

United Kingdom and Europe

Creating a simple, modern savings and investments business.

2017 performance highlights

- Announcement of merger of M&G and Prudential's UK and European business
- Start of major investment programme to improve customer service, accelerate product development and widen customer choice
- Total M&G Prudential assets under management¹ of £351 billion, up 13 per cent
- Net investment inflows to mutual funds and institutional investment strategies of £17.3 billion
- PruFund range reaches £36 billion in customer assets under management, up 46 per cent
- 45 per cent growth in funds under advice from our in house direct advice service, Prudential Financial Planning, to £5.5 billion

Understanding our markets

In August 2017, we combined M&G, our international investment management business, with Prudential's UK and European life insurance business to form M&G Prudential. We also announced a major investment programme in the new combined business's infrastructure to improve customer service, accelerate product development and widen customer choice.

M&G Prudential serves two of the world's largest savings and investments markets with asset pools in the UK and Europe of £7 trillion and €14 trillion respectively.

Across the region, people increasingly need help to meet their long-term financing goals as responsibility for retirement savings passes from state and employer to the individual. They want easy access to savings and investment solutions, as well as guidance and advice from trusted providers. In addition, persistently low rates of return on bank cash deposits are fuelling demand for investment solutions, whether people are saving for retirement, building a lump sum or protecting their wealth from inflation.

Managing £351 billion of assets¹ for over seven million customers in the UK and internationally, M&G Prudential has investment expertise, scale and financial strength and two well-respected brands – M&G Investments and Prudential UK. With the substantial investment we will be making over the next five years in transforming the business's operations, including building our digital distribution capability, M&G Prudential is well placed to meet the growing and evolving saving and investment needs of customers across intermediated, institutional and retail direct channels.

Customers

Whether we're helping an individual saver plan for their future with more confidence, or helping a big pension fund to meet its future commitments to pensioners, serving the long-term interests of our customers is key to the long-term performance of our business.

	Assets under management 31 Dec 2017	Customers
UK customers		
Investment funds	→ £36bn	186k direct customers
PruFund	→ £36bn	400k customers
Traditional products	→ £151bn	6.6m customers
European customers	→ £44bn	Leading cross-border fund sales
Institutions	→ £84bn	794 clients
	£351bn ^{1,2}	+7.2m customers

Adding more to life: Maureen, M&G Prudential

'I was in my early 20s when I started investing with M&G through a monthly savings plan. I found the idea of investing with other people in different companies fascinating. I still do, in fact. I wasn't saving up for anything specific, but I wanted to put my money to work for the future – either for a big purchase, like a home, or just for more financial security.

At the end of the day, money can give you choices. You never know what opportunities or challenges might be around the corner. And not just for yourself – it's great to be able to help your family.

Having grown over the years, my investments with M&G have given me more options in life. Decades on from the first £10 I put in to one of their funds, I really value still being an investor.'



We offer a range of investment and saving propositions to different customer groups.

In the UK, we manage the savings of direct and intermediated customers through a range of mutual funds. We are also a leading provider of savings and retirement solutions to direct and advised UK customers with a 19 per cent market share in life and pensions retail investments as at end September 2017, including the popular and successful PruFund proposition in a number of different wrappers. We also have a large book of UK customers who own traditional insurance-based savings products. In continental Europe, where we have a leading position in cross-border fund distribution with £44 billion² in assets under management, customers in 17 countries are able to access our investment strategies. Finally, we manage the pension and other long-term savings of millions of people through our relationships with 794 institutional clients, including 70 per cent of the UK's 50 largest pension schemes.

We see significant opportunities for continued revenue growth in four of these customer segments, including from the synergies available from the combination of our investment management and savings and retirement solutions businesses. We also see an opportunity to offer customers in our existing book of traditional savings products a new set of propositions as their needs evolve.

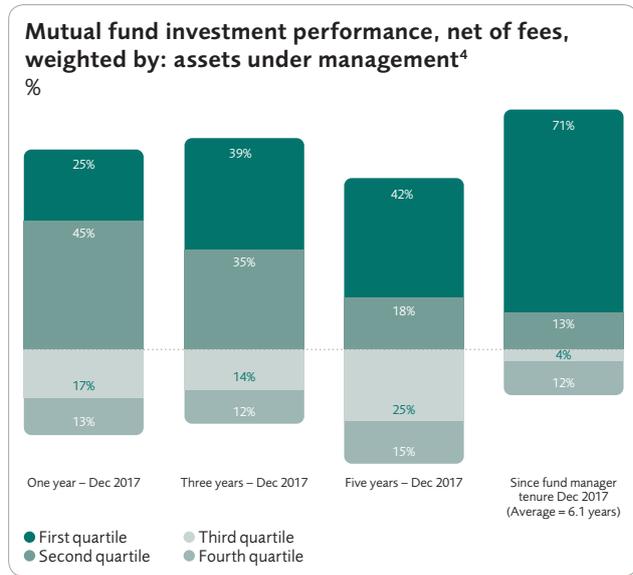
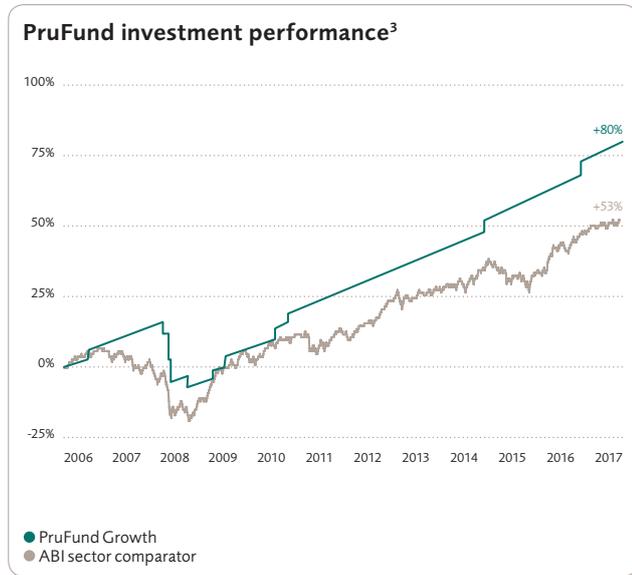
The expertise of the business in delivering investment outcomes for all of our customers is demonstrated by the scale of our operations. In total, M&G Prudential fund managers invest over £187 billion of assets on behalf of Prudential policyholders, in addition to the £164 billion of assets for customers invested in M&G mutual funds and institutional strategies. This combined investment footprint bolsters our investment solution capabilities allowing us to build the business around our customers and use our experience and insights to meet their needs.

Our products

Our aim is to provide our customers with savings and investment solutions which meet their long-term financial needs and goals, in the structure which best suits them. Behind these solutions is a powerful investment engine: a highly skilled team of over 120 fund managers who put our customers' money to work by sourcing investment opportunities globally across a wide spectrum of asset classes, including equities, bonds, credit, real estate and cash across both private and public markets.

Of the total of £351 billion in assets under management¹ across our entire product range, approximately 60 per cent is now invested in multi-asset solutions and strategies, including the market leading £36 billion PruFund range and the strongly performing £12 billion Episode Allocation range. This expertise in asset allocation is a key part of our investment capability and has again driven substantial inflows over the last year, as customers across the UK and Europe have continued to seek the diversification and flexibility of a multi-asset solution.

Our businesses and their performance continued



Other products include a range of unit-linked and collective investments, and within our corporate pension portfolio we continue to facilitate a range of auto-enrolment services.

For our savings and retirement customers we offer the PruFund range, which invests in our with-profits fund, the largest in the UK. The with-profits fund aims to smooth some of the extreme ups and downs of short-term investment performance to provide a more stable return. It has performed well over the past five years: for example, customers in the PruFund Growth Fund have seen growth of 36 per cent since the start of 2013 against benchmark growth of 30 per cent.

For direct investors in the UK and intermediated customers in the UK and internationally, we offer a range of 75 open-ended funds. The range offers a broad choice of asset types, geographies and investment strategies to help achieve a diversified portfolio. Our funds generally aim to deliver a rising income stream, long-term capital growth or a mixture of both, and the vast majority are available in ISA or JISA wrappers to UK direct customers. Almost all of our funds are managed actively for the long term.

Our open-ended flexible global bond fund, the M&G Optimal Income Fund, performed strongly in 2017. Having achieved an average annualised return of over 7 per cent since its launch in 2006, Optimal Income has been one of the top performing bond funds across all sectors over the last

decade. This return for its customers has been rewarded with net inflows of over £5 billion during 2017, bringing its assets under management to £23 billion.

This year we added our first open-ended infrastructure fund to our range, which aims to provide individual investors with both a growing income stream and long-term capital appreciation through exposure to the equity of global listed infrastructure companies. We also launched the M&G ESG Global High Yield Fund, a sister fund to our £1 billion Global High Yield Bond Fund. The new fund is aimed at meeting the needs of individual investors seeking higher yield.

During 2017, we also launched a further six M&G funds on our new Luxembourg-domiciled SICAV platform. As one of the most popular investment vehicles within Europe, the ability to offer SICAV funds will enable us to expand and deepen our highly successful international business further over the coming years. The new platform will also ensure we can continue to serve our European-based customers regardless of the outcome of Brexit negotiations between the UK and the EU. To that end, in September we announced our plans to migrate assets in four UK-domiciled funds held by European customers to the SICAV platform during 2018.

For our own life funds as well as for our third-party institutional clients, we continue to deliver innovative and competitive investment strategies to meet their specific needs. We are leading investors in 'alternative' assets such as commercial real estate debt, infrastructure debt and equity, and direct lending. These private assets are increasingly attractive options for investors looking for a yield to match their long-term pension liabilities, and of course also provide a valuable source of competitively-priced funding for new housing and infrastructure projects.

Reflecting growing demand from institutional clients for investments which make a positive societal and environmental impact, in 2017 we seeded our first Impact Financing Fund with investment from the Prudential life business and two third-party investors. Through private and illiquid debt transactions, the fund is already financing projects including a regeneration scheme, green energy and social housing construction.

Distribution

In M&G and Prudential, we have two well-respected and complementary brands: Prudential is closely associated with retirement in the UK, while M&G is recognised as a leading investment brand, both in the UK and across international markets.

Driving our business



Creating value and benefiting our stakeholders

Customers

Meeting the growing and fast-evolving saving and investment needs of customers across retail, institutional and direct channels.

Products

Market leading propositions, including PruFund and the M&G Optimal Income Fund, available in a number of saving and investment wrappers; and a range of strategies to help institutional customers meet their long-term commitments.

Distribution

Multi-channel distribution, based on strong relationships with institutional investors, advisors and intermediaries, and substantial direct-to-customer franchises, including Prudential Financial Planning.

Investment for growth

Investing circa £250 million of shareholders' funds into our infrastructure to improve customer service and business efficiency and drive long-term growth.

+7.2 million customers
£351 billion total assets under management¹ across a broad range of strategies and asset classes

£36 billion
PruFund assets under management

Launch of new M&G Global Listed Infrastructure Fund

+5,400 adviser firms dealing with M&G Prudential

MyPru and MyM&G digital services for direct customers

Extension of SICAV fund platform for European growth

Roll out of new scalable, simplified investment platform through Aladdin implementation

Strategic partnership with Tata Consultancy Services leveraging digital capabilities to enhance customers' experience

Our businesses and their performance continued

While our two brands occupy different market segments, both share a common philosophy of aiming to deliver excellent long-term customer outcomes, and both offer solutions powered by a world-class investment capability. Working together as M&G Prudential gives us new opportunities for growth by building on these shared values and strengths.

In the UK, where both M&G and Prudential products are distributed, we will be building on the great success of the PruFund range by broadening the existing proposition, making full use of M&G and Prudential's combined distribution network and making our customers' experiences – whether direct or advised – as good as possible throughout the lifetime of their products. Our digital transformation programme is essential to this, providing the infrastructure necessary to offer good value, state of the art solutions.

With over 15 years of experience in international distribution, offices in 18 countries and a new Luxembourg investment platform, we are well placed to continue to take advantage of the attractive growth opportunities in Europe and beyond. This includes retail distribution in Europe, and in international institutional markets, where our strong track record in private asset origination is a real competitive advantage.

Investment for growth

In a world of low interest rates and increasing life expectancy, more people than ever need long-term savings and investment solutions. We also know that our customers have far higher expectations of service and value for money, thanks to new technology and digital disruption. Over the last 169 years we have had a proud track record of innovating to deliver good outcomes to our customers, but we need to invest in our business to continue to do so. Over the next five years, we will be investing circa £250 million of shareholders' funds in our business, including a new digital infrastructure which will improve customer service, accelerate product development and increase customer choice. Strategic partnerships, such as the recently announced Tata Consultancy Services partnership to enhance service for our UK savings and retirement customers, are an important part of these plans to improve customer outcomes. With a simpler, more efficient, digitally enabled business, we will respond quicker and better to our customers' needs, offer better value and compete at scale in our markets even more effectively.



John Foley
Chief Executive
M&G Prudential

Notes

- 1 Represents M&G Prudential asset management external funds under management and internal funds included on the M&G Prudential long-term insurance business balance sheet.
- 2 Europe includes AUM in Asia and South Africa.
- 3 ABI Mixed Investment 20 per cent – 60 per cent Shares (performance is net of charge). PruFund returns are also net of charge (0.65 per cent).

- 4 Quartile ranking based on ranking of the funds representative share class, net of fees, within their respective Investment Association (IA) or Morningstar sectors. Closed funds excluded. M&G total wholesale AUM was £79.7bn as at 31 December 2017, representing 23 per cent of the total M&G Prudential AUM. One year figures represent £78.1bn AUM, three year figures represent £76.1bn AUM, 5 year figures represent

£71.2bn AUM, fund manager tenure figures represent £78.2bn AUM. Performance figures in GBP, bid to bid, net income reinvested. Average fund manager tenure December 2017 = 6.1 years. Source: M&G Prudential, December 2017. IA and Morningstar Inc. combined UK and Pan-European peer groups as at end December 2017.