if you want?

Laura – so, on the first one, I think in terms of the competition, Nigel's mentioned some of the bigger global competitors. I think the real competitive advantage that we've got, that Wes touched upon in regeneration, but probably applies just as well to others, is our different sources of capital. And as much as we sometimes think that the MA is a pain, it also gives a really long sort of lower cost of capital to work with others who want to have that sort of capital, that perhaps some of our bigger global competitors don't have.

I think the other thing, particularly in the U.K, we've got a model where we are really integrated in terms of understanding how to work with local authorities, Government. I think Kevin's example of Horsham, where we can actually bring together the different businesses is a great one. Kevin mentioned all the housing businesses, but I've also sort of mentioned that how we bring the clean energy into that is a real differentiator for us. And I don't think there are many other investors that can bring that type of investment, those investment capabilities together. Wes mentioned Oxford. That will be a combination of clean energy, housing, Sci-Tech and everything probably, VC investing. So those are probably our real sort of competitive advantages. So although we might see competitors doing one or two of those things, being able to sort of really bring them together is a real differentiator

Nigel - On the housing question. Today, just in terms of deltas, we mentioned that Affordable Homes is going to make about 30 million, I think this year, and 100 million by 2025. And that's just maths, that's just getting bigger, as you can see on the slide. The rest of the businesses were making 20 to 30 million. And we're putting down that they're going to make 30 to 60 million in five years' time. So, I would be disappointed if that was the outcome… that those went from such small amounts.
Simon's nodding in agreement, so that's going to happen.

We should do much better because there's Later Life living, there's Urban Build To Rent, there's Modular Homes, there's Suburban Build To Rent, the strategic land. And if, you know, even one of those delivers we'll manage to hit those numbers.
And I'm very, very confident that all five of those are in great shape right now under Simon's leadership. And Simon's over there, so you can ask him afterwards,

Thanks for the presentation it's Dom O'Mahony from Exane BNP Paribas. So, a couple from me if that's all right. Just in terms of the synergies, one of the one slides, which is very compelling, which shows all the synergies between the different businesses you have, and, you know, some of the things you've highlighted really pull out the synergy between LGC and the other businesses in particular. You're talking about the asset transfers from the specialist commercial real estate into LGR. Can you just run through some of the other examples of synergies? I guess there are other MA eligible assets, but presumably there are synergies beyond that as well. That'll be really helpful. And one other question. And it builds on this point about the solvency reform. One sort of hint that was dropped in a recent speech was that the PRA was looking at MA eligibility for early stage lending rather than just finished assets, which, you know, sounds like it's designed to support LGC, right? LGR can lend into LGC at the beginning and not at the end. Does that actually create more opportunity to invest? Or does that just mean you slice the cake differently at different times? Those are my two questions.

Nigel - I'm going to take the second one.

Laura - Yeah. I'll start with the first and then you can add. I mean, in terms of the synergies, I mean, we've used the urban regen one which is… the one we've been doing the longest. And I talked about our Affordable Housing model, where, at the moment, we are developing the assets in LGC and then LGR are then buying them on completion. We also talked about the Urban Build To Rent model, which is a similar model in terms of LGC creating the assets. And then that one is LGIM. And we are increasingly using that model.

We also are using that model now in Pemberton, where we're able to create the technology, the structuring technology, that we've created to create a matching adjustment note from Pemberton, and increasingly looking at how we do that for some of the newer clean energy technologies. So I think what we're now able to do, Dom, which started, as you rightly say, with the urban regeneration, is do the same sort of synergy model with almost all our investment sectors and in slightly different ways. And that's the exciting bit. And that sort of leads on to the solvency 2 question.

Nigel - Yeah, I think hopefully, regulation and government policy are going to be aligned in a number of ways going forward. And I've had that dream for 10 years and failed with four different Chancellors so far, so we can count on it. But that's always been the dream for us, that actually we would be given, as Jeff said, many more asset classes that become usable for DB DC or PRT. And I think we're well on the journey to achieving that. We certainly developed the capability because, you know, below all of the people you see here today, there's some great teams who are just doing an amazing job.

And so, Nilufer is at the back and got to see it first hand when she visited some of the sites with the teams a couple of weeks ago. And so I'm very confident that we'll get there, whether we get there very soon or in the next 18 months or two years, it's over a relatively short time period that we will get this alignment between government policy, regulation and industry capability. And clearly, it's purpose-built, I think for LGC, so I think we're very fortunate to have invested 10 years in getting there in the hope that one day this stuff would happen.

And I think we are getting there right now. So, there's four more hands up for four more questions, and we're trying to get everyone finished by two. If there's anybody else who wants to ask a question publicly, then great. Put your hand up. If not, we'll handle them afterwards when we're all going to hang around for a little bit longer.

Great. Thanks for taking my questions. Andrew Baker from Citi. So, two from me. At your Capital Markets Day last year you mentioned three to four climate related businesses that could add north of 100 million to operating profit. Is that inclusive of what we've talked about today, or is that in addition to what we've talked about today?

Nigel - Some of them are coming through today. I mean, PodPoint is clearly one area that we're going to be very big in, NTR is another area that we're going to be very big in. You know, we have Onto, which is our electric vehicle car leasing business. We have a raft of these businesses all coming through. We are just trying to hang on to them at the moment and make sure that we can develop them either ourselves to their full potential or with UK DB or DC money to help in the way that they're growing, like Inspired Villages would be the best example of that.

Andrew - Okay, thank you. And the second one, are you able to actually give us the actual SCR that backs LGC? Both pre-diversification and after diversification, by any chance.

Nigel - We haven't done that, but I think the point that Laura was making was that actually, the way we presented it, it's solvency capital neutral… In effect there's no delta. One year it might be slightly positive, one year slightly negative, but actually, in aggregate at the moment, over the plan, it's not an additional strain, which is one of the great things about it. So, we try to have a comparative static, if you like, for those of you, so that it makes it easier. Otherwise you have too many moving parts and it just becomes a little bit more difficult. But in the future, it probably will get more difficult. But actually, at the moment, you should get a view in time, this is the same amount of capital.

Andrew – great, thank you very much.

Hello, good morning. It's a Fahad Changazi from Mediobanca. I'm sorry if I missed the gist of it, but Pemberton, for direct lending for example, can you explain how you are different to say, a NatWest group and perhaps also talk about excess liquidity, now...

Nigel – sadly Symon’s left and Symon was one of the most senior people in the NatWest group for most of his career. So he was there for a very long period of his career, and I’m sure would give you an answer… Um, it's a very different, more nimble, more international business, I think, focus with a single purpose… a very focused business.

Laura - I think the other thing is to say that many of the banks aren't doing at scale what we're now doing in Pemberton. So Symon listed the four strategies we've got. I think, in times gone by, RBS as it was then, might have done some of those strategies, but are increasingly doing less of them and I think Nigel's other point is key… in that, very deliberately we've built up a model where we have got distribution partners, they're more than partners… with employees across Europe who really understand the clients and what's happening on the ground.

Fahad - And so in terms of the excess liquidity in the system, government support firms being cautious, is there commentary around that? Is this affecting Pemberton, or, not at all?

Nigel - No nothing.

Fahad - The other question was also on CALA. It looks like a strong bounce back 2021, but we keep hearing about lots of vacancies in the construction sector, are we back to normal in construction now?

Nigel - Oh, there you go, Kevin.

Kevin Whitaker - I'm not sure what normal ever was. There's plenty of people employed. The furlough took a little bit longer to unwind than we thought. And the productivity…So, the delivery onsite has not being compromised at all since the summer, which is surprising. The main challenge at the moment is supply around materials, but actual labour is available, so that's where we are.

Thank you. I'm Larissa Van Deventer from Barclays. Just one, you have increased your targets for the third party assets, but you haven't increased the five billion target for LGC. You’re currently just above three, but you have over five billion of liquid invested assets within LGC. Why not deploy them? Why not deploy those faster?

Nigel - I think we've tried to do this. This is what it looks like with the same amount of capital, about the same amount of assets, with plans that you can add them all up and and see…, and make it pretty transparent. We know the thing about plans is that they never turn out to be quite the same… It's really to try and give you the direction of travel. The basic economics, that slide put up the IRR for most of the lines of business. You can look at where they are on the journey right now by calculating out the average return. So, it's to give you a better look and feel. And then over time, we'll explain in more detail some of the slightly more complicated parts of how we grow the businesses.

But your insight is correct. And this is the last question…You're going first and last, Andrew.

Andrew Crean from Autonomous. Just one question… If solvency 2 rules do change and there's a wider array of assets which can be applied for the matching adjustment, I'm assuming you get more bang for your buck by applying them to PRT than you do to DB or DC. If that's right, you have two choices. You can either increase the amount of alternative assets, a higher yield on your back book, or you can drive faster growth in your new business. And that can then offer a second alternative, which is you can do it for your own balance sheet or you can do it for a third party. What's the preferred route?

Nigel - That's a very good question. But, and fortunately, we have some things like VC, which automatically fit in one camp rather than the other. We've had a very good methodology for a long time on how we deal with urban regeneration and affordable housing. And that's predominantly going to go into back the PRT business. For Inspired Living… we were at one point thinking about whether we would put it into the PRT business, because it has lots of the characteristics of that. But we decided that, actually, scaling it up quicker, in partnership with NatWest was the best solution for shareholders. So, there isn’t a kind of one size fits all.

We have I think, a pretty good solution for all of the different subcomponents. And, you know, I mean, Jeff and I slightly arbitrate on this, at the GCC.

Laura - It's all optionality…

Nigel – yes, it’s lots of optionality, lots of collaboration, that we've got. But we have a win a win, so there isn’t a lose on that… and just getting the right mix is reasonably straightforward for us right now. Whether in 18 months or two years’ time, it's more complicated because we've got an even greater array of assets… But it's not a bad problem to have.

Can I just say “Thank you to everyone, to everyone”. We've tried to cover a lot of material, and thank you to all my colleagues who did a fantastic job pulling it all together so that allowed Laura and I to look good today.

Thank you for your questions. We hope there's many more questions in the future. We hope we're giving you updates on LGC, which are favourable, and that address some of the questions that were raised by Larissa and others. And I'd like to welcome those of you who are staying here to join us for a drink.
It's really nice to see people face to face in meetings like this. And I'm really looking forward to having more meetings like this. This is a good space for doing this. And next time, we'll probably allow more than one person to come from each firm.
I'm sorry that one or two people couldn't come today. But, rest assured, in the future, we're really looking forward to welcoming everybody. So, thank you...