Q1 IMS 2013
TRANSCRIPT

9 May 2013

OPERATOR: Good morning and welcome to the Old Mutual First Quarter IMS 2013 Investor and Analyst Conference Call. Throughout this call all participants will be in listen-only mode and afterwards there will be a question and answer session. Just to remind you, this call is being recorded.

Today, I am pleased to present Julian Roberts, Group Chief Executive. Please begin.

JULIAN ROBERTS: Thank you, operator. Good morning everybody. Welcome to our conference call to cover the first quarter interim management statement. As usual, Philip Broadley, Group Finance Director, is sitting next to me here in London.

While equity markets have risen in the first quarter of the year, particularly in the UK and the USA, broader economic challenges still remain. Against that backdrop, I am really pleased with Old Mutual's performance. Across the group we generated £3.9 billion of positive net client cash flows and with the benefit of positive market movements our funds under management were up 7% from the year end to £288 billion. In our life and savings businesses, gross sales were £5.6 billion, up 14% from Q1 2012.

If we go through some of the detail underneath those headlines, starting with emerging markets, gross sales were up 9% to 35 billion rand, net client cash flows at 5.7 billion rand were 1.5 billion higher than last year and funds under management were up 6% in the quarter to 765 billion rand.

The increase in NCCF was due to improved flows in Asia and Latin America, non-recurrence of too large outflows in Namibia in Q1 2012 and a large annuity deal in corporate.

Life APE sales were up 19% on the comparative period but within this our mass foundation cluster was up 16% and our rest of Africa business up 18%. Momentum in mass foundation continues buoyed by a larger sales force and the first time inclusion of Old Mutual Finance credit life sales of 48 million rand in the first quarter.

Asia non-covered sales have been reclassified to covered business and represent 149 million rand of APE. The reclassification is part of our continuing efforts to improve our disclosure which will become particularly important as emerging markets' businesses outside of South Africa become more material.

Protection sales in retail affluentcontinue to see the impact of competitive pressure. Notwithstanding the Asia reclassification non-covered sales still grew by 4% to 24.6 billion rand with an increase of 24% in unit trust and mutual fund sales driven by large corporate deals in Latin America and strong growth in Zimbabwe.

South African sales were affected by the non-recurrence of cash collateral flows in Q1 2012 which we previously mentioned.

Other non-covered sales declined by 16% primarily due to a mix of sales in the comparative period having benefited from the two significant inflows into the Dibanisa boutique.

We have been busy with our African expansion plans. The Nigerian life insurance operation is now under our management and we are gaining new customers. We have signed transaction agreements with Eco Bank to purchase the Nigerian General Insurance business and are now awaiting regulatory clearance and as you will have seen last week, Nedbank has agreed to acquire 36% of Banco Unico, a Mozambiquan bank with a footprint across the country's major population centres. There is an option to increase the stake to a majority shareholding in three years' time.

Sub-Saharan Africa continues to demonstrate good growth with the IMF forecasting GDP growth for the region of 5.6% this year and 6.1% for 2014.

So, let's move northwards from Africa turning now to Old Mutual Wealth. Old Mutual Wealth had a resilient start to the year despite the UK regulatory changes. Gross sales for the period were £3.1 billion up 19% on the comparative period and funds under management now stand at £74.5 billion, up 8% on the year end. Net inflows for the wealth business were flat at £400 million despite a net outflow of £225 million following the sale of Skandia Nordic last year. We expect further Nordic outflows during 2013.

In the UK we achieved NCCF on the platform of £0.5 billion meaning that we now have £24.7 billion of funds on the platform. This is a pleasing result against the backdrop where the investment management association's figures for March 2013 showed that net retail sales were approximately half those of March 2012. Sales are on an improving trend and we remain confident that we are well-placed to be net beneficiaries of the RDR given our business model. We have recently launched a new critical illness product which has been well received and will be rolling out additional investment products during the year.

International gross sales improved by 15% over the comparative, with net inflows of £134 million. Significantly better than the comparative period which saw a small inflow of £12 million.

The Middle East has seen improved sales of both unit linked and portfolio bond business while pensions performed strongly within Europe. South Africa has seen a significant improvement as sales of the portfolio bond gained traction.

OMGI gross sales were up 68% on prior year to £1.5 billion, helped in part by positive markets but more significantly the first time inclusion of OMAM UK sales and the transfer of internal assets into Old Mutual Global Investors select range.

We are continuing to make progress in building our asset management capability and you will have seen that we have made a number of new appointments to Old Mutual Global Investors including Richard Buxton and his team who arrive in June. As you know, this is a key part of our plans for the development of this business.

For our US asset management business, this has been an excellent quarter with net inflows of $4.1 billion. Funds under management for USAM business now stand at $223 billion, up 7% from the year end. Gross inflows were $10.4 billion versus $10.9 billion reported in the same quarter of last year, of which $3.9 billion came from new client accounts. It was particularly pleasing to see inflows across a broad spectrum of investment strategies. Non-US clients currently account for 34% of funds under management and international equity, emerging markets, global equity and global fixed income account for 52% of funds under management. Investment performance was stable and continues to be key to future flows.

In the quarter Nedbank grew net interest income and non-interest revenue by 7% and 8% respectively. The credit loss ratio increased in line with the first quarter expectations to 1.22% compared to 1.08% in quarter 1 2012, reflecting seasonal factors and in personal loans the continuation of higher levels of defaults identified in the fourth quarter of 2012, the effect of more conservative provisioning policies adopted from the second quarter of 2012 and a one-off model overlay charge of 60 million.

Credit losses are typically higher in the first quarter and we expect them to be lower in the course of the year. Nedbank remains in a strong position to meet the expected Basel III capital requirements.

At Mutual and Federal we have seen growth in our niche businesses through alternative distribution channels with an encouraging 19% increase in gross written premiums. iWYZE continues to provide us with increased access to non-traditional market segments and we are working hard on the quality of the book and policy count growth has slowed as a consequence. We are still in a prolonged challenging claims environment and improving underwriting performance is key.

In Bermuda both the estimated cash cost of meeting future fifth anniversary guarantees and the level of the guarantee reserve continued to decline as the five year guarantee nears its end. The aggregate surrender levels continue in line with our assumptions.

Group FGD surplus was steady at £2 billion after taking into account the final dividend declared for 2012 of 5.25 pence per share to be paid to shareholders at the end of this month.

So, overall it was another good quarter for Old Mutual with positive performance trends, positive net inflows into our core businesses. We achieved good growth in emerging markets, a resilient performance in the UK and further delivery across the group on our strategy. We are very pleased with the turnaround in NCCF in US asset management. We are confident about the prospects for the group for the full year.

At this point, I will hand back to the operator and of course, Philip and I are happy to take any of your questions.

OPERATOR: Thank you. Ladies and gentlemen, if you would like to ask a question please press 01 on your telephone keypads. You may press 02 at any time to withdraw your question. There will now be a brief pause while questions are being registered.

Our first question comes from the line of Blair Stewart of Bank of America. Please go ahead. Your line is now open.

BLAIR STEWART: Thank you very much and very good morning to you. I have got two questions I think. The first is on South Africa, a drop in the net client cash flows in Q1 versus Q1 last year. I think you mentioned that there was some exceptional business came into Q1 2012, Julian, I just want to check whether that was the only driver there of that drop in NCCF and secondly, on the UK business, two questions really here: Old Mutual Global Investors has seen very, very strong gross sales, I think £900 million of gross sales. I just wondered if you wanted to comment on what's driving that and what product types that is going into and secondly, just given the amount of regulatory change in the UK space, could you comment on how that is affecting the business? You mentioned that retail sales are down by about half in March. I wonder is that, in your view, related to some sort of hangover effect from a drive in sales in Q4 ahead of RDR changes perhaps? Thank you.

JULIAN ROBERTS: Okay. Let me deal with the last one, just to be absolutely clear for everybody. It's the IMA stats for the market as a whole that is lower than last year, not our book where we are actually very pleased with the way that we have performed.

Look, I think what is going on here is that with RDR coming in and the changes, I think not all IFAs have adapted their models moving forward. I think also you have got some people who have been looking to sell as they sort themselves out more of the products that are still paying commissions. I think you see that coming through in the market and our view is as the year progresses I think IFAs will get back to their core investment businesses and they will sort out their models moving forward.

It is not a particular surprise I think for us what has happened in that period of time.

If you look at the South Africa net client cash flows this is particularly through Dibanisa our passive manager that had very strong flows. Other than that, there is nothing in particular and I think you had OMGI, I can't think of where that is. The main flows were coming into our bond business and in our UK mid cap areas.

BLAIR STEWART: Thank you.

OPERATOR: Our next question comes from the line of Michael Christelis of UBS. Please go ahead, your line is now open.

MICHAEL CHRISTELIS: Hi guys. Good morning. Two questions if I can: firstly on US asset management. I mean, I notice the investment performance numbers look like they have dipped, looking at the one year and three year funds ahead of benchmark. Can you give us an indication of which affiliates are struggling and whether that concerns you perhaps from a client cash flow going forward perspective and what that means for the potential IPO there and then secondly, just in SA around the hedging that you guys spoke about at full year against the ten year bond yields dropping any further, I mean can you just clarify whether there have been any changes to that hedging strategy? Thank you.

JULIAN ROBERTS: Look, I am not going to go into specifics on USAM and investment performance. I think across the board we are quite happy. You can't look into the short term fluctuations that go through.

So, yes there is a slight dip but yes, nothing in that significant and I am not particular concerned. As you would imagine, we do monitor one, three and five years on an ongoing basis for all of our affiliates.

PHILIP BROADLEY: And no change in the hedging strategy since we spoke about it in March.

JULIAN ROBERTS: Next question?

OPERATOR: Our next question comes from the line of Larissa Van-Deventer of Deutsche Bank. Please go ahead, your line is now open.

LARISSA VAN-DEVENTER: Thank you and good morning. Two questions please: the first one on US asset management net client cash flows, a very pleasing return to positive flows which we saw in the first quarter of last year as well. I would appreciate if you can please give some colour as to which boutiques were the beneficiaries in this quarter versus what the same situation was last year and the nature of the flows, if you can comment.

The second one on South African affluent sales. The growth was quite muted. If you could just comment on the competitive landscape and any changes you may have on product offering in that space.

JULIAN ROBERTS: Yes, the first one, I think our view generally is the quality of the net client cash flows in the first quarter is stronger this year than it was last year. If you recall and we did highlight last year that there was one boutique that accounted for a significant part of the net client cash flow. This quarter is somewhat different and we have got positive net cash flow over a number of different styles. It is not dominated by one. So, it is very difficult to predict what is going to happen in the future but it is a much broader base and I think overall a stronger start to the year than we had last year.

PHILIP BROADLEY: I think that it might be worth looking later on when you have a chance at the detailed disclosure supplement, the schedule where we break down the funds under management and you will see the changes coming into Barrow Hanley and Acadian, each over $5 billion and also if you look at the fund mix, I think it is interesting to note in billions of dollars there has been little change in the fixed income amount of fund under management actually now compared to year end but a $13 billion increase in funds under management in equity strategies as a combination both of the funds inflow and also, of course, in the strong market appreciation we've seen in the first quarter which is carrying on in the US, as you will know.

JULIAN ROBERTS: And Larissa, in South Africa, I think it is no different from what we said before. In the single premium space there is in the fixed bond investment we are writing a lot less because our competitors are pricing very, very aggressively and more aggressively than we are willing to do so. And we are sticking to making sure that we write businesses on a decent return and people are writing more than that.

We have got a number of different products that we are looking at and a number of changes in the wealth part of retail affluent that we are looking at. I am not going to go through the detail but rest assured we are not just standing still. We have got a number of things up our sleeves to get some more growth coming back into that business.

LARISSA VAN-DEVENTER: Thank you.

OPERATOR: Our next question comes from the line of Risto Ketola of SBG. Please go ahead, your line is now open.

RISTO KETOLA: Yes, good morning. I've got three questions as per usual. So, the first one is you referred to in a few places about outflows relating to asset source from the Nordic business originally. So, the first question is how much assets are at risk in terms of flowing back into Sweden over time?

The second question is in the UK your recurring premium sales were quite weak. Now, you have been speaking about launching new protection products for a while, I'm just wondering whether these products have not sold or whether they have not been launched yet.

The last question is on Asia. The APE number from Asia is actually quite high. Now, I'm wondering do you show 100% of the sales in those markets or do you show your proportion, in other words, 26% of India sales, 50% of Chinese sales and so on.

Thanks. Those are the three questions.

JULIAN ROBERTS: Let me do the first one. So, there is this book of business that OMGI manage for Nordic. There was the outflows we had in this quarter. There's around £350 million left that we think will flow out during the year.

On the recurring premium sales in the UK, we have launched new protection products but it is fairly small business. We are not a big player in that market. We aim to grow it but it's still pretty small and you know, as I mentioned just as I was going through my opening, we've launched a critical illness product to keep trying to boost those types of sales and we are confident that will sell but it is still -- compared with our competitors, our protection sales are still quite small.

PHILIP BROADLEY: And we do only include Asia sales in terms of the proportion of our holdings. So, thank you for pointing out the fact that we should include a note next time to be clear that that is how we deal with it.

RISTO KETOLA: Okay, thanks.

OPERATOR: Just to remind all participants, if you would like to ask a question please press 01 on your telephone keypads. You can press 02 to withdraw your question. There will now be a further prompt while questions are being registered.

Our next question comes from the line of David Danilowitz of Nedbank. Please go ahead. Your line is now open.

DAVID DANILOWITZ: Hi, Julian. Thanks very much. This is a question directed to the mass foundation cluster in South Africa. Volumes remain reasonably good although excluding credit life certainly are slightly softer yet if I look at the total book as a whole that is growing still at around 14% which is not much down on last year. Would it be right to read into that that persistency trends have remained solid?

PHILIP BROADLEY: Yes I suppose. I was trying to think of a more complicated answer but it is probably worth noting that, at the risk of stating the obvious, the mass foundation business is a retail one. It does need to be looked at in the way that retail businesses would in terms of number of trading days and so on. So, the holiday season, the holiday schedule mean there were actually fewer selling days in the first quarter of this year than last and so that will have had some effect on the like for like sales but the funds under management does give you an indication as to persistency.

DAVID PANILOWITZ: Great.

OPERATOR: Our next question comes from the line of Marius Strydom of Bank of America Merrill Lynch. Please go ahead. Your line is now open.

JULIAN ROBERTS: Hi, Marius.

OPERATOR: Marius, you may go ahead and ask your question. If you have your phone on silent or mute, please take it off.

Okay and as there is no response from Marius, we will move to our next question which is from the line of Zeina Rizk of BNS. Please go ahead. Your line is now open.

ZEINA RIZK: Hi. Thank you. Actually I have two questions. My first question is related to your deleveraging strategy and you had an aggressive deleveraging strategy in 2012. I would like to know if you still have the same plan for this year and my second question goes to the mismatch between the bond issues which is in hard currencies and your sources of revenue which is mainly in South African ZAR. Can you comment on that please?

PHILIP BROADLEY: Well, firstly on our debt repayment plans, we have a total debt repayment programme of £1.7 billion of which a little over £1.5 billion has been repaid and you alluded to that in your question. Of the remaining £180 million or so, we have no debt maturing in the short term and we have, therefore, no specific plans to repay debt by a certain time in respect of that remaining amount.

In terms of your question about the mismatch of, as you put it, between the debt and sources of earnings. I think the best thing I would do for now, if I may, is to refer you to the full year results presentation where I did go through our sources and uses of cash in hard currency and in rand and I think that demonstrates that between the roughly £200 million of profit generated by Old Mutual Wealth that is remitted in cash term and the earnings from the US, we end up with a little bit over £200 million of hard currency remittances that are at a parent company level from which we have an ongoing interest cost in this year, having repaid the debt of under £100 million.

So, I think our remaining hard currency debt is actually more than matched by hard currency earnings.

ZEINA RIZK: Okay. Thank you.

OPERATOR: Our next question comes from the line of Marius Strydom of Bank of America Merrill Lynch. Please go ahead. Your line is now open. Marius, please go ahead. You may now ask your question. If you have your phone on silent or mute, please take it off.

Okay and again it looks like we are unable to hear Marius at this time.

PHILIP BROADLEY: I think can we just perhaps say to Marius that we will take his question offline at the end of the call. There obviously seems to be some fault somewhere along the line.

OPERATOR: In which case, we will move to our next question now which is from the line of Risto Ketola of SBG. Please go ahead. Your line is now open.

RISTO KETOLA: Yeah, guys, thanks. Just two more questions have come to mind. I mean, one thing is looking at the non-covered sales in LATAM, those are pretty huge. I am just wondering whether you are prepared to give some indication of the size of the Columbian corporate deal.

The second question is a bit more interesting in that the Eco Bank short term insurance business, I am just wondering, I mean, is there any operational activity in that business at this stage or are you just really buying the licence and the platform to build the business on?

JULIAN ROBERTS: It is a relatively small business and interestingly at the end of last year I would turn round and say sales had been dropping but actually with our involvement the business has been picking up quite well. So, it does have a book of business, a bit like the life business but with the distribution of Eco having taken over Oceanic, the branch network, the 500 and I think it's now 30 or 40 branches are now selling both life product and the general insurance business. So, there is a book of business and it is growing quite well.

RISTO KETOLA: Okay.

OPERATOR: Our next question comes from the line of Blair Stewart of Bank of America. Please go ahead. Your line is now open.

BLAIR STEWART: Yes. Thanks very much. Just coming back on the UK, I just wondered how you are getting on with the in-housing of assets from the platform onto your own asset manager, if you could comment on that. It may be early days. Secondly, how do you expect the platform competitive environment to change now that Cofunds is fully owned by Legal and General?

PHILIP BROADLEY: We are seeing some movement of funds from the old style into the select range and you can find that included within the -- I suppose the balancing item on page 6 of the release. It is dealt with as part of the elimination of intra-group assets.

I think the platform environment will remain competitive. We have discussed before in various places the way in which the mass market in the UK, if I use that term to describe the segment in which we are competing, is served by a variety of platforms through the IFA channel, through direct offerings and through a tied distribution force that St James Place has. So, there are a number of different ways in which that market is reached.

JULIAN ROBERTS: Yes. I think the interesting thing on the recent announcement coming out of the FCA on platforms about rebates being unit not cash, we have been very strong proponents of what's happening and our system is already set up to the unit. I think it is going to be, from what I gather, quite a bit of work for the other platforms and we know there is one particular one that I think under the new announcement some of their profitability may be challenged.

So, I think over the year we will see a bit of a shaking out but it's too early really to say how it will end up but I'm pretty positive that we are in a pretty good place.

BLAIR STEWART: Thank you.

OPERATOR: Our next question comes from the line of Paul De'ath of RBC. Please go ahead. Your line is now open.

PAUL DE'ATH: Hi. Good morning. Just a quick point of clarification I guess on your plans to expand into the rest of Africa and the Nedbank deal in Mozambique is that a purely sort of banking operation that you are looking to open there or is there scope for that to move into the insurance world further down the line and just if you could talk sort of more generally about how you see the overall expansion going in Africa.

JULIAN ROBERTS: Yes. I think it is a good question. The point for us is we are one group, so we have one strategy for Africa and that includes our insurance business and our banking business and so, therefore, you should not be surprised that as insurance expands and banking expands, we would expect there to be closer co-operation moving forwards. So, this is early days in Mozambique but you can expect in due course that there will be some insurance business written but very early days. We need to get that transaction done but you know, our strategy covers the whole group in Africa and you will see us expanding in both insurance and banking.

Operator, can I just turn round and thank everybody for joining this call. We are moving onto our AGM that is taking place later on. Look, we are pleased with the way our business has started the year. I think in all areas we are competing well and we are getting good growth showing really the footprint that we have got in the various areas of our strategic focus. Thanks very much for joining us and I hope we've managed to answer your queries. If not, of course, Patrick is always here to answer them.

Thanks very much.

OPERATOR: This now concludes our call. Thank you for attending. Participants, you may disconnect your lines.