CAPITAL MARKETS DAY
TRANSCRIPT – OLD MUTUAL WEALTH

Paul Feeney: Thank you, Bruce. And good afternoon everybody. I'm Paul Feeney, as Bruce says, the Chief Executive of Old Mutual Wealth. Today I'll be providing an overview of Old Mutual Wealth, the strengths of our business and why we're excited about the future. I'll be joined by Steve Braudo, our new Chief Operating Officer. He will give you an update on our UK platform transformation project a little later on. And we'll have time for some questions at the end. And Mark Satchel, over there, our CFO, is with us to answer questions too.

So from day one, our objective has been to build the leading wealth manager in the UK market. And we are doing that with a clear purpose of helping to create wealth and prosperity for our customers and their families. But this begs the question: what is wealth management? How do you create wealth? Well, if you ask an asset manager, he will say it is investment performance, alpha and beta. If you ask a discretionary investment manager, they'll say it's all about portfolio construction, asset allocation. If you ask an investment platform manager, and what is an investment platform except a modern day investment company, they will say it's all about being in the right product wrappers, ISAs or pensions, and ease of investing. And if you ask a financial advisor, they'll say it's all about having a plan. Well, actually, it's about all four of those things. And all of it needs to be delivered seamlessly and with excellent customer service. And each of these capabilities needs to be peer leading in their own right. And that is Old Mutual Wealth today: a full service wealth manager. It's the combination of these four activities that makes us different. We are unique amongst our peers in offering multi-channel access. It's how we intend to become the leading wealth manager in the UK market, and it's a vision that my team and I are really excited about.

As a company, we share common values and a deep understanding of our customers through the strength of our relationships. We blend our peer leading capabilities to build solutions that deliver better customer outcomes. Now, that may sound a little corporate but it's really important so I'm going to say it again. We blend our peer leading capabilities to build solutions that deliver better customer outcomes. That's what we do. Our vision, purpose and strategy are all underpinned by our core beliefs. Let's take our purpose and look at how we create prosperity for our customers by digging into the four elements, those four elements I've just spoken about, in a bit more detail.

Firstly, people need financial advice to develop a plan. The savings world is increasingly complex and a need for advice has never been greater, particularly in the affluent and mass affluent sectors in the UK. There are now less than 24,000 financial advisors in the UK. The number has shrunk considerably post RDR. With Intrinsic, we've already got over 3,000 financial advisors across the UK. But in order to do their job properly, an advisor needs to be able to provide suitable products, products suitable to their clients' needs.

And this is the second pillar, a modern investment platform. It provides a broad range of investment options and suitable wrappers, enabling the advisor to offer clients investment solutions quickly and transparently. Our award winning platform is one of the largest in the UK. It supports our Intrinsic advisors and also a further 9,000 independent financial advisors. We also have one of the largest international platforms. We refer to these two areas – advice and platforms – as wealth solutions. But critically the solutions that underpin the financial plan held on the platform need to be managed by expert money managers. This is the third element, money management. That's why we've built a best in class retail asset manager, Old Mutual Global Investors, or OMGI. It has had outstanding investment performance over the last three years and offers a wide range of funds. And for those who don't want to manage their wealth on their own, people who want somebody else to do it for them, we've got Quilter Cheviot, our discretionary wealth manager. Together, we refer to these two elements as our wealth and asset management offering. Finally, we package this offering with excellent customer service and support.

But getting here has been a journey. Back in 2012, our business was essentially a sub-scale platform with some closed life books predominantly across Europe. Over the last four years, we have reshaped ourselves into a modern wealth manager. We focussed on the UK and our international customer base. At the same time as this, we've also sold less relevant European businesses and instead we've reinvested for growth. We acquired distribution through Intrinsic. We are investing in our core platform with technology. And we've expanded our investment offering by acquiring Quilter Cheviot. In addition, we have also developed our in-house asset management business, growing it from what was a fledgling business back in 2012 to over £27 billion today. Lastly, the sale of our Italian business is progressing well. This is the last part of the tidy up of our old business.

So, as we look to the future, we believe the businesses we have today are very well positioned to take advantage of the attractive growth opportunities which we see in the market. You will see, and as Bruce mentioned, we released our Q3 results today and our funds under management increased to £119 billion, from £111 billion at the half year. An £8 billion delta over one quarter. NCCF for the quarter has been lower than in recent periods but it's held up strongly in the context of a market that has seen net outflows. Don't forget, in the first half of this year there was a constant net outflow across the entire retail fund management industry in the UK.

But supporting this, we are also highly focussed on continuing to integrate our businesses further, to drive efficiency and operational leverage, and it's a big part of our focus going forward. I'll come back to this later because this is part of the big opportunity for us going forward.

So let's turn now to the market itself. We are working in a tough macro-economic climate where the structural factors that Bruce mentioned a moment ago mean that UK wealth management is experiencing a significant increase in demand at a time when there is a reduction in supply. Why? Well, the number of financial advisors has fallen by around 12% since 2009, so investment advice is in shorter supply. The more complex regulatory environment, and quite frankly the higher standards that our regulators imposed as a result of RDR, has driven some advisors and banks from the market and acted as a barrier to entry. But, an ageing population, a large savings and protection gap and new pension freedoms means that the demand for wealth solutions has never been greater. Cash savings rates are close to zero so investors need to look elsewhere for yield. Furthermore, new technology means that customers are demanding innovative solutions and convenience. The gap between supply and demand is a huge opportunity in the three trillion pound UK wealth market. We've built our business, Old Mutual Wealth, to take advantage of this opportunity. Our markets are large. Each has grown significantly over the last five years, and we've got leading positions across all of them. We are a leading UK retail asset manager and a leading discretionary wealth manager in markets which are growing between 5-10% per annum. We've got a leading UK advisor platform with 10% of the funds under management in a market that has doubled in size from 2011 to 2015. We're also a leading UK cross-border player in the wealth solutions market. We consider that the growth outlook for each of these markets is attractive.

You can see the growth in the last four years on the two charts on the right. The pyramid in green shows the attractive segments that we are targeting. 89% of our assets in Old Mutual Wealth are in the top three segments of the triangle: mass affluent, affluent and high network segments, rather than the mass market which is at the bottom which is subject to margin pressure from robo-advice models. We differentiate ourselves through the quality of our customer experience. Only last week, for instance, we were announced as one of the top quartile performers in the Bright Index survey of customer service across Europe. Now this isn't just across financial services, it's across all industries. Today, we are well represented at the affluent level but a bit under represented at the moment in high net worth. However, over time Quilter Cheviot should help us to address this. We can now service customers across the entire wealth management spectrum and provide the range of solutions they need, whether they are a graduate accountant or dentist looking to build their first financial plan, or a captain of industry looking for discretionary wealth management services.

Let's now take a look at our two operating divisions in turn, starting with wealth and asset management. Here, we've got one of the largest and most experienced investment capabilities in the UK. It has two key businesses. Firstly, our asset management business, which is at the core of everything we do. Old Mutual Global Investors manages over £27 billion of assets and is focussed on retail active asset management. We strongly believe in talent-based conviction investing. It drives our culture. And Richard Buxton, who leads OMGI, and his team are amongst the best active money managers in the UK. Around 74% of their funds have beaten their benchmarks over a three year period. We manage funds in major asset classes including UK equities, Asian equities, global equities, pan-European small companies and fixed income, plus absolute return and multi-asset offerings. Increasingly, we are seeing flows into our outcome orientated multi-asset funds such as Cirilium. Cirilium provides risk-based model portfolios aligned with Intrinsic's financial planning approach and customers risk profiles. Cirilium is a great example of how the wealth solutions and wealth and asset management parts of our business are integrated and working together. We capture flows through our own wealth solutions offering, but also third party assets are important to us. These may come in from private wealth managers, other discretionary wealth managers, financial institutions and other institutions such as pension funds.

Secondly, our wealth management business provides predominantly discretionary investment management via Quilter Cheviot, one of the top discretionary managers in the UK. Its clients hand over the day-to-day management of their portfolio to an investment manager who monitors that portfolio and makes investment decisions on their behalf. It’s a bespoke service and therefore attracts premium fees. Quilter Cheviot has over 37,000 clients and has funds under management of around £19 billion, actually it’s more than that now, I’d say it’s just over £20 billion now. Its investment managers have been with the business for ten years on average and have longstanding relationships with clients. These clients are typically high net worth customers who come to us either directly or through a financial advisor. The business is complementary to our wealth solutions offering and is another example of where our model is differentiated to our peers. We have multi-channel access to wealth management, direct or through financial advisors, like our peers such as Rathbones or Brewin Dolphin. But what differentiates us here is that a small proportion of Quilter Cheviot’s flows are introduced through our own restricted advisors, and we expect that proportion to grow over time. Furthermore, a proportion of the funds managed by Quilter Cheviot are managed by an in-house asset manager. This level of integration is low at the moment. And whilst we would never force any of our investment managers to purchase OMGI funds, we do expect more integration over time as we continue to tailor our offering to our wealth customers and as the teams themselves get to know each other better.

Overall, we are proud to say that the wealth and asset management division has shown strong performance over the period since 2012. Funds under management have grown from £14 billion in 2012 to £46 billion today. This is mainly driven by strong NCCF and, of course, our strategic acquisition of Quilter Cheviot. In terms of NCCF, you’ll see we have increased our net client cash flow from £700 million in 2013 to £4.5 billion in 2015. That’s the chart just to the right hand corner there. We are confident that this business will continue to grow.

Now, turning to our wealth solutions division, this is an advice-led distribution and product engine. The business has the four sub-segments that you see here on the left. Firstly, we provide financial planning and advice. Second, we have one of the top platforms in the UK for advisors and affluent individuals. Thirdly, we have an international platform. It serves high net worth and affluent investors, mainly in Asia, the Middle East, Latin America and, of course, South Africa. And finally we have a closed unit linked book known as Heritage. So as you can see, our wealth solutions division has a very broad offering. The key to this offering is the multi-channel sourcing of assets from our own advisory force as well as from IFAs. This approach gives us a very wide net from which to capture new asset flows. Currently about a third of new net flows onto the platform come from our own restricted advisors. The remainder come from over 9,000 third party IFAs who use our platform. Nevertheless, our own distribution has become an increasingly critical component of our wealth solutions offering. The regulatory changes from RDR that I mentioned encouraged a number of financial advisors to switch from independent to restricted advice. To capitalise on this opportunity, we acquired Intrinsic, one of the UK's largest distribution networks. Intrinsic now has more than 1,300 restricted financial planners, 375 independent advisors and 1,600 mortgage and protection advisors. We are actively seeking to grow the number of restricted advisors but continue to welcome the contribution that the other advisors make. For instance, the mortgage advisors are lead generators for the financial planning business. Continuing to grow this multi-channel distribution model is an important part of our strategy. In the future, we expect to have a greater number of restricted advisors and a new private client advisory force designed specifically for higher net worth clients.

Our international business is essentially a platform based in the Isle of Man servicing internationally mobile customers, either non-UK citizens in the UK or UK citizens abroad. It's a large business with funds under management of around £17 billion and pre-tax operating profits at the half year of £27 million. We have licenses in the Isle of Man, Ireland, Hong Kong and Singapore, and offices in South Africa, Miami and Dubai. Our international products are predominantly distributed by IFAs but we've started the process of replicating the UK model of owned distribution through our acquisition of AAM in Singapore. And we are building our restricted advisor capability. Our international platform provides a similar set of savings wrappers to that of the onshore UK platform. And it has strong synergies with our wealth and asset management business. And we believe it's a very attractive growth opportunity.

Lastly, let me just touch briefly on Heritage. This is an old world pension's book that is predominantly closed to new business. In the main, those customers that can be transferred to new world platform products have been. As with our open book, our goal here is to ensure that these customers are getting a good customer experience and a good customer outcome. The book is cash generative and profitable and the slow run-off profile is expected to be economical from a cash and capital perspective.

So, overall, the businesses that combine to form the wealth solutions division continue to perform strongly. Funds under management have grown from about £50 billion in 2012 to over £68 billion today, driven by strong NCCF. What you can see here is the power of collaboration in how our wealth solutions and wealth and asset management come together. We believe that it is a key differentiator versus our monoline peers. As you've seen, we are able to create great wealth solutions and so capture new assets from a mix of our own and third party distributors as well as customers coming direct to certain parts of our business. Our integrated businesses allow us to retain assets across the entire value chain by providing value-added advice and wealth management services.

Now while assets in both channels generate revenue, the wealth and asset management channels typically experience higher margins. Typically. And as we build out our advisor base, it should be an increasing source of flows and client management fees, and help to retain assets in the wealth and asset management division. We believe this model benefits our customers, our advisors and our shareholders. Customers have flexibility of products while being provided a leading customer experience and better investments. Advisors can access products at various entry points and can provide holistic solutions, and shareholders should benefit from Old Mutual Wealth's strong asset gathering capabilities.

Furthermore, and this is an important point, as we develop our operating model, we intend to drive cost efficiencies and achieve scale benefits. Having had a period of considerable investment, we are now focussing our attention on evolving and simplifying our business. If you like, for the last few years we've been actively building, re-shaping, transforming our business. Now we have to make our business model hum.

We see further opportunities to integrate functions and remove duplication and cost, while keeping what has made each business unique and differentiated. To date, this has meant changes to our internal structures and processes. As we prepare for a listing as a stand-alone company, we have brought in a new chief operating officer, here he is, and a new chief risk officer, and we need to set up the capabilities and functions that were previously provided by PLC, functions like investor relations and treasury. And as you will have seen, we have appointed Glyn Jones as our independent non-executive chairman and we are working to ensure that we have PLC level governance processes in place. We are clear that it's a big step up from being a subsidiary of a PLC to a PLC in our own right. There's lots to do. And we are making very good progress. Right, let me hand now over to Steve who will explain to you how we will use our investment in technology to underpin the Old Mutual Wealth proposition to our customers. And I will then come back with some final thoughts. Okay, Steve.

Steve Braudo: Thanks, Paul. And good afternoon everybody. I'm going to talk about Old Mutual Wealth's UK platform transformation and explain why our platform is so important to us, what we are building, where we are at the moment. And I will also explain what we've done to overcome some of the challenges that we have had.

So why is the platform so important to us? As you've heard from Paul, Old Mutual Wealth has a unique business model. We offer customers choice across an end-to-end wealth management offering. Our UK platform is a key part of that offering. Our platform receives flows from Intrinsic's restricted financial advisors as well as from third party IFAs. It provides retirement, investment and savings products, and generates assets into OMGI, our asset management function where we retain higher margins. Approximately 44% of Old Mutual Wealth's net client cash flow is written via the platform and at half year approximately £1.5 billion of gross inflows into OMGI came in via the platform. So, as you can tell, it is an important part to our integrated strategy.

Our focussed approach to customer service remains a differentiator for us to drive growth. Our platform has won many awards for service. Given competition in the space, very few advisor platforms make a profit. At year-end 2015, we disclosed operating profits of £33 million and we want this to grow. Achieving scale and improving operating leverage are important to succeed. This platform transformation is required to get us there.

In 2013, we began a journey to transform our UK platform for the three main reasons which I've highlighted on this slide. Firstly, support for the existing software and operating system ends in 2020. Our ongoing development and maintenance costs were increasing and the system's product capability is limited. We want to ensure that our award winning portals retain their leading edge features and ability to adapt in a rapidly changing technological environment. Advisors place the majority of business onto their platform of choice which Old Mutual Wealth is today.

At the end of Q2 2016, approximately £530 billion of the total retail fund market was estimated to be on platforms. Of this amount, around £378 billion is on advisor platforms. We currently have £37 billion of assets on our platform making us a leading player. Third party research suggests that over £1 trillion of assets will move onto platforms over the next ten years. This is a big market and an excellent opportunity, so this build is a necessity.

The capabilities of our new platform will help improve the sales of new business and the retention of existing customer assets. So a future-ready, digital wealth platform is important to our strategy. Furthermore, we do expect some industry consolidation as other platform based businesses struggle to survive in the low margin environment that we're in. Successful business models will be low cost platforms that are integrated and make profit from other parts of the value chain too.

So, I've explained where we are trying to get to, but where are we today? We have partnered with international outsourcing specialists IFDS for the outsource of this transformation programme. They will take on the back office client administration office activity at the appropriate time and appropriate stage of the project. All the platform software development work has been outsourced to software specialists DST. DST owns IFDS. These two parties aim to be a leading third party administrator in the UK platform market and we will benefit from their scale. We are the second largest client that they are partnering with in the UK market.

So far, the majority of the core back end administration system, which is called Blue Door, is built and is undergoing testing. This covers work flow, customer administration, product rules, regulatory requirements and links into 25 external systems required to verify details such as bank accounts and fund valuations. All here is on track. The majority of the coding is complete and the links are being tested.

The majority of the specification of the front end of the administration system, which is called Open Door, is done and coding has commenced. This includes the customer and advisor portals as well as the customer contact centre. Overall integration between Blue Door and Open Door is currently being planned with these two teams working very closely together. The business case for this programme is based on us outsourcing areas of our business that rely on receptiveness and scale to IFDS such as the back office of customer administration. This includes gathering documentation for customer take on, keeping the system up to date from a regulatory perspective, and producing customer statements. Our plan for Open Door is very different. We will keep the customer and advisor portals and the customer contact centre in-house as customer experience is our differentiator. We believe retaining this activity is important to protecting value. It means that we can improve our customer and our advisor experience in ways that are unique to us.

So what has changed? In 2013, we originally set out to enhance our platform's technology and outsource the Heritage and wealth administration. Given that our existing platform is so rich functionally, this was always going to be a difficult project and we have had some big challenges along the way. There have been momentous changes in the market and regulatory environment during the project which meant that we have had to redirect project resources to meet these challenges and revise our specifications. Earlier this year, we therefore decided to pause and consider our position fully. We want to ensure that we implement the programme with minimum impact for advisors, customers and our business. As a result, we have made changes to the programme, some of which have already been announced.

Firstly, we have brought in Accenture which has enhanced and strengthened the capabilities of a project management team. We have paused our Heritage build until the wealth platform is delivered. This simplifies the overall solution and focusses our resources on the wealth build. We are currently considering technology options on the Heritage book of business. We have reprioritised and re-scoped so we are focussed on delivering what we have today alongside some important new functionality for which there has been high demand, such as new investment and trading flexibilities including cash accounts.

We have got a clear delivery plan including a lower risk, four-phased migration to advisors. The current plan has this roll-out starting in late 2017 and completing towards the end of 2018. We have also enhanced risk management oversight and reporting across the entire programme. This has given management significantly higher confidence that the programme is running to the new plan. Our risk and internal audit functions will continue to oversee the key activities and they will review and challenge the programme as the plan progresses. Independent assurance will also continue throughout the duration of the programme and will present recommendations too.

As part of the re-scope activities, we also reviewed alternative options available to us. However, none offered us a better cost, time and risk profile than our current plan. In August, we reported that the programme had cost us £225 million to the end of June 2016, and of this amount £110 million relates to Heritage. We estimate that the current plan will cost a further £200-225 million, and that excludes any further build on Heritage. It also excludes any benefit from the investment already made in Heritage.

So how does this affect our return on investment? Taking the costs and the future revenue that this business transformation is likely to deliver, we continue to expect a positive net present value of the total investment and the payback period of eight years compared to remaining on our current systems. A modern platform will help retain advisors, attract additional business and deliver capacity for the expected future growth. These three components are built into our business case. The fundamental operating changes we are making will create greater operating leverage via operational savings and enable scalable growth. We anticipate that future development spend will be more efficient due to the new technology as well as other users sharing in such costs.

So, what does this all mean for our customers, advisors, our business and our shareholders? When I joined a few months ago, one of the areas that stood out was the complexity of this business transformation. It was always going to be a difficult project. The recent changes to our programme, including how we work with our partners, has helped to ensure greater cohesion. Significant progress is now being made. We have increased oversight and obtained independent assurance which gives us significantly higher confidence that the programme will follow the new plan. We remain committed to delivery. The programme is not just about IT and operations. It's also about ensuring we continue to operate a strong, sustainable and successful organisation, developing Old Mutual Wealth as an end-to-end wealth management business. It will improve customer and advisor experience and generate operating leverage for us. It will also enable us to solidify our competitive advantage and drive value for our shareholders in the long run.

Thank you so much for your time. I trust that you found this session helpful to understand the current position and our next steps. And with that I'll hand you back to Paul who will conclude our presentation.

Paul Feeney: Thanks, Steve. Before we close, I want to reiterate that we see strong growth opportunities ahead. Let me focus on three key areas. We have spent significant time and resource on building diversified distribution capabilities, including a large network of advisors. Our restricted advisor head count is growing and we will continue to focus and grow our distribution here. This strategy coupled with our emphasis on raising the productivity of our advisors represents a valuable opportunity for Old Mutual Wealth and our shareholders.

As I said earlier, delivering modern propositions to meet desired customer outcomes through talent-based conviction investing is central to what we do. We now have the peer leading capabilities needed to create wealth solutions that really can deliver better customer outcomes.

Finally, we aim to further realise scale benefits and drive further efficiencies across our business. All of these factors are expected to drive returns and financial performance. With this in mind, I would like to end by summarising the key elements of our investor proposition.

We have leading positions in large and growing markets. We have got a modern proposition that delivers on customer needs. We have got a business model that is unique and differentiated. We have recruited a highly capable team who are excited about capturing the opportunities we see in the UK wealth management market. And pulling it all together, this differentiated approach should allow us to better serve customers, attract greater flows, deliver greater operating leverage and therefore enhance shareholder value.

Ladies and gentlemen, this brings me to the end of my presentation. Thank you. And, on that note, we'll take any questions. Mark will now join us on the stage to take some questions with us. Mark.

Greig Paterson: Morning everyone. Greig Paterson, KBW. Three quick questions. One is can you just update us where the FCI investigation is in the integration debate. Second point is I note you said you were going to build up a new private client advisor or something. If you could expand on that statement. That seems to be new to me. And the third thing is, I mean, you've basically added another £70 million to the cost of the project today. That's half a billion to move circa £100 billion across. This is a continuous saga. I appreciate that you've put in some controls etc. but could you maybe enlighten us what you see as the key risks that could cause this cost to go up again in terms of the integration project because it keeps going up and up and up? It's gone up £70 million today effectively. And what are the key risks there? What should we be concerned about?

Paul Feeney: Thanks, Greig. Great questions. On the first one, I'm afraid I can't say too much because we're bound by confidentiality with our regulator. All I can say is that is that we're working openly, cooperatively and fully with the FCA and that is progressing. On the second one, on the private client adviser force, this is Old Mutual Wealth private client advisors. It's fairly nascent at the moment; we've got about 50-odd financial advisors we've hired in that area. However, it is totally focussed on the high net worth segment. It doesn't need to be thousands of advisors in that segment but we need to be no more than a couple of hundred or so in that segment. But we are committed to building that out and, of course, that will work quite a lot with Quilter Cheviot and their client base. And then on the final one, I think, Steve…

Steve Braudo: Greig, thanks a lot. The key risks I think first in any IT project there's never ever a guarantee, so we have put those controls around so we make the probability of success within the time and budgetary constraints as high as possible. The key risks to focus on is scope creep. One should never expand a project that it becomes bigger and bigger and bigger, so we focussed it, we are very, very clear on the focus and what the delivery is by 2018. And the next key risk always occurs in testing, as we start testing the integration of the various components of the system, got to make sure everything works together. And, once again, that's why we are using the likes of Accenture, we've got independent oversight by KPMG as well as a professional team in place, we are watching this like absolute hawks to ensure delivery.

Jacques Conradie: Hi, Steven, Paul, Jacques Conradie here from Peregrine Capital. Just a follow up on the system spend. It sounds like the Heritage spend has been paused for now. Maybe just give us some overview as to what your plan is for that business. It's obviously still making small profits for now but it sounds like it might be a lot of IT work, so can you dispose of it or what's the IT work or IT expenses versus, I guess, profit that could still come from that book?

Paul Feeney: Okay, thank you, and again another good question. I'll kick off and then ask Steve to finish. The Heritage business is part of our business, it's part of our perimeter, we'll be going to market with the Heritage business. It's on more stable IT systems at the moment than the wealth platform is. As we say, we've paused it mainly for risk management reasons. The opportunity we have in the wealth space is enormous and we have to get our platform in. And simply adding this in to the mix right now. And Steve came along to have a look at this, and this is also his decision, but adding that in to the mix right now just increases risk of delivery of the wealth platform. Steve.

Steve Braudo: Yeah. Jacques building the platform - I showed the push factors which are ageing technology, increasing costs as well as the pull factor which is the trillion pounds that's going to move on to the platform, that's why we need to be there. The Heritage book hasn't got as many push factors because the end of system support in 2020 is only for the open book, the UK wealth business. The Heritage platform is stable, it's solid, it works well and the issue on that book is that it runs down and it's on a fixed cost base, your unit cost is going up. So we are looking at a couple of options on technology around that, and once we've got a firm plan we'll come and let everybody know.

Andy Sinclair: Andrew Sinclair from Bank of America, Merrill Lynch. Firstly on Quilter Cheviot, apologies if I missed this, but could you give us a proportion of how many of Quilters – of what proportion of Quilter's funds are currently managed by OMGI and where you think this could feasibly go? Secondly, you talked about driving cost efficiencies and scale benefits. I just wondered how you planned to measure this? Are you able to tell us where the cost/income ratio would be going over time? And thirdly, you said that – this possibly is just a point of clarification – Steve, you mentioned that changes for the IT programme, some had been announced already and some had not been. Do you mean that some had not been even beyond what's today or do you mean that today was clearing up what was yet to be announced?

Paul Feeney: Okay. Thank you, Andrew. Do you want to take that last one first and then we'll share…?

Steve Braudo: Yes, the latter, today was clearing up what was yet to be announced.

Paul Feeney: Right, I'll take the… So, look, Quilters has several hundred million pounds invested in OMGI's funds. Most of that has happened over the last few months. Now we don't have an actual target for that and, as I said, we would never target the investment managers in Quilter Cheviot to give them a number as to how much they should invest. What we are saying is our wealth solutions are getting more tailored for that client base, and as the teams get to know each other better I anticipate that will increase. We've already gathered quite a few synergies from the acquisition of Quilter Cheviot, particularly on the cost side. Mark, do you want to…

Mark Satchel: Well we have. I mean, in the original business case when we acquired Quilter Cheviot, we were hoping to achieve £5 or £6 million of cost synergies. We have exceeded that. We have achieved in excess of £7 million since the acquisition. And, as Paul says, in terms of integration of that business from a funds under management perspective we don't have any specific targets. We need to have funds from within the house that have been managed there on merit. And we believe that more can and could be managed within Quilter Cheviot but it's something that clearly the discretionary investment managers need to decide to do.

Paul Feeney: Sorry, I missed – did you have another question?

Andy Sinclair: Sorry, the other question was on measure of scale .

Paul Feeney: Of course. Is there a piece of paper I can write on? So, basically, as I mentioned, we've spent four years, we've been building this business over the last four and a bit years, and that has been about setting out the strategy and the vision. We've been buying businesses, we've been selling businesses, we've been building businesses pretty much from scratch, and we've been re-platforming businesses. So that's kept us busy. Now, the goal is to take this and make the model hum, as I said, to make sure that we're operating on an efficient basis so that we're not duplicating functions, so that we're not duplicating effort, so that when we do see things like an £8 billion rise in our assets under management in one quarter we also can gauge very effectively what that does to our overall revenue and cost income or operating margins. So it's a bit early yet in terms to give you an exact operating margin figure, Andrew, simply because we're taking some costs to stand alone as a PLC and we're also taking – we're also ensuring that we can operate efficiently, as I said, bringing these businesses together. Rest assured we'll have our KPIs and we'll in time let you know exactly what they are.

Eser Torun: Eser from Barclays. Thank you very much, Paul, Steve, great presentation. And I had a question regarding your strategy definition "blending peer leading capabilities". What is peer group for you? Who is the competition considering you have a unique model? And another one around "leading". How to maintain that leading position considering competition always comes from unexpected places in this environment of change and digital disruption.

Paul Feeney: Okay. Well we thought very carefully, my team and I, about that term, "peer leading", because everyone talks about market leading and I find market leading can be a bit more obtuse, obscure. So "peer leading", in some ways it's easier to look at the individual four components of our business and determine who their competitors are. It's very easy to see who OMGI's competitors are, who the competitors are to Quilter Cheviot, who the competitors are to our UK investment platform, who the competitors are to Intrinsic. It's very simple. We know who they are and we monitor and monitor against them every day, every week. So when we talk about "blending peer leading capabilities", to do this on a national and international scale, to make a difference to our nation, we have to ensure that those four individual business areas are competing at the highest level with their own peer groups. Therefore, we know when we blend the capabilities of those business lines and those businesses together; we are blending truly competitive, market competitive, components to build our wealth solutions, to meet our customers' needs. That's what I really mean by that.

Eser Torun: And the second point?

Paul Feeney: Yes, I must start writing these down.

Mark Satchel: Leading position.

Paul Feeney: I think a leading position certainly in the market when we say we want to be the leading wealth management business, we really mean it. We mean the leading wealth manager by AUM, by revenues, by profits, by the quality of our performance and outcomes for our customers. So, again, it's a high bar but it's a bar that – that's what we set out from day one to do and it's what we're all here to do.

Gordon Aitken: Thanks. It's Gordon Aitken from RBC. Three questions please. One on margins: you mentioned that the wealth solutions business is a lower margin business and asset management somewhere in the middle and Quilter Cheviot is high margins. Can you just give us the revenue BPS on those at the moment and where you see that heading? Second point on UK pensions regulation, just wondered what you expect in this area. Is the removal of high rate tax relief inevitable and how would that impact your business? And just final thoughts on debt: have you had thoughts on level of gearing that wealth business could list with?

Paul Feeney: Okay. I'm going to ask Mark, our CFO, to take the first of those. So I mentioned to Mark lower margin overall in wealth solutions and wealth management.

Mark Satchel: We've made all of these disclosures in the supplementary data pack that go out at the half and full year with the results. But generally speaking, I think wealth solutions, if you look at our current construct of businesses, it's about 52 basis points on average. That does include Italy; If you strip out Italy it's about 48 basis points. Within OMGI, we are at 66 in terms of revenue basis points, and Quilter Cheviot, 80, which gives you a blended of in the low to mid-70s. All the different – and within wealth solutions there are obviously quite high degrees of variation depending on whether it's on the platform side of the business which is at the bottom end, or in international part of the business or in the other parts of the business that is a higher revenue basis point margin on that part of the business. I could probably talk a whole lot more about margins but I'll probably end it at that.

Paul Feeney: Okay, so maybe I can just take the next two parts of your question. UK pension regulation, where is it going? Well I know where I'd like it to go. I'd like it to become more simple. Andy Holdane, the Chief Economist at the Bank of England, got a bit of a drubbing lately for saying that pensions are complicated. He is right, they are complicated. One of the issues that people haven't really remarked on with the new pensions regulation (which we applaud), is that the government has left the ring and taken the ropes with them, and that people left in the ring, the rest of us, better understand the rules of the game. And those rules are complicated. They are overly complicated. Which is why you need financial advice. So firstly, my first wish would be can you just leave things alone for a while? Can we leave things alone for a while? Because it's adding complexity onto complexity. If not, then simplify it. Do it quickly. Simplify it in terms that people can understand pension's regulations. So I've got my own views as to how we do that but I'm working with treasury and our regulator to provide views on that. Secondly, higher rate tax relief for pensions, will it remain? Clearly I don't know. I suspect it's going to continue to be an attractive pot to dip into for governments. I think at some point in time though it's got to settle down, it's really got to settle down, because the biggest thing for the retirement markets in any country is trust, and people have to trust that their pension monies, pension savings, are safe.

Mark Satchel: And the final question was around debt. Look, we are highly cash generative business with relatively modest capital requirements but clearly any questions on debt is something that our board would need to discuss and consider in line with our risk appetite, and at the moment as part of managed separation it's not something that we have done to date, and until we do it it would be premature for me to probably comment further on it.

Paul Feeney: Okay, Michael, sorry, you've got a question on the phone?

Michael Christelis: Can you hear me?

Paul Feeney: Yes, hi, Michael, we can hear you.

Michael Christelis: Michael Christelis from UBS. Just to focus again on the Heritage book, as per your announcement today it certainly looks like you're basically saying that £200 million excluding Heritage as an additional cost. Now is it safe to assume that if you were to include the completion of the Heritage project there would be another £200 million given the historic costs have been 50/50? The second question relates to the rationale, originally to do the Heritage book was to move to a variable cost base, and can you give any indication of what sort of run off of this book is looking like in terms of the number of policies, and how can you expect pausing this is going to impact the Heritage earnings?

Paul Feeney: Okay. Thank you, Michael. I'll ask Steve to take the first part of that question and Mark to take the second part of the question.

Steve Braudo: Mike, hi. So, going forward we certainly – if we had continued with Heritage it wouldn't have been a 50/50 split. Most of the back office administration for Heritage has actually been built, it's a system called Percana, it's built – the front-end portion of it has not been built so it wouldn't have been – the costs wouldn't have been the same. It would have been far less for Heritage. But, as I mentioned earlier, we want to focus on an open book. This is where the greatest urgency lies. The book is running off at about 15% per annum and I'll ask Mark, as Paul said, to answer the rest of your question.

Mark Satchel: I think it probably was much of the answer. The book is actually running off at quite a bit less than 15% per annum at the moment on the pension and life policies which are the predominant parts, they are running off at just over 10%. Three or four years ago they were running off at 14% or 15%. But actually we've seen a reduction in the surrender profile and we've seen that over the last few years; last year it averaged just over 12%. So the persistency on it is getting better compared to historic experience.

Patrick Bowes: Thank you. We'll have a break now until 2 o'clock and we've got Mike Brown to take on from then. So get some fresh air and have a drink and join us outside. Ten minute break, 2 o'clock, thank you.