OLD MUTUAL WEALTH INVESTOR DAY
TRANSCRIPT

29 September 2014

Paul Feeney: I hope I haven't made you rush your food, but we thought we'd get going. So I'm, as the slide says, Paul Feeney, Chief Executive of Old Mutual Wealth. And it's great to be able to invite you and welcome you here to us as Old Mutual Wealth, as we rebranded, basically just over a week ago, all of our Skandia businesses in the UK.

So, it's been close on two years since I and a few of my colleagues stood here and announced our strategy. You recall at the time we said that we were going to build a modern, vertically integrated Wealth Management business, with strong asset management at its core. We said we were going to do that by unifying, simplifying and growing our business. And we said that, once we've achieved that, we believe that by 2015 we could achieve a profit of about £300 million from where we were, which is about twice what we were earning at the time. So we have made significant progress on that strategy, as we stand here today, and I want to share that with you.

So, in terms of unifying our business: previously, I think as you all know, we had a number of federated businesses under the Skandia brand. We now have one business. We have one management team, one vision, one strategy, one governance structure with the Old Mutual Wealth Board, and this gives us both focus and momentum. As I mentioned, just a week ago we sealed this unification as we officially rebranded to Old Mutual Wealth. So, in the UK the Skandia brand has now gone, and across our international business in the next few months it will also disappear.

In terms of simplification: if you remember back – for those of you who heard my presentation back then in November 2012 it was, I think I stood here – I said we have too shallow roots in too many places and we needed to build deeper roots in fewer places, and that our core focus had to be the UK and our international cross-border markets. Since that time we have sold, or announced an agreed sale, for our businesses in Poland, Germany, Austria, France, Luxembourg and Lichtenstein. This gives us a far simpler and more focused business.

So in terms of growing: we now operate in fewer markets, and at the same time we have grown our roots significantly in our core market of the UK, primarily focusing on distribution, our platform and asset management. In terms of distribution, we have purchased the largest network of independent and restricted financial advisors in the UK. For the platform, we have announced a major investment of around £160 million through our outsourcing contract with IFDS. In asset management we have hired top talent, such as Richard Buxton and his team from Schroders, but also more recently Joshua Crabb, one of the top Asian equity managers in the world, whom we hired, with his team, from BlackRock. At the same time we have purchased the Cirilium funds business from Henderson’s, which is the core investment funds proposition that Intrinsic’s restricted financial advisors sell.

And the market has recognised this progress. Old Mutual Global Investors was recently voted Global Fund Management Group of the Year at the fund management industry’s leading awards ceremony. Not bad for a business we built – created two years ago. So we will focus on each of these growth areas in more detail in a moment.

In 2012, I also said we’re aiming to achieve £300 million of pre-tax profits in 2015. Now at the prelims, we did announce that these sales of the European businesses and the purchase of Intrinsic Financial Services. So the sales of those European businesses deduct £35 million of profit, and the acquisition of Intrinsic adds £5 million of profit, so our new target, as we said at the time, is £270 million of profit in 2015. The growth strategy we have employed has enabled us to increase our funds under management to over £80 billion, and we are on track to deliver that profit target in 2015.

Now on this next slide you can see the components of our vertically integrated model. And on the right hand side you see the new elements we have put in place in the last 18 months. We believe that the vertically integrated model will not only flourish but be the dominant model in the UK retail investment market over the next five to ten years. The standalone platform model is no longer viable, because a lot of those platforms have become commoditised. There were too many of them and they don't add enough value for customers on a standalone basis. And I guess, if I was to articulate our major shift in strategy, it has been from previously – a number of years ago – trying to build the best investment platform to now building the best investment business. So we've changed one word and it has changed everything. The winners will be those that can integrate their platform with advice, wealth management solutions and asset management into a single proposition with a single customer experience, from the front-end of the value chain to the back. And that is the model we have through the combination of Old Mutual Wealth, Intrinsic and Old Mutual Global Investors.

Now, as the shape of our business changes in line with our stated strategy, the earnings profile of our business also changes. If you look back in 2012, we made £160 million of profit. That actually also included most of our European businesses profits, whereas at the moment, in 2015, clearly that year will not include our European businesses profits, so really we're more than doubling our profit base. But what's more important even, or as important I should say – because doubling profit is quite important – is the nature and the shape of those profits. So as you can see, in 2012 65% of our earnings were from what we call our heritage businesses: closed backbooks of insurance, predominantly. And as you see in 2015 that has completely changed; only about 25% of our profits will be from what we call heritage business, which is predominantly our UK heritage business, with three quarters of our profits coming from new world, wealth management, distribution and asset management profits. And I think that's quite a telling slide.

Now if you look at the opportunity in the market, the market in which we operate, the wealth and asset management market continues to grow, and our product set is well-aligned with where the majority of wealth in the market is. We've got strong propositions that match customer needs in the mass affluent and affluent segments of the market. I guess, in truth, we play in the mass affluent and probably up to about halfway on the affluent scale; that's been our core market. So clearly there are further opportunities for us. There were opportunities for us to expand Old Mutual Global Investors, and I'll be asking Julian Ide, the Chief Executive of that business, to talk you through some of those in a moment. Our UK product set can be expanded further, particularly in areas such as SIPPs, and also in the upper end of affluent and high net worth, where customers are seeking more of a discretionary asset management and service-led proposition. So you can see from the slide that while the segments of the market in which we operate only really covers about 30% of the UK population, they account for 84% of the UK's wealth. So we're in the right place.

Now the RDR has changed the distribution landscape in the UK, and we have been the fastest company to react to that. We believe the advice channel will continue to be the largest channel in the market and we remain committed to supporting all advisors in the market, whether they be independent or restricted. The newest part of our distribution strategy is our acquisition of Intrinsic. As I said, the largest network of financial advisors in the UK. It's got about 3,000 financial advisors in total, and that means that one in ten of every financial planner, every financial advisor in the UK now works as part of the Intrinsic group and hence as part of Old Mutual Wealth. Of those advisors 850 are presently restricted financial advisors and that is growing rapidly month by month. And clearly that's a core part of our distribution strategy here.

So what have we done since the acquisition? Well I'm not sure people realise but Intrinsic only became part of Old Mutual Wealth on 1st July this year. We announced it back in February – the end of February – but with regulatory change and control, it only actually got acquired by us on 1st July this year. So since then we have been adding to Intrinsic's restricted advice proposition, the Old Mutual Wealth platform, our own investment management propositions, and we've been removing some of our competitor platforms such as Sanlam and Cofunds. We have also bought, as I mentioned, Cirilium, which is the investment proposition that sits at the heart of Intrinsic's restricted offering. Now that gives great continuity to the financial advisor base; it's got great performance. So that means they can continue to sell the investment services without a hiccup. This will add around another £2 billion to our funds under management when that transaction completes in November.

So, in addition, a number of our OMGI funds have also been added to Intrinsic's fund matrix, which will further increase flows into our own funds. As well as adding our own platform to the restricted proposition, as well as adding our own funds, we've also discounted our platform for the independent part of Intrinsic to encourage the use of that platform there, and we're seeing great results already, even since 1st July, on that initiative. And finally, not to be forgotten, our protection solutions are now being offered through both restricted and independent advisers in the network. So we have wealth solutions, asset management, protection and platform, which is going through our new distribution channel.

Now this next slide shows that there is a significant shift in the market from institutional or employer-led towards retail solutions. So as you can see, in terms of 2013 stock, 30% is in employee benefit schemes – defined benefit to a large extent – employee sponsored schemes. But in terms of flow that's only 7%. The flow is hugely skewed towards retail advised, and of course increasing retail direct, flows. So it's becoming a retail market, if it isn't already a retail market, and that's the market in which we play and compete.

The other thing about this is that, not only does the acquisition of Intrinsic increase our presence in this market massively, but it also gives us a full proposition. So let's just look at the pension reforms recently. We're all aware of the announcements made by the Chancellor – gosh was it a couple of months ago now – about annuities, where people no longer need to annuitise once they start to draw down their pension. That's a massive boost for a business like ours because we are already one of the largest, if not the largest provider of drawdown solutions in the UK pensions market. However, in the past that's been more of a marginal thing because we've had to compete head-on with annuities. That is no longer the case. And again this morning the Chancellor announced another development which is the abolition of pension death taxes, which I think, for a start, puts another nail in the annuity coffin, quite frankly. But, again, plays very much to our strengths, and will keep assets with us and encourage assets into our drawdown and decumulation solutions. So you'll see in Q1 next year, our new proposition that we bring for the drawdown market which I think will be very exciting.

So, the acquisition of Intrinsic and the expansion of our asset management capability significantly widens our customer proposition and hence our share of the value chain. So here's the value chain, and you could decide on which comes first – should it be advice, wealth, asset, platform – but basically, beforehand, this is where we've been playing, and this is the margin we've had to play with in our business. Yes we've had our back books, but these are clearly not a new market proposition. So, now we have advice – with Intrinsic, we have wealth management solutions and we have asset management, so we have a much greater share of the value chain and the margin within that chain. And that also enables us to effectively have much greater control over the customer proposition and the customer experience, and of course pricing across that chain. So that's a major change for us from where we were two years ago. Two years ago that's all we had. Two years ago we said what we wanted to do, but clearly at that time it was a goal. Now we stand here and we have done it.

Now if you look at this and you see where there were opportunities to grow further – Julian is going to talk about asset management and how by the end of this year we've grown effectively close to under £20 billion asset management business pretty much from scratch, with the margins that exist in that business. Advice; platform, wealth management in terms of WealthSelect. You saw that we launched WealthSelect earlier in the year; that's going incredibly well. But clearly there's further opportunities in that part of the segment to grow our proposition further. WealthSelect is now over £1 billion; over £350 million of new net flow since we launched in March, which is excellent, but clearly there were further opportunities there.

So, now let me move on to the agreement with IFDS and to the outsourcing of our new platform development, and also a substantial part of our backbook to a partner who has both the scale and expertise to invest in that part of the value chain on our behalf. So I'm going to talk about the financial aspects of the agreement, but I want to do so looking at our heritage – or closed books, if you will – and our new world platform business separately because there are different aims and benefits for each.

So, turning first to our new world business, as this slide shows, where the primary aim of outsourcing is to gain a platform which is modern, efficient and scalable. It will be far easier to make changes, launch new products and keep up with regulatory demands, and importantly we won't have to bear all the cost of that ourselves. At the moment we own all of our own IT, our own administration and therefore everything we change we bear 100% of that cost. We can't share those economies of scale with anybody else; that's the situation we have been in. It will also make it quicker for us to get new products and developments to market, and it will enable us to spread our cost base over a wider number of revenue pools, such as SIPPs, ETFs, stocks and shares, which we can't at the moment. And as you can see, from 2016 we will start to incur far lower development costs on our platform, and our ongoing operational and IT run-rate costs will also drop significantly. So not only does it give us a competitive base and some of the – probably the newest technology in the whole of the UK platform market, but it substantially changes the game in terms of our operating cost base and marginal cost to growth.

Now, turning now to our heritage business: as the name implies really, closed book business, this is a declining volume business. So if we do nothing in a declining volume business, our maintenance cost per policy will rise, obviously, as the dotted line shows. Now – and that's because we have, predominantly, a fixed cost base in that business. What the outsourcing agreement with IFDS does is effectively move us from a fixed cost base to a variable cost base, which is exactly what you'd want to do in a declining volume business. So you can see from the solid green line, that as soon as the agreement is implemented we get a significant and virtually immediate reduction in maintenance cost per policy, and that reduction is maintained over time as our policies fall, which is the orange line.

Now, as I mentioned earlier, part of our strategy has been to significantly expand our asset management capability, and now I'd like to invite Julian Ide, Chief Executive of Old Mutual Global Investors, to the stage to talk to you in a bit more detail about the progress we have made there. Thank you.

Julian Ide: Thank you. Thank you, Paul, and good afternoon to all of you here. As Paul said, my name is Julian Ide and I am Chief Executive of Old Mutual Global Investors, or OMGI to make it much simpler, and as we say internally, and I'll refer to OMGI for the rest of this afternoon.

I'd like to just start by saying that since we formed OMGI two or so years ago the business has been completely transformed and is now focused on generating positive customer outcomes, strong sales and sustainable profit for Old Mutual Wealth, our shareholder. Our vision is to become a modern asset management business, focused on the investment needs of our clients. There are five aspects to this vision. The first, naturally, is investment performance, and here we've set ourselves a target of 75%, at least, of our funds being above median, and at least 30% in the first quartile. Secondly, we've committed to delivering innovative investment solutions; in other words to provide strategies that meet our investors' current and future needs. The third is to provide a first-class client service, and here it's clear that just delivering investment returns is not enough on its own; we also need to provide terrific service for our clients. Fourthly, we aim to attract, retain and motivate the best investment talent in the market. This is harder than it may seem, but I think we've made significant progress in this regard and I'll be referring to this later on. Fifthly, but not lastly really, we aim to be a responsible business; responsible to our clients, responsible to our employees and also responsible to the communities in which we operate, and that is as well as being responsible investors. In other words, we take our objective of enabling positive futures very seriously.

So far I believe we've made good progress. In distribution terms we have set about rebuilding our UK distribution team at the start of this year – well during 2013 and the beginning of 2014. And this has resulted in extremely strong sales in 2013 and the beginning of this year. Our strategy is also to expand in international markets. At the start of this year we strengthened our Asian distribution team by appointing Carol Wong, an industry veteran – although she won't thank me for saying that – in that region, and we now have a team of eight sales and marketing people based in Hong Kong. This is a big investment, and since the beginning of this year we've almost doubled our non-Taiwan Asian assets, so initial success in that regard. We've also created a role of Head of Global Financial Institutions, Distribution, and we will be making an announcement in regards to this appointment in the next week or two.

The actions we have taken already, and continue to take in distribution, are yielding results. Two years ago it's probably fair to say that we were little known in the UK market in terms of asset management, and today we have grown our sales very significantly. Last year we achieved a number two position in the market, and in the first quarter of this year we went to number one in terms of net retail flows in UK asset management.

In addition to distribution, we've also been active in the product space. Earlier this year we ambitiously launched 23 funds in our WealthSelect range that Paul referred to earlier. We also created a Managed Portfolio Service, which at the outset started with £1 billion under management, and both these capabilities are core to the wealth distribution proposition going forward. We also created our Foundation range of funds, a fettered fund of funds using OMGI's core internal products with an active overlay from our multi-asset team. This range launched with £600 million on the first day. On Thursday last week we launched the Monthly Income High Yield Bond fund, an offshore fund managed by Christine Johnson, the head of our fixed income team. And this fund launched with £50 million under management. As Paul already mentioned, on 3rd December we will on-board the Cirilium fund range, the core proposition for Intrinsic, with around £2 billion assets under management, and revenues from those funds will start to accrue from 1st January. Yet despite launching the funds I've just referenced, we have continued with our rationalisation programme, merging and closing sub-scale funds, which as a result has reduced the total number of funds which OMGI manages from 60 to 48. Finally, Joshua Crabb and his team joined us today, heading our Asian equity capability, and I will talk more about this in a moment.

As well as distribution and product, we've also, of course, had to focus on our operational infrastructure, and we've made a substantial investment in building a first class, flexible operating model. We are well on the way to merging the two administration systems that we inherited, and I believe that by the middle of next year we'll have one of the most flexible and modern administration infrastructures in the market.

As you might expect from some of the developments that I've highlighted, we have received significant industry recognition. In fact, we've been awarded so many product awards that I won't actually refer to them individually. But I just wanted to highlight that this is a major change from where we were two years ago. We've also received some group awards. Last week we were awarded Best Investment Fund Provider at the 2014 Investment Life & Pensions Moneyfacts Awards. And as Paul mentioned, just a couple of months ago we were voted the Global Group of the Year Award at the 2014 Investment Week Fund Manager of the Year Awards. These awards, in many ways, are the Oscars of our industry, and I believe it demonstrates how we are already becoming a leading player in the UK market.

Now I just want to shift to how our business has been developing, and particularly with regards to growing key asset classes. And I'd like to particularly give you some more information on the appointment of Joshua Crabb, who joined us today as head of our Asian equities team. One element of our strategy that I highlighted is to grow our business by attracting, retaining and motivating top investment talent, and to do this we have very strict selection criteria. And I'll just tell you what these four criteria are. The first is that we look to hire teams with compelling and repeatable investment processes, and strong investment track records. Secondly, we look for fund managers with star quality. I don't mean stars in the conventional sense; I mean fund managers with humility, not ego. Thirdly, we aim to hire managers who have the potential to add significantly to our distribution strategy. And finally, but crucially for our business, is that each of these fund management teams must be a very good cultural fit for OMGI and Wealth overall. Joshua and his team of Kris Whitlock and Dmitry Lapidus, I believe, tick all those boxes convincingly. Josh in fact was voted Long-only Equity Fund Manager of the Year – All Cap 2014, by Asset Asian Awards only a few weeks ago. He has an outstanding first quartile track record and a strong investment process. Critically, from the beginning Josh will manage about US$400 million in assets in two Asian equity funds which we already have. Most importantly, Josh is a strong cultural fit, and I believe will significantly add to our bench strength overall. We will continue to search the market for new managers who meet our criteria.

We have had strong growth in assets under management. Two years ago we had under £13 billion under management; today we have about £17 billion, and we expect this to grow significantly during the remainder of this year. But not only have we grown assets, we've also grown, as we predicted that we would, the margin in our assets, so we've increased our share in equities and alternatives. For example, our Global Equity Absolute Return fund has had sales of over £600 million just in the first half of this year alone. We've also been successful in migrating from lower-margin sub-advised funds to in house funds. And you'll see from this chart, on the blue segment there, shows that these sub advised assets have fallen from 36% two years ago to 13% in the first half of this year.

We've also benefited significantly from Wealth distribution – from Old Mutual Wealth distribution. And the benefits, I think, of being a vertically integrated business are clear from this chart. Just under half our assets under management come from Old Mutual Wealth, and through working together, increasingly closely, we are building a very strong footprint in the UK market. The WealthSelect platform and the Intrinsic acquisition provide real strategic growth opportunities in this regard. Third party business, representing around 50% of assets under management in total, continues to be a strong source of growth, a strong source of revenue and a critical factor in building our credibility as a leading fund manager.

I mentioned early on that one of our objectives is to have a very strong focus on performance, namely at least 75% of our funds above median and at least 30% of our funds in the first quartile. What this chart aims to show is that we, at the moment, are exceeding these targets, with over 78% of our funds above median and a remarkable 64% of our funds in the first quartile. I won't take you through the performance of all our funds, and we all know that active management requires us to take risks and sometimes we will outperform and sometimes we will underperform. The one thing I can say is that we will take decisive steps if we see our funds falling in performance terms. However, having said that, I'd like to just highlight three funds on this chart – on the right-hand side there – which is the Corporate Bond, Spectrum 5 and the North American Equity fund, all of which are first quartile over the crucial one and three-year periods.

The consequences of increasing our assets under management and our margin has been to generate sustainable profits for Old Mutual Wealth, as I said at the beginning. And I guess the line that I wanted really to focus on particularly here is the operating margin line for OMGI, which has grown from 8% to 28% in a two-year period on a like-for-like basis. So, a very strong directional performance there, but I hope more to come in that regard.

So, in conclusion, I wanted really to talk to you about the strategic priorities for the remainder of this year and for 2015. I believe we have a great opportunity to grow OMGI into a leading global investment management company. We have set ourselves ambitious but obtainable targets and have identified a series of strategic priorities to deliver on those targets. So our focus will be, first of all, to continue to grow key asset classes. Where we can, of course, we grow organically. However, we also recognise we need to invest in those investment capabilities which offer future growth potential in the UK and internationally. Areas of specific interest to us currently are absolute return income and emerging markets and we will continue to grow thoughtfully in these areas. The second strategic priority is to continue to expand distribution, and we have set our sights on building an international distribution network through our highly important global financial institutional sector and through AIVA in the Latin American market. Thirdly we will continue to focus on building investment solutions. These are absolutely key to the Old Mutual Wealth channel. By combining OMGI's expertise in innovation and structuring with Wealth's relationships, we have an almost unparalleled opportunity in the market.

In addition, we will also shortly launch a Pan-African equity fund on our Global platform, which we will be doing in conjunction with our colleagues in Old Mutual Group in South Africa. Interestingly, at launch, this fund will be one of the biggest Pan-African funds available in the market without about $100 million under management. It already has an established investment track record and we believe will be highly attractive to UK and off-shore investors.

Our fourth strategic priority is to continue to invest in our business infrastructure and we have a particular focus here on data and technology strategy, with a view to us becoming one of the most flexible players in the market. And then again, last but not least, we will continue to grow our responsible business credentials; as well as being a UN PRI signatory, we have hired a good corporate governance expert, Paul Emerton, who is leading this initiative. And we will also continue to have an open dialogue with regulators to ensure we operate and lead best practice in the market.

In conclusion, I believe that through delivering these strategic priorities, we will continue to grow OMGI and the Old Mutual Wealth business significantly. And now I'll hand back to Paul. Thank you

Paul Feeney: Thank you Julian. Thank you. I don't think we need the slides, but... So guys, in conclusion, when we stood here and I stood here, and I see a number of faces in the audience who were here in November 2012, we said we are building a modern vertical integrated wealth and asset management business. That's what we said. We said we were trying to move from building the best investment platform to building the best retail investment business in the UK.

As we stand here today, we have done and – we have already achieved an awful lot of that. We've sold six of our continental European businesses, predominantly back book regular premium insurance business; closed insurance businesses that don't fit that model. We have purchased the leading UK financial advisory business in – in Intrinsic. We purchased Cirilium; we've added Cirilium, which is merging into Old Mutual Global Investors in the end of November/early December, which has been the restricted investment proposition that Intrinsic sells. We've launched WealthSelect, which is our new model portfolio service. We've outsourced our – at least contracted and are well along the way – contracting to outsource our administration and IT to the leading administration and IT business in the market, and we have built Old Mutual Global Investors. Now close on a £20 billion asset management business. And we've built it on uncompromising principals, which is of quality and talent and that is paying dividends for us. So all of that comes together into a simple business model.

Now here's the really interesting part, clearly we had to achieve that in the UK first, because we had to own our own backyard, and that is the UK. But that model, we are now exporting to the emerging markets of Latin America, Asia, and the Group's' core market on the African continent.

So in Latin America, as Julian mentioned, we already own the largest non-bank financial advisory distribution business, investment distribution business in Latin America. We put that together with our international platform – one thing we haven't even mentioned is that it's costing us a lot of money this year to do that. We're putting in a brand new international IT platform called Wealth Interactive for our International business. We're doing that for a reason. That has to be Integral with asset management, with wealth management, and with distribution. And we'll have that in by the end of this year.

So it's the same model everywhere; the same vertically integrated model in the UK, in Latin America, in core African markets and in Asia. That's the business we're building. It's actually a simple business model, and we think it will be the dominant business model over the next five to ten years. Now, at the same time, the markets themselves and regulation and legislation is moving towards us. RDR in itself has helped make this move possible. Something which would've been less possible ten years ago. The announcements we've heard from the chancellor on annuities, on pension death tax being abolished, again is core to what we're doing and really underpins and supports our strategy.

So 2015 is only a staging post. It's an important staging post because we've made promises and we will keep those promises, but it's a staging post. Imagine this business, now you can decide for yourself where – you know, how much it can grow by, but imagine this business with this profit profile in wealth management, asset management and financial planning, in the UK, the largest, single largest investment wealth and asset manager – integrated business in the UK, with the same model exported to the Emerging markets. That's what we're building. Thanks very much.

So we'll now take some questions and open it up to the floor. So who would like to go first?

Andy Sinclair: Morning. Thanks. It's Andy Sinclair from Bank of America. Two questions please. Firstly, how much of the current stock of Old Mutual Wealth platform investments is currently managed by OMGI and also how does that compare with the flow that's going into OMGI at the moment?

Secondly, Intrinsic, are they the right profile of advisors to be targeting the mass affluent and affluent segments, and also, where does – where does Intrinsic sit in advice costs in that 50 to 100 bps range cost for advice.

And thirdly, you talked about innovative solutions that meet customer needs for asset management, just wondering if you could tell us a bit more about – about what you're thinking there. Thanks.

Paul Feeney: Yeah, okay. Well first of all, in terms of stock and flow, if you go back, I don't know, two and half years, two years-ish ago, the flow that came from – well, it wasn't an Old Mutual Wealth account, but Skandia, if you will, into its own asset management's solutions was very low – low- to mid-single digit percents. We didn't really have an asset management business. Now, the underlying flow is probably mid-teens – 14-15%; it's probably flattered a bit because we've also been transferring some assets and when we launched WealthSelect, it was probably in the low 30%. So if you look at the actual flows, it will show about 30% odd flows on the platform from Wealth into OMGI. The underlying day-to-day flow is probably about mid-teens, but as you said, one of the goals has been in creating Old Mutual Global Investors, is to manage your own money; not to have other people doing that. So that's that question. So in terms of stock, I guess, I don't know, now 35-40% of stock, something like that.

Then if you look at Intrinsic: is Intrinsic the right profile? Intrinsic is absolutely the right profile for mass affluent and probably up to about middle level of affluence. It's also got some incredible higher affluent or high net worth financial planning part – businesses within it. Now it's not the main act within Intrinsic, but it has. I won't mention their names, but anyway, if you look at some of the largest appointed rep firms in Intrinsic, some of them are very firmly in their mid to high-affluent area. But don't forget we are trying to reach, in terms of mass affluence and lower end of affluence, there's a lot people there still, even with – I mean, talking only 30% of the population.

So in terms of its margin, where does it play in the 50 to 100 basis point margin? I think it averages out, and it changes a little bit at the margin, but I think it averages out around the 80 odd basis points; that's clearly because different firms will charge slightly differently for different services. You know, but it's above 75 basis points and below 1%.

Julian Ide: I think the market, you know, historically, has always been vocal on the accumulation phase, and I suppose we think about both accumulation phase and the decumulation phase. But talking specifically, you know, in accumulation, we've mentioned a number of products in that space this year, you know, we've launched and also developed: MPS, the manage portfolio service is one. We've also launched the foundation range of funds, which is critical in that space, and we shouldn't forget also that we have one of the leading propositions in terms of Spectrum which is a risk targeted range of funds for accumulation sectors.

In the deccumulation space we were one of the first within the market, some couple of years ago, now launching a generation range of funds, and as I mentioned, we last week launched our monthly high income bond funds, and are looking actively at how we can combine different sources of output to produce income on a number of different forms.

I think really, what we are trying to do is apply institutional type investment skillsets to the retail market. And I think, what we've talked about in our ExCo is potential innovations there which could, you know, be very, very significant, I think, in the marketplace. And we actively look at that across the whole business.

William Elderkin: Thanks. It's Will Elderkin from Goldmans. Couple of questions. First of all, within Intrinsic, what is the scope to convert non-restricted advisors to restricted advisors from where you've got to, and secondly what is your appetite to grow by acquisition? I see you were connected in the UK press with a couple of things over the last couple of weeks. And finally, could you talk generally at the Old Mutual Wealth level and at the OMGI level about the threat to the business model from non-advised solutions and to passive investment strategies at the investment management level please?

Paul Feeney: Okay. Okay, well thank you. So the – I can't read my own writing – conversion to restricted advising. It's our core strategy – it would be nice if you could wave a magic wand and all of sudden we just said, 'Do those unrestricted advisors.' It doesn't exist out there. So we've bought the closest, we acquired the closest thing, and with a completely aligned management team. So the – the vision for Intrinsic, and this was not my vision, this was when I first met with their chief executives and chairman, was to be the UK's leading controlled advice and asset management group. That works for me.

So we have 850, we're converting 30 odd a month at the moment. You can, kind of, do that maths on that. We'll always have some independent financial advisors, and that's fine, I've got no issues – no issue with that, but clearly our core strategy is, I prefer the term, controlled financial advice, and you can control the proposition, the quality of the proposition and the quality of the advice given. So there's a lot of scope for that. And the comment on rumours in the market: we never comment on rumours in the market. There will always be rumours but we never comment on that.

And then, thirdly, what's the threat from passive solutions and other solutions? I mean, we have, even within the WealthSelect channel, within our own solution we offer – elements are passive where we think it's appropriate. So there will always be a market for that, I think you only have to look at our growth rates to see, you know, that clearly we haven't found much of a threat from that. We've laid our stall out very firmly on active investment, but we will use passive investments within them where it makes sense, and we do. But Julian, do you want to comment on that?

Julian Ide: Well, I mean, I think that growth in demand for cash in funds will be what it is and we have our views and we write, actually, quite actively about that in the marketplace,. But that aside, I think the underlying strategy within OMGI was always to build a business that was relevant in the post RDR world. In other words, I think we see the current developments as actually an enormous opportunity for us. I think it's true to say that we are the only fund house that's been chosen by every platform that has so far selected its partners, so there will be, you know, five to ten core partners. I think we are on all of those, and it was an explicit aim of ours because we knew that if we didn't do this and we didn't develop the business we would become irrelevant. So in many ways I think the developments in the market are – are with our renewed focus on brand building both at Wealth level and OMGI level and extraordinary strong performance we have and the breadth of our products mean that we are in a very good competitive positon. And I know there's a lot of talk about declining margins in the business, but I think for our business, for reasons that I highlighted earlier, I think there's – there are even opportunities for us to expand our margin as we have done there as well. Does that answer your question?

Marcus Barnard: Hiya, Marcus Barnard from Oriel Securities. Two questions: Firstly, on – on Intrinsic, I know you haven't owned it for very long but where – where do you see the scope to grow that, I mean, do you see recruiting more advisors that are not affiliated to a network and bringing them in or – or, I mean, I'm just also thinking that in the post RDR world as the members within intrinsic become more established within the post RDR world, is there a risk that they'll leave the network and then leave Intrinsic? Can you comment on that?

And secondly, on the fund management charges and break down of margin you've put on slide 10, where'd you – where'd you think those levels are going to go? I mean, certainly we hear that there's pressure on platform charges and asset management charges and that as players get bigger and more consolidated, do you feel that those – those charges will come down over time? Thanks.

Paul Feeney: Okay. Thank you. Well, to answer your first question, which was risk of attrition. Advisor attrition within Intrinsic. I can tell you that since we've acquired Intrinsic and from February, not just July, because we acquired it, but everybody knew we were buying it in February, numbers have gone up not down. Not hugely, because it's already a big network. So, we will always see attrition at the edges in a business like this. The key is, fundamentally, is it a growth business and is it holding its share and growing its share? And the answer to that is yes, and they're doing far better than we had expected at this stage. And in terms of numbers, people say to me, 'So is the right number 3,000, is it 4,000, is it 2,000?' There is no particular right number; the key is what is the model? The model is, predominately we are moving towards a controlled financial advice model; restricted financial advice model. There'll always be an element of independence within that and to the extent that that is the case, then we are now probably one of the two or three only existing places in the UK that those advisors, if they do not want to be directly authorised and run their own shop, can go.

So, I mean, quite frankly, and mostly, one of the reasons we've done what we've done, is yeah, of course margins are under pressure in the platform market, so if that's the only market you've got to play in, you're going to be under pressure. Our margin has been relatively stable; our profits have gone up when our platform at the half year was profitable, £10 million of profit, which is four times what it made the previous half year. And so we had crossed the barrier where, in terms of leverage of economics in the platform, but it takes a lot of investment to get to that place. So, yeah we'll see margin compression; there's 30 odd platforms now in the UK and it's unsustainable, but sometimes the unsustainable things can sustain for quite a while. But the issue now is whilst we have an incredibly strong position in that market, therefore our margins are better, a bit better than most other people's margins in that space, but importantly, we have the other margins along the chain too to provide us with extra profit and integration of the lot. It's not like four separate things running separately, it's pulling these things together so that your financial planning and advice leads into your wealth solutions which – buy your asset management funds which are then delivered across your platform. It's that full integration.

Julian Ide: Can I also just make a point on asset management margins, because I guess there's been a lot of talk in the press over months if not years indeed, you know, on Radio 4 last – last Friday. And I think we would agree with the statement that there are a number of fund management businesses or managers who will be marginalised if they don't produce strong performance, and I think there is serious and there should be serious pricing pressure in those sorts of circumstances. And that's why we've emphasized throughout that it's really critical that we create product with not only strong investment returns but that stands up on its own, if you like, in third-party markets because that's the way that that tests our ability to deliver performance in the market. And there is pressure in some respects, but as I said I think the number of different reasons where as in the past we'd been playing – paying a lot of our margin away to third parties we are – we have more of that margin internally now.

Vishal Bhatia: Hi, Vishal Bhatia from J O Hambro. Three questions. First one on the OMGI funds; could we talk about your assessment of what's the excess capacity in the current fund portfolio, I mean, or you could add without actually in your view, impacting performance of the funds, just to understand this scalability?

And on the whole Wealth business as a whole, now that you've got your brand OMGI and Wealth, and the importance of retail distribution, how do you see the brand investment going forward? How do you intend to pace that up?

And finally, on the SIPP side, given the product set is not ready yet and you think it will be in 2016, do you think that's an opportunity missed or do you think you're going to be prepared for the growth when it's ready to come through?

Julian Ide: Yeah, shall I just answer on capacity? In many ways, I wish I could say that this is a major concern of mine at the moment. We have significant capacity in our business overall. In fact, I mean, I think, you know, evidence suggests that overall a business like ours could have like £30-40 billion from the UK market alone. There are some capacity constraints at some individual product levels, and in fact earlier on this year, I think we did something, which was to very quietly close a fund and new – or to cap a fund, I should say, done highly effectively and positively, I think, both in a client point of view and from our point of view. So we look at the capacity in our fund regularly, we talk about it regularly, we've never had a discussion internally that we don't – where we don't agree with an action to be taken, and I think overall, you know, we have a lot of growth potential across our book of business, without any question.

Paul Feeney: So brand investment: yes, we are now Old Mutual Wealth. And I was down in Southampton with the mayor on – last Monday with – you know, we had our largest coin mosaic. We won a world record, Guinness World Records, and then donated that to charity, obviously. But sure, well, you see at the moment, we're sponsoring the golf, we're sponsoring, they've got a big campaign right across the country at the moment; you can't see too many train stations without seeing our brand. That's never happened before. Skandia have never done that before. So you know, this is all baked into our profit targets, so this – you know, so we'll hit these and make this investment, but now we are becoming, you know, our goal is to become a retailer consumer-led brand. You can't do that without some investment. But, our commitment to the market includes that investment commitment.

In terms of product set, you say that, you know, not there yet, it's just a missed opportunity. I think I mentioned two or three areas. One I think I said, SIPPs; you know, we don't yet have SIPPs in our platform because of our technology. We have an excellent personal pension product which competes very well, and discretionary fund management, wealth management, we don't really yet have. And one or two asset classes in Julian's business.

Sure, but let's go back two years and see what we didn't have. We didn't have any asset management, we didn't have any managed portfolio services, we didn't have any financial planning advice, we didn't have any decumulation products. So, you know, we probably innovated more, brought more products on in the last two years than we have in the previous five or six years. So yeah, those are opportunities. Every business will have some gaps it perceives it needs to close. These are gaps that we perceive we need to close. Closing those gaps is going to increase those profits, not help us get to those profits because those profits are there with the products that we have.

So we've got a question here from the phone. Greg, Greig Patterson: 'Old Mutual now has started underwriting UK individual protection business.'

Hi – Hi Gregg. Also, actually what we're undertaking is, really, at the higher end of the market where we're underwriting protection solutions that support wealth management planning solutions. So whether it's whole of life, critical illness; they are higher margin products. You know, as you saw there, when we put up the pyramid, we're not competing in the mass market, we're competing in the mass-affluent market but not the mass retail market, so the protection solutions that we are underwriting are – most of it, by the way, is reinsured anyway, but the protection solutions for underwriting are those that can meet and help us support that proposition. And don't forget, it makes sense; we now have, also, one of the largest protection sales forces in the UK.

Oh, we've got another one here. Yeah, okay. So Greig's got another one I think; 'What is the risk that the UK budget change that makes lump sums more attractive at retirement will lead to higher outflows post April 2015?'

Well, I think the main issue for me is – is not so much that it'll cause outflows – we've got a significant opportunity here. Because, don't forget, as we sit here at the moment, when you get to a certain age, you're almost compelled to annuitise. That means you do have to leave my platform. So now you can stay, even without back books, in the UK. You could keep those – those pensions in a drawn down situation and not annuitise. Previously, you'd have to annuitise. So I think it's a massive opportunity.

So I think everything that we've seen so far, for me, gives me great confidence that actually increases our attractiveness and proposition. You know, people want to take their money as cash and, you know, the Lamborghinis pension funds we've heard of, but that's not going to happen because it's strange that everyone thinks that you get to 65 and you become an idiot. You know, you don't. We can bring up children, we can run our lives, but we just become an idiot with our money. Well, actually, it doesn't really happen. I think the Chancellor has started treating us all like grownups, and we're not all going to do that: take all our pension money out and start driving it around in a flashy car. You know, we're going to be given responsibility to manage our assets after the age of 60 as we have before the age of 60. I think that's a great opportunity for us.

Julian Ide: Paul, I was actually more talking about Mondeo rather than a Lamborghini. Greig, there's one other question here, which is, 'Does OMGI have a product that competes with Standard Life GARS; how does it work and how has it been doing?'

We do have some alternative products. One of which is the global equity absolute return fund that I mentioned earlier which has been very successful, it's raised over 600 million in the first half of this year, but it is also an area where we think there is significant further opportunity to grow. So we, as I mentioned earlier, we are looking, Greg, at that absolute return space and, you know, to see what our options are there.

Paul Feeney: Okay, we've got one from Michael Christelis. Hello Michael. 'Do you think you need to make any further meaningful acquisitions in the medium term to achieve your strategic targets?'

I think on that, we've made some acquisitions already, haven't we? We've sold a lot more than we've bought. Don't forget that. People sometimes tend to forget that. We've sold six European businesses. We've bought Cirilium and we've bought Intrinsic. To hit those targets do we need to acquire? No, we don't. However, we will build our business, so we'll always look at opportunities, and if I was saying anything else then shouldn't be the chief executive of this business. But we don't need to acquire to hit that target.

Julian Ide: And Paul, I have one other – last question here from Michael Christelis. It says, 'Are market conditions improving, or is it becoming more competitive with decreasing margins?'

I think we sort of talked earlier about the margin point, where I think we have some upside in our book of business. It's unquestionably the case that market conditions are much better than they were two years ago, the aftermath of RDR was that the market was quieter and it's improved significantly. I think we're also competitively very well positioned. Both our presences in the press and also the amount of attention we're getting from key clients is very positive and I think gives us a lot of upside.

There is one more – sorry, there was one more question you asked which I forgot to answer, which is, 'What levels of flows has Intrinsic directed towards Sanlam and Cofunds funds in recent years; i.e., what level of upside is there by removing them from the restrictive proposition?'

Well since we haven't been in Intrinsic's restricted proposition by definition, you can assume that old platform flows went to the platforms that were in the proposition, and we are now a proposition in that space. And I can tell you, whilst I can't tell you numbers right away, that even in the last few weeks as we've removed those platforms what have we been doing in this quarter? This quarter, we've been bedding down the restrictive proposition. We've been taking off like people like Sanlam and Cofunds, and we've been training those advisors on our platform, on our investment proposition. That's what we have to do before we can drive volumes. And already, I can tell you, certainly in the last few weeks, they're seeing very, very pleasing volumes onto our platform, which we had not previously seen before. Nick.

Nick Pope: Thanks. Thanks very much. It's Nick Pope at Newton. Just a question on your platform. Obviously you're training all these guys, and you're putting them onto your current platform. Your new platform takes place, I think, Q1 2016. What's the risk the functionality on your old platform isn't good enough at the moment to compete in the market and that you then have to retrain these guys for the new platform in 2016? How's that all going to fit together?

Paul Feeney: Well our new platform better be better than our existing one – spending all this money. Don't forget our platform is good. It's a new technology for our platform. Think of it that way, you know. But clearly, we're doing that to enhance our proposition. But, you know, our proposition is a good proposition. We are the leading retail investment platform out in the market. There's some things that we can't do – but quite frankly when you look at the flows of those things that we can't do right now, they're very small. Do we have to have lots of stocks and shares. Only about 20% of the financial advisor market is even registered to advice on stocks and shares. Of course when we launch our new technology platform we will be out in the market, explaining it to all advisors, but it will be an addition not a subtraction, so we're not going to lose functionality.

Yeah. Right. Okay, so maybe last question?

Speaker: Yeah, can I just ask how profitable were the businesses you sold, the six business in or across Europe? Thanks.

Paul Feeney: Well, I think we can tell you that exactly. They contributed, or contribute this year, about £35 million of profit. Now don't forget, these businesses' profits, over time, do that, because they're backbook business. So they don't do that, they do that. Okay, so they're about £35 million of profit, but also some of these businesses take a lot capital. So if you go back to 2012, the return on equity for my European businesses in total was 5%. Okay. That's way outside of our range. So that's the profit they contributed. Okay.

Okay, look, thank you very much everybody, really appreciate your time and taking the effort to come and listen to us rattle on. Very good of you. Okay, thanks very much.