ISSUED 11 December 2024

DFM SECTOR

LGIM

FINANCIAL STRENGTH ASSESSMENT

Analysis by AKG Financial Analytics Ltd

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AKG

ABOUT THIS FINANCIAL STRENGTH ASSESSMENT

This AKG report and the analysis and ratings contained within it provide assessment of financial strength and associated considerations. Financial Strength is focused on the ability of a company to deliver ongoing operational capability in the interest of its customers and in line with their fairly held expectations. AKG's perspective in the assessment of financial strength is wholly that of a customer of a product or service. From that foundation, this analysis is specifically designed to inform financial advisers and assist in their required understanding of a company's operational financial strength.

Given the underlying customer perspective, the financial strength of companies needs to be focused at an operational level, specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met. This contrasts to credit rating, which will be undertaken at group or parent company level where investment or debt placement etc. is made.

Further details on how analysis is undertaken is provided at the end of this report and may also be obtained from AKG.

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CONTACT INFORMATION

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Rating & Assessment Commentary

RATINGS

Overall Financial Strength

AKG A
FINANCIAL STRENGTH RATED
DFM SECTOR SUPERIOR
LEGAL & GENERAL INVESTMENT MANAGEMENT LTD

Supporting Ratings

	Service	Image & Strategy	Business Performance
Legal & General Investment Management Ltd	★★★★	★★★★	★★★★

SUMMARY

- Legal & General Investment Management (LGIM) is the investment management arm of Legal & General Group plc (Legal & General, the group)
- LGIM was established in 1970, with Legal & General's heritage dating back to 1836
- The group announced in 2024 that it was establishing a single global public and private asset manager, with Asset Management created by combining LGIM and Legal & General Capital (LGC)
- The Asset Management division is one of the UK's leading investment management businesses and a major global investor, with total aggregate AuM as at 30 June 2024 of £1,136bn
- Legal & General Investment Management Ltd (LGIML) is a key entity within LGIM: managing AuM of £800bn at the end of 2023, it supports the provision of numerous products, including LGIM's MPS (Model Portfolio Service) proposition
- The MPS brings together LGIM's multi-asset capabilities and index expertise to provide a cost-effective and scalable offering
- LGIM MPS is available on 12 adviser platforms, across 25+ portfolios, broadening the reach and diversification of an established multi-asset capability
- LGIM had Multi-Asset AuM of £89bn as at June 2024, with the MPS reported to be gaining traction
- LGIM continues with a multi-year Strategic Target Operating Model (STOM) programme, which will allow the division to outsource operational activities to State Street and increase the use of Charles River technology across its front office teams
- The group has a new CEO from 1 January 2024 and a new CEO for the Asset Management division in place from December 2024, with a handover period underway

COMMENTARY

Financial Strength Ratings

Consolidated group total equity was down from £5,533m to £4,784m as at 31 December 2023, largely due to the payment of £1,172m dividends, in excess of the total comprehensive income for the year of £421m.

The group reported a Solvency II surplus of £8.8bn as at 30 June 2024, with a Solvency II coverage ratio of 223% [December 2023: £9.2bn and 224%], the reduction mainly due to record new business volumes and the impact of high interest rates.

The Board intends to return more to shareholders over the period 2024-27 through a combination of dividends and buybacks, with a first buyback of £200m in 2024 and further similar buybacks. It is also targeting £5-6bn cumulative Solvency II capital generation over three years from 2025.

Legal & General Investment Management Ltd

LGIML is a key component of LGIM, now within the Asset Management division, and it aims to support LGIM in growing AuM across a broad range of product lines, including MPS. LGIML is subject to the IFPR regime which seeks to ensure that investment firms are financially resilient; to this end LGIML is required to hold sufficient financial resources on an ongoing basis to meet its regulatory obligations. As at 31 December 2023, LGIML had Own Funds of £216m against an Own Funds Requirement (OFR) of £83m, providing 259% coverage in its own right.

Legal & General Investment Management Holdings Ltd (LGIMH) is LGIML's direct parent and acts as the holding company for the LGIM business. The governance of LGIML sits within the wider corporate governance framework of the Asset Management division. In turn, this takes account of the governance standards and practices set by the Legal & General Group. LGIMH is committed to supporting LGIM in modernising and refining its operating model through the Strategic Target Operating Model (STOM) programme to outsource operational activities to State Street and increase the use of technology; LGIMH is incurring all costs in respect of this and is not recharging these to underlying subsidiaries i.e. LGIML. In the future, LGIMH will continue to receive service fees related to the provision of staff and services to its subsidiaries and will also receive dividends from its subsidiaries, allowing it in turn to return its excess capital to Group.

Service Rating

Advisers are able to access monthly portfolio factsheets and quarterly performance reports via the LGIM MPS website, and can produce their own performance/valuation reports for their clients via the platform or back-office systems.

More automation of processes and consolidation of teams within LGIM, including in its target operating model, will continue to smooth the process and maintain errors at a low level. In addition, Legal & General states that it has well-established product governance and consumer-focused business arrangements, and so when considering the latest Consumer Duty principals, the outcomes in respect of products and services, price and value, consumer understanding and consumer support give opportunity to further enhance services across its offering.

The Onboarding team have SLAs to reply to all queries within 24 hours, and draft MPS agreements within 2 business days following receipt of the final requirement. This is tracked via end of day reporting, which has evidenced a 100% service level.

There have been no MPS complaints in the team and via the Distributor Oversight process there have been no complaints notified by platforms.

The LGIM business has won a number of awards during recent years; whilst in the main these were more proposition-based, certain service aspects within their delivery reflect positively on LGIM.

Image & Strategy Rating

LGIM operates in the global asset management market and invests both on behalf of Legal & General and also for third party clients, who constitute around 80% of global revenues. The business considers asset management a long-term business and remains confident in its own strategy, positioning LGIM for sustainable future growth and aligned to industry trends.

The LGIM medium-term ambition is underpinned by three strategic pillars, to modernise, diversify and internationalise. This includes a new target operating model, using State Street/Charles River technology to build a global investment and middle office platform, and to continue to expand globally particularly where it can innovate and align its strengths to client needs.

Legal & General has established expertise in asset management via LGIM, and for asset origination via LGC. The same can be seen in its other operating divisions: for the provision of retirement and protection solutions to corporates and individuals (Legal & General Retail, and Legal & General Retirement Institutional - LGRI). The business is of significant scale and is positioned to capitalise on significant growth opportunities across its chosen markets through these three divisions.

Announced at the Capital Markets Day, the group has a refreshed strategy, consisting of sustainable growth, sharper focus and enhanced returns. As part of the sharper focus, it create the single Asset Management division, bringing LGIM and LGC together as a unified, global, public and private markets asset manager.

Business Performance Rating

For LGIML, revenue overall reduced in 2023, down by 6.2% to £422.1m. Around 89% (£373.6m) of this revenue reflected management fees (earned in relation to AuM), which fell by 7.1%. The remaining income of £48.5m was from performance and other fees, which decreased by 1.5%. Income is earned in the UK (75%), Europe (21%) and Other countries (4%). Operating expenses were down by 1.8% (£7.2m) to £401.6m. The resultant impact of these changes on operating profit was a decline of over 50%, down by £20.7m to £20.5m. The operating margin fell from 9% to 5%.

Legal & General reported that its group 2023 performance was 'resilient' with adjusted operating profit from divisions maintained at £2,078m [2022: £2,071m]. The business remains well-positioned to deliver profitable growth over the medium and long-term, it stated, citing 'compelling structural market opportunities'.

The group reported on four divisions for 2023, comprising LGRI, LGC, LGIM and Retail, which comprises Retail Retirement and Insurance:

- LGRI operating profit increased by 10% to £886m [2022: £807m] underpinned by the growing scale of back-book earnings and the consistent investment performance of its annuity portfolio. LGRI executed record new business volumes, addressing growing demand while maintaining pricing discipline, writing £13,719m of global pension risk transfer (PRT) business [2022: £9,541m] at a Solvency II new business margin of 7.4% in line with its long-term expectation. This added c£1.0bn to its store of future profit in 2023
- LGC operating profit was flat against prior year earnings at £510m [2022: £509m], reflecting a good performance in a challenging macro-economic environment for alternative assets. In 2023, LGC grew its third-party managed capital by 9% to £18.1bn and remains on track to meet its ambition of £25bn - £30bn by 2025
- LGIM delivered operating profit of £274m (2022: £340m), primarily reflecting the impact of higher interest rates on the value of AuM: average AuM were 12% lower year-on-year. Despite significant inflationary impacts, the business had taken action to keep absolute costs flat
- Retail operating profit decreased by 2% to £408m [2022: £415m]. Whilst insurance operating profit was up 22% (from £357m to £436m in 2023) driven by ongoing profit releases in the UK and US, total operating profit was down given the lower contribution from the Fintech businesses, as valuation uplifts from 2022 did not repeat

Group costs (debt costs and investment projects and expenses) totalled £411m, and after a further negative adjustment for investment and other variances of £1,591m, statutory PBT was £76m [2022: £868m]. PBT attributable to equity holders, excluding longevity and internal pension scheme accounting, was £561m [2022: £1,035m]. Investment variance was driven by the unrealised mark-to-market impact of higher rates on asset valuations, the cost relating to its announced Modular Homes closure and the write-down of its investment in Onto. Group dividends of £1,172m [2022: £1,116m] were paid.

The group's H1 2024 operating performance was stable, with core operating profit of £849m slightly ahead of the prior year [H1 2023: £844m]. Asset Management delivered operating profit of £214m [H1 2023: £249m], which reflected the increased investment. Revenue increased by 6% reflecting a conscious shift towards higher margin business illustrated by UK DC and Wholesale, despite lower average AuM. Profit before tax attributable to equity holders decreased to £316m compared with the same period the previous year [H1 2023: £393m].

Within the consolidated group balance sheet liabilities are 2023 year end provisions of £258m which include costs that the LGIM division is committed to incur on the extension of its existing partnership with State Street under the STOM - costs include the transfer of data and operations to State Street, as well as the implementation of the new operating model. As holding company for the LGIM division, LGIMH states in its latest accounts (to December 2023) that the costs of the STOM project will be held by LGIMH and not passed on to any subsidiaries, reflecting the division-wide nature of the initiative. The project delivery plan was reviewed during 2022 and an additional provision of £53m recognised as a result of this exercise. In its latest accounts, the expectation was that the project would continue to the end of 2025, and an additional provision of £60m was recognised in 2023, reflecting the revised view of the timescales and activities required to complete the project. At the end of 2023, the value of the provision on LGIMH balance sheet was £77.3m. Total expenses recognised during the year in respect of the transition of activities to State Street via LGIMH were £66.9m.

Group & Parental Context

BACKGROUND

Established in 1836, Legal & General is one of the UK's leading financial services groups and a major global investor, with £1.2trn in total AuM as at 30 June 2024, of which over a third is international. The group also provides asset origination capabilities. Together, these underpin its retirement and protection solutions: Legal & General is an international player in pension risk transfer, in UK and US life insurance, and in UK workplace pensions and retirement income. The group sold its General Insurance business, Legal & General Insurance Ltd, to Allianz Holdings plc in December 2019.

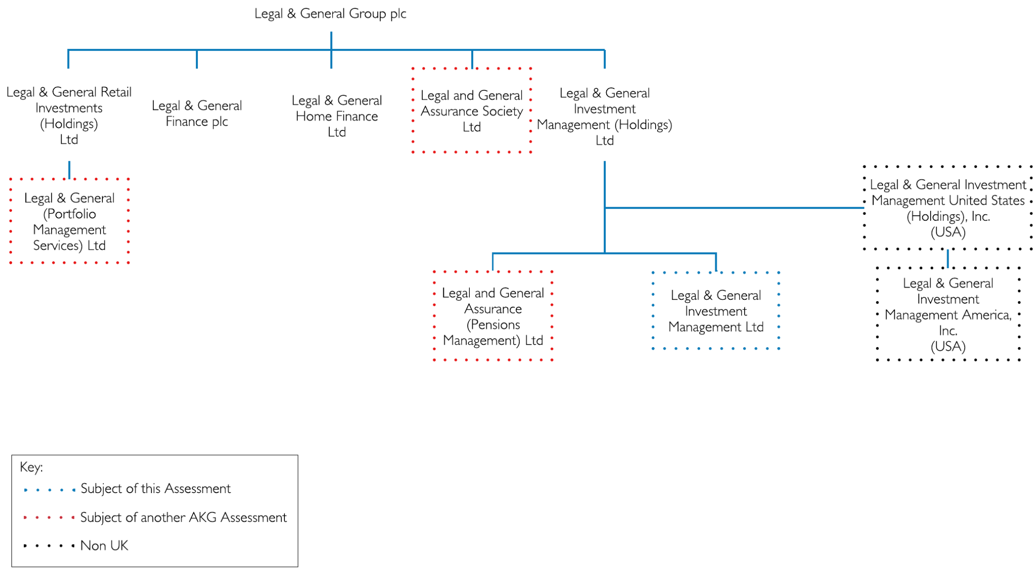
Legal & General Assurance Society Ltd is a wholly owned subsidiary of Legal & General and is the principal operating subsidiary of the group and the regulated entity through which the vast majority of the group's individual and group insurance, pensions and annuities business is executed.

Legal and General Assurance (Pensions Management) Ltd was established as the group's specialist managed pension fund provider. It falls within the LGIM division of the group, and operates in the UK, Republic of Ireland, Jersey, Guernsey and the Isle of Man, with distribution hubs and further distribution capabilities internationally, including in Europe, the Middle East, Australia and Latin America. It is one of the largest life assurers in the UK, in terms of long term assets.

Legal & General Investment Management Ltd is an investment management firm incorporated in England and Wales and regulated by the FCA as a MiFID (Markets in Financial Instruments Directive) Investment Firm. LGIMH is the holding company for the LGIM division and is a wholly owned subsidiary of Legal & General Group plc. LGIML is a direct and wholly owned subsidiary of LGIMH, and along with LGIMH's other subsidiaries, this group of companies collectively represented the LGIM business.

The LGIM business comprises unregulated holding companies, companies that provide products to LGIM division customers, companies that undertake investment management, and investment funds incorporated as fund companies or trust schemes.

GROUP STRUCTURE (SIMPLIFIED)



Company Analysis: Legal & General Investment Management Ltd

BASIC INFORMATION

Ownership & Control
Legal & General Group plc

Year Established
1987

Country of Registration
UK

Head Office
One Coleman Street, London, EC2R 5AA

Contact
https://www.lgim.com/uk/ad/

Key Personnel

Role	Name
Group Chairman	J Kingman
Group CEO	A Simões
Group CFO	J Davies
Group CRO	C Knight
LGIM:	
CEO (from December 2024)	E Adler
CEO (incumbent)	M S Scrimgeour
Chief Financial Officer	R Lee
Chief Strategy & Product Officer	R Mason
Global Chief Risk Officer	M Ammon
Global Chief Operating Officer	B Sklar
Global Chief Client Officer	S Aitken
Global Head of Private Markets	B Hughes
Chief Investment Officer	S Laud
Head of Investment Stewardship	M J Marks
Head of Multi-Asset Partnership Strategies	N Morgan-Brownsell
Head of DC & Retail Solutions Strategy	G Moles

Company Background
LGIML is a UK MiFID firm and acts as an investment manager within the Asset Management division. The company is responsible for investment management of internal and external clients' funds under investment management agreements. It provides investment expertise across a range of asset classes and undertakes distribution and marketing in the UK, Europe, the Middle East and Asia.

LGIML is subject to the IFPR regime which seeks to ensure that investment firms are financially resilient; to this end LGIML is required to hold sufficient financial resources on an ongoing basis to ensure that it does not create harm from its operations or growth strategies, and does not fail in a manner that brings disruption to investors or markets.

OPERATIONS

Governance System and Structure

LIGML is required to provide additional disclosure around governance arrangements, remuneration and investment policy in line with MIFIDPRU 8 requirements as it is classified a non-small and non-interconnected investment firm (non-SNI) by the FCA.

LGIML is a direct subsidiary of LGIMH and, as such, the governance arrangements of LGIML sit within the wider governance framework of the LGIM division.

The LGIM division states that it has a robust corporate governance framework in place that brings accountability and allows oversight of the division's strategic objectives and risk framework. In determining its governance requirements, the LGIM division takes account of relevant legal and regulatory requirements and in particular:

- The governance standards and practices set by group, including the UK Corporate Governance Code as appropriate
- The FCA Asset Management Market Study and resulting amendments to the Collective Investment Schemes sourcebook rules
- The FCA's Senior Management Arrangements, Systems and Controls rules relating to senior personnel who effectively direct business
- The Irish Funds Corporate Governance Code for Collective Investment Schemes and Management Companies
- The Irish Fund Management Companies Guidance

The LGIML board is the governing body of the firm, having overall responsibility for approving and overseeing the firm's strategic objectives, risk strategy and internal governance.

Four of the LGIM division's committees are comprised of majority independent non-executive directors: Risk Committee, Audit Committee, Investment Stewardship Committee and Conflicts of Interest Committee. The latter's purpose is to provide independent oversight of the LGIM division's identification, prevention, management and disclosure of actual and potential conflicts of interest. The LGIMH Risk Committee has delegated authority to provide oversight of the LGIM division's Risk Framework, acceptable risk taking, and its risk management policies and procedures. As such, a modification has been granted by the FCA to LGIML to the requirement at MIFIDPRU 7.3.1R.

In certain circumstances the LGIM division may leverage the wider group-level committees. This group wide framework serves to ensure Legal & General's purpose is aligned across all divisions and the LGIM division benefits from an effective group governance structure. This includes the use of the group Remuneration and Nomination Committees, with the latter also granted a modification by the FCA to the requirements in MIFIDPRU 7.3.

In 2023 the group reported that it had successfully implemented Consumer Duty for open products, with work on its legacy products well underway. It continues to embed Consumer Duty, and is on track to deliver the UK's operational resilience requirements, which are due to come into force in Q1 2025. Work is underway on the Cyber Vault workstream and the on-going testing programme, with 25 data recovery tests completed in the year to date for LGIM globally.

LGIM maintains close dialogue with the regulator, with regular meetings with its FCA supervisor.

Legal & General seeks to influence the direction of travel on various regulatory policy themes at government and regulator level for the benefit of customers and other stakeholders. It has been involved in advocating on the development of the Consumer Duty, pension reforms, sustainability and diversity and inclusion, elements forming part of an approach which, at its most overarching level, the organisation describes as 'Inclusive Capitalism'.

Risk Management

LGIML's business involves the acceptance and management of risk. The company's approach towards risk management/mitigation is outlined within LGIM's Risk Management and Operational Risk Frameworks.

LGIM Risk Management Framework

The objective of the risk management framework is to summarise the risk management process and to define the links between the various components (processes, policies and standards) employed by LGIM to identify and manage risk. It defines the various components of the framework and integrates the various concepts into a system which works for LGIM.

The components enable LGIM to identify an activity or event which has the potential to affect the firm's ability to effectively meet its strategic goals or business objectives, including realising the benefits of opportunities as they arise.

The risk management framework and its sub-frameworks support the business to effectively deal with uncertainty, to determine an appetite for risk taking and manage risks to that appetite and provide reasonable assurance of adherence.

LGIM Operational Risk Framework

The objective of the operational risk management framework is to bring together and summarise the various processes employed by LGIM in the management of operational risk.

The component processes enable the identification of risk of harm, the application of suitable controls to those risks and the actions to be taken when controls cannot be implemented to adequately mitigate the risk of harm.

Operational risk is inherent in all LGIM products, activities, processes, and systems. In the operation of LGIM's business many procedures inherently contain controls and checks. This framework also describes the arrangement for escalating and managing instances where those controls fail.

Risk Management and Oversight

The risk management and operational risk frameworks are designed to be responsive to changes in key business objectives and the external environment, able to facilitate reporting on key risks and effectiveness of internal controls for governance and external stakeholders, and consistent with regulatory requirements. As such the risk framework is approved by the LGIM Executive Risk Committee and LGIM Risk Committee and is implemented by LGIM management, upon whom responsibility for undertaking risk management and operating the systems of internal control falls.

Furthermore, LGIM is required to measure and monitor its capital and liquid resources on a regulatory basis and to comply with capital and liquidity obligations established by the FCA.

The risk framework is supported by more detailed frameworks, policies and procedures covering specific types of risk including Financial Risk, Counterparty Credit and Compliance, amongst other risks.

The LGIM risk framework is based on a three lines of defence model, whereby:

- 1st line: Business managers identify and manage risks
- 2nd line: The Chief Risk Officer (CRO), supporting teams and risk committees oversee and challenge the management of risk
- 3rd line: The group's internal audit function provides independent assurance that risks are effectively managed and that appropriate oversight exists

An annual Risk Management and Internal Control Framework questionnaire is completed and provided to the group to ascertain how the LGIM division complies with group risk policies and control frameworks. The assessment is conducted with input from both 1st and 2nd lines and is used to determine the effectiveness of the implementation and operation of the internal control framework. This process involves review of risk-related policy compliance and current and target ratings against maturity/embeddedness criteria.

The output from the Risk Management and Internal Control Framework assessment is presented to ERC for review and approval before submission to the group. The latest IFPR disclosure was for 2023, with an assessment carried out confirming that LGIML's risk management framework was well established with appropriate risk oversight.

The Risk function led by the CRO provides both expert advice and guidance on the risk framework as well as objectively challenging the way risks are being managed. 2023 saw a continuation of increased resourcing across the CRO function.

During 2022, LGIM completed a migration to the risk management system OneSumX. Alongside the recently enriched approach towards Risk and Control Self Assessments, LGIM reported that it was benefitting from the richer data/insights this system provides, to help understand and support action on its operational risk profile.

Incremental changes to the risk process were made in 2023 and 2024, with further reviews to identified risks scheduled in, and the concept of themes brought in when considering risk.

Maintaining the security of the Cloud and OpenShift environments remains an on-going focus. Other recent work includes due diligence testing covering a range of plausible scenarios, including outsourced providers, cyber and local events.

Administration
Operational resilience continues to be a key focus area for global regulators. LGIM reports that its methodologies, frameworks and core data are in place in line with regulatory requirements, with clear focus on remediating vulnerabilities and enhancing the division's operational resilience profile, and enhancements are underway to be delivered over coming years, including large scale strategic initiatives. Testing continues to evolve to capture more test types and contingencies, as well as a greater degree of sophistication, with progress also made on critical third party oversight and engagement. As such, the approach to addressing and managing operational resilience within LGIML is considered comprehensive and robust.

The Strategic Target Operating Model (STOM) program, which is a key element of LGIM's Modernise agenda, is the initiative which will see LGIM implement the Charles River technology platform for its front office teams and outsource its middle office function to State Street. This is a multi year, multi phase program which has been in progress since 2021 and is expected to complete in Q1 2026.

The first phase of the implementation, which include its US based investment desks, Equity ETF and Liquidity funds, completed in January 2024 and is now fully in 'Business as Usual' mode. Costs include the transfer of data and operations to State Street, as well as the implementation of the new operating model. The business states that it is evolving the business, investing in its people, platform and data capabilities to improve operating effectiveness and deliver scale benefits. The program is reported to be tracking well against planned schedule and budget, alongside ensuring the process is seamless from a client perspective.

Benchmarks
The LGIM business won a number of general proposition and service awards during 2023, including:

- Professional Adviser Awards - Best Risk Managed Range of Funds
- Citywire Awards - Best Portfolio Manager
- Pension Age Awards - Sustainability Provider of the Year
- WSB (Workplace Savings and Benefits) Awards - Benefits Innovation of the Year
- Corporate Adviser Awards - Best Master Trust

In the multi-index space, the business has also previously won:

- Best Multi-Asset Fund Range: Volatility Managed - Professional Adviser 2021, 2020
- Best Multi-Asset Group/Fund for ESG - Professional Adviser 2021

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At the UK Pension Awards 2024, LGIM won awards for:

- Liability-Driven Investment (LDI) Manager of the Year
- Cashflow-Driven Investment (CDI) Manager of the Year
- Diversity and Inclusion Excellence Award
- Educational and Thought Leadership Initiative of the Year

Outsourcing

The key outsourcing contract is the existing partnership with State Street, and the current extension of that to increase the use of Charles River technology across the front office and to deliver middle office services going forward. LGIM is committed to this strategy with provision for costs to cover the transfer of data and operations to State Street, as well as the STOM implementation.

STRATEGY

Market Positioning

Legal & General has established expertise in asset management via LGIM, and for asset origination via LGC. The same can be seen in its other operating divisions: for the provision of retirement and protection solutions to corporates and individuals (Legal & General Retail, and Legal & General Retirement Institutional (Retail and Institutional retirement). The business is of significant scale and is positioned to capitalise on significant growth opportunities across its chosen markets through these three divisions:

- Institutional retirement (LGRI) is the market leader in UK Pension Risk Transfer (PRT) and with a growing presence internationally, in the US and via its global reinsurance hub in Bermuda. It provides long term, captive AuM to LGIM. The annuity portfolio of £84bn is continually being enhanced through the supply of alternative assets originated by LGC, the business reports
- Asset Management is a newly created division, formed from the combination of LGIM and LGC. It is a leading global asset manager with £1.1trn AuM, of which 41% is international. It has a significant market share of the UK pensions industry, which supports the growth of its other divisions e.g. conversion of its strong Defined Benefit (DB) client relationships into buy-out partners for Institutional Retirement. Private markets will be a major driver of Asset Management growth, both directly in L&G, and through its origination partners (e.g. Pemberton). L&G can access and originate differentiated investment opportunities in private credit, real estate and infrastructure for its clients and for its annuity balance sheet as it grows
- Retail is a leading provider of UK retail retirement and protection solutions, and US term life insurance. The UK retail retirement business offers Workplace Savings, annuities, income drawdown and lifetime mortgages. The UK and US insurance businesses generate day one surplus capital which partially offsets annuity new business strain. Retail is also an internal centre of excellence in technology, and manages a portfolio of strategic Fintech business investments

The group states that synergies within and across the businesses drive profits and fuel future growth. The integrated nature of the business model means it is able to maintain long term relationships with clients and customers. A corporate client in LGIM typically becomes a PRT client after 14 years. LGRI will then typically have a relationship with that client for another 30 to 40 years. Equally, Retail Retirement and LGIM may have a 30-40 year relationship with a customer during the DC accumulation phase, and then extend that relationship for another 15-30 years during the decumulation phase across a suite of decumulation products including individual annuities, lifetime mortgages and drawdown.

The group continues to build out its international retirement solutions franchise. It has made progress in the US over the last decade and plans to continue to grow its established businesses (LGRI, Asset Management, Retail) in that market. LGIM continues to make progress against its international expansion plans in the US, Europe and Asia.

LGIM's medium-term ambition is underpinned by the three strategic pillars, explained by the group board as:

- Modernise: We are evolving the business, investing in our people, platform and data capabilities to improve operating effectiveness and deliver scale benefits. We are transforming our operating model, using State

Street/Charles River to build a global investment and middle office platform. Looking ahead, we are running pilot programmes to assess the potential of AI across our business
- Diversify: We are building on our core capabilities to improve business mix by selectively adding to our investment offering, with a focus on higher-margin areas such as private markets, active fixed income and wholesale distribution channels. We continue to focus on sustainable investing
- Internationalise: LGIM aims to be an innovator in regions and countries where our strengths align to client needs and continues to expand globally

Proposition
LGIM offers both active and passive management on either a pooled or segregated basis to clients domiciled globally. Assets are managed in London and Chicago on behalf of pension funds, institutional clients, sovereign wealth clients, retail clients and subsidiary companies within the group.

LGIM's Manager Research Group is made up of Asset Allocation and Solutions team members who have manager research as a significant part of their role. Using established processes and support tools, the team's aim is to research and identify the best in class assets for investment.

LGIM has a long established multi-asset proposition comprising a choice of funds and model portfolios that draw on its asset allocation expertise. These multi-asset funds for retail and institutional clients are built using LGIM's expertise in asset allocation which is informed by an in-house research capability. The underlying asset classes may be managed on an active or passive basis within LGIM. The funds include: growth - multi-index funds, offering 5 risk profiles; income - multi-index income funds with 3 risk profiles); ESG - Future World ESG multi-index funds (5 risk profiles).

The MPS brings together LGIM's multi-asset capabilities and index expertise for a cost-effective and scalable offering. There are a number of different strategies available:

- Index model portfolios (launched 2021, with 7 risk profiles)
- Blended model portfolios (launched 2021, 7 risk profiles)
- Income model portfolios (launched 2015, with 4 risk profiles)
- ESG model portfolios (launched 2021, 7 risk profiles)

LGIM's investment approach for the MPS is built on the five pillars of multi-asset investing that the business believes are the driving forces that currently help it deliver clients' objectives:

- Suitability
- Active asset allocation and rebalancing
- Diversification
- Cost effectiveness
- Engagement

The MPS propositions incorporate a risk profiling tool, with Dynamic Planner and Defaqto risk profiles available and Oxford Risk added in the year.

MPS is available on twelve platforms currently, with Wealthtime and SS&C Hubwise added in the year.

KEY COMPANY FINANCIAL DATA

Last 3 reporting periods up to 31 December 2023

Own Funds Disclosures

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Available own funds		225	216
Own funds requirement (OFR)		84	83
Excess own funds		141	133
OFR coverage ratio (%)		269	259

As at 31 December 2023, LGIML held own funds of £216m [2022: £225m]. All own funds are held within common equity tier 1 (CET1) capital, and as at the 2023 year end was represented by retained earnings (£211.1m) and called up share capital (£4.75m). The company had an own funds requirement of £83.3m, being determined by the Fixed overhead requirement, being the highest compared with the permanent minimum capital requirement and the K-Factor requirement. This led to a coverage ratio of 259.3% [2022: 269.0%].

Statement of Financial Position

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Assets	227	240	234
Current liabilities	(38)	(15)	(18)
Long-term liabilities	0	0	0
Net assets	189	225	216

Statement of Changes in Equity

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Equity at start of period	195	189	225
Movement due to:			
Share capital and premium	0	0	0
Retained earnings	(6)	36	(9)
Other	0	0	0
Equity at end of period	189	225	216

Assets of £215.9m include a significant amount of cash and cash equivalents, increasing from £167.4m to £177.0m in 2023.

Dividends of £30m which were paid in 2023 were in excess of the year's profits after tax, and resulted in a reduction in retained earnings of £9.1m. Equity therefore decreased to £215.9m [2022: £225.0m].

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Income Statement

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Revenue	457	450	422
Other operating income	0	0	0
Operating expenses	(402)	(409)	(402)
Operating profit (loss)	55	41	21
Other gains (losses)	(1)	3	7
Profit (loss) before taxation	54	44	28
Taxation	(11)	(8)	(7)
Profit (loss) after taxation	44	36	21
Other comprehensive income	0	0	0
Dividends	(50)	0	(30)
Retained profit (loss)	(6)	36	(9)

Financial Ratios

	Dec 21 %	Dec 22 %	Dec 23 %
Operating margin	12	9	5
Pre-tax profit margin	12	10	7
Employee costs as a % of revenue		0	0

Revenue overall reduced in 2023, down by 6.2% (£27.9m) to £422.1m. Around 89% [£373.6m] of this reflected management fees (earned in relation to AuM), which fell by 7.1%. The remaining income of £48.5m was from performance and other fees, which decreased by 1.5%. Income is earned in the UK (75%), Europe (21%) and Other countries (4%).

Operating expenses were down by 1.8% (£7.2m) to £401.6m. The resultant impact of these changes on operating profit was a decline of over 50%, down by £20.7m to £20.5m. The operating margin fell from 9% to 5%.

Staff costs make up a significant proportion of total LIGML expenses, although the staff supporting LGIML are largely employed by either the parent company LGIMH or an affiliate, Legal & General Resources Ltd. The costs allocated in this respect are reflected within a wider management charge levied by LGIMH, which is included within LGIML's operating costs and not broken down further.

Other gains or losses in the table reflect the net impact of interest income (up from £1.5m in 2022 to £8.6m in 2023) and foreign exchange losses or gains (a £1.3m loss in 2023, after a £1.4m gain in 2022).

PAT was down by 42% to £20.9m in 2023 [2022: £35.9m]. Dividends of £30.0m were paid to parent LGIMH.

Statement of Cash Flows

	Dec 21 £m	Dec 22 £m	Dec 23 £m
Net cash generated from operating activities			
Net cash used in investing activities			
Net cash used in financing activities			
Net increase (decrease) in cash and cash equivalents	(7)	33	10
Cash and cash equivalents at end of period	134	167	177

Assets under Management (AuM)

	Dec 21 £bn	Dec 22 £bn	Dec 23 £bn
Assets at start of period	816	909	745
Inflows			
Outflows			
Net market and other movement			
Assets at end of period	909	745	800
Growth rate (%)	11	(18)	7
Net inflows as % of opening AuM			

LGIML is exempted from providing a cashflow statement. Cash increased by £9.6m over the year. The 'cash equivalents' element (£164.6m in 2023) is all invested in LGIM Liquidity Funds plc, an open-ended investment company with variable capital incorporated in Ireland and authorised by the CBI as a UCITS fund.

AuM at the end of 2023 totalled £800bn [2022: £745bn], a 7.4% increase, despite downward pressures, such the ongoing effects of inflation and tighter monetary policy. This figure excluded overlays, which LGIM defines as derivative assets that are managed alongside the physical assets held by the company. These instruments include interest rate swaps, inflation swaps, equity futures and options, and are typically used to hedge risks associated with pension scheme assets during the de-risking stage of the pension life cycle, it states.

The Asset Management division more widely is one of the UK's leading investment management businesses, with £1,136bn of assets held as at 30 June 2024 [December 2023: £1,172bn], across a range of asset classes and different investment strategies.

Guide

INTRODUCTION

For over 30 years AKG has particularly focused on the financial strength requirements of financial advisers, who when acting on behalf of their clients, need to ascertain a company's ability to deliver sustained provision.

From this customer perspective, the financial strength of companies needs to be focused at an operational level, specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company (not some higher corporate entity) that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met.

It is also important to understand the sector approach (comparative peer groups) that is adopted in financial strength assessment and rating process.

At AKG, this is again driven by the end customer perspective and the fact that assessment is designed solely for this purpose, i.e. as a component in helping customers' advisers to select between comparable companies competing to deliver relevant products or services.

AKG's focus and approach has remained consistent over the years since it commenced assessment and rating support for the market. However, coverage, format and presentation has rightly evolved over this period, in line with the needs and expectations of assessment and rating users in the market. And AKG considers further changes on a continual basis.

Further details including an explanation of what is included in the assessment reports and coverage can be found online at https://www.akg.co.uk/information/reports.

AKG's process for assessment and rating is to use a balanced scorecard of measures and comparative information, relevant to the companies contained within each peer group. This is gathered via Public Information only for non-participatory assessments and public information plus company interactions with companies for participatory assessments. Further details on AKG's process can be found at https://www.akg.co.uk/information/reports.

This includes further information on the different participatory and non-participatory basis and for companies wishing to learn more about participatory assessment AKG is pleased to outline this and welcomes contact.

This is a participatory assessment.

RATING DEFINITIONS

Overall Financial Strength Rating
The objective is to provide a simple indication of the general financial strength of a company from the perspective of those financial advisers who when acting on behalf of their clients need to ascertain a company's ability to deliver sustained operational provision of products or services.

The overall rating inherently reflects the mix of business within the company, since different types of customer or policyholder have different requirements and expectations, and the company may have particular strengths and weaknesses in respect of its key product or service areas. However, it also takes account of comparison across the sector in which it is assessed.

The rating takes into account those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management strength and capability, strategic position and rationale, brand and image, typical fund performance achievements or product / service features, its operating environment and ability to withstand external forces.

Rating Scale	A	B+	B	B-	C	D	▣
	Superior	Very Strong	Strong	Satisfactory	Weak	Very Weak	Not applicable

Service Rating
The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

Rating Scale	★★★★★	★★★★	★★★	★★	★	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Image & Strategy Rating
The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

Criteria taken into account include: overall trends in the company's market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG's view of the company's general strategy.

Rating Scale	★★★★★	★★★★	★★★	★★	★	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Business Performance Rating
This review is an assessment of how the company and the brand has fared against its peers, and how it is perceived externally. Effectively this is how it has performed recently in the market. Whilst it will include performance indicators from the most recent available statutory reporting (report and accounts and SFCRs in the case of insurance companies, for example) it will also draw on other recent key performance elements before and after such disclosure, up to the point at which the assessment is undertaken.

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity good or bad, press or market commentary, regulatory fines, and competitive position.

Rating Scale	★★★★★	★★★★	★★★	★★	★	▣
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

ABOUT AKG

AKG is an independent organisation. Originally established as an actuarial consultancy AKG has, for over 30 years, specialised in the provision of assessment, ratings, information and market assistance to the financial services industry.

As the market has evolved over this period, the range of entities considered by AKG has expanded. Consequently, AKG has brought additional skill sets into its operations. This has meant the inclusion of accounting, corporate finance, IT and market intelligence experience, alongside actuarial resources, to deliver an expanded professional capability.

Today AKG's core purpose is in the provision of financial analysis and review services to support the wider financial services sector and its customers.

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