LEGAL & GENERAL
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PRESENTATION Q&A - Transcript

SIR NIGEL WILSON

What we're going to do this year, it's slightly different. The mics are going to be given to one person and they just pass it around because I think that's the most effective way. So Andy if you want to go first. If each of you state your name and the organisation you're from, it'll help everybody else.

ANDY SINCLAIR, BANK OF AMERICA.

A couple on LGC and one on LGIM, please. Firstly on LGC. Just wondering if you can give us cash generation amount within LGC, and ideally components as well if possible for 2022, and how you're thinking about 2023 cash generation, which I guess may be a slightly tougher year for disposals. Correct me if I'm wrong.

Secondly, was on CALA. 170 million for the year, I think, but I think it was about 98 million in H1. You've said you're beating your targets for 2023, but you haven't told us what those targets are. So just wondered if you can give us an idea of what sort of level of profitability is feasible for '23 for CALA and what that assumes for the UK housing market.

And then finally on LGIM, just really wondered, how do you balance investing in growth verses a cost income ratio challenge, I guess, from softer market levels? How should we think about that cost income ratio challenge over the next few years if markets don't bounce back?

SIR NIGEL WILSON

Yeah. Thank you, Andy. Jeff, do you want to take the first one, the CALA question for you Laura and LGIM, Michelle.

JEFF DAVIES

Sure. Cash generation… we constantly say it moves around depending on what we're doing. Clearly, CALA is a strong generator of cash. You get cash when you sell a house. So against a profit of around 500 million, you're looking at cash generation of 400-450 million this year again in LGC, part of that comes from CALA.

A lot of the operating businesses with both cash yield and disposals in some of those businesses, like some of the VC businesses and obviously dividends on the equity portfolio as well. We reinvest a lot of that, it's not there today to be substantially contributing towards the dividend at Group level. We see lots of opportunities to continue to invest in that business.

2023, it's not that reliant on disposals, but actually we'll come back to this. We've seen strong demand for some of the specialist commercial real estate that we're doing, we haven't seen the write downs of other people in those assets. So, where we think there are good disposals, there will be good quality businesses, but equally there'll be opportunity to invest in the coming year.

LAURA MASON
Thank you. On CALA, probably the best way to think about that, the housing market has had two bumpy years, as we well recognise. We have been very thoughtful about the budget setting for CALA this year. As we've said in our trading statement, we are performing very close to that budget, which is a little bit less than the budget we set for 2022.

And to put a bit of context around that, we have assumed… and this is playing out… that sales rates will go back to the sort of pre-pandemic norm. We were able to predict quite well the types of pricing that we would achieve for CALA housing and as we've said in the trading statement, that is what's panning out so far.

MICHELLE SCRIMGEOUR
So it's a big question. It's a balance. So definitely thinking about the long term future for this business and the present… and the reality is, given what's happened to markets, it's tougher. However, we’re confident in the strategy, so we are continuing to invest selectively in the strategy. You'll see us continue to do that. We are confident in the areas we are selectively investing in and we've touched on some of those.

So really, really keen to see our business become more internationally diversified, really confident in what we're doing across the businesses, partnering with Laura, with Bernie, with Andrew and actually thinking about this as a client business. So it's a long term client business and retention is also very important. So that investment in the platform that we have to support our business, part of that modernise is also really important.

Of course, we have to take a balanced view of cost and that means that we are thinking very, very carefully about where we maybe pause and slow down and also where we continue to invest. I would just say the cost income ratio is one metric. It is a reasonable tool. But the other things that I look at to determine the health of the business, I definitely look at what's going on with flows.

So that opening flows number, 4% of opening AUM, is a good number. I look at client retention. I look at what's happening across the business in terms of delivery around product. And I'm also really keen to make sure that from a client standpoint that we're there for our clients. And I think what you can see here is that we have to be there for our clients, particularly in volatile conditions, but happy to take further questions on that as we go through. Thanks.

GORDON AITKEN, RBC
Three questions, please. First one on managing assets that back annuity liabilities. You're a wee bit different to peers in this respect. I mean, you and your own asset manager, your front deals, they use external fund managers. They say you don't have any advantage. So maybe you can highlight what advantage this does actually bring you and maybe if you can say basis points of yield pick up.

I mean, even this morning, we were speaking to clients and I guess this is where Andy's questions come from as well because he's probably speaking to the same people. But you get concerns over LGC. So how do you reassure people that your way is the right way?

Second question is... Jeff mentioned very large bulks and there's a couple of 20 billion bulks out there in the market. I mean, you could do that with your solvency ratio as it is. Would you want to do the entire 20 billion or is it more likely that would be broken up and shared between different insurers?

And the final question is on longevity. You're using 2020 CMI. We know the 2021 model because it's been published already. The 2022, they're consulting, but it's going to have a 25% weight on the COVID deaths.

It's not going to be until CMI 25 until they move to 100% of COVID deaths. So to me, that looks like five years of longevity releases. Would you agree with that? Five more years?

SIR NIGEL WILSON
Yeah, I think the last one is the easiest to answer, so I'll answer that one. Yeah, that's true. And January, as we know from our own data, was the highest deaths we've ever experienced in January, including the COVID period. So that was particularly unhappy in many ways and reflection of what's going on as a consequence of various changes to health systems, people's lifestyles and the aftermath of COVID.

Andrew, do you want to talk about some of the issues, there were several questions in there you can take your pick which order you answer them in. And Laura, can you talk about LGC?

ANDREW KAIL
Good morning, everyone. Thanks for the questions. I might do the large bulks question first, if that's easiest, because I think fair to say there are, as you referenced, some large schemes that are in the marketplace in terms of conversations. We are actively working with those organisations and their advisors to understand the best structure to transact those when they come to market.

There's a variety of ways that that could happen. It could all be in one go. But what we've seen so far historically have been in a phased way and in a structured way. So we're working through that. As Jeff said, we'd look at this as an M&A transaction.

We have a great solvency balance sheet to transact large volumes. But Michelle referenced something, this is a client-led business and first and foremost, it's about supporting the clients and how they want to transact and how they want to move forward.

In terms of your question on the asset side, I do think we have a unique advantage. We have LGIM, we have LGC originating assets, working as part of the business model.

Bernie's here as well. Retail provide a large amount of assets to my balance sheet to to write PRTs. If you look at our US business, we use external managers where they can supplement that as well. So, we have the facility to go externally if we need to, if they can provide assets, but also we have the internal capabilities that provides the advantage and provide a joined up business model.

And as we've seen, if 77% of our PRT business comes from LGIM clients, I think that integrated model is definitely something I see as a competitive advantage.

LAURA MASON
And I guess linking that to the assets that we create for PRT from LGC, I think they have a few qualities that we look for… asset backed, cash flow generating… Solvency 2 insists upon that. But I think we would be looking for that, whatever the Solvency 2 reforms say. And as we've covered, we've got some really good sources of those assets now… our affordable housing business, BTR Business, Oxford… and looking to expand that into climate transition assets.

SIR NIGEL WILSON
I think on the last point there, we definitely see the PRA working constructively with us at the moment on which asset classes we can get into. One of the positive things of Solvency 2 reform is not just the capital relief we get, it's the diversification opportunities. And actually, with all the skills we have in transition to net zero should translate into us having the capability to develop assets at a premium.

And as you know, we self-manufacture assets, which again is a huge point of differentiation. You saw on the slide we have in terms of the profitability, when people look at our PRT business, they only consider the PRT business. On that slide you will see quite a lot of extra profits flowing into LGIM and LGC, which improves our ROI, and our ROE to well above our industry peers.

FAROOQ HANIF, JP MORGAN
Just going back to your M&A style PRT deals, are you agnostic between the US and UK? I mean, what are the opportunities in the US that you could highlight? The impression I've always got is the kind of economics and hurdles there are easier, I don't know if that's true. That's question number one.

Question number two is, in LGC, the one bit that kind of isn't directly linked to manufacturing for the parts of business, I guess is CALA. And, given its strong performance and maybe stable performance to date, would you ever consider exiting that and realising value from it, given that it doesn't have necessarily that synergy with the rest of the Group?

And my last question is on LDI. So, obviously we had a big… I don't know what to call it… crisis last year and a big shift into collateral and your solutions business. What happens now from that? Does that now naturally flow back into your index business or does it now flow into your PRT business?

Can you just talk about the AUM mix of LGIM and how that could sort of go back to a more profitable mix going forward? Thank you.

SIR NIGEL WLSON
Yeah, just on the LDI thing, I highly recommend you watch John Kingman and my presentation to the House of Lords to get some further background information on what we said there. But you know, its financial impact on us was relatively modest

compared to the noise that there was in the market. And I think, it's not quite normal business, but LDI has always been a vehicle for transition to PRT.

And you've heard the statistic about 77%. That's the strategic link that we want to get. Clearly we've modified our LDI model and there's somewhere between £10 and £20 billion revenue loss for LGIM last year. But that was much more significant from the movement in markets. Jeff, do you want to take the capital allocation decision around the US / UK large deals. Laura, can you answer the CALA question?

JEFF DAVIES
Sure. To some extent it answers itself because clearly we're still growing the balance sheet in the US, so we couldn't write 10 billion in the US in one go, whereas we absolutely could and would write 20 billion in one go if that's what the client wants in the UK, because the consultants over there look at the size of the local balance sheet, which is why we've moved upwards, we've got to 500 million.

We're now quoting on bigger schemes, 600, 700, 800 million. We want to get to a billion scheme in the US and equally, we need that asset manufacture which has improved very rapidly over there, which is allowing us to compete on the $500 million.

So, to some extent we don't need to do that. At the margin in the BAU level, we absolutely do. But for that M&A style, then it's much more about those really large ones coming to market in the UK because that's where we can execute on those. But we would like to do a billion in the US in one go and then we'll move on from there.

LAURA MASON
And on CALA as you recognise, we've grown and created a really very attractive and successful asset there. Although we don't have any immediate plans to sell it, you know, we're open minded in the future.

I do think there's a couple of things worth noting on the synergies we get from CALA. They obviously do create a lot of affordable housing. We're starting to build suburban build to rent houses on those sites, which can be asset creation for long term investors. So, there are definitely some synergies there for us as well as that being a very attractive asset.

WILLIAM HAWKINS, KBW
Sticking with the PRT theme, first of all, please. The graphic on slide 11, if you could help me understand, you're talking a lot about the upside, but there's nothing shown in 2023. I don't know if that's just expectation management or something fundamental.

And then equally, the BAU, you're showing that kind of flat at 8 to 10 rather than what you might think is growing. Again, I don't know if that's just simplification or something fundamental. So if you could help me with that, please.

And then UK solvency, now that we know a lot more, can you give us a hint? What would the solvency ratio be on the new regime? And can you be a bit more precise about where you would see the opportunities to level that into doing future transactions?

SIR NIGEL WILSON
Jeff, do you want to answer that?

On the first one. We may or may not do these large transactions this year and we didn't want to create an expectation for many of the sales team here today. I can see Chris and John looking at their shoes right now as I don't overpromise for them and the rest of the team who are around.

But clearly there is a lot of volume there. At the moment we've just put BAU into our forecast. Clearly, there is upside if those transactions move forward. We don't want to pressurise ourselves into saying people will commit in 2023 and they may happen in 2024. And that's why we've moved the slide out.

In due course we're going to get a lot more information from the market as to what is the size of the market in 2023. It's looking as though it will be a reasonably good year in 2023.

JEFF DAVIES
This has moved really rapidly for some of these schemes and so talking to those customers, getting them over the line, getting the trustees, the consultants, everyone comfortable takes time. So it's not that we're holding back. We're just trying to be realistic about when they may or may not execute and not build the expectation too quickly on this. But it's definitely coming is the message. It's just a case of when.

The UK solvency… we've talked before, it's not really about the ratio. The risk margin gives us… it depends what rates are... 5, 6, 7% improvement in the overall ratio. It's all about the investment flexibility that that gives us. So it's more about long term value creation.

We've talked about 50 to 150 basis point yield uplifts. It just allows us to self-manufacture. Going back to Gordon's question, if we are creating those assets ourselves rather than bidding with everyone else on assets in the market, we are going to have an advantage. It's obvious, you don't have to go that last two basis points, ten basis points that you lose in the bidding process.

And we also get to optimise the structure of those assets as we create them. And it just opens a lot more of those, especially some of the clean energy, some of the ones where the features have been such that they suited banking's lending rather than insurance. It wasn't worth people restructuring those to make the matching adjustment friendly.

But now we can work with those and open up a much bigger universe of assets that we're able to invest in. That's where the real benefit comes from. And that's a message that Nigel's clearly been giving to the government and vocally on that.

THOMAS BATEMAN, BERENBERG
Just two questions on PRT please. Clearly those higher volumes become more credited exposure. Is that something you're happy to take on or would you consider using reinsurance or any other actions to help reduce that? And secondly, just on the capital strain, I think you talked about it being under 4%, has that come down at all or

will it continue to go down if you do larger volumes, or will it stay relatively flat at that level?

SIR NIGEL WILSON
The 4% is an average number, clearly the UK is actually significantly lower than that. That includes individual annuities as well, which have a much higher strain. And so going forward, that should be a lower number. Not to put any pressure on Andrew, who's now going to answer this particular question.

JEFF DAVIES
Yes, it adds credit, but obviously we're showing we're diversifying that credit. We've had no defaults for many years and we continue to grow the other businesses to offset that, specifically around the reinsurance. It is clearly part of the tools that we would use both to be able to use those third parties to effectively be sourcing assets for you as well.

And they have their own skills for doing that. It reduces some of the capital requirement on day one. And if you're executing a 20 billion, you'll use that as part of it. And so, we will be open to that, but we will optimise around things like; strain, and long term value, where's the pricing coming in from, reinsurance versus our asset sourcing.

How much should we manufacture and how much should we be able to create ourselves? So some of that will depend how quickly the larger scale comes and then you'll be deciding how quickly you want to do the asset reinsurance around that.

We're really confident being able to manufacture and source a lot of these assets that we need, it’s then a case of how quickly can we source those if really large deals come one after the other.

ANDREW KAIL
Just to build on what Jeff said, we definitely see the reinsurance market as a tool to help us write these deals. Obviously, longevity reinsurance is something we've done for a number of years, but we are seeing the asset reinsurance side of the PRT market now develop a number of players. We talk to reinsurers, our panel regularly.

They are also obviously watching what's happening with the PRT market and expecting to ramp up their own sort of capacity and operations. And we'll use that selectively, as Jeff said, they're a great source of assets. We've seen some very good pricing on the reinsurance side of particular deals we've done in 2022. So it's definitely a part of our toolkit as we look to put together our propositions for the deals that we're talking about.

SIR NIGEL WILSON
I think the big trend we've had is clearly diversification, both internationally by year by sector. And when you go back to what the portfolio looked like in 2010, 2011, it's so massively different… and the resilience of it. Jeff and I were doing a show and tell with another institution about the performance of our portfolios during COVID and when we did our show, they refused to tell because ours were so much better than theirs.

They just didn't want to go through it. And yet again, we've had a 100% cash conversion, no defaults. It's a very well diversified portfolio. The Solvency 2 gateway, in effect, is quite a difficult one to get through, to get matching adjustments anyway. And investment grade credit, as you know, very rarely defaults as well.

STEVEN HAYWOOD, HSBC.
Three questions on PRT. Can you just quantify what you consider to be a very large PRT? Is it above the 5 billion level and what is the top of the range potentially on that as well?

And secondly, you talk about using your surplus Solvency 2 position to do the M&A PRT business. So what is the surplus Solvency 2 position that you have to deploy potentially?

I know you've been down at a much lower Solvency 2 ratio in the past. Are you comfortable going down to the 180s or 170s in the current interest rate environment? And then finally on the pipeline for PRT, can you quantify what you see as your pipeline for UK and US PRT for 2023?

SIR NIGEL WILSON
Andrew, you do the third, Jeff if you do the second and first as well.

JEFF DAVIES
Yeah, very large… just pick a number… jumbo large used to be a billion and I remember when the Board would really wring their hands at half a billion, now we talk 2, 3, 4, 5 billion. They know how to execute, we know how to do it. We're looking now well beyond that… with very large, 10 or 20… we've said if a customer wants to execute 20 billion, we'll do it.

That would definitely count as very large. But if they want to split it up into four lots of five, that will suit us very nicely as well. We just work with them to say what is the best way to get this done. Give them the certainty versus the balance of our pricing, asset sourcing, reinsurance, etc.

In terms of surplus capital, it's sort of a moot point. We could write 20 billion and still be well over 200% solvency. The logic is more about rates aren't going back to half a percent in the next couple of years... we think… but you never know. Clearly when we're looking to write these, thinking about them as M&A and using capital, we will look at downside stresses. What does it look like?

But the important bit is the speed of payback. If you're getting payback, three, four years, the theory that we're following is you create real economic surplus. So those own funds are higher when your solvency capital requirement is higher in the future. So we won't be back at 170, 180 when rates are half a percent we'll actually be at a higher number by investing now within good economically rational business that makes money for us.

So that's the theory behind it and so it drives that. So, we're comfortable to use some of that surplus.

ANDREW KAIL
Just to pick up your question on UK and US pipeline, I do think we have to be careful when we're talking about quantification of pipelines. We have a very large UK pipeline as we've mentioned already, but they're all at various stages. So there are those deals that we are talking actively, pricing, quoting on that which are very near term and then there are deals at each stage of progression in particular very large, and we've talked about where discussions are at an early stage.

So tens of billions is the pipeline. But I think you have to be very careful how you interpolate that as to when it emerges through into transactions.

In the US I do think it's slightly different. The US market’s even larger than the UK, but you heard Jeff say earlier, where we participate in that market, we typically focus on transactions that are around $500 million and we have a particular liking for planned terminations… less competition and better pricing. And therefore whilst the overall pipeline is very large, our deal selectivity in our decision making is much more focused in the US around really focusing on those transactions where we think we've got the best client proposition and also the highest chance of winning at commercial metrics that are attractive to us.

SIR NIGEL WILSON
It's interesting we redefine what is large. I'm just looking at Simon at the back, we used to think 200 million was a large deal and, we did £900 million of PRT business per annum, about the same as individual annuities until 2010, and then it became 500, then it was a billion, 2, 4, 5.

And what's happened with the clients so far is they've wanted to do the deal over a period of time in tranches. ICI - we've done nine tranches with them. British Steel we were talking about - we did two last year and that was 4 billion. So the uniqueness of the size of the pipeline is very difficult to actually quantify because it may be that somebody who says they want to do 20 billion does it in a ten, a five, a five and some follow on, but over time we're going to capture a lot of this volume.

It's just a natural transition between LGIM's position in the DB and LDI markets and moving it into the PRT markets. And that transition is a good one for LGIM and LGC as well as LGRI, which we tried to capture on the slide… the famous slide 11…

ALAN DEVLIN, GOLDMAN SACHS
Three questions. First of all, you mentioned the large deals over the BAU or M&A type transactions. Does that change the way you kind of look at them in pricing? Would you price a 10 billion deal any different from a 1 billion deal? Given you're using your excess capital and attractive double digit return on that capital, does it matter what the other metrics are?

And then secondly, on the investment side, given the liquid credit deals you can get now particularly in the US, does that take the pressure of finding real assets to source these transactions, particularly if you do well over 10 billion? And then thirdly, on your solvency ratio, how do you view that solvency ratio, particularly the interest rate driven bits, as you say, rates aren’t going back to 50 bps anytime soon.

Can you hedge any of that interest rate risk to kind of lock some of that benefit in or is it just too expensive?

SIR NIGEL WILSON
I think in big picture terms, we've always prided ourselves on financial discipline at all times and never chased volume at the end of a quarter or the end of a given year. And therefore we have quite strict criteria. I think your insight was we have reinsurance and a very highly liquid US credit market that allows us to be competitive in winning deals, but actually with the knowledge that we can optimise the backbook by using some better DI assets and improve the profitability of the business going forward.

And that's an option that we have. And just to echo one of the points that Laura made about affordable and build to rent, we have a lot of large sites. We have a huge landbank across the Group. On those large sites, what differentiates us from other people is we’re having to build the infrastructure, put in build to rent, affordable, social housing as well as our other types of housing.

And again, that's a unique asset skill that sits here with L&G.

JEFF DAVIES
We won’t be dramatically changing our targets on that. We will have to be able to point at those. They will be lumpy. There will be disclosures required around them and we'll have to say why they make good economic sense. And so we won't be particularly looking at them differently.

But, in terms of rates hedging, we talked about a bit before, the dreaded IFRS 17 comment. So, we’re looking to give ourselves more optionality around the hedging. We’re looking to neutralise as much as possible the accounting side for rates, which will allow us to look at the solvency too. But equally we always said that the length of that requirement is really non-economic, it's all about the ratio.

And so, we might do a little bit to try and reduce some of the sensitivity. But to fully hedge that, just doesn't make economic sense to us. It could be very costly in other rates movements and you've seen that with some of our peers. That just doesn't make sense for us. And so we may try and reduce it a little, but we're continuing to work on that as we understand more of the possibilities around the IFRS side of things.

ANDREW BAKER, CITI
I'll stick with the three if that's okay. So first is on the outlook for Solvency 2 operational surplus generation obviously grew in 10% or so in 2022. Should we expect similar levels in 2023?

Then you mentioned on the PRT side about the Netherlands and the opportunity from the pension reforms over there. How can you just help us scale this potential opportunity in terms of the amount that you could see coming to market there?

And then finally, just on LGIM and back to the costs. So there’s 630 million in absolute terms for year 22. Is this an appropriate base for 2023 or should we be thinking this should be higher or lower for any reason? Thank you.

JEFF DAVIES
Obviously some of the OSG growth is what's the LGIM out turn, what's the LGC out turn? And so I don't have a crystal ball on markets etc. yet around that. You will have seen clearly that the total SCR is down. So some of the OSG is the unwind of that SCR, but it's not as simple as saying, divide that over periods in the future, but you'll get less contribution from that.

We have a lot more excess assets with a better return on them which offsets that. So we lose some from the reduction in the solvency capital requirement, which fuels some of the growth. But outside that, the rest is still to be determined with the performance of the underlying businesses and what we achieve on that.

ANDREW KAIL
Just a quick word on the Netherlands. Obviously, there are four very large PRT markets in the world and the Netherlands is one of them. So, we're watching it very closely. Those of you who have been following the marketplace there will see that through some DNB related legislation it's working its way through the statute book, it's opening up an opportunity that the way of going guaranteeing income in retirement for your employees is a PRT scheme.

PRT’s always been a marketplace in the Netherlands, but very small. DNB legislation looks like it's going to grow that very significantly. So we're watching that market closely. Market commentators over and above us have quoted numbers of PRT volumes over the next few years of somewhere between around €100 billion. And obviously that's of interest to us. And so far we're monitoring it very carefully.

MICHELLE SCRIMGEOUR
It is definitely a balance. So do I expect our cost income ratio to be in this place for for a period of time? Our cost income ratio is better than the median asset manager. So we expected it to rise because we're investing. What I would say is that we are going to continue to invest and we're going to do that selectively.

And it really has to be selective. But it doesn't mean that we're going to stop investing. We are also thinking proactively about how we take sensible decisions around the cost base, as you would expect. And that will need to continue as it would in all asset managers.

But as I said at the beginning, we're confident in our strategy.

Modernise, diversify, internationalise isn’t a one-year programme.

This is a multi-year programme, and we are seeing through 2023 to beyond because we are confident that is the right thing to do for the business. So that is continuing to invest in internationalisation. It's continuing to invest in product. And the diversification is not just around product, it's around channel as well. So, how do we get to different kinds of clients. Today we're predominantly an institutional manager and we are really confident that we can get to wholesale and that's something that we're actively planning.

ANDREW CREAN, AUTONOMOUS
A couple of questions, please. Firstly, with the solvency 2 reforms, you can expand

the horizon of illiquids. What proportion of your annuity book would you like to have in illiquids with 50 to 150 basis points more yield compared to where you are now?

And the second question, again going back to Slide 11. I think there's about 49 billion of excess or M&A style BPAs done there, 6% funding rate, that's about 2.9 billion. You're about 3.6 billion north of 190% solvency at the moment. One might argue that you could even fund that now from excess.

Or alternatively, if you are going to write all this excess new business, could you give us some indication as to when the dividend will grow faster than 5%? Because there's really no point doing it unless shareholders are going to see a faster rate of growth?

SIR NIGEL WILSON
Very good questions those Andrew. We're working on the answers, is the truth, for those particular questions, because they're relatively new. To be frank about it, we do have the headroom to do it. What's nice about the Group at the moment is we have four areas competing for capital. It isn't just the PRT business.

We want to expand LGC, we want to expand LGIM. Retail's doing very well. We are building adjacencies everywhere. And so we will, I think, continue to make some bolt on acquisitions as part of the use of some of that capital. I think you and others can do the maths: it's pretty straightforward that we have a lot of headroom.

There's a huge amount of capital in there. Jeff was very clear on the dividend. The dividend is set to 2024, which is the next phase of our financial plan. Undoubtedly it will be reviewed by the Board and to what end the strategic plan in 2024 as to whether we can continue with 5% or some other level.

And part of that will depend on how successfully we execute in 23 and 24 to continue to generate a lot of surplus in excess of the dividend. So, there isn't precise answers for you right now, but the maths is reasonably clear.

We have a lot of headroom. I've got four chief executives sitting down there all demanding more capital to help grow their business and there is certainty of the dividend for this year and for next year. And then after that, it will be reviewed by the Board during the strategic planning process in 2024.

ASHIK MUSADDI, MORGAN STANLEY
Thanks for giving that colour about 50 to 150 basis point yield pick-up if you go into private assets, can we get some colour as to how much you think you'll be able to retain and how much of that might need to be passed on to the pension funds?

Because I guess if everyone is trying to do the same thing, then probably pension funds would demand a bit out of that return as well. So how much is it possible to just keep it?

Second question is, want to get a bit more colour about private market asset origination side. So, if I look at the current situation, we have about 30 billion of PRT, which is written in UK, say 30, 35% is private assets, so that's about 10 billion.

Whereas if we look two years down the line, the expectation is 60 billion and half of that would be private assets or 30 billion. Now we need 20 billion extra private assets. So where do you think that this is coming from? Is it like taking market share from other originators or is it new assets you reckon that will come?

And linked to that, you reckon it is mainly in UK because I guess the Treasury's agenda is that this asset needs to be invested in UK. This is the whole point behind solvency 2 reform. So, can we get some colour about geographical diversification on this as well?

SIR NIGEL WILSON
If you just look at the existing portfolio that we have, we pretty much have the land to scale up massively and we're busy writing letters to the Treasury, etc., about how much is stuck in planning and how much capacity we have.

Oxford is a £4 billion programme. We've got three projects at the moment. We've got six more in the hopper. West Midlands is a £4 billion programme and Andy Street walked us personally around all of the city saying… I want this, I want that, I want the other.

Manchester is an enormous project. One and a half billion pound project, so there's a huge amount even within the existing business.

We then get into all the asset classes we want to get it and we've been developing transition to net zero capability for a very long period of time… we have an onshore wind, an offshore wind, a solar business. We want to do retrofitting at scale. We have a ground source heating business. Lots of different businesses we think will generate assets which will become MA eligible under the new regime going forward.

And that's one of the points that we've made to the government. You know, who thinks the government won't introduce something along the IRA lines that we've seen already in the United States? They have to, they have to compete to do that.

Science and technology… we've got two and a half million square feet already in the UK. We've got another two and a half million square feet in the hopper. So the UK has huge potential to invest in these assets. We have the land, we have the opportunity, the relationship with the respective industries or respective towns and cities across the UK.

We're hoping for some planning reform. If it doesn't come under the Conservative leadership right now, it'll definitely come under the Labour leadership because they'll need something to really boost growth and they will be much more pro-social housing, affordable housing and build to rent housing than the current government's been over the last the last ten years.

Jeff and Laura, do you want to add something to that?

JEFF DAVIES
I think you covered all of that, so not really. In terms of pricing, you can't say how much you'd give away. The key is this gives us a competitive edge. How often can you win? How often can you get them over the line? The trustees, the consultants

are smart people. They know where the clearing price is, it's a case of how easily can you get to that clearing price? You have to oversource the assets appropriately. Sometimes you can use more traded liquid assets. It's a case of how much are you doing to give you that uplift and then helps you keep delivering consistent profits.

LAURA MASON
The only thing I think I would add is that when we set L&G Capital up, we very deliberately chose to invest in sectors where we saw huge need for capital. We'll see about some of the Solvency 2 reforms. But in terms of the potential in terms of housing, climate transition, these are trillions of pounds asset classes.

SIR NIGEL WILSON
The nice thing we have is the optionality. The other thing about clients is they often set a target price, so they will have a target price in mind. And then we're in constant negotiation with them and that price may move up or down on a bi-weekly or monthly basis.

We look at it… what's our asset portfolio at the moment, what else do we think we can slot into that portfolio going forward, given we have this massive pipeline?

We can't say that we will build six buildings in Oxford in the next two years, but we know we're going to build them because actually the variable is not our capability or capacity, it's the planning process. And if there's some reform of planning, we'll be able to do things much quicker and, in a sense, accelerate the PRT transition.

LARISSA VAN DEVENTER, BARCLAYS
Three questions, please. You've termed a lot of the bigger DB deals as acquisitive M&A, but would you consider bolt on M&A? And if so, any particular area where you think there's a skill set you may want to add?

The second one is that a lot of LGC's talk has been around CALA, but how do you see the relationship between CALA and Build to Rent evolve over the next few years?

And then the last one is on hurdle rates and IFRS 17, which is looming at the half year. Is there anything we can do now to change our thinking around hurdle rates or how should we approach that transition?

JEFF DAVIES
Just on hurdle rates, it doesn't affect anything. It is just accounting. And so, clearly, we will look at the amount of CSM added and what are we doing from that. And that will be a different constraint to what do we look at under IFRS 4 where you have a new business value. But we have at least six different metrics that we wrestle with when we're doing a PRT deal, for example. There are then different deals when we're doing term pricing.

And so, it's just something else in the mix. But most of the focus will be what's the value you're getting in CSM because that will be what's most evident to you when we write new business.

LAURA MASON
So on CALA and BTR. As you say, the relationship is getting closer. The teams are able to work very closely to source sites that can effectively be used both for private for sale housing, affordable housing and build to rent. And we can use the expertise in both sets of teams to be able to do things that players that don't have BTR and private for sale capability, to effectively get sites that those who just have the individual components wouldn't be able to purchase and plan for.

ANDREW KAIL
In the context of the PRT business and inorganic, we're not looking at active bolt on acquisitions as an LGRI division. What I would say, though, is we are thinking about partnerships, particularly as we try and move forward in the marketplace.

We've done some in the US. We're also looking in the UK as to what skills and solutions we need. So, some of the very large schemes, because their funding levels have accelerated much faster than they expected, are holding large amounts of illiquids on their pension scheme balance sheets that will need transitioning into a PRT deal that in the context of that, maybe being private equity, that's a specialised skill.

And of course, as we've talked about, we have a phenomenal business model here with huge amounts of capability. But if we need to augment that capability through a partnership to help us solve a particular problem for a client and provide the best solution, then of course we'd be open to looking at that.

SIR NIGEL WILSON
I'll just give some colour on the way we think about M&A. There are lots of opportunities for accelerating the growth of the business and we've got lots of examples of them and we've done lift outs of people from organisations and that helped us grow our multi-asset business.

Our ETF business, we started with an acquisition to get that up and running.

Pemberton, we got a team. We took a 40% interest in the business and that allowed them to develop what is a hugely successful business. We made acquisitions in Inspired Villages to actually get the business up and running. We can add scale to the business.

The chart we showed earlier showed just how quickly we can scale up businesses. The world's awash with start-up businesses, we have 600 in our portfolio.

What we try and figure out is, which of the ones will benefit from three things that we can bring to them. The first is our customer reach. We've got over 10 million customers here in the UK. Pretty much every institution deals with us and a lot of businesses that require scale up or scaling up, need access to customers. We can provide that in a heartbeat.

People might not take a call from company X, Y or Z, but they'll certainly take a call from Legal & General for lots of things. And Kensa our ground source heating business is a great example of that. We bought it in the middle of the peak of COVID and we know ground source heating is going to be a great business.

We might bring in other partners to help accelerate the growth of some of these businesses with a view to potentially listing those businesses in five or ten years time when, we've built very successful businesses and not sold out to foreigners or not trying to list them elsewhere. And that's part of our long term goal.

I think there's great opportunities for LGIM to add bolt on acquisitions for its business and help growth. We're going to be very financially disciplined about it, we won't be this sort of unquantifiable strategic benefits from putting this together. It's the four CEOs competing for capital.

And so far, it's been pretty successful for us doing that. And I think it's a model that works. And increasingly we're finding the people who work for us are very excited about translating the skills that they've had in building things for Legal & General to some of these smaller companies which can increase their revenue 25, 30, 40, 50% per annum for a few years.

And that's been one of the hidden secrets about what we've done over the last 5 to 10 years, because they're just starting to emerge now. When they're very small businesses, if you say they've grown 100% in the last two years but they're still irrelevant. Some of them are now becoming very relevant and in the next 5 to 10 years will become incredibly relevant to us.

RHEA SHAH, DEUTSCHE BANK
Two questions for me. So, there's a lot of focus in the statement around your international businesses or percentages international. Do you have any aims of where you want this to grow over the medium term or long term, either just strategically or whether there's any numbers you can give in terms of cash and capture and or profits?

And then secondly, around PRT, are there any synergies between the US and UK PRT businesses? Are there deals you could do that include a company on both sides of the ocean or any other capital synergies that you could talk about?

SIR NIGEL WILSON
Yes, certainly, on the second one there's huge synergies. Jeff, do you want to say whether we have specific targets internationally.

JEFF DAVIES
We don't have specific… we put some out there, 10 billion for writing international PRT, for example. We absolutely want to drive LGC. But you know, to have a target from one business could be aspirational. And for example, Laura's fed up of me saying that the Inflation Reduction Act in America is just a huge opportunity there.

So you know, the world outside the UK is much bigger than the UK, but we're dominant in the UK, so it takes time to balance that out. But clearly you could see enormous asset flows into LGIM from the rest of the world and there's a lot of money out there compared to what you've got in DB and DC.

But at the same time we want to grow DC pensions in the UK to be highly successful. So, there isn't a let's make international that big… let's make international as big as possible whilst growing the UK. Because if we're suddenly writing billions of PRT, we want to balance that with growth elsewhere. I think today there isn't. I think when we've got more concrete businesses there at scale in LGC, in US PRT with a bigger balance sheet, then in the next round of ambitions we will certainly probably put more concrete numbers on the scale of international growth.

SIR NIGEL WILSON
Yeah, there's definitely some synergies. I'll let Andrew fill this in but, sometimes we get to quote, and uniquely quote, on an international PRT deal, and we've won a couple of them, and we're actually probably the only person quoting on them because they just trust that we'll deal with them… so we can do a UK PRT and US one at the same time.

But there's a bunch of other synergies as well which Andrew can talk about.

ANDREW KAIL
I think there's two groups of synergies I'll talk about. One is operational. So, our very large operational team sits here in the UK. The amount of leverage we provide each and every day to the US team to support them whether it's on pricing, assets, sourcing, etc. …but saying that some of the assets we're now using for UK PRT are being sourced from our US business.

It's a much bigger, more developed capital market, so we see that as a real advantage of the two businesses operating really synergistically together.

The second type of synergy I'll talk about is relationship. We are the only global provider and through LGIM in particular, we have fantastic international relationships and I can think of two transactions this year we've done where the connectivity between the UK and the US from a client side was really helpful to us in negotiations, particularly around what we do around customer.

We keep all of our customer servicing, client servicing in-house. That's a real strategic advantage for us, particularly trustee sponsors like to know their employees are being cared for in the right way and being able to show that we do that on international basis plays really well to our clients.

DOM O'MAHONY, BNP PARIBAS EXANE
Two really specific questions and a sort of a strategy question. Could you just give us a sense of what mark to market effect you took on real estate in the period? I think going through the LGIM flow is temporary, it looks like it's mid-single digits, but maybe you could give us a breakdown of commercial real estate versus residential.

Second is, can you give us a sense of how much management action there was in OSG in 2022? And then I guess the bigger picture question, the US is clearly a really exciting opportunity for you folks. In the past you've talked about Asia as also having some quite interesting potential developments. I know Japan has been a source of flows. Chinese Pillar three I think was something that you folks are talking about as well, wondering if there's any anything new there to update us on, any particular developments you'd like to highlight.

JEFF DAVIES
In terms of mark to market, you saw the result. Our total investment variance is still positive, 160 or so. Everything's absorbed within there. The ones you mentioned, we don't have huge property exposure as such. So, where we've got undeveloped land, then quite clearly if you get a third party view on that, then factor in the new interest rates, build costs etc… so those have come down a little bit.

We talked about that in the investment variance for LGC in the direct investments, but again, that was dwarfed by the equity side of things… some of the ongoing investments… but you know, you're talking 100 million total across the whole of that book. You know, it's not very much - you can see that in the analysis.

And in the LGR book, it really is just the residual properties. We said before the main property exposure is the vacant possession value on the long sale and leaseback etc., the things with Amazon, with HMRC, etc. And because these are twenty years away, we have prudent dilapidation within that. Then you only get a part of that coming through. We don't say our properties defy gravity, but you know, absolutely they are part of a prudent balance sheet.

Some of those come through more mark to market in the Solvency 2, but we clearly set up the rates and everything else to try and immunise as much as possible around those. So we're not seeing huge write downs around this because of both the quality of them and what we have. And we've seen that in some of the specialised commercial real estate, where actually it's going in the other direction. And we don't fully reflect all of that.

SIR NIGEL WILSON
I think we very much sees ourselves as a global business. I think America is a priority because we've got all the businesses on the ground up and running and actually all performing well, which is unusual for any British company to be able to say that.

In Europe, Pemberton already has a European business, LGIM has got a European business, NTR has got a European business. And somewhat ironically, we've done better in Europe post-Brexit than we did pre-Brexit. So we've been sort of forced to in a sense put offices there and put people on the ground.

So, it's not been fly in, fly out so much as actually having people and local people who want to join us. We've got a really high-quality team in Germany for instance.

In respect of Asia, I think Chris is going at the weekend, you're going shortly and I'm going shortly. So, there's lots of interest in the model that we do in Asia. We've been very successful in Japan at getting AUM through the door reasonably quickly from 0 to $70 billion in a very, very short time period. We've got a presence in Hong Kong and China.. we've been very measured in how we expand into those areas.

But they're all intrigued about our Inclusive Capitalism model and the fact that all of these businesses work together in a very synergistic way and we deliver great outcomes from a societal point of view. So, we've been welcomed everywhere we go and this goal that we have to be a globally trusted brand is very evident in the welcoming we get from the regulators and the institutions across the world.

NASIB AHMED, UBS
I've got similar thoughts to Andrew on the dividend. So, if you do a large M&A like PRT, if you look at the future cash flow that you show on the slide, that's going to be significant. And if you did it this year, could you go to the Board for an ad hoc increase in the dividend or is that decision reserved for the full year?

Second question, how high do interest rates need to go for you to retain more longevity risk? Also keeping in mind the Solvency 2 reform.

Third question, a softer one… tier two own funds fell by about 500 million. Is that just mark to market or are there any ineligibility restrictions there?

JEFF DAVIES
The dividend… you obviously need all of the metrics. So, it'll be back to Andrew's point about in the future and what does that look like? So, it's not like you write the PRT and you get profit tomorrow… unfortunately. It's four year payback period around the capital regime and OSG.

But when you see that OSG increasing, clearly that's when we'll be having a discussion around that, which will be the sort of 24 plus year time frame that we're looking at around that. In terms of rates, longevity, it's all driven by the risk margin. And we've said that if there was enough done on the risk margin and rates is an element of how big that is, we would clearly look to retain more longevity.

We've also said that at the moment the level it is doesn't materially move our view of that, when there's very competitive pricing out there. But we constantly review that, what gives us the optimal return on capital versus price to the schemes as well as where is the reinsurance pricing within that.

So we're open to it, we've got the capital, we're open to do we retain a bit more deferred, do we retain a bit more in payment depending where the relative pricing is and the capital strain that it's given. But it's not a big strategic decision to do more of it at this stage.

And on the third point, there's nothing particularly going on in there, most of that is mark to market around that. There's nothing really going on.

SIR NIGEL WILSON
So thank you everyone for your continued support. Thank you to all my colleagues for the great year in 2022. But that's over and done with and now it's about 2023. We've got huge opportunities. It's all about our execution capabilities. We've been very strong, even during the COVID period. I'm very confident that the Team's pumped up for 2023 and beyond.

There's a huge amount of transactions in the hopper. So, Andrew, Michelle, Laura and Bernie get on it! And I look forward to seeing many of you during the course of 2023… so thank you.