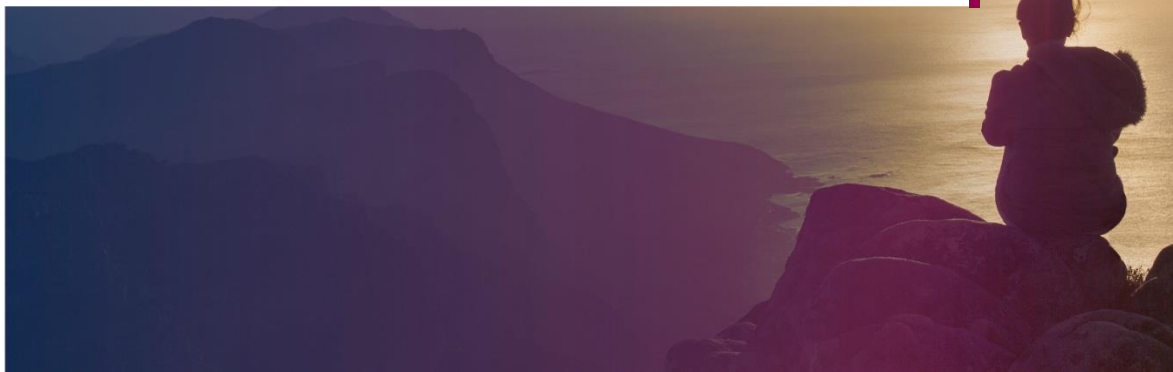




# Capital Markets Day 2020

Thursday 3 December 2020

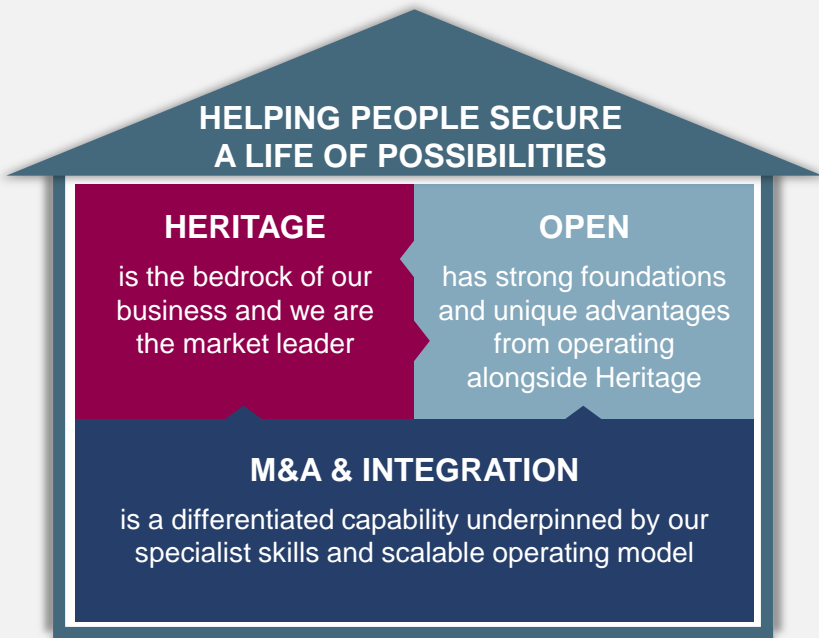


# Agenda: Phoenix Group Capital Markets Day 2020

|                |                     |   |
|----------------|---------------------|---|
| 1<br>Overview  | Introduction        | Nicholas Lyons - Chairman   |
|                | <b>Strategy</b>     | <b>Andy Briggs - Group Chief Executive Officer</b>                      |
|                | Financial framework | Rakesh Thakrar - Group Chief Financial Officer                          |
| 2<br>Deep dive | Sustainability      | Claire Hawkins - Director of Corporate Affairs & Investor Relations     |
|                | Heritage business   | Andy Moss - Heritage Chief Executive Officer                            |
|                | Open business       | Andy Curran - Chief Executive Officer, Savings & Retirement UK & Europe |
|                | Asset Management    | Mike Eakins - Chief Investment Officer                                  |
| 3<br>Wrap up   | Summary             | Andy Briggs - Group Chief Executive Officer                             |
|                | Q&A                 | Panel   |

# Phoenix is the UK's largest long-term savings and retirement business

**We have a clear strategy...**



**...which delivers on our financial framework**

## **CASH**

Dependable long-term cash generation supports dividend

## **RESILIENCE**

Our risk management framework delivers resilience

## **GROWTH**

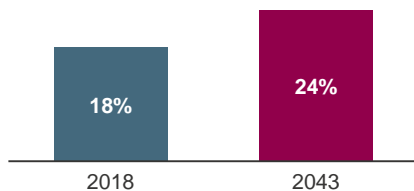
Capital allocation framework supports our growth aspirations

# Macro trends are driving profound change and growth in the UK long-term savings market



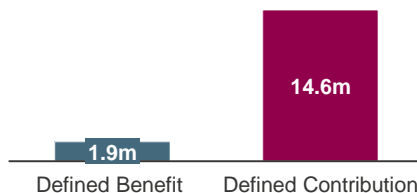
## Ageing population

% of population >65



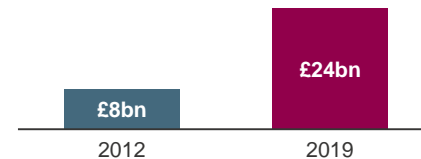
## Responsibility shift to the individual

DC scheme membership 8x DB



## Growth in auto-enrolment

Per annum flows into workplace schemes tripled since 2012



## Financial uncertainty

Driven by COVID-19 and Brexit



## Digitisation

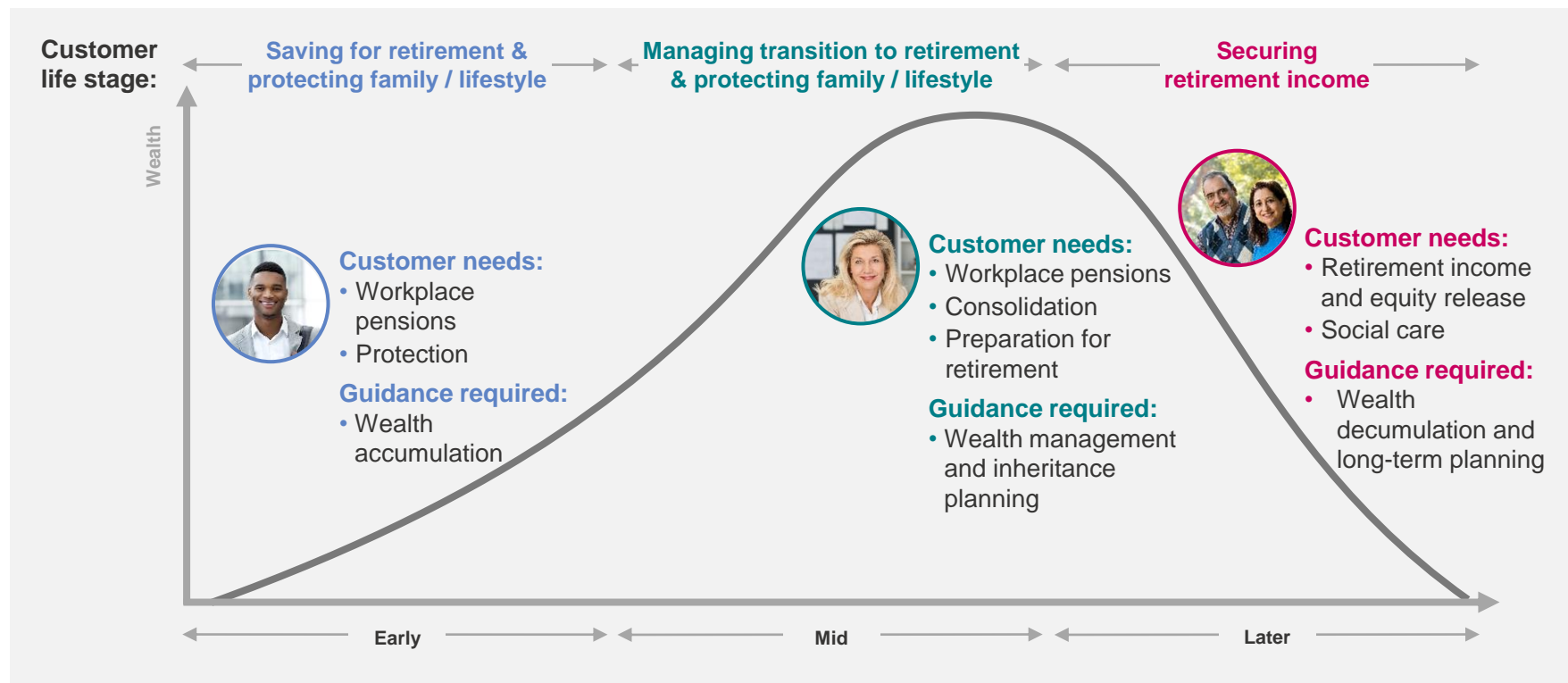
The new “norm” for interaction



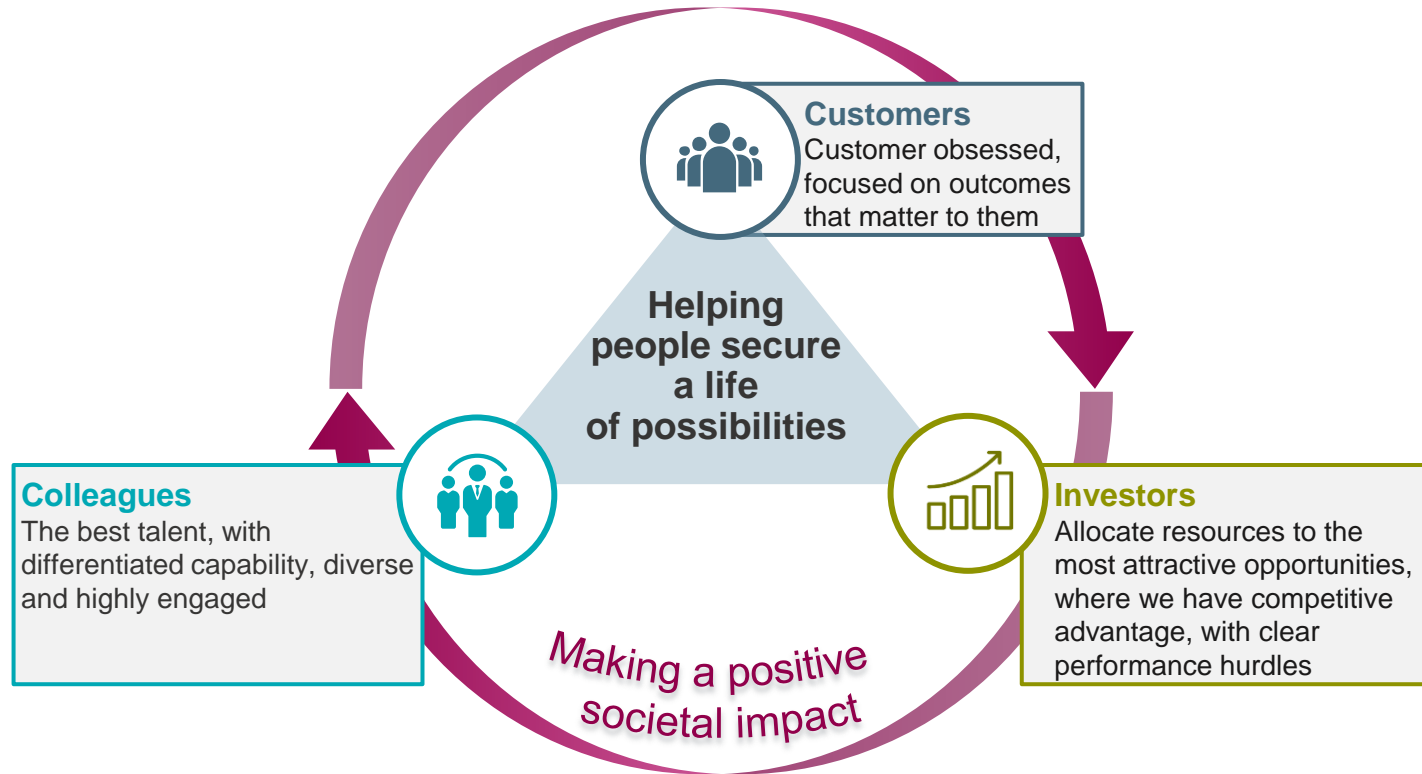
## Sustainability

People wanting to make a difference and reduce carbon impact

# Customers' needs change as they move through the stages of the life savings cycle



# Phoenix has a clear role to play in society - Helping people secure a life of possibilities



# Phoenix will be a leader in sustainability, making this integral to our purpose and strategy

## Our sustainability strategy...

Focuses on supporting our circa 14 million customers and investing our £323 billion of AUA in a sustainable future

Will be fully embedded into our core business activities and integral to how we interact with our stakeholders

Is underpinned by governance and risk management

*Delivering for our Customers*

*Fostering Responsible Investment*

*Reducing our Environmental impact*

*Investing in our People and Culture*

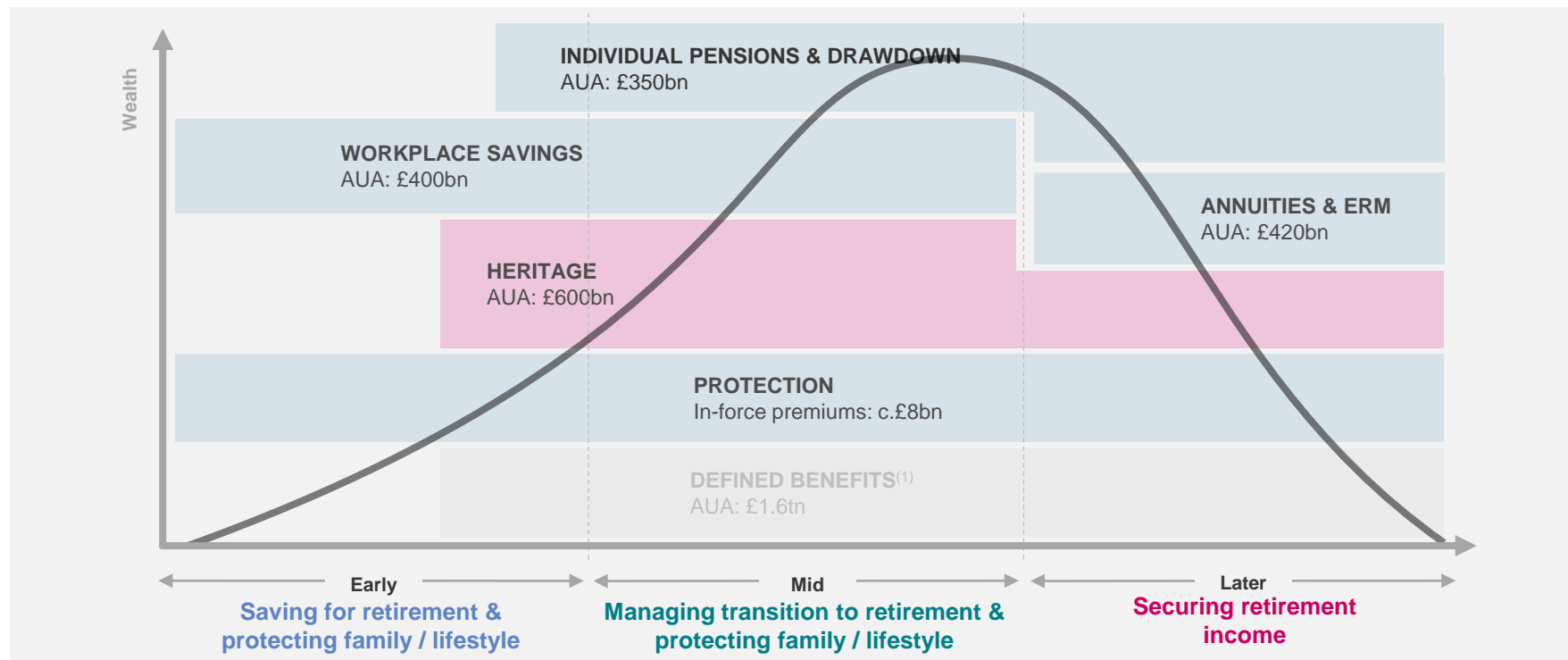
*Supporting our Communities*

*Working ethically with our Suppliers*

Governance and risk management

**Our operations will be net-zero carbon by 2025, and our investment portfolio by 2050**

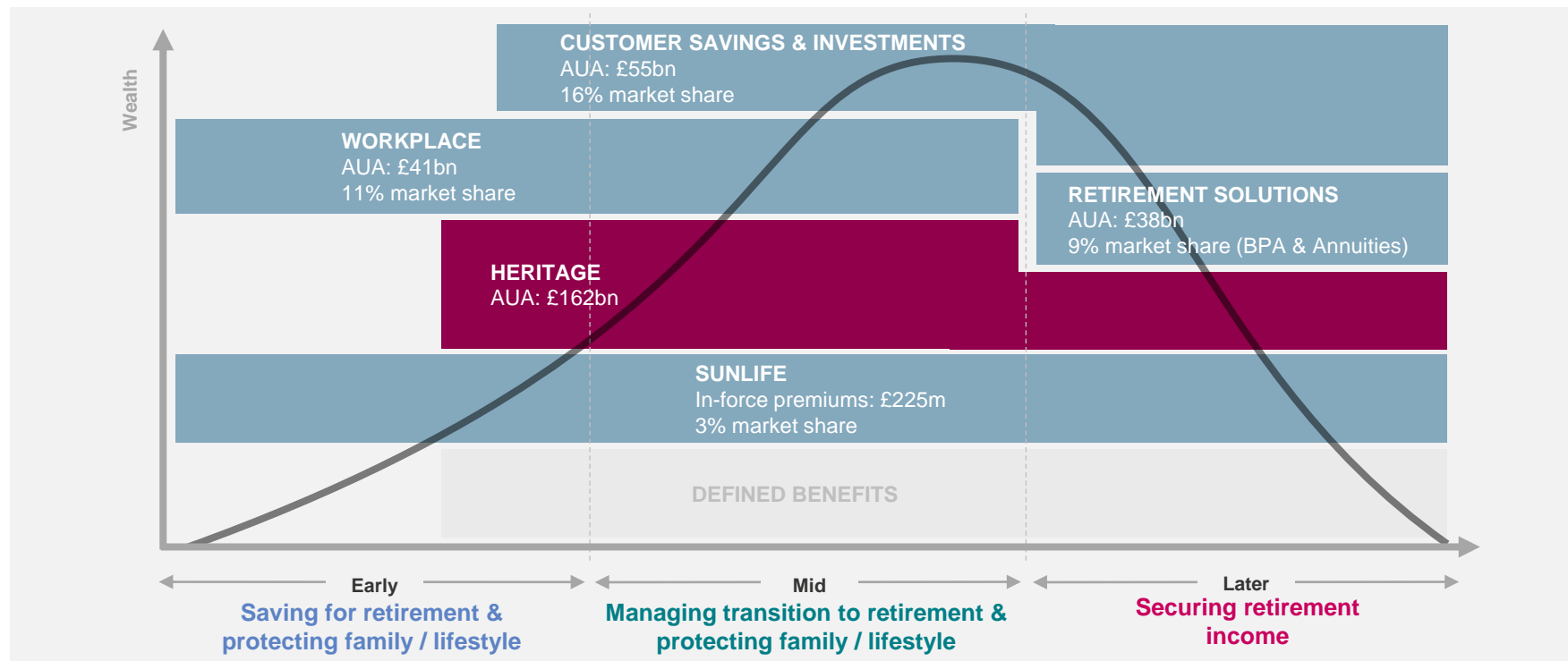
The UK long-term savings and retirement market is large, at £1.8 trillion, and growing at 7% per annum



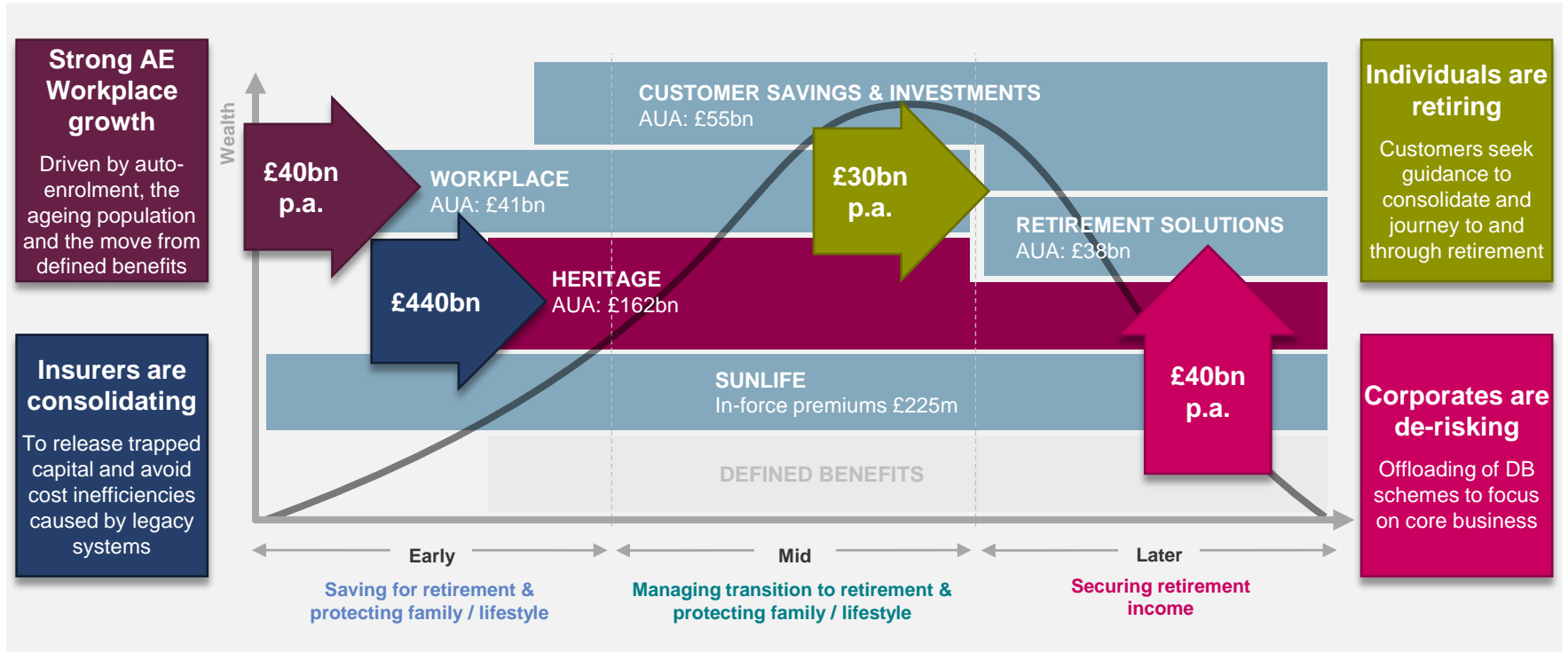
(1) £1.6 trillion of Defined Benefits AUA has been excluded from long-term Savings and Retirement sector AUA



Phoenix has a 17% share of the total market, and strong positions in both Heritage and Open product markets



# The major market trends offer significant growth opportunities



# Phoenix has a clear strategy that leverages our leading share of in-force, and the major market trends

## Optimise in-force business

We manage our in force business to deliver **resilient cash generation** and management actions, including cost and capital synergies

## Deepen customer relationships

By **engaging** with our customers and meeting their broader needs, we will **retain** our customers and they will **consolidate** towards us as they journey to and through retirement

## Customer acquisition

**Acquire customers** and **grow our in-force business** by leveraging the industry drivers of change

### HERITAGE



Market leader

Bedrock of our business

### OPEN



Strong foundation

Unique advantages from operating alongside Heritage

### M&A & INTEGRATION



Market leader

Differentiated capabilities

...our strategy delivers **cash**, **resilience** and **growth**.

# Phoenix is the market leader in managing Heritage businesses

## Strategy

Deliver customer outcomes and manage in-force business for resilience

### Strategic priorities

Improve customer outcomes

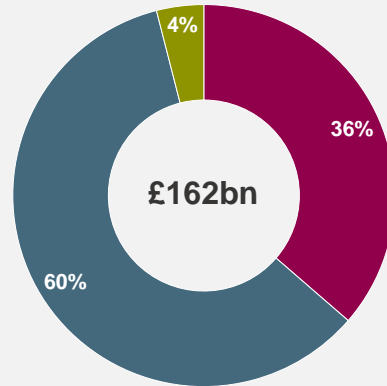
Manage capital through approach to risk management

Deliver value accretive management actions

Integrate acquisitions to deliver cost and capital synergies

## Heritage segment by AUA

at 30 September 2020



■ With-profits  
■ Unit linked  
■ Protection & Shareholder

## Competitive advantages

Proven track record of improving **customer outcomes** and excellent **customer satisfaction**

**Scale** as the UK's largest long-term savings business

Risk management framework delivers **resilience**

Unique ability to deliver **management actions**

Proven track record of delivering **cost and capital synergies** through integration

Optimised and scalable **operating model**

# Phoenix's Open businesses have strong foundations and are central to our purpose of helping people secure a life of possibilities

## Strategy

To help customers to journey to and through retirement by providing long-term solutions to their savings needs

## Strategic priorities

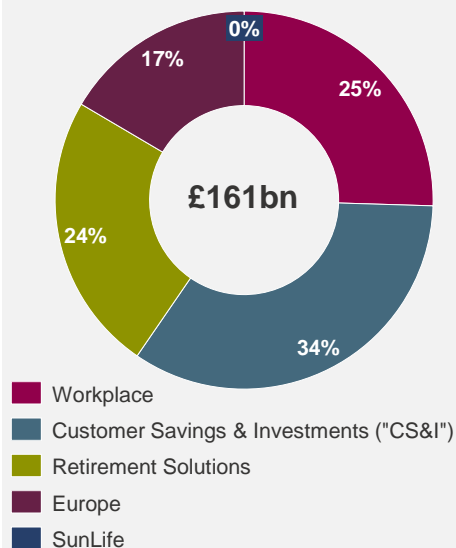
**Workplace:** Accelerate investment in proposition and optimise shift from restructure of market

**CS&I:** Deepen understanding of customer needs and innovate solutions

**BPA:** Improve capital efficiency and grow market share

## Open segment by AUA

at 30 September 2020



## Competitive advantages

**Cost efficiency** driven by move to a single administration platform

**Capital efficiency** driven by diversification with Heritage business

**Significant share** across a range of Open business markets

Large customer base with circa **14 million customers**

**Long-term commitment** to the market underpinned by Group's strength and resilience

# Phoenix has an excellent track record in M&A and integration

## Our recent transaction history

|  | Price paid | Cash generation | Target                  | Delivered              |
|--|------------|-----------------|-------------------------|------------------------|
| <b>ReAssure Group</b><br>2020          | £3.2bn     | £7.0bn          | £800m total synergies   | £227m by HY20          |
| <b>Standard Life Assurance</b><br>2018 | £2.9bn     | £5.5bn          | £1,220m total synergies | £946m by HY20          |
| <b>Abbey Life</b><br>2016              | £0.9bn     | £1.6bn          | £500m cash in 5 years   | £686m cash in 2 years  |
| <b>AXA Wealth</b><br>2016              | £0.4bn     | £0.5bn          | £250m cash in 6 months  | £282m cash in 5 months |

## Our distinctive capabilities



**Deal certainty** through strong regulatory relationships, Part VII capability and low cost of capital funding



**Scalable operating model** with modern, cost efficient technology



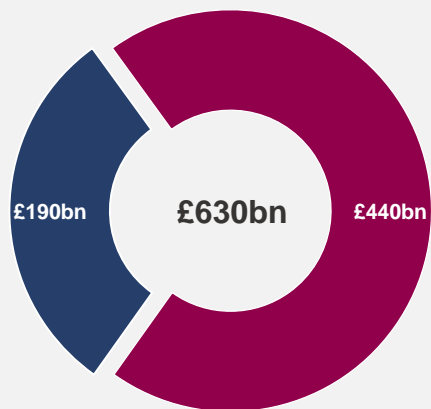
Our broad range of existing business enables **greater synergies**



We have **specialist skills** including migrations and management actions

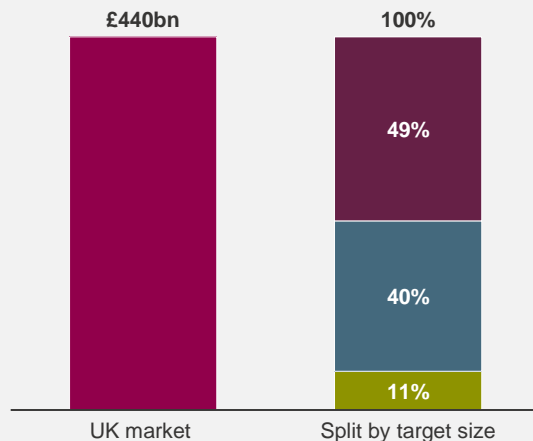
# Our clear M&A strategy offers further growth potential

## Heritage market opportunity by geographies



■ UK  
■ Germany & Ireland

## UK Heritage market opportunity by target size



■ Targets > £50bn  
■ Targets £10-£50bn  
■ Targets < £10bn

## Priorities



### Geography

- #1** Primary focus on UK £440 billion opportunity...  
... with European operations providing optionality



### Business mix

- #1** Primary focus on Heritage books...  
... but option to buy Open businesses with complementary capabilities

# We are building a best-in-class Asset Management team to enable our strategy

## Six pillars underpin our asset management strategy

### Customer centricity

Developing investment solutions for customers is the core of our business

### Sustainability

Integrating sustainability objectives for the benefit of customers, investors and society

### Diversity

Of thought and demographics is key to a value creating investment strategy

### Illiquid asset origination

Fundamental to successful BPA and achieving strategic asset allocation for annuity back-book

### Strategic partnerships

With ASI as core strategic partner, complementing asset origination with other select partners

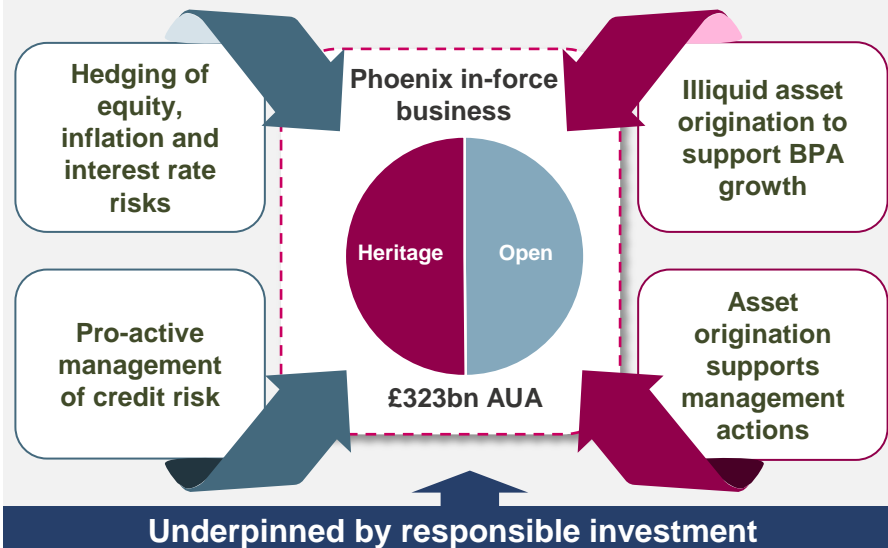
### Operational excellence

Building a best-in-class investment and risk management platform

## Priorities across our Heritage and Open businesses

Manage asset risk for resilience

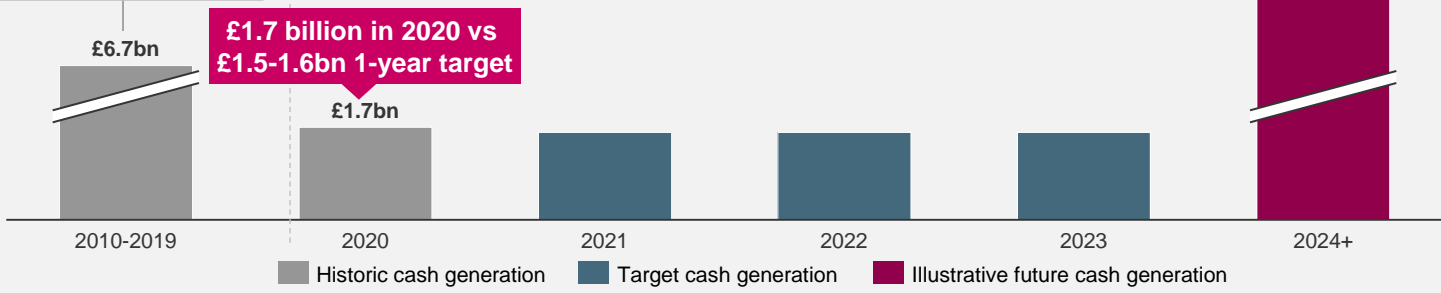
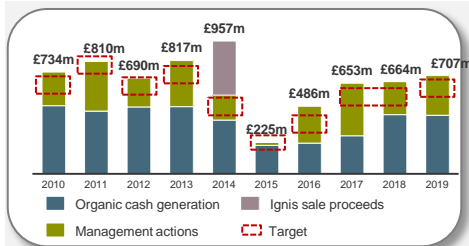
Source assets that support growth aspirations





# “Cash is King” at Phoenix and we deliver dependable cash generation year after year

## 10 year track record of meeting or exceeding all publicly stated targets

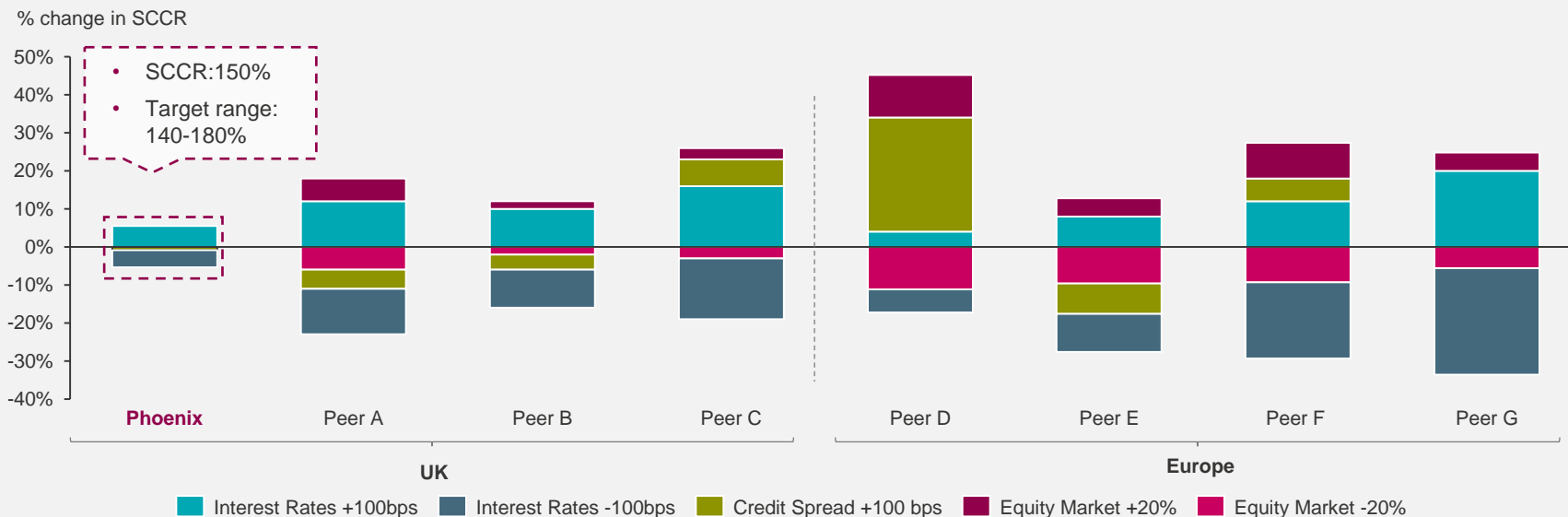


Not to scale

## Excess cash will be reinvested into value accretive growth

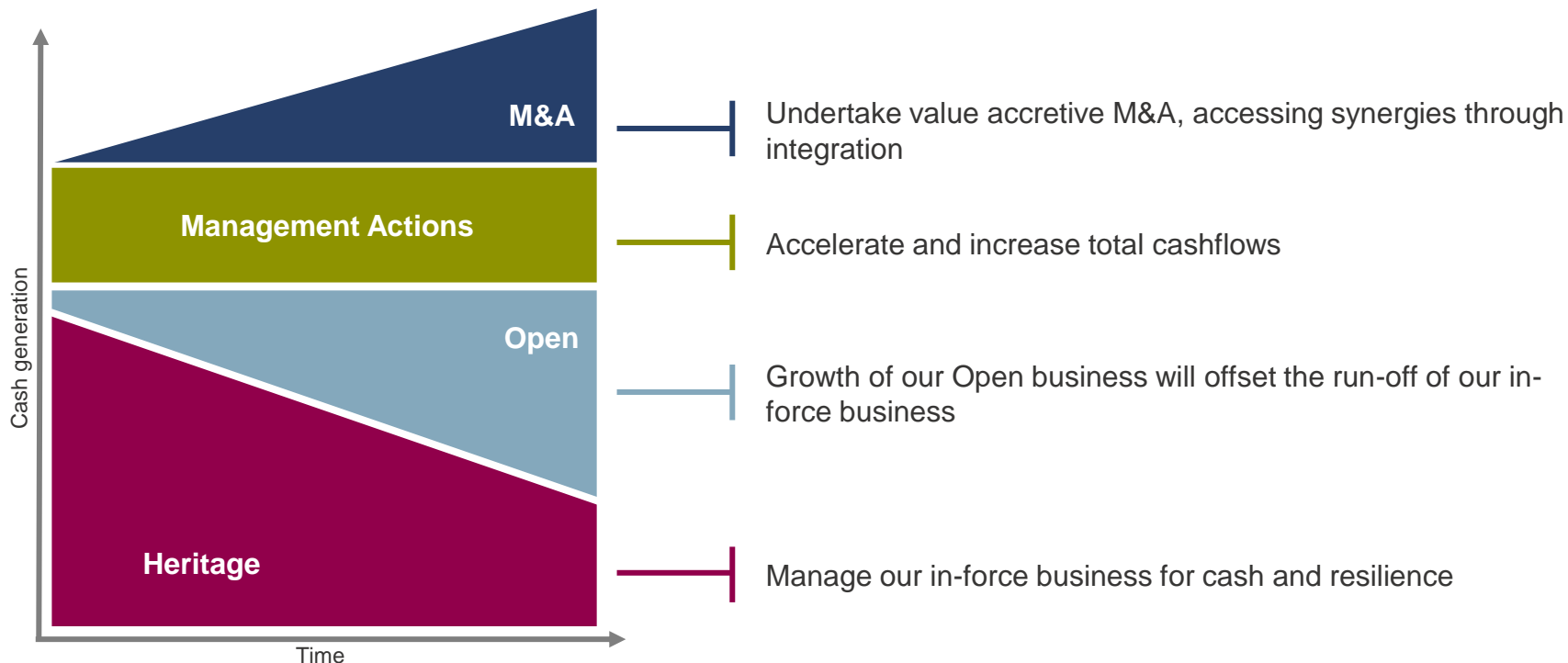
# Phoenix manages its business for resilience and is materially less sensitive to risk events than peers

## Pro-forma HY20 Phoenix Shareholder Capital Coverage Ratio (SCCR) sensitivities relative to Life peers



**Resilience brings certainty to our stable and sustainable dividend**

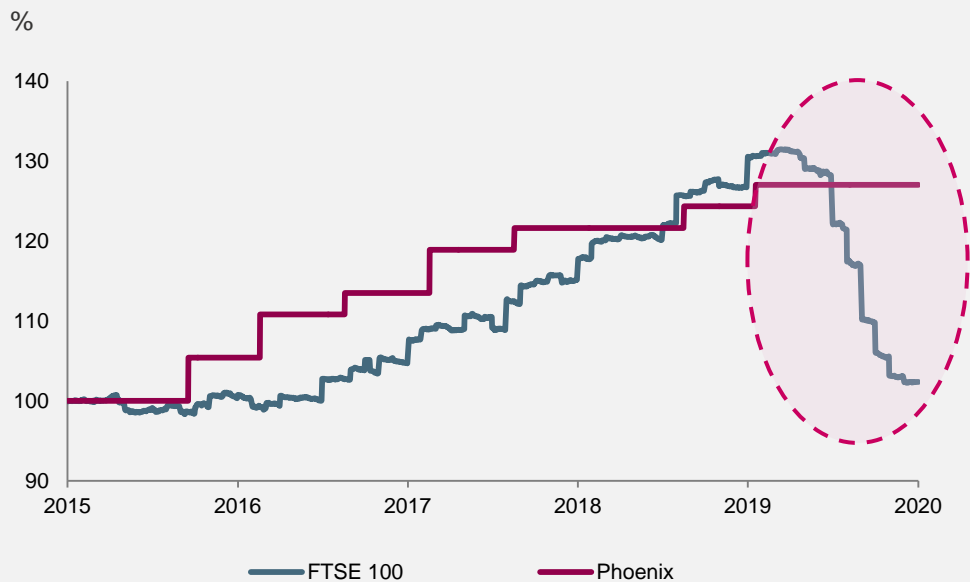
## Growth from Open brings long-term sustainability to cash generation and dividend



**Open growth more than offsetting Heritage run off is the trigger to consider dividend growth**

Phoenix has delivered a dependable and growing dividend, and our resilience has dramatically outperformed through the pandemic

### Phoenix vs FTSE 100 historic dividend growth



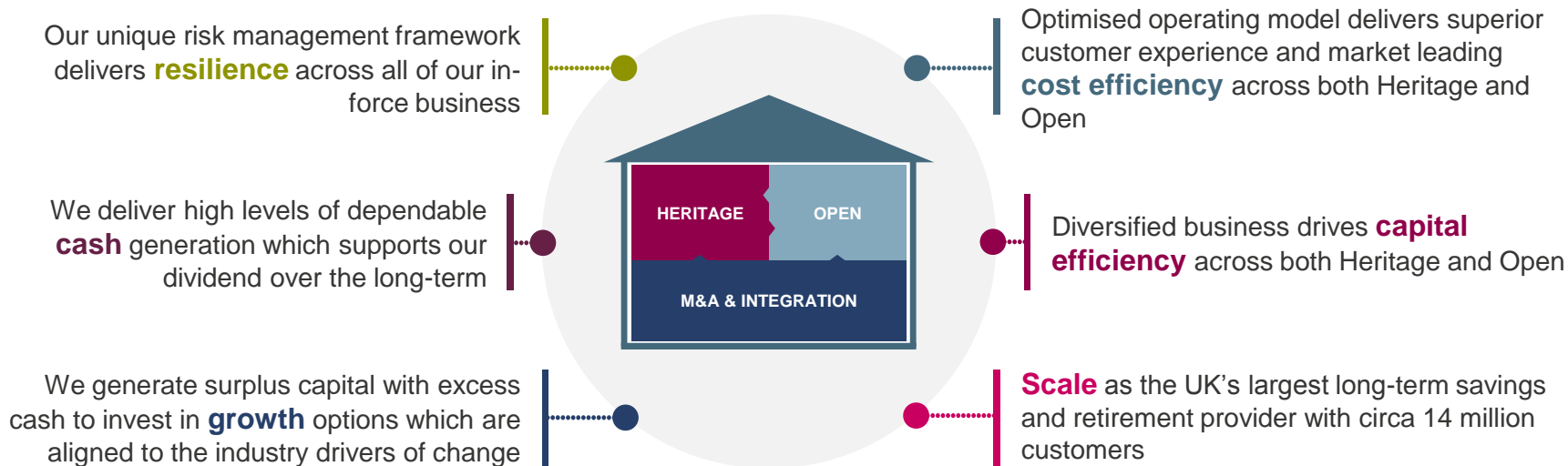
Source: Factset

| Date  | FTSE ranking by dividend size | Phoenix total dividend |
|-------|-------------------------------|------------------------|
| 2020e | # 24                          | £475m                  |
| 2019  | # 50                          | £338m                  |
| 2018  | # 54                          | £262m                  |
| 2017  | # 58                          | £193m                  |
| 2016  | # 69                          | £126m                  |
| 2015  | # 68                          | £120m                  |

# Phoenix is a sustainable and growing business, helping people secure a life of possibilities

Phoenix's strategy delivers unique advantages...

... and the whole is greater than the sum of the parts



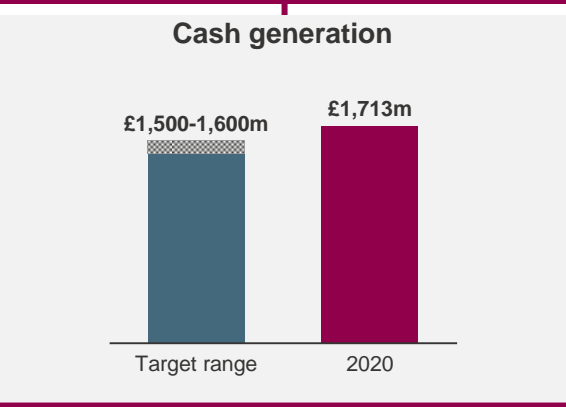
# Agenda: Phoenix Group Capital Markets Day 2020

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| 3<br>Wrap up   | Summary                    | Andy Briggs - Group Chief Executive Officer                             |
|                | Q&A                        | Panel   |

# Phoenix continues to deliver in uncertain times

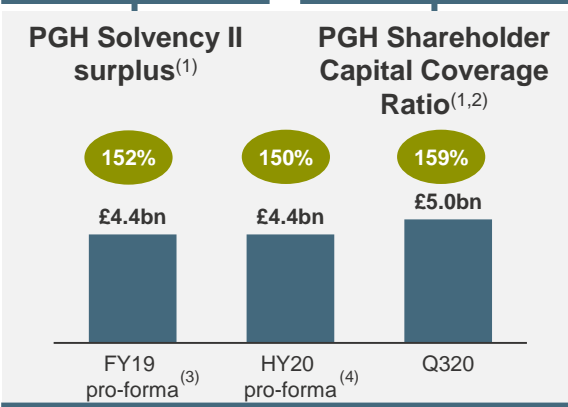
## Cash

**£1,713 million**



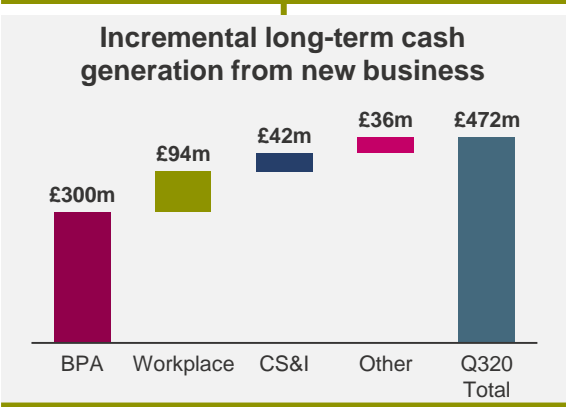
## Resilience

**£5.0 billion**      **159%**



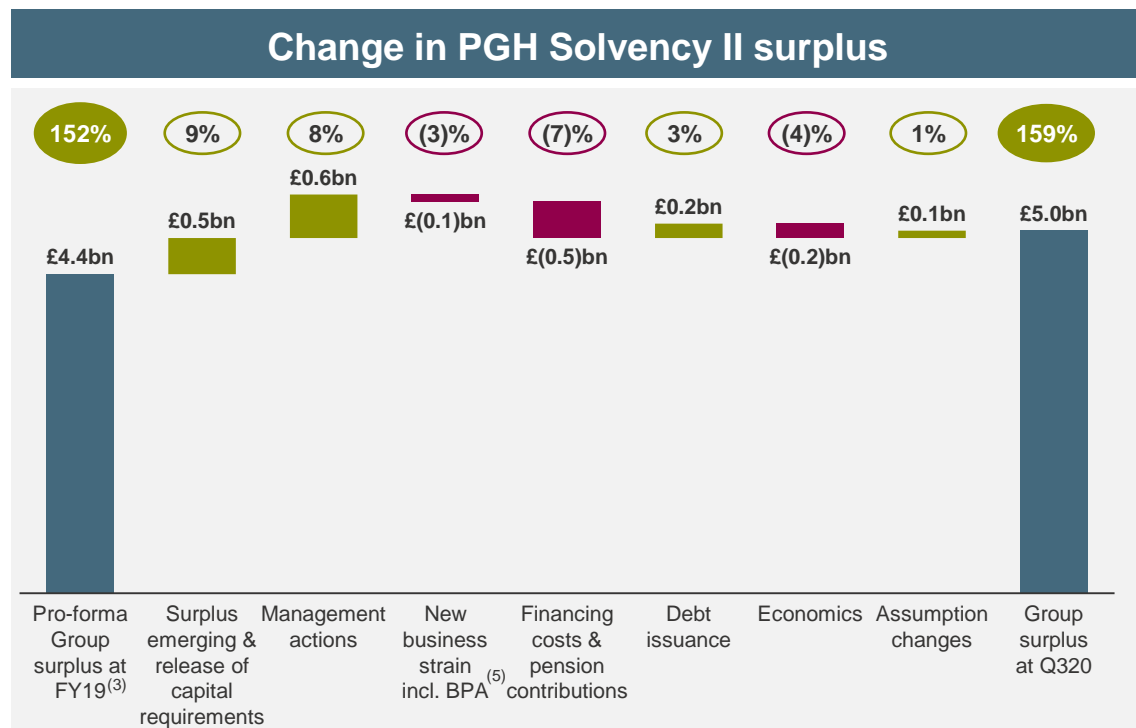
## Growth

**£472 million**

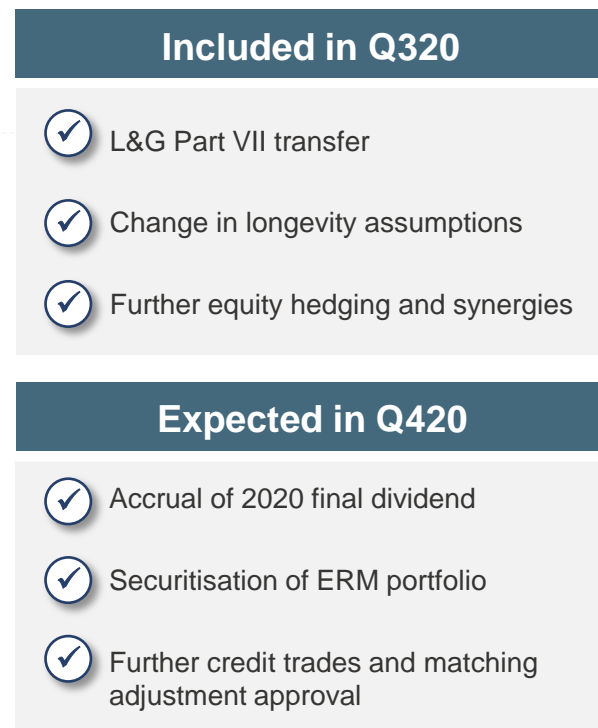


See Appendix I for footnotes

## And our capital position remains strong and resilient

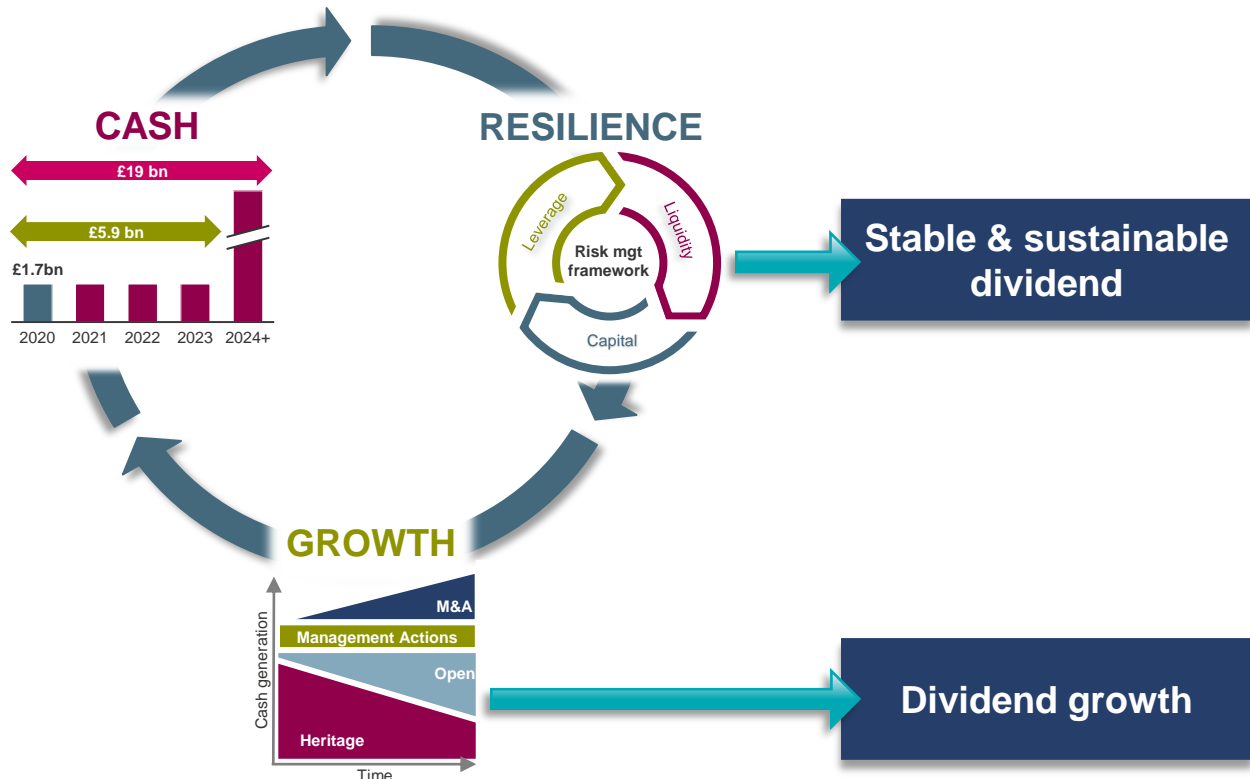


See Appendix I for footnotes

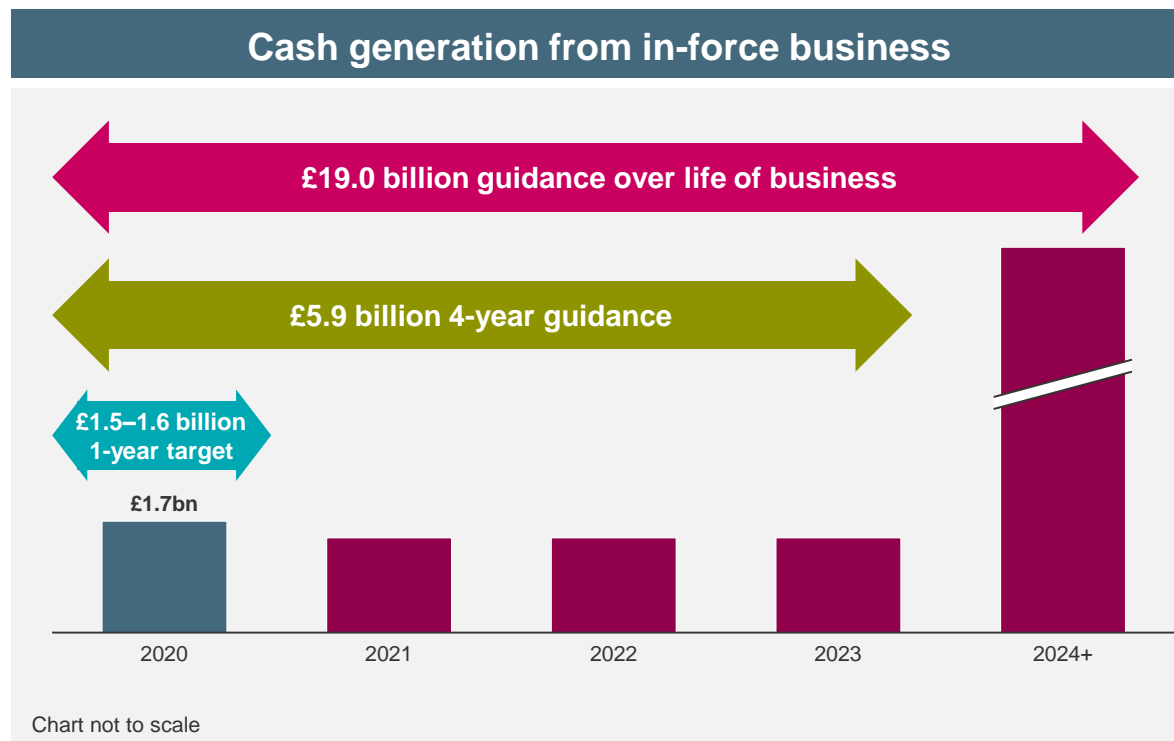




# Phoenix has a clear financial framework supporting its strategy



# Phoenix delivers predictable long-term cash generation

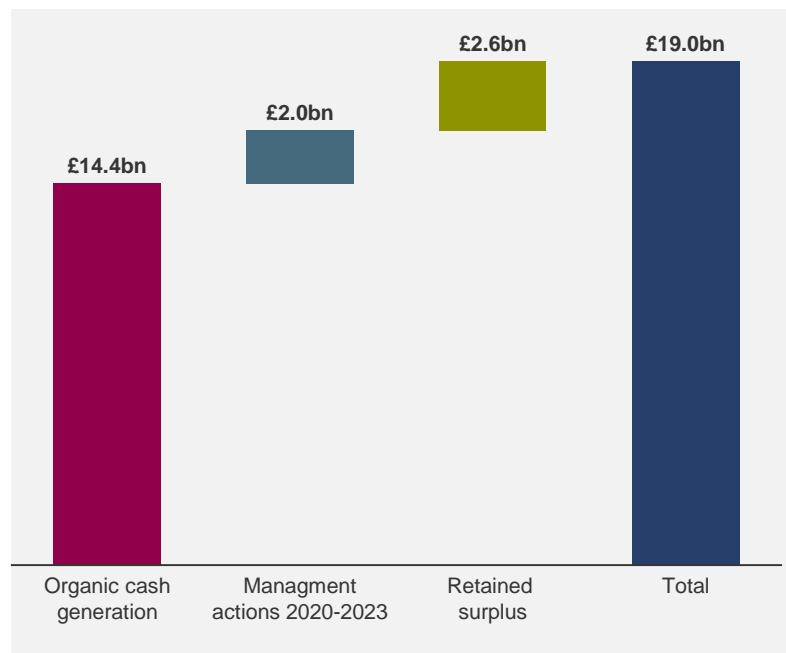


## EXCLUDES

- ⊗ New BPA;
- ⊗ Other new business;
- ⊗ Future M&A; and
- ⊗ Management actions after 2023

## Our £19 billion of in-force cash generation has three main sources

### Composition of £19 billion cash generation



### Organic cash generation

- Cash generated from in-force run off of £800 million per annum in 2020
- Reducing typically by 6% per annum
- c. £250 million per annum kicker from TMTP run off from 2032
- Includes benefit of vesting annuities

### Management actions

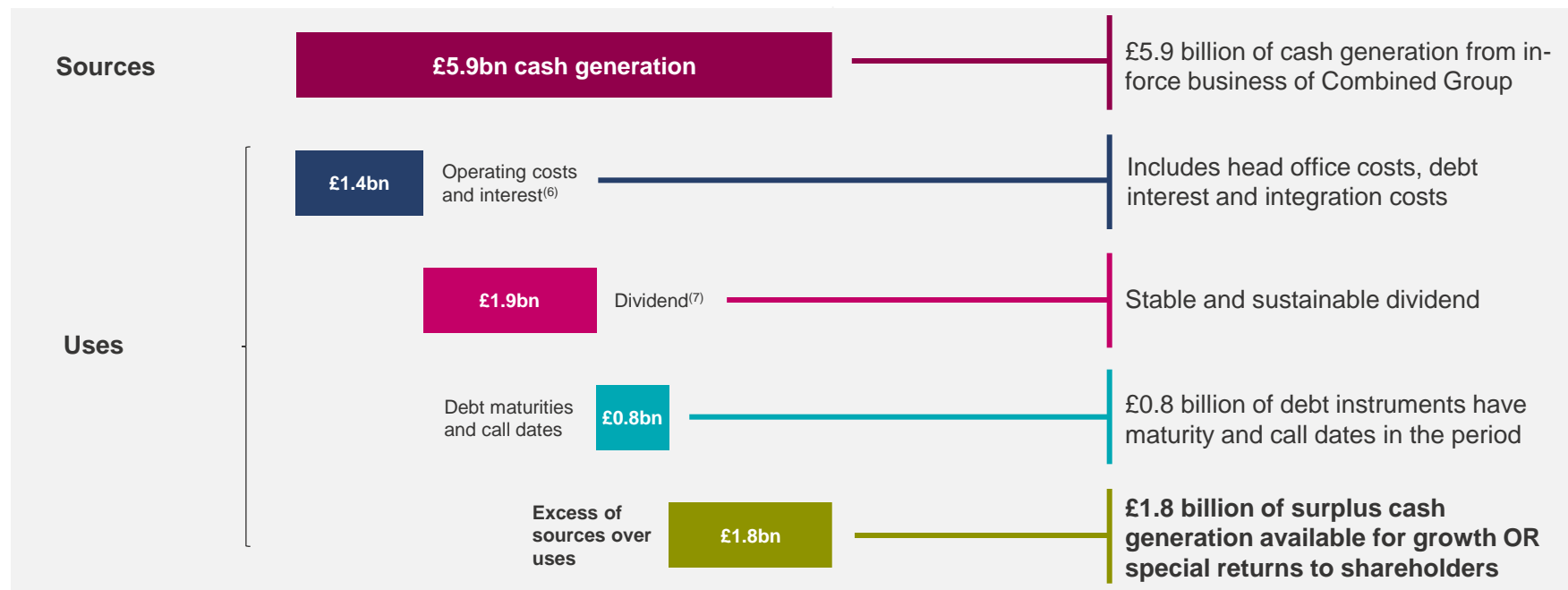
- £19 billion only includes management actions for 2020-2023
- Management actions have historically been c. 1/3<sup>rd</sup> of annual cash generation
- £2.5 billion management actions over last 10 years

### Solvency II Retained surplus

- Retained surplus from operating entities will be released over time
- Enhances dependability of short term cash generation

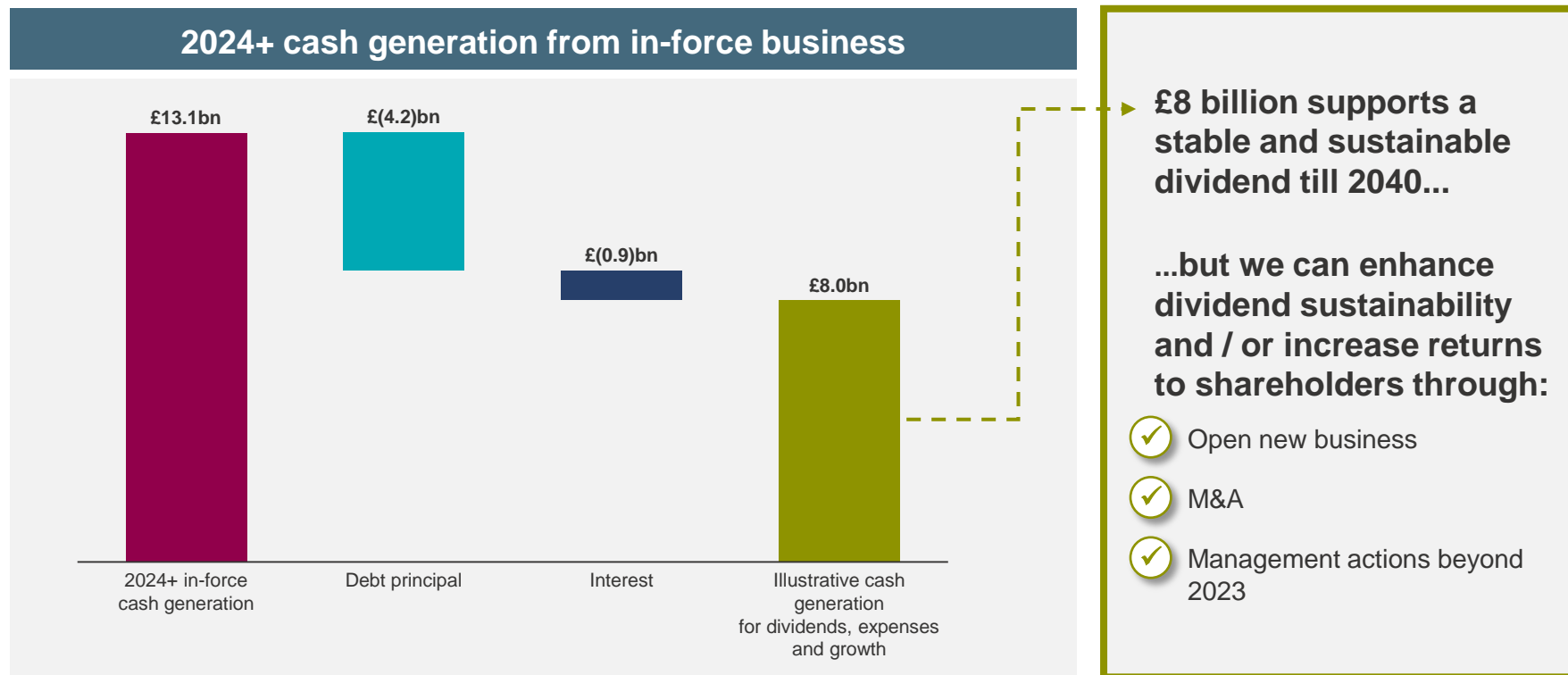
Our sources of cash exceed our total uses, with £1.8 billion additional liquidity and optionality over the next 4 years

## Illustrative 2020-2023 sources and uses of cash

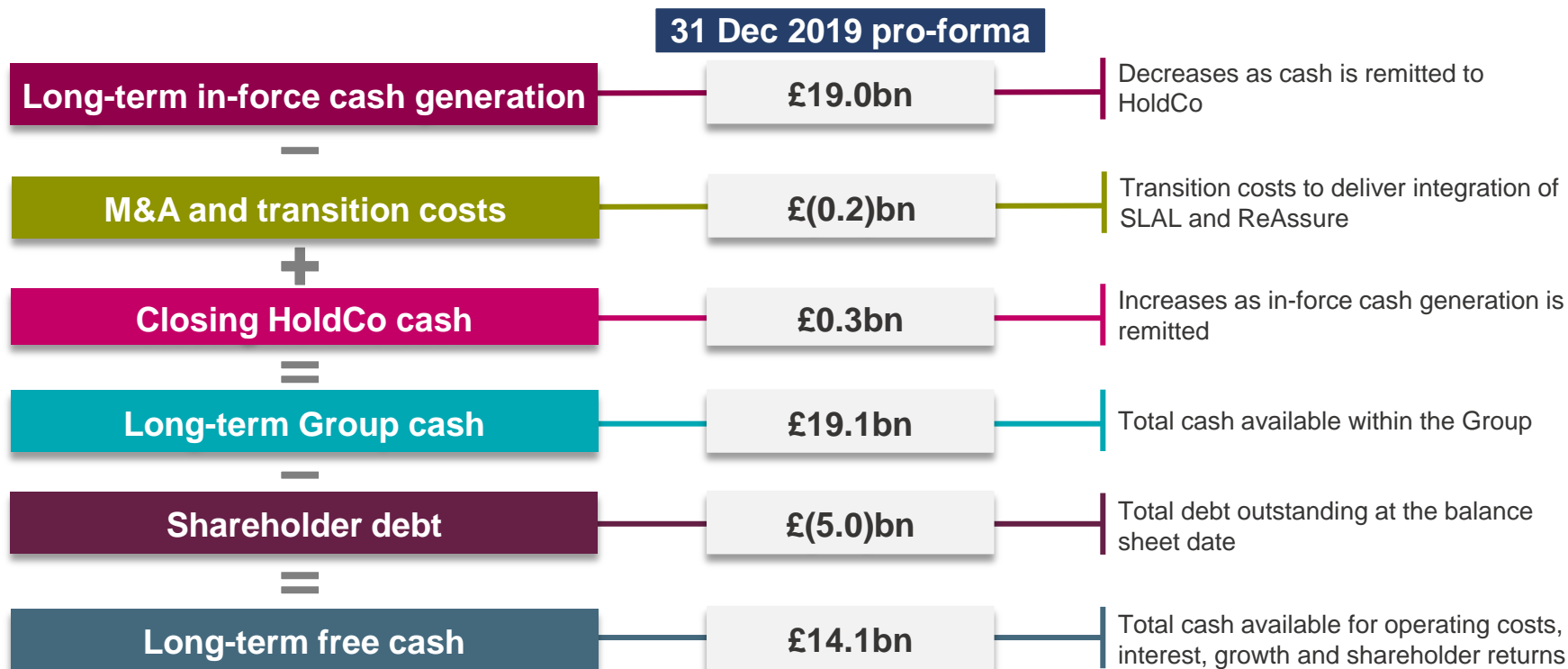


See Appendix I for footnotes

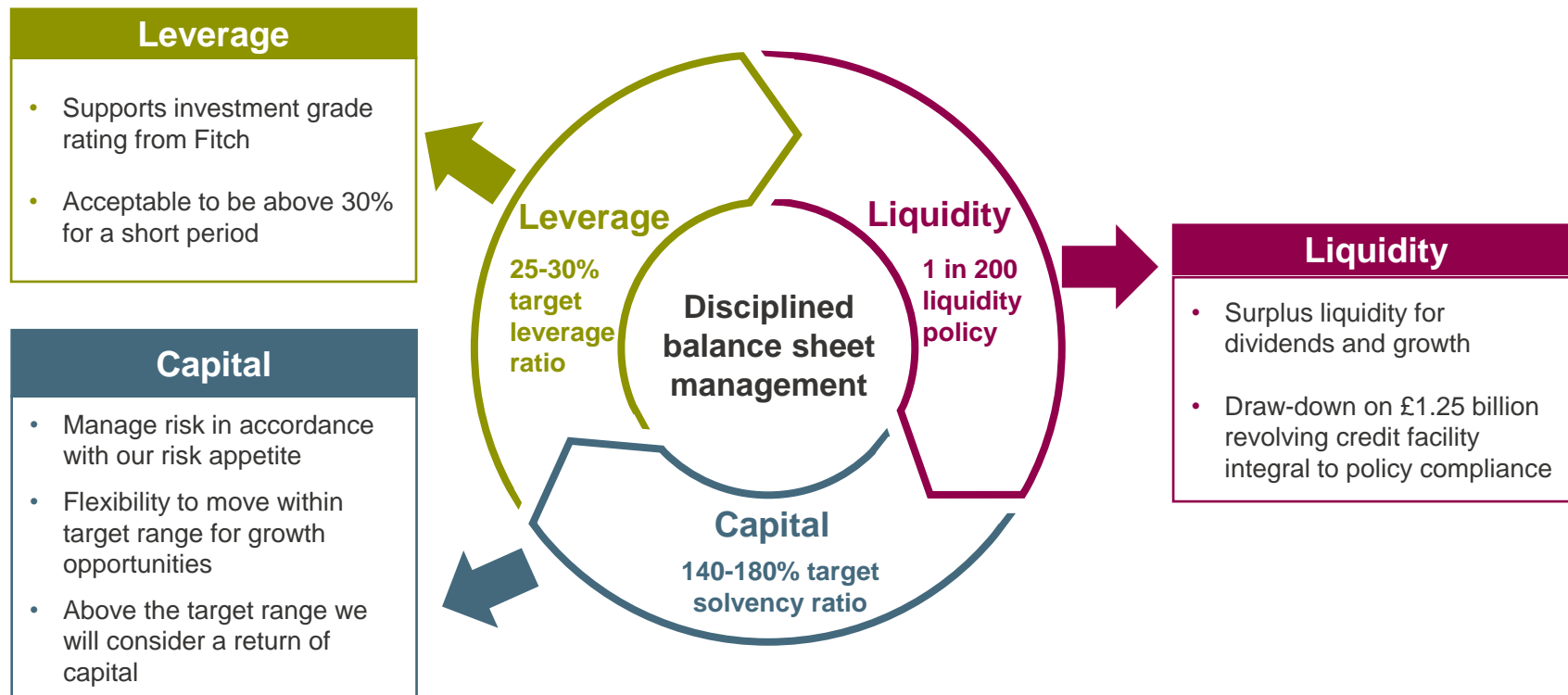
# Phoenix's resilient in-force cash generation supports the dividend for many years



## We are introducing a new metric – long-term free cash

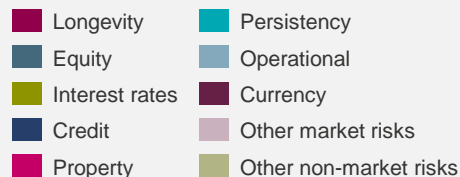
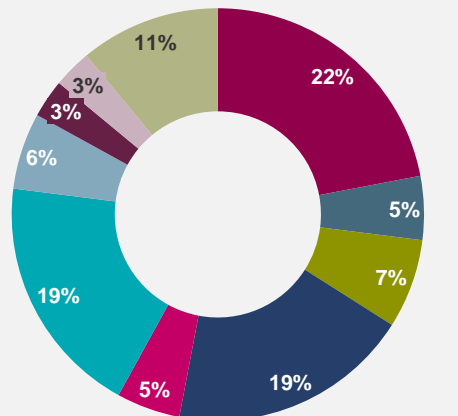


## Our risk management framework delivers resilience



## We manage risk in accordance with our risk appetite

### Estimated Q320 SCR by risk type



### Risk

#### Longevity risk

### Approach to risk management

- Reinsure circa 50% - 60% of longevity risk with external counterparties

#### Equity Risk

- Hedge 80-90% of shareholder exposure to equity risk through futures and options

#### Interest Rate Risk

- Manage exposure to protect SII surplus by use of swaps and swaptions
- Active management during volatile periods

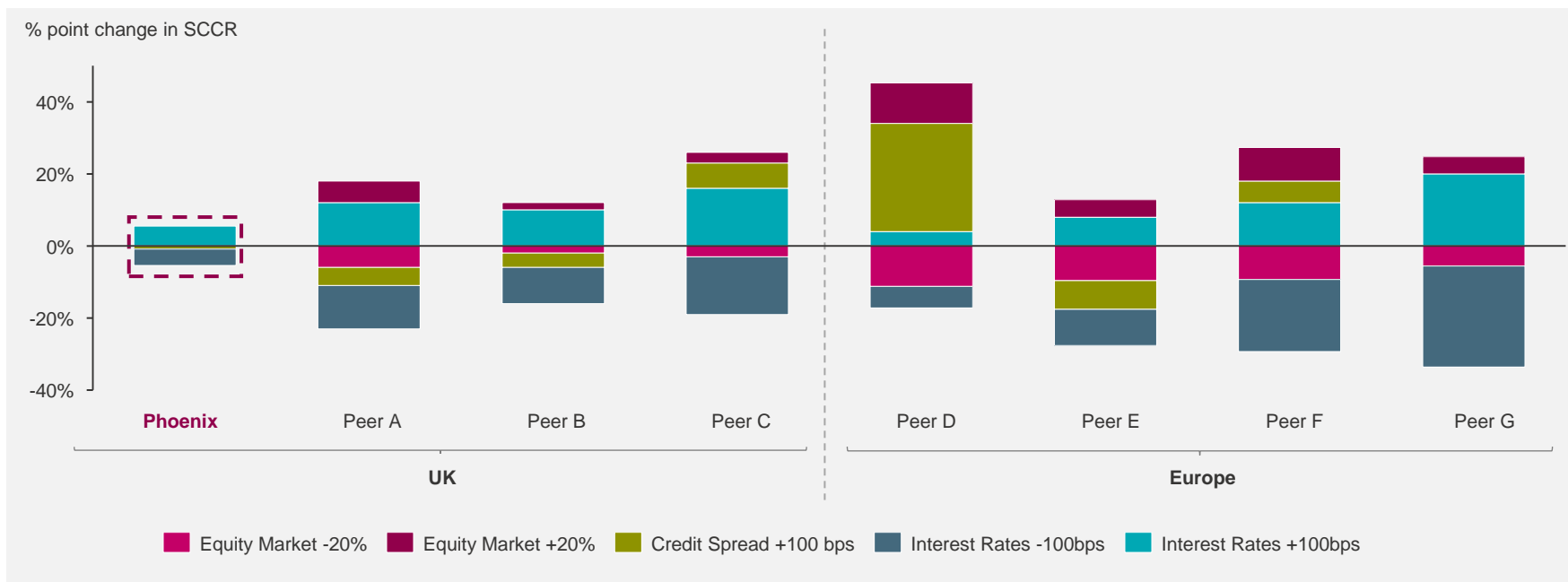
#### Credit Risk

- A rewarded risk that we manage through dynamic portfolio management and a high quality and diversified portfolio with BBB<20%



## Phoenix is more resilient to risks than peers

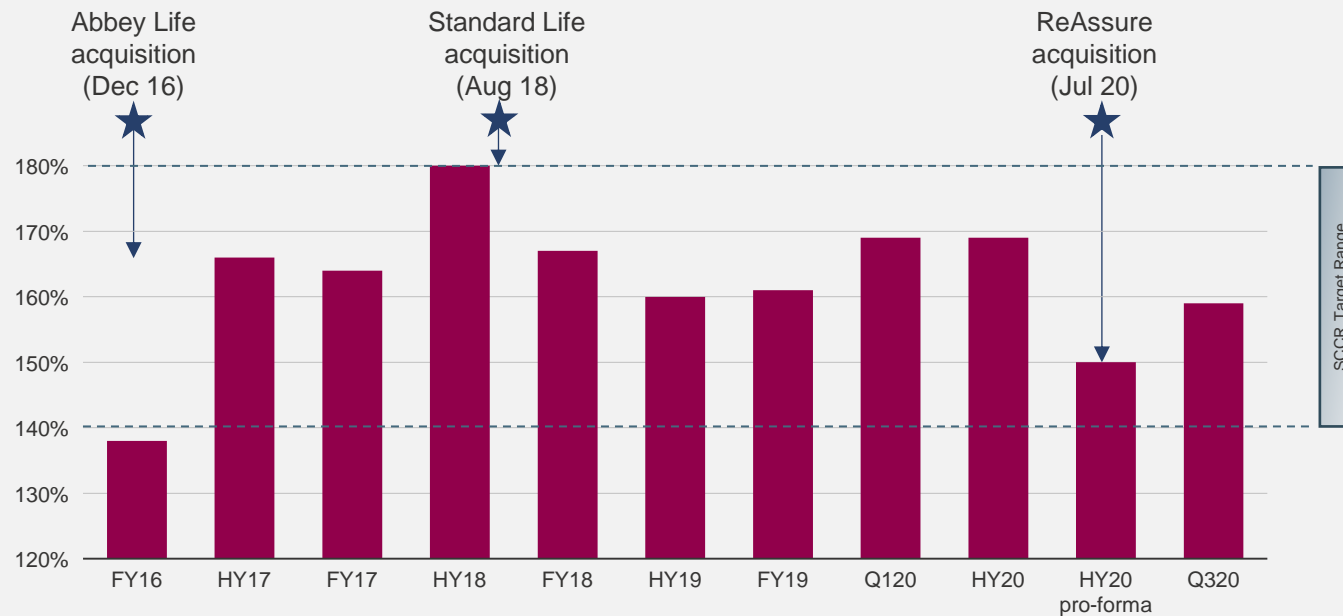
### Pro-forma HY20 Phoenix Shareholder Capital Coverage Ratio (SCCR) sensitivities relative to Life peers<sup>(8)</sup>



See Appendix I for footnotes

## We fund M&A efficiently to ensure we do not over capitalise transactions

### Shareholder Capital Coverage Ratio



SCCR normally reduces at completion as we manage funding mix and utilise own resources

SCCR increases as organic surplus and synergies emerge from integration activities

## And we also utilise the full target leverage range

### Fitch leverage



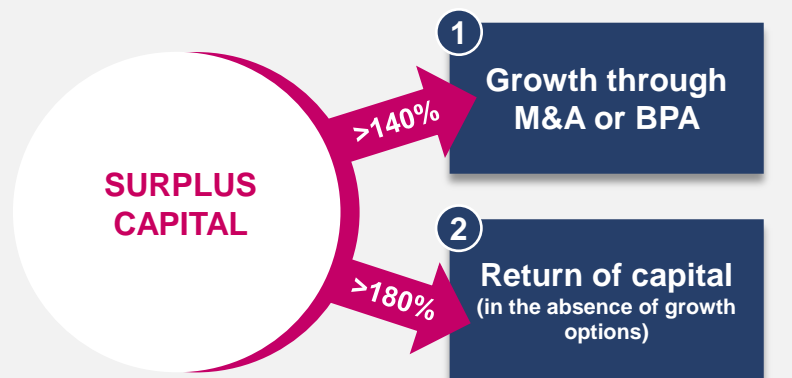
**Leverage increases at completion as we use debt to fund the deal**

**Leverage reduces after each acquisition as synergies emerge and debt is repaid**

See Appendix I for footnotes

# We have a rigorous Capital Allocation Framework for surplus capital

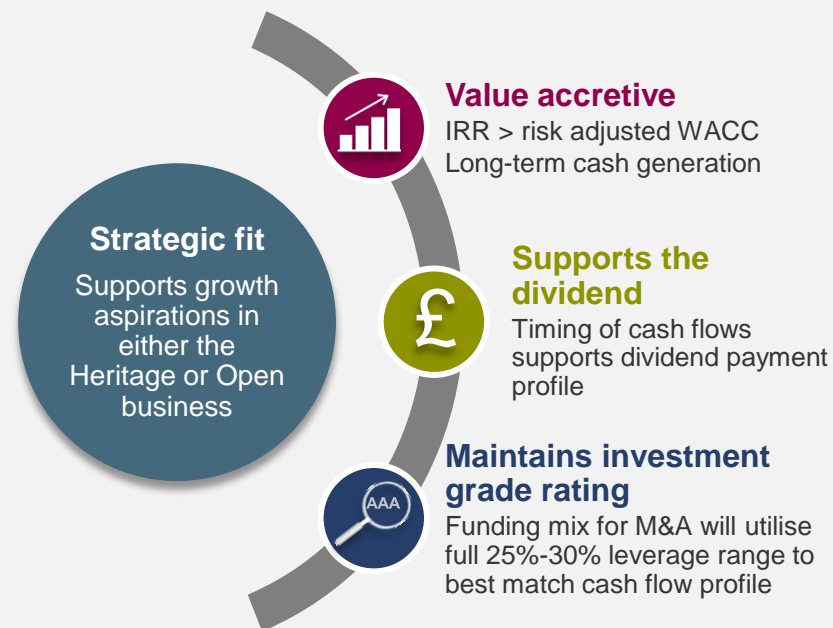
## Capital Allocation Framework



Workplace and CS&I are capital light and therefore not subject to allocation of capital

Internal vestings funded from in-force organic cash generation

## Allocating capital to BPA & M&A

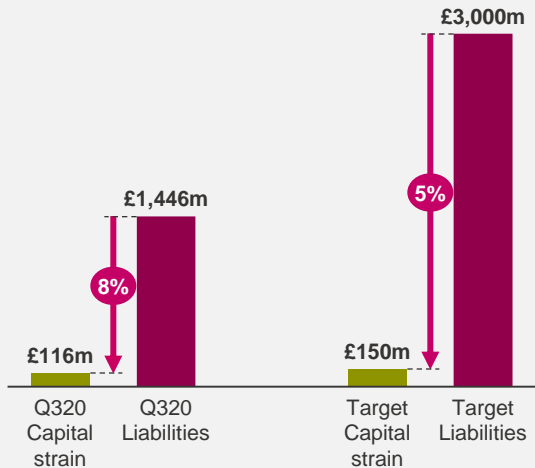


# We will allocate £150 million - £200 million of surplus capital to BPA per annum

## Success criteria

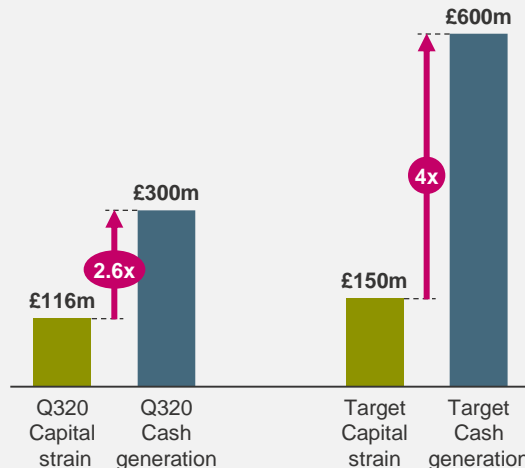
### Capital strain

Reducing the capital strain drives efficiency



### Long-term cash generation

Quantum and profile of long-term cash will drive proof of the wedge

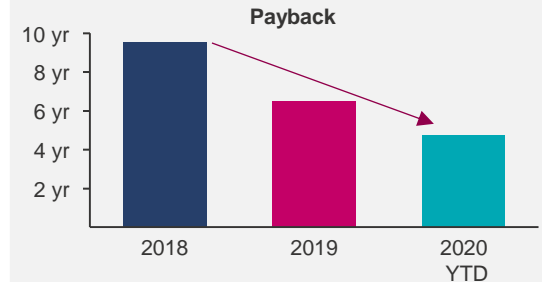


### IRR

Transaction must exceed hurdle rate of return (WACC + risk adjusted premium)

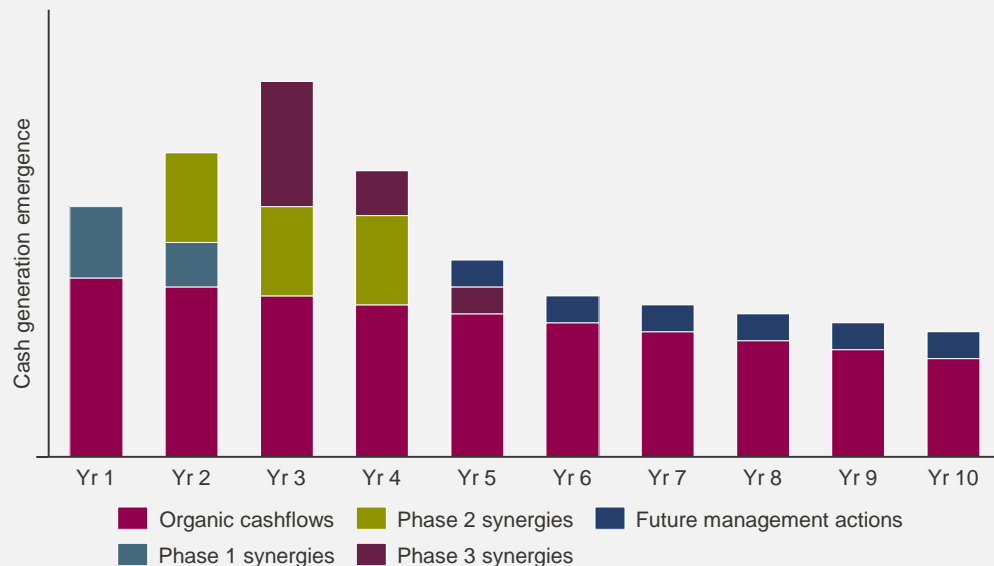
### Payback

Shorter payback increases IRR and allows for reinvestment



We evaluate M&A targets by identifying the total cash generation they deliver and applying the appropriate funding mix

## Incremental cash generation from target



### IRR and payback

- Derived from cash flows emerging from the target including synergy benefits and future management actions

### Dividend

- Cash flow profile used to confirm quantum of dividend increase and / or duration increase

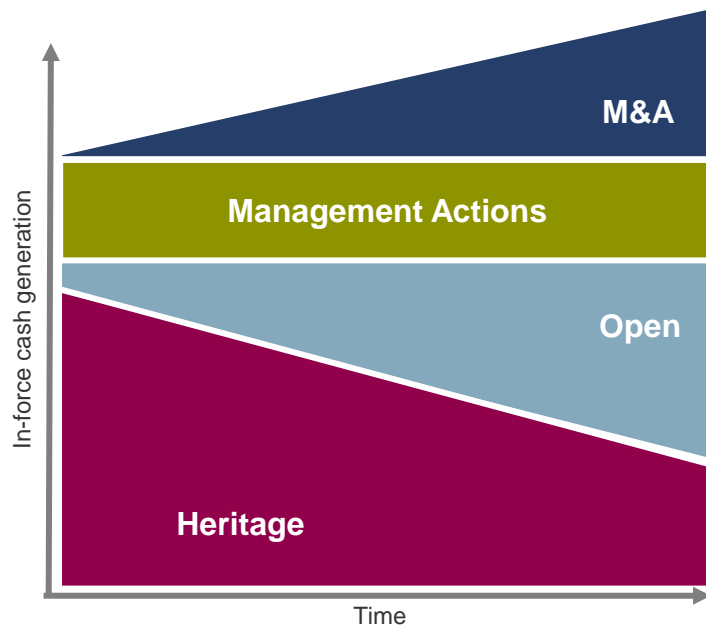
### Solvency

- Utilise Solvency II ratio range with a view of synergies benefit trajectory

### Leverage

- Cash flow quantum and timing determines funding mix and term that utilises leverage range over short term

# Proving the wedge hypothesis will evidence the sustainability of organic cash generation

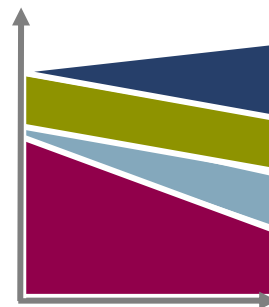


## The hypothesis

Growth of the open business can offset the run off of the in-force cash generation and therefore **organic cash generation is sustainable**

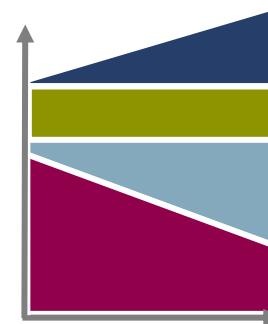
## The outcomes

### Organic offset not achieved



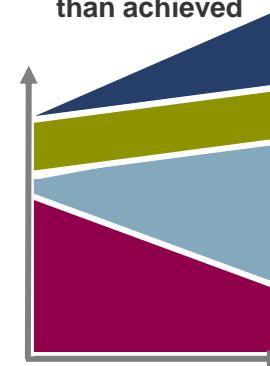
Stable and sustainable dividend payable for 20+ years *plus further upside from M&A*

### Organic offset achieved



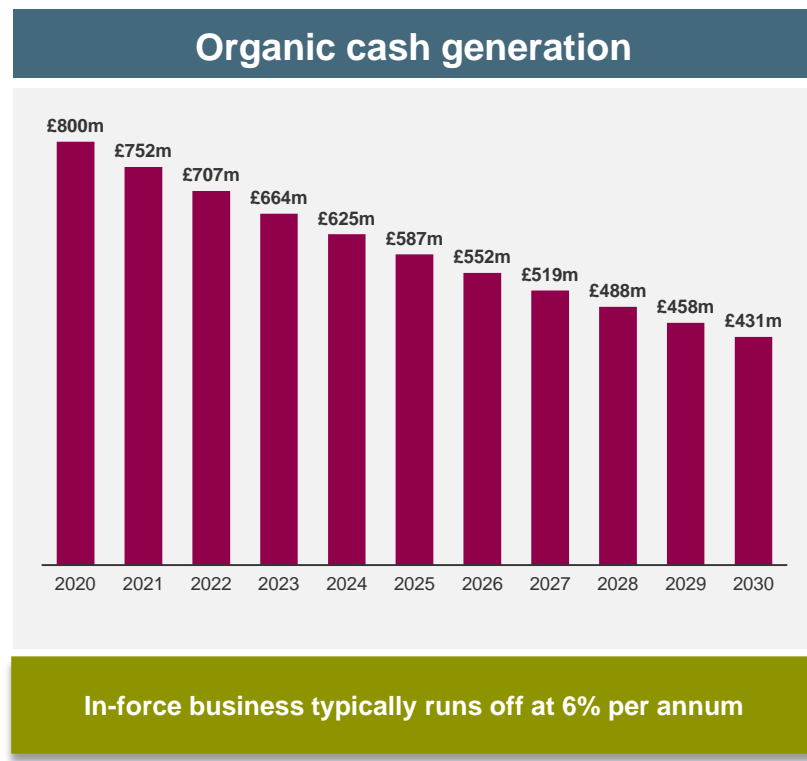
Stable and sustainable dividend payable in perpetuity *plus further upside from M&A*

### Organic offset more than achieved



Potential for dividend growth *plus further upside from M&A*

## Step 1: Illustrative organic cash generation of £800 million from in-force business declines as business runs off

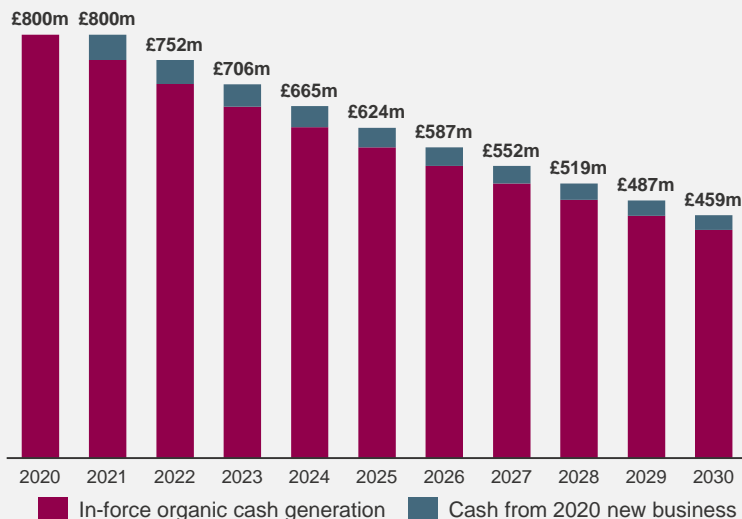


| Cash generation £m            |  | 2020       | 2021       | 2022       | 2023       | 2024       | 2025       | 2026       | 2027       | 2028       | 2029       | 2030       |
|-------------------------------|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| LT cash gen from new business | In-force organic cash generation               | 800        | 752        | 707        | 664        | 625        | 587        | 552        | 519        | 488        | 458        | 431        |
|                               | In-year cash generation from Open new business | 2020       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2021       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2022       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2023       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2024       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2025       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2026       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2027       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2028       |            |            |            |            |            |            |            |            |            |            |
|                               | 2029   |            |            |            |            |            |            |            |            |            |            |            |
|                               | Open growth                                    |            |            |            |            |            |            |            |            |            |            |            |
|                               | <b>Total</b>                                   | <b>800</b> | <b>752</b> | <b>707</b> | <b>664</b> | <b>625</b> | <b>587</b> | <b>552</b> | <b>519</b> | <b>488</b> | <b>458</b> | <b>431</b> |



## Step 2: Open new business delivers incremental organic cash generation

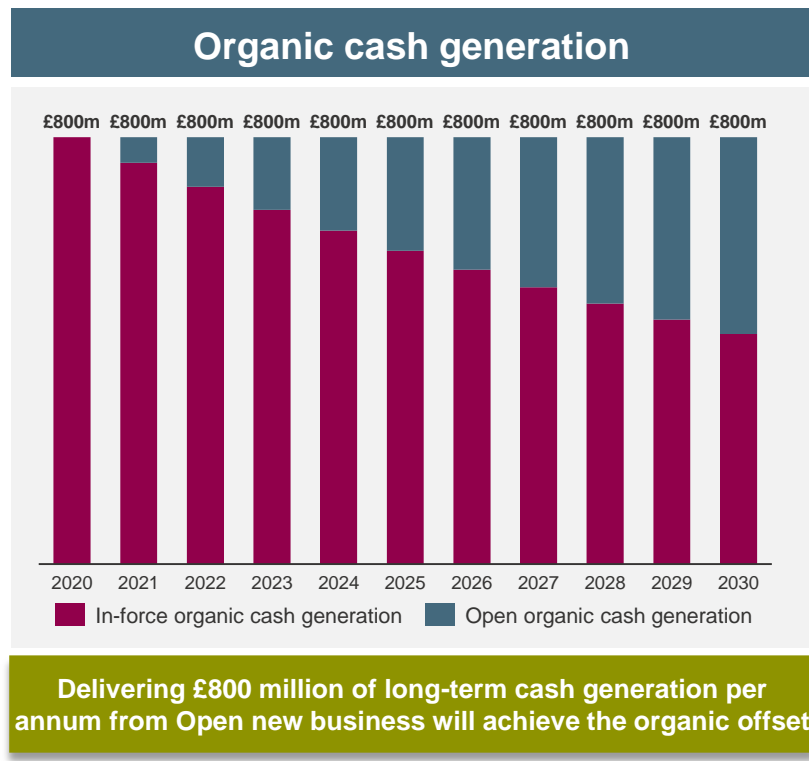
### Organic cash generation



New open business also runs off at circa 6% per annum

| Cash generation £m            |  | 2020       | 2021       | 2022       | 2023       | 2024       | 2025       | 2026       | 2027       | 2028       | 2029       | 2030       |
|-------------------------------|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| LT cash gen from new business | In-force organic cash generation               | 800        | 752        | 707        | 664        | 625        | 587        | 552        | 519        | 488        | 458        | 431        |
| 800                           | In-year cash generation from Open new business | 2020       | 48         | 45         | 42         | 40         | 37         | 35         | 33         | 31         | 29         | 28         |
|                               |  | 2021       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2022       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2023       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2024       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2025       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2026       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2027       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2028       |            |            |            |            |            |            |            |            |            |            |
|                               |  | 2029       |            |            |            |            |            |            |            |            |            |            |
|                               | Open growth                                    | 0          | 48         | 45         | 42         | 40         | 37         | 35         | 33         | 31         | 29         | 28         |
|                               | <b>Total</b>                                   | <b>800</b> | <b>800</b> | <b>752</b> | <b>706</b> | <b>665</b> | <b>624</b> | <b>587</b> | <b>552</b> | <b>519</b> | <b>487</b> | <b>459</b> |

## Step 3: Successive years of Open new business replenishes in-force organic cash generation

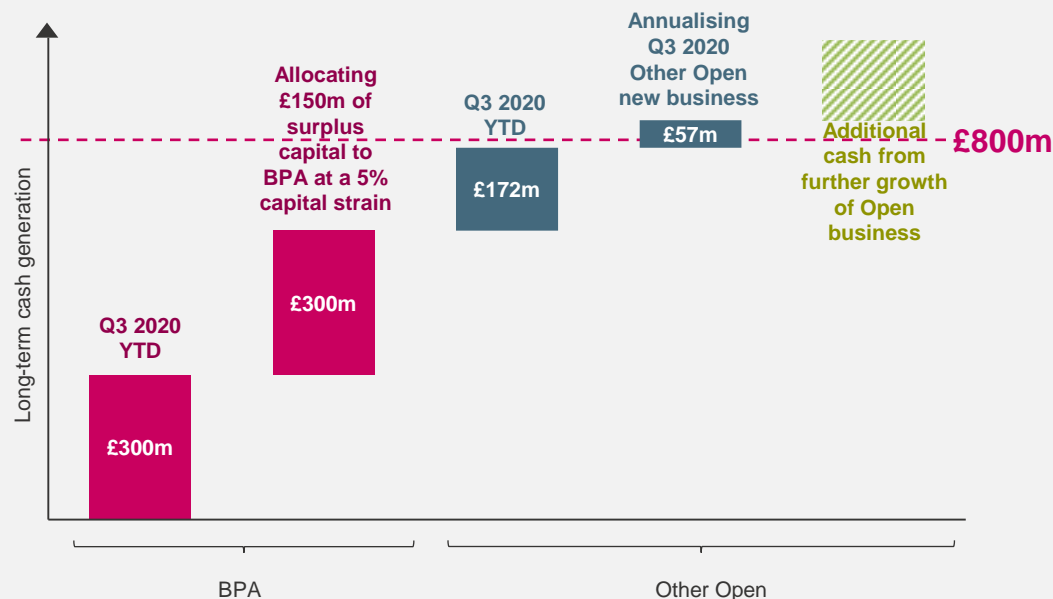


| Cash generation £m            |  | 2020       | 2021       | 2022       | 2023       | 2024       | 2025       | 2026       | 2027       | 2028       | 2029       | 2030       |
|-------------------------------|--|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| LT cash gen from new business | In-force organic cash generation               | 800        | 752        | 707        | 664        | 625        | 587        | 552        | 519        | 488        | 458        | 431        |
| 800                           | In-year cash generation from Open new business | 2020       | 48         | 45         | 42         | 40         | 37         | 35         | 33         | 31         | 29         | 28         |
| 800                           |  | 2021       |            | 48         | 45         | 42         | 40         | 37         | 35         | 33         | 31         | 29         |
| 800                           |  | 2022       |            |            | 48         | 45         | 42         | 40         | 37         | 35         | 33         | 31         |
| 800                           |  | 2023       |            |            |            | 48         | 45         | 42         | 40         | 37         | 35         | 33         |
| 800                           |  | 2024       |            |            |            |            | 48         | 45         | 42         | 40         | 37         | 35         |
| 800                           |  | 2025       |            |            |            |            |            | 48         | 45         | 42         | 40         | 37         |
| 800                           |  | 2026       |            |            |            |            |            |            | 48         | 45         | 42         | 40         |
| 800                           |  | 2027       |            |            |            |            |            |            |            | 48         | 45         | 42         |
| 800                           |  | 2028       |            |            |            |            |            |            |            |            | 48         | 45         |
| 800                           |  | 2029       |            |            |            |            |            |            |            |            |            | 48         |
|                               | Open growth                                    | 0          | 48         | 93         | 136        | 175        | 213        | 248        | 281        | 312        | 342        | 369        |
|                               | <b>Total</b>                                   | <b>800</b> | <b>800</b> | <b>800</b> | <b>800</b> | <b>800</b> | <b>800</b> | <b>800</b> | <b>800</b> | <b>800</b> | <b>800</b> | <b>800</b> |

# Over £800 million per annum of long-term cash generation from Open new business is achievable

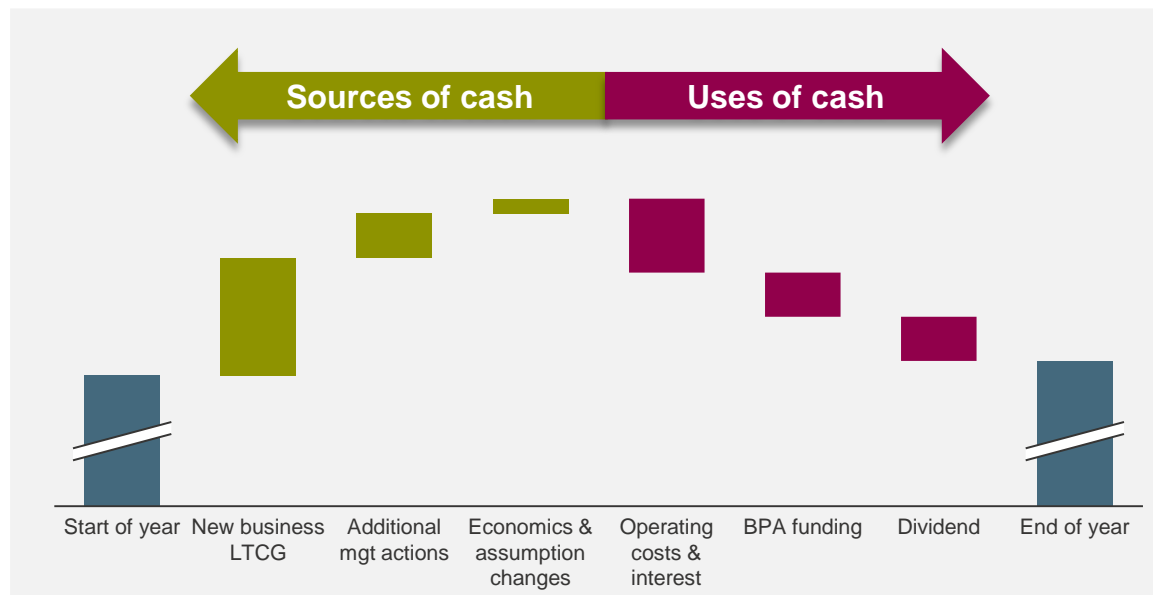
## Annualised new business

## We will achieve this by...



- ✓ Increasing BPA cash multiplier by reducing capital strain
- ✓ Increasing capital allocation to BPA to £150-£200 million per annum
- ✓ Further investment in workplace proposition
- ✓ Understanding the needs of our customers and providing innovative solutions
- ✓ Expanding offering to support our customers to journey to and through retirement

We will monitor growth by reporting the movement in long-term free cash each year



**A growing level of long-term free cash will support dividend growth**

### Sources of cash

The in-year increase in life company long-term cash generation including:

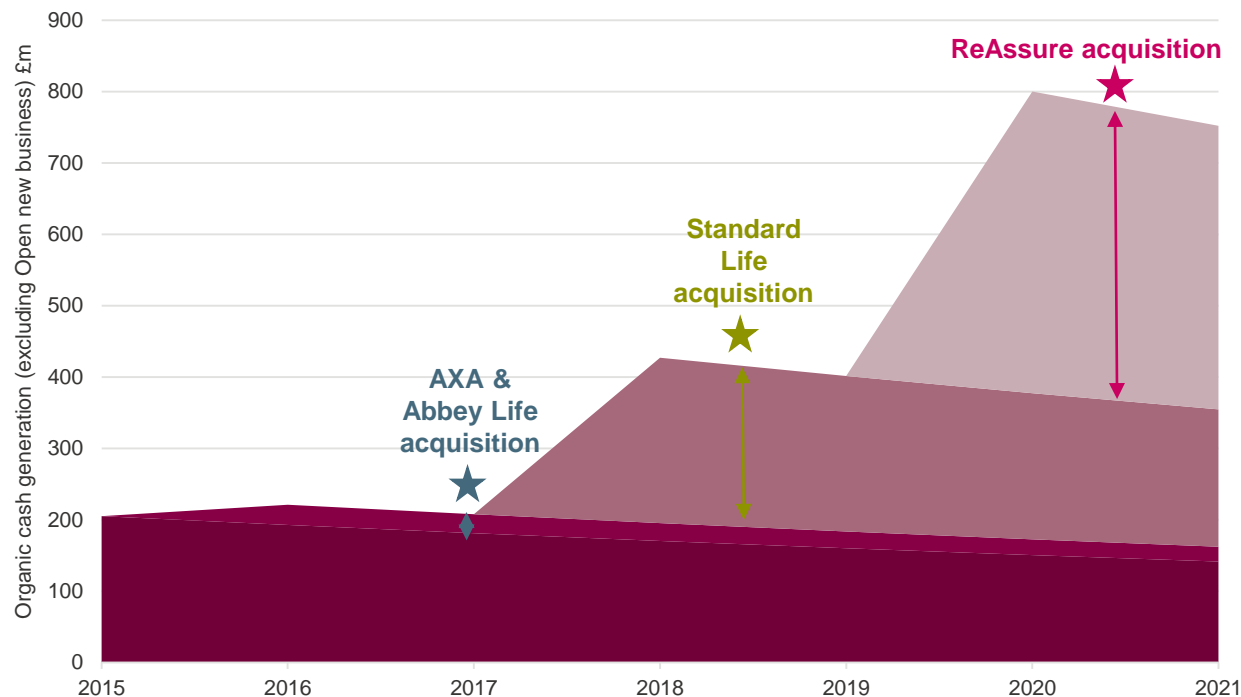
- Long-term cash generation from Open new business
- Over-delivery of management actions
- Economics, assumption changes and other operating variances (+ve or -ve)

### Uses of cash

The in-year uses of Holdco cash including:

- Operating costs and interest
- BPA funding
- Dividend

M&A remains a core part of the strategy to increase organic cash generation, support growth aspirations and support dividend increases



### Dividend uplift



**AXA**  
5%



**Abbey Life**  
5%



**Standard Life**  
3.5%



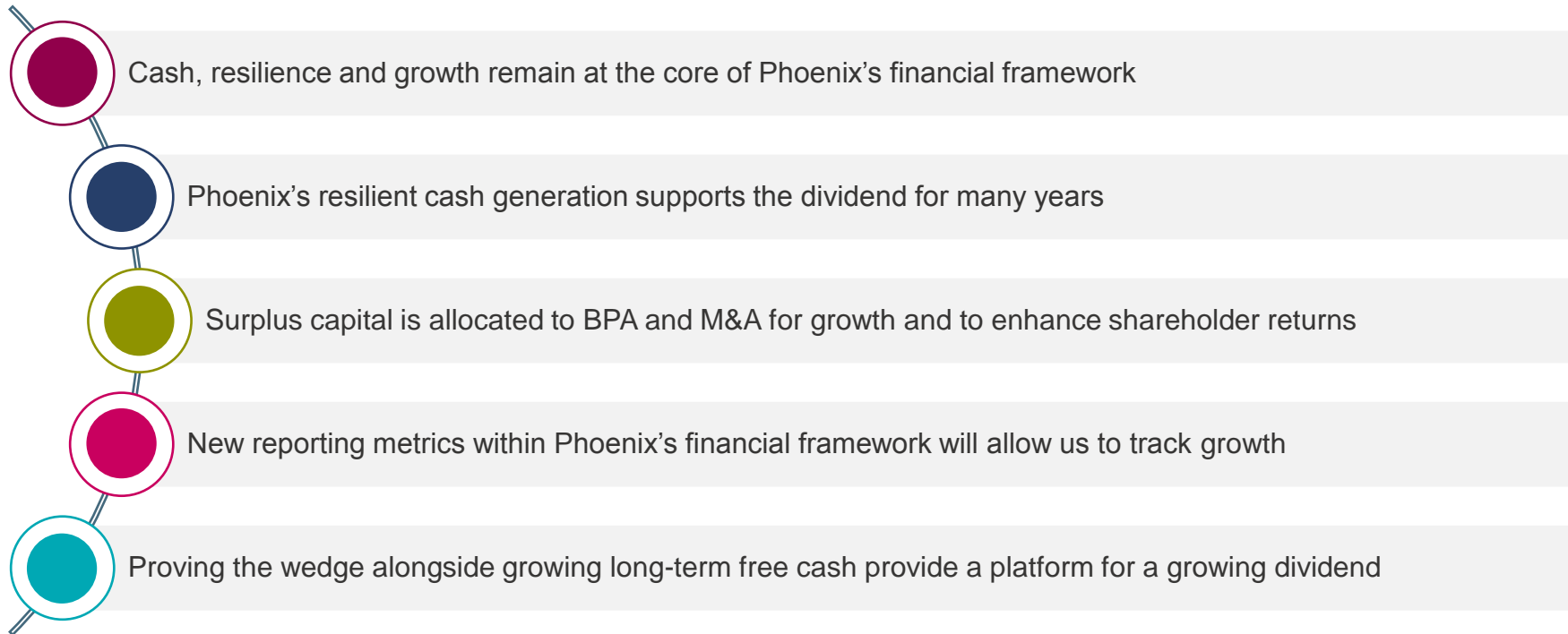
**ReAssure**  
3%

# Phoenix's financial framework is supported by a clear set of reporting metrics

| CASH                     |                | RESILIENCE          |                             | GROWTH                                     |              |
|--------------------------|----------------|---------------------|-----------------------------|--|--------------|
| Annual cash generation   | £1.7 billion   | Solvency II surplus | £5.0 billion <sup>(1)</sup> | New business cash generation               | £800 million |
| In-force cash generation | £19 billion    | SCCR                | 159% <sup>(1)(2)</sup>      | Movement in long-term free cash generation |              |
| Long-term free cash      | c. £14 billion | Fitch leverage      | 28% <sup>(8)</sup>          |  |              |

See Appendix I for footnotes

## Key messages



## Appendix I: Footnotes

- 1) The 30 September 2020 Solvency II capital position is an estimated position and reflects a dynamic recalculation of transitionals for the Group's Life companies. Had the dynamic recalculation not been assumed, the Solvency II surplus and the Shareholder Capital Coverage Ratio would increase by £0.2 billion and 3% respectively.
- 2) The Shareholder Capital Coverage Ratio excludes Solvency II own funds and Solvency Capital Requirements of unsupported with-profit funds and unsupported pension schemes.
- 3) The pro-forma position for the Combined Group assumes the acquisition of ReAssure took place on 31 December 2019. The position reflects a regulator approved recalculation of transitionals as at 31 December 2019 for all Group companies.
- 4) The pro-forma position for the Combined Group assumes the acquisition of ReAssure and the novation of equity hedging instruments from the Group's holding companies to ReAssure Assurance Limited took place on 30 June 2020. The 30 June 2020 Solvency II capital position is an estimated position and reflects a dynamic recalculation of transitionals for the Life companies.
- 5) Includes £136 million strain from Open new business and £4 million strain on internal vestings.
- 6) Illustrative combined group operating expenses of £45 million p.a. over 2020 to 2023. Phoenix pension scheme contributions estimated in line with current funding agreements, comprising £70 million in respect of the Pearl Scheme and £39 million in respect of the Abbey Life Scheme. Assumes integration costs of c. £200 million net of tax, split c. £150 million on Standard Life integration and c. £50 million on Reassure integration. Includes interest on the combined Group's listed debt and senior debt, but excludes interest on the PLL Tier 2 bond which is incurred directly by Phoenix Life Limited.
- 7) Illustrative dividend allowing for the issue of equity and 3% increase.
- 8) All sensitivities based on HY20 disclosures. The sensitivities for Phoenix are pro-forma for the acquisition of ReAssure Group plc which completed on 22 July 2020.
- 9) Estimate based on internal management information.



# Agenda: Phoenix Group Capital Markets Day 2020

|                |                       |  |
|----------------|-----------------------|--|
| 1<br>Overview  | Introduction          | Nicholas Lyons - Chairman  |
|                | Strategy              | Andy Briggs - Group Chief Executive Officer                                    |
|                | Financial framework   | Rakesh Thakrar - Group Chief Financial Officer                                 |
| 2<br>Deep dive | <b>Sustainability</b> | <b>Claire Hawkins - Director of Corporate Affairs &amp; Investor Relations</b> |
|                | Heritage business     | Andy Moss - Heritage Chief Executive Officer                                   |
|                | Open business         | Andy Curran - Chief Executive Officer, Savings & Retirement UK & Europe        |
|                | Asset Management      | Mike Eakins - Chief Investment Officer   |
| 3<br>Wrap up   | Summary               | Andy Briggs - Group Chief Executive Officer                                    |
|                | Q&A                   | Panel  |

# Our sustainability strategy is fully aligned to our corporate purpose and enterprise strategy

## Our sustainability strategy...

Focuses on supporting our circa 14 million customers and investing our £323 billion of AUA in a sustainable future

Will be fully embedded into our core business activities and integral to how we interact with our stakeholders

Is underpinned by governance and risk management

*Delivering for our Customers*

*Fostering Responsible Investment*

*Reducing our Environmental impact*

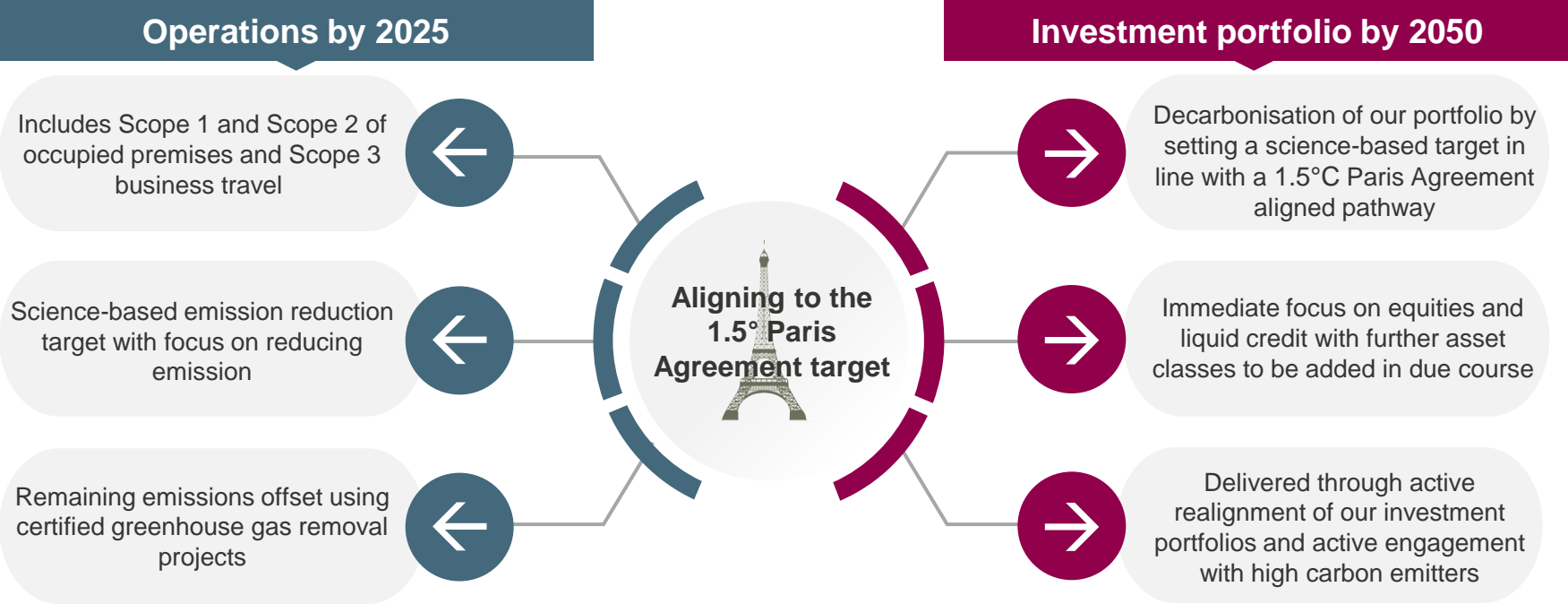
*Investing in our People and Culture*

*Supporting our Communities*

*Working ethically with our Suppliers*

Governance and risk management

# Phoenix is committed to becoming net-zero carbon by 2050



**TCFD compliance is an enabler of our net-zero carbon commitment**

# Delivering for our customers



## Our ambition

We are committed to contributing towards the closure of the UK's growing pensions and intergenerational savings gap through the provision of innovative products and services that align with the needs of society, and incentivise better financial and social wellbeing



## Areas of focus

**Product innovation for a changing society**

**Financial inclusion and education**

**Enhanced digital experience**



## To date

- Broad range of ESG funds available for active selection
- ESG passive default fund in workplace
- Dedicated vulnerable customers team
- Support through a range of channels in the run up to retirement
- Significant investment to date in digital for both Heritage and Open customers



## Moving forward

- Ongoing development of a range of ESG products across the savings life-cycle tailored to insights of customer research
- Tailored and digitally enabled tools and financial education to promote financial literacy and inclusion
- Leveraging existing digitalisation to increase affordability, access and customer engagement and promote financial wellbeing

# Fostering responsible investment



## Our ambition

As an asset owner we act on behalf of our clients with a long term view to invest responsibly. Factoring ESG subject matters into how we invest is fundamental to this. We will play a vital role in decarbonising the capital markets and financing the transition to a sustainable, low carbon economy



## Areas of focus

**Decarbonising the existing portfolio**

**Strategy and Governance**

**Stewardship**

**Integrated ESG management**



## To date

- Net-zero commitment
- 1 of 5 participants in IIGCC pilot to build and test Paris-aligned portfolios
- Responsible Investment Philosophy
- Asset managers act in accordance with UK Stewardship Code
- Due diligence of asset manager capability
- ESG considerations integrated within investment process



## Moving forward

- Membership of Climate Action 100+ and Net-Zero Asset Owners Alliance
- Further enhance policies and procedures to embed the ESG risks and opportunities within our portfolios
- Alignment to 2020 stewardship code
- Will only work with managers who meet our standards and we will ensure we hold them to account

# Reducing the environmental impact of our operations

## We continue to make good progress



100% renewable energy electricity contracts across all sites in 2021



Gas offsetting programme for Phoenix UK sites effective Q12021



100% of waste diverted away from landfill during 2021



Targeting removal of single use plastics from all UK site catering facilities in 2021

## Our 2025 net-zero carbon target is market leading



Baselined 2019 greenhouse gas emissions of all 22 occupied premises within the Group



Focus is on greenhouse gas emission reduction



Officially committed to the SBTi Business Ambition for 1.5°C



Emissions reduction plan in line with SBTi requirements, with key milestones to be set in Q12021

# Investing in our people and our culture



(1) The colleague engagement stats were the views of c. 3k colleagues and exclude ReAssure

# Supporting our communities

## To date

## Moving forward

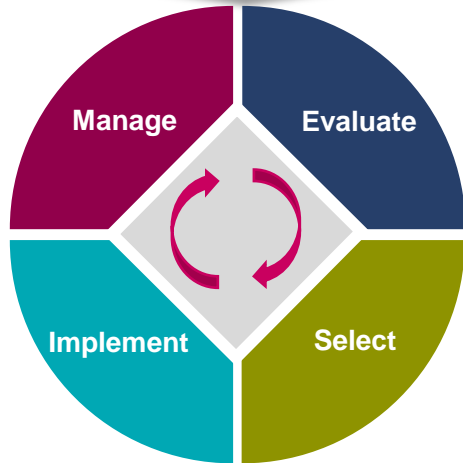




# Working ethically with our supply chain

## Supply chain management framework

Our supply chain management framework takes a multifaceted approach to assessing and managing sustainability risk which will be built into our Supplier Management Model



## Our commitments

Using this framework, we will work in partnership with our suppliers in a phased approach, focussing on key issues associated with:

### Climate change and the environment

We will push for reductions in the environmental impact of our supply chain

### Health & Safety

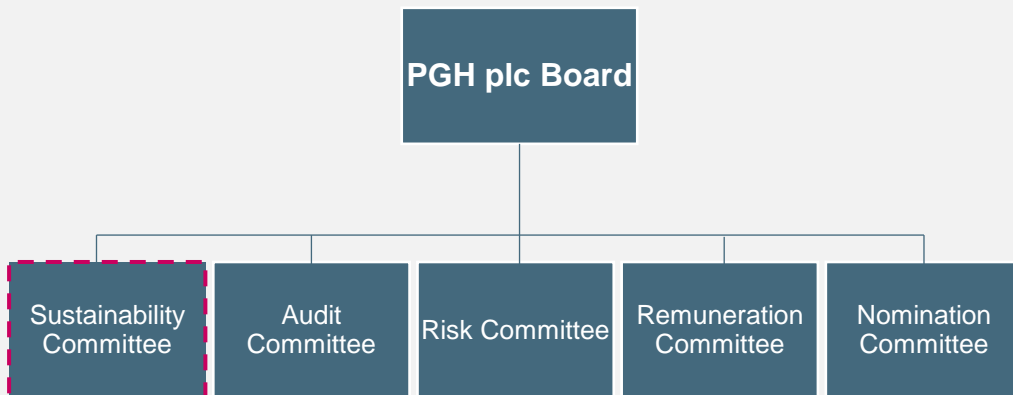
We will expect robust health and safety conditions for all workers in the supply chain

### Human Rights & Modern Slavery

We will address incidents of abuse of human rights and workers' rights

# Our strategy is underpinned by governance and risk management

## PGH plc Board committees



## PGH plc Board committees

### Role:

To review, challenge, oversee and recommend for Board approval the Sustainability Strategy

### Chair:

Karen Green

### Members:

- Mike Tumilty
- Wendy Mayall
- Nicholas Shott

### Executive attendees:

- Andy Briggs
- Claire Hawkins
- Sara Thompson

### First meeting:

January 2021

# Our performance ratings are improving, reflecting the progress we have made with our sustainability commitments

**Dow Jones  
Sustainability Indices**



In collaboration with

Increased our total score to 45 in November which is above an industry average of 39

**MSCI**  
ESG RATINGS



CCC | B | BB | BBB | **A** | AA | AAA

In August, we were upgraded to 'A' from 'BBB' (Scale AAA to CCC)



**FTSE4Good**

We have been a proud member of the *FTSE4Good Index Series* since July 2019

**Tortoise**

We were ranked 34<sup>th</sup> in the *Responsibility 100 Index*, now leading the life sector

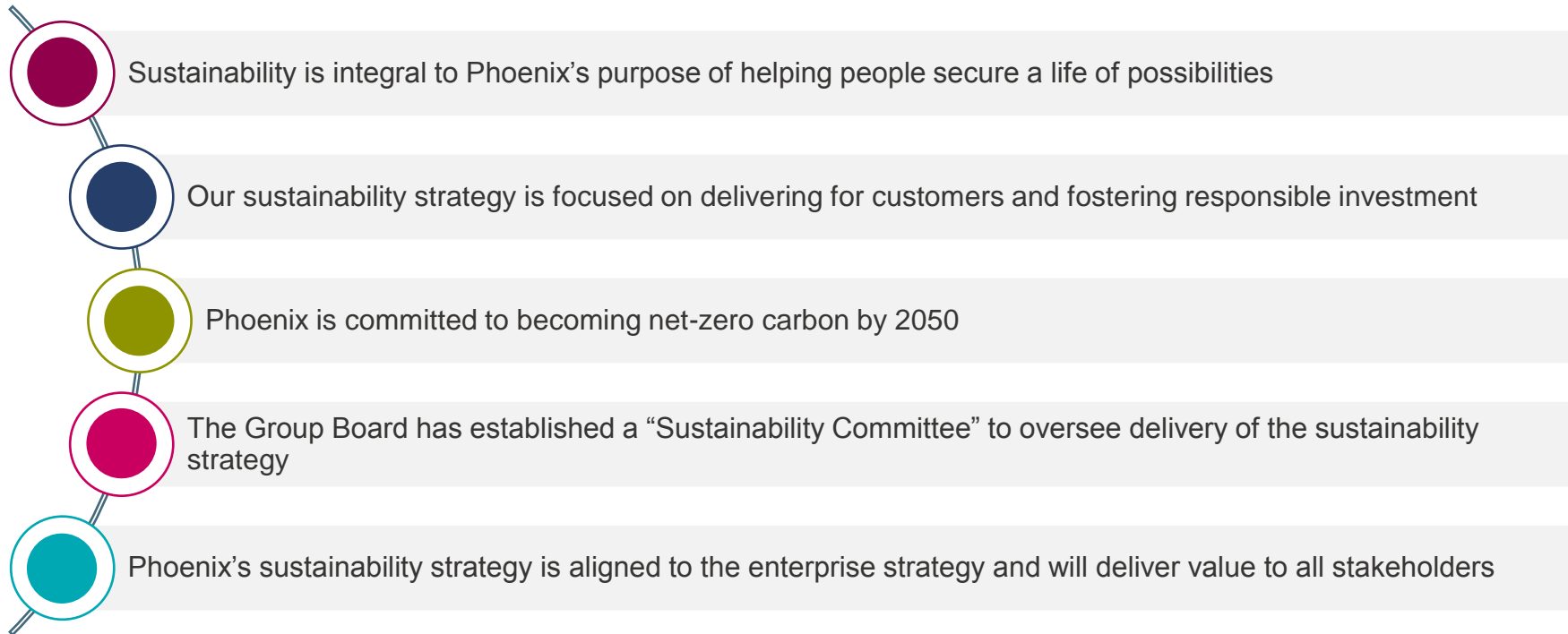


In September our risk rating was 23.3, ranking us 68<sup>th</sup> out of 267 in the insurance industry

**TCFD** | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

During 2020, the Group has become a formal supporter of and signatory to TCFD

## Key messages



# Agenda: Phoenix Group Capital Markets Day 2020

|                |                          |   |
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# Phoenix is the market leader in managing Heritage businesses

## Strategy

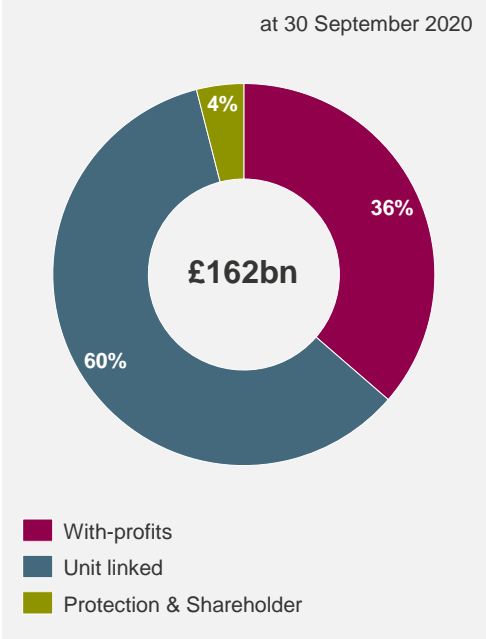
Deliver customer outcomes and manage in-force business for resilience

### Strategic priorities

- Improve customer outcomes
- Manage capital through approach to risk management
- Deliver value accretive management actions
- Integrate acquisitions to deliver cost and capital synergies

## Heritage segment by AUA

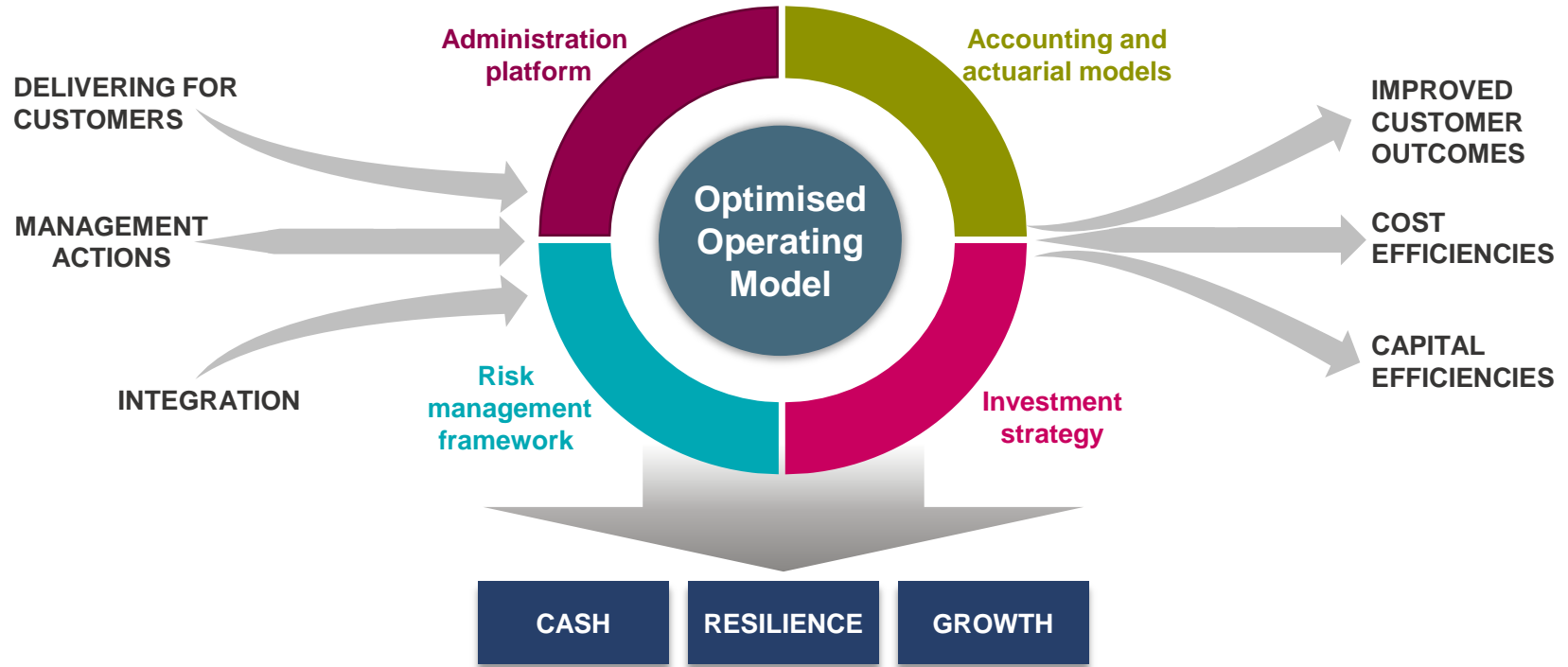
at 30 September 2020



## Competitive advantages

- Proven track record of improving **customer outcomes** and excellent **customer satisfaction**
- Scale** as the UK's largest long-term savings business
- Risk management framework delivers **resilience**
- Unique ability to deliver **management actions**
- Proven track record of delivering **cost and capital synergies** through integration
- Optimised and scalable **operating model**

# Our unique and distinctive Heritage strategy positions us to outperform



# Delivering for our customers is central to our sustainability strategy





# We have a strong track record of improving outcomes for our Heritage customers



## Strong value for money framework

Making proactive changes to fees and reduction in investment management fees of £13 million per annum over 5 years



## Championing customer concerns

Taking an active role with government and industry influencers on the topics that matter most to our customers



## Remediation of legacy reviews

Proactive approach to remediating inherited legacy issues



## Proactive tracing for outstanding claims

Repatriated policyholder estates with c. £13 million of unclaimed life insurance policies (to date) through the proactive tracing of customers



## Pension fraud prevention

We have prevented over £30 million of potential pension fraud since the issue 2013



## Ongoing improvements in customer communications

Development of innovative customer centric communications to underpin improved engagement

# Our Heritage customers recognise our high quality service as we continue to support them through COVID-19

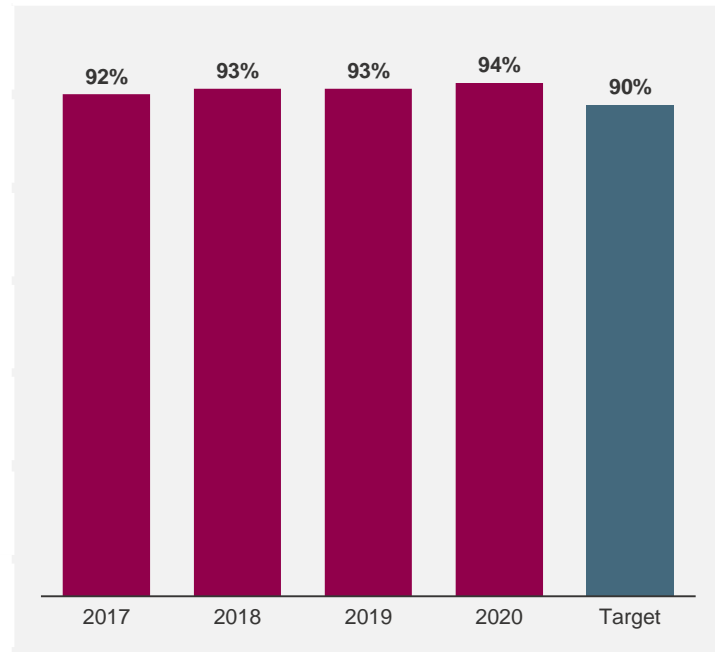
## Response to Covid-19

Phoenix has proactively managed the numerous challenges caused by the pandemic for our customers

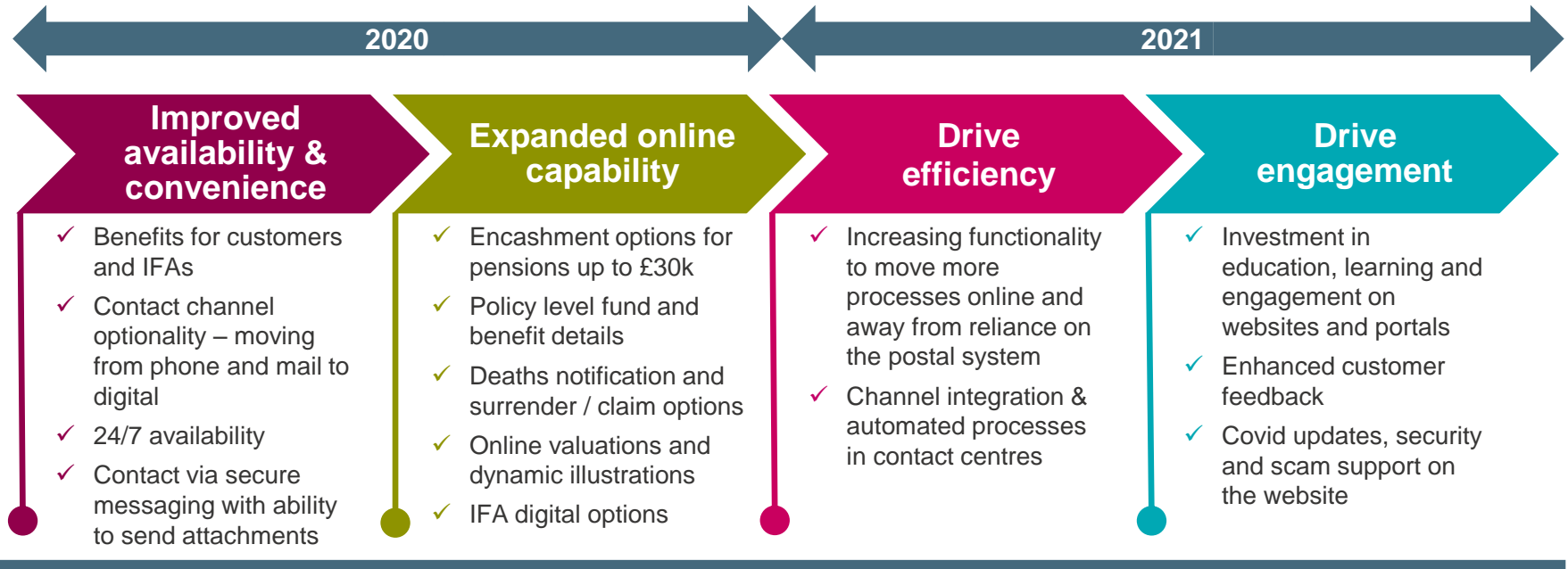
- ➔ Proactive offering of premium flexibility to support financial hardship
- ➔ 1.2 million customers contacted by letter encouraging them to move to digital
- ➔ Customer call centres remained open across in-house and outsourced partners
- ➔ Annuity holders encouraged to accept bank transfers rather than receive cheque payments
- ➔ Delivered over 80 online enhancements to support customers during Covid-19
- ➔ Covid-19 customer support and help page on website
- ➔ Introduction of online financial glossary and advice on how to protect your online security

(1) Customer satisfaction data is Phoenix heritage only

## Phoenix Group customer satisfaction<sup>(1)</sup>



# Investment in digital is transforming the way we engage with our Heritage customers



# Management actions increase or accelerate cashflows

- **Management actions either:**

- ✓ **increase own funds** and therefore **increase** the overall cash flows from the business, or

- ✓ **decrease risk capital** and therefore **accelerate** the timing of cash flows

- They include a wide range of innovative solutions designed to deliver additional value to both shareholders and customers

## Increase own funds

### Cost efficiencies

Improvements in outsourcer cost per policy, internal costs or investment fees

### Transitional benefits

Accessing transitional measures on acquired business

### Asset liability management

Investment of annuity backing assets in illiquid asset classes

## Decrease risk capital

### Reducing risks

Hedging of equity, currency and interest rate risk and reinsurance of longevity risk

### Diversification benefit

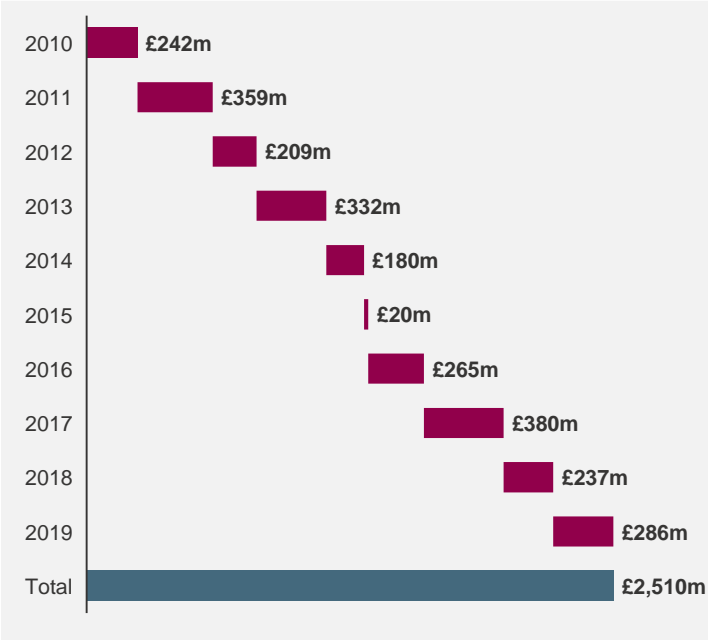
Accessed by internal reinsurance and Part VII transfers

### Capital harmonisation

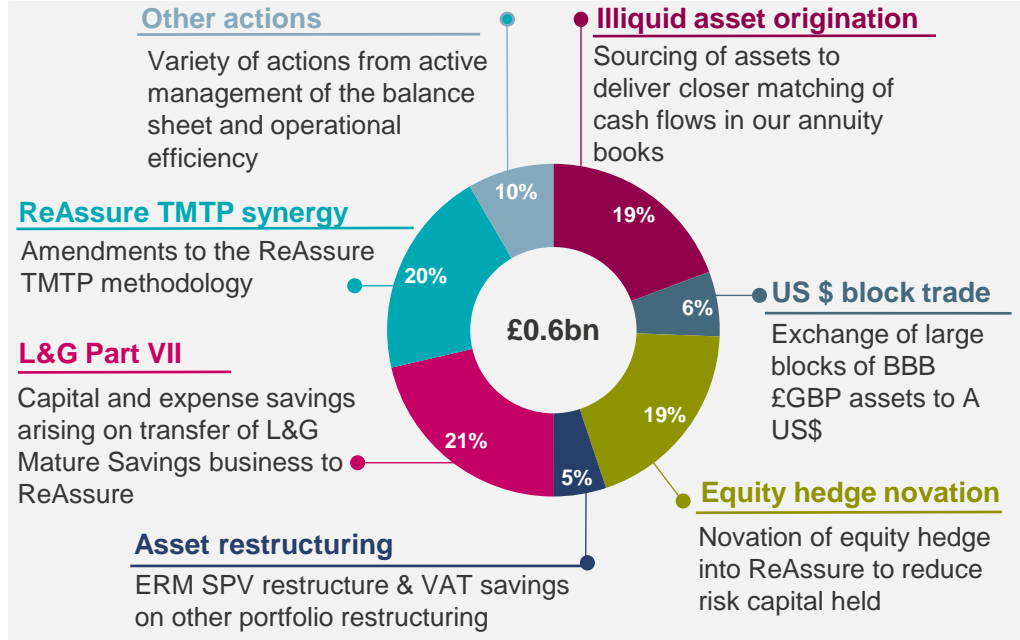
Single internal capital framework, internal model and approach to risk management

# In 2020 we have continued our track record of delivering management actions

## Cash generation from management actions

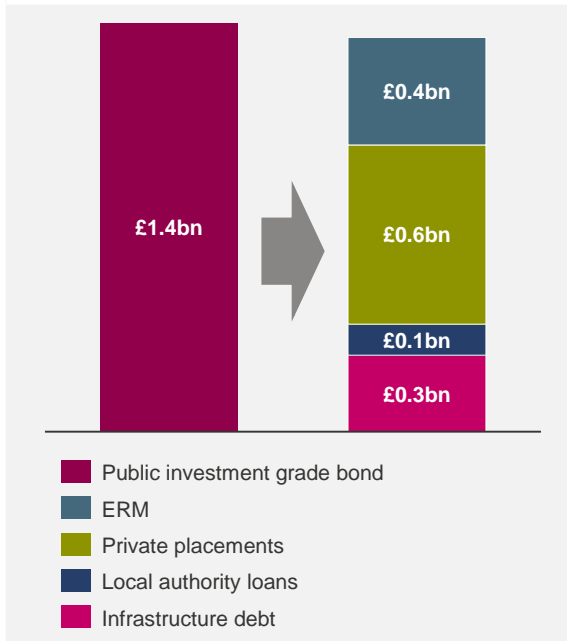


## 2020 Solvency II management actions



# Management action case study #1: Investing in illiquid assets

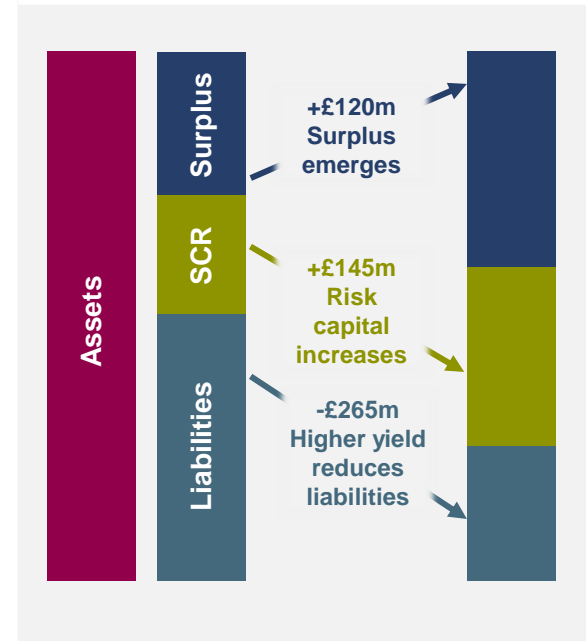
## £1.4 billion asset reallocation



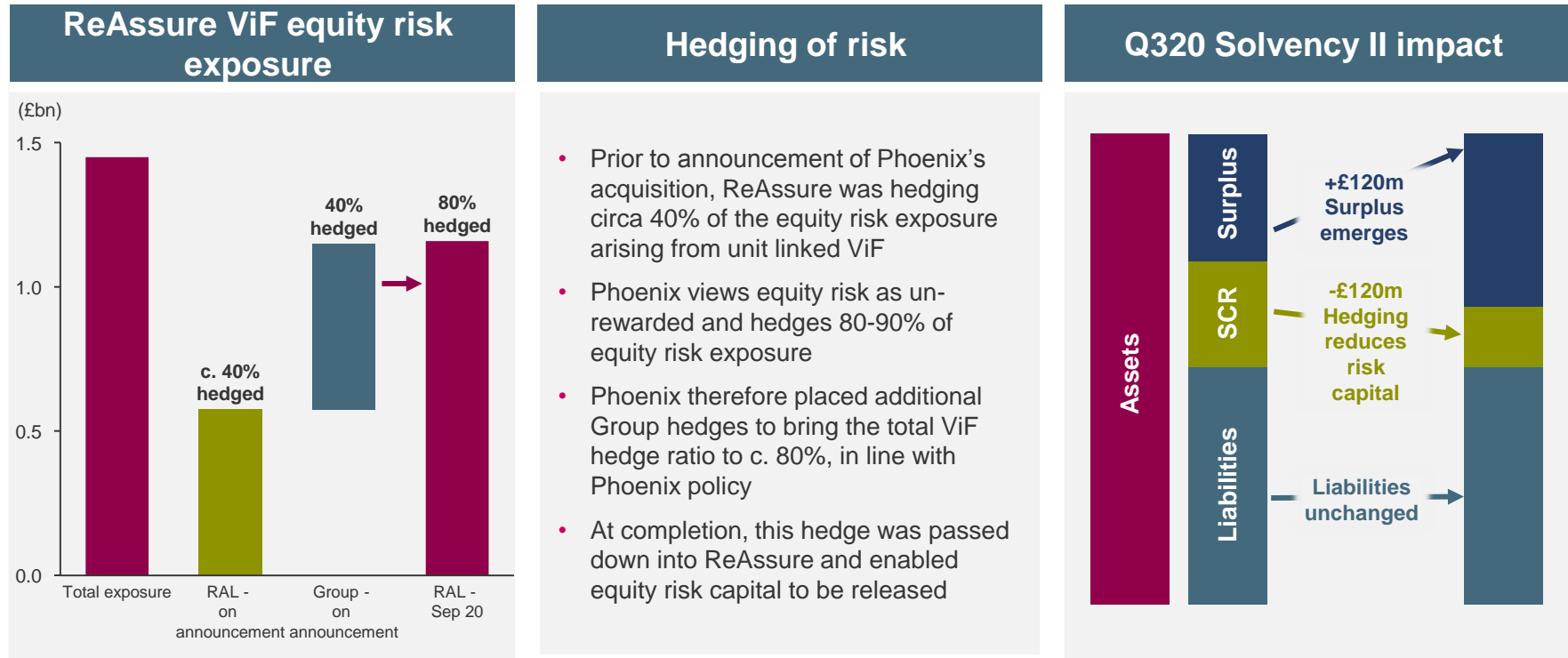
## Investing in illiquid assets

- £9 billion illiquid asset portfolio represents 24% of annuity backing assets, target is 40%
- Present value of liabilities is calculated using a discount rate derived from the yield of assets matching the liability
- Illiquid assets are higher yielding than liquid assets to reflect an illiquidity premium
- Replacing liquid assets with illiquid assets therefore reduces the present value of the liabilities – this is the matching adjustment benefit
- However, we hold additional risk capital that will unwind over time

## Q320 Solvency II impact

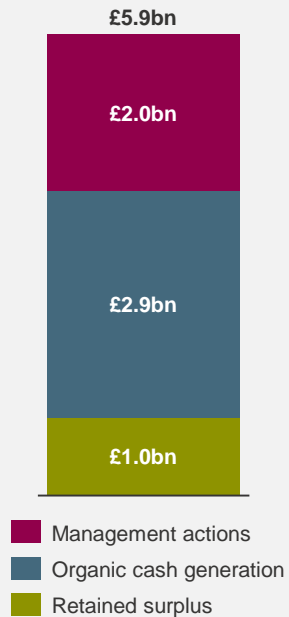


## Management action case study #2: Hedging of ReAssure equity risk



# We have a strong pipeline of management actions and a range of future management action opportunities

## Cash generation target 2020-2023



## £2.0 billion delivered over 2020-2023 through a range of actions



## Future opportunities

### Regulatory change

Regime changes bring opportunities to maximise capital efficiency

### Digitalisation

Opportunities to improve customer journeys, reduce costs and drive efficiency

### Future M&A

Opportunities for cost and capital synergies, leveraging of benefits of scale

### Macroeconomics

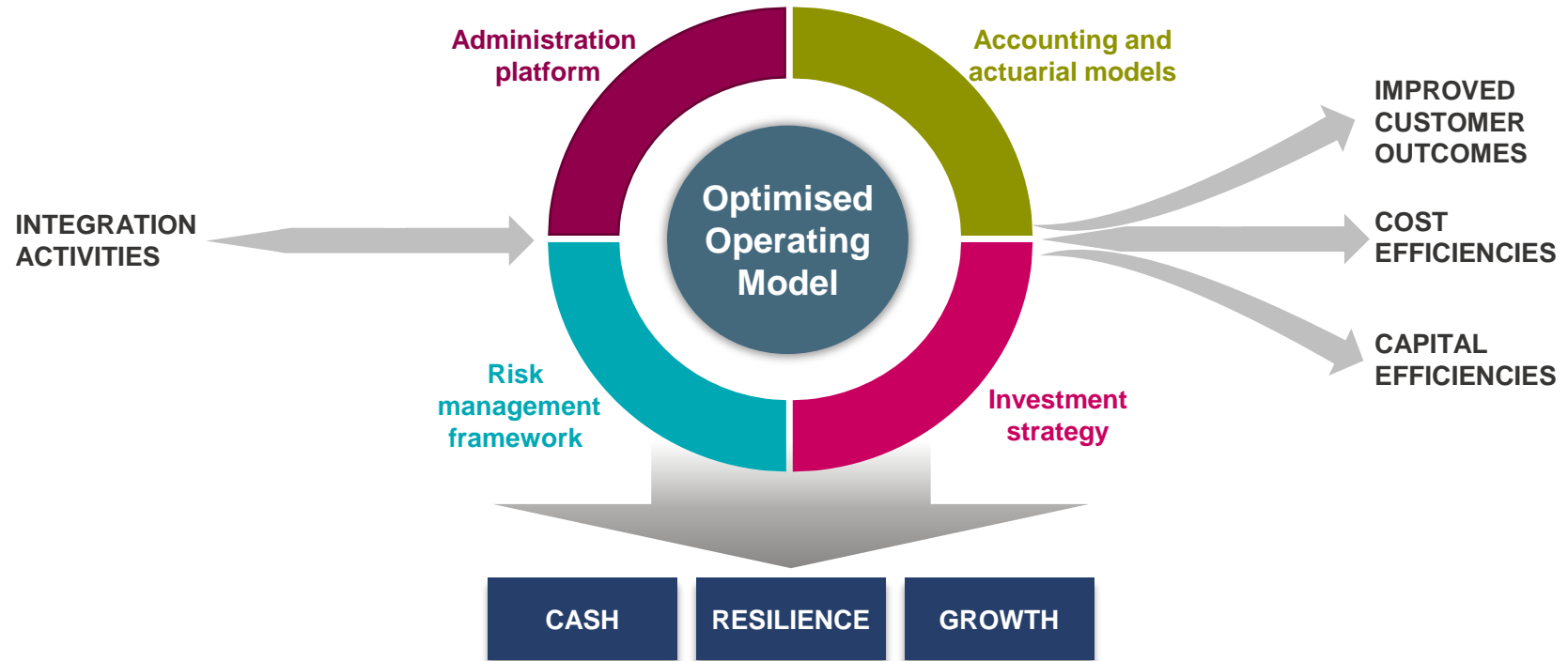
Evolution of unrewarded risk and opportunity in emerging private debt markets



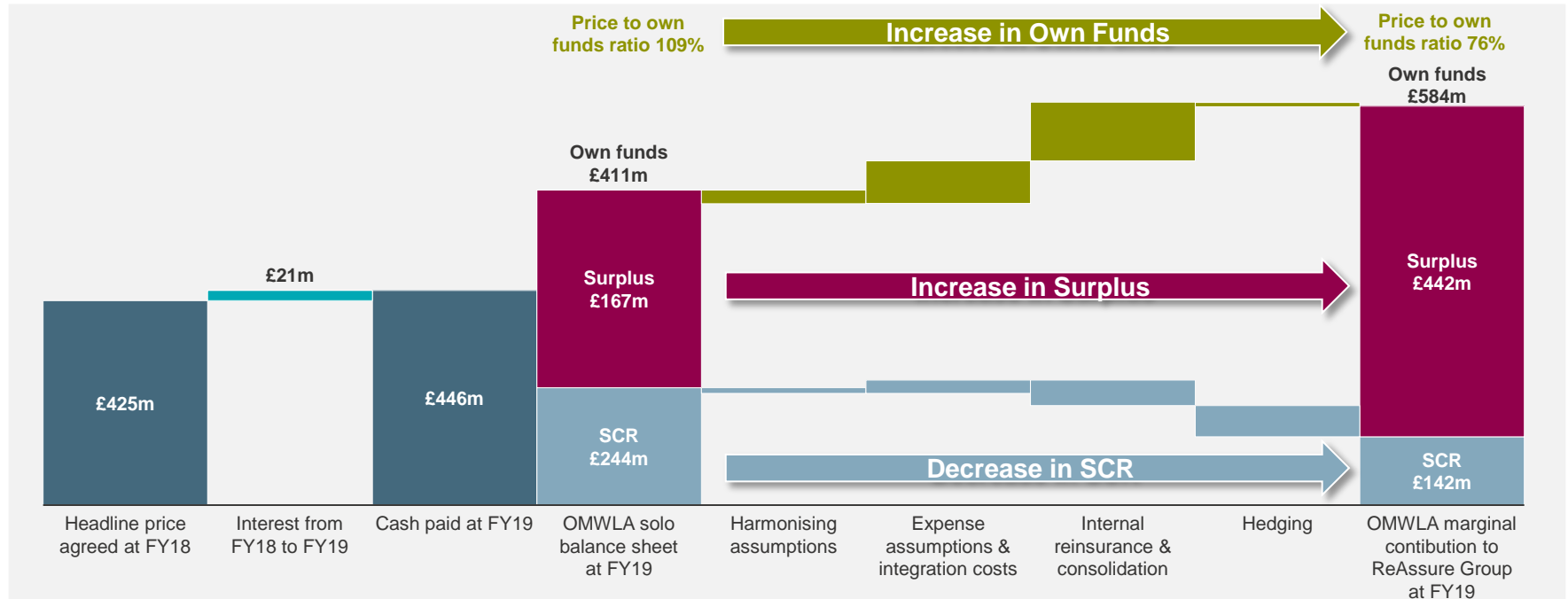
# Phoenix and ReAssure have been leaders in the consolidation market



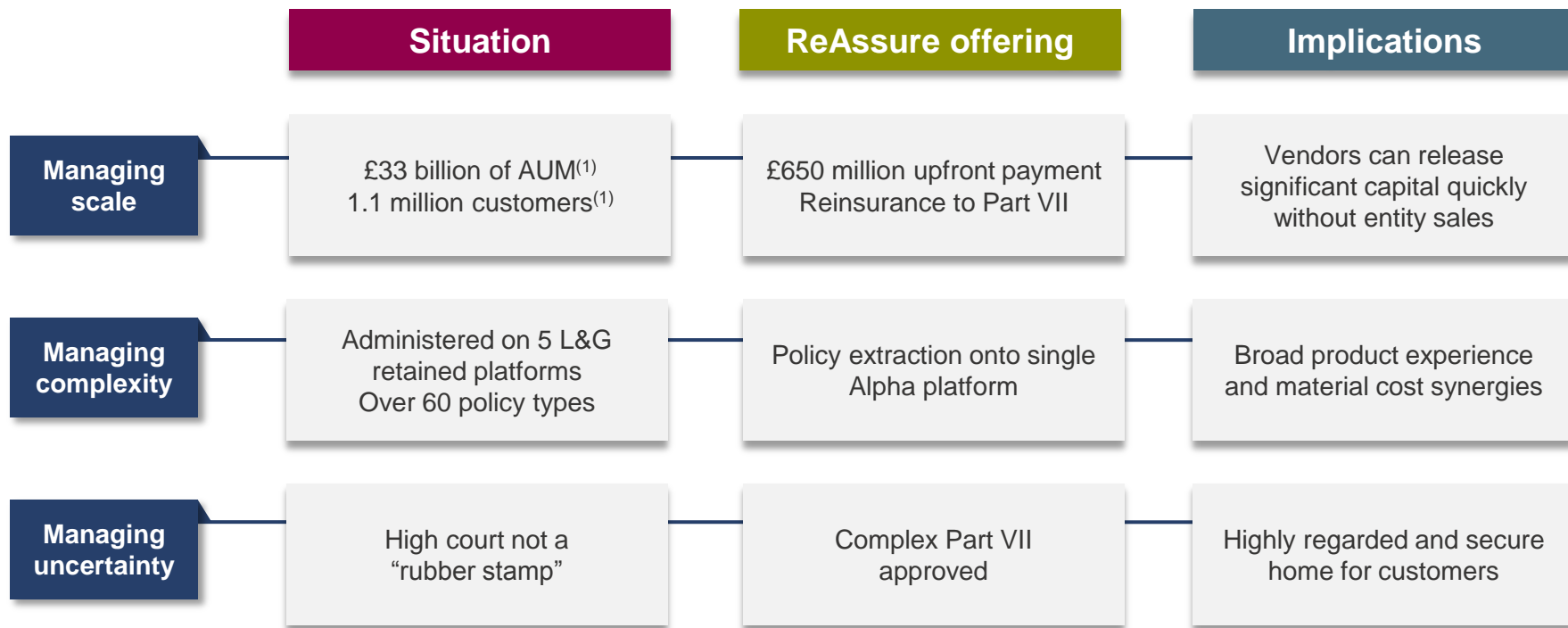
## Our legacy businesses have a consistent approach to integration



# Old Mutual Wealth Case Study: £275 million of management actions delivered on Day 1

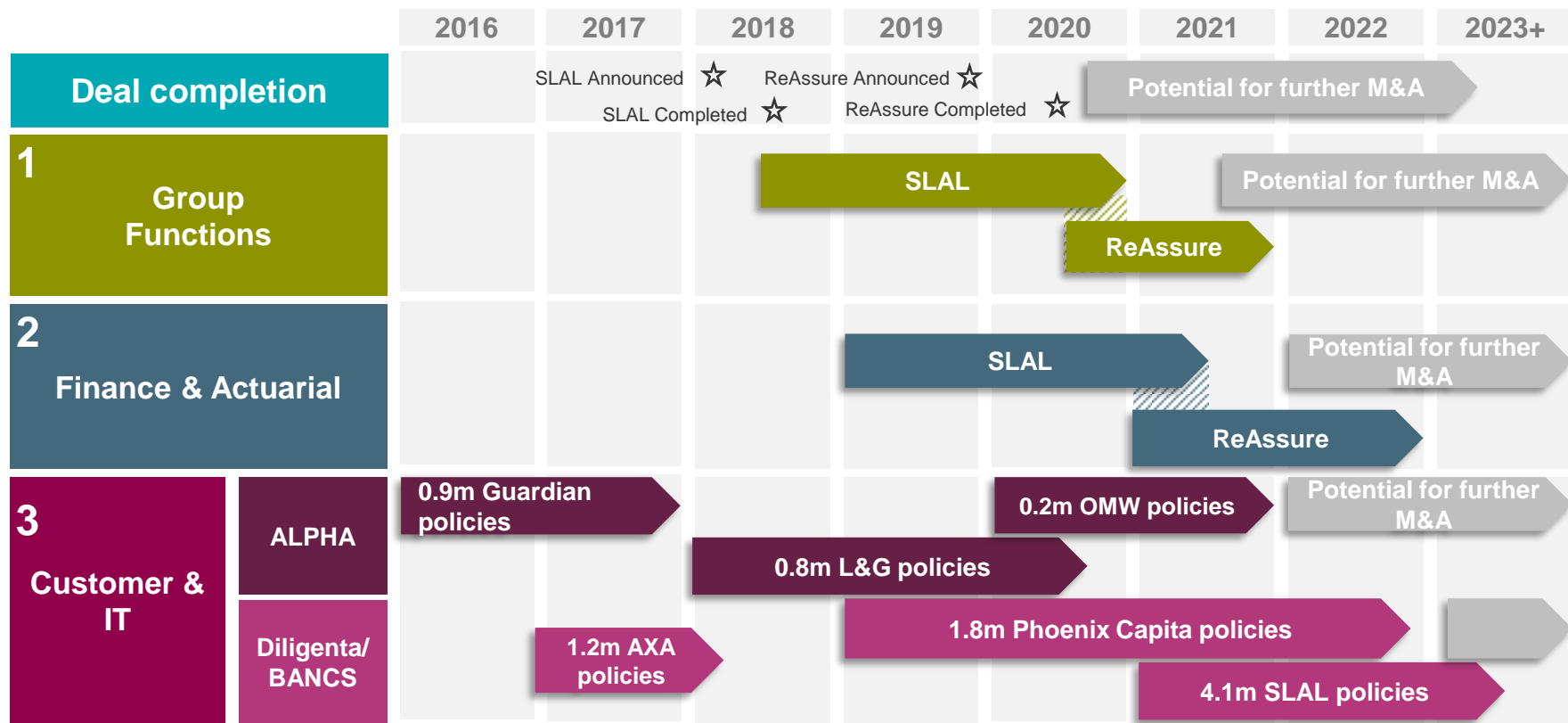


# L&G Mature Savings Part VII underlies capabilities to deliver complex transactions

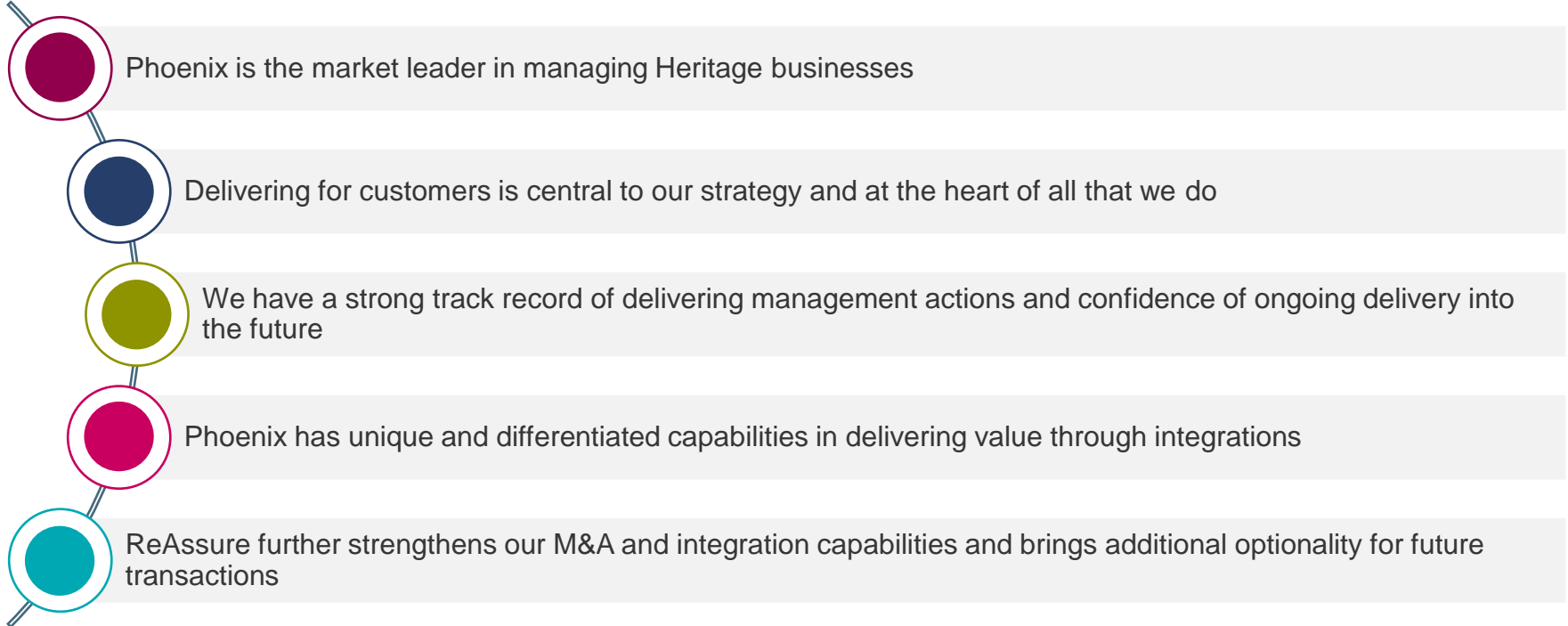


(1) At FY17 per source systems

# Our three phased integration approach enables overlap of M&A



## Key messages



# Agenda: Phoenix Group Capital Markets Day 2020

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|                | Q&A                  | Panel  |

# Phoenix's Open business is central to our purpose of helping people secure a life of possibilities

## Strategy

To help customers to journey to and through retirement by providing long-term solutions to their savings needs

## Strategic priorities

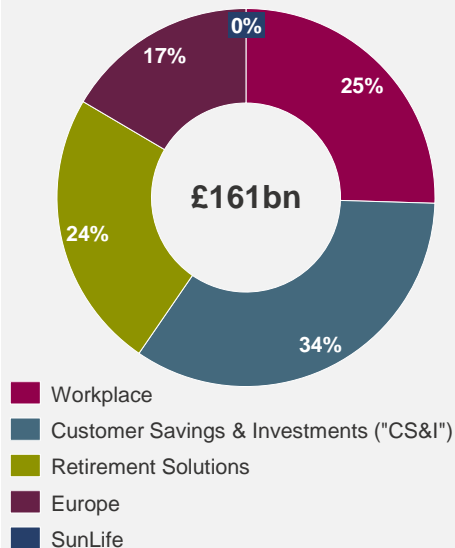
**Workplace:** Accelerate investment in proposition and optimise shift from restructure of market

**CS&I:** Deepen understanding of customer needs and innovate solutions

**BPA:** Improve capital efficiency and grow market share

## Open segment by AUA

at 30 September 2020



## Competitive advantages

**Cost efficiency** driven by move to a single administration platform

**Capital efficiency** driven by diversification with Heritage business

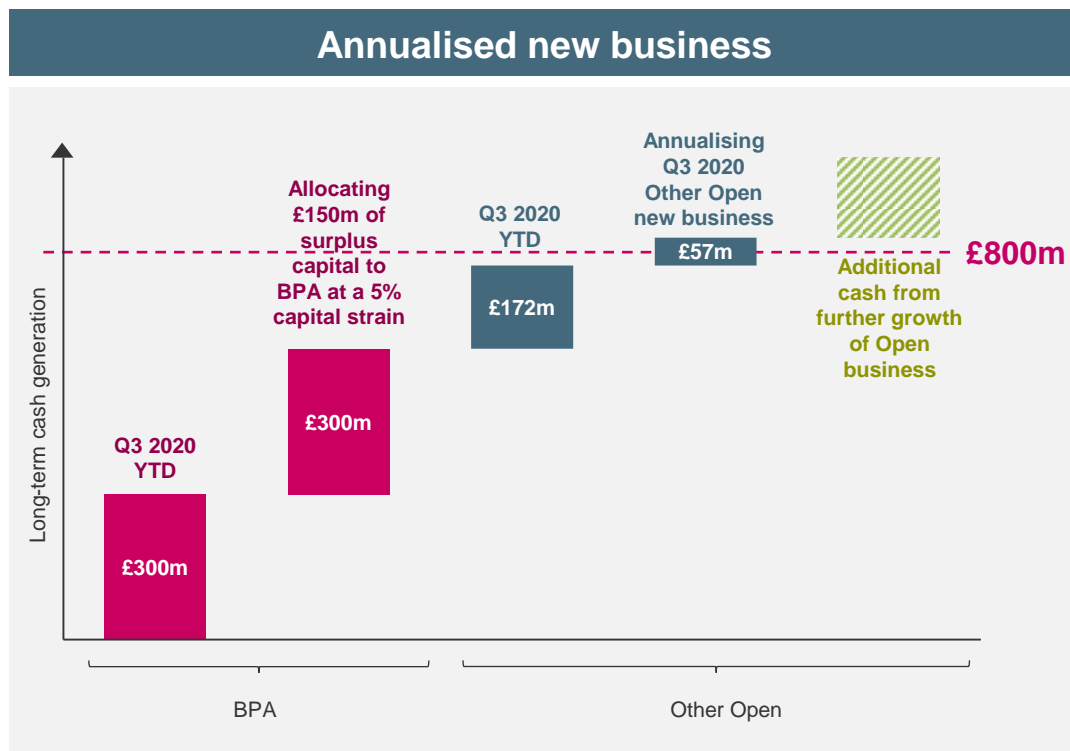
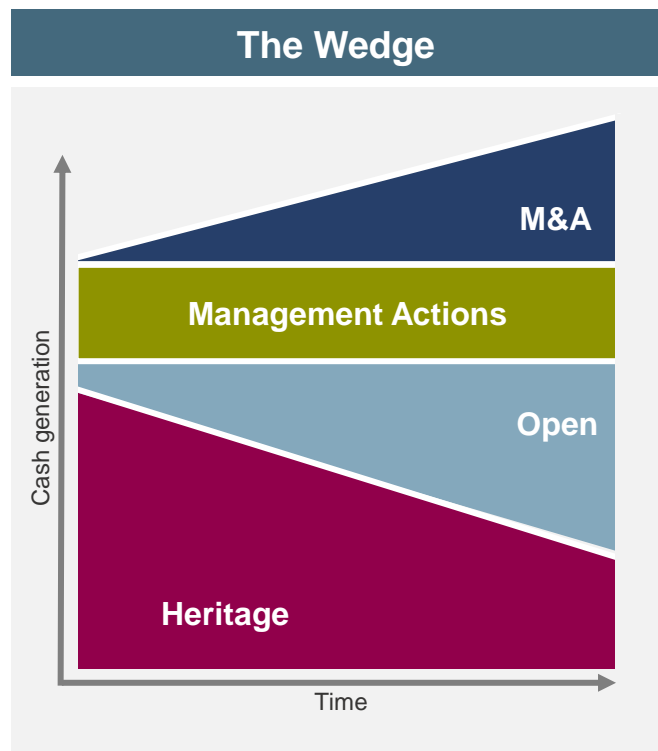
**Significant share** across a range of Open business markets

Large customer base with circa **14 million customers**

**Long-term commitment** to the market underpinned by Group's strength and resilience



To prove the Wedge, Open new business must deliver over £800 million of incremental long-term cash generation per annum



## Phoenix's Open business has three core growth drivers

| Industry drivers of growth   | Phoenix's Open business                          | Phoenix share of market AUA | Phoenix share of market flows | Phoenix's strategy  |
|--|--|-----------------------------|-------------------------------|---|
| <p><b>Strong AE Workplace growth</b></p> <p>£40bn p.a.</p>   | <p><b>Workplace</b></p>                          | <p>c.11%</p>                | <p>c.11%</p>                  | <p><b>Strategy:</b> To Protect and Grow</p> <p><b>Delivered by:</b> Continuing to invest in strengthening our proposition and digital platform</p>                            |
| <p><b>Individuals are retiring</b></p> <p>£30bn p.a.</p>   | <p><b>Customer Savings &amp; Investments</b></p> | <p>c.16%</p>                | <p>c.4%</p>                   | <p><b>Strategy:</b> Engage and Develop</p> <p><b>Delivered by:</b> Engaging our c. 14 million customers to better understand their needs and provide innovative solutions</p> |
| <p><b>Corporates are de-risking</b></p> <p>£40bn p.a.</p>  | <p><b>Retirement solutions</b></p>               | <p>c.9%</p>                 | <p>c.5%</p>                   | <p><b>Strategy:</b> To Grow and Expand</p> <p><b>Delivered by:</b> Improving capital efficiency and expanding illiquid asset capabilities</p>                                 |
| <p><b>Delivering a similar share of flows, to our share of stocks, will drive significant growth</b></p> |  |                             |                               |   |

# The workplace market is growing and competitive

## Industry driver

£40bn p.a.

### Strong AE Workplace growth

Driven by auto-enrolment, the ageing population and the move from defined benefits to defined contribution

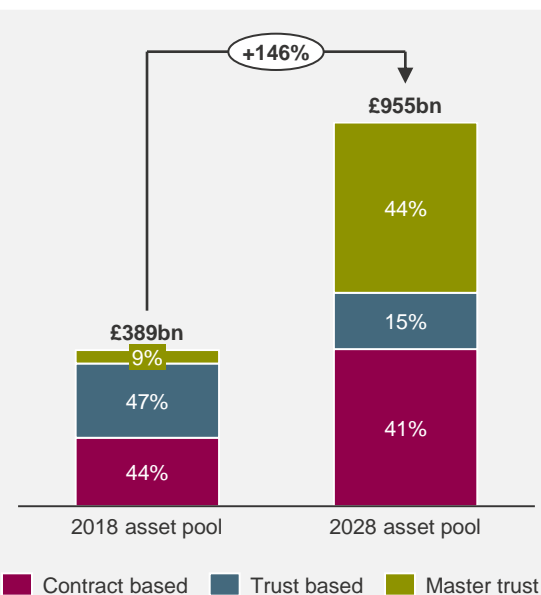
Workplace

### Phoenix market position

Phoenix share of market AUA c. 11%

Phoenix share of market flows c. 11%

## Market shifting to Master Trust



## Key to winning in this market

- 1 Best-in-class proposition
- 2 Customer service and engagement
- 3 Competitive pricing - which requires cost efficiency
- 4 Commitment to long-term nature of market

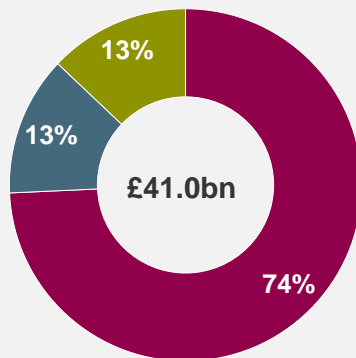
# Phoenix is a top 3 workplace provider and our strategy is to grow and protect

## Our Workplace business

- Customers** • 15k active schemes
- Brand** • 1.9m members of which  
1.1m active members

**Standard Life**

at 30 September 2020



■ Contract based ■ Trust based ■ Master trust

## Our Workplace strategy focuses on:

### Proposition

- Continue to make significant investments in our proposition
- Wide range of investment solutions
- Exceptional member, employer and trustee experience

### Customer service

- Excellent customer service with customer satisfaction at 90% and call answer rates maintained at 98% throughout COVID-19
- Strong digital proposition with app rating of 4.6 stars

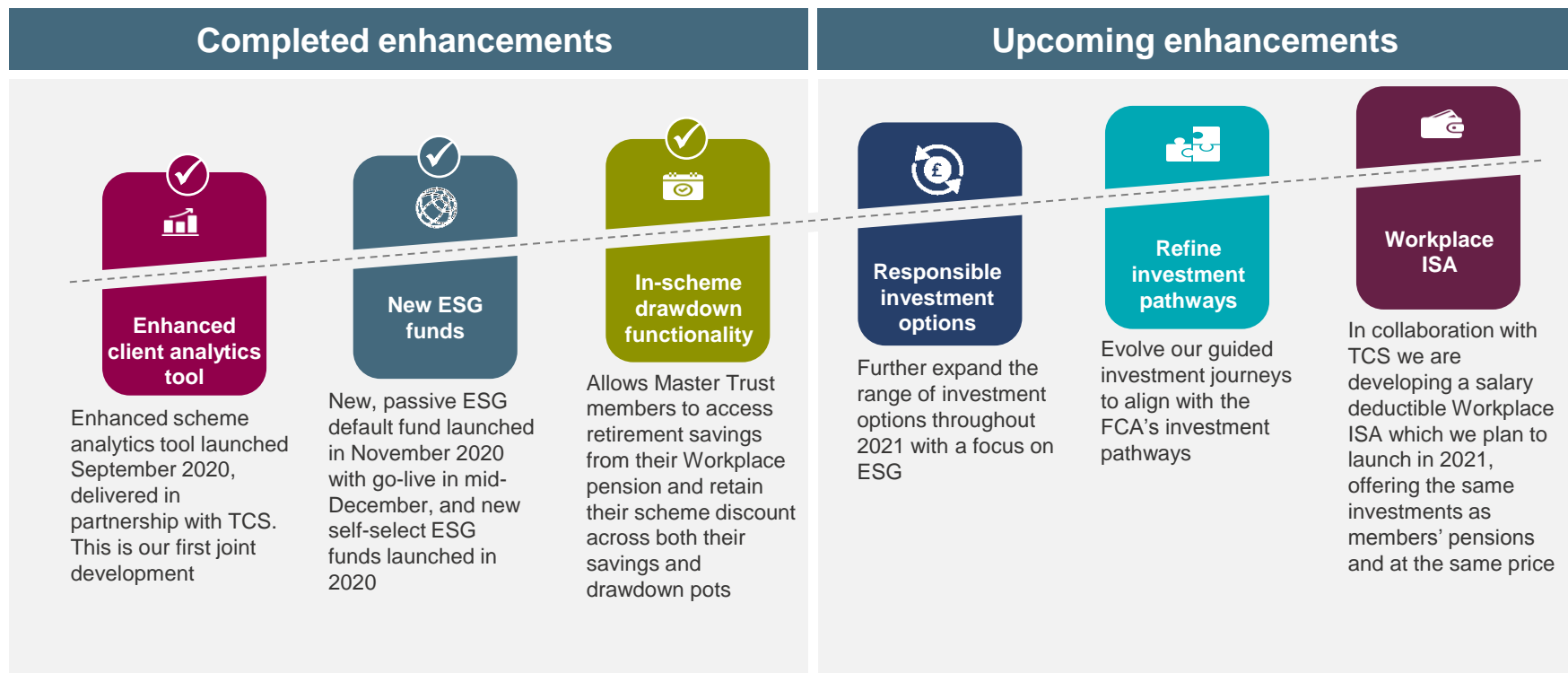
### Cost efficiency

- Tata Consultancy Services (“TCS”) partnership will deliver market leading cost efficiency while maintaining customer service

### Commitment to long-term market

- Evidenced by rapid proposition investment over the last 18 months
- Size and scale provides platform for growth

# We continue to make significant investments in our proposition, driven by customer insight



## And we are expanding our range of ESG investment solutions

### Our new ESG passive default solution

We are planning to enhance the ESG content of our default funds. Our new passive default solution is designed to deliver good member outcomes at retirement, using a blend of ESG approaches, to:

**Exclude** companies identified as having long-term financially material ESG risks

**Target** positive ESG outcomes through portfolio tilting to enhance performance versus parent indices

**Influence** positive change through stewardship expertise of fund managers

Default  
funds

“Go live” mid December 2020

### Our ESG programme is moving at pace

We are expanding our responsible investment options for customers who want to better align their investments with their own beliefs:

#### Funds launching Q4 2020

Climate and Environment  
Gender Diversity  
Sustainable Index UK Equity  
Sustainable Index World Equity

#### Launching H1 2021

Sustainable Water & Waste  
UK and Europe Sustainable Equities  
Global Lower Carbon Bonds and Equities  
Sustainable Asian Equities  
Global Responsible Managed  
Emerging Markets Sustainable & Responsible Investment Equity

Wider  
options

Actively reviewed to meet evolving  
needs of members

# Our partnership with TCS will improve efficiency while maintaining customer service

## Migration of customer and IT operating model...

Delivers more agile and flexible proposition

Accelerates speed to market

Enables broader product offering and optionality

Facilitates plug-in partnerships

Further improves digital capabilities

## ... maintains high customer service

Hub consists of skilled experts from Standard Life Assurance and TCS



Retained the existing customer service team

Innovation lab enables clients to experience future proposition enhancements

## ... and delivers market leading cost efficiency

# Customers need help to journey to and through retirement

## Industry driver

£30bn p.a.

Customer  
Savings &  
Investments

### Individuals are retiring

Customers seek guidance to consolidate and journey to and through retirement

### Phoenix market position

Phoenix share of  
market AUA **c. 16%**

Phoenix share of  
market flows **c. 4%**

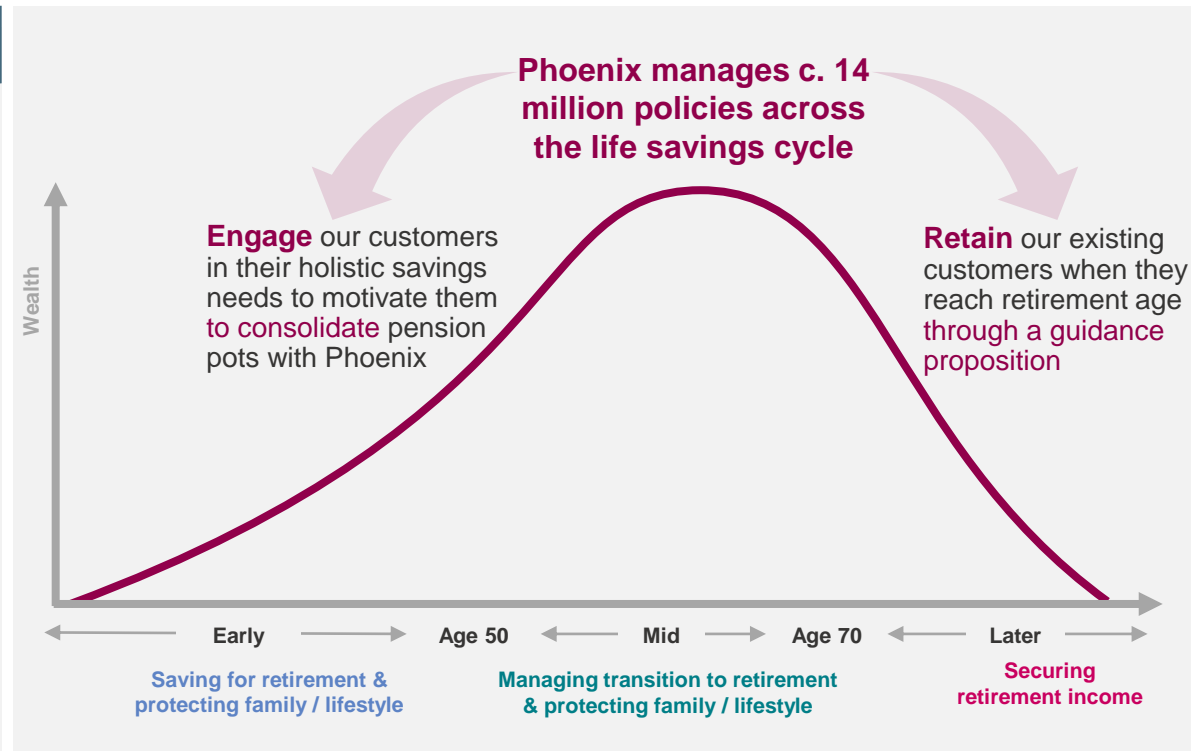
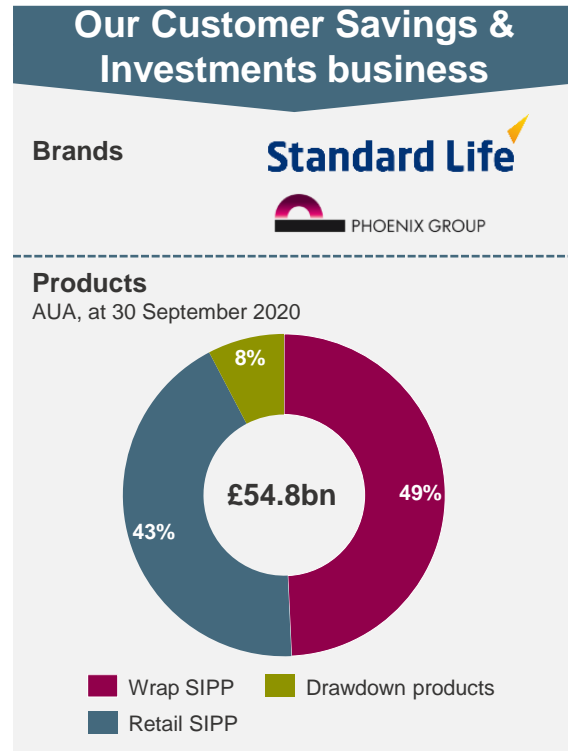
## Key trends within this market

- Retirement is now seen as a longer, more complex transition versus a single event
- Responsibility for managing retirement income continues to shift to the individual, resulting in the need for increased engagement
- Striking the balance between advice and value is changing the distribution landscape
- Gap in advice for the growing number approaching retirement with mid-sized pots
- Retirement market getting increasingly competitive with a focus on value for money resulting in scale becoming increasingly important
- The macroeconomic backdrop with interest rates lower for longer creates uncertainty

**Few players are capable of engaging customers and providing holistic solutions to help consumers secure their income in retirement**



By engaging with our customers, we can better understand their needs and help them secure a life of possibilities







# Our strategy in Customer Savings & Investments is to engage and develop

We will achieve this by focusing on the needs of customers across the stages of engagement







# We have made significant digital enhancements across our Workplace and CS&I propositions

## Workplace

|                  |  |   |   |
|------------------|--|---|---|
| Key enhancements | <b>In-scheme drawdown</b>                    |  | Online drawdown journey for Master Trust pensions launched in July                                |
|                  | <b>New app features</b>                      |  | Able to select retirement date as well as add, view and edit pension beneficiaries                |
|                  | <b>Secure messaging</b>                      |  | Implemented priority functionality for NHS staff secure message queries                           |
|                  | <b>New customer dashboard investment hub</b> |  | Helps customers understand investing in a pension, fund performance and their investment options. |

## Customer Savings & Investments

|                  |                             |   |  |
|------------------|-----------------------------|---|--|
| Key enhancements | <b>Drawdown</b>             |  | £325m moved into drawdown online with c.21k users of online retirement journey YTD               |
|                  | <b>Pot consolidation</b>    |  | 81% of pension transfers processed online this year and SIPP/GSIPP journey launched in September |
|                  | <b>Vulnerable customers</b> |  | Circumstance tool allows customers to disclose vulnerability through secure messaging            |
|                  | <b>Charges transparency</b> |  | Customer dashboard allows over 80% of our pension customers to see charges in £ and %            |

### 2020 key stats

14.6m  
log-ins  
Jan-Oct 20

c. 50%  
of total log-ins now  
through mobile app

106% increase  
in secure  
messaging

£0.9bn  
in new cash online  
Jan-Oct 20

£0.4bn  
online consolidation  
Jan-Oct 20

# The BPA market is substantial and growing as corporates continue to de-risk

## Industry driver

**£40bn p.a.**

Retirement  
solutions

### Corporates are de-risking

Driven by the offloading of Defined Benefit schemes to focus on core business

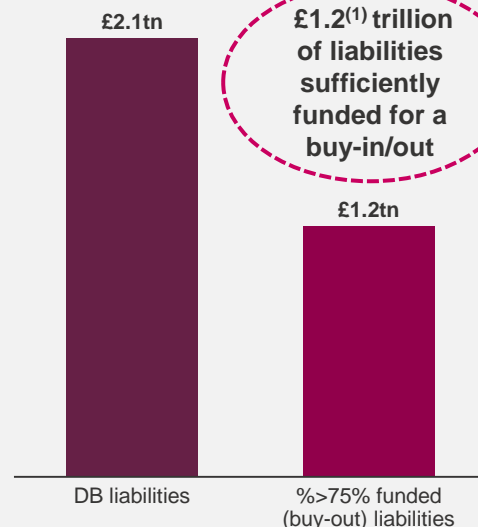
### Phoenix market position

Phoenix share of market AUA **c. 9%**

Phoenix share of market flows **c. 5%**

## Room for further growth

Stock of corporate BPAs as at 31 March 2019



Source: The Purple Book 2019

## Key market trends

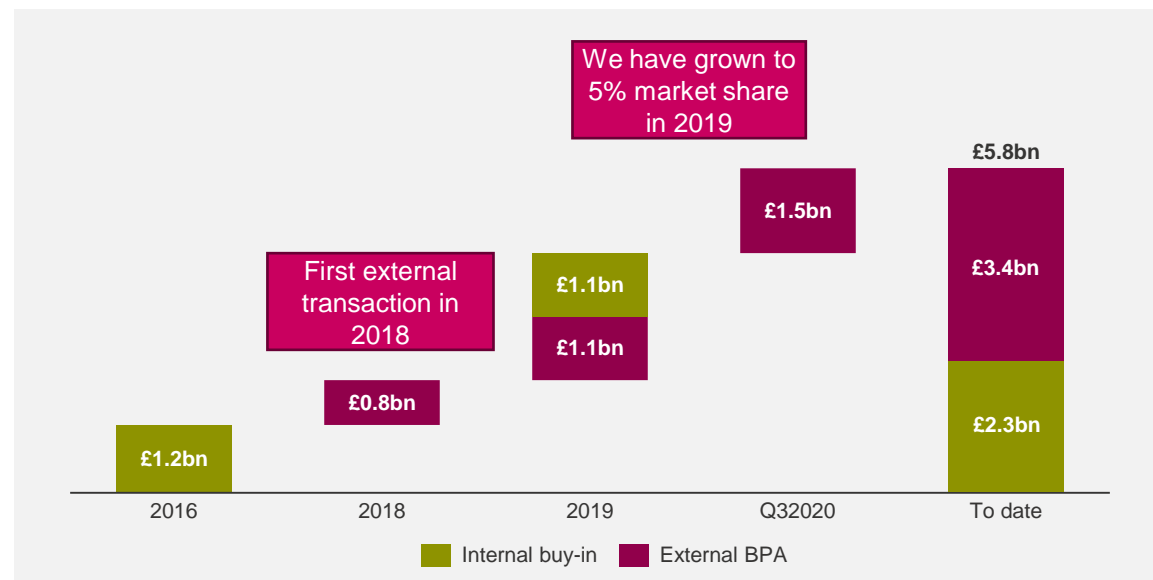
|  |  |
|--|--|
| <b>Increased volumes</b>                 | 28% CAGR increase in volumes between 2009 and 2019                                   |
| <b>Larger transactions</b>               | 90% of 2019 total volumes were deals of £200 million+. 46% were deals of £3 billion+ |
| <b>Increased no. buy-outs</b>            | 40% of deals in 2019 were buy-outs   |
| <b>Alternative consolidation options</b> | The emergence of superfunds  |

Source (increased volumes, larger transactions): LCP report 2020  
Source (increased buy-outs): Hymans Robertson report 2020

(1) £1.2 trillion of Defined Benefits liabilities includes those Defined Benefits schemes which have already undertaken buy-in exercise

Phoenix is an established player in the BPA market and our strategy is to grow and expand

## £5.7 billion of BPA written to date



We have strong relationships with EBCs, having been invited to price 72 deals in 2019 and 55 deals YTD in 2020



## Our ambition is to develop a market-leading BPA franchise



Funded from own resources, allocating **£150 million to £200 million** surplus capital per annum



Targeting deals in the **£100 million to £1 billion** range



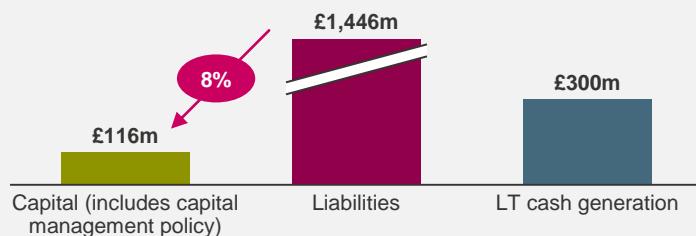
Continued focus on **value not volume**, whilst meeting hurdle criteria and maintaining product diversification



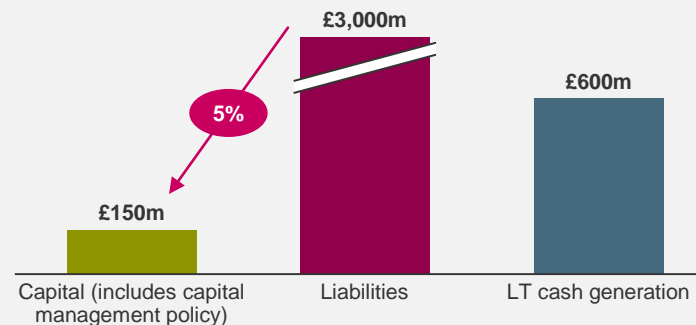
Optimised **capital strain**

## Optimising the capital strain will improve our deal economics

### Our current deal economics, 2020 YTD



### Our target deal economics



## Reducing capital strain

### CURRENT STRAIN

8%

✓ Optimise capital within the framework of the Harmonised Internal Model

✓ Best-in-class approach to sourcing and allocation of illiquid assets

✓ Optimise approach to reinsurance

### TARGET STRAIN

5%

## We are strengthening our capabilities to support our BPA ambitions

### Build best in class asset capability

- Identify and execute bespoke asset origination opportunities for BPA deals
- Leverage in-house investment expertise to enable real time asset pricing into BPA deals
- Increase volume of illiquid asset origination

### Expand our proposition

- Pricing of deferred liabilities from 2021 (current proposition biased towards pensioner-only transactions)
- Enhance buyout capability
- Supported by best in class onboarding and administration processes

### Develop operating model

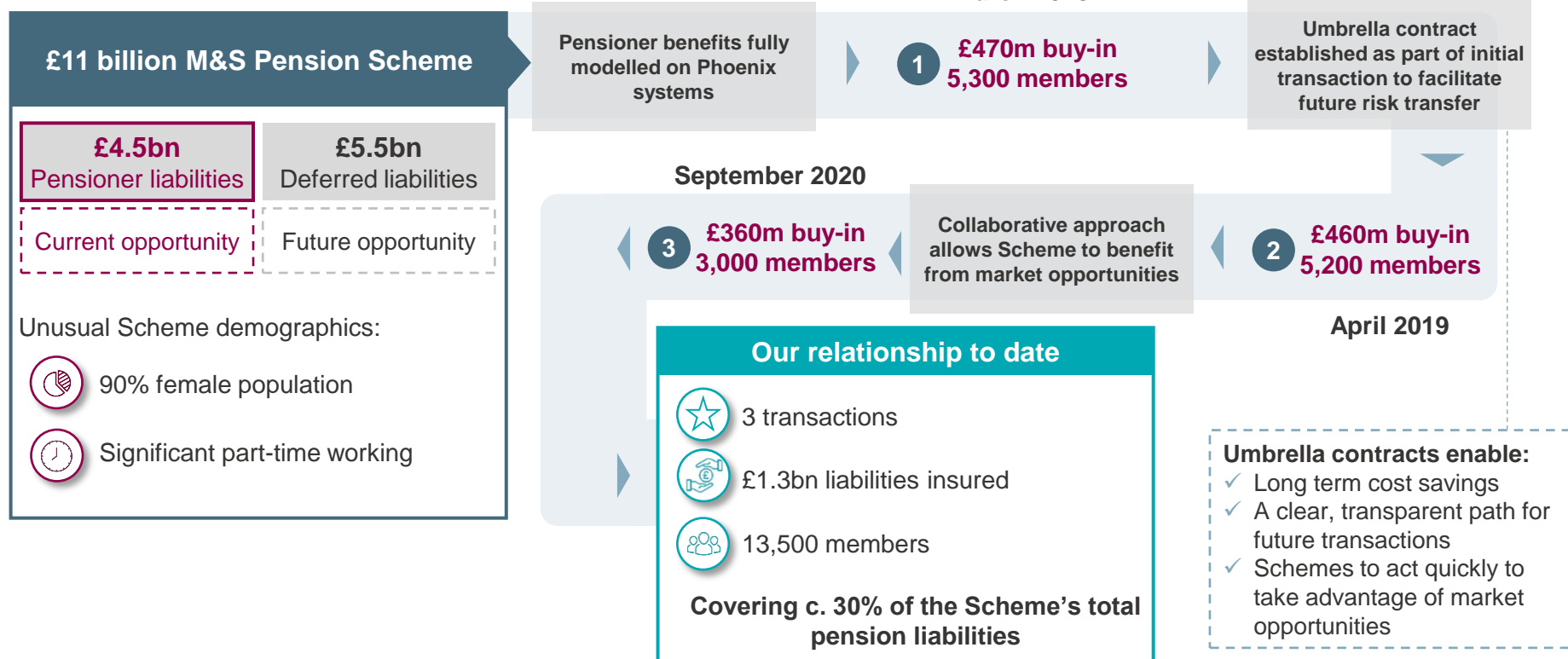
- Enlarged market leading team with specialist skills and proven track record of delivery
- Increase resources to enhance pricing capability and provide a scalable operating model
- Investment in pricing platform to increase scalability

### De-risking partnerships

- Leverage mutual benefits of long-term de-risking partnerships including reinsurance
- Continue to use umbrella terms to facilitate efficient follow-on transactions, having completed 4 to date

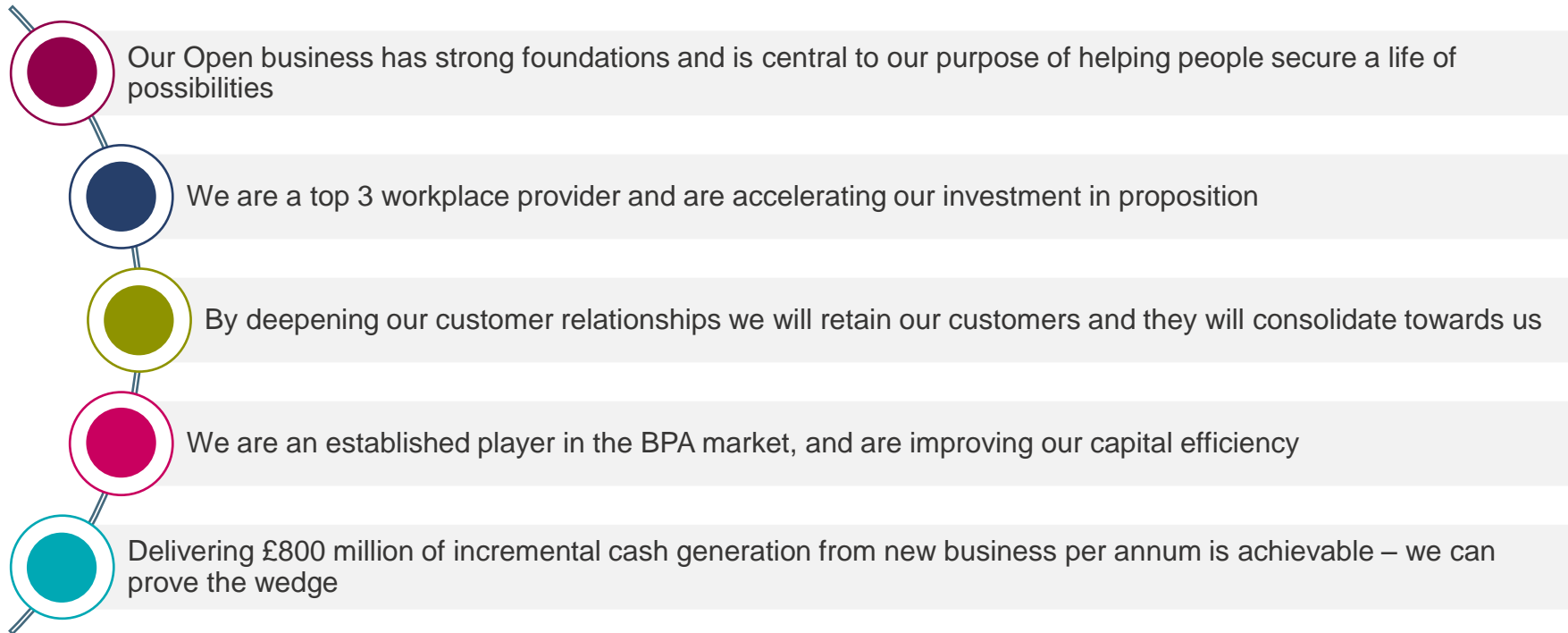
**Underpinned by our solutions-focused approach to customer requirements and proven ability to work collaboratively to execute transactions efficiently**

# M&S case study: our ability to build lasting relationships facilitates follow-on transactions





## Key messages



# Agenda: Phoenix Group Capital Markets Day 2020

|                |                         |   |
|----------------|-------------------------|---|
| 1<br>Overview  | Introduction            | Nicholas Lyons - Chairman   |
|                | Strategy                | Andy Briggs - Group Chief Executive Officer                             |
|                | Financial framework     | Rakesh Thakrar - Group Chief Financial Officer                          |
| 2<br>Deep dive | Sustainability          | Claire Hawkins - Director of Corporate Affairs & Investor Relations     |
|                | Heritage business       | Andy Moss - Heritage Chief Executive Officer                            |
|                | Open business           | Andy Curran - Chief Executive Officer, Savings & Retirement UK & Europe |
|                | <b>Asset Management</b> | <b>Mike Eakins - Chief Investment Officer</b>                           |
| 3<br>Wrap up   | Summary                 | Andy Briggs - Group Chief Executive Officer                             |
|                | Q&A                     | Panel   |

# We are building a best-in-class in-house asset management team

## Six pillars underpin our asset management strategy

### Customer centricity

Developing investment solutions for customers is the core of our business

### Sustainability

Integrating sustainability objectives for the benefit of customers, investors and society

### Diversity

Of thought and demographics is key to a value creating investment strategy

### Illiquid asset origination

Fundamental to successful BPA and achieving strategic asset allocation for annuity back-book

### Strategic partnerships

With ASI as core strategic partner, complementing asset origination with other select partners

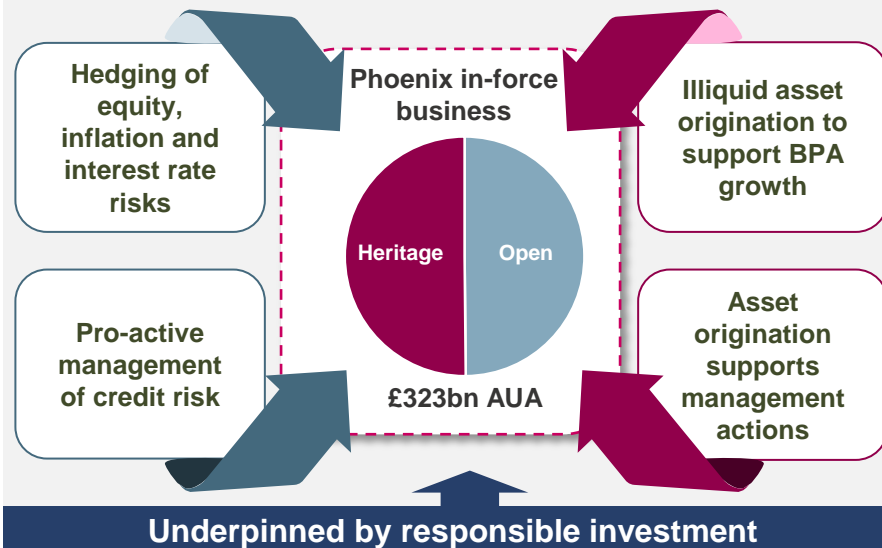
### Operational excellence

Building a best-in-class investment and risk management platform

## Priorities across our Heritage and Open businesses

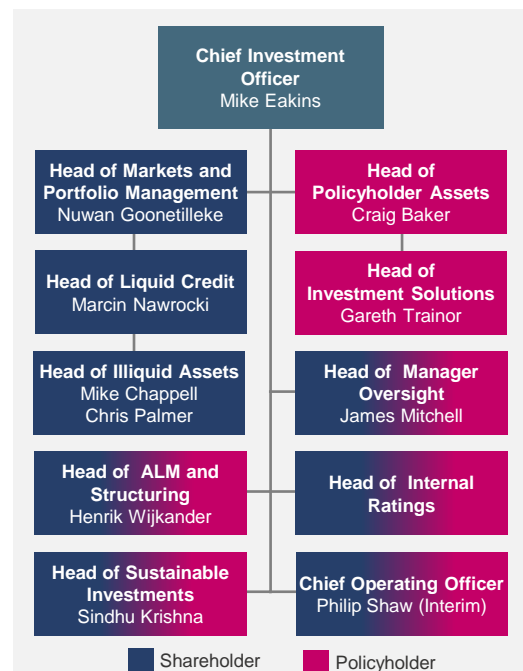
Manage asset risk for resilience

Source assets that support growth aspirations



# We will be a centre of excellence with extensive asset management expertise

## Phoenix Asset Management (“AM”) structure



### Market expertise

**Team of market experts** – average of c.22 years of experience across liquid credit, illiquid assets and rates markets

### Dedicated function

**Shareholder and policyholder teams** – complemented by specialist teams across ALM, Sustainability, Internal Ratings and COO

## Business unit partnerships

### Open BPA

- Phoenix AM offer real time pricing and execution capability into the BPA transaction process

### Open Workplace

- Workplace is the engine of the Open Business and Phoenix AM will support that business through continued optimisation of product offering

### Heritage

- Deliver value to shareholders and customers by delivering investment outcomes that support cash generation

**Phoenix AM operate as a shared service, providing investment solutions into each of the Business Units to the benefit of both shareholders and policyholders**

# We use our global strategic partnerships to deliver optimal investment outcomes



## Phoenix strategy and partnerships

**ASI are Phoenix's core strategic asset management partner** and are complemented by a network of select other partners

**Partnership network is global in scale** allowing Phoenix to leverage expertise across all levels of the investment strategy including asset origination, portfolio management and sustainability

**Structural competitive advantages** from Phoenix partnering with chosen asset managers on a global basis to ensure the best in class asset origination and performance across all asset classes

# Fostering responsible investment for the benefit of customer, investors and society

## Strategy and governance

- Ability to work with best-in-class asset managers to deliver customer expectations
- Invest in assets that support a sustainable world, aligned with UN SDGs

## Integrate ESG considerations

- Integration of ESG factors to maximise long-term investment performance for all our stakeholders
- Comprehensive ESG reporting from investee companies and asset managers



## Decarbonisation of investment portfolio

- Net-zero carbon by 2050 and active engagement with decarbonisation alliances, initiatives and policy makers
- Enhance internal capability and tools to perform portfolio analysis using best in class metrics taking into account both physical and transition risks

## Stewardship

- 'Engagement first' approach: asset managers actively engage with investee companies on our behalf.
- Use our position of influence as large asset owner to bring change: with in-action post sustained engagement leading to divestment

# Phoenix's asset management strategy delivers resilience through risk management

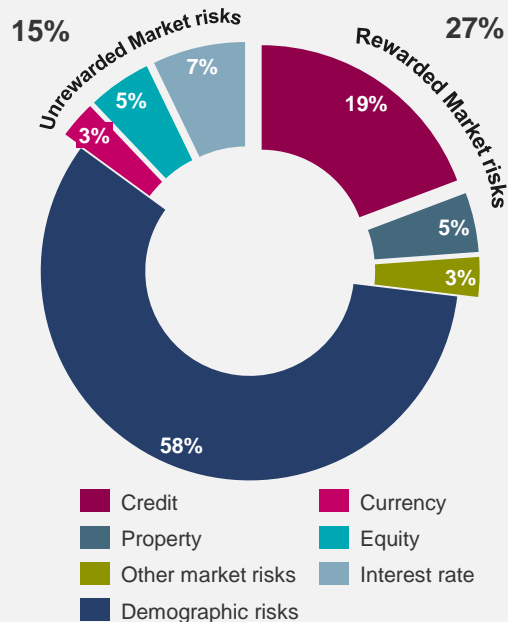
## Unrewarded market risks

### Risks we see as unrewarded :

- Interest rates
- Inflation
- Equities
- Currencies

Managed in line with risk appetite through systematic hedging to stated risk benchmarks

## Estimated Q320 SCR by risk type



## Rewarded market risks

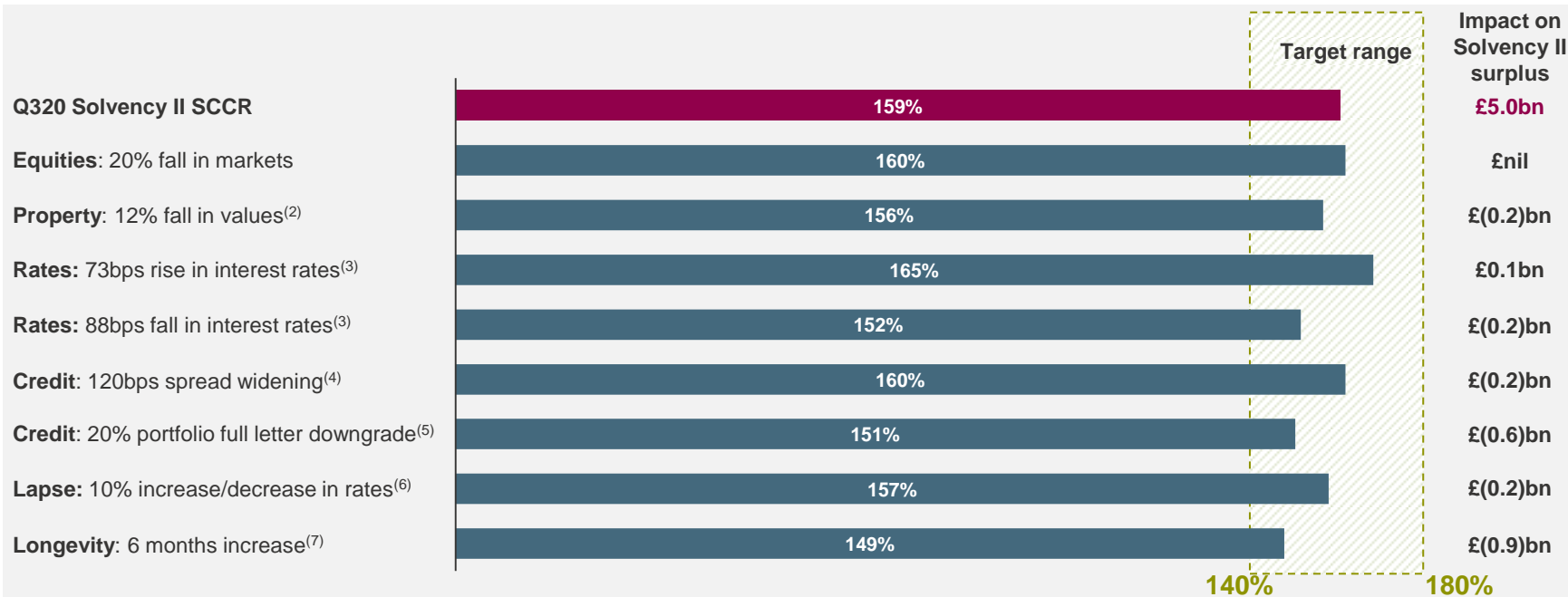
### Risks we see as rewarded :

- Credit spreads
- Credit downgrades/default
- Property

Managed in line with risk appetite through disciplined investment within set risk tolerance limits

This is evidenced in our low sensitivity to risk events

## Combined Group Solvency II Shareholder Capital Coverage Ratio sensitivities<sup>(1)</sup>



See Appendix I for footnotes



# Phoenix hedges 80-90% of the shareholders equity risk exposure

## Shareholder exposure

### With-profit

Indirectly exposed to equity which leads to an increase in shareholder burn-through costs, as equity markets fall

### Unit linked

Indirectly exposed as decline in market erodes value of unit linked funds = reduction in Present Value of Future Profits (VIF)

### Annuities

No material exposure to equities

## Hedging programme

**Objective:** hedge c80-90% of shareholders equity risk:

£4.9bn VIF

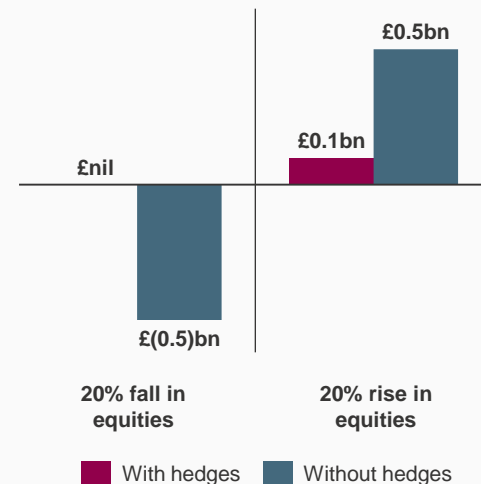
£3.9bn (c80%) hedged

Residual  
Risk

- 3 month – 2 year rolling programme using options, futures and forward contracts matching mix of underlying funds
- Hedging costs not material versus risk reductions

## Hedging 80-90% of risk protects value

### Change in Solvency II Surplus



# We hedge residual shareholder interest rate risk exposure within risk appetite

## Shareholder exposure

### With-profit

Indirectly exposed to low interest rates which lead to an increase in shareholder burn-through costs

### Unit linked

No material exposure to interest rate risk

### Annuities

Directly exposed through investment performance and asset / liability mismatching

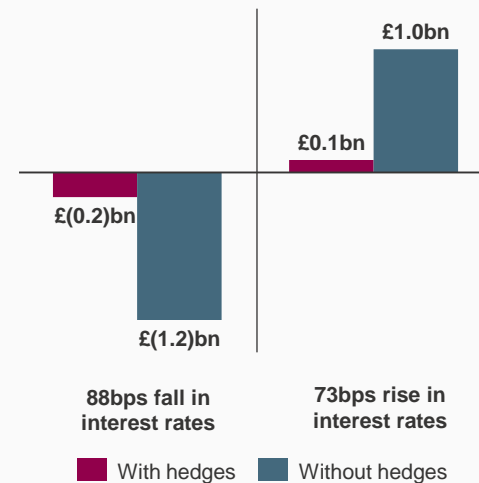
## Hedging programme

**Objective:** reduce the exposure to interest rates on the Solvency II balance sheet. Delivered by:

- Initially through use of cash flow matching in annuity Matching Adjustment funds
- Then through portfolio of swaps and swaptions to reduce the interest rate exposure, including curve risk. Total risk that has been hedged is £13 million, per 1bp movement in interest rates

## Hedging to risk appetite protects value

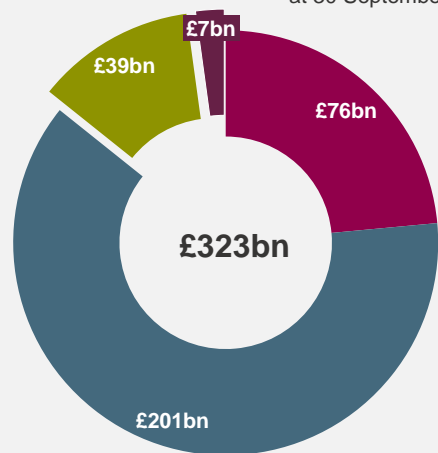
### Change in Solvency II Surplus



## We have a well diversified £46 billion shareholder asset portfolio

### £323 billion asset portfolio

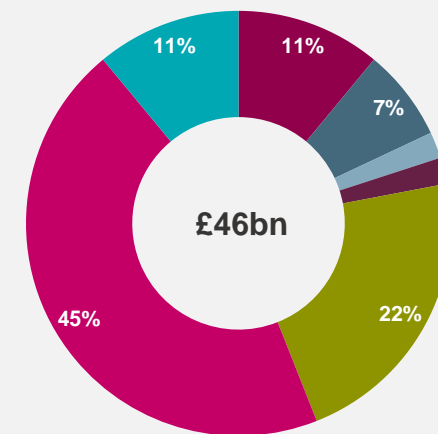
at 30 September 2020



**£46 billion  
shareholder  
portfolio**

### £46 billion shareholder portfolio

at 30 September 2020



**£35 billion  
debt portfolio**

### Key messages

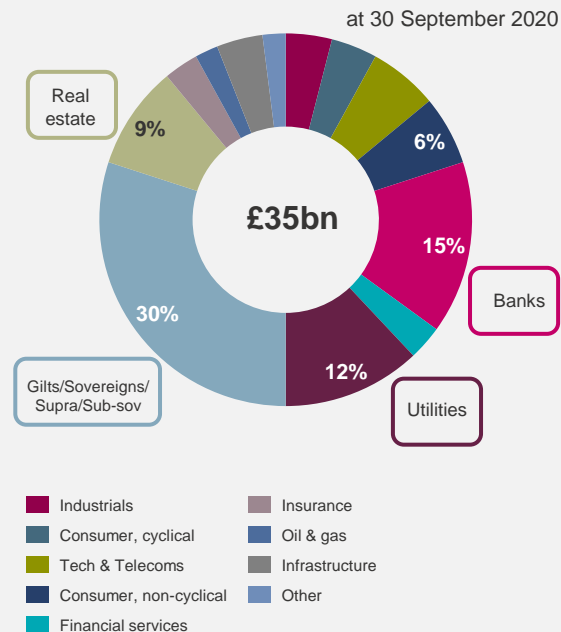
- ✓ Shareholder portfolio includes £39 billion annuity backing assets
- ✓ £9 billion illiquid assets portfolio comprises 24% of annuity backing assets
- ✓ Diversification of shareholder assets in terms of rating, sector and geography
- ✓ Defensive positioning and pro-active management across portfolio
- ✓ Sustainable objectives are fundamental to the investment process

# Our £35 billion debt portfolio is defensively positioned and proactively managed

## Approach to managing risk

- **Dedicated in-house credit expertise** with market leading managers
- **Scenario analysis** to actively monitor movement and exposures for 'at risk' sectors
- **Daily calls** between asset managers and Phoenix Asset Management team
- **Target <20% BBB** to manage non-investment grade downgrade exposure
- **Target to increase investment in US credit in excess of 10%** to balance risk through geographical diversification without compromising on yield return
- **Ongoing management actions** to further de-risk the shareholder portfolio in terms of rating and sector

## Debt portfolio by sector



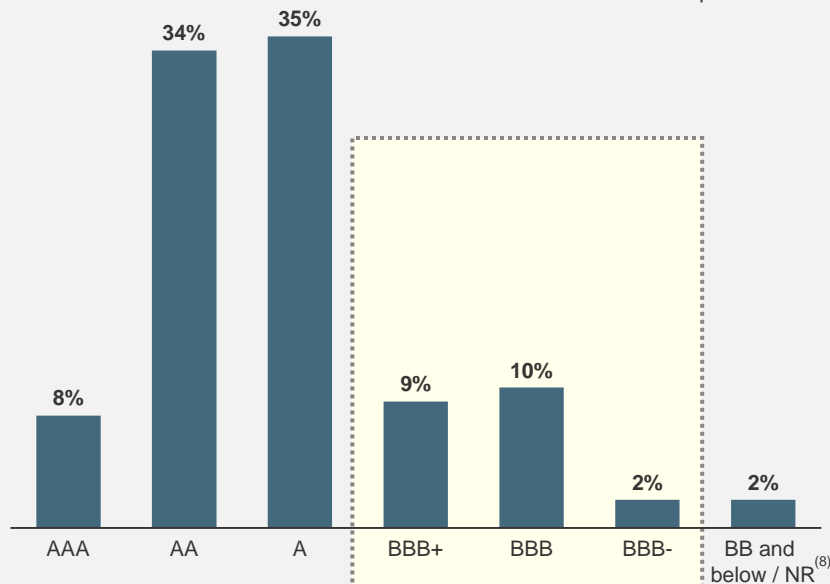
## Key messages

- ✓ Largest exposures are to defensive sectors
- ✓ Minimised exposure to sectors sensitive to COVID-19 impact
- ✓ 1.6% exposure to oil and gas across the debt portfolio
- ✓ 2.2% exposure to airlines, hotel, leisure & traditional retail across the debt portfolio
- ✓ £2.6 billion (8%) of debt portfolio invested in US credit

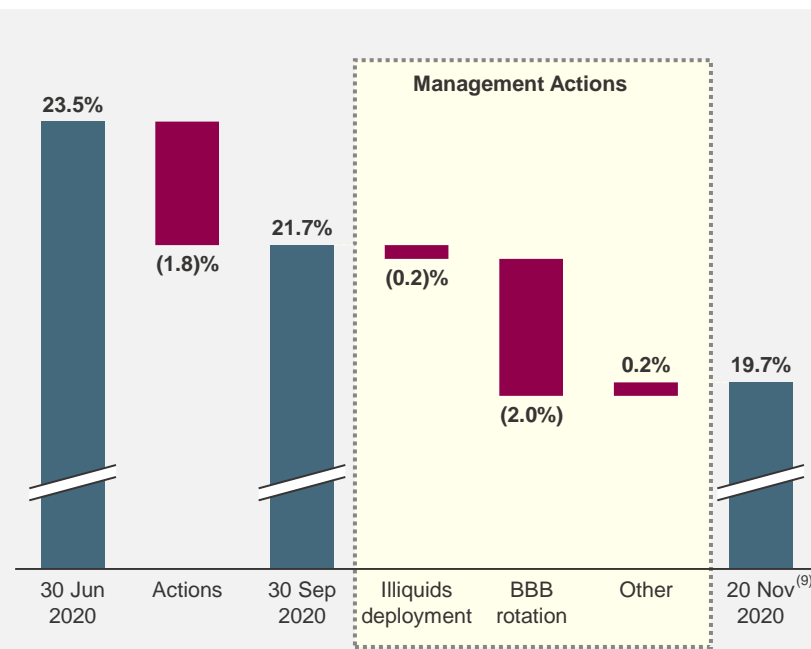
The Group has a high quality debt portfolio and is on track to reduce BBB and below holdings to under 20%

### Rating breakdown

at 30 September 2020

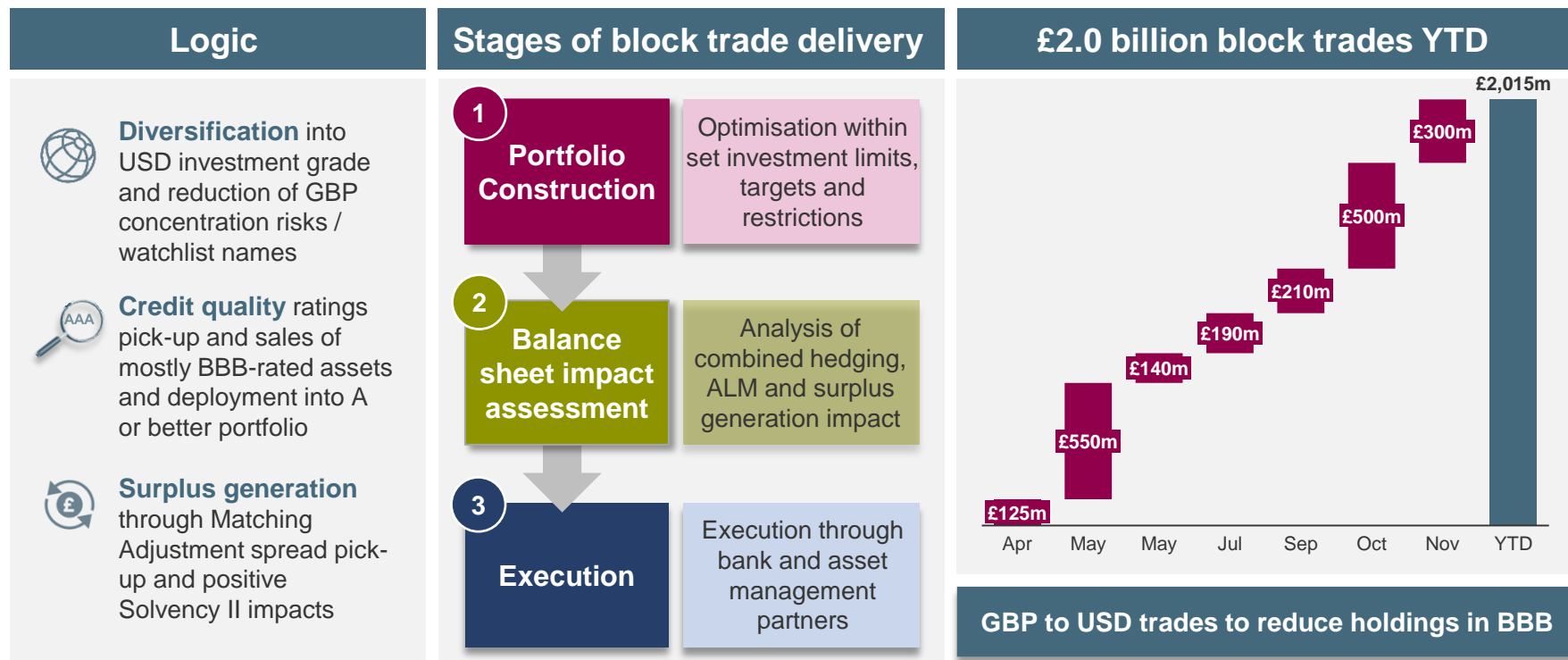


### Active management of BBB and below



See Appendix I for footnotes

# Execution risk reduction through portfolio block trading helps deliver credit portfolio management actions



## Active management of debt portfolio has led to limited downgrade experience

### Average credit rating by sector (Q320 vs HY20)

| Sector                 | Q320        | AA  | A   | BBB | Δ vs HY20 |
|------------------------|-------------|-----|-----|-----|-----------|
| Industrials            | 4%          |     |     | ● ● | ↔         |
| Consumer, Cyclical     | 4%          |     | ● ● |     | ↔         |
| Tech and Telecoms      | 6%          |     | ●   | ●   | ↑         |
| Consumer, Non-cyclical | 6%          |     | ● ● |     | ↔         |
| Banks                  | 15%         |     | ● ● |     | ↔         |
| Financial Services     | 3%          |     | ● ● |     | ↔         |
| Utilities              | 12%         |     |     | ● ● | ↔         |
| Gilts/Supra/Sub-sov    | 30%         | ● ● |     |     | ↔         |
| Real Estate            | 9%          |     | ● ● |     | ↔         |
| Insurance              | 3%          |     | ● ● |     | ↔         |
| Oil and Gas            | 2%          |     | ● ● |     | ↔         |
| Infrastructure         | 4%          |     |     | ● ● | ↔         |
| Other                  | 2%          |     | ● ● |     | ↔         |
| <b>TOTAL</b>           | <b>100%</b> |     |     |     |           |

Key: Q320 ● HY20 ●

### Key messages

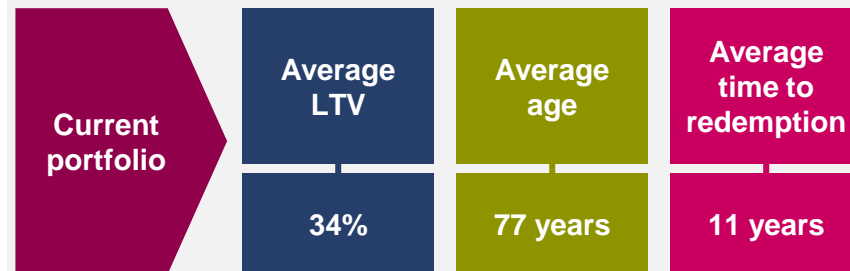
- ✓ Proactive rotation out of assets on ASI downgrade forecast and internal Watchlist
- ✓ Only £1.6 billion (4.5%) of bonds in the debt portfolio subject to a letter rating downgrade
- ✓ Only £148 million (0.4%) of bonds in the debt portfolio downgraded to sub-investment grade
- ✓ 99.3% of cash flows paid on illiquid bonds and 99.99% paid on liquid bonds
- ✓ No defaults in liquid portfolio. There has been one default of a Retail asset in illiquid portfolio – value £37 million

# To manage property risk, we maintain a highly resilient and well diversified Equity Release Mortgage portfolio

## Managing property risk

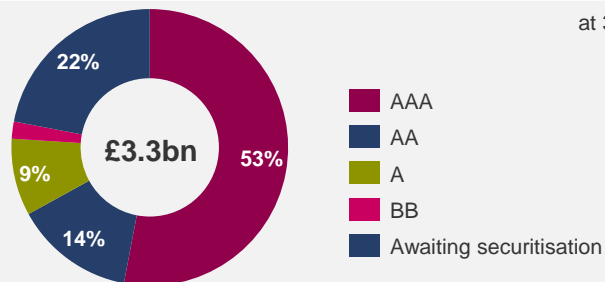
- ✓ Clearly defined risk appetite parameters
- ✓ Selective approach in origination to meet hurdle criteria on rating, duration and diversification
- ✓ Ongoing regular monitoring including stress and scenario testing

## Key portfolio statistics



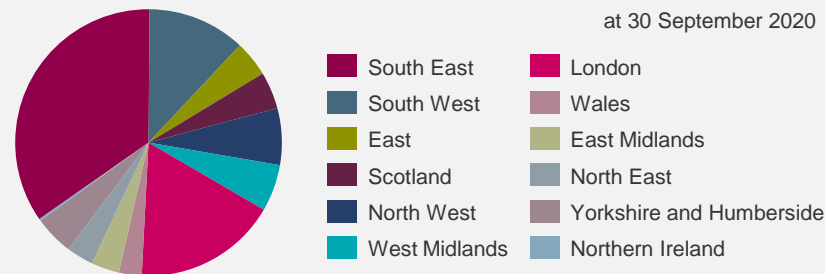
## Credit rating determined through securitisation

at 30 September 2020



## Regional distribution

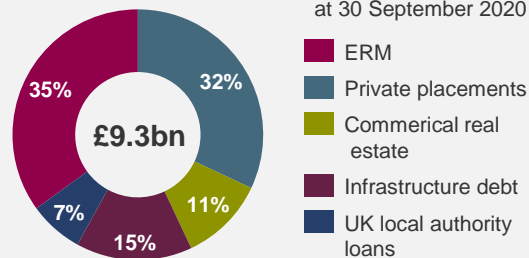
at 30 September 2020



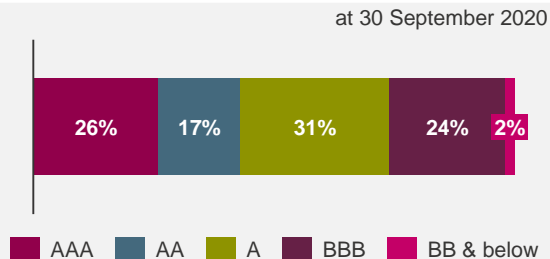


# Our high quality £9.3 billion illiquid portfolio is well diversified

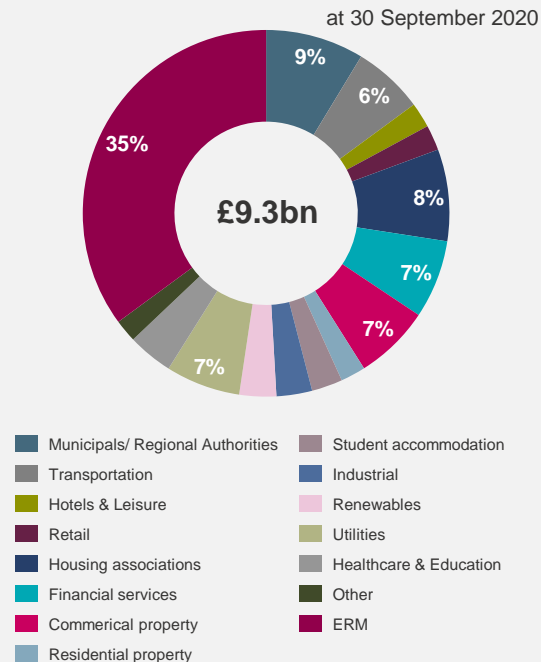
## Asset type



## Credit quality



## Sub sector split



## Illiquid asset strategy

Target SAA of 40% illiquid assets in annuity backing asset portfolio – currently at 24%

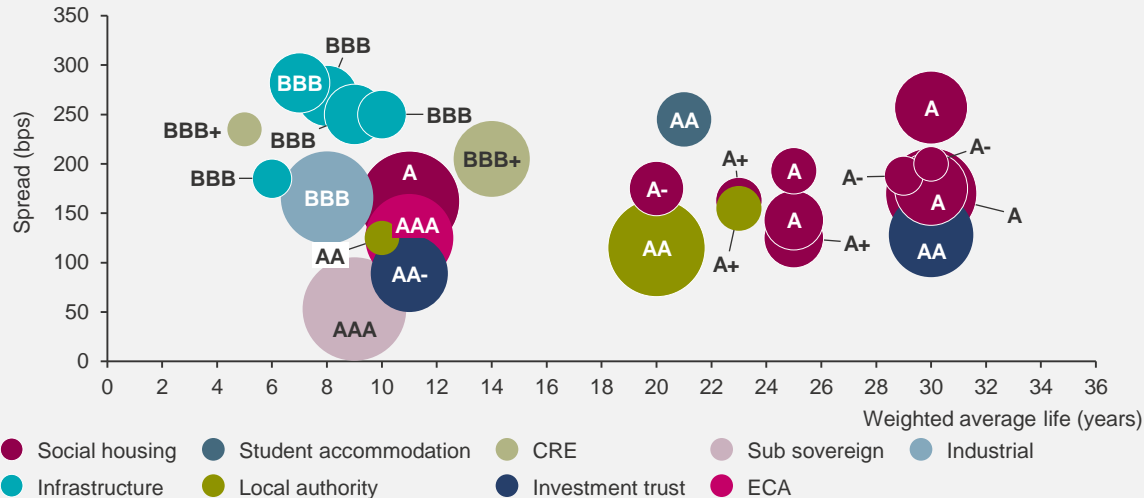
Target of £3 billion of illiquid asset origination per annum

Expansion of investment strategies across new assets and geographies

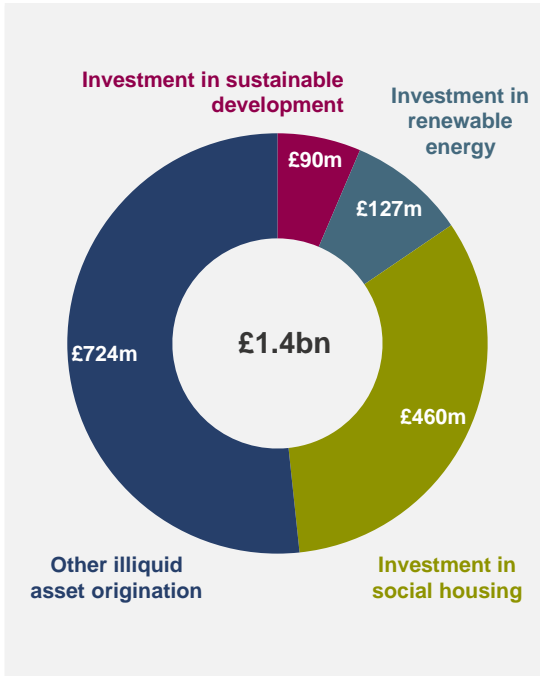
Fully integrated sustainability objectives including supporting Building Britain Back Better

## 2020 origination delivers diversified assets of appropriate tenor and credit quality

### Origination focused on longer maturities at attractive spreads



### 50% of origination in ESG assets



Key statistics:

£1.4 billion  
originated YTD

£0.1 billion  
Solvency II  
benefit

Average credit  
rating of A

# Illiquid asset origination helping to Build Britain Back Better

## Project Albion – Renewable Energy



AlbionCapital



### What

Albion is a diversified portfolio of renewable assets across onshore wind, hydro and solar

### Where

All the assets are UK based, spread across England, Scotland, Wales and Northern Ireland

### Structure

Albion is owned by Albion Capital Group LLP, an independent investment manager, with a focus on developing green energy projects across the UK

## Project TunTum – Social housing



### What

TunTum is a community-based housing association, founded in 1988 with a BAME focus


### Where

Based in the East-Midlands, with c. 1400 homes providing affordable housing to over 3000 people

### Structure

TunTum is independently led. Founders and staff are community activists and professionals, motivated to create social and economic opportunities

## Key messages

- 
- Phoenix is building a best in class asset management team, leveraging a global network of asset management partners with ASI as our strategic partner
  - Sustainable investing is integral to our strategy and we commit to net-zero carbon by 2050
  - We deliver resilience by hedging shareholder equity and interest rate risk
  - We have a well diversified, actively managed, high quality credit portfolio
  - Illiquid asset origination supports the growth of BPA and drives capital efficiency

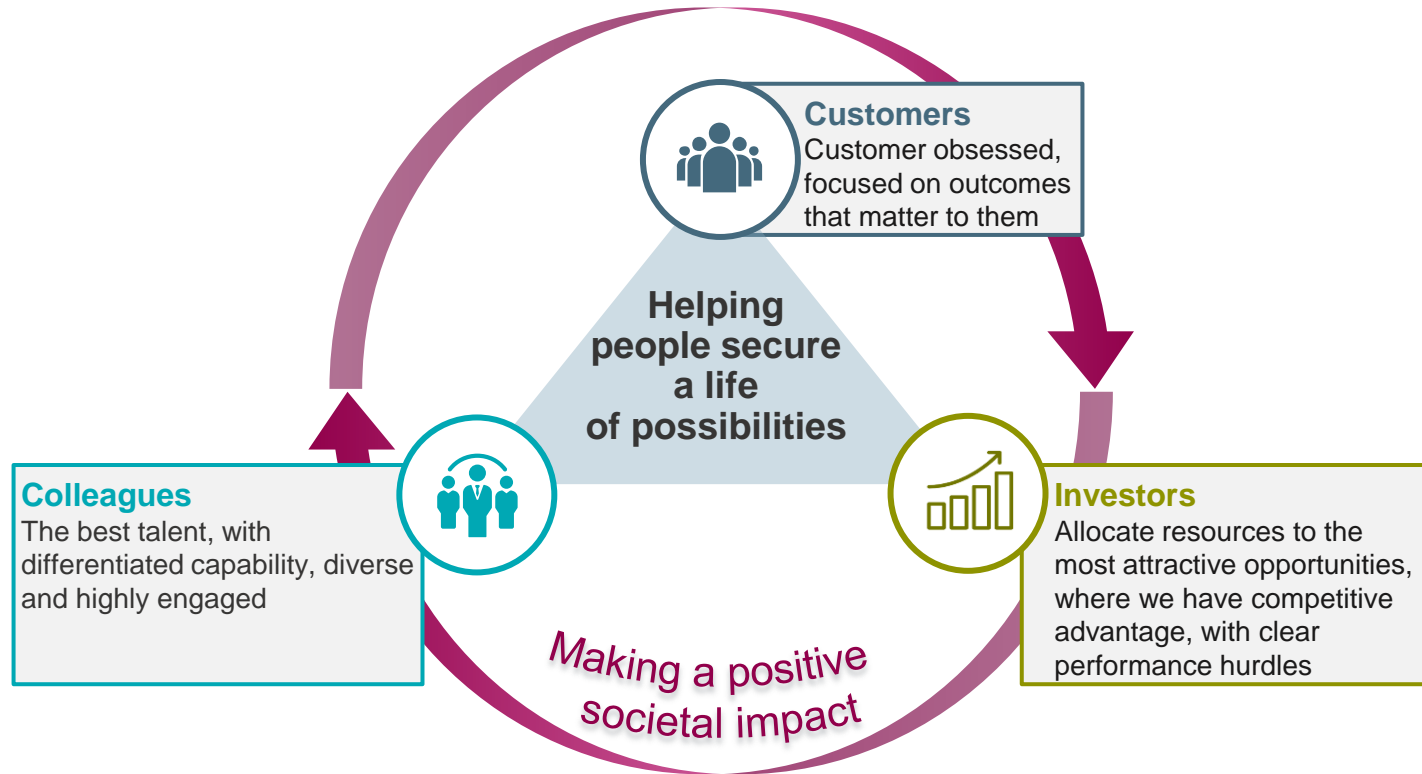
## Appendix I: Footnotes

- (1) Sensitivity assumes stress occurs on Day 1 and that there is no market recovery
- (2) Property stress represents an overall average fall in property values of 12%
- (3) Assumes the impact of a dynamic recalculation of transitionals and an element of dynamic hedging which is performed on a continuous basis to minimise exposure to the interaction of rates with other correlated risks including longevity
- (4) Credit stress varies by rating and term and is equivalent to an average 120bps spread widening (full range of spread widening is 49bps to 204bps). It assumes the impact of a dynamic recalculation of transitionals and makes no allowance for the cost of defaults/downgrades
- (5) Impact of an immediate full letter downgrade across 20% of the shareholder exposure to the bond portfolio (e.g. from AAA to AA, AA to A, etc). This sensitivity assumes no management actions are taken to rebalance the annuity portfolio back to the original average credit rating and makes no allowance for the spread widening which would be associated with a downgrade.
- (6) Assumes most onerous impact of a 10% increase/decrease in lapse rates across different product groups
- (7) Applied to the annuity portfolio
- (8) Includes £132 million BB and below and £333 million non-rated assets
- (9) Estimated position as at 20 November 2020

# Agenda: Phoenix Group Capital Markets Day 2020

|                |                     |   |
|----------------|---------------------|---|
| 1<br>Overview  | Introduction        | Nicholas Lyons - Chairman   |
|                | Strategy            | Andy Briggs - Group Chief Executive Officer                             |
|                | Financial framework | Rakesh Thakrar - Group Chief Financial Officer                          |
| 2<br>Deep dive | Sustainability      | Claire Hawkins - Director of Corporate Affairs & Investor Relations     |
|                | Heritage business   | Andy Moss - Heritage Chief Executive Officer                            |
|                | Open business       | Andy Curran - Chief Executive Officer, Savings & Retirement UK & Europe |
|                | Asset Management    | Mike Eakins - Chief Investment Officer                                  |
| 3<br>Wrap up   | Summary             | <b>Andy Briggs - Group Chief Executive Officer</b>                      |
|                | Q&A                 | Panel   |

# Phoenix has a clear role to play in society - Helping people secure a life of possibilities



# Phoenix has a clear strategy that leverages our leading share of in-force, and the major market trends

## Optimise in-force business

We manage our in force business to deliver **resilient cash generation** and management actions, including cost and capital synergies

## Deepen customer relationships

By **engaging** with our customers and meeting their broader needs, we will **retain** our customers and they will **consolidate** towards us as they journey to and through retirement

## Customer acquisition

**Acquire customers** and **grow our in-force business** by leveraging the industry drivers of change

### HERITAGE



Market leader

Bedrock of our business

### OPEN



Strong foundation

Unique advantages from operating alongside Heritage

### M&A & INTEGRATION



Market leader

Differentiated capabilities

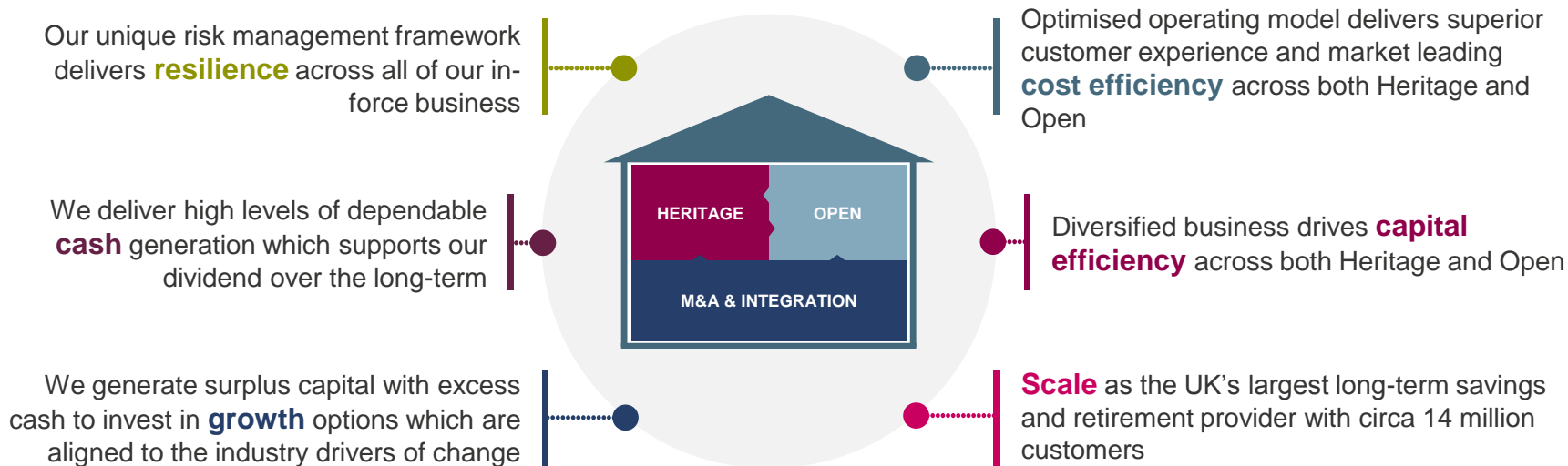
...our strategy delivers **cash**, **resilience** and **growth**.



# Phoenix is a sustainable and growing business, helping people secure a life of possibilities

Phoenix's strategy delivers unique advantages...

... and the whole is greater than the sum of the parts



## Disclaimer and other information

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