Old Mutual Wealth Investor Presentation

TRANSCRIPT

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Paul Hanratty, CEO, Long-Term Savings

The Old Mutual Wealth business is already a very important part of the Old Mutual Group and very integral to our operations. At the half year we had about £67bn of Assets under Management, the half year profits - Adjusted Operating Profit pre-tax - was £95m. And this is a very cash generative business as Mark will cover for you later.

But we're actually at the point today where we want to talk about the future of the business and Paul and his team are set to transform the business and to make it a much more valuable business in the future than it is today.

When I set out some of the plans and targets for this business a few years ago focusing on the 2012 targets I said we would do three things to build the value of the business. I said we'd grow the assets on the platform while cutting cost. The second thing we wanted to do was to drive up our share of the asset management value chain and other product revenues. And the third thing we wanted to do was to expand our distribution as the market evolved and regulation took effect.

Now, the management team that we've had in place up until now and up until earlier this year has been very focused on driving operational performance improvements through taking out costs and improving risks, risk management and controls in the business. We've taken out £64m per annum in running cost and that's fed through to a good improvement in the ROE, which has doubled. And if you take out the accounting effect of the one off tax gains that you're familiar with, the underlying core profit in the business has quadrupled over the period.

At the same time, cash flow has remained strong as the business has been competitive and Funds under Management have grown. But as I said we're at the point of talking about; how do we fundamentally transform the business from being a heritage unit-linked book, together with a large platform that doesn't make any money, into a vertically-integrated wealth management business, with asset management at its core?

So the management team under Paul will set out how they're going to focus, not only on operational improvements, of which there's still a long way to go, but how we're going to start driving up the revenues, particularly from the asset management side of the business.

The management team has already taken some steps to drive the change with the merger of Skandia Investment Group, our multimanager, with Old Mutual Asset Managers UK, to form the basis of a new asset management business for the future. And we've already launched the first set of funds and products in the retirement space out of that business.

We've also revitalised our protection range and you'll hear a little bit more about that later.

We're so confident both in the business and in the management team under Paul Feeney that we've put in place some targets to reflect where we believe the business can get to by the end of 2015. So we've set out a profit target, an operating margin target and we've maintained the ROE targets of 12 to 15 for the business.

Without more ado, I'm going to hand over to Paul Feeney. Paul joined us as the CEO of Wealth Management in August this year, but he did join the Old Mutual Group a few months prior to that. And with his background in asset management primarily and his previous job at BNY Mellon, I think Paul is very well suited to lead the team on the kind of transformation that we're talking about today. So Paul, over to you.

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Paul Feeney, CEO, Old Mutual Wealth

Thank you Paul and good afternoon ladies and gentlemen, thank you for coming. Well you've seen from Paul the targets set out for the business, for Old Mutual Wealth. What I want to do over the next 20 minutes is effectively talk to you about three things and leave you, really, with three messages. The first is how we're going to hit and, in fact, beat those targets, I believe we can double profits again, Paul talked about quadrupling them over the last three or four years, I believe we can double them again from where we are. I want to talk to you about how we can do that.

The second thing I want to talk to you about is the type of business we're creating, and Paul mentioned a modern, vertically integrated wealth management business with strong asset management at the core. So that's the business we're trying to create, that we will create.

And how we're going to do that is effectively through three things; we're going to unify, simplify and grow our business. So first of all, let me just come back very briefly to talk about the vision; a modern, vertically integrated wealth management and asset management business. What do I mean by that? Well first of all I mean capital smart, capital efficient. We're not weighed down and we're not going to be weighed down by the old legacy capital-intensive risk products of the old, more traditional, life insurance companies and banks.

Integrated wealth management and asset management - what I mean by that, really, is we're going to capture a greater share of the value chain. At the moment, in terms of our new business, we've really been capturing the margin, the platform margin, and Paul mentioned that we've developed this business, we've developed a great franchise with this business, but so far it hasn't been a profitable platform. It will be, I will tell you how it's going to be. But we're also going to capture a far greater share of the value chain, by developing our own wealth solutions which we'll talk about, supported by a strong, fit-for-market and vastly more profitable asset management business.

So unify, simplify and grow - let's look at the first of those, unify. So, in terms of Skandia Group, Skandia has really been a federated business model and it's served us well, it's how we've grown our businesses in our markets. But we've had a UK Life business, we've had a UK Platform business - a Retail Advice Platform business, we have had a Continental European Retail, or Regular Premium business, and also a Continental European Single Premium, or more Wealth-based business, we've had a cross-border international business in Royal Scandia and we've had two asset management businesses, Skandia Investment Group, which has been predominantly a multi-manager and packaging business, and Old

Mutual Asset Management UK, which has been a more directly-invested equity bond and alternatives business.

Well, we're doing something different now, we're bringing these businesses together into one business, Old Mutual Wealth, with one management team, one governance structure and board, one vision, one strategy and, importantly, one cost base and cost infrastructure to support our strategy.

Now, unifying the business is not a goal - it's not an end in itself, it's a means to an end, it enables us to get to some of the key commercial issues within the business. So, for instance, I think many of you may have noticed that we announced a few weeks ago that we're making just over 200 redundancies in the UK business. Those are coming predominantly from central support services, through bringing four or five different businesses together; we don't need as many people to support one business.

Partly through this and mainly through growth, we'll take our UK platform from an operating margin which is slightly negative this year to one of in excess of 30% within three years, in excess of 30% within three years, we will do that. It also enables us, by unifying the business, to get to unit costs on our back books effectively. I'll tell you how we're doing that. So unifying is the first thing.

The next is simplifying the business, and what I mean by simplifying is this - I mean simplifying not only our structure, but also our agenda and our focus. We've had quite shallow roots in this business in a number of places, well we're going to put down deeper roots in fewer places and we're going to focus on our core growth markets. And those markets are here, the UK market and our cross-border international markets. And in Continental Europe, we are taking a different approach, we're talking the approach which we're calling “Manage for Value” and I'll talk about that a little later. But it has required us to take some tough decisions there. So that's unifying and simplifying the business.

The next element of course is growth and growth comes in two aspects, one is innovation and one is securing and growing distribution. So let's talk about innovation for a moment. Whilst we have built products, to a certain extent we've taken the view that, as we're building open architecture platforms, perhaps product development hasn't been as much at the forefront as perhaps it should have been. So we are doing that now, we're building out our products and propositions.

But the first thing we've had to do is bring together our asset management businesses to act as an engine for this. I mentioned earlier on that we've combined Skandia Investment Group and Old Mutual Asset Management UK, I took that decision back in the Spring of this year and I asked Julian Ide to be the Chief Executive of the combined business and to merge the two businesses together to create one more fit-for-market and certainly vastly more profitable asset management business, which we're now calling and branding as Old Mutual Global Investors.

That process in terms of bringing those businesses together is complete, we've done it, we've brought the multi-manager and packaging business and the directly-invested business together under one business. Last year, those two businesses apart effectively broke even, and whilst I can't say, I'm pretty certain that the market has not ascribed a lot of value to our asset management business, within the wealth management business. Well, that business next year will be five times more profitable than it will be this year. And it will be profitable this year. But it will be five times more profitable next year. That's a starting point.

The reason I mention that is; I'm trying to show you these are not all aspirations we're talking about, we're doing this stuff, right now, and we're doing it quickly. So growing the assets - that gives us a base to grow the asset management business, I'm not going to steel Julian's thunder, so he's going to talk to you about how we're doing it. It gives us the engine to grow the Wealth Management business. But at the same time we need the capture vehicles to capture the assets. And people buy solutions. And what we're doing, and what I've wanted to do for 25 years in this industry, is create a business which delivers real solutions for real people, where the investment management solutions are built around customer needs.

So, just last week we launched our new Generation investment range. The proposition is a very simple proposition because peoples' wealth and investment needs are quite simple. It's an at- and in-retirement proposition which delivers incomes - defined levels of income with elements of capital preservation and protection against inflation. So Julian and I'm sure Peter will talk a little bit more about that, we've launched that last week.

Another example is our whole protection range, so our protection suite, our insurance protection suite in the market has needed to be revitalised, we have done that. We launched that again a couple of weeks ago into the market. So we are the first now into the market with gender-neutral pricing.

We've dramatically reduced our underwriting timescales. You know, we just took on a case only the week before last, a million pound case, it would have taken us four, five maybe six weeks, and we did it within three days. That's the difference of what we've achieved there. So we've revitalised our protection suite.

Another element of innovation, a means of capturing greater share, is something we're calling Select. Now you won't see this for another six months, but I've personally led the negotiations on the development and launch of this product. What Select is; it's basically a means of delivering to the market our own investment range, where the components are provided by our own asset management business, but also some of the other best investment management companies in the world here in the City.

So it enables a lot of our distributors, our IFAs, our financial advisors, whether they be open market advisors IFAs or restricted, to build their own portfolios with solutions from the best managers that it would be very difficult for them to get if they went directly, if not impossible. It's just an example of a type of innovation where we're building our own investment wealth solutions to capture extra margin.

So moving on from Select, I've said we want to do three things; unify, simplify and grow our business. The growth part has two elements; innovation and distribution. So I've spoken about innovation; growing our asset management business and delivering our own wealth solutions. The next element is securing and growing distribution, not just in the UK, but also in our international markets for our cross border propositions.

So our core market right now, and it will remain our core market, is the IFA market. The core proposition we provide to the IFA market right now is an open architecture platform proposition. We are enhancing that proposition; we are the first major platform to be able to go to the market a year ahead of the deadline with unit rebates intact and in place. The fact that we're a year ahead of the market in the timescale we need to do, that gives us the opportunity now to focus more on innovation on the platform as opposed to simply regulatory compliance.

But at the same time we're building out our retirement tools on the platform to link the products such as Generation.

The other thing we're doing is; we're saying - we know because we're in the market every day, we know that another market - another distribution market - is arising out there. Now I hate the term restricted, I think it's probably the best the term the regulator could have used, but basically for a number of financial advisors they will choose to offer a more parameterised fiduciary proposition to an element of their customer base. Some financial advisory firms will determine that's the whole way they wish to go in the future. So, the market is going to be - some advisors will go purely open market, whole of market, some will go purely restricted and some will do both. We need to ensure that we are supporting all aspects of that distribution chain.

So will we pay for distribution? No. But will we invest with some of those financial advisory firms who wish to have an excellent, parameterised, more restricted proposition? Of course, we believe we are perhaps the best in the entire market at providing something for that type of solution, so we're front and centre in that development.

You'll hear from Steven Levin who runs our international markets shortly about how we're - we've just secured more distribution in our international Latin American markets for our cross-border propositions with the purchase of a firm called Aiva. So we're not just doing it in the UK, we're building this out internationally too.

And the third element of distribution is connecting with our clients, digitally connecting with our clients. Now I've heard a lot of talk in the market about - gosh you're dis-intermediating the IFAs, you're dis-intermediating the financial advisors. No we're not. Is there anybody in this room who would stay with a product provider, or a financial advisor who did not allow them to go online, to see their portfolios, get a valuation, make a switch if you want to switch, but basically do what you need to do online? No, none of us would accept that.

So that's what we're doing; we're simply connecting greater digitally with our clients. And clearly, we do have orphan client books and there will be more orphan clients as we go through the passage from the old world to the new world. We need to be able to serve those clients and to also be able to find and help them find a financial advisor where appropriate.

So that's the distribution part of our strategy. So very briefly; unify, creating one business, one management team, one vision and strategy and one cost infrastructure to go with that, simplifying our agenda and growing our business. So I haven't talked an awful lot yet about International, and Continental Europe, so let me just do that now briefly.

I mentioned that we've taken the decision for our Continental European business, and don't forget we've already brought two businesses together there; we've bought a regular premium business and a single premium business together to create one business there. But we've taken the decision that we are not going to invest for a pan-European - a pan-Continental European growth strategy. We looked at the numbers, we looked at the risk of that and we looked at where Continental Europe is right now. And we decided that our capital can be deployed better for a greater return for our shareholders elsewhere.

So, “manage for value” means in markets now such as Switzerland, Austria and Germany, we have closed our books to new business. So, we have created a heritage book business in those markets and we will manage those for cash and value for our shareholders.

In markets such as France it is not yet profitable, it has not been profitable, it will have to be profitable and it will be so next year. Italy and Poland are growth markets; in Italy for instance we have a business, a good business, which is focused on 80% of the market through the bank channel market. But if you look at the half year interims you'll see that business is producing around a 6 or 7% return on equity and not a very high profit. So the objective for Italy is to double its return on equity and double its profit and to do it next year and it will.

So, this strategy for Continental Europe will see us with far more cash from our Continental European business. It will also see us manage more effectively some lower profitability businesses into the range, the 12 to 15% ROE range that we need and we will not own businesses that can't do that.

That allows us to invest more effectively in our UK and our International cross-border business. So let me just touch on our International cross-border business. This is a highly profitable business with an excellent proposition for clients. Steven Levin who runs our international markets will talk about that proposition shortly, so I won't steal his thunder either. But there's one aspect I want to bring to your attention about our international business and that is, despite the strength of the proposition, the operating platform through which we have delivered this proposition in our markets has been quite weak, in fact it's not been as effective as some of those platforms of our competitors. That has changed.

We've spent a lot of time, effort and resources to be able to deliver this year what we're calling Wealth Interactive. It's a full, efficient, open architecture platform across our international markets. We've launched it in Singapore, we're launching it in the UK next month and we're then rolling it out across all of our international markets. So that gives us a whole refresh, it gives us a customer interface, it gives us a distributor interface for our international cross border business.

So those are the key elements of the strategy we're doing. We're unifying the business, simplifying it and growing it through innovation and through distribution. But to move the business forward we've had to create a team, so Paul has asked me to put the team together and with his help I've done that. And that team; if you look across my executive team now, about half of it is new faces, in terms of being here for probably less than a year and about half of it is experienced people who have whilst everyone is experienced, but experienced within the Old Mutual camp, who've been here for many years.

So some of those are here with me today, you're going to hear from Peter Mann after me who is the Managing Director of our UK markets and runs all the distribution into the market whether it's now cross border distribution, or onshore distribution.

You've going to hear from Steven Levin on the international market; Steven has been with the Group some time and has been running the International business. You'll hear from Julian Ide who I talked to you about running our now combined asset management business. You'll hear from Mark Satchel a little later who is the CFO of our business and Mark is going to; importantly, that's probably the presentation you're all waiting for. he's going to put the financial meat on the bones for you.

You probably won't hear, in terms of a presentation today but he's here with us today, our Chief Operating Officer, Jeremy Charles. Jeremy joined me back in July this year to bring together all of our operations, IT chains from across the whole of the business, so now all of those areas; operations, IT, administration chains all come into Jeremy. And this is what I mean about creating one business, as opposed to all coming into five or six different business areas.

So the messages I started by saying I wanted to leave you with were; one, we are creating a modern, vertically integrated, wealth management and asset management business. The platform is increasingly an enabler for that business. We're doing so by unifying, simplifying and then growing the business. We're creating one business, with one cost focus and one simple agenda with deeper roots in fewer places focused on our growth markets. And by doing this we will hit the targets that Paul has set out for us of £300m profits, 12 to 15% ROE and 40% operating margin. In fact, my personal goal is to double our profits over the next three years.

So without further ado, let me hand over to my Managing Director of the UK; let me hand over in fact to Julian my CEO of the Asset Management business who is going to tell you how we're building the Asset Management business.

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Julian Ide, CEO, Old Mutual Global Investors

Paul, thank you so much - as Paul said I'm Julian Ide, the Chief Executive of Old Mutual Global Investors and I wanted to spend a few minutes this afternoon telling you about three things really within this business. First of all - who we are, secondly; what's our strategy for growth and then thirdly; because we started this process back in April. I also wanted to tell you about some of the results that we've already achieved in this business.

So firstly; the Old Mutual Global Investors we talk about is the engine behind Old Mutual Wealth and it is my intention that, within the context of the overall Old Mutual Wealth business, this really is a core driver of profitability and margin.

So the first of those questions, who are we? Well, as you will be aware and as the two Paul's have already referred to, Old Mutual Global Investors is a new business, it's a new leader in asset management, but it's actually make up of two established companies, Skandia Investment Group which I'll call SIG and Old Mutual Asset Managers UK, or OMAM. These two businesses were already noted for innovation and performance, but bringing these two businesses together over the course of the summer has created a business with £13bn in assets under management, over £60m in annualised revenues and with 40 investment professionals.

Now, because these two businesses were already established, we start from the position of having a diversified business with multiple capabilities. So there are four main desks within this new asset management business, there's multi-manager with, multi-asset solutions, there's fixed income, there's fundamental equities and then there's an alternatives business, and I'm going to tell you just a little bit about each of those.

So multi-manager, multi-asset solutions business - this has been a core driver of the growth of the business over the years, over the last few years. And I think, as the market moves towards what Paul has described as this restricted model, this capability is highly scalable and will form a core part of our proposition in that space. So the capability here revolves around multi-asset, multi-manager and an outcome-oriented investment style.

The second desk I refer to here as fixed income and this has also been a core driver of growth in the business over the last few years and we now have £2bn worth of assets under management and core competencies in credit total return and relative return.

Thirdly, fundamental equities - in fundamental equities we've long been the acknowledged leader in the mid- and small cap space in UK equities and that's why we have £2bn in assets under management in this space. But we also have strong capabilities in large cap UK equity income and European equities as well.

Alternatives - well, alternatives is a relatively small business for us, we have half a billion in assets under management, but those half a billion in assets are highly profitable and we expect to start 2013 in the strongest position we've been in since just before the financial crisis in 2007. Many of those funds are at their high watermark and should be generating significant profits for our business next year.

Now there's a big block up there, the fifth block called sub advised and I'm going to tell you more about that business later on because it does offer opportunities for margin enhancement within our business. Suffice to say this is a business that's currently where we outsource all the asset management to third party managers; we don't manage the money internally.

Now I've said these teams are established, what I can also tell you is that they have produced outstanding investment performance. And of course this is the lifeblood of any asset management business. So this chart shows the three year mutual fund performance by quartile ranking. And what you see here is that 40% of our funds are in the first quartile of performance, secondly that a staggering near 90% of funds are above median, and thirdly what I can also tell you is that 18 of the funds we have are already positioned in the top five IMA sectors by assets under management.

Now in my 20 years plus career in asset management, those sorts of performance numbers are extremely credible and very exciting and I'm very proud of them. But of course what it does is establish the credibility of our offering to IFAs in the UK market and international markets. It also provides the foundation frankly for very attractive revenues and economics for the business as a whole. And then it also supports strongly our desire to build this business further through taking on additional talent from this virtuous circle of performance.

As you would expect given those sorts of performance numbers, the businesses have already been recognised in the industry. So we have 32 fund ratings from the leading consultants in the UK advisor market. We've won 38 awards since 2007, just before the financial crisis, and a number of our managers are also highly rated as individuals. And I just want to bring out one of these ratings and that is that a couple of weeks ago six of our managers have been put in Citywire's top 1,000 global managers, global investment managers. So six of our managers, that is 45% of our desk heads, are rated in the top 1,000 of managers globally around the world. That's a remarkable achievement for a UK-based asset management business with £13bn in assets under management. And it provides a very strong base from which we can grow this business. So that's who we are.

I'd now like to just turn and tell you a bit about what are the core components of our strategy for growth. And I'm going to do this under three headings, Creating Value for Clients, Growing a Profitable Business and also importantly Cultivating a Culture of Excellence in the Business.

So the first thing is Creating Value for Clients, now the first thing we did was to sit down and be very clear and focused on who our client base is. Our client base is not principally an institutional client base, it's a wholesale client base, number one - in the UK and also in selected international markets, aligned with the overall strategy of Old Mutual Wealth which you'll hear about a little bit later on.

So what we have to do to make ourselves attractive, to continue to be attractive to that marketplace, we need to do what Paul referred to earlier which is to create real solutions for real people. Create the solutions that that client base wants.

So we've got strong investment performance and that's a sort of central key aspect of our proposition and I've already told you that we have nearly 90% of our funds above median. But it also means that we have to have relevant and fit-for-market product, products that are interesting to our client base and also have the features that our client base wants, whether that be different share classes, different currencies or registrations in different countries.

It also means that we have to have competitive pricing, pricing which is competitive in the overall market, but pricing which is reasonable for us and is fair for our client base. And then fourthly we have to provide a top quality service and support infrastructure for the IFA community and of course we're doing this very much together with our colleagues in the overall Wealth organisation. But this means that we provide an enhanced level of face to face contact with our advisor client base. It means that we provide much more web based information, it means that we provide tools to our advisor clients that enables them to advise their own clients more clearly what products of ours they should be investing in. So service will be a key underpin for the proposition of creating value for our clients.

Now the key thing is that we're able to do this in the context of growing a profitable business and we have every intention of making Old Mutual Global Investors a core component of that operating profit and operating margin that Paul has referred to earlier.

So, in terms of margin, what we're going to do is focus - we're going to continue to focus on high value, high alpha products, not beta products. We're going to be able to boost our revenue through in-sourcing some of the assets that we already have and I'll give you a little bit more detail on that later. And we've also demonstrated already that we are able to reduce our cost base to an appropriate level and scale now the business off that cost base and I think we've already made very good progress in that regard. And as a consequence we've already improved our operating margin in the business.

The second key component of building profitability is to build scale. Asset management in the way that we do it is a scale business and one of our major competitive advantages in this regard is being part of the Old Mutual Wealth organisation. Our combined distribution capability is probably one of the biggest there is in the market.

We're also going to focus in terms of building scale on the key products and capabilities that we have and that we intend to develop. And it also means that we address sub-scale products where there is no identifiable demand. In that case we'll either close funds, or we'll merge funds, and we've already started to develop a plan for that. So we will build scale at a fund and capability level and leverage the cost base, the fixed cost base that we have.

Thirdly, in terms of building scale we need to build our capabilities out. We have already, as I've said, a number of key asset classes and we've identified a number more that we need, so we will build out in that space. We will selectively build out our distribution into additional client segments and we also, as I mentioned, have the opportunity to bring some of the in-sourced assets that we already have on our books, bring those in-house and leverage our fixed cost base further.

The third aspect of our strategy for growth is to continue to cultivate a culture of excellence. This is critical to our continued success in the asset management business and we need to be able to attract and retain key investment talent. So one of the ways we're doing that is aligning the incentives of the investment teams to their clients, to regulatory needs, and to the needs of our shareholders.

So what we do is pay fund managers according to the profitability of those individuals desks. So each of those four desks I referred to earlier has their own P&L. There is, of course, a performance override on that P&L so that we continue to get our fund managers to focus on generating the top performance that clients demand.

The top fund managers and the desk heads will also be eligible to receive equity in Old Mutual Global Investors itself, and that again will align their interest more succinctly with the overall Global Investors business.

Of course, incentives are not the only way to encourage the right culture and it's not just portfolio managers that we're talking about here. What we've aimed to do, and we've spent a lot of time thinking about this, is develop plans to generate and create accountability and empowerment across the business, to enable people to have the freedom to perform within a strong governance framework, in a strong regulatory framework. And really this business has been built for the - what I would describe as the RDR world. And therefore those controls are central to what we do in the business. And the management team itself has been built to reflect those key focuses in our business.

Now, I mentioned earlier that we would look to expand our capabilities and I just want to give you some examples of where we see the potential for building out our capabilities. So we've looked at the market within the overall Old Mutual Wealth and we've identified three key drivers now. So the first one of these is accumulation solutions and we already have a head start in this space, we've already demonstrated a lot of innovation in this space, particularly through the launch of Spectrum, a range of six risk rated funds, back in 2008. We've raised £1.4bn in assets just in this capability alone.

Now, this multi-manager capability is highly leverageable, as I mentioned earlier on, and the new Generation funds are also being created from the same portfolio management desk. So we're in a reasonably good shape in that space.

The second area of key focus is delivering income. And frankly, in this low interest rate environment it's almost impossible to talk to a client these days without them bringing up the subject of income. And already again we have a good core offering here. We have Generation which we launched a few weeks ago, that Paul has already referred to. We have a highly regarded monthly dividend paying corporate bond fund. And we have a UK equity income capability, where the fund manager about a month ago was awarded Rising Star of the Year by S&P. And that's a market segment incidentally in itself which is completely concentrated in the hands of three or four managers. So just to get a small part of that share here would be a massive boost for our assets and profitability.

And then the third trend in the market that already exists, and has existed for some time, is for building blocks, this is high alpha products that are put in, for example, predefined portfolios but are used widely across the business within the discretionary market as well. And here, as I mentioned earlier, we have an existing capability, particularly in UK and European equities and fixed income. But we can and have opportunities to build this out further.

So how are we going to build it out? Well, one of the ways we're going to build it out is to look at this book of £5bn of sub-advised assets that we already have. Now at the moment this book of just over £5bn in assets was a great way for SIG to grow assets in the on- and offshore markets in past years. The marginal cost of each additional product was very small. But the problem is that, going forward, it's not so good in terms of our ability to continue to grow profitability and margin. So what we're going to do is look to in-source some of those assets, where it's appropriate and where it's in the interest of the clients to do so.

So let me just talk you through the dynamics just at a high level here. So, on the left you see a typical fund in a post-RDR world, priced at a total expense ratio of 85 to 90 basis points. Of that, 10 to 15 basis points is administrative, legal and other costs. But the bulk of it, 75 basis points is split there between Old Mutual Global Investors as the packager in a sub-advisory context and the third party manager. And as you will see from this chart here, at the moment the sub-advisor is gaining, in many cases, more than 50% of the revenues from that business; so great for them, not so good for us.

But this does selectively provide us an opportunity. And you'll see on the right hand side here that, as I said where it's appropriate for us to do so from a client perspective, we will be able to in-source some of these assets and take the full 75 basis points ourselves.

Now obviously doing that means that we will have some additional fixed cost in the business. We will also be able to - or I should say we already have the responsibility from a regulatory point of view anyway for these assets so there's no change there. And what we're doing is very carefully planning how, when we in-source these assets, we make the most of the momentum that we create at the time of transfer.

So, this is an opportunity that exists already and makes us a very attractive employer for existing and new talent.

We've also talked - I've talked a little bit earlier about building scale in the business. And really this is where we move on to sort of the Old Mutual Wealth engine really at work. And in many ways, as you'll see from the top right hand side here, today we have under 10% of the assets from the Old Mutual Wealth platform. And that's not really enough. I don't believe that fully reflects the strength of our investment performance and we think that we can grow that further.

And the way that we've started to do this, and I would say very effectively already, is to engage in joint sales and marketing campaigns to become a core part of the offer of Wealth and to engage in joint product innovation. And actually, we've got a couple of very good examples of this working in practice, take for example Generation which Paul referred to earlier, a range of four income generating, income targeted funds aimed to minimise capital erosion principally in retirement. Well, the demand for that project was identified by the two organisations together. This is a market that can grow, can double in the next three years.

The innovation for the product was done largely within the asset management business, building an innovative solution to a known need. And then, the success of the product launched two or three weeks ago has been driven by joint sales and marketing campaigns. And in my view, Select, which will be launching, as Paul said, in the middle of next year will follow a similar pattern where we will be involved, Global Investors, in leveraging our governance and fund expertise to deliver an overall solution to the wealth management client base and we're very much looking forward to that.

So, and lastly, I said that we had started this journey back in April this year and we've already made a lot of progress and I want to talk you through some of the numbers, the early numbers around the progress. But before I do, let me just go back and tell you what we've done. We've combined two businesses, in two centres; London and Hong Kong. We have announced one brand and we have already started to generate results. During the period, we have retained 100% of the investment talent that we had in the business and that is absolutely critical to our future success.

Now, if we look at these results, to a certain extent we've been helped by the markets during 2012, but I think what you'll see is that the numbers overall way exceed the results from the market as a whole. So I want to look at this in three columns. The left hand column here is our full year 2011 results, the middle column is what I would call the pre-merger period i.e. year to date August 2012 and then the right hand column is the post-merger period, i.e. September and October.

So what you'll see number one is that progress has been achieved really across most of these measures. So firstly, Assets under Management have grown. As I said earlier at the beginning of the presentation, we have about £13bn in assets under management today. That is a growth of around 4% between the pre- and post-merger period. It's nearly a 10% increase compared with the end of 2011.

Remarkably, here you'll see that in terms of our Net Client Cash Flow that has turned round from a negative £282m in 2011 to a slightly reduced, but nevertheless negative run rate during the pre-merger period, and that has dramatically turned into £117m monthly run rate during September and October and we believe that that run rate is sustainable for the remainder of this year.

Our gross revenues have also increased between the pre-merger period and the post-merger period by around 3% and also our revenue basis points on funds themselves has increased over the course of these - from 58 basis points to 60 basis points over the course of the total period.

I also mentioned earlier on that we had been able to demonstrate a strong focus on cost and cost reduction. So what we've done there is to reduce costs by 16% between the pre- and post-merger period, which represents around 20% reduction since the full year 2011. And there will be some further cost reductions going forward as well.

What we believe we have now achieved, as I mentioned before, is a strong base from which to build this business. We believe this cost base is appropriately structured and can be scaled.

So let me finish quickly before I ask Paul to come and join me up here for questions. I said that there were three elements to our strategy, the first was creating value for clients, the second was creating a profitable business and then the third was creating a culture of excellence within the organisation. As we do those things, I believe we position ourselves to be a market leader, i.e. a top five player within the UK wholesale space, within the next three to five years. We will be able to expand the breadth of our investment capabilities by attracting new talent and we will continue to innovate and focus. Thank you very much.

. . . .

Paul Feeney, CEO, Old Mutual Wealth

Thank you very much ladies and gentlemen and we're going to have a quick Q&A just on the first two sessions. One thing I would just say is that we do have a number of other presenters, so Peter is up next talking about the UK business, Steven the international side, Mark's going to talk about the numbers, Jeremy's going to be around for Q&A on the operational side. So rather than get into all aspects of the strategy, if you like, I set the scene, a number of those aspects are probably going to be answered, or should be answered over the next few presentations. So maybe we can concentrate more on the asset management side for Q&A at the moment. Clearly you can ask me anything but simply be aware that we have got presentations coming which may answer some of your questions on the other aspects of the business.

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Paul Feeney, CEO, Old Mutual Wealth

Please. The gentleman there.

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Blair Stewart, Bank of America/Merrill Lynch

Just a couple of quick questions really. Was I right in picking up that around 10% of the Wealth assets - sorry that Wealth accounts for 10% of the assets that you run in GI, is that right?

.. . .

Julian Ide, CEO, Old Mutual Global Investors

GI comprises just under 10% of Wealth's assets, it's the other way around.

. . . .

Blair Stewart, Bank of America/Merrill Lynch

That way round, okay.

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Julian Ide, CEO, Old Mutual Global Investors

Yes, so what we want to do is grow is our share of Wealth's assets in asset management.

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Blair Stewart, Bank of America/Merrill Lynch

Understood, and the second question really was with regards to the in-sourcing. I just wonder how easy that is going to be to do, you know what does the IFA think of that, what are the issues there that you need to address? Thanks.

. . . .

Paul Feeney, CEO, Old Mutual Wealth

Yeah, there is two aspects of that. One is; some of the in-sourcing is where, you know, we have discretion over - if it's our products that other people have purchased where we have the right to change the manager within the products - and that's because we took a decision or a strategy back then with SIG that that was going to be the approach. Where we have and it will only be where we have a performance capability, skills, to in-source that and we believe it provides a better result for the client, we have the ability to do that ourselves, to move those assets. So we don't require - if you like it's not a sort of client permission thing. Clearly we'll go to our clients and tell them we're doing it, but we have that.

That's within the £5bn, or five and a bit billion that Julian was talking about. Clearly we have a lot more than that in our own wider Wealth business. A lot of that, whilst it's in our own insurance products, pension products wrappers - you know we will certainly offer our clients the opportunity through their financial advisor to look at Select or whatever is appropriate. But that's their decision.

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Blair Stewart, Bank of America/Merrill Lynch

And sorry just one final point on that, the part that you cannot in-source, or decide not to in-source, how will you deal with the 15 to 45 basis points?

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Paul Feeney, CEO, Old Mutual Wealth

How would I deal with?

. . . .

Blair Stewart, Bank of America/Merrill Lynch

How would you deal with the 15 to 45 basis points packaging fee, how does that get treated under RDR? Does that need to be an explicit fee?

. . . .

Paul Feeney, CEO, Old Mutual Wealth

Just very quickly, one is RDR doesn't affect necessarily the back books of business. Okay, so in terms of RDR, it is effective in terms of your margins and rebates from the 1st of January this year. So we're not anticipating any drop off in margins over on that bit. In terms of new business going forward clearly all rebates that we get from the fund managers on the platforms will have to be passed through to the client.

But one of the reasons - well not just that, but we have - one of the impetuses as well to creating Select is say - look we have to build greater margin through our platforms and that means capturing our own investment solutions, that means it has to be our product, our funds. So when we're bringing investment - external investment managers in, then we can do that on a sub-advisory basis.

So either we're using our own investment fund products in Julian's business, or we're using the investment capability of our partners out in the market, but it's through our own funds, so in that respect we'll be earning the packaging margin if it's somebody else doing the sub-advisory, or the packaging margin plus the manufacturing margin if it's our own. But it won't ever be completely our own, you know we'll always have partnerships with external fund groups within Old Mutual Wealth.

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Blair Stewart, Bank of America/Merrill Lynch

But the question is how the client sees the packaging model?

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Paul Feeney, CEO, Old Mutual Wealth

How do they see it? Sorry, I beg your pardon I thought you meant; how do we name it.

. . . .

Julian Ide, CEO, Old Mutual Global Investors

Well Blair, I mean from a client's point of view we've established an RDR-priced range of products already. So if the fund price is 75 basis points it will be 75 basis points whether it's sub-advised or internalised. And that's completely within the regulations for RDR pricing. It's not a rebate or anything paid to someone else, it's just an institutional-type fee arrangement.

. . . .

Paul Feeney, CEO, Old Mutual Wealth

And it's just like we don't tell the market what we pay our own investment managers, we will not tell them what we're paying for that.

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Jon Hocking, Morgan Stanley

I've got two questions please, on the UK active product, how scalable is that given that it's large cap - sorry small cap/mid cap in heritage, obviously there's the liquidity issue there potentially, how do you scale that up, first question? And then the second question on the multi manager funds, now you've got multi asset active capability is there going to be an initiative to run multi asset products with your own underlying funds? Thank you.

. . . .

Julian Ide, CEO, Old Mutual Global Investors

Yes, just with regards to your first question about the scalability of the equities platform. You're right to point out that, in the small- and mid-cap space, there is a limit to the ability to grow in the market. However, we've got a lot of headroom in that space. And you know I would like to be in a position, you know in the next year or so, where we are having to cap those capabilities out, but we're nowhere near that yet overall. But it does emphasise the importance of what we're doing now, which is to go out and develop our franchise in large cap equities to a much greater extent.

You know, I think... a lot of people have asked me in the past is - with this great investment performance, how come you haven't raised more assets in the past? And one of the reasons is we've been too dependent on small and mid-cap.

Now with regards to your question on multi manager, can you just repeat?

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Jon Hocking, Morgan Stanley

Obviously the multi manager has to stay multi manager but the multi asset bucket, you've now got equity, you've got fixed income, you've got other buckets, can you construct your own Old Mutual managed multi assets, so effectively you're doing the asset allocation rather than the underlying?

. . . .

Julian Ide, CEO, Old Mutual Global Investors

Well, on the multi manager desk, the whole basis and philosophy and process is based around best of breed manager selection. There are a few of the UK managers within Old Mutual Global Investors already included in that programme but it's a very small number. And we're going to continue to preserve that offering in that way. So I mean - there is no limit, there's no base to how much - it's just a pure best of breed decision by the fund managers and it's been very important to establish early on that that's how that will continue.

However, there is an opportunity to develop what we would call a fettered multi asset capability, which would be a multi asset capability investing just in Old Mutual Global Investors and the likelihood is, if we do that, we're looking at some of our options around that at the moment, the pricing for that would probably be at a lower base. We actually already have quite a good track record in managing internal assets in that way and we're just looking at whether we can commercialise that together with the Old Mutual Wealth team, and Peter's team in the UK.

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Greig Paterson, KBW

Three quick questions, one is I've been following the Skandia/Old Mutual story for 15 years and the last - in essence since Skandia was taken over - I've heard the story about deepening the share of wallet via putting out your own products via SIG. The reality of it is Skandia was very successful at doing that. And I'm wondering to what extent that opportunity has already been achieved and - I mean because this sounds like an old story to me, to be honest?

The second question is protection, I was looking at the P&L, I wasn't sure whether that was profit or revenue, because we've had AXA, we've had Pru, we've had Standard Life all try to enter the sort of protection cartel and have not been able to get scale and have left arguably with their tails between their legs. I was wondering - or maybe I'm misunderstanding what you're doing here, you know, what differentiates you that you suddenly were able to get into the big four players and compete with them effectively given that you don't have the scale?

And the third thing, and this goes back to a point Julian has raised a few times over the last few years in terms of never ruling out the - when asked whether he would go for the baby boomers via annuities, UK annuities, he purposely never rules that out and I just noticed that there was a comment absent. Does that mean now that we've now finalised that there's no chance that you'll go down that line?

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Julian Ide, CEO, Old Mutual Global Investors

Well maybe I can take it. Do you want to take that one Paul?

. . . .

Paul Hanratty, CEO, Long-Term Savings

I'm happy to help on whichever ones you want to.

. . . .

Paul Feeney, CEO, Old Mutual Wealth

Well I'm going to take the one on the solutions.

. . . .

Paul Hanratty, CEO, Long-Term Savings

I think you should take the one on the solutions, I'm happy to talk a bit about the protection and the annuities.

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Peter Mann, Managing Director, UK

Should I take the first one Greig, the first issue we'll cover in my presentation so if it's not covered in mine then I'll revisit it in questioning afterwards.

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Paul Feeney, CEO, Old Mutual Wealth

So we at the moment in terms of flows we capture slightly less than 10% of flows into our own investment solutions. That has been predominately Spectrum and not much into our offshore sub advise because that is sold outside of the UK market and it's been sold predominately outside of our international business. So I think there's a significant opportunity for us to capture more flows than we have been capturing. I think we've had one proposition which is the risk-targeted, and if you saw earlier on when Julian put up the building blocks of how the market buys, one of the things that the market buys through is predefined portfolios, model portfolios, so it looks for building blocks. Spectrum is a solution.

At the same time, we've been completely outside of the at - and in retirement market. We've had accumulation propositions, but really no decumulation propositions. So Generation we launched a week or two ago, it's purely aimed at the decumulation, the income drawdown market. So it's a whole different part of the market we're aiming for.

Select, which we're launching and it will be midyear next year, and one of the reasons it will be midyear is just that we have to help our financial advisors over the RDR bridge into the new world. That will be aimed at the model portfolio part of the market. Again, it's a solution we haven't had. So we've really had one solution for one part of the market on an investment basis. So I think with a broader range of investment solutions we can capture a much higher share of existing flows.

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Julian Ide, CEO, Old Mutual Global Investors

Paul if I can also add, I mean I think another aspect of this is something which I think you can't see in the numbers exactly, but there is a complete, I would say, reinvigoration of the way that the asset management business and the business - Peter's business and Steven's business – work together. In the last three weeks, I think we have together sat down with 600 clients together.

Now, if you start leveraging that across the asset management business, and we never did that before in reality, so there is a much better, a much more productive working relationship. There's more product and much more distribution. We've completely restructured the way we sell product in this business now.

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Paul Feeney, CEO, Old Mutual Wealth

Paul do you want to take …?

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Paul Hanratty, CEO, Long-Term Savings

I thought, Paul, you might want me just to comment on the protection issue. I mean we clearly have been in the protection business for very many years now. And we have absolutely no intention to get into the bulk protection game alongside the big names that Greig mentioned. We want to maintain a niche focus which is in the top end of the market and I think we're very well known amongst the advisors for being good in that space. So we've got no intention to move down into the bulk protection market.

And on annuities, interest rates are at an all-time low, so from a client point of view we think annuities are, again, in the high end of the market. If you go to the middle of the market it's different, but if you're at the top end I think interest rates are a problem for clients and secondly these are very capital intensive products and we have no intention in going head to head with, trying to compete with the big providers. It is possible that on a platform we could offer a bureau approach to it, but not on our own balance sheet.

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Paul Feeney, CEO, Old Mutual Wealth

Peter, did you want to add something?

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Peter Mann, Managing Director, UK

The only comment , Greig, I was going to make which will come out in my presentation is why the community is changing and the way the IFA community is changing such that in-house solutions maybe be more attractive to them than they had historically been. So what I'll give is a market overlay to what Julian and Paul have said.

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Colin Simpson, Goldman Sachs

Just two questions on the unify point, what role does South Africa have in the administration of any of your business? And also this is probably a bit spurious, but you had the whole rebrand but there's no sort of sign of an Africa fund, or an emerging markets fund or anything like that. I mean what are your plans in that respect?

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Paul Feeney, CEO, Old Mutual Wealth

Okay good questions. I mean, first of all, I'll be quite frank - the unification is of - you know we've had six businesses up here in the north so let's start with that, so we're unifying those businesses. So that's the first point on unification. In terms of – yes, South Africa have done some of the administration for some parts of our business such as Poland, places like that. They also provide some IT resource in GET, which is our technology division down in South Africa. But I think - and a lot of the stuff also is intellectual property transfer.

So one of the things we've been talking about our whole connect digital growth, that's happening across both markets at the same time, leveraging off what we have in South Africa and here. But most of our unification, if I can be quite frank, is unifying our northern businesses.

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Julian Ide, CEO, Old Mutual Global Investors

On the asset management side, there is a sort of key development within - about unification too which is that we have agreed to - we have a number, multiple different platforms selling offshore - on which we have offshore funds. We're going to create one platform and that platform will apply, just to clarify the point, to Old Mutual Global Investors' products, to products manufactured in South Africa and potentially also in the US. And we've already made some progress. It's an obvious thing for us to do and will help us to drive cost down, but also drive sales I think.

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Paul Feeney, CEO, Old Mutual Wealth

I think another thing is, if you look at Old Mutual Global Investors and Old Mutual Wealth, those are brands which can be leveraged across north/south divides. And one of the issues we always had with the Skandia brand - and we still have the Skandia brand - it's a strong brand, but it's never really developed into a consumer or end retail brand. It was very much a B2B brand. We now have an opportunity to grow two strong brands across our markets, north and south and that's also an element of unification I think.

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Colin Simpson, Goldman Sachs

So you retain the Skandia brand going forward in the UK?

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Paul Feeney, CEO, Old Mutual Wealth

Well I think going forth in the UK, we probably won't retain the Skandia brand going forth. No, I think we own the Skandia brand so whether we keep it, that's a different issue. But I think one business requires one brand.

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James Pearce, UBS

Good afternoon. You mentioned at the beginning that the restricted advice market was becoming more interesting which runs slightly counter to what the banks have been doing. What did you have in mind by that, are you thinking of setting up your own sales force, or what it is that you want to get across there?

. . . .

Paul Feeney, CEO, Old Mutual Wealth

Well, I think at this stage what we have in mind is that we know there are two things happening at the moment. Certain IFA firms, businesses, are deciding they need an open market proposition which is their IFA proposition, plus they need a more restricted or parameterised proposition for a different part of their client base, maybe the lower value part of the client base.

Some other firms are saying: we're going to have a wholly restricted proposition, we're not going to go out there and pretend we're searching the whole market, we're going to try and find the best proposition we can but we're going to restrict that to certain suppliers, maybe not one, but a few suppliers. So when I say we want to secure distribution, or work with distribution on the restricted side, I mean that.

So we may - you know, to be quite frank, you may have heard rumours in the market that we're talking to - you know, firms at the moment. We may even make an investment in a firm shortly. It will not be - you know, by Old Mutual standards it's not a significant investment, but we may do so to help them grow out their business. So we may do that.

Okay, well if there are no further questions at the moment I think we're going to take a short coffee break, how long do we have for the coffee break - about 20 minutes? We have 20 minutes for the coffee break everybody and then we can come back and hear from Peter about the UK. Thank you very much.

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Paul Feeney, CEO, Old Mutual Wealth

Ladies and gentlemen, thank you very much for coming back so promptly on time. So you've heard from myself and Julian, we're now going to hear from Peter Mann who is the Managing Director of our UK market. Peter, over to you.

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Peter Mann, Managing Director, UK

Thank you, Paul. Good afternoon ladies and gentlemen. In the next 20 minutes I'm going to try and put some different perspectives on the strategy that Paul and Julian have articulated. And what I'm going to try to do is to look at the dynamics of certain elements of the UK business which have informed that strategy, which have caused that strategy, I think, to be an inflection point for this business. And what I'm going to hopefully demonstrate is that what we're building today and what you've heard today, is suitable for tomorrow's marketplace. And always I think its best when you build today with a weather eye on what you think will happen tomorrow.

And I'm going to look at that from three perspectives; I'm going to look at it from the platform perspective, not an interpretive analysis of what the RDR will bring because I think we've done that before, but what's happening in the platform market that makes the type of enabler that we have a particularly attractive proposition from which to build out.

Then, I'm going to look at it from a customer perspective and say okay, if customers think and believe in this certain way, why is what we're attempting to build an appropriate solution for what we think their needs will be in the future. And then lastly I'm going to take a look at the advisor community and say okay, what is the direction of travel there and what are the potential opportunities that exist as the IFA community makes its choices between now and 2013 for many and for those who have a 2013 at all, what choices they'll make beyond 2013.

So, at the end of the presentation I hope to have positioned us in these three core areas. So, in order to do that, there are some premises that I think we need to accept and certainly there are premises that we have accepted in formulating our strategy. I nicked the first bit from, kindly provided by Barclay/Absa in their notes, saying that platforms are due to grow and I'll show that numerically in a moment. But I think the general concept is that platforms themselves, as a vehicle for investment advice, have already gained a decent foothold in the UK market but are likely to grow.

Understanding how you can benefit from the enabler that our platform has become, is the key essence of what we are trying to do. Paul Feeney quite rightly described it as an enabler; it is the vehicle that allows you and the community that you serve, to allow you to do different and differentiated things. And we're going to hopefully demonstrate that we understand what that might look like.

There are some slides that demonstrate our franchise, our enabler, has scale, substance and therefore leverage which is unprecedented in the intermediated retail space in which we operate.

And then moving that to a customer perspective, look at how the dynamics of the customer over the last 3 to 5 years have informed the decisions that we've made and how our solutions will help them through what we perceive to be the different life cycles at which there's the greatest propensity for customers to invest or the greatest vision from a customer perspective to think that that is when I will need that particular asset, that trust or that particular structure.

And then lastly, I'm not going to talk about how we've built our distribution model, we are in the process of realigning our sales force, but what I want to do is talk about why and which segments of the community it's particularly targeted at and why we think it will be successful.

Okay, so may I begin by saying we're big, we are the largest retail platform in the intermediated space by some margin with assets of £35.8bn, £6bn in 2008, £1.8bn of net client cash flow. We did 900,000 trades with £30bn of assets being traded and 634,000 customers. That makes this a very exciting place from which to build, in fact, my contention is that it makes it the strongest place from which to build.

It's not only us who says that, fortunately, as Steven will come on and show and as Julian showed, we win a lot of awards, we win more awards than most other platforms, so that is good in itself. But the ones that we really want to win and the ones that we win most of are the ones that are voted for by the intermediary community, they mean most to us, so our greatest pleasure is from those.

So, to develop a little bit about how the market might look and I know we've got representation from Sanford Bernstein in the audience, so again, I've taken a recent survey from the group that says that if you look at 2012 and if you kind of draw that line across, it looks like there are about £200bn of assets in platforms at the moment, and that's about right. So if you include the custodian services provided by SEI and Pershing, the total aggregated assets in the UK on what would legitimately be called a platform or what would be called a platform service operated by the FSA post 2013, is about £197bn, spread between 28 differentiated groups.

That's important because not all of those 28 groups can clearly have the scale from which to build but hopefully we've demonstrated that we do. The point of this slide, however, is not that, it is that most commentators, us included, believe that the assets aggregated under platforms will continue to grow in the subsequent years in this case up to and including 2015. And that's an entirely logical assumption because they do the thing that most intermediaries want them to do, pretty efficiently, they aggregate the view for the client and as Paul says, increasingly clients want to connect with their own money and they want to see their assets aggregated in one place. So for an IFA to be able to do that, a platform is a strategically sensible vehicle to use to enable that vision.

And secondly and possibly most importantly, one of the catalysts, maybe an unintended catalyst, but one of the things that the Retail Distribution Review has done is to force the intermediated community to think about their futures, to think about their exit values and how they grow value in their business. And there is no doubt that building passive income; building trail income is the real determinate of the value that you get when you decide to sell your business. And platforms are a good vehicle for aggregating and confining your trail income, your passive income stream into one or at least a couple of places.

So, logically, it's reasonable to presume that the growth that we've seen so far will continue and therefore it looks like it's going to be a worthwhile space in which to devote some of one's activity. Whether that figure ends up at £420bn or £400bn at the end of 2015 or not, that seems to be the sort of number that people are converging around. And that's probably just in the acquisition of new money, if we can unlock some of the money that exists in rather tired investment vehicles historically, then that number could grow exponentially, who knows.

What is clear is that already we have a high proportion of IFAs using the platform as an enabler, as a vehicle in which to give their investment advice and there are no indicators that I have seen, and particularly this one, which is from a very, very good investment trend survey which was recently published, nobody really says they're going to get smaller, most people say they're either going to remain the same with about 60% to 70% or in some cases, grow. But whichever of those statements is true, what is clear is a very high proportion of the intermediated community will still continue to use a platform as a vehicle to use their business.

So, my starting contention is we are strong, in fact, some would say preeminent in the right environment for now but most importantly, the indicators are that it's the right environment for the future.

Let's look at the customers. Let's look at how customers are changing both their attitude to investment and the point in time at which they invest. A different set of consultancy firms but again, I think a common or at least well-accepted and generally well-held view. The part of the population that is seeking, that is likely to grow most at any given point in time, and this one looks forward to 2018, is those who are over the age of 45.

In this particular example, and there are many others, they say it will grow by 10% and 17% cumulatively, and that may or may not be correct but the general point of the chart is to say those who are over 45 are living longer, generating more wealth and thinking more carefully about how they apply that wealth, both for themselves and those who follow in subsequent generations.

So if you're in the business then you need to think about wealth management solutions that satisfy the needs and excite the people who are in that kind of category. Most of the wealth is generated or at least held by those who are in that kind of age group. We were privileged to have a conversation or have a presentation from the Pensions minister recently at one of the seminars that Julian referred to, and his comment was most people get to, in terms of pension planning, do two things, they firstly get to the age of 50 and then they panic and I think that that will change as people become more cognisant and connected to their investments.

So we build three kinds of models. So the next three slides are models of where the wealth management solutions that we intend to build, that have been talked about today and there will be others, fit in that customer journey.

So in drawing out that customer life cycle, what we've done is that at each of the inflection points in that cycle, we've tried to think about the things that customers are telling us they're thinking about. And we've done that, not through our own imagination but by sitting and listening carefully to what customers are telling us and what their thoughts are at certain points in their life stages. And so, if we accept that as a representation of our quite in-depth research, then I want to give you an example of how the solutions that we're building to put on the platform will enable us to make that transformation from a platform service operator to an integrated wealth management business.

So take Spectrum, for example. You've heard today and many of you know what Spectrum is, Spectrum is clearly designed and very successfully marketed as a fund in the accumulation space where people are understanding their attitude to risk, the various ATR tools that IFAs use identify that attitude to risk and they match it against and appropriate Spectrum fund. Clever idea, good use of the IFA process from thinking about how an IFA actually sells or an intermediary actually sells, they sell through the wrapper using tools to eventually come to the funds. And Spectrum has been popular in that space and we hope it will continue to be popular in that space.

If you look at the other end of the spectrum, not the final end of the spectrum but that in an at-retirement space that Paul talked about, this is a real opportunity for a business, this business I believe, to grab that market place and make it their own. Because the annuity space is particularly challenged, the returns you get on annuities at the moment are as poor as they've been since I can remember, and that's a long time, so it's the right time to think of innovative and creative ideas about how people decumulate the assets that they've spent their time accumulating.

And Generation is just the beginning of us beginning to think how that might happen. And so thinking and listening to customers, transporting them into products and offering them to the intermediary community to say “this could add value to your sales process”, is kind of that intuitive thinking about today's solutions for tomorrow's market.

And lastly, I don't want to steal Steven's thunder but as a preface to Steven, how does the international piece fit into this jigsaw puzzle? Well, what I'm not saying here is people get to the latter stages of their life, beyond 75, before they buy international products because they clearly don't. But what they do do is;

the international product structure and particularly the tax wrappers which are involved and also the trusts around which they are wrapped, are largely, not exclusively but largely around preserving the estate in order that it may pass in a tax efficient manner to those who follow on into next generations.

So in buying international type products, as well as the taxation benefits, people are beginning to think about: how do I pass my wealth on, how to I protect it from the ravages or the ever increasing ravages of adverse taxation?

So, hopefully you can see we're beginning to think more out from the customer, building out from the customer and understanding their different life phases. I've only used three examples here and, as Paul said, one of the exciting things about this business is because we are compliant in terms of the RDR relatively early, certainly in terms of our two day as well as our one day. then we have this opportunity to innovate whilst other people may be trying to at least make themselves compliant.

My final section is about the IFA community or the intermediated community, and it's here that I will try and answer the second point of Greig's question. If you look back at 2011 and you think what the community did, one of the great things about the RDR is it's forced that community to think, not about how they do things or the license and the qualifications they need to be able to do those things, it's forced the community to think about the structure that they want to use, but what do they actually do? And in the term 'advisor charging', we get the clue, they charge for the advice that they give.

But historically, if you look at that large green bar under 2011 and Skandia's old business reflects this, a lot of what IFAs did was build pre-defined portfolio's, they built their own portfolios, largely selected from a basket of unit trusts, put together by maybe an investment committee and maybe some other method, maybe they use an outsource community, to build their own predefined portfolios, and they would then offer those predefined portfolios along with the advice process.

Certainly when I was an IFA and if you talked to IFAs now, many would admit that the predefined portfolio has not been their finest moment. So I think that many advisors are realising now that what they do very, very well is give advice, what they may consider doing more in the future is outsourcing the investment element of the advice they give to people who have four specialist desks, heaps of knowledge, plenty of assets under management and an expertise in building wealth management solutions.

So, our view is that as time goes by, and I've used 2015 here as an example, what we will see is a diminution in the number of predefined portfolios that IFAs will use, more towards a movement towards multi-asset or multi manager capability and they will outsource that function, more so than I think they have historically done before.

That makes an awful lot, and this is a replication of a slide that Julian produced earlier on, what that does is, if you become the manufacturer of choice or the provider of choice for some of those multimanager or multi-assets, then you can enjoy a higher proportion of the value chain. I'm not saying the value chain will change markedly, so if it's 185 to 190 basis points now then it might be slightly less in the future, but the opportunity for us to participate in a wider element of that value chain is clearly there.

So why do I think and why do we think that there are opportunities in particular aspects of the market place? Paul quite rightly reiterated our DNA in this business is around supporting the advisor community.

But each and every advisor in 2013 has to make a choice about how they structure their advice, and my personal view is the lot will make their choice in 2013 and in the light of experience, changing market place and changing customer needs; they will refine that choice on an annual basis.

But let's take 2013 as a start point. If you look at branded nationals, so St. James's Place and various other places and you look at networks, who, by definition or certainly by common practice, operate under a relatively restrictive product base panel, to all intents and purposes, restricted advice is a codification of existing practice, because whilst they might hold out to be IFAs, actually they're operating from a restricted panel and I, like Paul, don't like the word restricted but I accept the fact it's probably the best choice available.

So actually being restricted where the restriction is one or all but one, for a high proportion of that community that we serve already, is something that they're quite familiar with. The degree to which they will formalise that or indeed their principle, if they're in a network, will formalise that, is I think something we will see emerge over a period of time but I think we're seeing a change already.

Bank assurers who, outside of the wealth management businesses, tend to operate a vertically integrated model, so therefore they are manufacturer distributors in many cases. So the real ground where a lot of debate exists, is probably less than 50% of the eligible population which is those IFAs who are directly authorised and either buy support services for support services companies or indeed, have their own compliant services.

A recent survey that we did suggested that 63% of those people would remain independent, wholly independent post 2013, 13% would consider restricted and independent as a blended solution and 5% would be wholly restricted. For the actuaries amongst you, that doesn't add up to 100 and the reason for that is that 19% either don't have a 2013 or are as yet, undecided.

So, I think in that sector of the community, restricted advice may take some time to take hold but I firmly believe that as people practice in the intermediated space, they will continue to refine their choices as they segment their customer propositions.

So there is no doubt in my mind that at a point in time, restricted will play a valuable role in some but not all IFA offerings. Our commitment is to intermediation, our duty is to design products and services and let the community choose, that is what we're about and that's what we will always be about.

So, if you believe that that's the community and how it might shape up, how would you build your own capability to serve that community? So we are committed to retaining, developing and growing relationships with the intermediated community, however it shapes up. And in order to do that you need a highly skilled and quite a large in number sales force, and that's what we're doing to do but we do recognise that there's two functions, one of the functions is to protect our heritage, the core of our business; both our legacy book and those people who have chosen, who are many in number, to adopt our platform as their platform of choice and we should and will continue to provide those people with the right kind of support.

But very clearly we want, need and are committed to growing a wealth management integrated business. So a proportion of our sales force will focus on taking those solutions that the guys develop, to customers and making them interesting and exciting so that their IFAs or restricted advisors find a place in their recommendation process for the solutions that we do.

In today's market that's quite an unusual - in fact, it's broadly speaking, unique - set way of dividing out your representation to the IFA community. We still believe a number of decisions will be made at the centre by those networks and by those branded nationals, so we retain a strong relationship with our strategic partners.

So, hopefully I've demonstrated that, in the UK business, our dominant position in the UK retail market gives us, and the changing dynamics of that market place gives us, the opportunity to grow from an enabler of a platform into a true wealth management business. We have the right distribution and design, we certainly have the capability to do it and by God, we have the intent to do it. So, after that can I pass over to my colleague Steven Levin, who will talk you through the international business.

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Steven Levin, Managing Director, International

Good afternoon everyone. I am the Managing Director of the international business and what I'm going to do this afternoon is I'm going to share with you some information about the business, unpack it a little bit and show you some of the key dynamics and then really focus on some of the exciting things we've been doing and how we're going to grow the business going forward.

So, to start out with, the international business that we have is one of the market leaders in the single premium space. We pioneered portfolio bonds in the 1980s under the name Royal Skandia, and the business has built a strong reputation for technical expertise, trusts, we're very strong in the QROP space. And I think you'll all be familiar with international products and cross-border business tends to be a little more technical in terms of the support that one needs to give intermediaries because you're dealing with more complex personal advice situations, so that's an area that we've built a strong name for ourselves.

As a business we've got about £14bn under management and just over 160,000 customers, and we service affluent and high net worth customers, and I'll talk a little more about which markets, where we service these customers, in the slides ahead.

And then, I'm pleased to say that we've been recognised regularly by our peers and by advisors in terms of the awards that we win, so recently we've won 12 awards for International Advisor and for Professional Advisor, really recognising the products we have, the service that we're offering, the technical expertise that we have.

If I unpack the business a little bit more, this is what we call our puzzle slide, showing the little pieces of how it all fits together. What we've got, if I start on the propositions, we are predominantly a single premium player but we do recurring premium business as well. Our products are open architecture investment products; that's what we predominantly do. In terms of customers, we deal with customers who are local and expat customers all around the world, I've said they're mostly affluent and high net worth customers. And we distribute through some specialised IFAs who deal with the expat markets in different regions, we also deal with private and premium banks who are key distributors in this market.

In terms of where we distribute; we distribute in the UK, in Europe and in most of the regions of emerging markets around the world, the one place that we don't is the US, but pretty much around the rest of the world we have a presence and we distribute there. In terms of the entities through which the business is written; we have an insurance company in the Isle of Man and one in Ireland and those are the two legal entities that this business is written through.

Now, I want to spend some time just talking about why customers buy cross-border products, the reasons do differ based on the different markets and some people are very familiar with why a customer in the place where they live would buy one of these products but not necessarily in some of the other markets and as I say, the reasons differ.

So what we've got here is we've categorised the reasons for purchasing the cross-border product into three broad categories;, the first being diversification, protection and security, the second being around portability and convenience and the third being around tax planning and financial planning.

If I just go into some examples; if you take South Africa, Latin America, those countries, the predominant reason why customers invest in cross border or international products is actually to externalise some assets. And that's often for concerns about currency or political risk or just customers don't always want to have all their eggs in one basket. And increasingly in some of the developed markets, customers are starting to think the same way; some of the developed economies are not always the place you want to keep all your eggs either, but certainly that is a big factor in markets like South Africa and Latin America.

In markets like Asia and the Middle East, where most of our customers are expats, their portability and convenience is one of the key reasons for buying a product because you can imagine a customer working in Hong Kong, someone working in the financial sector in Hong Kong and an expat there will often move around, will work in Singapore, will work in Dubai, you don't want to have during the space of a career, pots of savings in all these different places, it really becomes practically as a customer, a nightmare to manage. So that's one of the big features that some of these international products can offer.

And then they also offer a broad range of investments, so some extra diversification, sometimes multiple currencies, wider fund ranges than are available in some markets, wider investment choices. So those are sort of the Asian and Middle East markets.

And then Peter has already spoken about a market like the UK, where actually a lot of the reason why customers buy products in the UK market, offshore products and cross-border products, is for inheritance tax planning and setting up discounted gift trusts and things like that. So it's interesting to see the reasons why customers buy these products do differ and we've got our marketing and our capabilities all targeted around different capabilities and different presentations in different markets.

Now, I'd like to spend a few moments unpacking the products a bit. So what we've got, as I've said, our focus is on single premiums, the mix is about 75% single premium and 25% recurring and a lot of the recurring that we sold are actually non-contractual recurring premium products.

We found that customers, particularly expat customers, are looking for flexibility, they don't want to make long term commitments because they're not sure how long they're going to be in one place, or where a certain recurring premium vehicle would be the most effective. The other nice thing about single premium products is they're high ROE, low new business strain products and so that suits the business model that we've built quite well.

If I talk about the margins of these products, so our VNB margins at half year were 17%, they tend to drift up in the second half of the year, there is a bit of cyclicality in the business and certainly the margin varies a little bit by mix but it's between that sort of range of 17% to 23%. And our average case size in this business is about £250,000. Now, that's quite high for a retail business and that reflects the affluent client base and the high net worth client base that we have and also drives some of the good economics in the business.

So now, let me just talk about what I mean about true open architecture, which I've mentioned before. So, the products we have, the customers can buy a range from very simple solutions where they've picked a range of funds right through to things where customers can buy individual stocks, bonds, multiple currencies, have structured deposits at different banks, hedge funds, so it's a very flexible range of investments. And this is a key thing that international and expat customers are looking for, and higher net worth customers, and we've built some very good capabilities to manage these products.

As I've already said, for us, a lot of our competitive advantage has been built around the fact that we are the market leaders and I've shown you some of the awards that we win, in terms of being very strong in the technical support that we give advisors in terms of how they advise and give customers best advice in the offshore space.

What I've got over here is a representation of the markets around the world. So, this is data coming from NMG, NMG are the industry leaders, I think, in sort of research on the cross-border markets. What we've got on this graph, on the vertical axis we've got the margin and on the horizontal axis, we've got the market growth rates and then the size of the bubbles are reflective of the size of the annual APE generated in these markets.

So if you look, markets like Europe and the UK are very big markets, they're growing at just over 5% growth, margins are good but they are, you can see they are more competed, certainly because the margins are lower than what you will find in the emerging markets. If you look at markets like Asia and the Middle East and then markets too in Latin America and Africa, sort of the growth rates can be easily two to three times what we're seeing in the UK and the margins are about double.

So that's some of the dynamics. Just for context, the UK market is about £600m to £700m worth of APE every year, a market like Africa is nearly £150m, Middle East around £400m, just to give you some context for the size of the bubbles.

So now, what I've got here is the representation of where we get our business from, so on the left we've got the APE at September and on the right, the Assets under Management, and you will see that roughly half, certainly half on APE and about 40% on assets, of our sales, comes from emerging markets.

So we're strong in markets like the UK and Europe but we've also got a really big presence in some of these very fast growing markets in our international business, and in those sort of emerging markets businesses we've been in, we've got a strong presence in Asia, in the Middle East, in Africa and in Latin America, so really a globally diversified business. And the diversification is really important for us because different markets go through different economic cycles at different times, there are regulatory changes that affect markets that are not always synchronised. So the global diversification actually makes our business very resilient and we do have times when one area is doing better than the other, as you would expect, but I think that's one of the strengths of our business model.

I'd now like to talk a little bit about what we're doing to drive growth. So, one of the things we've been spending a lot of time on in the last 12 months is on building out our bancassurance distribution, and I'm pleased to say that we've actually secured a few bancassurance partnership relationships that we've done in the last few months. So we've got onto the Barclay's Wealth Panel in the UK, the biggest writers of offshore portfolio bonds and we haven't been on their panel for many years. So that's really positive.

In Asia, we have got a distribution arrangement with HSBC Private Bank in Hong Kong and HSBC expats, again, very big distributor in the Asian region and there are a few other banks that we're working closely with at the moment which we haven't yet completed and concluded on signing a distribution agreement, but I think there's really some good work that we've been doing in that regard.

As Paul has briefly mentioned, you will have seen the announcement this morning about the Old Mutual Emerging Markets business having acquired a stake in a business called Aiva in Latin America. Now, Aiva is a business that's going to work with the Emerging Markets business in Colombia and Mexico to build our distribution, broker distribution in Mexico, and there's a whole lot of synergies between those businesses. It's also a business that we have used to distribute in the past, we've had a long relationship with Aiva and we're going to continue that relationship. And what's really positive about this is that now the Group can provide a little bit of extra capital to Aiva to help them grow a bit faster and really invest more in that business, which I think is really positive for the international business as well.

In terms of Europe, we've been very strong in the British expat market in Europe and fortunately there are a lot of British expats living in Europe, especially Southern Europe, a lot of retirements, there's a lot of QROPS business down in Europe. But we haven't historically been as strong in the rest of Europe, Continental Europe or the other nationalities and obviously that's a very, very big market.

And one of the things that we are doing now is that we are working on how we can expand in that market, it's also interesting what's going on in Europe, while there's a lot of uncertainty we're finding a lot of customers don't want to keep all their money in their local country, there's a big flow of cross-border business happening in Europe and a lot of that is from Southern Europe but also even from markets like France where customers don't all want to, sometimes there are some tax issues there, not everyone wants to keep their money in France and so there are some really good opportunities to do cross-border business in Europe and that's a market that we're looking at.

And we've got businesses, the local businesses that Paul spoke about, the businesses in Continental Europe and we're not focusing on building up those businesses as Paul spoke about in the Managing for Value strategy, however where we've got capabilities there, doing this sort of cross-border business which is low capital, high ROE business is certainly an attractive thing for us.

And then, in terms of some of the products developments that we've done recently, which I think also helped to drive our distribution and to fuel our growth. So, one of the things that we've done is we've started launching some structured products, some tranches of structured products this year. Now, we've sold structured products before but generally they are other people's structured products, we've got into the game where we're working with some banks, we've packaged and created some of our own, we've done three tranches of those. We've started relatively slowly in a few markets, the sales have been really, really strong and now we are onto a process where we are rolling and sort of every month or two we're launching one of these and I think that sets us up for nice growth for next year.

The other thing is that in the South African market earlier this year, we launched a portfolio bond product, a true open architecture product. Historically in the South African market we've only had a funds only product and we launched a product at the beginning of this year which opened up a new segment of the market, more of the stockbrokers, private wealth managers and the private banks market which has gone really well. It's taken some time to get signed up and to go through product approval processes on a lot of these institutions, that's all done now and I'm pleased to say that we've had some two really strong months the last two months in terms of sales coming out of the portfolio bond space in the South African market. So that, I think, is the - I think sort of the run rate that we'd like to see going into next year.

And then, probably the most important thing we've been doing on the product side, which Paul has spoken about is Wealth Interactive, and I'm going to talk a little more about that in the slides ahead.

The last point that I just want to make is as Peter has pointed out, we've got the international distribution that was in the UK and Peter's UK distribution working now much, much closer together and really getting the full weight of the distribution presence that we have in the UK market and I think that's going to help support our growth in the UK.

So now, Wealth Interactive has been mentioned a few times before and what we've got here is we've really put world class state of the art online capabilities on top of what were already very good products. In terms of the benefits of this for advisors, everything has gone online, straight-through processing, it makes advisors' lives significantly easier and more efficient. So it's 24/7 availability, online dealing, complex transactions like bulk switching and managing a book of business has become significantly simpler with this platform. And the advisors that have seen it, because it's been launched in Singapore already, absolutely love the flexibility and the functionality that we've been able to bring to the market now.

If I look at a customer level, and really this is again linking to one of the things that Paul said earlier, this is what customers are looking for, this is everything that you would expect from a modern world management business, customers want to be able to access their wealth, they want to be able to do it on the iPhone, on the iPad, they want to be able to do switches at certain times or they want to be able to refer things to advisors. There are things where an advisor can process something and the customer can go and sign it electronically and say yes. So a lot of flexibility and in the way that I think people of this day and age actually want to deal with a business.

And then finally, and very importantly, there are also significant benefits of this for our business and for our shareholders. You can imagine that by moving things that were lodged in manual processes straight to a processing environment, we are able to reduce the cost so we are able to reduce some of the operational spend we've got. The bulk of that is going to happen in the early second quarter of next year when we've done the full migration of our existing client base onto this new platform and then we'll be able to reduce some of the manual processes we've had and reduce costs in that way.

The other thing is through automating things like trading, we're going to significantly reduce the breakage that we have in the business and breakage is never something that we want to have but the reality is that when you're doing as much trading as we do, there is a level of breakage. Now by taking the vast majority of the trading online, that will come down significantly. So there are some real tangible benefits coming out of this for our shareholders and for our business.

I've already mentioned that this platform has been launched in Singapore, we're launching in the UK before the end of this year, it will also be the way that we fuel our RDR compliant proposition in the UK market and then during the early parts of next year this is going to be rolled out across all of the international markets around the world.

So, the message I'd like to leave you all with is that we are the leader in the cross-border investment markets. We have a very strong business with high margins, strong global diversification, which is a key benefit for us. We've spent a lot of time over the last 12 months expanding our product range and expanding the online capabilities that we have, and that, I think, sets us up for strong growth going forward. And finally and critically, we've really been focusing on broadening the distribution that we have on those bancassurance-type relationships and some of the other things we've been doing on distribution to extend our footprint further.

So that's what I wanted to share with you, thank you. I'm now going to ask Peter to join me and Paul, for some Q&A.

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Kevin Ryan, Investec

Could I ask a question about the platform and could we have a little bit more of your thoughts around what further investment might need to be made in the platform in the future just to keep it current and doing what you want it to do. And on the other side of the coin, what are your thoughts around the IFAs ability to pay the fees you want them to pay to use that platform?

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Peter Mann, Managing Director, UK

So, in terms of investing in the platform, the platform carries out currently most of the functionality that a typical advisor who has segmented his community in a manner will allow them to do. There are clearly one or two things that we don't do, so once we've got the platform compliant, what we will look to do is we will look to build out into perhaps ETFs, investment trusts, DFM capability, those kinds of things and we'll try and do that during the course of 2013.

But broadly when your target segment is investable assets of somewhere between £100K and £350K and that's where your IFA market is targeted, I think it does most of the things that it needs to do. And one of the things that I've always said is a key strength of the platform is that it just works. So one of the measures that we ask our IFAs to consider is if you look at / regularly, routinely review, as the FSA requires you to, your platform of choice, one of the key criteria must be: when you turn the machine on, does it work? And ours does, so I think that that's important.

In relation to the IFA, what particular aspect of the IFA?

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Kevin Ryan, Investec

Well I have this awful feeling that post-RDR there isn't going to be as much revenue flowing into IFAs as pre-RDR. I'd be amazed if there was anything like the sort of revenue some of these firms are seeing.

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Peter Mann, Managing Director, UK

Okay, so your original question was around what will make IFA or give IFAs the appetite to pay our fees but you're concerned about the revenue that they'll have in order to do that.

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Kevin Ryan, Investec

My concerns is the profitability of the platform, given what I would imagine to be a reduced ability of IFAs to pay any sort of fee, any fee in which you might wish to charge them to make a profit.

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Peter Mann, Managing Director, UK

Two aspects of that - there is no evidence to suggest or there is no surveys to suggest that the accessible potential, i.e. the demand for advice is getting any less. And actually as customers become more cognisant, the advice demand seems to be growing. So, if one assumes that, whatever the number is, it doesn't matter but if one assumes there are less advisors post-RDR than there are pre-RDR and the number, the estimates vary, then one could reasonably assume that the pool for each advisor should be greater and therefore their ability to generate revenue for customers should be greater. So I don't fear that that's the case.

Also, when you take the platform charge and ours as an example, and you match it across to the current total cost of ownership, the total cost of ownership in the future is not markedly different from a client's perspective from the total cost of ownership currently, it's just segmented in a different way. So, the IFA when presenting to the client will not present his fees exclusively, what they will do is present total cost of ownership, which isn't markedly different from what it is now.

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Jon Hocking, Morgan Stanley

I've got two questions please, more for Peter. What do you think the chances are that customers are going to be confused by the RDR implementation? If you've got restricted advice, aren't we just back in the mess we had before with polarisation, depolarisation and do you think it's clear what the customer is paying for post-RDR, that's the first question? The second question - with the Isle of Man business, Royal Skandia, where are we on the branding of that and is this all running of the same platform as the UK business or have you got separate processing hubs for all these different businesses?

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Peter Mann, Managing Director, UK

Okay Jon, thank you very much for the first one, particularly as we have our colleagues from the FSA in the room. So, I think customers will have the opportunity to understand more clearly where the various elements of what they are paying for are divided out. So, the three constituent elements will be the price of advice, the price of the product or service and the price of the investment. And if clients are really genuinely interested in understanding what those elements are, then the opportunity to understand them is greater now, I believe, than it ever was in the more opaque environment that existed pre-RDR.

So, if you look at that particular objective of the RDR, yes. Will they immediately understand it? No, because it will be a process. One of the things that we did do was we commissioned somebody to do a survey of customers on our behalf which we subsequently presented to the FSA, and what is clear is customers do have the ability to understand the different elements of the charge and associate them with different parts of the process.

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Steven Levin, Managing Director, International

There's one other aspect of your question as well on the Isle of Man. In terms of the branding, the Isle of Man businesses are being rebranded, as all of our businesses are, from Skandia to Old Mutual. Our international businesses are going to be called Old Mutual International but we've said that that will take about two years for us to do to complete that rebranding process. And then you also asked about processing, we have separate processing hubs in the Isle of Man and the UK and we need to for the business that we write there.

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Greig Paterson, KBW

Two questions. I just want to know if you can pick apart your comment about reorganising distribution, I noticed there was some sort of high profile distribution managers leaving your group. If I just, maybe I'll forward a few pages in the presentation, I noticed that there's a requirement to increase the Funds under Management quite dramatically and my biggest concern is that you're actually losing basically parts of your distribution with this cost cutting exercise. So I just wondered if you could give us some colour on what you mean by reorganising distribution because that's a key concern for me?

The second one is for Steve. I noticed that Nick and Co at NIMG have put that slide together and it shows that Africa is going to grow at 24% per annum, I mean, South Africa, it's the bulk of Africa and has a very large penetration as a mover from life to unit trust, there's a move to offshore. Do you buy that 25% CAGR in Africa or do you think it's; I just can't see how they've come to that conclusion?

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Peter Mann, Managing Director, UK

Okay Greig, point one. We aren't reorganising distribution, distribution will reorganise itself in the most appropriate manner. What we're trying to do is we're trying to look and say okay, so what are the choices that people might make and what are the areas of our business that we most want to influence and develop and grow. And what we're doing and are in the process of doing, is aligning our sales force behind those business imperatives and also those things which we think that we can extract most value from in the future.

What businesses historically do is they tend to give a business consultant to somebody in Birmingham because they happen to be in Birmingham, well that actually isn't the decision they've made, the decision they've made is the type of business they want to be. So, if you think more carefully about what type of business they want to be, you would almost naturally reorganise your distribution capability to match the type of business that they want to be. Does that answer that?

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Greig Patterson, KBW

I noticed, I don't want to put names to it but a long established pillar of that distribution of practically of the most distributors in the country, it's been trends, etc., etc. and there was some other reorganisation, I'm just trying to understand. To me, it appears it's going to be a risk to your high value relationships - I understand what you're saying, that you've sort of decided that IFAs need to organise themselves differently now and hence - I don't know if this …

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Peter Mann, Managing Director, UK

Okay, so yes, IFAs are going to organise themselves differently over a period of time. We are confident of two things; first of all, in terms of number of people facing off to the intermediated community in the retail space, we expect to continue to have amongst the highest numbers of people of those people who distribute in our arena and we're committed to doing that. And secondly, we feel it's appropriate to talk to them about how their business develops and how their business grows and that's what we're aligning the sales force for.

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Steven Levin, Managing Director, International

If I could just then pick up, Greig, your question about Africa. So, I don't have the exact numbers in terms of the breakdowns of where the growth in Africa is coming from but certainly you're right, the growth in South Africa is going to be a lot lower than that number but there is significant wealth and very fast growing in the rest of Africa. And you can imagine that the wealthy in Africa really want to externalise their assets, if you're talking about markets like Kenya and Nigeria, whole regions of East Africa and that's, where I think a lot of the growth is going to come from.

And interestingly, also within Africa, if you go into Africa at the moment you find that there's sort of South Africans that are working and sort of other western nationalities maybe working in Africa, in terms of expats, they will be looking for these types of solutions. There are some wealthy business owners who are looking in places like Kenya where we've got our operations, we see these guys and they're looking for solutions for their assets. And then there are a huge number of Indian and Chinese expats in Africa who come to Africa and we have, in our client base in the Middle East, for example, non-resident Indians are a big population of clients in the Middle East and there is a huge number of people like that in Africa as well and those guys look for offshore solutions for their savings. So I think that there is going to be very strong growth coming out of Africa.

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Ed Houghton, Sanford Bernstein

I have a question in respect of D2C. So what are your, well firstly, how do you see the D2C platform market developing and what are your intentions in respect of it?

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Paul Feeney, CEO, Old Mutual Wealth

Maybe I can take that. I think it's likely to grow just along with all the other platforms, retail advised or direct will grow on a platform basis, I think your own research shows that, actually Ed. So, from our point of view, one thing that we mentioned we were doing was connecting more digitally with our clients. So I don't think there's any business in the whole of the market, not just our industry but almost any industry you can think of that isn't thinking about this at the moment, that isn't looking at this. If it isn't, it's probably not going to be in business in 10, 15 years' time.

So, we're doing it too but we're not doing it as: gosh, forget that market, we're off to this market; we're doing it so that we can connect and be a part of that growth. But there's going to be increasing, we see it in the market now, increasingly orphan clients, clients that it's going to be difficult for IFAs to deal with, clients that are already on our books. So our first approach will be to look to see can we provide those clients with a financial advisor where they need them, or if they want to simply interact directly, they want to interact and do their own finances we have to give them the ability to do it. If someone wants to come on, switch funds, buy funds, what have you, they have to have the ability; first, we have to have the ability to do that.

Now, I think we've been somewhat timid about this, it's not about disintermediating our market, it's just about being in the 21st century.

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Peter Mann, Managing Director, UK

Could I just make two very quick and small additional points to that? One of the things our customer research has shown us quite clearly is that historically, people would have been quite binary in their decision-making process, they would have been an advised customer or they would have been a direct customer and that was the kind of mindset that existed.

There are much more, particularly in the 55 to 65 year old bracket of “of customers” who are now “and customers”, so they're taking advice on the more complicated tax matters which is appropriate, and they're executing on the more simple.

And the second is, in an advisor charging environment, there are some transactions, and I always use the annual ISA or PEP as an example, where in your advisor charging structure, you may not be able to execute that business profitably but you may wish to maintain a single view of that business. So, in connecting the IFA with their customer, they may well ask us to transact that business on their behalf, give them a single view, -and then they will be able to maintain the relationship with the customer and transact with ourselves. Clearly the impetus must come from the advisor but it's right and proper that we should execute on their behalf with their permission.

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Colin Simpson, Goldman Sachs

Question for Steven, please. What do you think are the impacts of the impending tax legislation changes on, say the QROPS, is going to have on the business? I think you can no longer cash in 100% or something, it's limited to 30%, is that not a big impediment to future sales?

. . . .

Steven Levin, Managing Director, International

I don't think so, that change is actually... you call it an impending, that rule has always been there. It depends on where you actually live when you retire and you take the money out of a QROPS, there were some markets where you were allowed to take out 100% but that was always frowned on, because that's been against the spirit of the QROPS-type arrangements. But in reality, that's actually not the bulk of the markets where clients are actually retiring, it's only been in a few where it's been allowed and New Zealand QROPS solutions are the ones that have been allowing that as well.

Now, that's not in any way how we marketed and positioned any of our offering and I don't think it's really affected the market. What we saw is earlier this year when the HMRC revised the panel, there was a period of about 6 months actually when there was a big lull in sales because there was a lot of uncertainty. Since then, the panel has been finalised and so Guernsey does not have any QROPS solutions but Malta and the Isle of Man are jurisdictions that are the most popular at the moment for QROPS offerings. And we don't ourselves actually build the QROPS trusts we work with, there are professional trustees who do this, we provide the portfolio bonds that go inside it, inside the retirement vehicles.

But what we have seen in the last few months is we've seen QROPS sales pick up very strongly again, so it was almost like there was a period in the market where advisors sort of waited because they weren't sure what to do but the rules have been clarified and it's just certain jurisdictions where QROPS are no longer supported from; but others, it is absolutely fine.

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Colin Simpson, Goldman Sachs

And you've done the Gibraltar solution or something, is that right, the Gibraltar solution or something that you've put in place.

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Steven Levin, Managing Director, International

We work with a panel of QROPS providers, so we actually have about 5 or 6 different QROPS providers, some of them are in Malta and some of them are in the Isle of Man, the ones that we tend to work with.

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Paul Feeney, CEO, Old Mutual Wealth

Time for one last question before we break.

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Blair Stewart, Bank of America/Merrill Lynch

A couple for Peter, I think. On Slide 50 you showed a breakdown of your estimates for the revenue opportunity, I just wondered how much confidence you've got on that 95 to 100 bps and how you expect that to be split down into the various subcategories? And the second question is; I guess the platform has prided itself on its open architecture, etc, etc, and I just wonder if the move to get more of Old Mutual managed assets on the platform is something that provides any conflicts for you?

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Peter Mann, Managing Director, UK

On Slide 50, under each of the segments, what I should probably have done is broken down how I see the movement in 2011 to 2015 in asset management, manufacturing, product packaging and platform administration. Clearly the platform administration element will come down because we've announced that charging structure and our charging structure will move that down. So probably the normalised average on that will be something like 28, 30 basis points.

But in the products and the packaging solution area and the asset management manufacturing area, I don't see, and Julian may want to comment, I don't see much pressure, I don't see much pressure to bring those margins down or to bring those gross margins down. So I think the accumulated total is reasonable. And if you look across there, the number now is between 115 and 120, so there's - I'm a non-accountant but the sum of the three across the bottom.

So I think it will come down marginally but I think most of it is in the platform admin space, which actually strengthens our commitment to become a wealth management business because that's where much of the margin flows.

Why do I think, I'm not necessarily sure that I agree that we have marketed our platform and that our platform's success has been on open architecture because actually, we've never been an open architecture platform in the truest sense of the word. So, if you take Transact as an example or Nucleus as another example, they're true open architecture. We've always had the in-house capability to not put and have not put certain funds on our platform, and a good example is Arch Cru where we did some research, we found that we didn't like the structure of the funds so we didn't permit them space on our platform.

So, there are a number of funds every year that are represented to us that don't make it onto our platform. So, I don't think OA has always been our benefit, the essence of OA is where we are but I genuinely believe, not because we're doing it but I think because the community are receptive towards it, I think more guided architecture will become the norm as IFAs focus on the advice-giving process and more and more farm out the investment process.

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Paul Feeney, CEO, Old Mutual Wealth

And I think just one, maybe as a stretched analogy but we talk about funds supermarkets but most of the platforms have been fund warehouses. If you go to Tesco's and products don't sell, they don't stay on the shelf. So basically a lot of the platforms have warehoused product, they've not really looked at, they've not really been a supermarket in the sense of what we understand actual supermarkets are. So I think going forward, the ability to just warehouse product is getting less and less.

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Blair Stewart, Bank of America/Merrill Lynch

Perhaps to ask the questions a slightly different way, there's obviously a drive from the Old Mutual to get more of the manufactured products sold on the platform, presumably they've always been there, they just haven't sold. So what changes from your perspective to get those things sold?

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Peter Mann, Managing Director, UK

So what changes, Paul will probably answer that from a product perspective, can I answer it from an intermediated perspective? I think what changes is the appetite and the desire and the proclivity of the intermediated community to find solutions that they didn't create themselves.

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Paul Feeney, CEO, Old Mutual Wealth

And I think, you say that the products have always been there, actually very few products have been there because in terms of investment proposition, it's really been Spectrum and that has sold. But if you take even our asset manager, OMAM UK, it really has not in the past been focused on Skandia's business, it's been more predominantly externally focused on, in fact it reported into the States. So, I think there's been different focuses for different businesses, I think what we're doing now is just providing a single focus and a single team and a single objective.

Okay, we're going to cut there for about 10 minutes to get a cup of tea or a cup of coffee and if you could come back, we're going to hear then from Mark Satchel, our CFO as to how this all comes together in the figures.

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Paul Feeney, CEO, Old Mutual Wealth

Thank you ladies and gentlemen for again coming back promptly. So what we're going to do now is we're going to hear from my Chief Financial Officer, Mark Satchel, about how all this comes together. And he's going to try and break down for you the individual components of our strategy from a financial perspective. So pencils at the ready, Mark.

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Mark Satchel, CFO, Old Mutual Wealth

Thanks Paul. Good afternoon everyone, so as Paul said I'm going to demonstrate the value that will be created by Old Mutual Wealth and show how profits can be doubled within a three year period, more or less. But before I do that, what I thought I'd just quickly remind you of, and Paul Hanratty had a similar slide up earlier, was really just some of the progress that we have made within the business.

Three years ago we set ourselves a target of achieving a £45m cost saving, as well as delivering a return on equity of between 12 and 15%. And those financial targets have been delivered on. But what's the most pleasing for me is the improvements in the underlying quality of the earnings that have taken place over that three year period, as well as the return of just over £400m of cash over those three years, which is a significant achievement.

Our businesses are highly cash generative and the manage for value strategy in particular will allow good conversion of future profits to cash flow too. So what I thought I would do, and some of you have probably - or evidently - paged forwards in the packs to sort of see some of the analysis that I have provided, I thought I would deconstruct our Wealth profit at the half year, the 2012 half year, to give an indication of where I think we'll be in three years' time.

And I've broken the business down into three components; we've got the core "invest and grow" components and you've already heard from Peter, Julian and Steven on the businesses that make up the "invest and grow" component. And then we have our two "manage for value" strategies and I've split those between the heritage book of business, so those businesses that are closed to new business and the "manage for value" open books, which are the markets in which we remain open to new business because the financial dynamics from those businesses are quite different and I think it's easier to explain it separately, rather than on a combined basis.

So if we look at the core business; this consists of the UK onshore markets and on this particular slide I've combined the platform and the personal protection business; on one or two of the later slides, that gets separated out again. It also includes the Old Mutual Global Investors, the asset management business, as well as the cross border international markets, which includes the offshore business sold in the UK.

This is the bulk of our existing business with the majority of our existing Funds under Management. Overall, the business is profitable with a return on equity of 12%, but you can see for yourself the different components that contribute in different ratios to the overall position. And the success of this business going forward is going to be delivered through product development, and you've heard quite a bit about product development, the increased share of funds on the platform being managed internally, cost efficiency and maintenance of profit margins in the offshore markets within which we operate.

Still staying with the "invest and grow" part of the business; the slide shows the margins in the core business really demonstrates how I expect the operating margin to pan out over time. Now why the operating margin? Well, I think it demonstrates the underlying quality of the assets and the revenue generation capability of those assets and it demonstrates what's a good measure of our movements to the vertical integration of becoming an asset and wealth management business.

Over here, I've defined the operating margin as the pre-tax profit divided by the net revenues or the net contribution generated by the underlying funds under management after we've removed external commission expenses and made similar deductions. So the current operating margin for this part of the business is in the order of 21%. As we build out wealth management solutions and we increase the proportion of funds under management that we manage ourselves, we expand the personal protection products; we develop other new products and enhance our portfolio management capabilities. Over a three year period I expect that to add somewhere between eight and ten percentage points to the overall blended operating margin of this part of the business.

Paul spoke earlier and explained some of the changes being brought about by RDR and how we believe that that will provide us with a good strategic opportunity to tie with dedicated intermediaries that are perhaps offering restricted propositions. And we believe that that will add another 2 to 4% to the overall blended operating margin. If just 5% of our assets going forward are from these lines, that will add the 2 to 4% increase in operating margin that I've indicated on here.

We also are looking to consolidate IT systems onto new generation infrastructure. There will be some investment that is going to be required in the next one to two years in order to do that but that will benefit us in reducing both the run costs and our development spend. We expense rather than capitalise the development expenses at the moment so we'll have an immediate impact of that once we can actually get the benefit of that improved efficiency. If we take £20 million out of the UK platform cost base, which is what this 2 to 4% equates to on this slide which is about 20% of the total cost, that will generate the improvement in the overall blended operating margin that's indicated here.

We also operate in a growing part of the market and we're well positioned within that part of the market. You heard from Peter earlier on and indeed from Paul how well positioned we do believe we are within the UK market. And with the investment in infrastructure we'll be able to benefit from additional scaled benefits which we conservatively estimate would add another 4 to 5% to the overall blended operating margin which almost doubles the operating profit margin from where we are today for the core part of the business to 40% in about three years' time.

I know that you also have a keen interest in the UK platform profitability in particular, expressed in basis points, and on the next slide I've again kept asset management and the international business in year two. But this gives the basis point analysis of where we are at the moment in terms of the basis points generated, both in terms of revenue, expenses and profit from the different parts of our core strategy. We've previously said that the platform will deliver 50 basis points of revenue for 40 basis points of cost to deliver 10 basis points of profit which equates to an operating margin of about 20%. You'd have heard Paul earlier on saying that we expect to be delivering, in three years' time, an operating margin in excess of 30% on the platform standalone.

The new pricing that will be introduced in a post-RDR environment and, given some of the margin pressures, will reduce the overall blended revenue by probably somewhere between 8 and 10 basis points in time, or that's what we estimate. About half of that is the result of ongoing margin pressures. Some will come from the price changes we made back in 2008 to 2009 that are still working their way through the way that we disclose the revenues generated from the platform, and some is as a consequence of the post-RDR implications. But the other half of that is going to come from a larger proportion of customers paying a lower blended charge as a consequence of being invested in our wealth solutions. And the margin uplift from that is showing in the growth in our asset management business rather than in the platform on the slide.

But where we really will benefit going forward is from the scale and the cost reductions. I've spoken already about the £20 million cost to come out of the platform and from where we are today if we can build, and historically we have been able to do this, if we can grow funds under management at a 15% CAGR over the period and we have the cost reducing, a jaws impact starts to take place and we will see favourable platform economics resulting from that.

Within the asset management side of the business we see expenses reduced as we build scale and we've been prudent on the revenue basis points that we expect to earn from asset management in the future. Our offshore profit margins, we expect, will come under some slight revenue pressure going forward but here again we will benefit from increased scale so overall we'll end up in a similar net profit position when expressed in basis points to what we experience today.

Moving onto the “manage for value” strategies, and before I actually get into a similar sort of operating margin-type analysis for this part of the business, what I thought I would do is just focus in on the six onshore markets within continental Europe where we have business operations. So the vertical axis on this is our return on equity. The horizontal axis is the payback period expressed in years of the products. And I've averaged out some of these things over the last three years because each of these businesses have had some one-off events that may have skewed one or two of these metrics, but I've tried to bring it back to something that I think is a more normalised average for them.

You can see that in the businesses that are one the right hand side of the graph; in Switzerland which we've already announced, we announced last year, is closed to new business, and in Austria and Germany which will be closed to new business by the end of this year, all of those businesses have attractive return on equity but all of them have had products that have created quite a large upfront strain and that in part has been part of the reasoning or the logic that we've looked at to actually operate those businesses on a closed book basis going forward.

The size of the bubble is indicative of the size of the value of in-force that we have in those businesses, and just to give an example or just to give you a sense of perspective, if you combine the VIF of Austria, Germany and Switzerland where about half a billion pounds is captured within that and that just gives an indication of the cash generating capabilities that this part of the business does have for us in the future.

In Poland we have a good return on equity and we have good payback periods also. In Italy we're seeking to improve the return on equity as Paul explained earlier on, and in France we're aiming to generate a profit in the near term. In all of these markets we will be seeking capital efficiency and a return of cash over the next three years.

So if I just go back to look at the “manage for value” strategies with the heritage books. So this now includes the UK single premium book as well as the regular premium books in Germany and Austria and Switzerland. So these are the legacy books that we are managing for value. The return on equity generated by these businesses is good and obviously with the European heritage part of this business we'll continue to collect premiums on these books of business for another 15, 20 or even more years still. The focus here is on unit cost efficiency, generating profit and extracting cash. And at the moment, if I look at the margin on these businesses, it's currently very good. That shouldn't be surprising as these are typically older generation products with upfront commissions and relatively high overall cost to the customer. As these books run down we will reduce the costs attributable to this part of the business and we anticipate that the UK legacy book will run off at about 12% per annum in the long term and that the back books in Germany, Austria and Switzerland will run off at about 6 to 9% per annum.

In Europe we'll improve the margin through removing the acquisition costs previously attributable to the business when it was operating as an open book. And in absolute terms that, as well as the other cost reductions that we intend to make within these books of business as we convert them on a closed book strategy, should deliver expense savings of about £35m within a three year period. And as I said earlier, about half of that will be achieved through the removal of sales and marketing activity and then the other half will result from customer servicing and IT cost reducing and from administration and overhead reductions.

If I look for the manage for value open books, and as a reminder this consists of Poland, Italy and France, and I've included in here for the purposes of the half year comparisons the Finnish branch that we sold earlier on this year, these operations aren't core to our strategy, but they either do currently generate reasonably attractive returns or have the potential to do so. We tend to operate in niche market segments in these markets and the opportunity for dominance in those markets is limited without significant investment. The collective assets of these markets is not material overall within the context of Old Mutual Wealth and we do need to improve the overall profitability in the short term and we have plans to do so.

So in the medium term, and Paul has already commented on this earlier, we will generate a profit in France and have plans to do this. Italy's return on equity we will get up to the 12 to 15% range. We'll maintain our position in Poland and increase the profitability of that business. And the whole while we'll be looking to contain the capital investment requirements and generate a dividend from these parts of Old Mutual Wealth. The current margins will improve and we will reduce some of the development spend that we have historically committed to these markets. Efficiency and scale will also lead to further margin improvements and collectively we'll increase the operating margin over the three years for this part of the business to about the 30 to 40% range.

So if I then try and bring all of this back together for the Old Mutual Wealth business overall and using different levels of funds under management down the vertical axis and operating margins across the top and assuming that revenues continue to average out at current levels, then what I anticipate to be achievable in three years' time is really in the shaded area of this box. At the half year we had funds under management that averaged a little bit over 60 billion of funds under management and an operating margin in the region of 30 basis points. And assuming that we can generate cumulative Net Client Cash Flow of £8bn / £10bn over the next three years, which historically we have been able to do, and plus an assumption of reasonable market growth but nothing heroic, means that our range in terms of funds under management in three years' time should be around the 80 to 90 billion mark, and I think I've already demonstrated to you why we believe we'll be able to operate at somewhere between 40 and 50% in terms of operating margin. And that's how it will be possible for us to double profits in three years' time.

So, in summary we're in the process of unifying the business into one and this will drive efficiency and cost gains. We'll simplify the business and manage some parts of the business for value rather than for growth. We'll grow and develop a vertically integrated wealth and asset management company. This will generate shareholder value and will ensure a continued return on equity in the 12 to 15% range and improve the overall operating margin to more than 40%. I'd like to hand you back to Paul Feeney for his closing remarks at this stage. Thanks.

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Paul Feeney, CEO, Old Mutual Wealth

Thank you Mark. Well I'm only going to take a moment on closing remarks because then we're going to open it up to questions. I am going to ask Mark and actually Jeremy as well, our Chief Operating Officer, to come up and take a chair.

We started off this afternoon by saying, well I started off by saying I wanted to leave you with three messages. One was that we can significantly grow the profit and profitability of this business. We believe, I believe, we can double the profits of this business over the next three years. We've tried to show you how we can do that and we've tried to pull it down in terms of the individual financial components.

Secondly the way we're doing it is the strategy actually is a pretty simple strategy, there's nothing heroic or particularly creative about the strategy we're putting forward. It's about unifying, simplifying and growing our business.

And finally the business that we are creating, and we're not just starting to do this, we're already well underway, is to create a modern vertically integrated wealth management business with strong asset management at the core. And I hope... what we've tried to do this afternoon is give you some idea of things we've already done to get us there, either on the asset management side, on the investment solution side, on the reengineering side of the business.

So that's our goal, that's why we've put the team together and that's the aspiration that Paul Hanratty has set for this business. So maybe I can ask Mark to come up and Jeremy, do you want to, and Jeremy hasn't had a speaking slot today but …

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Jon Hocking, Morgan Stanley

Just three questions please, on the aspirations for the margins, am I right in thinking that effectively what you're saying is you're going to keep the cross border margin where it is, you're going to take the asset management margin above the 40% and then the UK is going to be sort of fixed, but it's going to be below the 40% target on a discreet basis? That's the first question.

Then the second question; on the European businesses, you know, have you thought about disposals here rather than just putting them into run off? And then finally on the businesses that you haven't put into run off, sort of France, Italy and Poland, why not, they seem to be pretty small, surely they're a bit of a distraction, is there a way that you could get capital out faster by closing them?

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Mark Satchel, CFO, Old Mutual Wealth

The answer to the first question is I think yes, the second - do you want to take the second and the third.

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Paul Feeney, CEO, Old Mutual Wealth

So the first question was on the margin, the second question was based around Europe in terms of the amount of value in Europe. So I think would we consider disposals, look you know we're a plc-based business, of course we will. But at the moment we're looking at just making sure that we can get the best value out of the business by managing the business ourselves, but would we consider that. Like any part of our portfolio of course we would, we would consider that. But our intention is to manage the business for value.

And in terms of Poland, Italy and France, you say they are small businesses, you're right. They're different businesses, Italy and France are predominantly single premium businesses, so in terms of closing those businesses you couldn't really close the Italian business, I mean you could - but I think it would be a risk to just close the Italian business because it's got six main distribution channels which are the big six banks.

So I think it's not like - you know, that makes it front and centre in its distribution market - in its market. But it makes it more difficult just to do a closed book strategy in Italy. And why would we in a way because it is generating good flows. It can generate a return on equity in the range we want and it can do so next year and it can double its profits next year. No reason to close that business.

Poland has been a predominately regular premium business, just breaking into the single premium market. It is a business with a slightly different profile to the rest of our businesses, being more on the Central or Eastern European markets. But again, we're using the term manage for value, quite frankly Jon as well, because it does give us the opportunity to see what is the best approach for each of these businesses, but right now the strategy for Poland is to continue to grow profitably in Poland.

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Greig Paterson, KBW

Just in aggregate this point you're making - what is the sterling amount of costs you're planning to cut and as a percentage of revenue - as a percentage of the expense base, because you were sort of isolating bits here, I just want to know the aggregation?

The second one is - and I find it quite useful is Standard Life gives the sort of aggregate that they are going to spend per annum on product development systems, blah, blah, blah. And also listening to you, you said, we're going to spend it here, we're going to back a bit of here, I was just trying to see what is the aggregate budget for product development and IT in aggregate every year, the run rate or whatever?

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Mark Satchel, CFO, Old Mutual Wealth

In terms of the overall cost base we're running at the moment we - our annualised, or if you have to extrapolate out our half year cost base we'd probably be at just a little bit over £400m for this year. And within that, over a two year period we're looking at somewhere sort of between about £65m, £70m of that cost base would be what we'd be looking to reduce it by. And that's a mixture of the closed book strategies in terms of taking out costs there from businesses that we're scaling back as well as other cost productions that we'd be taking out of the business overall. But it will be over a period of time.

In terms of the actual development …

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Greig Paterson, KBW

400 is ex commission?

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Mark Satchel, CFO, Old Mutual Wealth

Yeah, excluding commission, so that's just the administrative expenses in terms of what we have internally.

In terms of the actual development spend that we incur, I mean I think different organisations probably have different definitions of what their development spend is. But we're looking for a run rate and this isn't all just platform because this will be other stuff that also get to development, but overall in terms of development spend we spend about £40m to £50m a year on development activities.

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Colin Simpson, Goldman Sachs

If we take the £300m and try and get to sort of a cash number, we've first got to come up with a tax rate which has always been quite confusing with Wealth Management. What would you say is a sort of normalised tax rate in 2015 given the split of business that you're going to move towards?

And then secondly, what difference is that post tax number to something that could be dividended - up, just from a technical perspective, not from a sort of, what you would want to do?

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Mark Satchel, CFO, Old Mutual Wealth

I think a tax rate - a good rule of thumb to probably use at the moment would be round about 20%, you might be a little bit above that you or might be a little bit below that, but that sort of order of magnitude is probably as reasonable as any other. And there's a time lag often between when we generate the cash, or when we recognise it at least for accounting profits compared to when we actually get the dividend out. So there's always going to be some moving parts when it comes to that. But I think again, if you're looking for a rule of thumb I think you're probably looking at about 75% of the profit, I think you should have a fair degree of certainty around having the cash and being able to get dividended back.

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Colin Simpson, Goldman Sachs

Thank you.

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Eamonn Flanagan, Shore Capital

Can I take you right back to one of the first presentations and Paul I think at the end that you suggested that you may well invest in an IFA, is that correct?

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Paul Feeney, CEO, Old Mutual Wealth

Well I don't think we're interested in buying IFAs if that's - what I said we'd be open to doing, looking at and we are looking at, is there's different parts of the market. So for those businesses that have determined that they do not wish to be an IFA, so they wish to basically provide a restricted proposition, more of a tied restricted proposition and where they're looking for, if you like, wealth solutions to do that, those are the sorts of businesses that we would be prepared to consider helping to grow and invest in.

In other words it's basically putting down - quite frankly it's putting down a marker for the part of the market. What I don't want to do is just go out and buy IFAs and you won't see us doing that.

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Eamonn Flanagan, Shore Capital

Yeah, I'm just wondering what do you see that you're getting from that investment, is it a switch of their funds into your solutions here, or is that …?

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Paul Feeney, CEO, Old Mutual Wealth

I think it will be a symbiotic relationship and hopefully symbiotic with - you know, definitely with the client. So basically what do they need and what do we need? We have got and we are building wealth management solutions, they have decided that they know how to run, if you like, a financially advisory force. So instead of us having to run a financial advisory force they're running a financial advisory force, we're providing the wealth solutions. They have a client base that they've segmented and identified which fit these solutions. I mean I'm jumping forward a bit, but …

. . . .

Eamonn Flanagan, Shore Capital

Yeah, I'm just wondering what our friends at the FSA would think, if all of a sudden you see a wholesale switching of the funds into your propositions after you invest in them or buy them? And if you don't see that... I don't see why …

. . . .

Paul Feeney, CEO, Old Mutual Wealth

But why would that switch any funds, that's - these solutions are new solutions, so if they're providing - if they are growing their financial advisory force then it's new solutions to their clients. So I think there's one thing - we believe this market is going to grow. We've seen - you know we've seen that from the different surveys and studies, and we're seeing it ourselves, we know it's growing. So there's - we want to capture a greater share of that.

So providing those wealth solutions to a financial advisory business which are fast growing but have decided they're not going to be open market businesses, because - one of the reasons there is; if I go and buy an IFA, I'll probably have made it even harder for that IFA to do business with me. It's almost I've shot myself in both feet, so I don't want to do that.

. . . .

Eamonn Flanagan, Shore Capital

Okay thank you.

. . . .

Blair Stewart, Bank of America/Merrill Lynch

Just wondered, you've implied that you can practically double your AUM over the next three or four years and within your matrix that gets you to your £300m number, what's the assumption with regards to how much of that new AUM is managed by Old Mutual?

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Paul Feeney, CEO, Old Mutual Wealth

Well first of all we haven't said - we've said we'll double profit, I haven't said we'll double AUM. So our AUM as it stands today is about £67bn and we're talking about our plans... you can decide yourself, £80bn to £90bn let's say, so that's not a doubling of AUM.

. . . .

Blair Stewart, Bank of America/Merrill Lynch

I was meaning it's a doubling of the part of the book that you're looking to grow.

. . . .

Paul Feeney, CEO, Old Mutual Wealth

Oh right, so within the asset manager we think we can double, yeah we do think we can do that. The asset manager right now, don't forget, has only got £13bn AUM. So we think we can do that and we think we can do that by two things, one is I think Julian showed there are parts of the book which are already within the asset management business which are sub-advised on a discretionary basis within that business, if we have the right capabilities and if we have the quality to do it.

The second element is capturing the flows from the wealth solutions. So on those two areas we believe we can do that. So I think one of the points that Julian showed was we're not looking at heroic assumptions here, we're just saying if we can go from 10% of Wealth's asset base to 20% of Wealth's asset base, that does it. That's pretty much it.

So now our plans show quite frankly we believe we can do more, we believe we can do that and probably more than that. But that's what these plans and doubling is predicated upon.

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Alan Devlin, Barclays

You're targeting to double profits and to double margin from cash generative businesses, but the ROE targets are actually the same and if anything they're going to come down, why is that?

. . . .

Paul Feeney, CEO, Old Mutual Wealth

I've just got to get a bit of leeway somewhere - but [laughs]. We believe, we do believe if you look at our targets that we can be at the top - further up the top end of the ROE range, if not better. So at the end of the day, we have to look at this and say - if we came to you and said "this is it, and this is - gosh if we pull every plug out and everything right, this is what we can get", then that's not much of a predication.

So I think we're saying that we can keep our return on equity, that is our target return on equity, if we're within that, or towards the top end of that we believe that will be fine. We think we can do that, I mean you know it's a function of costs and a function of revenues and efficiently managing capital. And I think, probably to begin with we did have a higher range there and we pulled it down a bit.

But I think that's what we we're saying we can do - if you like, the promise to the market is what we've put up here. If we can do more we'll do more.

. . . .

Greig Paterson, KBW

This is a sort of technical question. I mean the way I see it is the bulk of your capital is actually backed by DAC, deferred acquisition costs, I was wondering when do you have to - because you're closing down a lot of businesses and if we just sort of listen to Resolution when they did something they wrote off - effectively wrote off the DAC immediately, I was wondering when you come up for an assessment of the DAC at the end of the year is there a potential risk for write down?

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Mark Satchel, CFO, Old Mutual Wealth

It will come up at the end of the year but I'm not expecting that there's going to be a DAC impairment as a consequence of the activity that we've performed.

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Greig Paterson, KBW

All right and you've done some testing around that, what you think the attrition rate is once your franchise starts deteriorating in Poland and Italy, etc?

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Mark Satchel, CFO, Old Mutual Wealth

Well Poland and Italy I wouldn't expect there to be any impact …

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Greig Paterson, KBW

Well let's say Austria and …

. . . .

Mark Satchel, CFO, Old Mutual Wealth

And you know a large chuck of the UK book we've had closed to new business for a while anyway. So you know there's not a big change over there. I mean there might be some moving parts in Germany in particular, but you know in the overall materiality of the MCEV, I'm not expecting there to be.

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Greig Paterson, KBW

Right, and so - and then you make these points about there's this flavour of capital efficiency, are you going to assess the amount of capital you need and upstream it, but I mean if it's all DAC, what assets are you going to actually effectively upstream?

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Mark Satchel, CFO, Old Mutual Wealth

No we'll continue to generate cash from the business because the existing book of business will generate cash …

. . . .

Greig Paterson, KBW

But you can't actually look at your current capital and say - we're going to upstream this because we don't need - it isn't actually cashed upstream?

. . . .

Mark Satchel, CFO, Old Mutual Wealth

Well what we can - what is cashed upstream will continue to be cashed upstream, but I mean in terms of the actual underlying assets that will unwind over time.

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Greig Paterson, KBW

So there's no stock of cash at the centre?

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Mark Satchel, CFO, Old Mutual Wealth

No, no not at the moment, I think this year we've taken out - I think Phillip, close to - not close to the last penny but we've taken out most of the excess cash that we've had in the business already.

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Paul Feeney, CEO, Old Mutual Wealth

Okay we're going to leave it there; I'm going to pass over to our Group CFO, Phillip, whom I'm sure you all know who will wind it up.

. . . .

Phillip Broadley, Group Finance Director, Old Mutual plc.

We promised to bring things to a conclusion to by four o'clock, which we will do. My thanks to the presenters, Paul, Julian, Peter, Steve and Mark. I hope that what we have demonstrated this afternoon is the material value that will be created to shareholders over the course of the next three years from this strategy. We take our asset base, we take our strength in distribution and we add to it the asset management capability that you've heard about together with the development of solutions and with that also concurrently further efficiency in operations. And that’s how we get to the delivery of value that we've spoken about.

There is no doubt that regulatory change and changes in terms of customer demand will lead over this period of time to significant change in the way that solutions are delivered to retail customers across the spectrum, from the private banks at one end, down to the low cost digital providers at the other. It is a period of significant change.

But it's also one in which I think there continues to be a number of factors outside our control, outside everyone's control who's operating within the industry. We don't lose sight of the fact that we're operating in markets both in Europe and in some of the emerging markets in which we're operating in which economic growth is low.

A number of our current and potential customers are repaying debt and there is pressure on real incomes. So everything that you've heard this afternoon is set against that backdrop. We believe we've been cautious in terms of our assessment of those economic factors, but they are there.

Paul Hanratty has put together the management team that you've heard from this afternoon, who've put together with this plan with the full backing of the Group Executive Committee and also with the plc Board. And we will commit to report to you regularly on the development of this strategy and how we achieve against our plans.

There have been 50 or 60 people on the webcast listening silently this afternoon, many of those are the analysts and investors in South Africa and you will have your chance to hear from the management team directly next week when they're down visiting.

A final couple of thank yous, firstly to the backroom team here that make these presentations work and make the technology work. And finally to you for giving up your afternoon to come and listen to us, I hope you've found it valuable. We shall see you again in this room on Friday the 1st of March for the full year results. And in the meantime we wish you a good afternoon and good evening.

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[End of Transcript]