

Old Mutual AGM 2014

Edited Transcript – Thursday 15 May 2014

P O'Sullivan: Welcome to the 2014 Annual General Meeting of Old Mutual plc. It's now just a little past 11 o'clock in the morning; a quorum is present so I can declare the meeting open. As you know I'm sure, most of you, I am Patrick O'Sullivan, Chairman of your company. I would also like to welcome our shareholders and others who are tuning into this AGM remotely through our webcast of today's proceedings. Let me start by introducing the directors who are here today. Alongside me on the platform, on my right, are firstly Julian Roberts, our Group Chief Executive, well known to you, Philip Broadley also, our outgoing group Finance Director, and Danuta Gray alongside Nonkululeko Nyembezi-Heita, two of our non-executive directors. On my left is Martin Murray, our Company Secretary, next to him Alan Gillespie, Chairman of the Remuneration Committee and our Senior Independent Director, and Roger Marshall, Chairman of our Group Audit Committee. In the front row are our five other non-executive directors and I would ask them to stand, if I may, as I name them, Mike Arnold who is Chairman of the Board Risk Committee, Zoe Cruz, our latest addition to the board, Adiba Ighodaro, Reuel Khoza, well known to many of you, and Nkosana Moyo.

As those of you who regularly attend these meetings and AGMs will have noticed, there have been a number of changes to our board since last year, with the appointment of Nkosana, Zoe and Adiba, and the departure of Bongani Nqwababa. I'm pleased with the progress we have made in increasing diversity on our board, a topic of particular interest in this country, and that we now have four lady non-executive directors. This has meant that we have achieved our targets for gender balance at board level two years earlier than the deadline we originally set for ourselves. And I welcome the additional perspective that all new board members have added to our deliberations. In addition, as you will have seen, we have this week announced the appointment of Ingrid Johnson as our new Group Finance Director. Ingrid, perhaps you'd be kind enough to stand. She will join our board in that role in July and succeed Philip who will retire from the board after a transitional period at the end of August. I'm delighted that Ingrid has been able to attend our AGM today and would like you all please to join me in congratulating her on her appointment.

[Applause]

We also announced earlier this week that our Chief Operating Officer, Paul Hanratty, will join the board as an executive director from July this year. Paul has worked for the group for over 30 years and has been a regular attendee at our board meetings over the past 18 months. We are very much looking forward to the additional contribution that he will be able to make as a fully-fledged member of the board. Paul would you also stand up?

[Applause]

It gives me great pleasure and perhaps a sense of regret to pay tribute to Philip Broadley, who, as I just mentioned, will be retiring as a director at the end of August. Philip, as you know, joined Old Mutual in November 2008 at the height of the financial crisis, and at a time when the group's financial position was under severe stress. During his time with the company he's overseen a return to the sound and stable finances you're group now enjoys. We are very grateful to Philip for his contribution and wish him every happiness and success for the future.

[Applause]

Let me turn now to some procedural matters relating to this meeting. The notice of this Annual General Meeting was included in a shareholders' circular posted to shareholders in early April. The resolutions that make up the principal business of the AGM are set out on pages 6 to 8 of the circular. Voting on each resolution will be conducted by a poll. All shareholders and proxies here today should have received a yellow poll card on their way in. If you did not receive such a card, and are entitled to vote, please ask one of the attendees to let you have a card now.

Once the votes cast on the polls have been counted and verified after today's meeting, we will report the outcome to the London and other stock exchanges where our shares are listed. We will also publish details on our website. Also on your chairs is this morning's press release containing our business update for the first quarter of 2014. Julian Roberts will make a brief presentation on this and also provide an update on current events. After that presentation, I will move on to the formal part of the meeting. There will then be an opportunity for you to raise any questions you may have; I propose to take questions then on all the resolutions, as a single Q&A session. Julian, over to you.

J Roberts: Thank you, Chairman. Good morning, ladies and gentlemen, may I add my welcome to everybody here this morning. This morning I'd like to give a short report on Old Mutual's performance in 2013, then give you an update on our first quarter performance which we announced this morning. Then I'll talk a little about our strategy for growth and how we are creating value for all our stakeholders.

2013 was another year of profitable business growth and strategic delivery. Against a continuing background of squeezed household incomes in our major markets, consumers still trust us to look after more of their money. Gross sales were up by 17% in constant currency at over £25 billion. Net client cash flows of £15.5 billion represented 6% of opening funds under management, our strongest performance since 2007.

Funds under management grew by 19% in constant currency and 12% on a reported basis, as market growth on the underlying investments was partly offset by weakness in the rand. Adjusted operating profit was £1.6 billion, up 15% in constant currency, although flat on a reported basis. And earnings per share of 18.4 pence was up 21% in constant currency, and 5% reported.

Based on these results and our strong capital position, the board is recommending a final dividend of 6 pence per ordinary share, or its equivalent in other currencies, making 8.1 pence for the full year. This is a 16% increase for shareholders on the UK register and, after currency conversion, a 43% increase for shareholders on the South African register. Subject to agreement today, the dividend will be paid at the end of this month.

Our good performance in 2013 has continued into the first quarter of 2014, so let me bring you up to date with a few of the highlights from the Interim Management Statement which we published this morning.

It was another excellent quarter for sales. Gross sales were up by 24% in constant currency, with Emerging Markets and Old Mutual Wealth up by 18% and 28% respectively. With that positive background, it was a little disappointing that overall group net client cash flows were half a billion pounds negative. This was due to a net outflow in the quarter at US Asset Management resulting from market volatility as well as uncertainty caused by management transition at one of our affiliate boutiques.

Excluding the US, net client cash flow was up on the same quarter of last year as a result of high sales volumes and it represented, on an annualised basis, around 5% of opening funds under management.

Continued weakness in the rand, and also in the US dollar, reduced funds under management by £2 billion, but this effect was more than offset by the positive impact of modestly rising investment markets. Overall funds under management grew by 1% in the quarter to £297 billion, we're almost at the £300 billion mark, but not quite. We expect that rand weakness will continue to be a challenge for our reported results this year.

We have also continued to make progress against our strategic objectives. In Kenya we have completed our acquisition of a majority stake in Faulu Microfinance Bank. We have received regulatory approval for the sale of our Polish business and announced the sale of our Austrian and German businesses, further simplifying the Wealth business.

In February we said that, as a bolt-on to Old Mutual Wealth, we would acquire Intrinsic Financial Services Limited; one of the largest networks of financial advisers in the UK. And we also announced that, subject to market conditions, we would move forward with an initial public offering of a minority interest in our US Asset Management business in 2014. So it has been, as you can tell, another busy, but successful, first quarter of this year.

Now, I want to take a few moments to show you an update of a slide that I used at the Annual General Meeting two years ago after we had sold the Nordic businesses of Skandia. Since then, we've also sold the Skandia business in Finland and, as I said a moment ago, we've received regulatory approval to sell Skandia Poland and announced our intention to sell Skandia Austria and Skandia Germany.

For those shareholders, and the pundits out there, who still question our ability to create value from acquisitions, just look at the figures on this slide. I think they show with great clarity what a good deal for shareholders our acquisition of Skandia in 2006 has proved to be.

Let me now move on to talk about how we plan to continue to create shareholder value. Over the past three years we have restructured and simplified our business, we've strengthened our capital position, we've enhanced our dividend. We are now in a position from which we can focus our attention more on a growth agenda, managing for profit, return on equity and shareholder value.

We are very clear that, ultimately, our success depends on our ability to provide customers with the products they need, the outcomes they expect from those products, and with service levels that make them feel valued. To that end, we have put customers right at the very core of our vision for this group.

We have a clear strategy; we are pursuing growth in four key areas. In South Africa we're aligning our businesses to enhance the growth opportunities that are available to us there, with a particular focus on retail markets where we're absolutely in the right space. We are targeting, in addition, in 2016 one billion rand of pre-tax synergies between Old Mutual Emerging Markets, Nedbank and Mutual & Federal on a run-rate basis from enhanced collaboration between those businesses.

Across the rest of Africa, we're concentrating on markets where structural growth is supported by positive economic, demographic and consumer trends. The key markets for us are Ghana, Nigeria and Kenya. These are fast-growing economies where

financial services penetration is currently low. Take Nigeria as an example; a population of 170 million people, forecast GDP growth for this year of over 7%, yet more than 80% of people still have no formal retirement savings. We are working hard to tailor our product offerings and to understand the needs of consumers in these key markets. But it is a great opportunity for our group.

In Old Mutual Wealth we are building a modern, vertically integrated wealth management business with strong asset management at its core. The UK budget statement delivered in March introduced radical change into the UK pension systems, and we are very well positioned to be a net beneficiary of those changes. We have no exposure to annuities, but are a leading provider of pension income drawdown and, with our product solutions, we are ideally placed to support customers with their investment choices.

US Asset Management operates in a market with enormous potential for growth. We believe that, with a separate listing, the business will have access to a broader base of capital than would be available to it from the PLC, and that this is consequently the best route by which the business can fulfil its potential.

Finally, and for me most importantly, you will see that we are now being very explicit about our commitment to being a responsible business. This is something we haven't talked about much in the past, but you will hear more from us in the future.

To me, being a responsible business is about making a positive contribution to society and, whilst this isn't just about financial contribution, that's an important element of it. As you can see from the figures on the slide, in 2013 we did indeed make a substantial contribution to all of our stakeholders. Successful execution of our strategy will ensure that continues in the future.

To conclude my remarks this morning I would like to acknowledge the hard work and commitment of our people that has helped us to deliver such good results. I'd also like to reinforce what the Chairman said about Philip's contribution over the time he's been within the group. Ladies and gentlemen, we have considerable strength and depth within our management which gives me confidence, and should give you reassurance, in Old Mutual's continued success. Thank you very much.

P O'Sullivan: Thank you, Julian. Now for the formal part of the meeting. Before putting the first resolution, I would like to deal with questions on any of the AGM resolutions as a single Q&A session. If you would please raise your attendance card and wait for a roving microphone before asking your question. Then, please start by giving us your name.

Louise Rouse: Mr Chairman, my name is Louise Rouse and I'm a shareholder but through a nominee service, so I'm technically a proxy today. I have a question about Old Mutual's activity in the public policy space. First of all, I'd like to say how pleased I am to see responsible business featuring explicitly as one of the strategic priorities for the company. I'm also pleased to see that the company recently signed the 2^o Communique which is calling on national governments to implement steps to tackle climate change. The next 18 months are crucial in terms of world leaders agreeing a political settlement on climate security; your responsible business report notes the high impact potential of climate change on the group. And it's essential that those companies for whom climate change policy is actually a good thing counter the voices of those who are arguing against it. So with that in mind, what are Old Mutual's plans for over the next 18 months actively engaging, beyond the very valuable contribution of signing communique, but actually dedicating corporate affair's department time, for example, to lobbying for the UK to negotiate heavily for a strong climate deal at Paris? Thanks.

- P O'Sullivan: Well, Louise, thank you very much. And as you probably know, we have an active programme in talking to governments and relevant NGOs about this very important subject. In South Africa, for example, we are heavy investors in renewables and we make a special effort to help with that particular challenge. You can be assured that our team here will be making relevant representations to the UK government as well.
- V de Souza: Good morning, Chairman, my name is Victor de Souza. I'm a long-time shareholder of many, many years from Africa; I used to be in Kenya. Now, my question is you have a lot of the board changes every year, different board directors, I think this year you're changing two directors. But, you said you've got five ladies on the board, is that true?
- P O'Sullivan: Indeed. If they would like to stand up, they will reveal who they are.
[Laughter]
- V de Souza: Oh yeah, one, two, three, four, five, very good.
[Laughter]
- V de Souza: Thank you, thank you very much. Anyway, I congratulate you on page 121, the performance TSR, in the Annual Report. I'm very happy to see the TSR, which was very high this year, 2013. What is the price of today's price of the shares?
- P O'Sullivan: 204 pence was the last price I saw this morning before I came down.
- V de Souza: Still low, isn't it? Don't you think so?
- P O'Sullivan: We think it's way too low, but I couldn't possibly comment.
[Laughter]
- V de Souza: Anyway, thank you, sir.
- P O'Sullivan: Thank you very much, Mr de Souza. Yes please?
- L Bonnie: My name is Mr Leon Bonnie, a long time shareholder. I have just three questions. There's a name here I can't pronounce properly but it starts with an N-K-U. Who is that? Okay, could you please answer this question? This is the first question to the woman direct, could you please answer the question? Does the election of Mr Zuma, knowing that we lost one of the greatest leaders in the world, make any difference to our performance in South Africa?
- N Nyembezi-H: Thank you very much for the question. Firstly, with elections in South Africa being so recent, this is a topical matter. As you know, the ANC has been in power in South Africa for the last 20 years. Mr Zuma has, in fact, been our President for the past five years, so his election this time round is purely a continuation of the policies that have brought South Africa to this point. Therefore, we see no impediment to our companies in South Africa continuing to do well within that policy framework.
- L Bonnie: Okay, thank you. That's very clear.
- P O'Sullivan: Thank you, Nonkululeko.
- L Bonnie: I have two other questions, and I think the Chief Executive can answer one. Last year when you brought up the share price and the dividend, I noticed Mr Roberts jump for

joy that the share price was £2. Now, how many days have you sustained above £2 since the last AGM, Mr Roberts?

J Roberts: I have to say I can't answer that, but I know somebody at the back of the room who will get that calculation for you.

L Bonnie: No, I'd like Mr Roberts, because you're the Chief Executive, you're the boss. I don't want a subordinate to answer my question.

P O'Sullivan: Mr Bonnie, may I just make one point very clear, the management of the company have a long-term view about the value of the group. We don't watch the price on a daily basis.

L Bonnie: You see, this is where the problem lies, I have a long-term view for this business as well, that's why I invested in it. I didn't invest in it because of my looks. Okay, I can tell you, if you want to know, as of today there is only about 60 days over the last year that the share price was above £2. The rest of the year, and I can tell you the amount of days, it was below £2. So wherever and whatever way you want to adjudicate this, the performance of the share you must be concerned about it. It's not performing, and though you're saying you're doing very well and how you're growing, and every year I come you say you're growing, but you seem to remain in a slump. The third question was, if the company was doing so well, why are you changing your board so often? There must be something wrong, it's just like you're having a regular divorce like Elizabeth Taylor, or somebody like that, isn't it? Can you answer that question?

P O'Sullivan: Yes, certainly. The board has a rotation built into it in the context of the period of time that each member of the board is a member, a full member of the board. And that is six years, with two periods of three with the potential for renewal thereafter to a maximum of nine years. So what you're seeing is just the planned renewal of the board which was something we committed to five years ago.

L Bonnie: This is an easy one for you, so I don't want to make it difficult here. Your peers, like Legal & General or Aviva, are most similar, their share price virtually went up 15% to 30% and their dividends, dividends, increased more than 30%, not 16%. You have the ability to answer that question?

P O'Sullivan: You have to look at our dividend over a period of time, and the fact that a substantial proportion of our earnings are in rand, which depreciated by 29%. So translated back into Sterling, that looked like a relative underperformance against those companies you mentioned.

L Bonnie: Thank you very much, that's all.

P O'Sullivan: Thank you, Mr Bonnie. Are there any other questions? Yes, sir?

T Sameke: Good morning, Mr Chairman. My name is Tim Sameke, I'm a bit concerned about the value of the rand. Is the company taking any steps, mitigating steps to address that very concerning issue?

P O'Sullivan: Thank you, Mr Sameke. I'll turn to our Finance Director, who will tell you our policy on hedging.

P Broadley: Thank you very much, Chairman. It's a great pleasure after five AGMs finally to be asked a question.

[Laughter]

P Broadley: Your question follows on actually quite neatly from the last question posed, because clearly the rand and its movement into Sterling has an impact on our performance as it is reported in Sterling terms. From the point of view though of our underlying businesses, our activities in South Africa, which are primarily conducted in rand, see us investing our customers' premiums and other investments in largely rand-denominated assets within South Africa. The capital position of our businesses similarly is determined in rand, and our capital soundness of our individual subsidiary businesses in South Africa is unaffected by currency movements. Our cash flow, which we bring out of South Africa to meet our dividend obligations, we do hedge that and we typically sell forward 15 months or so in advance of what we expect to remit. But in terms then of our capital strength at a group level, that's underpinned by hard currency capital in our businesses in Old Mutual Wealth in Europe, and our cash flows are underpinned both by the dividends we that we receive from Old Mutual Wealth in Sterling and also from the US asset management business. So we're very comfortably able to meet our debt obligations denominated in hard currency from those cash flows. We're also increasingly in a position where we look to actually pay part of our dividend in hard currency earnings. So from my perspective, ultimately, the actual exchange rate at a point in time is not within Old Mutual's control, that is determined by the markets for very many reasons. But what we can do is manage our capital in-country appropriately and we can manage our cash flows and hedge them where appropriate.

P O'Sullivan: Thank you, Philip. Are there any further questions? If there are no further questions, I will move on now to the formal part of the meeting.

As I said earlier, we will be conducting the voting by poll. For those of you who are shareholders, please fill in your poll card for each resolution as I refer to it. Corporate representatives should enter a direction on their directions card. David Creber of Computershare has kindly agreed to act as scrutineer for the polls.

Those of you who have already sent in proxy forms and do not wish to alter your vote need not complete a poll card. In fact, it will make the count of votes simpler if those shareholders who have already sent in proxy forms refrain from voting by card now. Each shareholder should complete one poll card for him or herself. If you have been appointed as a proxy, you should complete one poll card, for each shareholder for whom you have been appointed. If you've any queries on filling in your card, please raise your hand and a member of Computershare will be happy to help you.

On your poll card or cards, please fill in your name and shareholding, or if you are a proxy, the name and holding of the shareholder you are representing. Please clearly mark your votes "for", "against" or "vote withheld" on each resolution. Then sign and date your completed poll card. When completed and signed, poll cards should be placed in the purple ballot box as you leave the room.

I now propose Resolution 1, to receive and adopt the directors' report and audited financial statements of the Group for the year ended 31 December 2013. Please cast your votes on Resolution 1 by filling in your poll card.

I now propose Resolution 2, to declare a final dividend for the year ended 31 December 2013 of 6 pence per ordinary share in the capital of the Company on the register at the close of business on 25 April 2014. Please cast your votes on Resolution 2 by filling in your poll card.

In accordance with a recommendation contained in the UK Corporate Governance Code, the whole board, except for Philip Broadley, who is, as I mentioned earlier, retiring from the

board shortly, is standing for election or re-election today. I would like to propose Resolution 3(i), to elect Zoe Cruz as a director of the Company. Please cast your votes on Resolution 3(i) by filling in your poll cards.

I propose Resolution 3(ii), to elect Adiba Ighodaro as a director of the Company. Please cast your votes on Resolution 3(ii) by filling in your poll cards.

I propose Resolution 3(iii), to elect Nkosana Moyo as a director of the Company. Please cast your votes on Resolution 3(iii) by filling in your poll cards.

I propose Resolution 3(iv), to re-elect Mike Arnold as a director of the Company. Please cast your votes on Resolution 3(iv) by filling in your poll cards.

I propose Resolution 3(v), to re-elect Alan Gillespie as a director of the Company. Please cast your votes on Resolution 3(v) by filling in your poll cards.

I now propose Resolution 3(vi), to re-elect Danuta Gray as a director of the Company. Please cast your votes on Resolution 3(vi) by filling in your poll cards.

I propose Resolution 3(vii), to re-elect Reuel Khoza as a director of the Company. Please cast your votes on Resolution 3(vii) by filling in your poll cards.

I now propose Resolution 3(viii), to re-elect Roger Marshall as a director of the Company. Please cast your votes on Resolution 3(viii) by filling in your poll cards.

I propose Resolution 3(ix), to re-elect Nonkululeko Nyembezi-Heita as a director of the Company. Please cast your votes on Resolution 3(ix) by filling in your poll cards.

I would like to call on Alan Gillespie to propose Resolution 3(x), which is to re-elect me as a director of the Company.

A Gillespie: I have pleasure in proposing Resolution 3(x), to re-elect Patrick O'Sullivan as a director of the Company. Please cast your votes on Resolution 3(x) by filling in your poll cards.

P O'Sullivan: Thank you, Alan. I propose Resolution 3(xi), to re-elect Julian Roberts as a director of the Company. Please cast your votes on Resolution 3(xi) by filling in your poll cards.

Moving on to Resolution 4, this is to appoint KPMG LLP as auditors to the Company. I call on Roger Marshall, as Chairman of our Group Audit Committee, to propose this resolution.

R Marshall: I propose that KPMG LLP be appointed as auditors to the Company.

P O'Sullivan: Thank you, Roger.

V de Souza: How long they are auditing the books, how many years?

P O'Sullivan: How long have they been auditing?

P Broadley: KPMG have been auditors since the time of demutualisation in 1999. And possibly to anticipate your question, the audit, as noted in the Annual Report, has been put out to tender now and the tender process will take place over the coming months. Shareholders will be updated as to the outcome of that process at the time of the half year.

V de Souza:: So you reckon there are going to be changes next year?

P Broadley: It will be a matter for the Group Audit Committee to decide whether to retain KMPG after that tender or to appoint another auditor.

V de Souza: Thank you.

P O'Sullivan: So I now put Resolution 4 to the meeting. Please cast your votes on Resolution 4 by filling in your poll cards.

I propose Resolution 5, to authorise the Group Audit Committee to settle the remuneration of the auditors. Please cast your votes on Resolution 5 by filling in your poll cards.

Resolution 6 is to approve the Directors' Remuneration Policy as set out in the Directors' Remuneration Report for the year ended 31 December 2013. I call on Alan Gillespie, Chairman of the Remuneration Committee, to propose this resolution.

A Gillespie: I propose that the Directors' Remuneration Policy as set out in the Directors' Remuneration Report for the year ended 31 December 2013 be approved.

P O'Sullivan: Thank you, Alan. I now put Resolution 6 to the meeting. Please cast your votes on Resolution 6 by filling in your poll cards.

I propose Resolution 7, to approve the Directors' Remuneration Report, other than the part containing the Directors' Remuneration Policy, for the year ended 31 December 2013. Please cast your votes on Resolution 7 by filling in your poll cards.

I propose Resolution 8, to grant authority to allot shares in the Company. Please cast your votes on Resolution 8 by filling in your poll cards.

Resolutions 9 to 11 are special resolutions, which require a 75% majority of votes in favour. I propose Resolution 9 as a special resolution, to grant authority to dis-apply pre-emption rights in allotting certain equity securities and selling treasury shares. Please cast your votes on Resolution 9 by filling in your poll cards.

I propose Resolution 10 as a special resolution, to grant the Board authority to repurchase shares by market purchase on the London Stock Exchange. Please cast your votes on Resolution 10 by filling in your poll cards.

I propose Resolution 11 as a special resolution, to approve contingent purchase contracts relating to purchases of shares on the African stock exchanges where the Company's shares are listed. Please cast your votes on Resolution 11 by filling in your poll cards.

Well, ladies and gentlemen, that brings to a conclusion the business of the Annual General Meeting, so I can declare the meeting closed. Please place your completed poll cards in the purple box outside the meeting room as you leave.

And I'm delighted to say refreshments will now be available next door. And we, the board, will be available if you want any information or help.

Thank you very much for coming to our meeting today and have a very good year.

[The meeting ended at 11.43 a.m.]