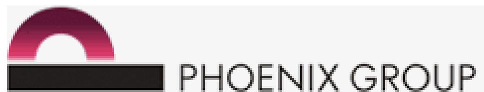

Phoenix Group Holdings Investor Day 2014

Tuesday 25 November 2014

Clive Bannister: Group Chief Executive

Good afternoon, my name's Clive Bannister, I'm the Group Chief Executive of Phoenix. Welcome to St Paul's and the Phoenix Investor Day. It's good to see so many of you here. I'd like to think it's all about your innate passion and interest in Phoenix but it might have had a little bit to do with the extraordinary building in which we are housed.

Some of us have been lucky enough to have a guided tour around this building a few minutes ago and it's hard not to be moved by one of the UK's most iconic and beautiful structures. Startling to think that an Anglo-Saxon church stood here 1,400 years ago and in 1607 on what was then the highest point in the whole of London. Rebuilt many times, burned down in 1666 and then reconceived and rapidly built in 35 years, literally phoenix-like by Christopher Wren to become and to remain a feted centre for British national and civic celebrations. Anyway, on to business.

As I reiterated at our interim results a few months ago Phoenix's business model is about generating predictable cash flows over the long-term. In addition we have consistently met or exceeded our targets and, furthermore, enhanced the value of the business as measured by MCEV. Our balance sheet has been transformed this year with the sale of Ignis, the re-establishment of our relationship with the debt capital markets and the achievement of a single bank silo which brings both financial and structural benefits to the Group.

Altogether these actions will help the Group to deliver further simplification of the business as well as facilitate its strategy of creating significant value through M&A.

I strongly believe that the regulatory changes that we've seen this year will transform our industry and that our achievements in the past three years have now positioned us to be at the forefront of the next wave of consolidation of a UK closed life fund market.

We saw on Friday the announcement of a potential transaction involving Aviva and Friends Life Group and there is obviously a great deal of interest and speculation regarding that specific combination. However, our focus is what makes Phoenix unique in being able to manage closed life funds in this new world for the benefit of customers, shareholders and other stakeholders. Therefore with regards to any questions at the end I would ask you if you could try and focus more on the themes within this presentation rather than the speculation about events outside. It's a fair ask.

On the platform here we have Andy Moss, Chief Executive of Phoenix Life, Tony Kassimiotis, Managing Director, Operations. Susan McInnes, Customer Director and Fiona Clutterbuck, Head of Strategy and Corporate Development. And hiding in the audience but well within my line of sight is Jim McConville, our CFO, and he said to me that if I have to refer any questions to him it's a mark of failure, so I want some difficult questions and I look forward to failing in an accomplished manner, Jim.

The presentation will take about 45 minutes and then we will go into Q&As. And now it gives me great pleasure to hand over to Andy who will discuss the changes impacting our industry in more details. Andy, the floor is yours.

Andy Moss - Chief Executive, Phoenix Life

Thank you Clive, and good afternoon everyone. I was delighted to be able to talk at the interim results about Phoenix Life and some of the specific actions we've been undertaking. However, I felt today it might be helpful to take a step backwards and review the wider life assurance industry and more specifically, some of the broader challenges for closed life funds.

The UK life sector is undergoing significant change. These changes appear to be being driven by three things. Firstly, by the political desire to encourage retirement saving and then to provide more flexibility for people in how and when they take their retirement savings. Secondly, the European legislation in the form of Solvency II, and finally, by the increased focus of a separate regulator on conduct issues, such as the review of the treatment of longstanding customers.

These changes affect the whole industry and may lead to radical shifts in strategy for some players, as perhaps we are already beginning to see, as well as more specific actions that impact on Phoenix and its closed fund business.

The ultimate impact of these changes, and indeed the final position of the Solvency II regulations are still unclear. However I believe the changes to annuity regulations, the workplace pensions fee cap and the ongoing FCA thematic reviews will alter the landscape of our industry and lead to more closed funds as we see more players exit from writing new business.

As the UK's largest specialist closed fund consolidator we will show you today that our operating model and variable cost base, together with our focus on customer outcomes will deliver us future success.

The regulatory announcements over the past nine months have had a marked impact on the strategies followed by many new business writers in the UK life sector. The end of compulsory annuitisation has accelerated the requirement for the industry to provide suitable products that offer customers both flexibility and income in their retirements. However, this goal is made more challenging by the fact that the large majority of retirees may now be divorced from advice, whilst at the same time being offered a range of more complex retirement products. In addition, the new guaranteed guidance regime announced in the Budget is still untested.

Open players also need to face the challenge of continued pressure on margins from regulatory changes as well as low cost asset gatherers. This has driven significant investment in technology and new platforms, but these require scale to be profitable and competition is high.

Many traditional open players may fail to adapt to the new cost world and will find that they are unable to maintain a competitive new business capability. As seen in the early 2000s there may therefore be a further wave of life companies closing to new business.

Just as the open market is finding regulatory change difficult to manage, many of the same pressures are impacting closed funds and their customers. As the UK population ages the political focus on how the life market reacts to the demands of their customer base will

continue to increase and this is evidenced by the ongoing FCA review into the treatment of longstanding customers.

Therefore closed funds and legacy products will require a great deal more focus from market players, especially in terms of customer outcomes and investment in systems. This requires managing the competing demands of increasing costs of governance and technology investment in a run-off environment.

Closed funds will have a wide range of legacy products that need to be administered. This requires a real expertise in being able to simplify the old legacy systems that many closed books operate on to ensure that fixed cost pressures are minimised and customer expectations are met. As Tony will discuss later, this requires not only expertise in utilising outsource partners but also having the right contractual agreements that can only be derived from being a true first mover in outsource innovation.

As well as the cost of administration, it is clear that the closed life market needs to be more proactive in demonstrating that customer outcomes and service levels are also being considered. It is undoubtedly true that many customers may no longer be engaged with their original product. It is therefore a requirement to have a proper governance framework and to be able to retain the specialist expertise to continually assess whether customers are receiving good outcomes. A clear demonstration of this at Phoenix is the management of with-profit funds and ensuring that the funds run off smoothly whilst maximising the distribution of the estate to policyholders in the form of their bonuses. Having clearly defined targets for customer outcomes and service, and being able to demonstrate achievements against these, are now a must have for any closed fund.

With regards to the main customer changes that we have seen this year Phoenix has already seen some financial impact. For example, we expect that the take up of non-guaranteed annuities will fall by two thirds, although the actual impact will likely not become clear for another 12 months at least. In addition, although we expect that the guidance guarantee will support the take up of guaranteed rate annuities, we have also taken a prudent view that volumes will reduce by 20% and we've already taken the financial impact of this within our half year results.

The FCA review work is ongoing, but Phoenix's strong product governance framework and the lack of any cross subsidisation issues place us in a good position. Finally, the recent clarification with regards to workplace pensions' cap is also encouraging, with the cap not applying to our conventional with profit schemes, and the provision we made at the interim results in August we believe is a prudent one. Clearly, Phoenix is not unscathed from the recent regulatory impacts but we continue to believe that this will not materially impact the Group's financial results.

It is clearly not possible to manage a closed fund business without the appropriate operating model. Having a number of legacy life companies, all on different systems and using individual processes, is not sustainable from a cost perspective. In addition, regulation is leading to a greater focus on customer outcomes which can be best achieved through a single methodology for all life companies. Our outsourced service partners provide the necessary investment in modern and scalable platforms, whilst providing a per policy cost structure that protects policyholders from an increasing fixed cost base. By retaining specialist expertise within the Group service companies we can ensure appropriate oversight of the outsourcers whilst being able to focus on management actions, such as transforming our financial systems in readiness for Solvency II.

As the UK life industry continues to shrink we expect the use of outsourcers will increase. However, the number of players in the outsource market itself is also falling, putting late adopters at a disadvantage in agreeing economic terms. Phoenix has a long-standing and well-controlled outsource model that gives it a strong advantage in a closed life market.

At the time of our interim results I discussed some of the key metrics we focused on from a customer service perspective and I've set out on this slide the historic improvement that's been achieved. Demonstrating strong customer service is becoming ever more important in the closed fund industry and although there can be external events that can impact areas such as the level of customer complaints we continue to seek ways to improve and ensure that these metrics are maintained.

As well as better service levels the value of their investment is also very close to our customers' hearts, and I'm therefore very proud that through our expertise in managing with profit funds we have managed to increase the distributable estate in these funds by over £900m between 2010 and 2013. This increased estate is then used to enhance payouts to our customers as the fund runs off over time with 115,000 policy holders benefitting from £157m of distributed estate in 2013, an average of about £1,400 per policy holder. This is a tangible demonstration of how we've been able to add value to our customers.

In summary, I believe that there are a number of characteristics that a closed life fund must have in order to be successful over the long-term. From an operational standpoint I've just discussed the importance of being an early adopter of outsourcing. By expanding this outsourcing expertise beyond just policy administration it is possible to continue to manage the fixed cost base whilst retaining the core ability to transfer systems and processes within the Group. As legacy policies continue to mature over time it is the players with variable cost bases that will prosper and our operating model is one that will be difficult for others to replicate.

From a customer perspective, the increased focus of regulators means that it is no longer feasible to simply rely on just meeting the original policy terms. Phoenix has a culture and a proven capability of improving outcomes, whether through increased investment returns or customer service, and these attributes are essential for a closed fund consolidator. Having a product governance structure to review legacy policies, to understand where they may not be delivering good outcomes for our customers and finally, having the ability to source a range of products for customers in future will help Phoenix to provide value to its existing customer base.

The final impact on the UK life industry from the changes we have seen this year will take some time to become clear, but Phoenix has the platform to ensure that both customers and shareholders are protected.

I will now pass you on to Tony who will cover the operational side of Phoenix Life in more detail.

Tony Kassimiotis - Managing Director, Operations

Thank you, Andy, and good afternoon everyone. My name is Tony Kassimiotis and I'm the Managing Director of Operations at Phoenix Life.

As you have just heard there are a number of key challenges facing the UK life industry from an operational standpoint. Firstly, a more intrusive regulatory regime that is more engaged in challenging the status quo and undertaking more investigations into different areas of life

assurance. This is in parallel with the ongoing Solvency II implementation which of itself is a significant operational challenge for the industry.

Secondly, there is a rising cost issue within the UK, with greater cost from regulation at the same time as industry players may see a faster run off of their books due to the decline in annuitisation. This will accelerate the underlying fixed cost issue for many businesses who do not have an existing variable cost operating model and could be a particular issue for with-profits funds which may find that the surplus estate is reduced by excess administrative costs over time. And finally, there is the challenge of improving customer outcomes, which will become more important as the new pension freedoms provide a greater choice to policy holders.

We believe an effective closed fund operating model needs three key pillars.

Firstly, having a customer services and IT platform that is scalable and sustainable through the use of outsourced partners. Secondly, having a retained skill set of financial management and transformation capability that allows continuous simplification and value creation through management actions. And thirdly, having strong investment management capability, with the appropriate level of oversight, in order to maximise investment returns for customers and shareholders.

Across these three pillars is the requirement for a strong governance structure to ensure that contractual agreements with the outsource partners are supportive of the target operating model, one that is aligned architecturally to future-proof investments and to simplify processes.

Taken together, this provides a truly scalable platform for a run-off business and one that simultaneously supports acquisitions.

Moving on to Phoenix's specific model. We follow a number of key additional principles. At its heart, Phoenix Life's strength is the transformation and change management skills of its employees.

We retain ultimate responsibility for customers, and therefore our people must have the ability to manage a wide range of complex relationships with outsourcers in order to deliver the Phoenix strategy. These relationships need to be sustainable for both sides, and therefore we continue to look for "win-win" scenarios that benefit our customers, our shareholders and our partners.

The key advantages that our operating model provides is: a highly variable cost base; the ability to use our partners' scale and resources to provide and maintain modern systems; a reduction in the operational risks of the business; and finally, significant protection against the cost of regulatory change. As I will discuss shortly, these advantages are not achievable without long-term partnerships.

When people talk about outsourcers, they generally think about policy administration. That is, the management of customer contacts, such as answering phone calls and sending letters. In reality, the outsource model that we have goes much further than this, and we continue to look for ways to outsource activities that can be easily commoditised.

However, it should be noted that whilst we outsource general administrative activities and support, the accountability and ownership for our customer relationships remains with Phoenix.

Our policy administration and IT outsource relationships go back more than eight years and are now well embedded in the organisation. These partners have been critical in allowing us to transform our customer contact and provide a variable cost base for the life companies, the benefits of which can also apply flexibly to future closed books.

However, we have gone further than administration, partnering with HSBC to consolidate our fund accounting and custody requirements from our number of different suppliers, and also transforming our actuarial systems using a single modelling platform provided by Milliman.

This has allowed us to generate value for shareholders and provides us with the optionality to on-board further closed books.

Finally, following the divestment of Ignis earlier this year, we have a new major partner in the form of Standard Life Investments, alongside the existing relationship with Henderson. Standard Life's own expertise in fund simplification will provide us with the ability to further streamline our investment processes and oversight.

As a first mover in these different forms of outsourcing and partnering arrangements, we gain the benefit of attractive contract terms that we have leveraged in the past, and will continue to be able to leverage in the future.

The benefit of being a first mover is evidenced by the relationship we have with outsourcers, such as Diligenta, where the Group was the first major client, and Capita Life and Pensions, where we were the second major client. The UK outsourcing market has consolidated over the past decade with many original players failing to achieve the necessary scale to compete profitably. Our two major outsource partners, Diligenta and Capita, now lead the market.

There continues to be significant opportunity for those outsourcers that have succeeded in building modern, efficient platforms to make further inroads into providing policy administration, where only 40% of the market is currently outsourced. However, life companies that are looking to outsource administration today are at a disadvantage, with a lower level of competition resulting in contractual terms that would be less attractive than for those businesses, such as Phoenix, who were first movers.

We see similar future benefits from adapting our policy administration model into other areas, such as actuarial modelling. Our actuarial and finance system transformation has been a major and long-running project for the Group. In partnership with Milliman, we have transferred a multitude of different actuarial models on to the MG-ALFA system, reducing complexity and time.

This has several key benefits. Firstly, we have been able to variabilise the cost, as we only pay for processing capacity when we need it, on demand. Secondly, it has allowed us to reduce the cost of the change by 30%, for example, within our finance systems transformations, by tapping into cheaper resource costs and preferential rates. And lastly, by

having a single actuarial model, it has allowed us to release unnecessary prudence within the legacy actuarial systems, increasing MCEV by over £130m since 2011.

These new systems have also improved our Solvency II readiness and provide a platform that is fit for purpose and future-proofed.

One of the major corporate actions we have undertaken this year is the divestment of Ignis to Standard Life Investments. SLI is now our largest supplier of investment management services, ahead of Henderson and Castle Hill, and so the transition is of critical importance.

We manage our investment management partners in the same way as our other suppliers. Applying the same principles and governance structures helps maintain the simplicity of our operating model and streamlines the relationships. The result of this is a highly successful transition to date, with almost half of the assets expected to be using the SLI's target operating model by the end of this year, with further work to be undertaken in 2015.

Given the ongoing and parallel outsourcing of our fund accounting to HSBC, this is a clear demonstration of how we will continue to seek repeatable, sustainable processes across the organisation.

Clearly, there is little point in building a simplified operating model without being able to demonstrate the tangible benefits for shareholders and customers. This slide sets out some of the key financial benefits that have been achieved, whether from reduced transformation costs or efficiency gains. We run much reduced investment costs, a result of the significant work that has already been undertaken in developing our target operating model. We can now harvest the benefits of this investment in the future.

With regards to operational efficiency, Andy talked about our track record of reducing costs faster than policy run-off at the time of our interim results. This is testament to the ability of the Group to leverage the scale and capability of our partners, and we will continue to seek ways to simplify processes.

Finally, this is all underpinned by significant operational and financial risk transfer to our partners, which supports the release of capital held by the Group against these risks, as cash.

In summary, the work undertaken by Phoenix, in cooperation with our partners, has created an acquisition-ready operating model that would, in our opinion, be difficult for others to replicate today. Our outsource model provides the advantages of a variable cost base that is scalable in both directions, with improved customer service and a future-proofed platform.

In addition to this, we have consolidated our retained business at our Wythall office, which improves efficiency and the focus on management actions by having Phoenix Life personnel at a single location.

We have remained at the forefront of outsourcing through the AST programme and expect the investment relationship with Standard Life Investments to also provide further opportunities.

We will continue to look for further opportunities to rationalise the business through the skills developed over the past years, and I'll look forward to describing our progress during 2015.

I will now pass you across to Susan, who will discuss our customer proposition in more detail.

Susan McInnes - Customer Director, Phoenix Life

Thank you Tony and good afternoon everyone. I'm Susan McInnes, the Customer Director of Phoenix Life.

Phoenix has around 5.5 million customers, originating from several hundred different brands, all of which are now closed to new business. Many of our customers, including former Pearl and Britannic customers, bought their products from direct sales forces, which generally targeted mass-market segments during the 1980s and the 1990s. The result of this is that firstly there remains a strong identity with the original brand, but more importantly for the future, these customers are now often divorced from financial advice.

As we have combined life companies and simplified our processes, we've steadily migrated many of these old brands to the Phoenix Life brand, creating a single identity for our business. Building trust in the Phoenix brand is important, as customers look to us to play a role as they make decisions on financial provision for retirement.

As I will show shortly, we have a wide range of different customers, both from a net worth perspective, but also in terms of financial requirements.

Most closed funds will have a long tail of different types of legacy products, and Phoenix is no exception. Our largest remaining product categories are pensions, endowments and whole-of-life products. These products are covering very different customer needs, from retirement, general saving, through to planning for funeral expenses, and there are significant differences between the average policy values by original brand.

To give you a flavour of that, at maturity the average endowment policy for an ex-Pearl customer pays out about £11,000. For an ex-Scottish Mutual or Scottish Provident customer, that goes to £30,000. For a whole-of-life policy, the average sum assured for an ex-Britannic customer is £2,700. For an ex-Pearl customer, it moves to £5,000, and for an ex-Scottish Provident or Scottish Mutual customer, it's about £31,000. Now these might not seem like high values, but they can be very important amounts to our individual customers.

There are, however, many more products in that tail that I mentioned, and we have the full range of life, pensions and investment products. This has allowed us to build a depth of experience across both product and customer needs.

The business has been developed to ensure it can react to changing customer requirements. For many products, customer contact might be limited. For example, a customer holding a term assurance policy to cover the repayment of a mortgage on death won't need to engage with Phoenix for long periods. However, our pension customers have greater contact, especially as the customers reach their retirement ages.

To give a sense of the volumes we deal with each month, on average we receive 110,000 calls, and complete an additional 140,000 customer requests.

One important advantage of this diversified book of business is that Phoenix isn't overly exposed to issues with any single product. For example, as Andy mentioned, the workplace pensions' cap has had a limited impact due to the low volume of active workplace schemes.

However, we are faced with some ongoing challenges, many of which have been further highlighted due to the recent regulatory changes. Financial services and their taxation can be confusing for customers, and it's not helped by the fact that the cost of independent advice is likely to be unaffordable for many. There is therefore a clear requirement to ensure that customers are engaged with their policies and kept informed of all of the options these policies provide.

We've made significant efforts in ensuring that we're able to keep in touch with customers and that our communications are clear. We've also continued to review our product range to ensure our products remain relevant to customer needs, offering options to customers where they may not be. An example being the offer to buy out small annuities in payment. These are actions that are often a "win-win" for both shareholders and customers.

Finally, given the new permissive regulation on pensions freedoms announced in this year's Budget, customers have full access to their pension pots, and it remains important to us that they can access their pots in a manner that meets their needs.

I've set out on this slide a breakdown of the size of our customers' vesting pension pots, both by number and value.

Given the fact that many customers have separate pension pots for every period of historic employment, it's perhaps not surprising that around 75% of our vesting pension policies are below £30,000, with the average pension pot being around £25,000. However, when the total of all vesting policies is analysed, almost half of the vesting assets are for pots of greater than £50,000. That is what would be considered as mass-affluent.

Clearly our customers will have a wide range of financial requirements at retirement, and Phoenix needs therefore to be in a position to accommodate as many as possible of these different requirements.

So given that we're still awaiting the formal start of the new pensions freedoms next April, can we draw any conclusions from our customers' behaviour so far? There are probably two main trends that we have seen to date. The first is that, understandably, there's been a twofold increase in customers deferring making any decision with regard to their pension pot. As we would expect, customers are in a position of 'wait and see' until the new world after April 2015 becomes clearer. However, the level of deferral by those customers with valuable guaranteed annuity rates is lower as these are highly attractive in today's market – often twice the current market rate for annuities. Not only are these guaranteed rate annuities beneficial to customers, but they're also profitable for shareholder.

Secondly, we have seen a sharp intake in the level of customers taking smaller pots as cash. This again isn't surprising. However, although this is a larger proportion of our vesting policies by volume, only around 7% of annual vesting assets, by value, are held in pots of £10,000 or less. We continue to see that annuities remain more popular for larger pots, especially as I mentioned where there are guaranteed annuity rates.

Furthermore, we believe that the revised assumptions we announced at the time of our interim results, namely that take-up rates will fall by two-thirds for non-guaranteed rate business, and for 20% for guaranteed rate business, remain valid.

As has been mentioned earlier, the new pension freedoms pose a risk to closed funds from lower persistency, but we also see a potential opportunity given the range of requirements that our customers will continue to have as they reach retirement. These customer needs may include ensuring they have an income life, which annuities offer, as well as accessing pension pots in a tax efficient way, or indeed leaving the pots in place for dependents to inherit.

Phoenix Life already uses a number of partners to offer alternative products such as providing enhanced annuities through Just Retirement. We're in the process of examining further partnerships to allow us to offer additional products to our customer base, including potentially drawdown products that will customers flexible access to their pots. These will complement the existing product suite and our work in this area will continue as the pensions market develops.

So to summarise, our experience to date leads us to believe there will remain a need for a guaranteed income in retirement and so we expect to continue to write annuities, especially when they are at guaranteed rates well above today's market position. However, there is no doubt that our customers will look at new products in future and we will adopt a "test and learn" approach where we use partnerships to continually adapt to our product range as behaviours shift. By leveraging these partnerships using the same key principles that Tony talked about earlier, we can continue to maximise value for both our customers and our shareholders.

Finally, we do expect that exit charges will remain an important issue, especially given the new pension freedoms that will be available. Since the average level of fee exits charged is less than 1% of our unit-linked pensions business, we believe the exit charges are not an inhibitor for customers to access their pots.

I'll now pass you onto Fiona who will discuss our opportunities for growth in the future.

Fiona Clutterbuck - Head of Strategy, Corporate Development and Communications

Thank you Susan, and good afternoon everyone. My name is Fiona Clutterbuck and I am Head of Strategy and Corporate Development.

As Andy said at the beginning of our presentation, the UK life sector is evolving. The changes will impact different providers in different ways. Niche providers, particularly those focused on annuities, have clearly been significantly impacted by the recent reforms. Others

still open to new business may seek to consolidate their back books or offload high fixed cost to simplify their business models. Whilst savings specialists may prove to be the greatest beneficiaries with SIPP and income drawdown sales expected to grow substantially.

The events of Friday afternoon appear to support this perspective. We have had only a handful of transactions over the last five or six years, and on Friday we heard that one of the largest transactions in recent years in the UK life sector, is currently being negotiated. And that's probably about all I can say about it, sorry guys.

So what about those players who don't have the platforms to offer alternative products or write new business of sufficient scale? They will face a number of challenges: Firstly, the loss of profitable annuity streams will impact the financial feasibility of retaining a new business platform; secondly, policies will become more expensive to administer as they become fewer in number whilst fixed costs remain unchanged; this will be further compounded by the increased scrutiny by the regulator, which will make it more difficult for companies to cut costs, and as Tony has described, others may find it difficult to replicate the Phoenix outsourced model; legacy products also typically require greater levels of capital; and finally, retaining staff with the correct skills and expertise to manage legacy books is likely to become a challenge.

The pressures of running legacy books are likely to be key drivers of consolidation in the future. Phoenix should be the natural beneficiary of the landscape change.

However, these long-term drivers, whether they are the change in capital treatment for bancassurers, the loss of critical mass in terms of cost efficiency, or the ongoing requirement for investment in technology and customer service, are also offset by short-term uncertainties.

There are numerous factors that may result in a hiatus for transactions, the most important of which are a lack of clarification on Solvency II regulations, and the final outcome from the FCA's thematic review. The announcement of Aviva's intention to acquire to Friends Life on Friday, does however show that in the context of an all-paper deal it is easier for both parties to get comfortable with these issues as there is a sharing of risk.

It has been impossible to predict the precise timing of transactions, and therefore the focus of Phoenix has been to continue to develop our business model and financial strength to make Phoenix a more eligible counterparty, and to put ourselves in the strongest possible position when they do occur.

I'd like to share our updated view of the potential size of the market and the issues we need to address in order to contemplate transactions. We estimate that the total UK market opportunity for Phoenix Group is around £340bn, increased from our previous estimate of £200bn. This is calculated as the net mathematical reserves of all proprietary, closed or quasi-closed life companies in the UK, plus additional legacy funds that are not writing significant levels of new business. The reason for the increase in the market opportunity is definitional. We have included additional blocks of legacy business within open life companies, not just those within those closed to new business.

Friends Life represents approximately £51bn of this total, so should the deal complete the target market will reduce to £290bn. However, as I think some of the analysts have suggested this morning, it could be that various funds within the combined Group would be earmarked for disposal. We've not included mutuals within the £340bn that we've outlined.

We believe the combination of regulatory changes, and the recent strengthening of our own financial position, means that the universe of potential acquisition opportunities is wider for Phoenix now than we had envisaged previously.

Of the three groupings, the greatest proportion are to be found in foreign-owned life companies and in UK life companies. Around one sixth are owned by banks. We expect that the ongoing increase in regulation within the UK life industry may cause the foreign-owned and bank-owned groups in particular to seek to exit the market partially or completely.

In terms of products, over half of the market opportunities lie within unit-linked business, along with a significant amount of with profits and a smaller proportion of non-profit. As Tony as already highlighted, Phoenix Life retains the specialist skills and expertise needed to effectively manage each of these business types. These skills are employed to drive out further value through management actions, and will be applied to books of business acquired in the future. Our management actions in the past have derived value across all these product types.

We will create value through acquisitions, and this is the raison d'être for pursuing acquisitions. We have identified specific criteria to be satisfied when making an acquisition, and these are: from a geographical perspective, it has to be within the UK and Ireland; it has to be value accretive; and it needs to protect the current dividend of 53.4p per share. Additionally, given our success refinancing our debt and reducing gearing to 35% earlier this year, any acquisition will need to keep gearing at a level consistent with our aspiration to achieve and maintain an investment grade rating.

Let me take a moment to explain how we would deliver value accretive transactions in practice. The first point I'd like to make is a cautionary one. Embedded value calculations and their underlying assumptions vary across companies, and it is therefore too simplistic to consider the discount to reported embedded value alone in assessing the potential value of any acquisition.

Synergies and our ability to add value to any acquired book are fundamental drivers of shareholder value. The process of extracting synergies is one which we have been undertaking with great success from our existing book in recent years, and as you've just heard from my colleagues, we are very well positioned to be able to replicate this in future. To illustrate this, our gross MCEV in 2009 was around £5.3bn, and between 2009 and mid-2014 we have delivered MCEV management actions of £1.1bn, representing around 20% of our embedded value in 2009.

Clearly the financing and structure for any acquisition will depend on the specific transaction. We have funding options available to us to varying degrees, including internal cash resources, equity, debt financing, and a variety of other structures. The extent to which each

of these is employed will very much depend on the deal in question as the make-up of the target book or company will influence the choices made.

So, to summarise, we believe Phoenix is well positioned to benefit from the changes in the UK life space. Not only do we have the right platform as the largest UK specialist consolidator of closed life funds with an effective and scalable operating model and strong outsourcer relationships, we have also demonstrated our ability over the past five years to enhance value for our shareholders through management actions. We re-established our relationship with the debt capital markets in July, followed closely by the completion of the single silo debt refinancing, both of which have provided us with greater financing flexibility to fund acquisitions.

These attributes are underpinned by a dedicated corporate development team with proven integration experience. These transactions take time, they are often complex, require detailed due diligence, and involve lengthy regulatory and court approval processes. However, we firmly believe we have the resources available to be able to deliver on our growth aspirations.

I'd now like to hand you back to Clive.

Clive Bannister - Group Chief Executive

Fiona, thank you. Ladies and gentlemen, to summarise. Phoenix has in place the key attributes to be the saver-friendly industry solution for the safe, innovative and profitable management of the closed life fund business. We have the scale, operating model and specialist expertise that will be essential for efficiently managing a wide range of legacy products over time. This will allow us to apply the same skills and management actions to new funds as we have to our existing book, generating synergies for shareholders and improved outcome for customers and policyholders.

Ladies and gentlemen, that is the end of the formal session. Thank you for your patience, just a few minutes over 45 minutes. What we'd now like to do is answer any questions. Would you please wait for a microphone to be brought to you. If you could give us your name and the institution for whom you work, we will then answer the question.

QUESTION AND ANSWER SESSION

<u>Question 1</u>

Ming Zhu - Canaccord

I think you previously mentioned that the FCA review has added an additional layer of complexity in terms of M&A transactions but now with the recent announcement of Aviva and Friends Life, does that suggest that regulatory intervention may be overdone?

Clive Bannister

So a two-part question there. One is, the question about the observation about whether the FCA legacy review created complexity, and how does that impact or otherwise on what Aviva and Friends Life may be doing – a conjecture there – and whether we should change our mind about the degree of obstacles between doing a transaction maybe because of regulatory intervention and oversight.

Let's just talk about the FCA legacy review. We've already covered it today, but it's worth recognising that the FCA have confirmed that they're still trying to complete that work by the first half of next year or within the first half of next year. The avenues and corridors of investigation are as we originally thought; it's about our back book strategy, about the cross-subsidisation of cost for policies within that between an open business and a closed business – we just run a closed business so that is not an issue for us; it's about the way in which we communicate to our clients – massively important; and then of course the exit charges.

Susan I think has been eloquent and effective about describing the way in which we feel well prepared to meet each of those four challenges, one of which is not relevant because we don't run an open business. But she did end her speech by saying that we are always aware of the exit charges. In our case they come to about 1%, about £150 per customer on the unit-linked side, so it matters and we will await the outcome of that review. I've said before it's more likely to be a tremor than an earthquake.

We feel comfortable, not complacent, about how we are positioned as a business because we are so focused on the closed life sector and managing positive outcomes for our policyholders. Any transaction, and indeed the transactions we did earlier this year, be it the sale of Ignis, our debt restructuring and indeed the bond issue, requires regulatory approval. Two regulators: one on the conduct side, the FCA, and the PRA. You will remember that when we announced our deal in March with Ignis, the sale of Ignis to Standard Life, we said it was subject to regulatory approval. That regulatory approval was delivered within 90 days by 1st July, sometimes it takes longer; very rarely does it take a shorter amount.

So, I think Ming to answer your question I don't think we should underestimate the necessity because it is mandatory to get regulatory approval from two different entities; nor should we over-exaggerate that that would be an inhibitor to what may be a commercially sensible transaction for parties who wish to do them.

<u>**Question 2**</u>

Jon Hocking – Morgan Stanley

I've got three questions please. Firstly on outsourcing, you seem to be arguing that there is a supply constraint in the outsourcing market. I was wondering if you could comment on how long your outsourcing agreements are and whether you think that supply constraint actually means there is upward price pressure in the long run on those agreements.

Second question on the point about lapsing: I can see you've got modest exit penalties on your unit-linked book; but given Andy's point about lapsation picking up across the industry

to what extent do you think there's a risk to your own in-force as pension customers may be attracted elsewhere by other products?

And then just finally on Fiona's comments about risk sharing on all share transactions, given the large segment of the market you identify where you've got foreign-owned participants, do you think those all share transactions are less attractive for foreign-owned life companies?

Clive Bannister

Thank you very much. There were three questions there. Tony will take the first one, which was about outsourcing. I think the key question was: how long do our outsourcing contracts last? Is that right, Jon?

Jon Hocking

Yes, and the pricing pressure from the supply constraint.

Tony Kassimiotis

Our outsourcing agreements were put in place around 2005, 2006. But all our existing agreements, including our two major ones which have more than 96% of our policyholders within them, are evergreen contracts. And in doing so we negotiated favourable terms so that the price that we pay within the agreements today continues on through the life of those arrangements. So, we don't see that we'll be under any pressure at the end of the first term to change any of the financials that exist within those agreements today.

Clive Bannister

Jon's second question was asking about lapses and whether in the changed environment we'd expect – I'll use the word – an avalanche, maybe on the smaller side of the trivial end, of people taking their money and how that might affect our business. Jon, is that a correct summary of your second question?

Andy, why don't you kick off with that?

Andy Moss

Yes I think as we move into the point where people have got greater pension freedoms clearly there is an expectation that potentially those with smaller pots will look to take their money. We're certainly not anticipating at the moment that there will be a big increase in the total lapses; but obviously we do need to keep that under review.

We should also bear in mind there is some further attractiveness now with the flexibility for people to leave their pots with us for longer so they can have greater flexibility in terms of how they take that income. So, we think there's an equal likelihood that actually we'll keep some of those pots for longer as well in the newer environment, such that people have got the flexibility as to when they come in and take that income. So, we could find things

happening on both sides. But in some ways it's too early to tell exactly what the customer behaviour will be at this point in time.

Clive Bannister

I think Susan was very clear there were four product options that essentially will come from Phoenix next year: one of which is cash; one of which is annuities; drawdown of some form; and finally leaving the pots where they are. So, on the crude analysis three out of four would argue that the money stays with us.

The third question, Fiona, would you take? It was a question about in an all-paper deal how risks are shared in looking towards the future, and whether that may or may not be more or less attractive to some foreign owners. As you correctly said, they are some of the largest owners of closed books in the UK.

Fiona Clutterbuck

I would point out, Jon, as I'm sure you are aware, discussions that we had with Swiss Re last year actually were on an all share basis. Quite surprisingly I suppose, it would appear that for foreign-owned life companies, the owners of these businesses are prepared to think about taking our shares as consideration. And I think the rationale for that is they realise that there is significant potential upside because of the rerating that will occur as a consequence of the transaction. And we saw that ourselves when the leak occurred and our share price rose by about 10% on the announcement.

I think your intuitive suspicion that they might not be prepared to take our shares as consideration is probably an understandable one; but quite surprisingly I don't think that has been our experience.

<u>Question 3</u>

Alan Devlin – Barclays

You mentioned in one of your slides about the buyout for unwanted products. I was wondering if you think they would be more prevalent as the concerns on annuity mis-selling. And what are the economics to you guys of those buyouts?

The second question: you mentioned exploring partnerships, particularly potentially for drawdown products. I wonder if you could give us some colour on what you're talking about?

Clive Bannister

You're speaking too quickly, I'm afraid; you've got to slow it down. The second question was on partnerships?

Alan Devlin

Yes, you're exploring partnerships in relation to drawdown products etc. Some more colour on that please.

Clive Bannister

And the first question was about buyout mortgages?

Alan Devlin

Buying out unwanted products.

Andy Moss

The trivialisation of the small pots.

Alan Devlin

Yes, and the economics of them.

Susan McInnes

Let me take your buyout question. We've done historically two different schemes around buying out of unwanted policies. The first one was where we bought out small paid-up whole of life policies, which were probably originally taken out to cover death or funeral expenses, but the customers had stopped paying early, and therefore the size of the pot was such that it probably wasn't going to be valuable to them at their original date.

The second buyout that we did was for small annuities. In both of these we had a take-up rate of over 60% when we put this to customers. So, we do these initiatives where first of all they have to be of interest to our policyholders; it has to be something that they want to do. And also for both of these initiatives, because the pots in both occasions were relatively small and due to the administration expenses for us, it was worthwhile us offering a buyout for the policies.

So, we tend to find these initiatives that are good for customers and good for shareholders. And we are not averse to doing more in the future if we can find more situations that are good for customers.

Clive Bannister

And the second question was about the partnerships we may be exploring in the area of drawdown products.

Susan McInnes

For next April in terms of what Phoenix itself is going to do, first of all what we think of as the two most popular things for our customers are for them to take their full pot of cash, and for the potential for them to buy an annuity. Both of those will continue to be done by Phoenix in-house.

We think there might be a need for customers to potentially have products like drawdown, perhaps not as sophisticated as drawdown but a kind of staged way for them to take their accumulation pot. And we have started discussions with a number of potential partners, including the ones that we currently work with, to understand what offerings they might have that might meet our customers' needs. Again, sorry to keep labouring this point, but it has to be products that work for our customer base. So, we're at the early stages of those discussions and the market is clearly evolving a little bit; but we expect to know more by the end of the year in terms of what we might be able to offer to our customers.

Question 4

Ashok Gupta – Private Investor

Clive, I thought following the unhelpful FCA announcement earlier this year on the legacy review, in their back-pedalling they had indicated that they were not going to reopen charges on legacy products. Your presentation seems to indicate a sort of expectation of some pushback on charges on legacy products, particularly back-ended charges. Has there been some back-pedalling to the FCA back-pedalling?

Clive Bannister

There's a metaphor you have to conjure with: back-pedalling on back-pedalling. I'll answer and then I'll turn to Susan.

I have in front of me the words which are a direct quote from the FCA: "we are not planning to individually review 30 million policies". So, the worries that occurred on the morning and afternoon of 28th March where there might have been a PPI type tsunami facing the closed life business was not and is not the case. And I see, Ashok, no back-pedalling on that.

I think the point we've made about our exit charges, as I said an average of about 1%, it is a bell curve. And the longer standing the policy, the lower the average charge. And it is fair for you to assume that one end of a bell curve there are a lot of our clients that have no exit charges at all; and at the other end they will be slightly higher. We believe this is a natural area of investigation, but we don't think that it is going to economically – and I'll just go through the maths in a second – economically damage our business model.

On the annuities side, if you take their contribution to our pre-tax profit on all annuities it was £14m; our pre-tax profits were £266m. If you take the non-guaranteed profits they were £4m. So, I mentioned earlier about a tremor rather than an earthquake.

I'm now going to hand the question over to a lady who will actually be dealing with our colleagues at the FCA when they turn up in December about whether you think there's been any change of emphasis about the exit charges.

Susan McInnes

I think I would agree with what Clive said: I don't think the FCA are back-pedalling in terms of exit charges. I think what they said was that they weren't going to do any kind of retrospective review; and I think they're sticking to that message.

We do however expect the FCA to look at exit charges, particularly in the light of the new freedoms that have been announced, just to understand whether they are in fact a barrier to a customer making a decision in exiting the policy. That's not been our experience at Phoenix, as Clive mentioned, the exit penalties are relatively small across the book. But I think it would be right for the FCA to ask a question around whether or not they were driving any form of different customer behaviour. I think we can expect that as part of the review.

Question 5

Oliver Steele – Deutsche Bank

Three questions. One is you've got both Diligenta and Capita as outsourcing partners; is it as simple as the fact that you couldn't actually get rid of Capita and therefore you had to stay with them? And what are the differences between the two outsourcing contracts? Are they both as variable as each other, as it were, in terms of costs very specifically?

Second question, and I apologise for asking this question but you'll guess the reason why: Can you split out your cost base? I guess I'm quite interested in how much Diligenta and Capita represent of the cost i.e. how much isn't those two?

The third question is: the FCA review really impacts on unit-linked companies, and at least two of the companies you must be looking at are unit-linked players. So, if I can ask the question bluntly and then you can answer it as you wish: does that mean that those two companies are completely out of court for at least the next six to nine months?

Clive Bannister

So three questions. I'm going to look to Tony to deal with the first one. I always think a bicycle that has two wheels is better than a bicycle with one; but Tony will give you the conclusion about our comparing and contrasting Capita and Diligenta.

And then I think there was probably a no-go area about the nature of the costs between those two organisations, which I'm not sure we put in the public domain.

Tony Kassimiotis

I think in terms of those contracts, those contracts are very similar in nature. They had the outsourcing of policy administration, as I spoke about in my presentation. They are all

charged on a cost per policy basis. They are evergreen; they've got similar terms, customer-only options to make them evergreen. And the costs between the two of them in terms of the way the costs unfold and the protection we get are very similar.

I think your question was about is it too expensive to get rid of one or the other. I think the way we'd like to see it is that because those contracts are very similar in nature they give us optionality in terms of potential future acquisitions or indeed other areas where we might want to explore some strengths in one outsourcer versus another. So, we believe that given that I think it's more than 95% of our policyholders actually are managed by those two outsourcers keeping both in play, and making sure that we work well with both of them is a good move operationally in terms of working with them, but also in terms of future opportunities.

Clive Bannister

So, then Oliver's third question was the cheeky one about there being two unit linked entities out in the marketplace or the unit linked focused players and the FCA legacy review being focused on that, and whether that would inhibit us in conversations. I'll make two points and then I'll hand it over to Fiona.

The first point, as Fiona has emphasised, the market is larger than we hereto thought. The second point she made is we have a manufacturing capability, if I can call it that, which covers the waterfront, which means with profits, unit-linked, whole life etc. And at no stage have we said that the asset or the activity, unit-linked or otherwise, would be the determining factor in what drives our interest in an acquisition. What drives our interest in an acquisition is our ability to add value subsequent to its acquisition.

Fiona, you may want to talk about that.

Fiona Clutterbuck

Oliver, I think the example that has been set us on Friday afternoon with Aviva's putative takeover of Friends Life is an indication of the fact that even with a business that is reasonably heavily unit-linked they've managed to get themselves satisfied over whether or not there are going to be significant FCA issues. So, my suspicion is if they're sensible they will have had sensible conversations with the FCA to get themselves comfortable about the level of exposure that both Aviva and indeed Friends Life will have in that regard.

So it's something that we would obviously look at in the context of the diligence process that we'd be going through. I think it will become clearer to us where the focus of the FCA's attention's going to be as we respond to questions that they ask of us and that will give us greater comfort about what we think the impact is going to be on the potential acquisition targets. But I don't think we would rule out a target simply on the basis that it was unit-linked.

Oliver Steele

I think you misinterpret what I said in my second question. I'm really interested in how much of your cost base does not go to outsourcing?

Andy Moss

So in terms of the costs we run it really tight – give or take a little bit about 70% of our cost is outsourced cost.

Question 6

Edward Coleman – Close Brothers

Do you believe you're in between a rock and a hard place with your discount on embedded value at 30%? Currently the acquisitions to drive value opportunities are close to you. How do you close that embedded value but still have an attractive currency for you to go ahead and make those acquisitions? You've already said companies are potentially interested in your shares – if those shares are cheaper it's more attractive for them to do deals with shares than it is with cash but cash is difficult to raise.

Clive Bannister

Very good question – I'm going to make an overarching point. For Phoenix to deliver all of the targets we put in the public domain it does not have to do a deal. I think it's extremely important to remember that one of the core attributes of this business is the length, durability and stability of the underlying cash flows. So all of the numbers we have put in in the first half and all of the numbers we put in the public domain are not predicated on having to do a deal, all of that will be delivered organically.

Put that health warning to one side, we very much wish to be the UK's leading closed life consolidator so we have ambition. We don't think we're between a rock and a hard place. Let's take smaller size deals – we have our own capital resources, our own cash resources, we reengaged with the debt capital markets – to be able to do that. We have senior debt and Fiona talked about other instruments, none of which would involve raising capital from our shareholders to be able to do a deal.

Larger deals would require equity support and it depends on the target, exactly as Fiona talked about, so what the transaction construed and how it was constructed. And we have from our long-onlys an aspiration, and it's curious. Most times in life chief executives are warned off trying raise equity to do M&A deals, on the contrary for Phoenix Life we are supported, indeed in the equity raising that we did in the spring of '13 we were reminded by our long owners that they wished to participate. Why? Because they can recognise the equity rerating that takes place upon such transaction.

Put simply we buy a business circa at 80p on the £1. Over time the organic unwind of that capital, unwind of that business would yield up from the 80p to the 100p and that's 20p and as Fiona said earlier our track record in the last five years is that we have generated a further 20% of embedded value, that is what we have generated £1bn on £5bn, so another 20%. So you put 80p on the table and you actually generate 20p and then a further 20p from doing management actions. So we think there's a compelling economic position for our shareholders for considering such a transaction.

You also mentioned our share price, where it is today and that's just a touch under 70% of our EV, that's risen considerably from the dark days of March and that puts us within spitting distance of the ways in which we can make these deals accretive. But Fiona you may want to remind people what we said about the criteria we've set ourselves before doing a deal?

Fiona Clutterbuck

Yes what we've always said is we want any deal to be value-enhancing. So that's a nice fudge I suppose in a sense. But we're not promising something that's going to be MCEV per share-enhancing as of day one but we would expect it over time to be enhancing as we extract the synergy benefits which we, as a business, we hope you've viewed today, are very, very capable of delivering. So that's number one.

Number two, we would only ever look at something in the UK and Ireland. And we would only ever do something if we could at least maintain our 35% gearing or better it.

So that's the criteria that we want to use to make acquisitions and that's what we will stick to going forward.

Clive Bannister

And protect our dividend.

Fiona Clutterbuck

And protect our dividend, sorry that's the final one, protection of our dividend, very important, the most important of all I think.

<u>Question 7</u>

Trevor Moss - Berenberg Bank

Just to clarify I thought your strategic rationale was that every deal had to be dividend-enhancing or has that changed to dividend protecting? But my questions were, firstly I was speaking to a European insurance CFO recently who said that there was more prospecting going on in the UK back book space than for a very long time, would you agree with that?

Secondly your £200bn moving to £340bn, is that a little bit random or are you basing that on actual discussions you've had that would indicate that open companies were prepared to sell blocks of business within what is otherwise an open company?

And thirdly, Fiona I thought I detected a little bit of caution in your voice about the timing of potential deals because you referenced Solvency II, the FCA enquiry and there was a slide up there with what does it look like in 2020, I'm not sure if that's trying to sort of put us into a position of things were further away rather than nearer?

Clive Bannister

Okay so we have three questions preceded by an observation and so let's be clear Trevor we would only do a deal if we could find a way of making it enhancing for our shareholders and then that would give us the possibility of changing our dividend policy which is of course a matter for the board rather than the management. But one of the outcomes of doing a good deal is then we could move from what we've called our stable dividend policy as it exists today.

More prospecting than ever before - so I've always been aware of prospectors but that suggests are there more buyers than there are sellers? I think there is a high level of interest so let's just step back. There's no doubt in my mind that the Aviva and Friends Life transaction will have various consequences. The first is it will draw attention to the life sector, both opened and closed. Because of the regulatory challenges and issues going on I think the merits of the closed life business will be more accentuated, that is as I've said earlier, the durability and longevity and stability of those cash flows. And since we have always had in our mind the vision of being UK's natural consolidator we are aware of a high level of interest but these are conversations which have carried on for some time. If you actually look at the facts there have been a few number of deals in the last year, on average, about one deal per year for the last four years.

So Fiona then you were asked the maths question – was it a bit random moving from the £200bn to £340bn?

And then the second question about hiatus and timing.

Fiona Clutterbuck

Yes, so Trevor I would love to be able to say to you that actually the £340bn is our estimate having spoken to all the chief executives of all the different life assurance companies around the UK – that isn't the case. But what we've done is a mechanistic exercise which is to look at all the closed, or semi-closed life funds in businesses that are closed to new business and some which are in open businesses and that's the basis on which we've done it. So it the broad range of potential opportunities. Not all of those businesses will ultimately come up for sale but we suspect that a significant and meaningful proportion of them will do. So it's a mathematical exercise that we've conducted rather than specifically feeding back our market information.

On the subject of timing, before Friday we were talking about a hiatus in the market and the thought that Solvency II could make people think quite hard. It's difficult as a vendor, if you want to sell a business, to know precisely what value to ascribe to that business if you're not sure about the true impact of Solvency II. And it's difficult as a purchaser to know what value to ascribe to that business too.

So our view was that conversations would take place but that probably deals wouldn't be consummated until the second quarter of next year or maybe even into the third quarter. We were obviously proved wrong on Friday night because there are people who have got

themselves sufficiently satisfied and comfortable with the impact of Solvency II on their businesses.

So I think as time evolves and greater clarity arrives for us and for other businesses around the impact of Solvency II, you will see further movement but our view was we didn't want to make you all believe that deals were going to be happening tomorrow. That was in essence the message that we wanted to deliver.

Clive Bannister

And I think Trevor it's almost a no win for a chief executive. If I say there'll be a deal tomorrow the telephone won't ring for another year. If I say I won't hear anything for a year you'll be damn sure the telephone will go more shortly. So I think the words hiatus because of the reasons Fiona has given and the slide behind my left ear is probably the right way of pitching it.

Are there any more questions? Jon

<u>Question 8</u>

Jon Hocking – Morgan Stanley

Sorry can I ask just a follow up on the leverage point? So do I understand correctly you wouldn't consider a deal where the leverage goes up? Because I guess there's some funds out there where given the maturity of the industry where you've got a lot of cash flow coming through in the next few years and conceivably you could do a transaction where leverage goes up and your trajectory in terms of deleveraging increases so you could end up with lower leverage just a couple of years out so you're drawing a line here you wouldn't do a deal where the leverage goes up full stop?

Clive Bannister

Okay so the question is about leverage, I think we do draw a line but it's not against a point of maths it's against getting an investment grade rating and to do that in the foreseeable future some time in 2015.

An investment grade rating helps this group enormously in three factors. First of all we have step down arrangements in our current cost of debt. So then we take our current cost of debt down by 50 basis points and from the current 350.

The second is we get access to a far broader pool of investors being rated than being unrated so it makes it easier and much cheaper to issue reg cap friendly debt going out over ten years.

And third it would give us an instrument in an M&A environment. So as an ambition it's to have an investment grade rating.

We will then manage our leverage to that level which ensures first of all the attainment of investment grade rating and then, as Fiona said earlier, its maintenance. So I'm not working off a 35%. You will remember we said that our target was to get down to 40% or better and to do that by the end of 2016, as we stand here we're at around 35% and that's what we've said at the first half and so I don't want to row back from that because it's on that basis that we will be engaging in time with our investment grade with the rating agencies.

I think there are all sorts of constructs which may have a temporary rise in leverage and come down, the real point is to get an investment grade rating and to do that sometime in 2015 if that is at all possible.

Yes sorry Trevor effects on your industry and not the closed life business.

<u>Question 9</u>

Trevor Moss – Berenberg Bank

Yes I remember the last investor day. So a couple of quick things Tony, I guess this is for you but you mentioned that you, as a result of being an early outsourcer, have got somewhat preferential terms relative to what you could get today because of the supply constraint. I don't know if you have an order of magnitude sort of you know you're 30% better, 20% better, I don't know just in case you did?

The second thing, which I think is for Susan actually, I guess most of your pensions customers are long since intermediated or have no adviser at all and obviously the government's advice plan is a complete and utter shambles so I'm just wondering actually what do you do with customers that are contacting you at the moment and suggesting, or they're coming up to retirement? You're obviously in a difficult position where you can't offer them advice but you can't also really advise them where to go for advice because there isn't any that they can either afford or anything else. What do you do in those circumstances and therefore how do you work this sort of steering process towards whatever products you may or may not come up with or partnerships you may come up with in terms of optionality?

Clive Bannister

Well Trevor we never refer to Her Majesty's Government or Treasury as a shambles do we?

Trevor Moss

No that's my job I wouldn't expect you to.

Clive Bannister

Okay so just so we put that line in the sand. Let me hand over to TK it's an economic quantification of being first mover advantage in a supply constrained world as we find ourselves now.

Tony Kassimiotis

I think it’s difficult to give you any percentages due to economic differences between those arrangements so I think probably the key thing that I often think about is those agreements were put in place with significant operational and risk transfer protection, so I spoke about the fact that we transferred a lot of risk on to our partners. One of the biggest areas where we’re seeing a lot of risk playing out today is in regulatory change so I think if you’re doing an agreement today, in more recent times the cost of that regulatory change that will be built into those agreements will be far greater than what we managed to build into our agreements six, seven, eight years ago and we got the benefit of that. That continues to play out in perpetuity. So I think that's a very key and strong benefit for us.

Clive Bannister

Susan we were asked about guidance.

Susan McInnes

Thanks Trevor I wouldn’t comment on the advice guarantee but you're absolutely right we have a current challenge which is that many of our customers are not intermediated and we think it’s really important when the customer gets to the point of making a decision, particularly about retirement income, that we provide them with as much information as we can to let them make an informed decision. So we think our role is about information giving.

We also do point our customers to where they actually can get independent financial advice or where they can use comparison services if they know what kind of product they want. So I think we also have a challenge in the run up to April in how we point them towards guidance and how we get them back from guidance and make sure that they’ve understood the information given to them but right now we think our role is about information although we also help them to source financial advice or different products if that's what they want to do.

Clive Bannister

Are there any other questions?

Well ladies and gentlemen I want to wrap up this afternoon, I have to say you've been depressingly bad at asking difficult questions to Jim. There were moments there when I thought you just were getting on the edge of it but he's got off scot-free which is frankly unacceptable from where I am.

Thank you for your level of interest and engagement in the Phoenix Group - it really matters and I hope you've enjoyed this afternoon. Thank you.