Phoenix

Half year 2024 results presentation transcript

Speakers

Andy Briggs, Group Chief Executive Officer
Stephanie Bruce, Interim Group Chief Financial Officer
Andy Curran, CEO Standard Life
Mike Eakins, Chief Investment Officer

Executing on our 3-year strategy

Webinar producer (pre-recording)

Good morning and welcome to Phoenix Group's half year 2024 results presentation. I will now hand over to Andy Briggs, Group Chief Executive Officer, to introduce the session. Andy, over to you.

Andy Briggs, Group Chief Executive Officer

Thank you, Clair. And good morning to those in the room, and to those joining on the webcast, and welcome to Phoenix Group's 2024 half year results presentation.

I'm delighted to have Stephanie Bruce joining me on stage today who started in June as our Interim Chief Financial Officer and will talk through our first half financial results later.

But starting first with the strategic progress we've made in the first half. Back in March we set out that we're on a three-year journey to build the UK's leading retirement savings and income business and fulfil our purpose of helping people secure a life of possibilities.

We said we would deliver our ambition by executing our strategy as we invest in our business to Grow, Optimise and Enhance, building on the strong foundations we've put in place over the previous three years. This means combining our Heritage and Open divisions together and restructuring them into Pensions and Savings and Retirement Solutions businesses. Which are very 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 this market we need to offer a compelling customer experience. That means offering the full range of retirement savings and income solutions through a slick digital interface with a range of simple fund investment options, supported by excellent customer service. And which is sold at a competitive price that is enabled by a single Group-wide operating model.

The outcome of that will be a sustainable, growing business. Delivering growing cash, capital and earnings which supports our progressive and sustainable dividend.

Now we're only of course three months - six months, sorry, into a three-year strategy but I'm pleased with our progress to date. Back in March we introduced an evolved financial framework of cash, capital and earnings, against which we set very clear three-year targets. And our first half financial performance demonstrates that we're on track to deliver all of those targets.

We have delivered a 19% year-on-year increase in Operating Cash Generation to £647m. This in turn supported strong total cash generation of £950m in the period. And means we are now confident of delivering at the top end of our £1.4-to-£1.5bn target range for the year. And we're also on track for our 2026 cash targets here too.

Our Shareholder Capital Coverage Ratio is comfortably in the top half of our operating range, while reducing as expected to 168%.

There are two drivers here. I'm particularly pleased with the strong performance from our underlying business, which delivered recurring capital generation of three percentage points. And growth in recurring Own Funds. This was more than offset by the impact of our planned debt repayment and our planned investment into the business.

We're targeting a Solvency II leverage ratio of 30% by the end of 2026 and intend to repay at least £500m of debt over this period. I'm delighted that only six months into this three-year period, we've already repaid £250m of our existing debt.

Now the headwind of higher interest rates in the first half on Own Funds has dampened the benefit that this debt repayment has had on our leverage ratio, which is sitting at 35% at the end of June. With long-term rates having reduced since then we've already seen some of this headwind reverse.

We remain focused on achieving our target of 30% by the end of 2026, which we will deliver through a combination of further debt repayment, accelerating our organic growth and delivering our cost savings to drive stronger growth in Own Funds.

Finally, it was pleasing to see 15% year-on-year growth in IFRS adjusted operating profit as both our Pensions and Savings and Retirement Solutions businesses delivered strong, profitable growth.

I'm therefore confident we are on track to deliver our 2026 operating profit target of £900m. And over the longer term we are focused on driving operating profit higher still, so that it more than covers our recurring uses on an IFRS earnings basis. Which of course, across the other parts of our financial framework on cash and capital, we already do today.

However, we have seen further adverse accounting volatility in shareholder equity in the first half. This is a consequence of our hedging approach which protects our surplus capital and makes our dividend very secure. Stephanie will cover this in detail later including the fact that some of the accounting volatility will have reversed with the reduction in rates since June and will continue to reverse as rates reduce further.

Finally, consistent with prior years the Board has declared an interim dividend of 26.65p per share which is equal to our 2023 final dividend and a 2.5% year-on-year increase.

In March we set out our capital allocation framework to deliver our three-year targets. This has two key underpins. The first is that we will operate a progressive and sustainable ordinary dividend policy. And the second is that we will maintain our strong and resilient balance sheet with a 140-to-180% operating range for our Shareholder Capital Coverage Ratio.

We have also been very clear in explaining how we will balance the investment of our capital across our strategic priorities in order to deliver the next phase of our journey as outlined on the slide.

The investment we're making into our business is significant and will enable us to deliver our ambition of building the UK's leading retirement savings and income business, as well as delivering strong shareholder returns.

Our first strategic priority is to Grow. And here we will develop a range of innovative Retail propositions and further develop our established Workplace and Annuities businesses, which will deliver strong growth in Operating Cash Generation over the long term.

Our second strategic priority is Optimise. Here we will de-lever our balance sheet as planned and further develop our strong existing capabilities in asset and liability optimisation to deliver sustainable recurring management actions over the long term.

Our third strategic priority is Enhance. Here our focus is on delivering our remaining migration and transformation programmes as well as integrating our businesses into a single Group-wide operating model. All of which will deliver £250m of annual run-rate cost savings by the end of 2026.

Turning now to the progress we've made in the first half. We've invested £164m of the planned £700m to grow, optimise and enhance our business. We paid £250m of debt and are on track to invest around £200m of capital into annuities this year. This combined investment has enabled us to make good initial progress on our three strategic priorities.

Firstly, we've continued to invest in growing our business in the first half where we've launched innovative new retirement income products and enhanced our annuity market propositions.

We're also taking action to retain our existing customers for longer. We're offering our Workplace customers our Retail consolidation offering, and our Pensions and Savings customers our Annuity offering.

Secondly, we remain laser-focused on optimising our balance sheet. As I've already outlined, our first half debt repayment has supported progress towards our 30% Solvency II leverage ratio target. Mike Eakins, our Group CIO, and his team have been investing into our asset and liability optimisation capabilities over the past few years. And I was therefore delighted to see this deliver £264m of recurring management actions in just six months.

This is made up of a large number of BAU actions that we and all of our peers undertake week in, week out to optimise our portfolios while ensuring our risk profile remains unchanged.

Given this strong first half performance, we are now confident of delivering £400m of recurring management actions this year, ahead of plan, and to be able to sustain this level going forward every year.

I was also pleased that we've launched Future Growth Capital. This is the first private markets investment manager to be established in the UK to promote the objectives of the Mansion House Compact, as we target higher returns for customers from a broader range of assets.

Finally, we've made good progress in simplifying our business to deliver cost efficiency, through collapsing our former Heritage and Open divisions into a single Group-wide structure. Which means, for instance, we now have a single Pensions and Savings business that's focused both on attracting new Workplace and Retail customers and retaining the legacy Retail outflows.

And we also continue to migrate our customers to the modern digitally enabled TCS Diligenta platform with an initial 550,000 ReAssure customers scheduled to migrate by the end of this month.

All of which means we expect to deliver around £50m of run-rate cost savings by the end of this year and are on track for our 2026 target.

And the investment we're making to grow, optimise and enhance our business is supporting strong trading performance in our business units.

Our capital-light fee-based Pensions and Savings propositions help customers journey to and through retirement. The markets we operate in under the Standard Life brand are huge and growing. With £40-to-£50bn of annual flows in the Workplace market and £80-to-£100bn of annual flows in the Retail market.

And the opportunity is even greater than this, with only 1-in-7 people saving enough, and only 10% getting advice. As an established scale player with £184bn of assets and 12 million existing customers, we are well positioned to access these markets.

Our strategy is clear, we are customer centric, and purpose-led in retaining our existing customers and attracting new customers by meeting more of their needs over time. I'm therefore delighted to see the good progress we've made in enhancing our customer propositions, with the launch of the Standard Life Smoothed Return Pension Fund and the Standard Life Guaranteed Fixed-term Income products this year.

And we continue to be relentless in advocating for the changes that will help our customers. Where we are working with government to secure increases in auto-enrolment contributions and the introduction of targeted support.

Our focus on customer needs is translating into strong trading performance. In Workplace we continue to retain our existing schemes and win new schemes in the market thanks to our continually improving proposition. And this has supported strong net fund flows of £3.3bn in the first half, up 83% year-on-year. Which included the transfer of £900m of customer assets from a large technology company. Another example of the strength of our proposition with corporates.

We also remain focused on improving our cost efficiency to enhance our margin and drive increased profitability. This is a simple business. We make money by firstly growing our assets through improving our net fund flows, and then secondly by enhancing our margin through improving our cost efficiency. Andy Curran and his team have delivered both in the first half with average assets under administration up 9% and our operating margin increasing from 14bps to 17bps.

This has enabled us to increase our Pensions and Savings IFRS operating profit to £149m, up 31% compared to the second half of 2023.

Now importantly we've delivered this excellent performance while still being in net fund outflow. So as we execute on our strategy to retain our legacy Retail outflows over time by retaining more of our customers, this will drive even stronger performance in the future.

Our Retirement Solutions business is focused on helping people secure income in retirement. We have an annuity portfolio of £39bn which represents 14% of our total assets and reflects our strategic decision to limit our shareholder credit risk we retain on our balance sheet.

We operate in both the BPA and individual annuity markets with our strategies designed to leverage the strong demand from corporates and individuals. And I'm really pleased with our first half performance and the enhancements we've made to our customer proposition.

In the annuity market we wrote £1.7bn of premiums in the first half, reflecting the slower BPA market demand in the period. We've already transacted a further £400m since June and have an additional £2.2bn of exclusive transactions we're working on. And with a £15bn pipeline of deals for the remainder of 2024 we are confident of delivering a strong second half of BPA premiums.

In the individual annuity market, we've been seeking to expand our range of propositions and it's therefore great to see the strong initial trading from our Standard Life Pension Annuity.

We also know that when our customers make the decision to secure – to seek income security in Retirement, they want to move quickly. Which is why we recently launched our new digital individual annuity quote capability, where over 90% of our quotations are underwritten and returned within seconds.

These are clear examples of where we're investing to leverage our capabilities and balance sheet to meet a clear customer need under the trusted Standard Life brand.

Now key to ever-stronger financial performance in this market is to write new business in a capital-efficient way. So I'm particularly pleased that we're now able to write more premiums for less capital due to the step change we've made in reducing our annuity capital strain to around 3%. Reflecting the full benefit of the Part VII funds merger we completed last year and demonstrating the benefits of our diversified balance sheet. With our £200m of capital enabling us to write around £6bn of annuity premiums annually, which in turn will be the key driver of strong future CSM growth over time. And I'm pleased with the 10% CSM growth delivered in the first half.

So in summary, when you look at the first six months of our three-year strategy there's a lot to like. Excellent growth in our capital-light Pensions and Savings business through growing our assets, with improved net fund flows and enhancing our margin by reducing cost. This has been a huge area of focus for me since I joined and so it's great to see the momentum we are now building.

And then disciplined deployment of capital into annuities with excellent progress in reducing strain - reducing our new business strain - to optimise our returns and deliver strong CSM growth.

We're also deleveraging our balance sheet and delivering recurring management actions that create value by growing Own Funds. And we're making clear progress on delivering our migrations and implementing the changes needed to simplify our business to reduce costs.

Phoenix is now an attractive, organically growing business that delivers growing cash, capital and earnings. With strong growth in our Operating Cash Generation, our recurring capital generation and Own Funds, and our operating profit and CSM. All of which underpin our progressive and sustainable dividend.

With that I'll now hand you over to Stephanie, who will explain our first half financial results in more detail, Stephanie. And welcome.

Delivering our financial framework

Stephanie Bruce, Interim Group Chief Financial Officer

Thank you, Andy. Good morning everybody. So I've now been with Phoenix a couple of months and I've been really struck by the focus of our colleagues on delivering the strategy right across the business.

It is readily apparent that the wide range of capabilities and specialisms here at Phoenix is key to the momentum the team is achieving as we progress towards our ambition of being the UK's leading retirement savings and income business, and create shareholder value through delivering strong performance across our financial framework of cash, capital and earnings.

Now for the first half of '24 we're reporting against these three key areas. In cash, total cash generation has increased to £950m and importantly was delivered through strong growth in Operating Cash Generation from our businesses.

In capital terms, the balance sheet's resilience enabled both the repayment of debt and investment into the business. With the Shareholder Capital Coverage Ratio remaining in the upper half of the target operating range and the Solvency II leverage ratio reducing in the period to 35%.

In earnings, adjusted operating profit increased by 15% to £360m reflecting the growth in both the Pensions and Savings and the Retirement Solutions businesses.

However, we have reported a statutory loss after tax of £646m due principally to the consequences in this period of our Solvency II hedging strategy in IFRS reporting. This has therefore reduced shareholder equity and adjusted shareholders' equity in the period, which I will cover in detail shortly.

And finally, as Andy has outlined the Board has declared an interim dividend of 26.65p per share which is a 2.5% year-on-year increase.

Now the operating momentum in the business is driving strong performance across the key metrics that demonstrate growth. Operating Cash Generation is the primary metric and therefore 19% year-on-year growth in the first six months of a three-month - three-year strategy is encouraging.

Similarly improving recurring capital generation by three percentage points in the period is an important indicator that the underlying business before the non-recurring debt repayment and strategic investment is self-sustaining.

Other key metrics are Pensions and Savings average assets which grew 9% as well as Workplace net fund flows which increased 83%. Both are good signs of the growth in the capital-light business.

CSM growth of 10% is a strong increase in the store of future value that will emerge in operating profit over time. And an annuities capital strain of 3% is an important metric for enabling growth in the Retirement Solutions business.

However, in this period the known consequences of our hedging strategy have impacted the IFRS result in particular. Now as a reminder, Phoenix hedges its Solvency II surplus which was £3.5bn at the end of June. This is because a stable surplus protects our cash generation from unrewarded market risks and therefore underpins our sustainable dividend. And this strategy works well.

However, in an environment of higher interest rates and rising markets there are consequences of the hedging strategy, particularly for IFRS shareholders' equity and to a lesser extent Own Funds which in turn impacts the leverage ratio.

Interest rates and equities markets were higher in the period to June which therefore created an adverse impact in the first half. But we believe the end of June represented the peak for interest rates with long-term rates having already fallen around 35bps by mid-September with further reductions expected. We have therefore already seen improvements in all of these metrics since June and are positioned well to benefit further from lower interest rates going forward.

So, turning to the detail of our first half results, starting with cash. So at Phoenix Operating Cash Generation is the sustainable level of cash remitted from the Life Companies to Group and comprises both the surplus emerging and the recurring management actions. It's therefore very pleasing to have delivered 19% growth to £647m in the first half.

The key components of growth are a 5% increase in surplus emerging to £383m reflecting particularly the growth of new business in Pensions and Savings. And a 48% increase in recurring management actions to £264m which reflects a large number of actions to optimise the Solvency II balance sheet.

Given the strong start to the year we are now confident of delivering £400m of recurring management actions in '24 and maintaining that level. As Andy explained earlier, recurring management actions are simply the same day-to-day actions that others across the industry undertake to efficiently manage their balance sheets and which is normally embedded into the surplus emergence. This includes, for example, optimising the shareholder credit portfolio. The separate reporting of these management actions made sense as Phoenix transitioned its reporting framework and could be simplified over time.

Importantly the Operating Cash Generation in the period more than covered the recurring uses and the dividend, which demonstrates the stronger operating performance in the business.

We've also delivered £303m of non-operating cash generation. Now this includes one-off management actions and a free surplus release. So total cash generation is therefore £950m and this strong first half performance increases our confidence in delivering at the top end of our cash generation target range of £1.4-to-£1.5bn this year.

So, turning to capital. The resilience of our Solvency II capital position provides the capacity to support both deleveraging and investment into the business. Our Shareholder Capital Coverage Ratio remained in the top half of the target operating range throughout the period and was 168% at the end of June.

Now there are a number of moving parts within the Solvency II walk, but I particularly wanted to draw your attention to the positive nature of the recurring Solvency II capital generation in the period. The three percentage points increase means that the operating surplus generation more than covers our operating costs, debt interest, dividend and new business strain and reflects the stronger operating performance from the business.

The majority of economic movements were mitigated by the hedging strategy with only a limited £100m adverse economic variance in the surplus during the period. And as Andy explained earlier, we also had a number of planned non-recurring uses of surplus capital including £250m of debt repayment and nearly £200m of investment into the business. Our closing surplus was therefore £3.5bn.

Turning to leverage. We have repaid £250m of debt in the first half of '24 and intend to repay at least another £250m by the end of '26. This will contribute to achieving the target of a 30% Solvency II leverage ratio by the end of '26, which we consider to be an appropriate level for the business.

Now as at June the ratio had reduced to 35% which reflected a two percentage points reduction from the debt repayment. This was partially offset by a one percentage point increase due to the impact on regulatory Own Funds from the hedging strategy, primarily as a result of higher interest rates. But this impact is now reversing as interest rates reduce.

Now importantly we have a number of levers within our control that contribute to achieving the target of 30%. These include the planned repayment of at least £250m of debt which will reduce the ratio by around two percentage points all else being equal.

We're also focused on growing Own Funds through the delivery of our strategy and will accelerate this growth by writing profitable new business and retaining more of our existing customers. Realising our target savings and reducing investment spend and through delivering recurring management actions.

So, turning to IFRS earnings. We're pleased to report a 15% year-on-year increase in IFRS adjusted operating profit to £360m. Our Pensions and Savings business is primarily a capital-light business with around 90% of its assets being investment contracts. Profitable growth in this business is delivered through growing assets and improving the net operating margin. And these half year results show further successful action on both, building on the past 18 months or so.

Now in the first half of '24 our average assets under administration increased by 9% compared to '23 driven by a growing – by growing Workplace assets as we improve our net fund flows and through positive market movements. Operating margin across Pensions and Savings has also increased to 17bps an increase of 3bps compared to the second half of '23 as costs have reduced.

These factors have helped to increase the operating profit of Pensions and Savings in the half year to June. And it's worth noting that the lower profit in the first half of '23 reflected some one-off adverse experience variances related to a small proportion of insurance contracts in the Pensions and Savings business which has not repeated since.

Now, Retirement Solutions contributed £210m of operating profit in the period with steady growth due to success in the annuity market and our ability to improve the investment return. This is continuing to build good momentum.

The decrease in Europe and Other primarily reflects positive one-offs in the prior period for experience and assumption updates that have not been repeated.

So, looking forward we expect to see our operating profit growth momentum continue with a stronger second half performance as we progress towards our target of £900m by '26.

Now the loss after tax I highlighted earlier has resulted in a further decline in shareholders' equity at the end of June. We are very focused on rectifying this over time.

Our operating profit is growing strongly and in the first half it broadly covered the key recurring expenditure of our dividend and debt interest. It does not yet cover the accounting impact from amortisation of intangibles which is running off over time or the non-operating expenses.

Now, we are incurring higher non-operating expenses during our three-year investment phase as we invest to grow, optimise and enhance our business after which this level should reduce to a low level.

We therefore are focused on growing operating profit to cover all expected uses over the long term. Now in this first half we also had a one-off accounting impact in shareholders' equity of the buyout of our internal PGL pension scheme, although that is actually broadly offset in the CSM and I will cover that shortly so is neutral from an adjusted equity perspective.

Now, the main driver of our reduced shareholders' equity in the period is therefore the adverse economic variances from higher interest rates and equities due to the accounting mismatch related to our Solvency hedging.

Now looking forward, our shareholders equity is positively geared to lower long-term interest rates with a 35bps reduction since June having already improved the position and further improvements to come as rates reduce further.

Importantly though, we are focused on driving increased shareholder equity through the factors which we can control. This includes our target to increase adjusted operating profit by '26 to £900m through business growth and by delivering annual run-rate cost savings of £250m.

In addition, Phoenix has long demonstrated its strong capabilities in optimising its cash and capital position and we are now looking to apply exactly the same discipline to optimising the IFRS balance sheet.

Adjusted shareholders' equity was £4.2bn as at the end of June which we believe is a far better measure for Life Insurance companies as it includes the CSM, which represents a significant store of future value that will emerge over time into operating profit creating value for shareholders.

And the CSM grew in the period by 10% to £3.1bn gross of tax. New business contributed 3% growth in the CSM in the first half, lower than in '23 due to a slower first half BPA market. Management actions of £73m primarily reflect lower investment manager fees that we have negotiated.

There was also a one-off £87m increase from the buyout of our internal pension scheme that I explained on the prior slide, as well as an £81m of one-off modelling refinements and adjustments. So strong growth for the CSM in the first half with the impact from some one-offs.

Looking forward we expect increased new business growth in the second half given our aim to achieve £6bn of annuity volumes with competitive pricing and less one-off impacts.

So, in conclusion we are executing on our three-year strategy as we invest to grow optimise and enhance the business. We have a clear set of financial outcomes for shareholders across cash, capital and earnings as outlined on the slide. Now, this includes the primary

reporting metric of Operating Cash Generation with a target of £1.4bn in '26 and which is then expected to grow at mid-single digit percentage growth rate over the longer term.

We have made good progress in the first half and are on track to meet our financial targets. For '24 we are confident that we will deliver at the top end of our '24 total cash generation target range of £1.4-to-£1.5bn. So, Andy back to you for the summary.

Summary

Andy Briggs, Group Chief Executive Officer

Thank you, Stephanie. So, in summary, we have a clear vision here at Phoenix to be the UK's leading retirement savings and income business. And I'm really passionate about this. With the level of under-saving and the lack of advice for the majority of people, somebody needs to stand up for the ordinary customers and help them get a better later life. And I believe that we at Phoenix are best placed in the industry to do that. And this is also a huge commercial opportunity given the scale of the fund flows and the structural growth this societal need offers.

So, we're therefore executing our three-year strategy, building a sustainably growing business. And I'm really pleased with the initial progress we've made in these first six months. As the turnaround of our Workplace business delivers strong net fund inflows. The launch of our new retirement income products helped to begin address – help to begin address our legacy outflows and our asset management capabilities now creating significant value.

We're therefore delivering profitable growth through our capital-light Pensions and Savings business as we grow our assets and reduce our costs. And we remain disciplined in our deployment of capital into annuities with our reduced capital strain a key enabler of strong returns in our Retirement Solutions business.

All of which is delivering the strong operating momentum we are seeing in the business. We're also committed to achieving our target leverage ratio and I'm very focused on ensuring we grow our balance sheet over time through growing both Own Funds and shareholder equity.

We're therefore on track to deliver all of our financial targets across our financial framework of cash, capital and earnings, which will support strong shareholder returns enabled by our progressive and sustainable ordinary dividend policy.

And with that we will now move to questions. So, we're going to start with questions from the audience in the room. If you can 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.

For anyone watching the webcast please use the Q&A facility and we'll come to your questions after we have answered those in the room.

So, I'd like to be fair. I think Steven's on the far left. You started last time, so we're going to start this side, and we will kick off with Abid.

Q&A

Abid Hussain, Panmure Liberum

Morning everyone. Thanks, Andy, for taking the questions. It's Abid Hussain from Panmure Liberum. I've got three questions. First on the total cash generation. So clearly strong delivery on the half year. Just wondering why you're not increasing the full year target. You said you're going to hit the top end at £1.5bn but it feels like you could exceed that. Or is there a timing issue? I'm just trying to gauge the sense there.

And the second one is on the IFRS earnings. Clearly below the line negative variances due to economic movements. I'm just trying to understand is that sort of due to the contracts becoming more onerous under the IFRS 17 regime and you've got to take the pain up front immediately? So is there some sort of asymmetry when the variance – when economic movements turn in the opposite direction? So I'm just trying to judge if there's any asymmetry on the way down versus on the way up there.

And then the final question is on the SunLife sale process. Just trying to understand why you pulled out of that sale process and if that's likely to be resurrected. Or do you think you can basically generate more cash on your own – on your own balance sheet through that? Thank you.

Andy Briggs, Group Chief Executive Officer

Okay. Thanks, Abid. So, I will take the first and third. And I will briefly comment on the second. But then pass to Stephanie to give more colour.

So, in terms of the total cash generation. So back in March we set out a series of three-year targets. We feel very good about our progress against those. But six months into three-year targets we're not going to start upgrading anything. So we decided not to change any of the targets here. We're very, very pleased with the cash generation. And we're comfortable - we'll be, you know, comfortably at the top end of the range of the one-year cash target. No sort of timing bits to be concerned about with that.

In terms of SunLife, so we concluded there that a disposal would not maximise shareholder value basically, given the current protection market uncertainty. So, you're probably aware the FCA are doing a review into pure protection. And we're not worried about the business ourselves, we offer excellent value for money for customers here. It seems as though the primary focus is around commission levels. So, we are currently the manufacturer and the distributor in SunLife. And therefore, if we need to shift commission levels, zero sum game for us, we don't mind. But looking at a potential disposal of the distribution arm and keeping the manufacturing arm, given that uncertainty we concluded highest value way forward is to retain.

It's a really good business. Mark Screeton and the team are first class, the management team. They do an excellent job. And the highest value will be in retaining the business and growing the business within the Group.

In terms of the IFRS earnings. So let me just give a quick initial comment on that and then pass to Stephanie. So, look, we have seen shareholder equity decline primarily as a result of the rise in interest rates. That's a consequence of our hedging strategy. So the hedging strategy is protecting the capital surplus. So that's basically protecting cash generation short and long term. Which also therefore protects our dividend short and long term. So that's what we're looking to do. It's a consequence we accept from that.

Our current trajectory on this doesn't go negative in terms of shareholder equity. But it's an area we've got strong focus on. It's a strong area of focus for investors. And my primary focus, and Stephanie's as she said, is let's get that operating profit up to a level that covers all of the recurring uses. So that every year, absent any economic variances, shareholder equity is growing. So that's our focus. We've got really strong operating momentum in the business, strong growth in the business. I want to drive that through. Very determined to drive that through, so operating profit gets to a level it covers all of the recurring uses.

Stephanie, do you want to just add to that in terms of the...

Stephanie Bruce, Interim Group Chief Financial Officer

I think that was a pretty good answer. But in terms of, the only thing I would add in terms of, you asked is, around onerous contracts, etc. No, that's not the case. It is really to do, as Andy says, we hedge our surplus and therefore that is obviously tied to, in terms of, obviously the Own Funds, the SCR and the surplus. And a number of those components actually are not in IFRS.

So therefore, it's just a consequence of there being items that you're hedging, in terms of, as they move around in a solvency world it's just really the accounting that then comes through when you look at it in the IFRS.

Andy Briggs, Group Chief Executive Officer
So, we'll go to Dom and then Andy.

Dominic O'Mahony, Exane BNP Paribas
Thanks very much. Dom O'Mahony, BNP Paribas Exane. Three questions for me, thank you. Two on the recurring management actions, if that's alright. I wonder if you could just give us a little bit more detail on the very strong print there. Where did it come from?

And then secondly on the recurring management actions. Should these have a symmetrical impact on the IFRS as well? If the IFRS discount rates move with yields. If you could just explain the IFRS impact of those, that would also be very helpful.

And then lastly, it's very exciting to see some of the new product launches on the Retail side. For instance, the Individual Annuities and the Smoothed Fund. Could you just give us a little bit of colour on the performance of those products since launch? Thank you.

Andy Briggs, Group Chief Executive Officer
Okay, so I will kick off with the first one and then get Stephanie to pick up the second one. And then Andy Curran's in the front row here, so I'll give him due notice. He's getting the third one on the new product launches.

So, in terms of the recurring management actions, this is a very large number of week by week, day by day, actions that Mike and the team take within the business. And we're not increasing the risk by doing so. It's keeping the risk the same. A large number we're doing week in, week out.

I think the big difference here is because of our history of doing M&A and then doing management actions from M&A, as we transitioned our financial framework to much sort of more normalised in line with peers, we felt it would be clearer to call this out as recurring management actions. What our peers - our peers do exactly the same thing. They basically embed it in operating surplus. They don't call it out as recurring management actions, they just embed it.

But what we're doing here is just the same as peers do. And we – you know we probably should think over time as we evolve our financial framework, we should reflect further on that. It's just the same as peers, no different, sensible optimisation of the annuity portfolio. Stephanie, do you want to just pick up on the IFRS impacts?

Stephanie Bruce, Interim Group Chief Financial Officer
Yeah. So, the management actions are particularly designed in terms of, again, managing very much our longer-term cash generation. So again, a focus very much to influence both the Own Funds and or the SCR.

There is a different impact for IFRS and it breaks - it doesn't actually break down in an easy way. It's a reduced impact for IFRS because the focus is actually on the Solvency basis. And actually within IFRS, it would come through a number of different lines. So we don't actually split it out in that way.

Andy Briggs, Group Chief Executive Officer
Actually when you said new product launches, so I'll get Andy to cover the Smoothed Managed Fund and the Fixed-term Annuities. But Mike's also here as well. He was instrumental on Future Growth Capital, the new JV with Schroders. So I'll get Mike to comment on that as well. But Andy do you want to go first, yeah?

Andy Curran, CEO Standard Life

Yeah, just very quickly.

Andy Briggs, Group Chief Executive Officer

Stand up Andy, yeah.

Andy Curran, CEO Standard Life

Yeah, sure. Thank you for the question. On the Smoothed Managed Fund, we've launched that very recently. It takes time as the adviser goes through the process of getting the product panelled, then identifying the appropriate clients and you know, making the recommendation to those clients and so on and so forth.

So, we've gone through a lot of work with adviser firms. At the moment, I think we have about 70 adviser firms, between 70 and 80 adviser firms who are panelling this product. We've already written some - some investment monies in already. So it's just short of £2m, which seems very small. But the opportunity there is over the long run, and the key is getting the product panelled. And that's just part of the process. So, it's kind of time locked, but I'm very, very encouraged by what we've seen so far.

On individual annuities and fixed-term annuities, again, the opportunity for us is really big. The start has been really positive. I think Andy mentioned in his remarks that our servicing of that annuity business is really, really sharp. And we think it's market leading and we see no reason why we can't grow that business significantly.

So, in all sort of three, Fixed-term, Individual Annuity and the Smoothed Fund, really encouraged. And I think we'll have even more things to come over the coming months as well. So an encouraging start.

Andy Briggs, Group Chief Executive Officer

Thanks, Andy. Mike?

Mike Eakins, Chief Investment Officer

So, on Future Growth Capital, we were delighted to announce that JV with Schroders. We signed up to the Mansion House Compact in July of last year, where we said we would invest 5% of our defined contribution assets in productive assets. We had a look around the market to see which asset manager could help facilitate this. And we quickly came to the conclusion that there was no real offering.

So, in conjunction with our partners at Schroders, we developed Future Growth Capital. We were delighted to announce that earlier in the summer. And are really excited about the prospects that that delivers for our most important stakeholder, our customers. So really getting our customers access to those private markets where they don't have it right now and we can deliver - those returns will flow through to our customers.

Andy Briggs, Group Chief Executive Officer

Andy?

Andrew Sinclair, Bank of America

Thanks, Andy. Andy Sinclair from Bank of America. First was on BPA. And great volume guidance and low strain looks great. But can you tell us a little bit more about the margins? We've not got a new business long-term cash disclosure. But should I just look at CSM new business generation divided by premiums? If I do that, I think we've dropped from about 4.8% in 2023 to 4.1% in half year '24. Just if you can tell us a little bit more about the margins. Is that the right way to look at it or something else?

Next was just on the hedging. And just really trying to understand what happens when rates move. If short-term rates come down, if base rates come down, but the 10-year stays at similar levels. If that doesn't come down, how much of a benefit do we get to shareholders' equity? Just to understand, depending on the shape of the curve as well as just base rate cuts, how much of a benefit do we actually get to shareholders' equity?

And then third was just on the other non-operating item within – within IFRS. So £302m negative in H1, including the pension fund stuff, which is about a third of that. How much should we be thinking over the rest of the plan to be coming through in that line? Is that £400m left of the £700m? Is it £500m? How broadly should we think of that line over the remainder of the plan? Thank you.

Andy Briggs, Group Chief Executive Officer
Sure, okay, so I'll take the first and a quick comment on the second and then pass to Stephanie for the second and third. So on the BPA side, so our primary focus here is actually driving strong returns on capital. So looking to optimise the capital we deploy and drive strong returns. We say we aim for mid-teens returns. We're obviously you know doing very well against that.

Looking at the CSM growth is also a good way to look at it, Andy, but it does depend on the duration. So sometimes you get you know relatively shorter-term business that will give you a lot of cash fairly quickly, but a shorter tail than other cases. So I'd look at that more generally over time.

In summary, overall, I'm delighted with what Tom and the guys are doing on the BPA side. Getting that strain down to 3% is fantastic for us. It was 4.7% last year. It was 6% the year before, around 6% the year before, and it means that our disciplined capital allocation of £200m can go a lot further. We expect to be able to write £6bn of premiums, and I think that's very attractive while keeping the diversified balance sheet, which is important to us.

Just on the hedging part, I'll get Stephanie to respond to that, but I think the key thing I would say is just to reiterate that what we need to do here is grow that operating profit. We've got a very strong momentum building in our business. Our business is growing strongly. That needs to drive through to operating profit, so operating profit exceeds the recurring uses. We can't rely on whether markets move or not to whether we have growing shareholder equity. We need to focus on the stuff that we can control, and that's about driving up operating profit, which we're very determined to do. Pick up from there, Stephanie.

Stephanie Bruce, Interim Group Chief Financial Officer
I think that's exactly right. That is the absolute key driver. In terms of the movement of all of the rates, in terms of obviously the team have just been monitoring that, but in terms of what's happened since June and right across the patch on the average, the 35bps we referred to, we would expect around about a couple of hundred million to come back in in economic variance already since June, so that's how that would flow through.

And then into your third question in terms of non-op, you're absolutely right, there was an additional pension movement in this period, but behind that, obviously, there was also the investment in the business of just around about £0.2bn. Now, if you refer back to the guidance in terms of the overall experience of the £700m, which you referred to there, which was set out in March, and we will still expect that to come through over the next two years, the remaining balance to come through.

Andrew Sinclair, Bank of America
So, is that £500m more to come through that line? Sorry, just jumping back to my previous question about the shape of the yield curve. I mean look, we've got an inverted yield curve at the moment. If that yield curve normalises, so we go down at the short end, but let's say the long end doesn't change, do we get any material benefit to shareholders' equity, or do we need the long end to come down as well?

Stephanie Bruce, Interim Group Chief Financial Officer
So, again, Andy, we're not going to try and do all the movements here at the moment, but as I say, what we can say is we've definitely improved already from the rates having come down to get to that impact, as we would look at it, as a couple of hundred million since the year end. Sorry, year-end – half-year end.

Andy Briggs, Group Chief Executive Officer
Farooq? Sorry, Rhea, I didn't see you there. I'll come to you next Rhea. And, Andrew, you've not had any questions, Andrew. This is worrying me.

Andrew Crean, Autonomous
I will do.

Farooq Hanif, J.P. Morgan
He's very near my microphone. Hi, Farooq Hanif from J.P. Morgan. Firstly, you know, the excellent margin developments in Pensions and Savings, how much more can be squeezed out of that? I guess at some point, you know, we should stop modelling that improving. So, if you could talk about that side of it, you know, especially as the Retail products start to go on, and presumably they have higher margins than Workplace, I'm guessing. So that's question area one.

Question area two is, I mean, could you give us a sort of an angle on where the Solvency ratio might be now? And in light of that, you know, the PRA stress tests are not as far away as, you know, I mean it's obviously looming, and it feels to me like, you know, some of the credit stress tests that you'll have to do are pretty onerous. I mean, how comfortable are you that you will remain within that 140-to-180% range on Solvency? I know it's early days, but can you just comment on your views on your Solvency position?

And then last, very quickly, on the private growth fund, what's the business model in terms of how you share the economics with Schroders? Because I'm guessing, you know, you can divert a lot of your own assets into that JV. I mean, how are you sharing the economics? Thank you very much.

Andy Briggs, Group Chief Executive Officer
Sure. Okay. So I'll take the first and third and get Stephanie to take the second. So in terms of Pensions and Savings, we absolutely would expect that net margin to continue to grow. And that's because we've got a £250m cost reduction target. Now, Pensions and Savings is £184bn of our £289bn assets. So it's kind of two-thirds of the assets in the business is the fee-based capital-light side. And therefore, it's got, a large proportion of that £250m of cost reduction will feed through to Pensions and Savings.

So what you'd expect overall is there would be a slight, you know, a small reduction in revenue margin over time, but then a significant reduction in the cost margin, and hence the net operating margin will continue to expand, particularly, as I say, from the - cost reduction program we've got.

And you're right. Propositions like the Standard Life Smoothed Fund will serve to what - will be a higher – you know, higher revenue margin than Workplace, for example. So we're really optimistic that this is going to be a big driver of growth for us going forward, particularly given the flows coming into that sector overall.

In terms of the business model around Future Growth Capital, so what I'll do is I'll answer that talking a bit more broadly about our approach to asset management. So our approach to asset management is to have a team of highly skilled investment professionals that basically determine the optimal asset allocation for each of our funds. Shareholder funds, With-Profit funds, policyholder funds. And then have the capability to partner with the best asset manager in each asset class that we want to operate across there.

Obviously, abrdn are our core asset management partner. In areas where they're strong we will automatically give the business to them, but we are free to go elsewhere in areas that abrdn don't have a capability.

And then the – sort of the next step on from that is we then, having got that strategic asset allocation, where is there value in us running the money ourselves versus using third-party partners? What we've concluded is that the shareholder fixed income, the shareholder credit-backing annuities, both liquid and illiquid, there's merit in us doing that in-house, so we're moving in that direction. And then when it came to the private equity side, we also think there's value in that. We didn't think we wanted to try and do it in-house up front. We felt the right answer was to partner, but it does mean that we'll have a participation in the value creation from the asset management side through Future Growth Capital, and the 50/50 joint venture that we have with Schroders there.

Stephanie Bruce, Interim Group Chief Financial Officer

Yes, and in terms of the Solvency ratio you said, in terms of where are we, obviously we're in a - halfway through the second half, but we're very much into exactly where we would expect to be in a kind of normal path of the ratios through to the end of the year, and very similar to where we were as at the half year. So nothing new to highlight to you there.

And in terms of the, kind of, the broader territory, in terms of are we confident of the range of 140-to-180%, yes, we are.

Andy Briggs, Group Chief Executive Officer

So, I'll go to Rhea.

Rhea Shah, Deutsche Bank

Thanks. Rhea Shah, Deutsche Bank. Three questions. So the first one, just going back to the recurring management actions. What gives you the comfort in increasing them to £400m this year, but also into 2025 as well, because that is also an increase in the guidance for next year?

The second one on the cost savings, if you could just give us some colour on what you've achieved so far and what's going to drive the cost savings and the £50m run-rate for the full year?

And then the third one on fund flows, if you could give some colour and guidance on the flows for the second half of the year and into next year as well. Where are the flows going to come from across the business? And when do you think the total Group net flows will reverse and become positive?

Andy Briggs, Group Chief Executive Officer

Okay. So again, I'll take the first and third, and Stephanie will take the second. So in terms of the recurring management actions, we've basically been investing in systems, processes, and people capability in asset management to be able to do this. And Mike and the team have done an outstanding job and have kind of got there you know quicker than I hoped.

And so the £264m in the first half, really pleasing. And that's what's given us the confidence to say, you know we set a target, we will get to £400m, and we'll get there this year, and we'll be there in future years as well. So we're not trying to up the guidance on anything here. We set the target of £400m, we'll get there this year, we'll be there in future years, and that's the capabilities we've built.

In terms of the fund flows, so it is a focus for us to get to, you know, net positive overall. What I would say is that the net outflow we have is de minimis. So it's kind of less than 1% of our total AUM is the net outflow. And obviously that was impacted by the fact that BPA premiums were generally lower in the market in the first half. I'd expect to continue to make good progress in growing Workplace net fund flows going forward.

Now there will be a lumpiness to that. So we had a £900m in the first half from a large tech scheme that transferred to us. We had the £1.6bn scheme in the second half of last year.

So the direction of travel on Workplace net fund flows will continue to be positively and strongly forward. But there will be some lumps with the one-offs which will happen from time to time.

BPA, as we've said, we'd expect to be writing circa £6bn of annuity premiums a year for our £200m of capital at the new lower strain we're now getting to. With profit outflows, don't expect to change materially.

The other big upside opportunity is on the Retail side. So at the moment we have circa £10bn of Pensions and Savings Retail outflows each year, order of magnitude. And ultimately, one-in-five adults in the UK are customers of Phoenix Group. For each £1 they have with us, they have £3 elsewhere. So as we execute on our Retail strategy, I want to be driving that much, much more strongly going forward.

And that's – you know we approach - the way we approached the organic growth was to kick off with BPA, make good progress quickly, then revitalise, reinvigorate our Workplace business. Again, delighted with the progress there. We're now turning our attention to the Retail side and the new propositions we're launching there would be examples of that. And that's the real opportunity.

But I think the final point I'd make on that is just that, you know, we sort of reflected long and hard after last September and the market feedback and we listened acutely to that market feedback and we came up with our evolved financial framework of cash, capital and earnings, which is much more aligned and comparable with our peers, which is what we were hearing people wanted to see. And we've set three-year targets on those. And those are value-orientated targets rather than volume-orientated targets. And those are our primary focus. But ultimately, growing net fund flows is an outcome of a strongly organically growing business and will be a key driver of growing those value-based outcomes as well. So it is a key focus for us.

Stephanie Bruce, Interim Group Chief Financial Officer
And Andy, the one thing I would add as well in terms of Workplace, as we said, which is a very strong part of the P&S business for us is the fact, if you look at it now, we've got the net fund flows in the half year have actually been 6% of opening AUA, which you know is clearly a very good story for a growing business, which of course is great to see.

Your other question was in terms of costs. So in terms of the activity, so there's been an awful lot of activity obviously going on in the business to identify where those cost savings will come through. The current ones really that we are able to highlight and forming part of that £50m primarily relate to areas around procurement and some supplier management. We obviously referenced doing further negotiation on investment fees, for example, but more broadly in terms of procurement and supplier management, together with changing the operating model, because as we referenced in Andy's part on the screen, we've obviously moved from the Heritage and Open divisions into a much more single model across the business and that allows us to obviously to make changes there.

Andy Briggs, Group Chief Executive Officer
Andrew.

Andrew Crean, Autonomous
It's Andrew Crean at Autonomous. Three questions that I have. Firstly, is the level of Solvency strain sustainable at this level? The 3% having come down from 6%? If so, are you essentially, as you launch into individual annuities, are you basically saying that you're still going to be ceilinged by £6bn? So it's a question really of whether you write more individuals and less BPAs over time.

Second, now that Consumer Duty on closed books is live, are you still confident that there are no questions for Phoenix to answer, which might disturb shareholders?

And thirdly, on the debt leverage figure of targeting 30% on the regulatory Solvency II equity, and that's still up around 45-50% on the shareholder basis and the rest of the sector is at 30% or less. Why should Phoenix feel that it can operate with so much more debt leverage than anyone else in the insurance sector?

Andy Briggs, Group Chief Executive Officer
Okay, so I'll take all of those. So in terms of the strain on BPAs, so what's happened here is we basically merged the Phoenix Life and Standard Life legal entities together through a Part VII fund merger towards the back end of last year, and we're now getting the full benefit of that diversification. So we have a very diversified balance sheet. Annuities are a smaller proportion, but we're getting that full diversification. So that is permanent, and therefore, you know, we would expect a 3% strain going forward.

The only observation I'd make, Andrew, is that you know our returns on capital at that level are very, very attractive, and therefore if the market did become tighter on pricing, it would still make economic sense to deploy capital at a higher strain than 3%.

So I'm not saying never, but the structural changes that have taken us down to 3% are permanent, and therefore I'd expect to remain at that level going forward. And we now have an individual annuity in the market. Our view is we are, Tom and the team are going to optimise the value creation across the piece. So you know, we view it as annuities as a whole, whether it's a bulk annuity or an individual annuity. We're deploying the £200m of capital, and you know with a low strain, that enables us to write the £6bn. We view that as a holistic figure across all of annuities.

Of course, in the situation where we outperform, which we have a long track record of doing, our capital allocation framework would explore how we would deploy excess capital we generate. You know one of the options would be further deleveraging. One of the options would be further investment into growth, bolt-on M&A, share buybacks, and so you know we wouldn't rule that out with excess capital as well.

In terms of new Consumer Duty, so yes, we met all the regulatory deadlines at the end of July. We're confident we're in a good place and - no concerns.

In terms of debt, so the reason we operate on a regulatory basis is that's basically what our debt holders want, that's what they look at, that's what they focus on. So we're focusing on the leverage ratio that they focus on. That's why we use that basis. 30% on a regulatory basis is not out of line with peers.

And at that level, our view is that's the appropriate level for us. So we still have 6x debt interest cover at that level, which we think is a strong level of cash coverage of debt interest. And ultimately, the cost of debt is cheaper than the cost of equity. So the way we are optimising returns for our shareholders is by having the right balance of debt and equity in our capital structure. And that's our – that's our view of what's the right balance, particularly given we have 6x interest cover on debt.

Steven.

Steven Haywood, HSBC
Good morning. Steven Haywood from HSBC. Just two questions from me. Everyone else has taken my other ones. The debt leverage, just following on from the previous question, can you describe or sort of quantify the Own Funds growth benefit that will come through on your debt leverage ratio over the next couple of years to get you to that 30% level?

And then secondly, on the hedging side of things, obviously there's a lot of things going on here, hedging on a Solvency II surplus basis. Can you give us a sort of a view of whether this hedging programme is kind of dynamic and fully adaptable? Can you make changes to it going forwards? And ultimately, when might you not need this hedging programme?

Andy Briggs, Group Chief Executive Officer

Okay, so I'll do the first and I'll kick off on the second and Stephanie will correct me and add some colour, I'm sure, to the second as well. So think about it this way. The 35% Solvency II leverage ratio we are absolutely committed to 30% by the end of 2026. The further £250m of debt repayment will take about two percentage points off. So that takes 35% down to 33%. Basically, we need about £1bn of Own Funds growth then to get to the 30% yeah.

So in the first half, our recurring Own Funds generation was £0.1bn. So if you kind of take that and think right we will times six, that gives you £0.6bn. But we want to accelerate the pace of growth in the business. We've got very strong trading momentum. We want to, you know, to get that Own Funds growth to be faster than that going forward. The – sort of the one-off management actions are covering the one-off costs as far as an Own Funds perspective is concerned. So if we get the recurring up, that gets us where we want to get to.

But what you've also got, Steven, is the £250m of cost reduction will also feed through here. And it should feed through to more than £250m of benefit to Own Funds because some of that cost reduction will be maintenance cost which then gets capitalised.

So you know, this is all about driving a really strong organically growing franchise here that drives that Own Funds growth. And you know certainly, the strong sense I get from buy-side investors that I talk to is if that denominator is growing strongly, the Own Funds, and therefore the leverage ratio is coming down a bit each year, that's the real key focus. Get that Own Funds growing up is what's most important.

Stephanie Bruce, Interim Group Chief Financial Officer

Andy just before you move on the other aspect to add on top of the £250m cost saving is also exactly the point we talked about earlier on, our non-operating costs are also coming down at the same time. So actually, that is another part that actually helps us really make that difference in terms of the overall benefit into Own Funds.

Andy Briggs, Group Chief Executive Officer

And then on the hedging strategy, so the headline here, as I say, is what we're doing is we are basically protecting the surplus which protects the cash generation short and long term and hence protects the dividend and debt interest - ability to pay debt interest both short and long term. And we think that – we believe that is the economically rational thing to do in particular because ultimately, we're able to run the business at you know the 168% Solvency Capital Coverage Ratio which is lower than peers, but still be absolutely super secure on our balance sheet.

If we kept the equity risk, for example, we'd have to hold more capital, and the additional return isn't worth it relative to the additional capital. So it's not economically rational. So that's why we believe that's the right thing for us to do.

What I would say, we recognise it has consequences in volatility - accounting volatility in shareholder equity, so we're very, very focused on that and focused on managing that overall IFRS shareholder equity balance sheet. And this is something that the Board do look at and review from time to time as you would expect. I think with where we are in the current rate cycle any change is unlikely in short term but it's something that the Board does – does keep under review.

Any final questions in the room? Andy.

Andrew Sinclair, Bank of America

Sorry, just a follow-up from me. Andy Sinclair, Bank of America again. Amortisation of intangibles was actually a bit lower than I expected. It seems to have taken a bit of a decent step down in H1. Anything to be aware of there just to understand the profile?

Ground rents and water utilities companies - just can you give us a little bit of colour on exposure within the asset portfolio there?

And one that doesn't get much attention but Europe and Other. Profit dropped quite a lot in H1, but CSM I think almost tripled due to an adjustment just if you can give any colour on what's going on with Europe. Thanks.

Andy Briggs, Group Chief Executive Officer
Okay, so on the - remind me of the first question I didn't write it down. I've been quite diligent here writing down.

Stephanie Bruce, Interim Group Chief Financial Officer
Amortisation of intangibles.

Andy Briggs, Group Chief Executive Officer
That's you.

Stephanie Bruce, Interim Group Chief Financial Officer
I'll take that, shall I? So no, nothing. It's just simply starting to come down on the normal sort of glide path, Andrew. So nothing unusual there.

Andy Briggs, Group Chief Executive Officer
In terms of ground rents and water utilities, so we don't have any material exposure to ground rents. We have a very diversified credit portfolio. Very you know sort of – very low exposure, for example, to BBBs. I think it's about 17-18% at the half year and so you know no undue abnormal exposures to utilities either. Very conservatively managed and operated.

Europe?

Stephanie Bruce, Interim Group Chief Financial Officer
In terms of the CSM of Europe, in terms of - if you actually look at it in terms of, it creates a significant new business add-on and it also creates a significant release relative to the size of the business and that's really to do with the type of business it is. So there's obviously the majority of that is to do with the SunLife in terms of that annual renewal of the assurance product that sits within there.

Andy Briggs, Group Chief Executive Officer
Because it is Europe and Other so there's other bits in there. Right. The very last question in the room will be Farooq and then we'll check any on the webcast.

Farooq Hanif, J.P. Morgan
Thanks for taking my question. Farooq Hanif from J.P. Morgan. Just going back to the Future Growth Fund, what's the mechanism for getting that percentage of AUM up? I mean will you - would that be a default option in pension schemes or will individuals who are sitting at their desks have to sort of make a decision to actively go in to that allocation?

Andy Briggs, Group Chief Executive Officer
Yes. So it's a great question. So what – what we've decided is that on those of our funds such as our With-Profit funds and some of our managed funds we've made the call where it's our decision on behalf of customers that this is the right thing to do, that the overall net returns will be higher. If you look at – you know just to give some sort of specific examples of this.

If you, the UK has got about 14% of its pensions assets invested into productive assets, private assets. The other seven largest pensions nations globally have got 20% compared to our 14%. If you look over the last decade, real returns for UK Pensions, DC pension savers, have been 4%. Their Canadian counterparts have got 5.2%. Australian counterparts 5.5%. That's about a third more income in Retirement if that sustains over a lifetime.

And that's basically because they have a broader range of investments, particularly into the private assets side. So we believe strongly that this is right for customers and the right outcomes. What's interesting Farooq is the whole UK market has historically, sort of culturally, been obsessed by low charges. The employee benefit consultants, the corporates, have been obsessed by low charges. What's interesting is the amount of incoming that Andy and Colin and the team are getting from corporates saying can we get hold of this please?

So, we thought we'd have quite a job to do to persuade the employee benefits consultants and the corporates that, you know, don't be obsessed solely by charges, focus on getting the optimal outcome for the customer which is obviously the return net of charges. We've actually been pleasantly surprised by the level of incoming.

So, we've got significant money that we've already lined up to allocate into this. We've committed those numbers externally. But the potential obviously with well over £200bn of assets in this space – you know 5% of that would be an even bigger number.

Also, I think it would be interesting – you know what's really critical for a customer here is that the customer gets exposure to a very, very diversified range of investments across multiple sectors multiple vintages and there was nothing out there that did that, which is why we decided to set this up. So, what would be interesting to see whether large, unbundled DC schemes say, okay, we want some of that and actually we're going to go to Future Growth Capital to get it. So, it will be interesting to see how that progresses as well.

Are there any questions online?

Andrew Downey, Investor Relations Director
No, there's nothing on there that we haven't already covered.

Andy Briggs, Group Chief Executive Officer
Okay, fantastic. Well, look thanks very much indeed everyone for coming along today. Stephanie and I, Andy, Mike, Nick our Chairman, and others we're all around afterwards. So by all means - we've actually, with our new simpler financial framework slimmed down, we're normally at the thick-end of two hours and we're an hour and 43 in so that's, in fact an hour and a quarter in. An hour and a quarter in. So we've got time to stay on, any further questions anyone's got.

But thank you very much for coming along. We'll catch up soon. Thank you.

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