Phoenix

# Half year 2023 results presentation transcript

## Speakers

Andy Briggs, Group Chief Executive Officer
Rakesh Thakrar, Group Chief Financial Officer

## Business review

**Andy Briggs, Group Chief Executive Officer**

Good morning everybody, and welcome to Phoenix Group's 2023 half year results presentation.

Now, as you know, we have always run our business focused on cash and capital, as that's what underpins our sustainable, and growing dividend.

But we recognise the industry has transitioned to IFRS 17. So the plan today is that Rakesh and I will walk you through our excellent half year results, as usual, including a summary of the key IFRS 17 transition impacts. We'll go straight into a Q&A on the main results.

We'll then take a short break and follow up with a further education session for analysts, on the technical accounting transition to IFRS 17.

As you are probably aware, our half year IFRS 17 results will not be published until Thursday the 28th of September. Sorry, I'll just let people come in and settle down.

So as I say, our half year IFRS results will not be published until Thursday the 28th of September. I understand this may be frustrating for some of you, for which we apologise. It reflects a short delay in our process, in part due to the complexity of the project. But let me reassure you, there are no concerns with the numbers themselves.

So, starting with our first half performance. At Phoenix, we have a clear and focused strategy, and I am delighted with how well our team are executing on that strategy. Delivering strong growth, and resilient cash generation.

We have more than doubled new business long-term cash, year-on-year, to £885m. Thanks to a strong performance in the first half, in both Workplace and BPA.

And this means that we have already more than offset the run-off of our in-force business of £800m per annum, in just the first half.

Our new business net fund flows increased 72%, year-on-year, to £3.1bn. This is particularly pleasing, given that across the wider market, net fund flows are down.

As ever, we have delivered strong cash generation, with around £900m remitted. We're therefore on track to deliver at the top-end of our target range, of £1.3bn to £1.4bn for the year.

Our balance sheet remains resilient, with a Shareholder Capital Coverage Ratio of 180%, at the top-end of our target range, supporting our investment into growth.

Phoenix has a single strategic focus, which is helping customers journey to and through retirement. This is important because we are seeking to meet a huge societal need. With only around 10% of people currently getting advice on their journey. And only one-in-seven Defined Contribution savers on track for a decent retirement income, that maintains their current standard of living.

So there is a clear need for more propositions and support, which we at Phoenix are well placed to provide. Which is why we are building a business that can support customers across every point of their savings lifecycle. Through offering them the long-term savings and retirement propositions, and the education and advice, that they need, as they accumulate wealth through the savings phase, then transition, through to securing income in retirement.

And yet in spite of these unmet needs, the market is already huge today, with an estimated £3tn of stock. And is growing strongly, with around £150bn to £200bn of annual flows, that we can access. So, a significant organic growth opportunity.

Now, many are saying that the UK economic environment is challenging, and it is for most industries. But for us, the structural growth opportunities in the market, are only being accelerated by the current economic environment.

So, we are seeing strong growth in Workplace, fuelled by the high levels of salary inflation, and full employment in the UK economy.

The Retail market has slowed down in this economic environment, with less switching of flows between providers. But for Phoenix this is helpful, given our scale in-force book, as it helps us to improve our customer retention.

And the BPA market is seeing record levels of demand, due to higher interest rates, making buy-ins and buy-outs more affordable.

Finally, we believe there will be more M&A opportunities coming to market over time, as high inflation means it's harder to deliver the necessary cost reductions every year, in unhedged closed books. So their cash generation will reduce. It's counterintuitive, I know, but the challenging UK economic environment is positive for our sector.

Now, a bit more colour on where we play in the market. Phoenix is the UK's largest long-term savings and retirement business. We have a diversified, and balanced, business mix, across the savings lifecycle. And two-thirds of our business is capital-light fee-based products.

Our strategy is designed to maintain a balanced mix, as we leverage our existing scale, in capital-light fee-based products to grow our Pensions and Savings business.

And we are disciplined in our Annuity growth, as we keep this to a small proportion of our business mix, and hence limit the credit risk we retain on our balance sheet.

Our strategy is already delivering strong new business net fund flows, which are exceeding our expectations.

This excellent execution of our strategy, together with the positive tailwinds of the UK economic environment, is why we are now confident of delivering positive Group net fund flows from 2024. Which means that our new business inflows will more than offset our legacy run-off outflows. This is a pivotal moment for Phoenix, which Rakesh will cover in more detail later.

Having trusted brands is critical to engaging customers, and having the credibility to support them with some of the most important financial decisions they make. We are therefore very proud to have a family of brands, to successfully engage and support customers, through their savings lifecycle, and therefore support our growth, both organically, and through M&A.

I want to highlight Standard Life, our primary organic growth brand. It is a brand that people trust, with a deep history and heritage, going back nearly 200 years. And it is therefore well known, to both advisers and customers. But all of our brands have a role to play. In total, our brands service 12 million customers. And they come together in our passion to deliver Phoenix Group's purpose, of helping people secure a life of possibilities.

We deliver that purpose, and our strategy, by focusing on our three strategic priorities. Growing organically and through M&A, optimising our in-force business, and enhancing our operating model and culture. All of which are informed by, and in support of, our key ESG themes, across both planet and people.

Executing on these strategic priorities will strengthen our competitive advantages, of capital efficiency, customer access, and cost efficiency.

Phoenix is well known for leveraging these competitive advantages to deliver strong financial outcomes, on our in-force business. And we have a long track record of successfully leveraging them on M&A and creating shareholder value.

Now, we are also growing organically by leveraging those same competitive advantages. All of which supports us in delivering increased cash, better returns, and a dividend that grows over time.

So, looking at our first half performance, against each strategic priority in turn. Starting first with our organic growth. I am delighted with the further progress we have made this year, on our capital-light fee-based business, with new business long-term cash up almost 50% year-on-year.

This growth has been driven by our Workplace business and reflects our success in leveraging our key competitive advantages in this market, of customer access and cost efficiency.

Workplace is different to most other markets, in that the majority of the growth comes from your existing customers. With regular new joiners to existing schemes and increased member contributions, through higher salary inflation. So it is critical to retain your existing customers, which is what we are now doing very successfully. And that is why 95% of our new business cash, in the first half, has come from our existing clients.

Given there is virtually no acquisition cost on these incremental flows, and our customer administration platform is already highly cost efficient, this embedded growth generates highly profitable long-term cash.

In addition, by winning new schemes in the market, we can turbo charge our future growth too. It is therefore great to see that our new scheme wins continue to accelerate. And we are now winning the bigger schemes too, which has enabled us to attract around £3bn of new scheme asset wins, over the past 12 months.

We expect these assets to transfer across to us in 2024 and 2025. And so will drive future net fund flows, and new business cash.

We are also currently quoting on a significant pipeline of new Workplace schemes and are confident of winning further new schemes over time.

Finally, we are now turning our attention to the Retail opportunity. Here we have a huge in-built growth opportunity, to better support the one-in-five UK adults, who are already customers of Phoenix Group, with the development of our advice proposition a key enabler.

I am hugely excited by the opportunities we have available to us in both the Workplace and Retail markets. And I am confident in our ability to achieve the ambitious targets we have set for our business.

We also continue to deliver sustainable growth in our Retirement Solutions business, where we are winning in a competitive BPA market, with our strong proposition and the Standard Life brand.

This market is large and growing, ever more strongly, due to higher interest rates. Our participation is consciously disciplined, to limit our exposure to credit risk, and maintain our balanced business mix. We therefore continue to take a selective approach to deals, focused on value over volume. With £3.2bn of premiums written in the first half, driving strong year-on-year growth in new business cash.

However, given the size and attractiveness of the BPA market, we are exploring innovative ways of leveraging our expertise to participate in a capital efficient way, through our recently established Bermudan entity, Phoenix Re. Our initial focus is on proving our capital efficiency through internal reinsurance. Future plans could see us leverage third party capital, in time.

Finally, we continue to see increased demand from customers for annuities, and this month, launched our first open market individual annuity product.

This product is available to both new and existing customers, under the Standard Life brand. And is another example of us filling in the remaining gaps, to complete our full-service customer proposition.

Turning now to M&A. We have a long and successful track record of delivering strong returns from M&A. By buying at an attractive price, and delivering significant cost and capital synergies, we deliver cash generation over the life of the business, which far exceeds the purchase price.

But what is particularly pleasing is the speed of that cash emergence. For example, we bought ReAssure for £3.2bn, and have already remitted £3.7bn in cash generation, to achieve a three-year payback. With a further £3.3bn of cash generation still to emerge, over time.

While on Sun Life of Canada UK, we completed the acquisition in April, and have already received nearly 20% of the purchase price back, within three months.

Looking forward, we are optimistic on the outlook for further M&A over time, with an estimated £435bn of Heritage UK assets potentially available.

Now, I can't predict exactly which books of business will come to the market, or when. But, as you know, I have regular conversations with my peers across the industry. And these suggest that the challenging economic environment makes M&A, both large and small, more likely.

As ever, we stand ready to do our next deal, through our ability to integrate efficiently and swiftly. And to manage multiple migrations concurrently. And we also have the financial capacity to fund deals. With our surplus cash and capital ready to deploy. And we have debt funding capacity too, if required, with a Fitch leverage ratio that was 25% at the end of 2022.

Our second and third strategic priorities are optimising our in-force business and enhancing our operating model and culture. These are the core capabilities that drive management actions, with £412m of benefit delivered, in the first half.

And these are the same capabilities that also help us to generate better returns, from both our organic growth, and M&A.

The slide covers the specifics of what we have delivered in the first half, against the key actions I outlined at the full year results, back in March.

Our first half performance extends our recent track record, of delivering high levels of management actions, and reflects the fact that we continue to optimise and enhance our business.

However, we do not expect our pipeline of management actions to ever dry up. Instead, we are confident that the capabilities we have now built, in-house, across asset management, and capital optimisation, will enable us to leverage evolving market dynamics on an ongoing basis. And hence deliver a repeatable pipeline of management actions, over the very long term.

So, in summary, we are executing on our strategy, to deliver a dividend that is sustainable and grows over time.

Our organic growth is compelling. We've more than doubled our new business long-term cash in the first half. We are comfortably on track to deliver our target, of £1.5bn per annum, by 2025. And now expect to deliver positive Group net funds flows from 2024.

We are also growing through M&A, delivering strong returns, with an accelerated payback. We are optimistic of further acquisition opportunities emerging over time and are confident in our ability to both fund and execute transactions successfully.

Finally, we continue to optimise and enhance our business, which has supported the delivery of a further £412m of management actions in the period. And we believe that our enhanced in-house capabilities will enable us to deliver a sustainable level of repeatable management actions over the very long term.

So, a strong first half, and an exciting future ahead. And with that, I'll now hand you over to Rakesh, who will cover our first half financials in more detail, Rakesh.

## H1 2023 financial results

**Rakesh Thakrar, Group Chief Financial Officer**

Thank you, Andy, and good morning everybody.

Phoenix has a clear financial framework, which is designed to support growth and deliver enhanced shareholder returns over time. We are investing in our growth, which is accelerating as we maintain our balanced business mix. And our high levels of predictable cash generation provide the financial flexibility to invest into the significant growth opportunities available to us. All of which is underpinned by our resilient balance sheet, which we will not compromise.

Phoenix has delivered a strong financial performance in the first six months of the year. Our dependable cash generation continues to emerge as expected, and we have more than doubled incremental new business long-term cash generation, while our long-term free cash has also increased. And our balance sheet remains as resilient as ever.

As a result, the Board has declared a 26 pence per share interim dividend, in line with our final 2022 dividend, which is a 5% year-on-year increase.

So, turning to the detail. Starting with cash, we have delivered £898m of cash generation in the first half. And now expect to deliver at the top-end of our target range of £1.3bn to £1.4bn for the full year, with a long track record of meeting or exceeding our targets.

Our Group holding company cash balance is around £700m and means we have surplus cash available. This is because I would generally look to hold a minimum buffer of around £300m to £400m. This is sufficient to cover six months of costs and dividends. And it is appropriate given the cash remittances from our Life companies are typically paid up twice a year.

In addition, the free surplus in our Life companies is significant at £1.7bn and provides further financial flexibility should we need it.

Group in-force long-term free cash is a measure of the cash that will be available to our shareholders over time from our existing business. It is calculated net of the cash needed to service and redeem all outstanding debt, and after deducting committed integration costs.

During the first half, it increased by around £400m, primarily driven by a net £700m increase through organic growth and £200m through the M&A growth.

This equates to a long-term free cash growth of 7% in just six months, which more than offsets our uses of cash in the period.

At £12.5bn, we have a huge amount of in-force cash to emerge over time, and this means that we can sustainably fund our dividend over the very long term. And as it continues to grow, it will support us in delivering on our policy of paying a dividend that is sustainable and grows over time.

Turning next to resilience. Our resilient Solvency II capital position is enabling us to invest surplus capital into growth opportunities. With our Shareholder Capital Coverage Ratio of 180%, remaining at the top end of our target range, even after this investment.

Our surplus, prior to investment, was broadly flat. With the high levels of predictable surplus and management actions funding our ongoing uses.

Our closing surplus of £3.9bn therefore reflects our active decision to invest around £400m of surplus capital into growth, which has increased our Group in-force long-term free cash and will drive future cash and capital generation. And, as ever, our reported surplus also reflects the accrual of our interim dividend.

Looking forward, I expect our end of year surplus to be slightly lower, as we continue to invest into growth.

Our ability to deliver management actions is a key differentiator for Phoenix. And we continue to demonstrate our capability here, with £412m of management actions delivered in the first half. This is significant ongoing level of management actions reflects our focus on optimising and enhancing our business.

During the first half, the majority of these were business as usual actions. They included £151m of asset management actions primarily driven by the dynamic optimisation of our liquid credit portfolio, and £157m of ongoing cost and capital actions.

It is also pleasing to see that we continue to deliver integration synergies from our previous acquisitions, such as ReAssure, with £104m realised in the period.

We have invested into enhancing our in-house asset management capability. We have built an expert team of investment professionals, who set the strategic asset allocation, and oversee the performance of our assets.

This capability enables us to operate our differentiated strategic partnership model, and partner with the best asset managers in each asset class and geography.

abrdn, who manage around half of our customer assets, continue to be a key strategic asset management partner, and playing a significant role in supporting the asset deployment from our new business growth.

We are also complementing our partnership approach, by developing our own in-house capabilities. And we remain very focused on integrating ESG into our wider investment decision making, with our recent addition as a signatory to the UK Stewardship Code, a clear statement of intent.

As you can see on the right-hand side of the slide, we are seeing the benefits of our investment.

We are confident that our capabilities will enable us to leverage evolving market dynamics on an ongoing basis and deliver a repeatable pipeline of management actions, over the very long term.

Looking next in detail at our credit portfolio. As Andy outlined earlier, our strategy is designed to maintain a balanced business mix, with credit risk making up a small proportion of our balance sheet.

We therefore maintain a prudent and diversified £34bn shareholder credit portfolio, which is currently around 13% of our total £269bn of assets.

We are conservative in our sector positioning, with only 2% of our credit portfolio exposed to cyclical sectors, and our portfolio is 99% investment grade.

During the first half of the year we have seen more credit rating upgrades than downgrades and have suffered no defaults, testament to the proactive approach taken by our in-house asset management team.

Looking forward, we will continue to manage our portfolio to optimise our risk-adjusted returns.

Moving now to growth. Phoenix is now delivering sustainable organic growth, year-in, year-out. The growth in our new business net fund flows is accelerating, through our success in Workplace and BPA. And we now expect Group net fund flows to be positive in 2024, for the first time in Phoenix's history, as new business inflows offset the legacy outflows, due to our improved proposition and higher customer retention.

Our progress is also delivering increased incremental new business long-term cash generation, and we are very much on track to deliver on our target of £1.5bn per annum by 2025.

I am delighted therefore that we can more than double incremental new business long-term cash generation to £885m in the first half.

The contribution from our fee-based businesses increased nearly 50% year-on-year to £220m, primarily due to a strong performance in Workplace.

Retirement Solutions remains the largest contributor at £665m, with an impressive first half in BPA.

And whilst I do expect 2023 to be another record year for new business, you shouldn't expect this first half performance to simply be annualised when looking at the full year. A lower second half contribution is expected from BPA, reflecting our disciplined approach to capital allocation, in line with our annual investment of around £300m.

Building on the momentum we saw in 2022, our Workplace business has continued to grow strongly in the first half through the Standard Life brand. This is due to the investment we have made into our enhanced Workplace proposition, which is helping us to both retain our existing schemes and win new schemes in the market.

Our strong retention is enabling us to reduce our outflows and stabilise the inflows from our existing business.

We will continue to benefit from the Workplace compounding flywheel effect, with new business growth coming from our joiners to our existing schemes, and increased member contributions, including salary inflation.

On top of that, we are winning new schemes in the market, which will both increase the stock of existing assets and accelerate new inflows. That is why I am delighted with the success we are having in attracting new clients of all sizes.

Last year our largest scheme win covered £2bn of assets, and is expected to transfer in 2024, with a further £1bn scheme won this year, that is expected to transfer in 2025. And neither of these schemes are in our numbers today, so they will benefit future net fund flows and cash generation.

We are also quoting on a strong pipeline of opportunities, totalling £3.5bn of assets, and are confident of winning further new schemes over time.

The strength of the Standard Life brand is also helping us to win new business in a competitive BPA market.

With £3.2bn of premiums written in the first half, driving £665m of new business long-term cash generation, with an improved cash multiple of 3.4x achieved.

Our capital strain in the first half was 6% on a post-CMP basis, with our target of 5% remaining very much on track. And this target equates to a 3% on a pre-CMP basis and positions us well in a competitive market.

Looking forward, we are quoting on a significant pipeline of opportunities and expect a total market in excess of £40bn this year.

Turning next to IFRS 17. IFRS 17 is a new accounting standard that became effective on 1st of January 2023. However, I want to emphasise that this accounting change does not alter the underlying economics of our business. It therefore has no impact on our strategy, or dividend, and we will continue to remain focused on delivering cash and capital.

I do though want to provide a short update on the impact of IFRS 17 transition for Phoenix. And I will also host an IFRS 17 transition education session for the analysts following this main presentation, to answer any of the more technical questions.

It is important to note that the impact of IFRS 17 is different for Phoenix, due to our history of M&A. As a result of the value-accretive transactions we have completed, around 95% of our business has been recognised using the fair value approach. And this results in a lower CSM at transition and increased volatility in our shareholders' equity.

So, looking first at our adjusted shareholders' equity. This was £5.2bn at the end of 2022, which is 24% higher than under IFRS 4. This is inclusive of a £2bn CSM, net of tax, which is a significant store of future profits. And importantly, on a gross of tax basis, this grew year-on-year by 7% in 2022.

Unadjusted shareholders' equity is lower under IFRS 17, primarily due to the transfer of items to the CSM, and increased accounting volatility related to our hedging approach and the loss of some prudence that existed under IFRS 4.

IFRS 17 re-baselines the level of operating profit we will report. In 2022, our adjusted operating profit has reduced to around £600m.

This is principally due to the well-understood transfers of Annuity new business profits, assumption changes and management actions to the CSM. There is also a small reduction from items not recognised in operating profit under IFRS 17.

Looking to full year of 2023, I would expect a broadly similar level of annual operating profit.

So turning now to our leverage position. Our restated Fitch leverage ratio at the end of 2022 was 25%. This includes the impact of the transition to IFRS 17, which had only a small adverse impact on the ratio. There is a material reduction in the ratio due to the consistent application of the Fitch ratio calculation with others in the industry.

This update to our calculation was made in agreement with Fitch and follows our most recent annual review with them.

As you can see on the slide, we now include the policyholders' share of the With-Profits estate, due to its loss absorbency in a stress. Any burn-through risk is covered by that estate first before it impacts shareholders.

This is the same approach used by our peers, and so updating it alongside the other IFRS 17 methodology changes now brings us on a market consistent basis.

At the end of 2022, we were at the bottom of our target ratio range of 25% to 30%, which is a key factor for maintaining our investment grade credit rating.

We have also been proactively de-levering our balance sheet over the past few years, with £772m of debt repaid since the end of 2020. And importantly we have increased our Group in-force long-term free cash to £12.5bn, which is after the redemption of all our outstanding debt and the servicing of interest to maturity. We do not see leverage as a constraint to future M&A.

To put it in context, £200m of additional debt is around a 1%ptpoint increase in the Fitch leverage ratio, as at the end of 2022.

I remain comfortable with our leverage position and the wider financial flexibility we have available to support our strategy.

So, to conclude. We are executing on our strategy and delivering on our financial framework, of cash, resilience, and growth.

We have delivered a strong first half financial performance across our core reporting metrics. And we have clear targets for this year and beyond.

All of which support us in delivering on our dividend policy, which is to pay a dividend that is sustainable and grows over time.

With that, I will now hand you back to Andy for the summary.

## Summary

**Andy Briggs, Group Chief Executive Officer**

Thanks Rakesh. So in summary, Phoenix is successfully executing on its single, strategic focus, helping customers to journey to and through retirement.

We do this by leveraging our position as the UK's largest long-term savings and retirement business. Offering a full range of products and services to support customers through all stages of their savings lifecycle.

This market is our sole focus. It's huge, it's structurally growing, and this growth is being accelerated by the current economic environment. This is enabling us to deliver strong organic growth, as we leverage our three competitive advantages of capital efficiency, customer access, and cost efficiency.

We are also confident of executing further, value accretive M&A over time, with the financial capacity to fund transactions as and when they emerge.

Delivering on our strategy drives our dividend. We offer an extremely attractive yield today, which is sustainably funded, by the resilient cash from our current in-force business, over the very long term. And will grow over time, both organically, and through M&A.

And with that, we will move to questions. So as a reminder, I've got a little bit of script first just to tell people online. They are keen, they are enthusiastic here. Remind you, the purpose of this Q&A session is to cover our strategy and the results that we've just presented.

We will be hosting an IFRS 17 transition session for the analysts following this, so please save any detailed technical accounting questions for that.

Given our agenda today, we have also got a stricter time for the Q&A, so around 40 minutes remaining. So – and this is going to hurt, I know, but I am going to have to limit you to two questions each, at least on the first time around, but if we have time, we will get round for a second round.

For those watching on the webinar, please use the Q&A facility there, and we will come to your questions, after we've answered those in the room.

So you can go now. If you're ready raise your hand and please just state the institution you're representing as well. Why don't we start here and move across?

## Q&A

**Andrew Baker, Citi**

Thanks so much, Andrew Baker, Citi. So two questions then. Both are on leverage actually. So first, are you able to give an update of the first half '23 Fitch ratio? And I guess within this – on the Fitch ratio you noted that you'd taken a haircut to the policyholder estate, are you able to say how much that haircut was?

And then secondly, your peers – I guess you've heard several peers that once they get to sort of 30%, 35% Solvency II leverage ratio they have undertaken debt reduction programmes. I'm just interested, I think you're at 37% at the half year, why you guys are different on the Solvency II lens and why you don't see any, I guess, need to take action there and why Fitch is your primary metric? Thank you.

**Andy Briggs, Group Chief Executive Officer**

Sure, okay so I'll take the second question and then get Rakesh to answer the first. So in terms of the second, we use the Fitch methodology as an input. I think what is different with us, is firstly we have a big stock of in-force business with high levels of cash, so £12.5bn of cash due to come from our in-force business over time. Secondly, we hedge out the major financial risks. So that cash is very, very predictable over time.

So what I'd say Andrew is that we had £4.9bn of leverage a couple of years ago and eleven point something billion of cash in the business and we were fine with that level of leverage at that point in time. We have now got £800m less leverage than that today, but we have got £12.5bn of cash in the in-force business.

So Fitch is one input to our considerations, but we do feel comfortable with our current level of leverage, we were comfortable with the level we had before, and we don't see that as a constraint.

I think the other point I'd draw out is that when we do M&A it pays back really quickly. So we paid £3.2bn to buy ReAssure three years ago, we've had £3.7bn of cash back already, so a less than three-year payback period, £3.3bn more still to come going forwards. So that is also a consideration when we consider leverage from an M&A perspective.

I think in terms of the first half we can't say much can we?

**Rakesh Thakrar, Group Chief Financial Officer**
No.

**Andy Briggs, Group Chief Executive Officer**
But I'll let you say we can't say much.

[Laughter]

**Rakesh Thakrar, Group Chief Financial Officer**
So yeah, as you'd expect we can't say much on the first half. What we have given you is the sensitivity of it and the calculation itself. So, you know we'd expect to be comfortably within the range. So that's all I can say, so nothing more, because it's based on half year.

And in terms of the prudency, the haircut that we've taken, we've taken about half of that policyholder estate for prudency.

**Andy Briggs, Group Chief Executive Officer**
We'll keep going across this way.

**Mandeep Jagpal, RBC Capital Markets**
Morning everyone, Mandeep Jagpal, RBC Capital Markets. Thank you for the presentation and taking my two questions. The first one is on the new business cash generation, which was strong over the period. Could you provide any details on your current thinking on how a year-on-year increase in this metric at the full year will affect dividend growth?

And then a second question, kind of a big picture question. Andy mentioned at the start that only one in seven DC savers is on track for savings that maintain their current standard of living, what are your current thoughts on how the Government could enact policy changes to address this and how could that impact Phoenix in the long run?

**Andy Briggs, Group Chief Executive Officer**
Sure, okay. So on the first one, really delighted with the organic growth we delivered in the first half and the fact that we have got new business long-term cash at £885m for half a year, when what we need to offset the run-off of the in-force is £800m for a whole year was very pleasing.

I was also – I was even more delighted to be honest with the net fund flow position and the 72% growth, I struggle to find a peer that was up when I kind of interrogated their results, so delighted with that.

Our dividend policy is we pay a dividend that's sustainable and grows over time. You know, that delivery of growth in new business long-term cash and indeed benefits of M&A are key inputs, but the Board makes a dividend decision in March each year and it will make that decision based on a range of judgements when we get to March and not now, I'm afraid.

So on the second question, I mean ultimately auto-enrolment has been a huge success. If I go back, you know, 10 years ago in the UK, we had 10 million people saving for their retirement through Workplace pensions, today it is 20 million, it has been a huge success. The challenge is that it's only an 8% contribution and that isn't going to give you a decent standard of living in retirement. So we think that definitely needs to change.

We've actually - one of the things we've done at Phoenix as part of being a purpose-led organisation, we have created our own think tank called Phoenix Insights, trying to do research into this area. And we are currently doing a piece of work through Phoenix Insights which we'll publish shortly, which basically recognises the current cost of living crisis, recognises that right now it will be challenging to start increasing those contributions with the cost of living crisis. But what would be the economic conditions in the UK that would need to prevail for it to be a good time to start to do that? Because we do think it is something that needs to happen in time.

The other thing that needs to happen is more than 10% need to get advice and support on the journey to and through retirement. And that's – you know if you sort of think about the organic growth for Phoenix, we kind of built the BPA business first, we've been number two in the last two years, Workplace is going fantastically well, really delighted, 64% growth in new business cash there. We are now turning our attention to that Retail opportunity, helping those customers consolidate their multiple pension pots and develop a plan through retirement income. But we think that is a great market opportunity generally and with one-in-five UK savers being customers of Phoenix Group, particularly attractive for us.

**Andy Briggs, Group Chief Executive Officer**
Farooq?

**Farooq Hanif, J.P. Morgan**
Hi there, Farooq Hanif from J.P. Morgan. Thanks very much. Going back to capacity to do M&A, I mean you've given some numbers on the percentage points, it sounds like £1.1bn on leverage, and then you've got surplus, and then it also depends on what you buy as well I guess it creates some headroom. But what are your thoughts, given how profitable you're saying this business is and the cash generation on M&A, what are your thoughts on raising equity again if you see something that's you know profitable enough. Are you sort of happy to do that given the economics?

And then question two is, I know you don't care about IFRS, but IFRS volatility is something that investors will look at. Are you able to, within your hedging framework reduce that volatility and also maintain your hedging philosophy, or is that something that is just going to stay with us? Thanks.

**Andy Briggs, Group Chief Executive Officer**
Great, so I'll let Rakesh take the second of those. In terms of the first, so we have three core criteria as I've said before very consistently for M&A. The first is that it is value accretive, so you know, we're looking very hard at the financials, the cash flows and it is value accretive. Secondly that it supports cash generation and our dividend. And thirdly we want to maintain our investment grade credit ratings. So those are the three criteria.

So in the context of that we would consider raising equity, but obviously with equity prices being lower, effectively the returns on a deal would need to be sufficiently attractive to justify it. So we wouldn't rule it out and it will be a very tough objective assessment of, you know, what are the cash flows in the business we're buying, what can we get them to as we drive out cost and capital synergies, what are we raising, what's the cost of what we're raising in terms of funding to do the deal, what is the economics of that and the return on that capital. So it would be a very tough objective assessment. Depending on the nature of the deal and the pricing of a deal it's definitely possible that we could use equity as part of it.

Do you want to pick up on the second one?

**Rakesh Thakrar, Group Chief Financial Officer**

Yes, so on the IFRS volatility, I mean the first thing I would say is you know our focus has always been to manage cash and capital, that ultimately protects the dividend in the short term. And also our hedging strategies ensure it protects the long-term free cash in the long term as well. And that means that the dividend is safe.

Now in relation to the IFRS volatility, we always saw this under IFRS 4, and what's happening under IFRS 17 it's probably just increased slightly because essentially the CSM is insensitive to interest rates. And therefore you're getting that little bit of additional volatility coming through that.

Now, you know, our focus will continue to be on cash and capital, but I will continue to do, review, my hedging to make sure it's optimal for the business as a whole. So that will continue, and the focus continues to be on cash and capital.

**Andy Briggs, Group Chief Executive Officer**

Andy?

**Andrew Sinclair, Bank of America**

Thanks, it's Andy Sinclair from Bank of America. The first one, taking it further I guess on leverage. I just want to check how you think about Solvency II tiering capacity constraints and if that influences your thought on debt issuance? I suppose if you went to the top end of your debt leverage range you'd have some non-qualifying debts under Solvency II, do you care about that? And does that influence thoughts of senior versus subordinated debt issuance?

And then the second question was just on Consumer Duty, I just wonder if you can give us a little bit of colour, what does that mean for Phoenix, for your Heritage book when it comes in? And do you see any changes on charges on cash or anything really? Thanks.

**Andy Briggs, Group Chief Executive Officer**

Great, okay, so I'll take the second and get Rakesh to take the first. So on the second, I mean we are supportive of Consumer Duty and the direction of travel because the essence of it is basically, we're focusing in on getting the right outcome for the customer. As a purpose-led organisation, as a company that has a single strategic focus, helping customers journey to and through retirement, we want to focus on those outcomes.

So like others in the market what we have done is we've enacted Consumer Duty around our open product lines and we're now working on enacting Consumer Duty and implementing Consumer Duty on our closed product lines with a deadline of July of next year.

We've had an ongoing focus on this in Phoenix over many years. So as we transform businesses we buy and closed products and migrate them to more modern technology, give those customers better experience and outcomes, drive the cost and capital synergies, we have shared a fair bit of that benefit with customers over time. So we've capped charges in different areas - would be one good example of that.

So we're not expecting the impact on our book to be material in terms of the scheme of the financials of Phoenix Group overall, but we are still working through that project over the next ten months.

Rakesh, do you want to pick up on the tiering question?

**Rakesh Thakrar, Group Chief Financial Officer**

Yeah, sure, Andy. So, we would always look at, you know, all the possible options and tiering is one area we continue to look at.

In the context of M&A, which is why I've always said, you know, every time you've asked me this question it always depends on the company that you're buying because that capital structure will determine on how you best finance that deal.

So, in the context of M&A, if you're acquiring a company that's got no debt, you've effectively got more capacity to do it. So, even if you do effectively utilise the headroom that we have currently, which is still quite big, you know, you still have the ability, if you're buying a company that's got no debt at all, to utilise that headroom and to make it the most efficient capital structure, which is something I've always been saying. And if it meant that, you know, in that context, if the cash is really quick, like we've seen in ReAssure where you get it back in three years, as we've just shown and demonstrated with that, then why wouldn't you also have senior as an option as part of that?

**Andrew Sinclair, Bank of America**
Thank you very much.

**Andy Briggs, Group Chief Executive Officer**
Steven?

**Steven Haywood, HSBC**
Good morning, Steven Haywood from HSBC. Two questions – following on from the Consumer Duty one, related to your surprise announcement to go positive net fund flows in 2024, do you see yourself retaining more customers going forwards? And is this related to the Consumer Duty Act or is it just how well you're doing on the Open business side of things?

Secondly, you mentioned on the BPA that you're looking at more efficient capital ways to enhance this business, I guess. Could you give a bit more detail in terms of what you could possibly do, and are you thinking about literally doubling the amount of BPA business you can do by adding on another £300m of third-party capital to your already £300m of own capital going forwards? Thank you.

**Andy Briggs, Group Chief Executive Officer**
Sure. So, I'll let Rakesh take the second of those. In terms of the first, I mean, yeah, I do think getting Phoenix Group, what people would have historically seen as a closed book consolidator to be net fund flow positive next year is a huge step for us, and I'm, you know, excited by it and I really am genuinely delighted with how our organic growth is coming along.

That's not driven by Consumer Duty. Our strategy, helping customers journey to and through retirement, is the right strategy for our business. It's also entirely consistent with Consumer Duty, but we were going in that direction anyway.

And, again, you know, just at the risk of repeating, there's basically that £150bn to £200bn of gross inflows across the market each year, the growth in the market, £40bn to £50bn of that is Workplace, and obviously that's going exceptionally well for us. £30bn to £60bn of it is BPA, and, again, very happy with our performance there. £80bn to £100bn is in what we call the Retail space, so that's helping these customers who've moved jobs and, therefore, have multiple Workplace pension pots to think about consolidating those together and journeying through into retirement income.

So, at the moment, our business is roughly circa £20bn of inflows and £20bn of outflows a year, give or take a bit. £7bn to £9bn of that £20bn-odd of outflows is transfers to other pension providers. So, effectively, we're a net, a net kind of, loser there at the moment because we haven't had an offer for our customers there, we haven't focused on that.

So, that market opportunity, when one-in-five of those customers is customers of Phoenix when only 10% are getting advice on the journey to and through retirement, we think that's a substantial opportunity to be the one they turn to and engage with to think about bringing those pension pots together, and that's what we're now starting to turn our attention to.

Don't expect that to have an impact on the numbers this year. We're still building the capabilities we need to go after that, things like the new Standard Life Individual Annuity is a good example of building those capabilities. But as we get into 2024, I'd expect to start to see some benefit from that. Rakesh, do you want to…?

**Rakesh Thakrar, Group Chief Financial Officer**
Yeah, sure. So, on the BPA more efficient capital way, so this is reflecting what we're doing by setting up this Bermudan reinsurer. We've just started on this, so this is very very early days, but the intention here is potentially to look at generating more value internally from the annuities that we have within the Group currently that are not necessarily getting the best return, and this is outside of the UK currently. And then we would look to access, if we can, the third-party capital.

So, what this will enable us to do is essentially bring that capital to the UK, via, and really access the fact that we, you know, and in line with our purpose of helping people secure a life of possibilities, get those customers who are looking, the corporates who are looking to, you know, do a BPA transaction, and help them do that over time.

What it will mean is that, you know, we'll be able to do more deals, but what it won't mean that we'll be spending any more of our own money. We're still disciplined in our own £300m, but essentially, we're facilitating additional deals by the use of getting more capital in, and we'll be able to also be earning fees from that in a capital light way, which is essentially what we're trying to, you know, will help us in our strategy.

**Andy Briggs, Group Chief Executive Officer**
Keep going along.

**Abid Hussain, Panmure Gordon**
Morning, it's Abid Hussain from Panmure Gordon. Two follow-up questions if I can, one on M&A capacity. Just wondering how much firepower you have for M&A as opposed to organic growth without raising equity capital.

And the second question is also a follow-up on the BPA strain, I'm just wondering if it's possible to get down to the 5% new business strain before 2025 or is it largely dependent on when the Bermudan reinsurer comes online? Thank you.

**Andy Briggs, Group Chief Executive Officer**
Probably both for you, Rakesh.

**Rakesh Thakrar, Group Chief Financial Officer**
So, on the first question, I mean, it's similar, it's going to be on the capital structure of whatever we're acquiring, you know. To understand how much you need before going to equity, you know, you need to understand the size of the deal that you're doing and the capital structure before you can actually determine whether it is you need equity to do that deal. But in any deal that we do the returns have got to be attractive, right, that's the first and foremost.

And you've seen ReAssure, you know, a lot of it was through equity, and you can see the attractiveness of that deal. But a lot depends on the size and the capital structure. It's difficult to give a precise number on that, but certainly a small deal, a bit like the one we did, you know, the Sun Life of Canada, the UK business, you wouldn't need any equity for that as a guide. So, it depends on the bigger you go it's going to depend on the capital structure.

And then on the strain and can we get down to 5%, so we're currently at 6% on a post-CMP basis, and the market's pretty competitive, but we are on track to get down to 5%. There's still, you know, lots we've got to do on the reinsurance side and also on our credit modelling as well that would improve that, and what, the opportunity - what Bermudan gives us is some additional fees. Most of it will be actually from the work that we're doing on the reinsurance side and on the credit modelling side.

**Andy Briggs, Group Chief Executive Officer**

Probably worth just adding we did less Quota Share Reinsurance in the first half that we did through last year. We had the Mitchells & Butlers and the Chubb schemes both landed, so they were both over £1bn, they both landed in June. That gives you less time to work through some of those elements, yeah.

**Andreas van Embden, Peel Hunt**

Andreas van Embden from Peel Hunt. Just a quick question about Own Funds, if I look at the Unrestricted Tier 1 equity, it's come down to around £4.5bn this half year. It's been coming down for some time. I just wondered what are the drivers of that decline and are you comfortable with the level? Thank you.

**Rakesh Thakrar, Group Chief Financial Officer**

Yeah, so the Tier 1 has been coming down, but ultimately, you know, as we've said, our focus has always been on managing the cash and capital position. So, what we do in that context is manage the surplus above the SCR, so we ensure we're always protecting that. What that does, it protects the cash and also protects the dividend. That's ultimately what that means. Therefore, the impact of that is that, you know, as SCR moves, your Tier 1 Own Funds will also move. But we accept that trade-off because what it's doing is protecting our cash today and it also protects the cash over the very long term.

**Andreas van Embden, Peel Hunt**

What's the key driver of the decline? Are those the hedging losses less the dividend? What's driving that? But the organic capital generation is quite solid, including the management action, so it should offset each other.

**Rakesh Thakrar, Group Chief Financial Officer**

Yeah, so most of it is due to the hedging on the interest rates.

**Andrew Crean, Autonomous**

Good morning it’s Andrew Crean at Autonomous. A couple of questions. Firstly, you gather confidence on your dividend from your long-term cash generation, your new business cash generation, but you have to pay the dividend now, and these cash generation figures go long to the future, indeed, I don't think your IFRS operating profits will cover your dividend this year. Could you, therefore, give us the present value of the long-term cash generation and the new business profit cash generation so that we can compare apples with apples rather than with pears?

And then, secondly, and along the same theme, the value – the net flows figure is all very well but you've got some very high margin flows coming off and some capital light low margins coming on. Could you give us a view as to whether your value net flows, what they are, and whether they will be positive on your target range?

**Andy Briggs, Group Chief Executive Officer**

Sure. So, I'll take both of those, Andrew. Thank you. So, we run the business on cash and capital because that is what pays the dividend. So, we have two key focuses there – one is growing the stock of long-term cash where we've grown, as Rakesh said, basically, the impact of new business and M&A was a 7% increase in 6 months on that stock from the first half of the year. We're now at up £12.5bn. But then, as you rightly say, we also need to have the cash today to pay the dividend as well, and that's why we focus on the Solvency II Surplus and our target range of 140% to 180%, and we're at 180%. So, that's our focus.

We don't run the business by IFRS because it isn't cash and capital, and we are focused on being able to pay the dividend in the short term and the longer term.

Having said that, I do hear you, and we are going to give some thought to our financial framework and disclosures for March. We decided not to do it now because we've got IFRS 17 coming in, we thought we'd, kind of, deal with that and present IFRS 17, but I do hear you that, effectively, presenting a stock of undiscounted cash is a financial framework you'd associate with a closed book player. For an open book player, investors want to see particularly the progression of ongoing flow measures over time. So, I hear you, it's something we'll give some thought to over the next six months, and your point is understood and well made.

On the high and low flows, so let me try and explain this. So, basically, you know, we have circa £20bn of inflows and just over £20bn of outflows each year. The outflows basically are taking about £800m of cash out the business each year. The inflows, last year, added £1.2bn.

So, what's happening is the new business is actually more profitable than the outflow. And there are two reasons for that – one is that BPA the business is particularly profitable, it comes at very high levels of cash, and the second is that our Workplace business is very profitable because we're leveraging the infrastructure.

So, our philosophy of enhancing our operating model, that I talked about, our strategic priority, that's about us moving to a single best way of doing things, leveraging modern technology. For example, on the Customer Operations side, we partner with TCS on the BaNCS platform, so, as a result of that, we have an absolutely fantastic rate card with them for Workplace business.

So, Workplace is generally thinner margin, but, because we're so much lower cost, our Workplace business comes at attractive margins, hence the 64%. So, if you see there, our flows were up 18%, the new business element of flows were up 18% in Workplace, that's the new new stuff rather than the in-force or the outflows, yeah, on one of Rakesh's slides, but the new business long-term cash was up 64%. Now, that's basically leveraging those flows against that low relatively fixed cost base, yeah, so, and that's why we're growing in cash terms, but we want to get to be growing in net fund flow terms. But the new stuff coming on is coming on at a higher margin.

**Andrew Crean, Autonomous**
Can I just press you on that? You said £800m's coming off and £1.2bn's going on in value. It's the £1.2bn, what's the present value of that, because the £800m is today coming off?

**Andy Briggs, Group Chief Executive Officer**
Yeah, but they're all, kind of, undiscounted cash numbers, yeah, so the stock of cash is increasing by that difference. But, again, you know, we hear you and recognise that we need to give some thought to what is the right financial framework, to best, and I get this from buyside investors, you know, they like the sound of what we're doing strategically but they find it harder to compare us with others to see how that's going. So, we hear that challenge, and we are going to reflect hard on that over the months ahead, yeah. Larissa?

**Larissa van Deventer, Barclays**
Hi, Larissa van Deventer from Barclays. Just to get back to the M&A capacity without raising equity, at a simplistic level, can we simply take shareholder cash and add the 5% leverage headroom that you have? In which case, the question becomes can you give us some clarity on what shareholder cash would be, of course, then minus Rakesh's buffer?

And the second question is at what point would you consider buybacks?

**Andy Briggs, Group Chief Executive Officer**

Okay. So, I will take the second question and get Rakesh to take the first. So, the way to think about this is that we have a rigorous capital allocation framework at Phoenix where we treat every pound of shareholder capital very, very seriously. We're focused on long-term value, and we're exploring, you know, where we can deploy that every pound of capital to get the best return for shareholders over the long term.

And so a share buyback would be part of our toolkit and we would consider that in a situation where we were above our target solvency range, so we were above 180%, and where we felt that we didn't have higher value opportunities to spend that money in terms of driving higher levels of returns for shareholders compared to share buyback.

So, at the moment, we're at the top of the range but we're not above the top of the range, and we do feel pretty bullish about the opportunities to deploy capital at very attractive returns, and that's what we're doing, that's why are our results are so strong today, but it's absolutely part of the toolkit, and those will be the circumstances in which we would consider deploying it in that way. Rakesh, do you want to pick up the first?

**Rakesh Thakrar, Group Chief Financial Officer**

Yes. So, let me start with our own cash first. So, we've got about £700m of Group holding company cash. You know, I said I want to hold somewhere in the region of £300m to £400m, so, give or take, that's at least £300m available to invest in growth opportunities.

You know, looking at, you know, the potential of our current leverage ratio, and take the Fitch basis, we're currently at 25% and, given the sensitivities there on how much each one, each one percentage point is worth in terms of additional debt, so 1% is roughly around £200m. Then it comes, at the risk of repeating myself again, I do apologise, but it all comes back to the company that, you know, the target structure that we're acquiring. And, you know, that's where we've already spoken about potentially consideration of whether it's senior, whether it's capital debt as well, you know, and how quickly the cash flows come out. So, if it's something like ReAssure, you'll have a different capital structure than something that's, you know, over a very long time.

So, it's a combination of all those factors. I can't give you an exact figure, but, using those, you know, data points, I think you can work out the potential that we can.

So, again, similar to a deal that we've just completed, the Sun Life of Canada, easily that can be done on our own resources, as they get bigger, larger, you know, if they're getting towards the £2bn mark, clearly, that's going to have a different capital structure.

**Larissa van Deventer, Barclays**

Because just to clarify, at the full year, correct me if I'm wrong, but I think you said you had capacity for £1.6bn. It sounds like currently it's about £1.4bn, or £1.3bn.

**Rakesh Thakrar, Group Chief Financial Officer**

Well, if you do the same calculation that what you would get to, yeah.

**Larissa van Deventer, Barclays**

Thank you.

**Ashik Musaddi, Morgan Stanley**

Yeah, thank you. Good morning, Andy. Good morning, Rakesh. This is Ashik Musaddi from Morgan Stanley. Just a couple of questions. So, sorry, going back to leverage, do you think that you need a plan B on leverage because your dependence on Fitch is increased materially now because, I mean, on an IFRS basis, on a Solvency II basis, your leverage has diverged quite a lot versus your peers, and those look pretty high, 44% IFRS, 37% Solvency II. Yes, Fitch is giving you the benefit for estate and for RT1, but probably estate only take the burn-through off With-Profit, not for annuities. So, do you see that you need that you need a plan B for leverage just in case Fitch says the other way at some point? Maybe not now, one year, two years, five years down the line. So, that would be my first one.

And, secondly, there was a chart that shows that ReAssure, you have released £3.7bn cash over 3 years, so that's £1.2bn a year, and, going forward, you'll be releasing £3.3bn, so that's over, say, 15 years, so that's £200m a year. So, does that mean that cash will fall off by about £1bn at some point or am I missing anything in those numbers? Because if the cash falls off verses your £1.4bn guidance at the moment, then it's a big number, so how do we think about that? Thank you.

**Andy Briggs, Group Chief Executive Officer**
So, I'll take the first and let Rakesh take the second. So, we don't think we need a plan B on leverage. You know, we had £4.9bn a couple of years ago with eleven point something of cash in the business, and we were not uncomfortable at that level. We've reduced it by £800m over the last couple of years and yet the cash in the in-force business is now £12.5bn. So, we're not uncomfortable with the level of leverage we have. The Fitch ratio is one input to it.

And I just, you know, reiterate that our business has substantial amounts of in-force cash, you know, so that £12.5bn is after paying off debt and it's after the interest on that debt until maturity. There's still £12.5bn left, and our annual cost to shareholder dividends is £520m, yeah, so that's the volume we have. And then we do hedge out the major financial risks and, therefore, that cash generation is very predictable.

So, you know, I do recognise it's different to others. I think our business model is different to others and it justifies it and we're comfortable with it.

I think, in particular, the reality is, and it's sort of comes part of your second question, that, when we do M&A, because it pays back that quickly, then you have, you know, the position where you can, you know, and you look at the profile of debt maturities over time, you can, you know, get back quickly when you do M&A because of how highly cash generative it is.

Do you want to pick up the second question, Rakesh?

**Rakesh Thakrar, Group Chief Financial Officer**
Yeah. Thank you, Andy. So, looking at that, you know, ReAssure transaction, we said, when we did the transaction, we'll deliver £7bn of cash over the lifetime of it. We've delivered £3.7bn. A lot of that is through the integration synergies that we've delivered again, you know, in the first half we did another over £100m on integration synergies primarily on ReAssure, which helps us with that cash.

So, yes, there is, you know, £3.3bn left to go, but I wouldn't be expecting that to be over 15 years, it will be a lot shorter than that because it is actually closed to new business. So, it’s not that long in terms of duration.

I mean, in terms of the bigger picture, what I would say is that, you know, we deliver, as you know, and we've already talked about £800m of cash every year, yeah, and then, on top of that, we now have a pipeline of management actions that we can deliver over the very, very long term. And, you know, we can already see the BAU management actions we've delivered this year, it's quite substantial, and I've already spoken about that in my presentation.

So, when you add that on, so you've got the £800m, which is growing because we're writing new business, we've got capability to, you know, drive management actions each year and we've got £1.7bn of free surplus currently sitting in the Life companies, and we've got the potential of more in terms of the management actions we can do, I'm not concerned.

**Andy Briggs, Group Chief Executive Officer**
There's certainly no £1bn drop off so please don't worry.

**Rakesh Thakrar, Group Chief Financial Officer**
Yeah.

**Andy Briggs, Group Chief Executive Officer**
We're also, you know, ultimately, we're a holding company with a number of Life companies underneath, and we're kind of, you know, in many ways, indifferent as to which one we get the cash generation out. You know, we're putting the new BPA business into one legal entity, you know, so we're indifferent across.

And, of course, what we're also planning in the fourth quarter of this year is we're going to bring four of those Life companies together through what will be the largest ever Part VII in the market, so 7 million customers coming together, and LifeCo level, that will also be positive in terms of the financial flexibility and diversification at our LifeCo level. We've got that benefit at Group level already but LifeCo level, that will also be helpful.

**Ashik Musaddi, Morgan Stanley**
Thank you.

**Andy Briggs, Group Chief Executive Officer**
Dom?

**Dominic O'Mahony, Exane BNP Paribas**
Cheers. Dom O'Mahony, BNP Paribas Exane. Two questions. Can I just start on the new fee business? Fabulous growth, 49% growth in the long-term cash generation from that. Could you give us a sense of the breakdown of the drivers? So, I'm thinking volumes in new business versus revenue margin versus cost margin versus investment performance. And I'm just curious as to whether your projections are actually sensitive to interest rates with a higher interest rate environment, increases in expected investment return or whether, actually, the way that you project it is indifferent to that?

Another slightly detailed complication question – so, I'm looking at Page 41 in the Appendix and the Group cash flow, much stronger than I was expecting. There's £266m of collateral cash and hedge close outs. Could you just explain what's going on here and how you run the hedges? I wasn't expecting the hedges would be run from the centre. I thought they might be run from the entities paying the cash flows. And it's quite a big swing, I mean, it's almost as big as the buffer. So, is this very, very much a one-off or actually is it something where actually we could see swings in the future? Thank you.

**Andy Briggs, Group Chief Executive Officer**
I think they're both for you, particularly when we get to Page 41 in the Appendix [laughter]. That's definitely for you, yeah.

**Rakesh Thakrar, Group Chief Financial Officer**
So, let me do that second one first. So, in the Group cash flow, you have seen the benefit. If you recall, last year, we saw an outflow on the collateral side. But, you know, this, what this is actually, what this is actually doing is effectively hedging the debt, the foreign-denominated debt that we have at the Group level.

So, you've absolutely right, all the hedging, interest rate hedging, equity hedging, other than in the context of a target M&A, all that hedging is done in the underlying companies. What's been done here is the currency hedging on the debt where we're not, we're just hedging both the principal and also the future interest payments to protect ourselves. I would hope, going forward, it's stable, you know, going forward.

In terms of your first question, and your concern is around, you know, interest rates, as you know, we hedge a lot of the interest rate exposure, which would also be in relation to this business as well. So, anything that impacts the shareholder or the Own Funds we would be protecting ourselves on that interest rates element of it.

And in terms of the different margins, clearly, we don't quote on those margins, but, you know, as the asset values move around, so the margins will also change, and Andy's already spoken about the benefit of the cost we get with our, with our, you know, TCS deal in terms of our Workplace schemes. You can see that the cost is pretty much fixed, and it's protected from a number of external headwinds. So, overall, we're pretty happy with the business that we're writing.

**Dominic O'Mahony, Exane BNP Paribas**
That's very helpful. Thank you. Could I just clarify my point on rates? I wasn't clear. What I meant was whether the projected investment return for the customers over time, whether that's sensitive to the economic environment. I know, some other, certainly in Solvency, when rates go up, you expect higher investment returns.

I'm wondering if that's the way that you project your cash flows or whether actually you just start off with, I don't know, an assumption about how their equity performance will be which is consistent with whatever the interest rate environment.

**Rakesh Thakrar, Group Chief Financial Officer**
Yeah, okay. So, I understand your question. Yeah, so what we assume is, based on the, when the business was written, we effectively then assume what we think the long-term returns are on that underlying business, and we take a long-term view and estimate it on that basis.

Clearly, things will change, but at the point of time it's written, we estimate, okay, this business written here, we think the longer-term outlook is X, and that's how it's projected.

**Andy Briggs, Group Chief Executive Officer**
So, in, sort of, simple summary, I mean, it's a simple business this, you need to grow your funds, so we've had strong growth in funds, benefiting from not having the outflows, we're retaining the existing schemes, we are holding the revenue margin and then keeping costs, you know, broadly flat is what's gearing up the profits basically, and that's the, kind of, headline of what's going on.

So, look, I'm conscious we're almost out of time, but I do want to give Rhea and Nasib a chance for, and I think we'll just have to be quicker in our answers, yeah.

**Rhea Shah, Deutsche Bank**
Thanks. Rhea Shah, Deutsche Bank. Firstly, on the cash generation, how should we be thinking about management actions going forwards? Or, put it another way, if there was no M&A, how should we think about management actions at BAU level is around £300m out of £900m, say, a simplified way of thinking about it?

And then secondly, around the incremental cash generation from new business, the £220m, which came from everything apart from the BPA, is it okay if we annualise that for the full year or is there anything that would drive that up or down in the second half?

**Andy Briggs, Group Chief Executive Officer**

Yeah, okay. So, I'll take both of those. So, on the first one, obviously, as we're still integrating businesses but also still optimising what we have, we have this high level of management actions, you know, for a decent period of time, and, as we do further M&A, it just adds more into that. But what we've been looking to do is build out Phoenix asset management, our in-house asset management capability, as Rakesh said, and that, in particular, means that we will continue because markets are dynamic, we'll continue to have opportunities.

So, this year, for example, we moved, or the first half, we moved just over £1bn of assets from the UK to the US, and, after the cross-currency swap, for the same credit rating of assets, we had a material yield uplift because the market dynamics were such. Another period of time, it might be the other way round and we can get that yield uplift, and, ultimately, because we then, sort of, hold to maturity, you get the benefit of that.

So, a way to think about it is to say that we pointed out, of the management actions, about £150m in the first half was down to asset management, and that might not be a bad way to think about what the long term, you know, would be, yeah. They'll be other factors at play and so on and so forth, but, and that's something where, you know – I think most people think the management actions dry up at some point. You know, we are really confident that, with the capabilities we've now built, they will carry on into the very long term.

In terms of your second question and the £220m, so there is a factor in the first half, which is the Workplace salary increases. Generally, most companies do salary increases in the first half of the year, so that's a driver that means Workplace net fund flows and new business cash tends to be more half year orientated, yeah, and so I would say, you know, bear that in mind when you're thinking about predicting to the full year. And finally, Nasib?

**Nasib Ahmed, UBS**

Nasib Ahmed from UBS. So, firstly on the Retail advice proposition, what are you thinking exactly there? Are you trying to recruit more advisors and how is that different to the business that you sold to abrdn?

Secondly, on the LifeCo surplus, that reduced by about £600m. There's a £300m other in that. Are the drivers of that £300m similar to what you presented on Slide 41? And then what uplift do you expect from the Part VII's on the LifeCo surplus in Q4? Thanks.

**Andy Briggs, Group Chief Executive Officer**

Okay. So, I'll take the first and Rakesh will take the second. On the first, on the Retail advice, what we're basically doing is two things – we already have a telephony guidance team of about 80 people, and we're building that, and it tends to be reactive at the moment. We want to make it more proactive. And then we are building an in-house salary-based, no bonus-based, salary-based advisory salesforce capability for those of our customers that need advice.

What we sold to abrdn was basically the insurance links, so think, sort of, the SIP-type, insurance-type links, that backed things that were already on their platform. So, it was, kind of, virtually zero margin for us, and it was an exceptionally complicated operating model between ourselves and abrdn.

So, abrdn have a strong platform that they promote in the market, adviser platform, and their team of advisers. We were providing the insurance wrapper in support of that on a, you know, pretty much, sort of, zero-margin basis. That was all about simplifying the operating model between us and just taking out complexity rather than anything else, and it just makes it easier for abrdn and for ourselves.

**Rakesh Thakrar, Group Chief Financial Officer**

Yes, so on the LifeCo free surplus, the other £300m, I think they're broadly the same items as what you can see in the main Solvency II walk as I described earlier. So, they will include, you know, the fact that we created a Irish entity for Brexit, again, for our policyholders that primarily reside in Phoenix Life and ReAssure. So, that had a strain of £0.1bn. Also we've got the investment in growth, which is coming through from there as well, of £0.1bn, and then those other regulatory projects to make up the balance. So, it's broadly the same as the walk you get in the main Solvency II walk.

**Andy Briggs, Group Chief Executive Officer**

Fantastic. Well, look, sorry, that was a little bit more rushed, and I really do thank you for not asking detailed technical accounting IFRS 17 questions. That was, that was brilliant. Much appreciated.

So, that's, sort of, the end of the event for the webcam side of things. We're going to take a ten minute coffee break now, refreshment break, and then we'll come back, and Rakesh will lead you through a few slides with a bit more detail around the IFRS 17 transition together with a detailed Q&A on that topic. So, we'll come back in for half-past, yeah. Thanks very much.

**END**