Phoenix

17 March 2025

Full year 2024 results presentation transcript

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Executing on our 3-year strategy

Andy Briggs, Group Chief Executive Officer

Thank you, Clair, and good morning everyone and welcome. Thank you for those who've joined in the room and also to those who've joined us on the webcam.

It gives me great pleasure to be sharing Phoenix Group's 2024 full year results with you today. I'm joined on stage by Nic Nicandrou, our new Group CFO who started back in December. Like myself, Nic has worked in the industry for over 30 years, and I'm delighted to have a CFO of his calibre working alongside me.

Looking at today's agenda, I'll start with a summary of the progress we've made one year into the 3-year strategy we announced last March. I'll hand over to Nic to take you through the 2024 financial performance and then I will close with an overview of our priorities across 2025 and 2026.

2024 has been a year of strong financial performance. This performance, along with our increasing confidence, has driven an upgrade to a number of the targets we set back in March across our financial framework of cash, capital and earnings.

From a cash perspective, we've outperformed in our key metric Operating Cash Generation or 'OCG' and achieved our 2026 target of £1.4bn two years early. And supporting total cash generation of £1.8bn. This over delivery of OCG and outlook has driven an upgrade to our 3-year 2024 to 2026 total cash generation target from £4.4bn to £5.1bn. I will talk more about the importance of OCG shortly.

In terms of capital, we're reaffirming our targets. Solvency Capital Coverage Ratio of 172% is in the top half of our target operating range and an improvement on the half year.

We remain firmly committed to achieving a 30% target leverage ratio by 2026 and I'm disappointed that it has remained flat at 36% this year, despite repaying debt, because Own Funds has been lower than I would have liked. Going forward, delivering Own Funds growth is a critical focus for us. Also, the increased cash target means we now have substantial excess cash which creates the capacity to pay down debt. Deleveraging is a key priority of the Group over the next two years and Nic will outline our plans there.

Recognising the importance of IFRS earnings to investors, we've added earnings to our financial framework last year. It was pleasing to see a 31% year-on-year increase in IFRS adjusted operating profit to £825m.

Combined with our confidence in achieving our £250m cost saving target, this has driven the increase to our 2026 target from £900m to £1.1bn. This is a key milestone for the Group and since £1.1bn of operating profit exceeds recurring uses on an IFRS basis, it will support getting upward trajectory on shareholders' equity.

The strong financial performance we're delivering as we execute our strategy supports our progressive and sustainable dividend policy and the Board has recommended a 2.6% increase in the Final dividend.

There are many ways to look at the financials of a life insurer, but we believe Operating Cash Generation is the most important because it's the sustainable surplus generation in the Life Operating Companies that's also remitted as dividends up to the HoldCo. Hence it's the primary driver of shareholder dividends.

The 22% year-on-year increase in OCG reflects not only the growth in our Pensions and Savings and Retirement Solutions businesses but also a step up in contribution from the Phoenix Asset Management team.

There are three key messages here. The first is that our dividend is well covered and very secure, all the more so as we hedge the major financial risks to protect cash generation and hence the dividend.

Second is that at £1.4bn, OCG generates £300m of excess cash per annum to deploy in accordance with our capital allocation framework. Our immediate focus for this excess cash will be deleveraging to achieve our 30% leverage ratio target.

And the third is that the growth in our underlying businesses means we now expect OCG to grow at mid-single digits going forwards.

With free cash of over £800m generated, Phoenix is currently trading, or was when we opened this morning, trading at a 17% free cash flow yield, which highlights the value opportunity.

Our vision is to become the UK's leading retirement savings and income business, serving customers at all stages of their life cycle from 18 plus to 80 plus. Our Pensions and Savings and Retirement Solutions businesses are focused on meeting customer needs as they save for, transition to, and secure income in retirement, with innovative retirement income solutions at our core.

To win in these markets, we need to offer a compelling customer experience. That means offering a full range of retirement savings and income solutions through a slick digital interface with a range of fund investment options, supported by excellent customer service, and which is sold at a competitive price that is enabled by an efficient Group-wide operating model. And this will be delivered through our strategic priorities of Grow, Optimise, and Enhance.

We are passionate about our purpose of helping people secure a life of possibilities. We continue to advocate for the change that will help our customers achieve the financial future they expect, as only 1 in 7 UK adults are saving enough and only 10% are getting advice.

Our market is huge, structurally growing, and each segment represents an opportunity for Phoenix to succeed in different ways. Starting on the left-hand side, the Workplace pensions market is growing rapidly, driven by auto-enrolment, and is our primary customer acquisition vehicle.

We've built a leading proposition and are poised to be a winner from the move to Master Trust schemes and from the Government's plans to drive consolidation to superfunds in this market.

We often talk about Workplace as a 'flywheel business', where scale is critical to driving operating leverage. So our strategy in this market is simple - to retain existing schemes and win new schemes, and hence maintain our Top 3 position as this market grows rapidly.

Moving to Retail, this market is split between direct and intermediated channels. As the responsibility for retirement planning has shifted towards individuals, people are seeking an increasingly broad range of innovative retirement savings and income products. With only 1 in 10 people paying for financial advice, we think the introduction of targeted support could be a game-changer and will stimulate the Retail direct market further.

We're investing here to move from being a Top 10 to a Top 5 player, by better supporting and engaging the 1 in 5 adults who are already Phoenix Group customers as they make retirement decisions to stay and consolidate with us. And to attract new customers through intermediaries by building out innovative propositions that better help them meet their clients' needs.

Lastly, in annuities, we've seen higher interest rates drive resurgence in the individual annuity market, as well as the continuation of a strong Bulk Purchase Annuity market. We've been a Top 5 participant in the BPA market over recent years, and I'm also particularly pleased that Tom Ground and his team have rapidly built a 12% share of the individual annuity market, having only just re-entered in 2023. We continue to be disciplined in the deployment of capital annuities alongside developing propositions suited to customer needs.

So let me take you through our divisions. Our Pensions and Savings propositions help customers journey to and through retirement. This is our capital-light, fee-based business where growing assets and expanding operating margins are key to strong financial performance.

Our Workplace business delivered net inflows of £5.3bn in 2024, 13% higher than prior year, as we are successfully executing our strategy of retaining existing schemes and winning new schemes. The success is driven by the leading employer proposition we've built under the trusted Standard Life brand with our strong Master Trust offering, and the sustainable fund solutions with the FCA's new Sustainability labelling. And the strength of our proposition is consistently recognised by independent industry awards.

We are passionate about providing excellent customer service and offering a leading digital interface that enables members to track and engage with their pensions and promotes financial wellness. Finally, we offer competitive pricing underpinned by our ongoing migrations to a cost efficient admin platform.

In Retail, new business retail flows are up 60% year-on-year, but we have more to do to really capture the opportunity here. Standard Life is a brand that has been trusted to look after people's savings and retirement needs for 200 years and resonates strongly with the 1 in 5 people who are already Phoenix Group customers. Retaining customers is an important focus for our business, and we are exploring personalised engagement. Still in early days, but testing indicates this is creating improved retention and consolidation.

Customer needs are changing, and I'm delighted that we are innovating in response, through both the launch of new products, like the Standard Life Smooth Managed Fund, and through the launch of new fund solutions, like Future Growth Capital, our new private markets investment management joint venture.

And key to success in these markets is a great digital experience, creating tools to help customers plan for and manage retirement income. For example, partnering with Raindrop to support customers consolidating lost pensions.

The progress of this business has translated into really strong financial performance in 2024. This is a simple business that we run on an IFRS basis. We make money by growing assets, up 11% year on year, and driving cost discipline, leading to margin expansion up 5 basis points to 17 basis points, which in turn drives 66% growth in operating profit to £316m.

I'm delighted with the progress Colin Williams and his team are making here. And with strong market growth, increasing our share of Retail, and further cost reductions, there is much more to come.

I've been suffering with a cough for a while. A sip of water, if you don't mind.

Our Retirement Solutions businesses help customers secure income certainty in retirement. This is a capital utilising spread based business. We maintain a disciplined deployment of capital in this business to preserve a diversified balance sheet and limit shareholder credit risk.

We're winning BPAs through our excellent member experience. Our digital self-service allows customers to understand their annuity position online, real-time, and is supported by other communication channels with a focus on clarity of customer messaging.

Our success in this market is also driven by the leading employer proposition we've built, with comprehensive buy-in and buy-out capabilities available.

Finally, we're able to offer competitive pricing driven by our asset management and balance sheet optimisation capabilities, and an expanding panel of reinsurance partnerships.

In individual annuities, fast guaranteed pricing is a differentiator as well as timely execution. I'm particularly proud that we launched our new digital quote capability this year, where over 90% of our quotations are underwritten and returned within seconds. We've also expanded our product range, including the Standard Life Guaranteed Fixed-Term Income product, and underpin our offering with a great digital experience for annuity customers.

This business has also performed well this year, writing similar volumes of business year-on-year despite a one-third reduction in capital. This is due to the improvement in the annuity capital strain to 3%.

Under IFRS, we recognise a future store of profits on insurance business called the Contractual Service Margin, and it was pleasing to see this grow 14% in the year. The higher releases of CSM into profit contributed to the 25% year on increase - year-on-year increase - in operating profit.

Over the last four years, we've invested in building strong in-house expertise in Phoenix Asset Management to deliver better outcomes for customers and enhanced risk-adjusted returns. We see this value creation emerge in cash and capital as recurring management actions.

We've put significant investment into our people capabilities under Mike Eakins' leadership, expanding the team from less than 50 colleagues in 2020 to over 400 today, from investment professionals to credit risk experts.

The in-house team drive all strategic asset allocation decisions and select best-in-class partners to work with in each asset class, with Aberdeen, of course, remaining our key strategic growth partner. Our investment in capabilities mean that our in-house team is now managing increasing parts of the shareholder fixed income portfolio.

On top of the talent we've developed, we've invested in leading-edge technology using platforms such as Aladdin and AWS, which support our robust credit risk management framework.

So how does this benefit our business units? For Pensions and Savings, it enables us to develop new products, get better customer returns by accessing pockets of value in specialisms such as private assets, and deliver fund efficiencies by negotiating – by negotiating asset management agreements.

For Retirement Solutions, it allows us to directly source annuity-backing assets and broaden the investable universe, enabling us to price BPA portfolios more dynamically and competitively in the market. These actions allow us to continually re-optimise the portfolio within the matching adjustment rules and deliver recurring management actions.

Scaling these capabilities and achieving £0.5bn of recurring management actions this year has given us the confidence that this type of activity is replicable year in, year out. As firstly, the team is set up with both the technology and expertise to deliver. And secondly, the portfolio will grow as we continue to win business.

Last March, I set out clear strategic priorities that will enable us to deliver our vision of becoming the UK's leading retirement savings and income business. We're only one year into our 3-year strategic journey to build a sustainably growing business. You will have seen that in 2024, we delivered excellent growth in profits in both Pensions and Savings and Retirement Solutions. We've upgraded or reaffirmed our financial targets across our financial framework of cash, capital, and earnings.

The target upgrades are a key unlock to further strengthen the balance sheet in two ways as we grow. Firstly, the upgraded OCG creates substantial excess cash, providing financial flexibility to reach our 30% leverage ratio target by 2026. Secondly, the upgraded IFRS operating profit target demonstrates a path to deliver profit in excess of recurring uses and support future growth in shareholders' equity.

Delivering on our strategy supports strong shareholder returns, enabled by a progressive and sustainable dividend policy, which is well covered and secure.

And with that, I'll hand over to Nic who will cover some of his initial reflections and then talk in more detail about the financial performance. Nic.

Delivering on our financial framework

Nicolaos Nicandrou, Group Chief Financial Officer

Thank you, Andy. Okay, thank you Andy. Good morning everyone. And let me start by saying how pleased I am to be in the seat of CFO here at Phoenix and to be presenting the Group's 2024 full year results.

As Andy mentioned I would like to share my initial views on the business, starting by how good a job he and the team have done in strategically and operationally pivoting Phoenix from a closed-book consolidator into an open-book player.

The business has developed real strengths in Workplace and Annuities, both of which are market segments with a phenomenal growth runway. These strengths are transferable to Retail and can be deployed to help many of our 12 million customers journey to and through retirement.

On the flip side, the balance sheet pivot has lagged the strategic pivot. As we stand here today, Phoenix is highly leveraged and is only now getting into a position where its recurring sources of funds exceed recurring uses.

Finally, our business does not screen well under IFRS 17, due in part to the intricacies of the new accounting rules, which in combination with the hedging strategy mean that the reported IFRS shareholders' equity underplays the intrinsic value of the business.

The best way of addressing these challenges is through repeatable operational delivery. By growing the recurring flow of capital year after year we will improve the quality and, in time, the quantity of the stock of our capital. To this end, it is great to see the step up in operating performance in 2024, which creates the momentum needed to address the balance sheet picture, starting with leverage.

So this is an exciting time to be joining Phoenix, and I can see many ways in which I can bring my experience to bear.

Starting with the financial highlights, in 2024 Phoenix grew Operating Cash Generation by 22% to £1.4bn; delivered total cash generation ahead of guidance at £1.8bn; closed the year with a Shareholder Solvency Cover Ratio in the top half of our operating range at 172%; and increased IFRS adjusted operating profit by 31% to £825m.

Conversely, the Solvency leverage ratio proved harder to shift, remaining unchanged at 36%. IFRS loss after tax was £1.1bn, and I will come back to this later. But the impact of this loss on IFRS equity was cushioned by the strong growth in CSM, up 14%, to deliver IFRS adjusted shareholders' equity of £3.7bn.

The strong cash, capital and operating performance of the Group led the Board to recommend a 2.6% increase in the Final dividend to 27.35p per share.

Our confidence in sustaining this higher level of performance going forward has led us to upgrade the cumulative total cash generation target from £4.4bn to £5.1bn, and the 2026 IFRS operating profit target from £0.9bn to £1.1bn. The remaining targets are unchanged.

As Andy has already outlined, delivering these upgraded targets would create further financial capacity, which allows us to undertake the deleveraging needed to hit our 30% goal while continuing to support a growing dividend.

The greatest step up in operational performance has come through Operating Cash Generation, which represents the recurring solvency surplus generated by our Life Companies in excess of our Capital Management Policy set at 135% of SCR.

OCG grew 22% year-on-year, supported by two factors. Firstly, new business growth and cost efficiencies, which have more than offset the natural run-off of our in-force business. And secondly, the higher contribution from recurring management actions at £537m ahead of our £400m target and the £313m posted in the prior year. The outperformance here is attributed to the in-house asset management capabilities coming on stream faster than plan.

I will provide you with more colour on recurring management actions on the next slide, but before doing so I would like to make two further points.

The first is that the capabilities that have underpinned this result, being our strong performance focus and cost discipline, are now firmly in place and this reinforces our confidence that OCG can grow at a mid-single digit percentage rate going forward. The second is that in 2025, we will provide you with analysis of OCG components by business. By way of an early look, I share on this slide the indicative contribution to OCG from our two largest businesses.

Approximately £0.85bn comes from Retirement Solutions. The size of the contribution here reflects the capital intensity of this business, with large cash releases each year supported by recurring management actions. Of the balance, approximately £0.35bn comes from Pensions and Savings, lower in size due to the capital-light nature of this business. The OCG contribution here will increase as the asset base grows and as the planned cost savings are delivered.

There are three sources of recurring management actions as set out on this slide, being annuity portfolio re-optimisation, capital improvements and fund simplification. While the respective contribution from each component will vary year-on-year, we are confident that in aggregate, recurring management actions will continue to be of this order of magnitude going forward.

The largest contribution relates to portfolio re-optimisation on assets backing the Retirement Solutions annuity book, and this is where we saw the greatest year-on-year increase. A key element here is sourcing assets with higher yields than those assumed in the pricing, of our £6bn annual new annuity flows, alongside delivering value from re-optimisation of the annuity back-book. These actions unlock value without taking more risk, always ensuring that assets and liabilities are cash flow and duration matched.

Examples include credit relative trades, where we can lock into an improved risk-adjusted spread; public credit to gilt rotation and vice versa, allowing us to take advantage of the risk reward balance at any given time; and restructuring of private credit.

Within the matching adjustment requirements, these individual actions are not of any significance and represent the summation of a steady flow of small actions to tweak the portfolio, which allow us to recognise incremental gains while always staying cash flow and duration matched.

For example in 2024, there was an average of 50 or so actions per week, up from the 2023 levels, in sync with the build-out of our capabilities. Some actions simply capture additional profit, others allow us to increase the risk-adjusted yield on our assets and capitalise this into lower liability values.

By way of illustration, delivering £323m of OCG is equivalent to a yield pick-up of around 70 – sorry - of around 7 basis points on our £40bn annuity portfolio, with a 12.5 average liability duration – a 12.5-year average liability duration. So you can see that only small impacts on yield can result in meaningful contribution to management actions.

The second component is capital improvements, which represents a long-standing Phoenix capability of extracting recurring value from model and data improvements, primarily on a capital-heavy business. This delivered £92m of value in 2024, a similar level to the previous year.

The third component relates to fund simplification, and this is another way in which the Asset Management team supports OCG, with Pension and Savings the main benefactor. We interact with over 20 external asset managers, paying a total of £300m of fees annually, under 60 IMAs that are typically negotiated on 3-year cycles, covering 5,500 funds. With two IMAs renegotiated and 250 funds rationalised in 2024, we secured a £12m post-tax annual fee saving, generating the capitalised effect shown. With further fund rationalisation in train, we're confident that there are several years of opportunity ahead.

At £1.4bn, our Operating Cash Generation now comfortably exceeds our recurring uses of dividend, debt interest and operating costs, as well as the £200m annual capital allocation to annuities. The £300m annual excess cash is available to deploy in line with our capital allocation framework, with a focus on deleveraging. More on this shortly.

Moving to total cash generation, you can see on the left the £1.8bn remitted by our Life Companies in 2024. In addition to the OCG, these include - this includes - £0.4bn of non-Operating Cash Generation, representing non-recurring management actions and the remittance of a small component of Life Company surplus stock.

On the right of the slide, we move from looking at the 1-year TCG picture to the 3-year picture covered by our targets. The OCG step-up achieved in 2024 and our confidence in growing it from here has led us to upgrade the cumulative 3-year TCG target to £5.1bn, comprising an increased operating component of £4.4bn and an unchanged non-operating component of £0.7bn.

With the upgraded £5.1bn representing our expected sources of cash, this next slide illustrates the expected uses of this cash over the 3-year period covered by our targets. Working across the slide, you can see on the left that the £0.7bn non-Operating Cash Generation is intended to fund the £0.7bn total non-operating investment in our strategic priorities.

As you move to the middle of the slide, you see how the cumulative OCG component of £4.4bn is expected to cover cumulative recurring uses, being the £2.7bn for dividend, operating costs and debt interest, and the £0.6bn for annuity new business capital.

Over this 3-year period, we now expect to generate around £1.1bn of excess cash shown on the right. In 2024, some £250m of this excess has been used to retire debt. The remaining £850m represents excess cash capacity, available to be deployed in line with our capital allocation framework, with a focus on deleveraging.

I now want to turn to capital and cover the solvency surplus walk depicted in the chart, with the corresponding Own Fund and SCR components shown in the table below the chart.

I would draw your attention to the items grouped on the left of the chart, being the net recurring capital generation post-dividend of £0.2bn, equivalent to five points of coverage ratio, and the items grouped in the table below being the recurring Own Funds generation of £0.3bn. These recurring amounts are at higher levels than in previous years, demonstrating the step-up in operating performance that I referenced earlier.

Moving to the right-hand side of the walk, the grouped non-recurring components represented a net drag in 2024 on both surplus and Own Funds. This drag will diminish going forward, with non-recurring management actions expected to offset the remaining investment spend over the next two years.

We close 2024 with a capital coverage ratio of 172%. The £200m debt repayment made in February 2025 has a minus 4% pro-forma impact on the coverage ratio.

As a reminder, our leverage ratio represents debt divided by Solvency II Regulatory Own Funds. At end 2024, this ratio stood at 36%, flat year-on-year, despite the £250m debt repayment. This reflects two offsetting effects which you can see in the chart. The first being a 2% benefit from retiring this debt, and the second being an equivalent 2% drag from the decline observed in both the Shareholders' Own Funds covered in the previous slide and the decline in With-Profit funds due to the gradual run-off of the book.

In the rest of the chart, I set out an illustrative path to achieving the target, factoring the various moving parts. The expected £850m excess cash I covered earlier provides us with ample capacity to pay down debt. The drivers of the denominator, in other words, the drivers of Own Funds are illustrated next in the chart. Delivering £0.3bn annual recurring Shareholder Own Funds generation will reduce the ratio by 2% and we expect the Own Funds generated by non-recurring management actions to offset the remaining investment spent. The With-Profits Own Fund run-off will continue to provide a small drag to the denominator.

I would add that the path to 30% will not be linear, as we will need to refinance part of the circa £1bn debt instruments that fall due in 2025 and 2026.

Finally, as you would expect, we have modelled in our plans the interplay between debt reduction and the shareholders' solvency surplus and are confident that we can deliver the 30% target while remaining in the top half of our solvency cover range.

Let me now spend a few minutes on the objectives and importance of our hedging programme, and I will cover later the known consequences on IFRS. In our business, we carry many market risks which we regard as unrewarded, risks like interest rates, inflation, currency and equity. In downside scenarios, these risks depress both solvency surplus and cash generation. Alongside many of our peers we hedge these risks, with equities and rates being the most significant given our business mix.

When it comes to hedging interest rate risk, the key question is one of reference benchmark. Phoenix has opted to hedge liabilities and SCR, using swaps to lengthen asset duration so as to match the 1 in 200 liability duration. While the approach is both common and logical, in my view, the reference benchmark should have been managed more dynamically as rates moved up. And this is something that we can improve on going forward.

Today, Phoenix hedges around 80% of the equity exposure in Own Funds and SCR through futures and other instruments. Having spent time looking at this aspect of the hedging, I'm comfortable with the approach that Phoenix has taken.

My assessment is that while it is appropriate to hedge the equity risk of the closed book of business in run-off, we should not give up the benefit that comes from the growth in equity values that relates to the open book of new business. So I view the 80% equity risk hedge coverage as broadly representing the proportion attributable to the run-off book, and expect this percentage to naturally drift downwards as the respective weight of the closed book declines.

By hedging these risks, Phoenix protects both the solvency surplus and the annual cash generation. The sensitivities shown in the middle of the slide demonstrate how solvency surplus is cushioned against market movements, proving that the hedging is serving its intended purpose.

The pie chart on the right shows the breakdown of our undiversified SCR, which incorporates the protection offered by the hedging programme for unrewarded risks. These risk categories account for a relatively small percentage of our overall risk capital. While by hedging we forego the upside, the downward protection afforded is of paramount importance to us, as it provides certainty of cash which in turn secures dividend payments.

My summary assessment is that what we do here is logical and I'm comfortable with the role that hedging plays in our financial framework. Aspects of the hedging can be tweaked as the business and markets evolve, and this is something that we will look at going forward.

As regards the unhedged components of our SCR, I see multiple levers to improve efficiency, some of which can be executed relatively quickly while others will take longer.

Turning next to earnings, our performance step-up is also evident in the IFRS operating profit metric, which is 31% higher at £825m. Both of our key businesses reported healthy increases, with Pensions and Savings result supported by growth in AUA and operating leverage, while the Retirement Solutions result improved due to higher CSM releases from strong new business flows and higher value added by asset management.

Our cost efficiency programme is bearing fruit with £63m run-rate savings delivered in 2024.

One point to note is that we have included new disclosures in our appendix slides which show the IFRS adjusted operating profit drivers of our two main businesses.

Turning to costs, having spent time reviewing the cost savings programme, I am content that the £250m run-rate target is creditable, albeit too back-end phased, as illustrated in the chart on the left. This is one aspect of the savings programme that I will continue to look at for opportunities to accelerate.

Of the £63m run-rate savings delivered in 2024, £28m was earned in-year, primarily benefiting the Pensions and Savings business result. I can confirm that the majority of the £250m savings will come through the IFRS operating profit, while about half will benefit OCG and solvency capital.

Moving to our planned investment of circa £700m post-tax, some £350m was incurred last year in line with prior guidance that this spend would be front-end loaded. The remaining spend profile is shown on the right and you can rest assured that the appropriate rigour will be applied in ensuring that the benefits of this investment are delivered in full. Once we get beyond 2026, non-recurring investment spend is expected to more than half from the 2026 level shown.

Moving next to our key business unit performances under IFRS. Around 90% of the Pensions and Savings business is classified as IFRS 9 investment contracts, where the reported profit represents fee revenues less costs. As Andy mentioned, we're really encouraged by our trading performance last year. We saw a 13% increase in Workplace net inflows to £5.3bn, boosted by all-time high gross inflows of £9.3bn. We also saw an improved gross inflow picture from Retail up 34% to £5.1bn, reflecting our greater focus in engaging with our existing customers.

Supported by market movements, AUA grew by 7% to £186.5bn. This business reported a 66% increase in operating profit, reflecting higher revenues from the 11% increase in average AUA, and benefiting from expense efficiency initiatives. The overall profit is equivalent to a 17 basis point margin on AUA.

Going forward, future cost efficiencies will continue to provide a strong underpin to this margin and will counteract the revenue pressures created by the run-off of the legacy book.

Retirement Solutions is classified as an insurance contract business, and is accounted on a spread basis under IFRS 17. New business flows remained robust despite the one-third reduction in capital deployed, written on attractive economics and supported by growing individual flows - individual annuity flows - up 81% to £1bn.

This segment recorded a 25% increase in operating profit, driven by the higher CSM and risk adjustment releases up 18% year-on-year, reflecting the onboarding of sizeable annual vintages of profitable annuity business.

It is also driven by higher investment profits, reflecting both the growth in the excess assets backing this business, and increases in the contribution of the annuity portfolio re-optimisation management actions that I described earlier.

The increase in our future store of insurance contract value in the CSM is a lead indicator for the growth of our profitability under IFRS. The 14% increase in pre-tax CSM to £3257m represents an encouraging result. New business contributed £248m to the increase, with annuities accounting for £203m of this amount. A further £212m came from assumption changes, experience and economics.

We have upgraded the 2026 IFRS operating profit target to £1.1bn, reflecting our improved performance and our increased confidence in the underlying drivers of IFRS profitability. The increase will be driven by underlying business growth, pushing investment contract AUA and insurance contract CSM higher, by the continued leveraging of our asset management capabilities and by the contribution of the £250m of cost savings. The progression towards the 2026 target will therefore not be linear and will be broadly in line with the back-end phasing of the cost savings.

We expect that over half of the increase from the 2024 levels will come through the capital-light Pensions and Savings business with the balance in the Retirement Solutions business and, to a lesser extent, in reductions to corporate centre costs.

At the £1.1bn level, our 2026 IFRS operating profitability will be sufficient to fully cover our recurring uses and create an excess to fund our non-recurring uses. The amounts illustrated on the slide under 'uses' represent 2024 values, with debt interest reducing as we de-lever and amortisation of acquired VIF declining as this runs off.

With non-recurring uses normalising post 2026, the point at which the IFRS net profit ex-economics turns positive will soon follow. Our aim is for IFRS shareholders' equity excluding economics to grow - our aim is for that to grow in 2027.

The next slide shows the movement in IFRS shareholders' equity over 2024. On the left, you can see the progress that we made last year to close the gap between recurring sources and uses down to a negative £182m, a much-improved picture compared to 2023.

In the centre, you can see the pre-tax £520m of non-operating expenses, which includes the pre-tax planned investment spend.

You also see the £1297m pre-tax loss from economic movements driven primarily by the effects of the hedging programme, specifically the negative marks associated with both the 80 basis points increase in 15-year rates and the 13% rise in equities. I will illustrate on the next slide why this represents an accounting mismatch.

Our closing shareholders equity position declined to £1.2bn, while adjusted shareholders' equity stood at £3.7bn.

Let me now turn to the impact of hedging on IFRS reporting and explain why a programme that serves its purpose of protecting solvency surplus so well, gives rise to known accounting volatility under IFRS 17. I will do this with the help of a bridge between IFRS shareholders' equity and Solvency II surplus, which we are disclosing for the first time. The reconciling items should be familiar to many of you on the sell-side from equivalent analysis produced by other firms.

What this bridge shows is that the IFRS and Solvency II balance sheets are not comparable, as they treat investment contracts differently and adopt different valuation approaches for insurance contracts. For example, in relation to insurance contracts such as annuities, the future store of value under IFRS is carried as a liability within CSM and is valued using locked-in economic assumptions. This contrasts with Solvency II, where it is treated as capital and revalued at each balance sheet date in line with the change in rates.

Another example is in relation to investment contracts where IFRS does not capture the £3.6bn future value of these contracts beyond the yet to be amortised £1.3bn of acquired value in force, which itself is carried at cost. Again, this contrasts with Solvency II which recognises this component in full and marks it to market at each balance sheet date.

The third example is that IFRS does not capture risk capital requirements, which are factored in the CSR under Solvency II when calculating surplus.

In seeking to provide stability to our £3.5bn surplus from market volatility, the hedging programme has all of the above components in scope, with a movement in the value of the hedges offsetting related value changes in these various components. However, as the walk illustrates, the IFRS balance sheet does not feature many of these components, and also prohibits the revaluation of annuity future profits warehoused in the CSM from movements in rates. Therefore, on the IFRS reporting basis the hedge appears naked, hence the £0.9bn post-tax loss recorded in 2024 which is shown above the first bar in the bridge.

The hedge offset effect comes through the value movements in the remaining Own Fund components, totalling plus £0.8bn post-tax in 2024, shown above the Own Fund bars in the bridge, and the value movements in the SCR which in 2024 rounded to zero also shown above the SCR bar in the bridge.

So you can see how the IFRS loss on the left is reduced to a considerably smaller net £0.1bn loss at the solvency surplus level on the right. The sensitivities shown on the slide also bring this contrast to life, with more material impacts under IFRS but relatively modest ones under Solvency II.

So in summary having looked closely at Phoenix's approach to this, I am comfortable with the way hedging is protecting cash and capital, and I am satisfied that the known consequences under IFRS give rise to no practical limitations. This includes dividend, which I will come to next.

Phoenix is a highly cash generative business and it therefore rightly returns cash to shareholders through a progressive dividend. In line with what I have seen in other groups, the Board's annual dividend assessment is carried out by reference to the three measures shown on this slide. The first being Operating Cash Generation, which at £1.4bn represented a healthy source of cash - recurring cash - covering recurring uses. The second being the shareholder solvency level, which at 172% represents an appropriately robust coverage ratio. And the third being the quantum of legal distributable reserves recorded in the Group's Holding Company's solo accounts, which remain healthy at £5.6bn.

In 2024 these reserves were replenished by sizable remittances from our Life Subsidiaries, which report under UK GAAP representing a less punitive basis than IFRS 17, and one under which they generated higher net profits in 2024 than 2023, even after the effects of hedging. At end 2024 these subsidiaries maintained substantial distributable reserves.

So the consolidated IFRS 17 reporting basis does not reflect the remittance capacity of the Group.

In this overall context, and consistent with previous guidance, the Board considers that the Group's consolidated IFRS shareholders' equity is not a constraint on the payment of our dividend.

To conclude, we have made a positive start in executing against our 3-year strategy and financial targets, and have built good momentum which we're carrying into 2025. Specifically, we have positioned the business to generate £1.4bn of OCG, which we aim to grow at a mid-single digit percentage rate going forward, more than covering our recurring uses.

The cumulative excess cash from our upgraded targets puts us firmly in control to reduce our leverage ratio to the 30% level. And achievement of the £1.1bn IFRS operating profitability level will mean that in 2026 we will cover recurring uses on this reporting basis as well.

Our performance step-up improves our ability to support the execution of our strategy and underpins our dividend.

Thank you for your attention. I'll now hand you back to Andy.

Looking ahead

Andy Briggs, Group Chief Executive Officer

Thank you, Nic. Looking ahead, I wanted to share the priorities of Phoenix over the next two years as we continue to execute on our strategic plan. We will grow by continuing to develop our propositions, meet more of our existing customer needs and acquire new customers.

This will grow our Operating Cash Generation at mid-single digit percentage going forward and deliver the £1.1bn of adjusted operating profit in 2026. We will optimise our in-force business and balance sheet. Hitting our 30% target leverage ratio is a major focus here, as well as improving our asset management and balance sheet efficiency capabilities to deliver recurring management actions year in, year out.

And we will enhance, by transforming our operating model and culture. Central to this strategic priority is the completion of our policy migrations, with over 1.3 million policies migrated since January 2024.

We're also on track to simplify our business to unlock £250m of annual run-rate cost savings by the end of 2026.

I'm conscious we've spoken a lot this morning about the underlying operating performance, our upgraded targets, and the capabilities we've built. And we've spent some time on our approach to hedging, our plans to redouble our efforts to de-lever the balance sheet,

and the progress we've made on the trajectory of shareholder equity before economics and how the Board does not consider this to be a constraint on the dividend.

We've generated significant free cash flow year in, year out, currently delivering a free cash flow yield of 17% as I mentioned earlier, and pay a progressive and sustainable dividend to shareholders.

To sum up, we are pleased with the progress made in 2024. Our strategic priorities are clear, and we are optimistic about what comes next.

And with that, we will move to questions. So we're going to start with questions in the room. If you raise your hand if you have a question and we'll get one of the roaming mics to you. Please can you start by introducing yourself and the institution you represent?

And then for those watching on the webcast, please use the Q&A facility, and we will come to your question after we've answered those in the room.

Why don't we start this side? I can see Abid, I think the first hand up there, Abid, so you get to go first. Very quick.

Q&A

Abid Hussain, Panmure Liberum

Thanks, Andy. I've got three questions, if I can. It's Abid Hussain from Panmure Liberum. The first question is on debt leverage. You've earmarked the remaining £850m of excess capital generation to reduce the debt leverage. I'm wondering if you could put that capital to work more effectively into the business to accelerate the Own Funds growth over the medium term. I appreciate there's a bit of a tricky tension between deleveraging and growing the Own Funds.

The second question is on Workplace savings. What's the all-in margin, so that's the admin plus investment fee margin? Is it higher than the 17 bps that you quoted across the Pensions and Savings? I assume that the Workplace Pensions business is where you're seeing the operational leverage coming through. And then, on the flip side, do you still need to invest more in the platform, in the apps to improve user experience on Workplace savings?

And then the final question is for Nic. So, Nic, I appreciate you sharing some of your initial thoughts. What are your views across the segmental operations? Where do you think more work is required than you initially thought, and what is the Group better at than what you initially thought by line of business?

Andy Briggs, Group Chief Executive Officer

Okay, so I'm going to get Nic to take the first on debt leverage, and the third obviously specifically his thoughts there. Workplace I will take.

So, what we've done in the appendix, Nic's done in the appendix, he's actually set out in more detail the breakdown of the P&L between the revenue and the costs. So, what you can see is, across Pensions and Savings, the revenue overall is 48 basis points, so the costs are 31, and that leads to the net profit of 17. We're not disclosing the breakdown of that between Workplace and Retail, but we've given materially more disclosure there today.

What I'd say is that increase in margin from 12 bps to 17 bps has happened while most of the growth has come through Workplace, so that, kind of, gives you a sense of it, and, ultimately, it's driving that improvement in operating leverage going forward.

So, we would expect the 48 bps margin will come down marginally over time as the mix of business changes, but we'd expect the cost, in bps terms, to come down by more because we're going to hold the costs – you know reduce costs overall against the growing book, and, hence, we would expect some expansion in that 17 bps margin going forward. Nic, do you want to take the first and third?

Nicolaos Nicandrou, Group Chief Financial Officer

Okay, so, on the leverage I didn't mean to imply that the full £850m is entirely earmarked for deleveraging. We wanted to demonstrate to you that, with the upgraded targets, we're firmly in control in terms of getting there.

The various moving parts, which we illustrated in the chart, clearly, if we get some help and we can improve on the denominator effects, then we wouldn't need to use the £850m, and then we'll be in a position to think about where we might deploy it next. But we are firmly committed to the 30%. We wanted to show you that we were in control, and we'll be prepared to deploy it if necessary.

On the third question relating to the segmental, I mean the segmental is, ultimately, a financial lens in the business. If your question is, you know what have I been impressed - impressed by? Well, firstly, the opportunity. You know having spent five years in my previous role in Asia, thinking that that's the only part of the world where there is growth, actually, I was pleasantly surprised with the opportunities that exist, both in the annuity space in the UK and also in the retirement space. I mean, the opportunities are huge and the capabilities that we have built here to access those opportunities are phenomenal. So that was - it was a surprise to see growth opportunity and also an organisation that has all the tools to access it.

The second positive surprise was just how good this asset management team is. I mean, you see the components, the way in which they've helped the capital generation. Of course, that's feeding through IFRS, but on a more modest basis at this point. But the capability is huge, and the ability to run assets on our own now, it's fully built, and it was great to discover that Mike and the team currently run around £2bn of assets directly in the private space.

The one area which we can do a much, much better job, and we've started, is on expenses. We should be, and can, and will drive the operational costs down. We're committed to that £250m. We're always looking to do better if we can. But, yeah, that's one area that I think the organisation can do much better.

Andy Briggs, Group Chief Executive Officer

Just one very quick add, Abid, if I may, on the leverage side. So, I was disappointed that Own Funds reduced over the year. In fairness, it did in all our peers that reported so far as well, or the ones I have seen. But I'm really determined, Nic and I are really determined, we grow that Own Funds. We've actually put it into our annual incentive plan, our bonus. So, for Nic and I, for the whole management team, growth in the unrestricted Tier 1 Own Funds is one of the key measures there.

So, we are really determined to get the growth in the overall franchise feeding through to Own Funds growth and, therefore, improving the denominator in that leverage ratio at the same time. Andy? I'll, sort of, go across if that's okay for folk.

Andy Sinclair, Bank of America

Perfect. Thank you very much. It's Andy Sinclair from Bank of America. First, great to hear that we're going to get shareholders' equity growing organically from 2027 ex economics, but I just want to understand a little bit more. If we just assume that bond yields, everything, economics, stay exactly flat as they are today, is there any positive pull-to-par effect, any negative ongoing hedge costs, assuming no market moves? Just to understand what comes through that economics line if just the economics stay flat. We can see the sensitivities for moves, but is there any underlying positive, negative or anything?

Second, apologies, staying on the non-operating items, Nic, I think you said beyond 2026, better than half 2026's level. That could still be, what, £70m-odd, couldn't it? It's still a decent number. I think that's about 7% of operating profits based on your guidance. How

low can that go? And, if we are going to see £70m recurring every year, should that not just be an operating item? How much can that be controlled down further?

And third, was just on the pipeline. Workplace Pensions, annuities, I haven't really said too much about the pipeline, particularly on Workplace Pensions I guess, what's the pipeline looking at just now, scheme wins, what's funding in 2025? Etcetera. Thanks.

Andy Briggs, Group Chief Executive Officer
Thanks. So I'll get Nic to take the first one. Just on the second, the non-op, I mean ultimately, it could be nothing, but what you don't know is what regulatory change is coming down the track. And that's why we're just giving ourselves some leeway because, if IFRS 18 comes along or Solvency III comes along, then you know we just can't legislate or predict that ourselves, but it will be that sort of, thing that will drive the non-op on your second question.

On the pipeline, really pleasing pipeline across the piece. I think, Colin, it's safe to say we're quoting on more Workplace new schemes than ever at the moment. It's a huge pipeline there. I think we've got about £15bn, Tom, that we're quoting on on the BPA side at the moment.

And then, I'm particularly pleased with the Individual Annuity side as well, and we're definitely seeing a resurgence in that market with rates being higher. And, also, we, kind of, had pension freedoms nearly 10 years ago now. You get a lot of consumers get into their 70s and they think – Actually, if I can lock into what is now more like a 10% per annum income in retirement from my 70s and I start to worry a bit more about cognitive matters and so on and so forth – I think we'll see that Individual Annuity market grow strongly as well. So, definitely feel optimistic about the trading outlook.

Do you want to pick up the first one and correct me on the second if you choose to?

Nicolaos Nicandrou, Group Chief Financial Officer
Yeah, okay. So, on the first one, no, the type of instruments that we're using, because we're trading upside for downside protection, don't involve a significant cost. So, in the hypothetical scenario where markets stay flat, I wish that would be true in some way for the hedging, no, you're not going to see much noise in economics below the line.

On costs, yeah, it's difficult to predict clearly what regulatory changes will come through. I can flag one now that we know it's coming – you know the ESG disclosures and regulation is driving a tonne of disclosures on climate and a whole host of other environmental areas from 2027 into 2028. We're required to produce thousands of new data points and publish them and have them audited to double materiality. And I know a lot of my colleagues on the CFO - Insurance CFO Forum are already exercised by the amount of work that's needed. Effectively, the environmental reporting will look like our report and accounts audited to double materiality now. You know we're only just engaging with that, but there is a regulatory disclosure coming down the track which we will need to spend money alongside other organisations.

Andy Briggs, Group Chief Executive Officer
This is us sweeping away regulation, eh? Dom?

Dominic O'Mahony, BNP Paribas Exane
Ta, Dom O'Mahony, BNP Paribas Exane. Three questions, thank you. Just on the new business performance, really striking to see the phenomenal growth in individual annuities. You used to give a picture of long-term cash generation coming out of the two business lines. I appreciate that's not part of the disclosure now, but could you give us a directional sense of whether those numbers have gone up or down or flat-ish, whether the actual creation of new cash streams coming out of both Retirement, and Pension and Savings, whether that's - where that is relative to last year?

The second question, just on the sensitivity of the earnings and, I guess, the Own Funds to yields. My guess, but it's only a guess, is that, when interest rates go up, you get the negative mark-to-market through the eco-variances, but then the pull-to-par would go through the operating profits. Does that make the IFRS earnings sensitive to yield movements in the previous year? And, if so, could you give us some sense of how powerful the 80 bps move in 2024 was for the earnings outlook?

And then, just one thing that piqued my interest. Nic, you said that you run the Pensions and Savings business on an IFRS basis. I just wanted to ask you what that meant, what that would mean you would do differently versus running it on, say, a capital view, and why you'd run it differently? Thank you.

Andy Briggs, Group Chief Executive Officer

Okay, I'll comment on the first, as I've got the kind of, history back to those days, and let Nic comment on the second and third.

So, we're not giving the undiscounted long-term cash disclosure anymore because, ultimately, the market said, with higher rates, we need to understand discounted numbers, not undiscounted numbers. And between all the disclosures today, I think you'd agree we've given you plenty.

The direction of travel we're going in, though, is to give Operating Cash Generation by business unit and give you the drivers of that, and Nic started to give some sense of that. And so, think about it, overall Operating Cash Generation was up 22%, but we're guiding mid-single digit growth going forward from here. Obviously, the growing parts of the business are going to deliver more of that you know versus something like With-Profits that's in run-off, but, as the year progresses, we will enhance that OCG disclosure for you. Nic, do you want to pick up on the other two?

Nicolaos Nicandrou, Group Chief Financial Officer

Yeah, so you're right. Given that we're extending the asset duration through the swaps to cover 1 in 200 liabilities, on the base balance sheet, we have assets duration that is longer than liability. When rates go up, the marks on the assets will be higher than the marks on the liability, which is why you've seen Own Funds be depressed.

Now, IFRS uses a completely different methodology to the way we calculate the discount rate. For annuities, it's a much more - it's a top-down rather than a bottom-up methodology with, kind of, more flexibility as to which assets you bring into scope. I don't expect the movement in yields to you know – to adversely affect what's – you know the IFRS profile, not least because a lot of that is smooth through the CSM release.

In relation to why do we look at the IFRS basis for P&S? I guess it is – it is akin to an asset management business. As I said, 90% of the liabilities are, effectively, IFRS 9. It's revenues less costs. That's a very clean picture, which is not to say the OCG is not relevant because, ultimately, it's a contributor to our overall solvency, but, just to give you an example, the cost saves that we've delivered this year, to the extent that they've been earned and relate to P&S, have come through and you've seen them very cleanly in the additional disclosures. You've seen that, effectively, dampen down the trajectory of our costs.

Whereas, in the OCG, you'll take the full year effect, you have to figure out, which is what we do, what the maintenance component is and then you'd capitalise that for the duration of the book, and that's great for capital but it doesn't – you know – it's not – it's interesting but not that relevant in the way we think about the growing profitability of P&S. So, that would be my answer to that question.

Andy Briggs, Group Chief Executive Officer

So, I'll go to Thomas and then we'll sort of come forward and loop around.

Thomas Bateman, Mediobanca

Hi, good morning, Thomas Bateman from Mediobanca and thanks very much for the presentation. I think it's, kind of, what we needed actually.

The first question is just on back book deals. Obviously, that was the investment case originally and that seems to be moving away now, but should we expect any more of those from Phoenix or are they dead and you're an open book player now?

Second question, it's just on your strategy on equities. Clearly, you thought it was best to hedge that out in the past, now you're looking to take some exposure. Just what's changed on the strategy there and why differentiate between the back book and the open book here?

And then finally, just on the Standard Life Smoothed investment product, what kind of traction has that got with investors – not with investors, but with advisors and what's the growth outlook like there?

Andy Briggs, Group Chief Executive Officer

Sure. So, I'll take the first and third and pass the second to Nic.

So, in terms of M&A, M&A remains something we actively look at. I think the difference for us now is that we have a whole range of alternative ways we can deploy excess capital in organic growth and, therefore, we're no longer reliant on M&A the way we were a few years ago. But it remains something that we look at. We see there's significant potential value from M&A. We would still be the first port of call for anyone looking to sell a book of business and still engage regularly with other CEOs to explore what might be available out there.

And the way to think about it is we've now got a business that's generating £300m per annum of excess cash, we will deploy that using a capital allocation framework against the highest return opportunities. We feel, right now, deleveraging is a priority focus, but, if M&A deals came along that would give a higher return relative to deleveraging, then we would consider that. We would look at the highest value ways forward. I would say the bar overall is higher than it was before given the range of ways and the organic growth options that we have as a business.

In terms of the Standard Life Smoothed Managed Fund, so we did a soft launch of that in the middle of last year just on one platform in the market. The take-up has been good but not sufficient to you know dramatically change our overall results. The opportunity will come as we now scale that across other platforms, which is what we're planning to do this year, so we get more advisors – more advisors using that proposition. We remain optimistic of the potential over time. It was always going to take a period of time to build that up as a new proposition in the market. Do you want to pick up the second one, Nic?

Nicolaos Nicandrou, Group Chief Financial Officer

Yes. That's a really good question and the right question. So, really, the hedging of the back book is an overhang from a previous strategy when we were a closed-book consolidator. At that time, we did deals, we committed to a certain IRR on these deals on the basis of the way they were funded and, in order to underpin the delivery of IRR, certain risks were – certain risked were hedged out in order to produce a stream of income, if you like, to repay debt and to pay interest - and to refinance, to repay debt and pay the providers of capital. And that was the right strategy at the time.

But, as we've now pivoted into being an open-book player, yes, we want to deliver to the deal sort of deal IRRs that we – you know we committed to at the time of doing those deals and with limited possibility to deviate away from that, which is why it makes sense to continue it on the back book. But, as we've now pivoted the strategy to be an open-book player, really, you'd want to lock in – well you'd want to benefit from any equity market upside on the new business that we're writing. So, if you like, it's reflective of our history versus our strategy now.

Andy Briggs, Group Chief Executive Officer

So, we'll go to Farooq, then Michael, then Andrew, then Larissa. We'll get there.

Farooq Hanif, J.P. Morgan

Thank you very much its Farooq Hanif from J.P. Morgan. Two questions only. So, what struck me first in your results was just how much your investment margin under IFRS went up compared to others. And I know it's difficult to compare different companies based on assumptions, but what is it that you're doing that's generating this kind of higher spread versus your, kind of, locked-in rates you know that you think is different? And what is it about this kind of new investment team, particularly from your side, Nic, that's, kind of, bringing that, I guess, difference, or a different approach, from maybe what you expected, that's delivering those gains? And, obviously, this is a key part of your £1.1bn target.

My second question is on deleveraging. So, one of the constraints that I see as well is that your Solvency II ratio, obviously, has built up a lot of debt. So, that £850m of surplus, what does that represent in terms of Solvency II generation in terms of points that you'll generate that will then be offset by any deleveraging you're doing? So, I'm, kind of, asking for what is the £850m in terms of Solvency II points? Thank you.

Andy Briggs, Group Chief Executive Officer

Thanks, Farooq. So, I'll give an initial comment on the first one but then pass to Nic to build on that and take up the second.

So, what I'd say on the first one is that I've worked in the industry over 30 years, and most of my experience has been that you have an insurance company sat over here with a bunch of actuaries doing their, you know, Solvency II and matching adjustment stuff. And then you have an asset manager sat over there that's primarily focused on driving external flows into the asset manager, and there just isn't that proximity of working together.

The difference for us is, basically, these teams work, the liability side and the annuity team and the asset management team work hand in glove, to the extent that, actually, this year we're bringing them together under Mike's leadership overall. And I think that is a real differentiator for us relative to what I've seen elsewhere over the last 30 years because, you know, the asset managers are getting into what are the matching adjustment rules and how do they work and the liability profile and so on. So, I think that definitely differentiates.

I also think it's fair to say, Nic, we're more conservative in our yields we assume in the new business pricing and therefore, you know, that comes through over time. But add your thoughts to that and pick up the second question.

Nicolaos Nicandrou, Group Chief Financial Officer

That's right, Andy. Farooq, your question was in relation to IFRS, right? So, on an IFRS basis, again, simplistically, we've delivered about 120 basis points on the AUM – that's pre-tax – and that was made up 80 basis points on core, for want of a better expression, and another 40-odd basis points coming through management actions. Actually, at 100 to 120, that's not out of line with what others are reporting. So, I don't think there's anything – I mean, clearly, yes, the management actions, I've already spoken about that, comes from deep capability. It's a smaller contribution than an OCG because, OCG, you have denominator effects in relation to SCR, but between 100 and 120, I don't think it's out of sync.

Now, it's higher than last year, admittedly, but that's, kind of, par for the course in the sense that, as you get to implement a new accounting regime, you get to understand its drivers better. You know this is year two. Last year, we were just into it. And then you manage, the instructions that you give the team in terms of how they want to generate management actions. Yes, we want them to look like this in Own Funds, in surplus. And now there's an IFRS component as well. So, it's as you introduce new bases, and you figure out ways of optimising across all dimensions. So, that explains the year-on-year increase alongside the you know capability of the team stepping up and seeing a benefit come through IFRS in the same way as you're seeing it through OCG.

On the deleveraging, okay, we're at 172%. You saw us create five points of recurring. So, kind of, roll that forward for a couple of years, we will get you to a number. The £850m is equivalent to around between 15 and 17 basis points. So, we'll be up 10 and then down 15, 17. That, kind of, gives you a sense of the modelling.

Andy Briggs, Group Chief Executive Officer
Michael?

Michael Huttner, Berenberg
First thing I want to say, actually, I'm really impressed you remembered my name, so thank you [laughter]. I had three little comments. One is cost. You said, Nic, short and long term, and I wonder if you could give ideas about that?

The second, I think, when we spoke just outside, and you mentioned it a little bit, your asset managers are directly managing £2bn. You said that would be growing. I just wondered how much more you're giving them?

And then the third, you said Retail is key. I love Retail. I like the idea of annuities. I'm getting there myself. Can you give us a feeling for how profitable this is, this £1bn or whatever, I mean, just to get a feel and maybe the growth that you can see there? Thank you.

Andy Briggs, Group Chief Executive Officer
Sure. So, I'll take the second and third of those and let Nic take the first.

So, on asset management, I mean, we've really focused on building out the capability to optimise both returns we deliver for customers on the Pensions and Savings side and then drive strong value creation and the recurring management actions, particularly on the Retirement Solutions side. And the primary focus is the strategic asset allocation layer and then having the expertise to understand each of those underlying asset classes really well, to then partner with leading class asset managers in those areas. But we do, now, have the capability to run assets in-house.

For quite a long time now, we've been doing the illiquid assets on a non-discretionary basis. So, we're basically making the investment decision. We've still got an asset management partner running that. So, we've got the ability to increase the amount we have in-house over time. No specific guidance on that today other than to say there's more to come here. We're far from done in terms of realising the opportunity.

In terms of the Annuity business, there isn't a material difference in the profitability between the BPA and the individual annuities. I mean, if there was, we would do more of one and less of the other. But having those different routes to market is attractive to us and allows us to balance and scale as things progress going forward. I think the first question was on cost, wasn't it?

Nicolaos Nicandrou, Group Chief Financial Officer
Yeah, I mean, as I said earlier, I think the £250m is a creditable, laudable target. It is linked to a whole host of things, not least the completion of the migration, which is part of the reason this is back end phased, but also, kind of, on the back of the pivot of the operating model, driving further simplification within the organisation.

I referenced also the opportunity to vastly rationalise the 5,500 funds that we currently manage. We want to look to get that to a much more modest level. So, no, no, a lot of work to get to that point. And, as we go through, I'm sure there'll be opportunities to go further, but, rest assured, if there are, we will take them and we will update you at the appropriate point.

Andy Briggs, Group Chief Executive Officer
Can you pass to Andrew behind? Thank you.

Andrew Crean, Autonomous

Thank you, it's Andrew Crean at Autonomous. Three questions. Nic, you said something on management actions where you said the target's £400m, and then you made a comment, which I don't know is pernickety, you said of similar magnitude. The implication was that you'd be able to do more than £400m, more like the £537m you did. I don't know whether that's reading too much in?

Secondly, could you give us a sense of the new business strain? I know that's come down as you've invested more. What is, for the new business that you wrote, what is your allocation between gilts or government bonds, investment grade credit and direct investments?

And then, finally, your target of 30% debt leverage is 38% on a shareholder basis if you take out the regulatory capital. I know you mentioned a couple of times that your free cash flow yield was up around 17%. If you got a sense that the market was uncomfortable with that level of leverage, 38%, would you go further?

Andy Briggs, Group Chief Executive Officer

So maybe I will take the third of those and let Nic take the first two.

So, the reason we use the regulatory basis is that it's, basically, what our debt holders look at and, ultimately, the leverage ratio is very relevant to the debt holders and, of course, the With-Profit surpluses are loss absorbing in a downside scenario. So, 30% on a regulatory basis is getting in line with most of our – or many of our major peers, have similar levels there.

Having said that, as we generate excess cash, we will deploy that against the highest return opportunities. So, if we think that our cost of equity would come down materially further by deleveraging further than 30% on a regulatory basis, then we absolutely would consider that if that was going to be the highest return compared to alternative uses of that excess capital. Nic, do you want to take the first two?

Nicolaos Nicandrou, Group Chief Financial Officer

Yeah. I mean, the only other point I would add, it was interesting, before I joined, to see the debate, whether it's regulatory or shareholders. The reality is we need to get that down, and that's what we're going to do and, hopefully, what we showed you today, is that we're in control of that.

The flip side to that argument in terms of - is when you look at the interest that we paid and you express that as coverage to our OCG generation, actually, being at 5x to 6x, it's not a bad place to be from that perspective. Nevertheless, it needs to come down. It's better to have permanent capital than a capital that you have to refinance every 10 years, and we will drive that number down.

In relation to management actions, the £400m was the previous target. We're not renewing that target. I want us to move away from that and, really, apologies if it didn't come through clearly enough. I think we can keep on delivering something of the order of £500m as we go forward and, candidly, as we grow the annuity book, we should do even better. If we're adding £6bn of new premiums every year and our payroll is equivalent to £3.7bn, you'd see that annuity book go up, and we should be able to apply all these capabilities to those future flows as well. So £500m plus as the annuity book grows.

In relation to new business strength, thank you for asking the question. We've kept the allocation of 50% private, but we've increased the allocation to gilts from 10% to 25% in the way that we priced in 2024. That had an impact on strain, clearly, an impact on the IRR, and it also explains why the CSM margin is marginally down.

But there is another, so that explains if you like - the switch in allocation explains half of the drop in the new business strain. The other half comes from something structural that we didn't have before. When we merged Standard Life into Phoenix Life, with that came a whole host of tax-related losses and a deferred tax asset and, under the 1 in 200, we've been able to take credit of the loss-absorbing capacity in deferred tax and actually improve our pricing and, indeed, improve the IRR.

So, part of the other half of the new business strain comes from now having merged, having undertaken a Part VII, having merged the two funds, there is an ability to take credit of something in the SCR that we weren't able to do so before. It reduces margin – sorry it reduces strain, improves the IRR, but, because it's a denominator effect in the solvency, it doesn't come through the CSM margin that you see.

On a Solvency II basis, just to give you one more data point, our margin is 3.9% on BPAs, up from 3.6% last year. You see a different trend in CSM because you don't have that denominator effect from the LACDT on the SCR. Apologies, quite a technical answer.

Andy Briggs, Group Chief Executive Officer
Larissa?

Larissa van Deventer, Barclays
Larissa van Deventer from Barclays. Nic, you mentioned that you're excited about the growth opportunities in the UK, and you mentioned annuities specifically. How should we think about Phoenix's appetite on growing the annuity book in light of the capital-intensive nature and the declining rate environment? That's the first question.

The second question, related to the new business strain that just came up, how should we think about new business - the lower new business strain allocation from last year when you went from £300m to £200m allocated to new business strain and your appetite to use funded reinsurance?

And then, the last one, on the mark-to-market losses that you discussed in your presentation, on the IFRS side, as rates come down, can we expect some of those to reverse or how should we think about that evolution going forward, please?

Andy Briggs, Group Chief Executive Officer
Okay. Thanks very much, Larissa. So, I'll take the second one. Again, it's got a historic element to it, and I'll let Nic take the first and third.

So, the move from £300m to £200m was recognising we were confident that we could bring the new business strain down lower and, therefore, with £200m of capital, we could still write circa £6bn of premiums. We've got such strong growth in the capital-light Pensions and Savings side, we want to keep a balanced overall portfolio mix across the business as a whole and don't want to be overly dependent on shareholder credit risk in the portfolio as a whole. So, that's not to say we wouldn't consider, at some point in the future, spending a bit more than £200m, but, broadly, that ballpark, we're happy with at this stage in terms of allocating capital across the range of opportunities we have.

We continue to use Funded Re. We're not a big user of Funded Re. We continue to use that to a degree and expect to continue doing so going forward. And we continue to explore whether there are ways in which we could partner with third-party capital in order to effectively use our origination capability in the market to originate and use third-party capital around that. But that's become a more challenging focus because of the evolving regulatory position around Funded Re. So, we are starting to look at other models there and, if and when they get legs, we'll, obviously, talk to you about them from there. Do you want to take the first and third, Nic?

Nicolaos Nicandrou, Group Chief Financial Officer
I guess you've answered the first as well, Andy.

Andy Briggs, Group Chief Executive Officer
You'll get used to this! [laughter]

Nicolaos Nicandrou, Group Chief Financial Officer
I'm already used to it.

Andy Briggs, Group Chief Executive Officer

It's great at the Board. We do a CEO update and a CFO update. So, I always go first and pick all the good bits and then leave Nic everything else.

Nicolaos Nicandrou, Group Chief Financial Officer

No, look, I like the fact that the team, last year, took the challenge of you know we'll give you a third less, see what you can do and, actually, I think they've done a phenomenal job you know to limit the reduction in terms of premium but to do it at improved economics. So, great job to Tom and the team.

Yeah, we're not big users of Funded Re. In fact, we used less in 2024 than 2023, so only about 12% of the risk was passed on through that. And to your point on rates, yes, if rates decrease from here, as indicated by the sensitivity, that will be a tailwind for our IFRS economics, both in terms of profits – profits after tax and shareholders' equity, but, of course, the impact will be muted on overall excess surplus, albeit Own Funds will go up.

Andy Briggs, Group Chief Executive Officer

So, let's head immediately behind Larissa there.

Mandeep Jagpal, RBC Capital Markets

Hey, good morning. Mandeep Jagpal, RBC Capital Markets. Thanks for taking my questions. The first one, just to follow up on strain, one of the bars in the non-recurring impact on surplus capital was labelled as economics and temp strain. What did the temp strain relate to and how material was it, and when should it unwind?

And then on CSM, assumption changes and other one-offs were sizable positives this year. Could you provide some detail on what was included here and whether you expect things, like longevity, to be a notable positive going forward?

Nicolaos Nicandrou, Group Chief Financial Officer

Okay.

Andy Briggs, Group Chief Executive Officer

Brilliant. This is the Nic show. Over to you, both of those.

Nicolaos Nicandrou, Group Chief Financial Officer

So, the temp strain, we did £2bn out of the £6bn bulk deals we did in the final quarter, in fact, in December. So, we received the cash, well, we received the funds, sort of, primarily in gilts and did not have the opportunity to effectively deploy that in line with our pricing strategy.

So it, kind of, reflects, if you like, the timing of when the deals were done and our ability, by the end of the year, to deploy what we did. 70% of those funds that were received in December, the £2bn that we received in December, has already been deployed, so that temporary strain will unwind. But you'd see that effect depending on when we received the money.

In relation to CSM, okay, let me give you the analysis. About 45% of the £212m comes in the With-Profit fund. What we saw in 2024 is more of our customers taking up the open market option and forgoing the guaranteed annuity rates that were being offered, so that had a contribution. That grew the CSM on the With-Profits business. So that's 45% of the £212m.

Another 45% came in Pension and Savings, and that is purely the mark-to-market effect that comes through because of the 13% equity rises. So, if you like, it was an economic variance. And, in the balance 10% came in Retirement Solutions. This is where – this reflects an

improvement in longevity or a slowdown in the rate of improvement of longevity. We aligned it with our most recent experience and fitted it with the CMI 2023 table. So, that was a benefit coming through.

We do review the longevity assumptions annually and make small tweaks at every point in time. There was a benefit come through, and that accounts for 10% - roughly 10% of the £212m that you see.

Andy Briggs, Group Chief Executive Officer
We'll go to Andrew, then Steven.

Andrew Baker, Goldman Sachs
Hi, thank you for taking my questions. Andrew Baker, Goldman Sachs. So just two, please. Slide 29, so that's the one you show the operating profit and the cover of the dividend, debt cost and amortisation, so, I understand you've got some 26 numbers there, some 24 numbers there, but shouldn't we incorporate tax, which would come in the operating profit, obviously the amortisation and the debt cost, but wouldn't impact the dividends? So, isn't there still a gap there? I guess, what am I missing as you think about the growing, sort of, 2027 equity and how you get there, if that's okay?

And then, secondly, just your £500m management actions, so, it's quite materially higher than what peers are pointing to. Do you see this as just definitional, what you guys are calling management action versus what peers are, or is there something structural about your book that allows for more management actions than them? Thank you.

Nicolaos Nicandrou, Group Chief Financial Officer
So, shall I go on the tax? So you're right. We are comparing pre-tax on the IFRS basis. So, pre-tax numbers, dividend is a post-tax, but the commitment that we've made, that it troughs out and then increases in 2027, is, clearly, on a post-tax basis. So I didn't want to change the presentation. You know there is value in consistency, but your point is valid, and it's been factored into our commitments going forward.

Look, on the management actions, I don't really know what others do. You know like yourselves, we have not seen an analysis of what other organisations do. Clearly, a lot of them talk about the ability to enhance yields. We've been transparent today in setting out all the three components. We spent time talking about each of those components. You see as you go from right to left, if you like, on the slide, plenty of opportunity through the £300m or so that we pay in fees, the multiple IMAs, the multiple funds to get savings out of that. And, again, the team has started that journey and there's a nice runway to come.

The capital, I mean, we've got, again, so many books, so many data points. We're always improving the way in which we fit that data. Lots of opportunities.

And the yield enhancement, again, we've been transparent in the way in the various ways, the new business, finding opportunities to either lock into the same spread with a better credit quality and so on and so forth, the rotation into and out of gilts as markets dislocate and the ability to renegotiate some of the private – if you have a housing association that's taken out a 10-year loan, three years in, they come and they say – We want to either shorten it or extend it – there is an ability to reset the terms.

So, I don't know the answer, but you'll have to ask others on how they generate it. We are confident. You saw what we did the prior year. We've analysed it out as well for you. You've seen the contribution this year. And, really, my confidence comes from the fact it's underpinned by real capability and opportunity here.

So, I was happy to stand back – stand behind the statement that we can continue to deliver this order of magnitude and to go beyond, in answering Andrew's question, to say, yeah, as the annuity book grows, there's no reason why that can't increase.

Andy Briggs, Group Chief Executive Officer

I mean, I support that. You know, the key message is confident they will continue at this broad level. I think the couple of idiosyncratic bits to us, probably, would be the fact that we do have the asset and liability teams right as one together. I've not seen that elsewhere.

I think the other element that's unique to us is others don't have 5,500 funds and don't have 60-odd IMAs with external fund managers, and I think that is a lever that we have that others don't as well.

Also, my sense is, and it is just a sense, Andrew, but my sense is that we price – the yields we assume on the new business mix, although we talked about the asset mix, but the yields we're assuming we'll achieve, we're quite conservative about. So, consistently, year in, year out, we end up outperforming those yields quite materially when we actually invest that new business money, and that's a source that comes through as recurring management actions each year. So, Steven?

Steven Haywood, HSBC

Thank you, Andy, Steven Haywood from HSBC. Just two questions. On your individual annuities, you've now got, like, a 12% market share. You know, what further ambitions do you have here and how do you treat them when you, sort of, look at reinsurance? Are they the same as your BPAs or is it, sort of, a different pot, shall we say?

And then, secondly, assuming we get to 2026, at the end of it, and you've achieved all your targets, you know, what potential, you know, dividend growth can you put through at that point if you're still guiding for a mid-single digit growth in Operating Cash Generation? Thanks.

Andy Briggs, Group Chief Executive Officer

Do you want to take it first? Go for it.

Nicolaos Nicandrou, Group Chief Financial Officer

So, we reinsure 90% of the longevity risk on individual annuities. We reinsure almost 100% on BPAs. And that's the main difference in terms of reinsurance for that book.

Andy Briggs, Group Chief Executive Officer

The other piece I'd just add on the Individual Annuity side is that we've also launched, second half of last year, a fixed-term annuity. So, for example, if someone's coming up to retirement, say they're aged 63 and they want to retire, they need to cover the five years before their basic state pension kicks in. So, we have pretty good early signs with that fixed-term annuity, Tom. That's quite a bit lower capital strain as well. So, we're thinking about broader propositions, innovative propositions to help people transition into retirement income broader than just individual annuities.

I mean, in terms of post-2026, I'm not going to get drawn on what dividend growth might be in 2026 onwards, what I'd say is that the underlying franchise here is really, really strong. And so, growing Operating Cash Generation at mid-single digits, you know when the uses of that aren't growing at mid-single digits, the HoldCo costs and the debt interest, you know we're going to hold them or reduce them over time, the surplus available each year is going to get bigger, and we have a lot of financial flexibility across a range of fronts. We'll be really quite ruthless in deploying that financial flexibility where we will get the best returns for shareholders over the long term.

I'll sneak a look at my Chairman there. I think he's okay with that one [laughter]. How are we doing? Any other questions in the room? Jo, have we got any on the webcam?

Jo Roberts, Investor Relations Director

Yes. Thank you. A question from Rhea Shah from Deutsche Bank – on slide 7, you want to move from top 10 to top 5 in direct and intermediated. What actions are you taking to achieve this? What is the timeline and what market share does this equate to? And then a second question, what have flows into Future Growth Capital been? What do you expect over the medium term? Thank you.

Andy Briggs, Group Chief Executive Officer

Okay. Thanks, Rhea, and sorry you're not with us in person, but nice that you've joined us.

So, the opportunity in Retail is in two broad areas. So, if you look at the disclosures in the appendix, what you'll see is that, on the Retail side, we have outflows of around £14bn. About £5bn of that is actually customers taking income, tax-free cash or a regular drawdown income. That's what we're here to do, so we don't regret that £5bn at all. That's us. Big payroll to the UK as well as the £3.7bn Nic mentioned in annuities. That's the core reason we're here in the first place.

But the other £9bn is basically circulating elsewhere in the market and we're winning £2.7bn of that back again, effectively. That's, kind of, what's going on. So, that's the opportunity is to really close that gap. We want to be a net winner, not a net loser in that space.

Then the other is that roughly 10% of the population that pays fees for advice have roughly half the assets, and they go through independent financial advisors. And there it's all about having propositions that those advisors want to recommend to their clients. That's where we're developing the range on smooth managed funds. We've got other partners we're working with and other propositions in that space we're developing.

So, I mean, top five you know would be getting much closer to that Retail net of the £5bn of income being, kind of, broadly net-net neutral fund flow. So, that will give you a kind of, sense of that. But we drive things by value, not volume, so we don't set market share targets. We don't set volume targets. We're focused on value creation of the business.

In terms of flows to Future Growth Capital, so we funded the first £50m, Mike, I think, in November of last year into that. That's now getting deployed into investments on behalf of our customers. And a further £50m went in last month in February, I think. Yeah, Mike's nodding at me. So, that's £100m altogether.

It'll take a period of time to get that deployed. We've committed £2.5bn over the next two or three years there. And, again, more to come. We're excited about this because we think it will give our customers better diversified returns overall but also will have a benefit to the broader UK economy at the same time. So, that's a key focus for us and something we're excited about.

Jo Roberts, Investor Relations Director

Thank you. I think there's time for one final question from William Rosier at Canaccord Asset Management – Given your cost of equity relative to your cost of debt, why are you targeting debt reduction over share buybacks? Are you concerned about your current leverage position?

Andy Briggs, Group Chief Executive Officer

Do you want to pick that up, Nic? Shall I go for it?

Nicolaos Nicandrou, Group Chief Financial Officer

Yeah.

Andy Briggs, Group Chief Executive Officer

Yeah. So, our view is that, ultimately, reducing leverage will bring down our cost of equity. So, our cost of equity is elevated. I accept that. And we think reducing leverage will bring down the cost of equity.

So, the way we try and make these decisions is we look at the intrinsic value of the business. So, we're looking at that £1.4bn of Operating Cash Generation, growing mid-single digits going forward, take off the recurring uses of that, discount all that back at our market-implied weighted average cost of capital, and that's our intrinsic value. And we're trying to make decisions to optimise that.

So, we consider what do we redeploy into new business organically? What do we do on deleveraging? What do we do on M&A? What is going to deliver the highest increase in that intrinsic value? And our judgment, at the moment, is reducing leverage will bring down our cost of equity, and that will, therefore, bring down the discount rate in that intrinsic value calculation and lead to the strongest growth in that. So, that's our focus. But it's something we assess on an ongoing basis, and we will look to deploy excess capital where the highest returns are available.

So, look, I think that's us done for questions, and I've got media calls. Nic and I have got media calls at half-past back at the office. So thanks very much indeed for your time here today.

I'm conscious it's been a longer session than usual. We obviously wanted to update on the one year into our 3-year strategy, but, in particular, Nic got out on the road in his early weeks with both analysts and investors, picked up clear feedback on certain areas that we needed to face in to address. So, we have taken the extra time today to face in to address those. Hopefully that has been helpful for everybody.

And for those on the buy-side watching, we are busy out on the road for the next few weeks, so we look forward to meeting as many of you as possible. All those on the sell-side, further questions, don't hesitate to get in touch. Thanks very much indeed.

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