# Q1 IMS 2014
# TRANSCRIPT

**15 May 2014 - Old Mutual Q1 Interim Management Statement Analyst Call**

**Operator:** Good morning, and welcome to the Old Mutual Q1 IMS 2014 Investor and Analyst Conference call. Throughout the call all participants will be in a listen only mode, and afterwards there will be a question and answer session. Just to remind you, the conference call is being recorded. Today I am pleased to present Julian Roberts. Please begin your meeting.

**Julian Roberts:** Thank you. Good morning everyone. Thank you for joining Old Mutual's First Quarter IMS Conference Call. As usual, Philip Broadley is setting next to me here in London. You will have seen that yesterday we announced the appointment of our new Group Finance Director, Ingrid Johnson; and Paul Hanratty to the Board of Old Mutual. I am delighted that we are able to appoint internal candidates to such crucial roles, which highlights the strength and depth of the management within Old Mutual.

Let me move on to some comments on the market and currency. During the quarter the JSE ALL SHARE and Russell 1000 Value both saw light gains – up 3% and 2% respectively – and the FTSE 100 declined by 2%. The rand weakened by around 5% in January, but then recovered a little to the end of the quarter; just 1% weaker than at the end of 2013. Nonetheless, compared with the first quarter of 2013 the rand was on average 29% weaker. This reduces our reported figures at a Group level, and is of course something you should consider when you review your models for the year. At the end of March funds under Management were £297 billion; up 1% since the start of the year. Weakness in the rand, and also the US dollar reduced funds under management by £2 billion. But this was more than offset by equity market gains of £6 billion.

So let's move on to trading performance. It was an excellent quarter for sales. Overall, gross sales were up by 12% reported, and 24% in constant currency. With emerging markets on Mutual Wealth up by 18% and 28% respectively. With that positive background, it was disappointing that net client cash flows at our group level were £0.5 billion negative, due to a significant outflow from our institutional clients in US Asset Management, which I'll come back to in a moment. Excluding USAM, net flows were £1.6 billion positive, up on the comparative quarter and represented on an annualised basis around 5% of opening funds under management.

So let's now go into the main points underneath those headlines. In emerging markets, retail markets performed very strongly, despite the slowdown in personal disposable income in South Africa. In Retail Affluent gross sales were up by 32%, reflecting the continued success of new propositions introduced in 2013. Single premium life sales were up by 44%, boosted by sales of the XtraMAX product, which was launched last May. And the wealth proposition, launched in September, has helped to drive non-covered sales, which are up by 30%. Recurring premium life sales were down year-on-year as a result of price led competition affecting sales of Greenlight. Overall, Retail Affluent generated positive net flows of 2 billion rand; a substantial achievement in the quarter. In Mass Foundation gross sales were up by 14% and Life ABA sales by 10%. As previously reported, in this market we're focusing on the quality of business written during this challenging period for consumers. Corporate had a very good quarter, due to strong sales in group assurance risk products; resulting in a 145% increase in Life APE sales.

Across South Africa net client cash flow was 2.8 billion rand, up from 1 billion rand in the first quarter of 2013.

In the rest of Africa, gross sales were up by 27%, driven largely by increased unit trust sales in Namibia and Zimbabwe. Reported APE sales were down year on year, as we're now reporting Africa net of minority interest and renewals. On a like for like basis APE sales were up by 19%.

In Kenya we've completed our acquisition of a majority stake in Faulu Microfinance Bank Limited. We've also continued to increase the size of our sales force, and have seen good customer growth via the digital mobile channel. We have signed new band distribution agreements in Nigeria and Ghana. And we continue to actively pursue further acquisitions in East and West Africa.

So we're continuing to progress our strategy, build scale and create positive conditions for future growth.

For Mutual and Federal, economic conditions remain difficult. However, restructuring continues, and we're beginning to see some signs of business improvement resulting from the remedial actions we are taking. We're also seeing a steady increase in the number of sales leads coming from other parts of the Old Mutual Group, which is positive as this is an important part of our growth strategy.

Nedbank continues to be in good health. Net interest income was up 9% and on interest revenue up 3%. Those are against a very strong comparative quarter. The credit loss ratio of 0.89% improved more than expected compared with the 1.22% in the first quarter of 2013. The improvement reflects the quality of the advances portfolio, and more conservative credit lending policies, which have been implemented.

Let's move on, turning to Old Mutual Wealth. Again it was a very strong quarter, which confirms our confidence in the position of that business in its market. In the UK, £1.3 billion sales were generated on the UK platform. And platform assets now stand at £28 billion. Old Mutual Global Investors had another good result with strong sales; specifically in the alternatives and equities asset classes. In the quarter, Old Mutual Global Investors was the top selling fund manager on the UK platform; generating 28% of the new business sales. A substantial uplift on the 16% generated in the full year 2013. OMGI was also the number one fund manager in the UK by net retail sales for the quarter according to The *Pridham Report*.

The UK budget statement delivered on 19th March created a positive environment for savings and investments at the end of the tax year. We expect to be a net beneficiary from the radical changes to the UK pension system, proposed by the Chancellor. We have no exposure to annuities, but are a leading provider of pension income draw down. And with our product solutions, strong asset management, and distribution capability we are extremely well placed to support customers with their investment choices at retirement.

In Europe, we have announced the sale of Skandia Germany and Skandia Austria, and have received regulatory approval for the sale of Skandia Poland. These disposals continue to simplify the Old Mutual Wealth business, and generate further shareholder value on the acquisition of Skandia.

Moving on to US Asset Management, where we saw net client cash outflows of $3.6 billion after several quarters of positive flows. Partly, this was a reflection of market conditions, recent strong equity market performance, and the impact on bond markets of continued lower interest rate conditions. This has led to a high level of asset reallocations. We've seen volatility, and inflows, and outflows across all asset classes, and at Rogge, as a result of the management transition taking place there.

Finally, I would like to say a few words about our regulatory capital surplus, which calculated under the FGD was £1.8 billion at 31st March 2014, a statutory cover of 158%, down from £2.1 billion at the end of the year. The decrease in surplus and coverage ratio follows our 2013 final dividend of £294 million, and a decrease in Nedbank's contribution to FGD as a result of an increase in its capital requirement, the redemption of part of Nedbank's subordinated debt, and the reduction of qualifying capital of other Nedbank debt instruments, as a part of its ongoing transition to Basel III capital levels.

Ladies and gentlemen, I know it is a very busy day in the market today. So let me just summarise before I turn the call over to questions. This has been another good quarter for Old Mutual. Sales were extremely strong in Emerging Markets and Old Mutual Wealth. Excluding the impact of some specific factors in our institutional asset management business, USAM, net client cash flows across the group were positive, and funds under management, on which we earn revenue, have grown to £297 billion. We are making progress on developing our business in line with our strategy, and I believe that the results we are announcing today, despite the currency headwinds, are evidence of the strength and appropriateness of our business model. Let me now hand back to the operator, and of course, Philip and I will be happy to take your questions.

**Operator:** Thank you. Ladies and gentlemen, if you do wish to ask a question please press the 01 on your telephone keypad now. If you wish to withdraw your question at any time you may do so by pressing 02 to cancel. There will be a brief pause while questions are being registered. Once again if you do wish to ask a question, please press the 01 on your telephone keypad now. Our first question comes from Risto Ketola from Standard Bank. Please go ahead with your question.

**Risto Ketola:** Yes, good morning. I've got three questions please. The first one's got to do with the US asset management net flows. Now, I can understand the rebalancing argument out of equity. I'm just wondering why you are struggling to recapture some of that flow into your US fixed income capabilities. That's the first question. The second question is can you make some sort of broad comments about the persistency trend in the South African Mass Foundation market, because you've obviously seen some negative news flow around strike action and labour issues, and such? And then the last question is the 10% decline in South African recurrent premium sales; is that broadly similar cross protection and savings products, or was protection particularly poor?

**Julian Roberts:** Risto, first of all, I'm glad you're there. For a moment when nobody was asking a question, Philip and I thought we'd been talking into a void. So first of all, the first one about USAM net flows. I would caution getting too concerned with one quarter. But, you know, there are a number of things happening there. We have seen more managers looking at their reallocation, you know, away from fixed interests to equities. You may have also, seen we have got a transition of management in

Rogge, and therefore, as you know, there is always a challenge from advisers over, you know, their recommendation when you go through that. So, our fixed income outflows were slightly higher than, than we've seen before. You know, overall it is one quarter and I think as you've seen with the market generally in the US, certainly the first quarter has been a lot lower for our peer group compared with last year.

**Philip Broadley:** And if I can mildly challenge the premise in your question. If you have a look at say PIMCO's numbers yesterday, there is a trend out of fixed interest, and a reallocation out of fixed interest roles and into it. On persistency in Mass Foundation that's basically running at our assumption. So I take the point again that you made about some of the specific trends, or factors in that segment of the market. But remember we do not have a significant book of business sold to those in the mining sector. Clearly there are pressures on income, but the persistency trends, and indeed in Mass Foundation, and indeed the credit loss ratios in Old Mutual finance are running as we've said, previously, in line with what we'd expect. We remain cautious, but what we're seeing is in line with actually our pricing and reserving.

**Julian Roberts:** And your third question; it's more in the protection than space rather than the saving space, the decline this year.

**Risto Ketola:** Okay, thank you very much.

**Operator:** Our next question comes from the line Blair Stewart from the Bank of America Merrill Lynch. Please go ahead with your question.

**Blair Stewart:** Thanks very much, good morning. Two questions; firstly, I was aware of the trend out of fixed income, I saw the PIMCO numbers. I just wonder, what's the relative balance between fixed income and equity flows? You say you've seen outflows in both. I just wonder why you're seeing the flows out of equities and where you think that's going because that's somewhat unusual. And secondly you've talked about the flow of business going into OMGI on the platform. I wondered if you've anything to say on the progress you made on the stock of your AUM that you're hoping to transfer over into OMGI. That would be very useful. Thank you.

**Julian Roberts:** Yeah. The first one the trend – and again if I've got your question right – I mean, the more of the outflows were coming from fixed interests into equities. I think if you take a step back, you know, we've always been waiting to see that happen across the market. You saw PIMCO's results yesterday, or the day before. You know, I – we think we may be seeing more of the trend from people rebalancing towards equities into fixed – from fixed income into equities, and that's more of the trend we've seen in the first quarter. Flows from – you know, the general flows that we've got from the heritage business into OMGI products. You know, there is a general rebalancing of them, but you know, we're not talking about massive numbers, but we're quite happy with the stream of businesses being reallocated there.

**Philip Broadley:** I think within the equity flows; actually I'd comment that to some extent certain strategies have been a victim of their own success. So one year performance in some of Acadian's equity strategies has been very strong, and the result of which some clients understandably have trimmed – effectively trimmed, their position as part of the rebalancing that we've seen, which is specific to actually the performance of particular strategies.

**Blair Stewart:** Okay. Yeah, that's great. Thanks for that last comment, Philip. Thank you.

**Operator:** Our next question comes from Michael Christelis from UBS. Please go ahead with your question.

**Michael Christelis:** Hi, good morning guys. Thanks for the opportunity. Two questions if I can, first on US Asset Management. Obviously the Rogge management changes are having an impact there. Do you think that, you know, there's still a fair level of your assets that you've still got at Rogge that are at risk of being moved? And have you been given notice on any assets that perhaps hadn't moved by the end of the quarter? And maybe if you can give a general view of what's happened since the end of the quarter and net client flows there? If I remember correctly, one of your key criteria for listing that business was the requirement to have full consecutive quarters of net client cash flows. Maybe you can just give some colour on the impact of this one per quarter perhaps has on your ability to IPO that business in the near term.

And then a second question, just around Mutual and Federal. If I look at the South African premium numbers, I certainly so far as me being up to speed. I mean, the impression we got at the showcase was that with the re-pricing efforts and turnaround strategy there, if anything, we should expect flat premiums for the year. Does this indicate that maybe you're a bit more positive now you could continue to grow that book during your turnaround strategy or should we still be expecting, you know, relatively flat premium growth between now and say two years' time?

**Julian Roberts:** Okay. The first one about USAM you asked on Rogge. Look we're only talking about the first quarter, so I don't want to start moving forward talking about what the outcome that assets at risk. Just, it is traditional on institutional business, as you well know, that if there is a change in the management structure then advisors normally put up a flag and that is the process that we're going through, as well as the comment on asset allocation. You know, in our view we stick to really what we have said before. It is our intention to IPO the business, and we are preparing for it. It is always subject to market conditions, but we carry on with the work in preparation for it. I think when you look at M&F there is a mix in the premiums going through. So although personal lines is in accordance with what we really said in December. There is some treaty business that's written that has been boosting the premiums in this quarter.

**Michael Christelis:** Great, thanks very much guys.

**Operator:** Our next question comes from Greg Patterson from KBW. Please go ahead with your question.

**Greg Patterson:** Morning gentlemen.

**Julian Roberts:** Morning.

**Greg Patterson:** Three questions. Retail Mass, I wondered if you could give us a sort of sphere, what do you think the rest of the year will be sort of relative to that target of ten to 15 that you put out? I see in South Africa the big delta in terms of beating on the APE side was Corporate. I was wondering, you know, that's obviously very sensitive to underlying mix in terms of its margin and I think it was in reference to, with profit annuity. So what's the sort of margin on that? My gut feel is that it'll be lower than the normal run rate. I wondered if you could just confirm that or not.

And then, US asset management, I mean it would be nice if you could give us a second quarter up to May; net client cash flow number. But if you can't, I wonder if you could provide the league table performance versus benchmark for one, three and five years, so we can get a feel for how well, you know, that sort of indicates potential flows.

**Philip Broadley:** There are many things that would be nice in the world, Greg. But one of them you're not going to get today is an update for April and May. You can have a look at investment performance on page 14 of the analyst pack, which gives you the One, Three and Five. It also, it's probably worth mentioning revenue mix as well. The global fixed income margin that we quote under 20 basis points is about half of what we get from global equity and non-US equity. So again when you're thinking about the impact on all of this on the business itself the margin effects might be more muted than the flows.

**Julian Roberts:** I think on the first point, there is no change to the education that we gave on Retail Mass sales. You know, they carry on performing strong and, you know, our indication stays the same.

**Greg Patterson:** And the margin on the Corporate with the mix effect, now with profit annuities?

**Julian Roberts:** It's, the margin is clearly lower than on the retail business.

**Greg Patterson:** Alright. But within that line, how would it change year on year versus the mix that within the corporate line, previous year?

**Julian Roberts:** I'm not going to help you with that. You know what the limitations of what we talk about in the quarterly statements. You'll need to wait and see the half year.

**Greg Patterson:** Alright. Thank you.

**Operator:** As a reminder if you do wish to ask a question, please press the 01 on your telephone keypad now. As another reminder if you do wish to ask a question, please press the 01 on your telephone keypad now. Our next question comes from William Elderkin from Goldman Sachs. Please go ahead with your question.

**William Elderkin:** Thank you. Good morning everybody. Two questions. One, coming back to the US Asset Management – and apologies if you've answered this already – but can you give a sense of what proportion of the outflow was attributable to this transition of management effect, rather than broader market trends in terms of rebalancing you've referred to. And then secondly, could you just talk a little more in detail in terms of the sales trends in the rest of Africa line; that came out a little lower than I was expecting.

**Julian Roberts:** There is no more we're going to say about USAM, apart from saying that, you know, the significant part of the outflows was the rebalancing away from fixed income. But we're not saying any more than that today. On sales trends and the rest of Africa, you know, I'm sorry you're disappointed. I actually think good growth of 27% is a good start to the year. You have to remember as well, a number of the acquisitions we've made have only just been completed coming through, and therefore getting them on track. But I'm not sure on this; do you have any further comments?

**Philip Broadley:** No

**William Elderkin:** I was really sort of thinking in terms of the new APE figure. It seems to be down about 4% year on year if I'm sort of reading it correctly. I'm partly coming from a sort of lower single premium but with 7% growth on regular premium side. That's what I was getting at.

**Philip Broadley:** Okay. Fair enough, I note that you're right. That's on page 8 of the release and there are some changes in the mix of what we're doing and we aren't seeing stronger growth in regular premium.

**Julian Roberts:** I said in my briefing, and you'll see in there, the reported APE sales were down year on year as we're now reporting Africa net of minority interest renewals. If you compare it on a like for like basis APE sales were up 19% so I think that's probably the piece that you're missing.

**William Elderkin:** Okay. Thank you.

**Operator:** Our next question comes from Michael Christelis from UBS; a follow up question. Please go ahead with your question.

**Michael Christelis:** Hi guys, sorry. Just following up on Greg's question around the performance on US Asset Management, Philip I think you mentioned about 14, are you talking about the year-end pack or

**Philip Broadley:** No, I'm talking about unaudited disclosure supplement coming out today, page 14, our performance versus benchmark. Let's quote the figures: one year 68%, three years 93%, five years 64%.

**Michael Christelis:** Okay is that on your website? Because it wasn't in the email that was –

**Philip Broadley:** Okay, so it's on the website.

**Michael Christelis:** Okay.

**Philip Broadley:** And compared to the full year actually more funds in the one year and three year bucket. So actually improvement versus benchmark in the quarter compared to year end.

**Michael Christelis:** Okay great, apologies for missing that.

**Philip Broadley:** That's fine.

**Michael Christelis:** There is a comment around the change to the LTRR being used in South Africa to 8% whereas, I think, you indicated 9% at year end. Is there a change in the methodology being used here or just a function of [inaudible] what's driven that?

**Philip Broadley:** Reviewing the interest rate environment and asset mix.

**Michael Christelis:** Okay so could we expect that would change if things changed going forward for the rest of the year or can we assume that's right for 2014?

**Philip Broadley:** I think you can now assume that is the number we will use for the rest of the year.

**Michael Christelis:** Excellent, thanks very much guys.

**Philip Broadley:** Okay.

**Operator:** We have a follow-up question from Greg Patterson from KBW. Please go ahead with your question.

**Greg Patterson:** Well, thank you again lads. In terms of the UK and the changes that we've seen in terms of the budget, etc. I was just wondering, your draw down proposition, how easy is it to convert the IT to make it a fully flexible sort of offering or do you have to wait until your full conversion to the new platform occurs. I'm just trying to figure out how nimble you are in capturing any, you know –

**Philip Broadley:** I think the first thing we have to wait for is real understanding what the very high level statements of the Chancellor and the Budget translate into. In the meantime, I think it's interesting if you look across what has been reported to get a sense of the changes that are recurring in annuity flows amongst those that write them. And so far as we are concerned, what we're seeing already is a very significant increase in quotes in draw downs. So that's been a near doubling of those requests for quotes compared to the period before the budget announcement, which doesn't come as a surprise. And I think the other thing that I'd expect to see over the course of the year is people getting near retirement who are taking advice. I suspect that advice will be to do nothing over the course of this year. Unless people need an income in retirement it would be better to leave funds in place until we are clearer as to what changes are brought in.

**Greg Patterson:** That wasn't – my question was how your platform – I mean, it's obviously a fixed draw down now, how easy is it to move it to a flexible draw down product offering? And also, I was going to ask another question in terms of longevity swaps.

**Philip Broadley:** We already have a flexible draw down.

**Greg Patterson:** So you're fully – alright. And the second point is in terms of, you know, the potential for introducing longevity swaps within the draw down or some kind of longevity insurance within the draw down, I'm wondering if you're thinking about that. And if you are would you produce it yourself or would you white label it?

**Philip Broadley:** Personally Greg, I'm thinking about my own retirement and it won't feature a longevity swap.

**Greg Patterson:** Then maybe Julian can answer that question. Or are you retiring as well?

**Julian Roberts:** No I am not.

**Greg Patterson:** There will be some changes in the exec as you're prepping for retirement.

**Julian Roberts:** To be perfectly honest Greg I can't answer the question fully at the moment. We are fully flexible, what is going to be into the draw down product? I don't know. We can get back to you in due course.

**Greg Patterson:** No, that's cool, because I remember about two years ago you were musing that you were thinking about potentially entering the annuity market and I know it was just a muse. I'm wondering if –

**Philip Broadley:** Well I can assure you we won't be entering it now.

**Greg Patterson:** I'm wondering if you've done any product development around that, or you know…

**Julian Roberts:** Yeah, we think we have a very competitive drawdown product to our CRA requirement, our product there, and you know, as Philip said, we wait to see exactly how things are defined. But we think we've got a very good product, and will gain substantial market share through that.

**Greg Patterson:** And this 1 billion synergies in the emerging market; I assume management incentives are going to be based on that. How is it going to be calculated? I mean how are we going to audit that number?

**Julian Roberts:** If you look at our incentive plans, you look at our remuneration report, which in an hour's time our shareholders are voting on you can see that we are very transparent on all of those things. So we will be quite clear when we come and put something in place next year that you will be able to see how it's calculated. But you know, it is – I am very confident, you know, the driving that we're doing of getting each of the businesses to collaborate. They collaborate, really I think, more significantly than most people realise already, but there are some significant areas that we think benefit each individual company and that will come through when we are fully transparent on the plan, but not yet.

**Greg Patterson:** What I was just thinking, is it a revenue type of measure? Sort of, you know, the value of new additions to revenue or if they sort of manage to get together and share costs. Will that also be captured?

**Julian Roberts:** Greg, the main drive – and I'm going to finish now – the main drive is looking for additional revenue. This is not a cost structural thing; it's additional revenue of working closer together. So, you know, you'll have to wait for it, but we highlighted it and we'll move forward.

**Greg Patterson:** Okay thank you.

**Julian Roberts:** Okay. I think that's it if I'm correct on the questions. I just want to say thank you for listening in. Thank you for your questions. As you can see I think we've had a very strong first quarter, each of our strategies are working correctly; good emerging market sales, good Old Mutual Wealth sales; a good quarter for the group. Thank you.

**Operator:** This now concludes our conference call. Thank you all for attending. You may now disconnect your lines.