



## Overview & Investment Thesis:

- Prudential is focused on life assurance and asset management in the U.K., U.S. and across the Asian region. In the U.S. it is narrowing its field of operation, with greater emphasis on products serving those nearing or at retirement. It also has a scale asset management operation - M&G. In the U.S., Jackson National Life focuses on variable annuities, balancing out its traditional bias towards fixed annuities. Prudential is the leading European-based life insurer in Asia in terms of market coverage and number of top five market positions. The Group has life and asset management operations in 13 markets.
- With its life and asset management focus, together with the geographic bias to the U.S. and Asia, Prudential has been seen as a rare 'growth' property within the European insurance sector. Traditionally cash constrained, the Group is now generating increasing amounts of free cash flow as its Asian life business matures, it expands its asset management footprint and as U.K. new business growth is curtailed.

### Prudential Asia

- Is the leading European-based life insurer in Asia in terms of market coverage and number of top five market positions. The Group has life and asset management operations in 13 markets covering China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, the United Arab Emirates and Vietnam.
- It provides a comprehensive range of savings, protection and investment products tailored to the needs of each local market. It pioneered unit-linked products in Singapore, Malaysia, Indonesia, the Philippines and Taiwan. Currently, Prudential Corporation Asia has a network of 400,000 agents serving more than 11 million customers across the region.
- Prudential's fund management business in Asia has retail operations in 10 markets and has more top five market rankings than any other regional player.
- Manages £16.4 billion of retail assets investing in equities, fixed income and structured products.
- Manages £19.4 billion of institutional and internal assets, investing in equities, fixed income, property and private equity. Institutional investors include pension funds, government and quasi government entities and other financial institutions.
- Major strategic partnerships:
  - CITIC Group in China
  - ICICI Bank in India
  - In addition, Prudential Corporation Asia has a number of distribution partnerships that include leading banks such as Standard Chartered Bank.

### Prudential U.S.

- Jackson National Life Insurance Company (Jackson) is one of the largest life insurance companies in the U.S. and provides retirement savings and income solutions in the mass and mass-affluent segments of the U.S. market, primarily to retirees and those nearing retirement.
- In 2008, Jackson ranked fourth in variable annuity net flows in the U.S., and experienced a very low level of outflows as a proportion of inflows compared to the rest of the industry.
- In the first half of 2009, Jackson ranked second in variable annuity net flows in the U.S. and had the lowest level of outflows as a proportion of inflows compared to the rest of the industry.
- In the first half of 2009, Jackson ranked in the top five for sales of variable annuities and fixed index annuities.

### Prudential U.K.

- Prudential U.K.'s Retail business is focusing on savings and income for those customers nearing or in retirement.
- The strategy in the Wholesale business is to participate selectively in the bulk annuity and back-book markets, maintaining a strict focus on value and only participating in transactions that meet their return on capital requirements.
- One of the largest annuity providers in the U.K., with approximately 1.5 million annuities in payment.
- A leading player in the with-profits and corporate pensions markets.

## Business Description:

Established as the Prudential Mutual Assurance and Loan Association in 1848, today Prudential is an international retail financial services company with significant operations in Asia, the U.S. and the U.K. Worldwide they employ over 27,000 people and shareholders number 75,438 (at December 31, 2008). They are listed on the London and New York stock exchanges. The Group is structured around four main business units: Prudential Corporation Asia, Jackson National Life Insurance Company, Prudential U.K. & Europe and M&G. These are supported by central functions which are responsible for leading Group strategy, cash and capital management, leadership development and succession, reputation management and other core Group functions. Prudential's portfolio of well-known and respected brands has attracted more than 21 million customers (and policyholders and unitholders) worldwide. Across the Group Prudential had £249 billion of funds under management (at December 31, 2008).

## Industry Growth Drivers/Trends:

- The retail financial services industry is undergoing a fundamental transformation as one of the biggest demographic waves in history transitions out of the workforce and into active retirement. Some estimates suggest that, in the U.S. and the U.K. alone, some £7 trillion of assets could move into the retirement market over the next five years, and there is also a significant and growing retirement opportunity in Asia.
- Not only are these people likely to live longer than previous generations, but their needs are fundamentally different from their predecessors. In particular, many are looking for a more active lifestyle in retirement, but often underestimate the savings required for this. In addition, there is a move towards greater self-provision as a result of declining state support. The increased cost of long-term care is also a significant factor, as is the need to protect the value of assets against inflation over longer periods of time.
- In our view, as the middle classes continues to grow in major developing countries and the penetration of insurance products ramps up, the sale of traditional life products will continue at rates far outpacing those in developing countries.
- In our opinion these opportunities will be a significant driver of growth and profitability over the coming years and companies with solid capital foundations, strong brands, conservative investment and risk management cultures, innovation products and powerful distribution networks should be the clear winners.

## Competitive Advantages:

- Asian brand and distribution network.
- U.S. fixed annuity brand.
- Geographic and product diversification.
- Distribution breadth.
- Strong positions in its major markets.

## Competitors:

- Domestic and global financial service companies (all major insurance companies, banks and asset managers).

## Barriers to Entry:

- **Insurance** - Capital, underwriting expertise, distribution and solvency rating.
- **Asset Management** - Brand and distribution.

## Customers:

- Prudential has an extremely diversified customer base; as such, no single customer contributes a meaningful amount to total revenue.



## Board of Directors:

- **14 member board** - of which 7 are non-executive and independent directors.
- Non-executive directors bring a wide range of business, financial and global experience to the Board.

## Ownership:

Capital World Investors 4.98%, Legal & General Investment Management Ltd. (UK) 4.90%, Fidelity International Limited 2.93%, Norges Bank 2.06%, Barclays Global Investors (UK) Ltd. 2.02%, UBS Global Asset Management (UK) Ltd. 1.87%, Schroder Investment Management Ltd. 1.75%, M&G Investment Management Ltd. 1.24%, State Street Global Advisors (UK) Ltd. 1.23%, Insight Investment Management (Global) Limited 1.21%.

## Capital Allocation/Uses:

- Prudential has made three key acquisitions over the last 20 years. They purchased Jackson National in 1986 to gain a foothold and build out their business in the U.S. In 1997 they acquired Scottish Amicable Life to further strengthen their U.K. life and pension business. In 1999 they purchase M&G to give them both scale and depth in the vast growing asset management business.
- In 2007, the Group completed the sale of Egg Banking plc to Citi and PPM Capital, its direct private equity business.
- In 2008 there were no acquisitions or disposals of subsidiaries during the year. Subsequent to the year end, on February 20, 2009, the Group announced that it had entered into an agreement to transfer the assets and liabilities of its agency distribution business and its agency force in Taiwan to China Life Insurance Company Ltd. of Taiwan, subject to regulatory approval.

## Key Products:

- **Life Insurance** - individual and group life, annuities, accident & health, universal life, pensions, etc.
- **Retirement & Savings** - variable annuities, mutual funds, investment management services, etc.
- **Asset Management** - mutual fund, segregated funds, fund management.

## Income by Segment:

Insurance	75%
Asset Management	25%
<b>Total</b>	<b>100%</b>

*\*Based on 2007 revenues*

## Revenue by Geography:

U.K.	54%
U.S.	25%
Asia	21%
<b>Total</b>	<b>100%</b>

*\*Based on 2007 revenues*

## Financial Statements Summary: (£ million, years ended December 31)

Income Statement	2004	2005	2006	2007	2008
Gross Premium Earned	16,408	15,225	16,157	18,359	18,993
Operating Income	5,644	2,473	2,281	2,113	(7,717)
Net Income, continuing ops	428	745	874	781	(396)
Fully Diluted EPU, cont ops	0.20	0.32	0.36	0.32	(0.16)
ROE	11.4%	16.0%	16.4%	17.5%	(7.1%)
Balance Sheet					
Total Assets	180,006	207,436	216,528	219,382	215,542
Common Equity	4,281	4,835	5,488	6,201	5,058
Book Value per Share	2.02	2.04	2.27	2.54	2.05

## Key Profitability Ratios and Figures:

Y/E December 31	2006	2007	2008
Operating Margin	6.3%	6.4%	N/A
Return on Equity, continuing ops	16%	17%	(7%)

*Sourced from Annual Report.*

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