OLD MUTUAL Q3 2014 IMS

TRANSCRIPT

5 November 2014

Julian Roberts: Good morning, everybody. Thank you for joining Old Mutual's third quarter conference call. Ingrid Johnson, our Group Finance Director, is here with me and in a moment as a bit of a change, Ingrid is going to take you through the highlights of our third quarter performance in respect of sales, flows and funds. But let me start with a few comments.

As you can see from our IMS, we've delivered another quarter of good performance. I particularly highlight resilient sales in the subdued South African market and strong progress in the UK. Since speaking to you at the interim results in August, we've taken a number of important steps in further execution of our strategy. It has been an intense period of corporate activity which will enhance the shape and earnings profile of the group. We closed the IPO of OM Asset Management in the US, and have now closed the over-allotment option, increasing growth proceeds to £317 million, and reducing our shareholding to 78.8%. We completed the sale of our German and Austrian businesses for £172 million, and announced the sale of other operations in Europe, subject to regulatory approvals. Nedbank exercised its right to subscribe for 20% of ETI for £304 million, deepening the alliance between our groups. And in October we announced the acquisition of Quilter Cheviot in the UK, adding discretionary investment management capability to Old Mutual Wealth.

These are significant milestones in our development and I am pleased with what we've achieved in this period. But let me now hand over to Ingrid, who'll take you over the third quarter highlights.

Ingrid Johnson: Thank you, Julian, and good morning. Today I wish to highlight some of the key points from our third quarter performance. At a group level, we achieved gross sales of £6.2 billion, down on the comparative period due to the continued impact of the weaker rand on our sterling reported figures. Reported net client cash flows were £0.6 billion positive. Underlying group NCCF was strong, up 47% on the comparative quarter at £2.5 billion. This was, however, masked by the continuing low margin outflows of our non US-based boutique in Institutional Asset Management. Overall funds under management at 30th September were £308 billion, up 5% from the beginning of the year. For the nine months, the impact of foreign exchange translation on our funds under management was small, just £0.5 billion negative, with the effect of the weaker rand almost totally offset by the strengthening of the US dollar in the third quarter.

Looking at the individual business units and starting with Old Mutual Emerging Markets, with percentage comparisons based on rand-reported results. Our South African retail businesses are proving resilient in a tough economic climate, illustrating the benefits of delivering innovative, affordable products that meet the needs of our customers whilst also taking actions to manage persistency.

In Mass Foundation, gross sales were up by 11% on the comparative quarter. This is due to good sales of the recently launched 2-in-one savings product and the consolidation of Old Mutual finance from 1 September. For the year as a whole, we expect MFC sales growth to be supported by further product innovation and sales at OMF. The APE growth for the full year is expected to be at the bottom of the 10-15% range previously stated.

Retail Affluent gross sales were broadly flat on a strong comparative period. Single premium APE sales were up 16% due to continuing strength of "*XtraMAX*" and contributions from new product enhancements, for example the "*XtraMAX* Retirement Annuity". Regular premium APE sales were down 8%, held back by competitive pressure on risk products in particular and we have subsequently re-launched Greenlight to address this issue. The newly-launched wealth offering is proving successful and contributed to the 18% growth in non-covered sales.

In Corporate, gross sales were up by 12%. Covered sales were boosted by strong flows into Symmetry, while non-covered sales were down due to the non-repeat of a large mandate gain in quarter three 2013. Gross sales in the Rest of Africa were up by 15%, primarily due to high unit trust sales in Zimbabwe and Namibia.

Net client cash flows in Old Mutual Emerging Markets were 0.2 billion rand negative. Positive flows in the retail markets were offset by outflows in Corporate and in Old Mutual Investment Group, the latter due to a 3.4 billion rand outflow from one investment client following a change in their investment allocation.

Funds under management were up by 6% year to date. Over a fifth of the funds are now sourced from customers outside South Africa.

In Property and Casualty which is now included within Old Mutual Emerging Markets, we are starting to see the positive impact of price remediation initiatives and an improvement in the quality of business written, particularly within the South African business.

Moving on, Nedbank delivered another good performance. Net interest income and non-interest revenue were up 8% and 2% respectively for the nine months to 30th September. The credit loss ratio has continued to improve, notwithstanding the worsening consumer credit cycle due to the good quality of the advances book including the result of early actions taken to reduce unsecured lending and also the prudent level of total balance sheet impairment.

Now turning to Old Mutual Wealth. Given the significant coverage of this business over recent weeks, I will highlight just a few points. Gross sales on the platform were £1.3 billion and were 6% higher than in Q3 2013. Sales benefitted from the increased ISA allowances, which came into effect on 1st July, as well as higher Collective Retirement Account sales due to increased awareness of drawdown products. Flows from intrinsic are also growing, and accounted for 6% of platform flows in the month of September, up from 3% in July. Platform funds under management now stand at almost £30 billion. In Old Mutual Global Investors, gross sales were £2 billion, flat on the comparative period which was boosted by initial momentum around the launch of the UK Alpha fund. This remains a popular investment choice for customers, although sales are now at more normalised levels. *WealthSelect* continues to gain traction and to the end of October had attracted almost £500 million of new investment since launch.

Particularly pleasing is that flows into OMGI products from Old Mutual Wealth distribution channels totalled £669 million in the quarter; a considerable uplift on the comparative period.

The Intrinsic business is now fully integrated into Old Mutual Wealth and the acquisition of the remaining 50% of Cirilium is due to complete by the year end. The outsourcing project is on track from implementation in 2016 and we are preparing for the Quilter Cheviot integration. As we have now completed the sale of the German and Austrian businesses, our funds and earnings for 2014 and 2015 will reduce accordingly, resulting in a revised 2015 AOP target for wealth of £270 million, as indicated in our half year results statement. This is before any contribution from Quilter Cheviot.

Turning to our recently listed US entity, OM Asset Management. Net client cash flows were $3.1 billion in the period, up for $0.9 billion in Q3 2013 and with an improved annualised revenue impact as gross flows were in higher fee asset classes. Funds under management at $214 billion are up 8% since the beginning of the year. OM Asset Management has today issued a third quarter earnings release and has reported economic net income after tax of $37.6 million, up 19% on the comparative quarter.

For the rest of institutional asset management, as we have said before, the business is in the process of a management transition and whilst investment performance has improved during 2014, we continue to see outflows.

Finally, let me touch briefly on cash and capital, both of which remain strong. At 30th September, the group holding company had liquidity headroom of £1.3 billion, including half a billion of liquid assets, similar to the half-year position. The balance of the cash proceeds from the sale of Germany and Austria and from the IPO have been received since the quarter end. Our regulatory capital surplus at 30th September was £1.7 billion, representing a statutory cover ratio of 154%. This includes the impact of the intrinsic acquisition and the declared interim dividend, which was paid in October. We remain focussed on maintaining disciplined allocation of capital to achieve sustainable returns. All within the context of continuing regulatory and economic uncertainties.

And so, to conclude. It was another good quarter overall. We delivered a resilient performance in our emerging market businesses, with South

African retail sales continuing to do well. Nedbank's good performance reflects the early actions taken in anticipation of a challenging macroeconomic environment, while Old Mutual Wealth had another strong quarter with a greater proportion of assets flowing from the platform into Old Mutual Global Investors in line with the Old Mutual Wealth vertically integrated business model. And it was a significant period of corporate activity, which will enhance the shape and earnings profile of the group going forward. Ladies and gentlemen, that concludes my summary of the third quarter IMS, and I now hand back to the operator who will open up the lines and Julian and I will be happy to take your questions.

Andy Sinclair: Good morning everyone and thank you very much. First question: emerging markets covered sales are up strongly, but non-covered sales were down slightly year on year. And I just wondered if you could tell us how much of this is due to the comps and how much is due to different parts of the business maybe being differently affected by the economy?

Secondly, just wondered if you could give us a bit more detail and background on the Ecobank deal and how we should think about this from an Old Mutual perspective going forward?

And thirdly on Old Mutual Wealth and Old Mutual Global Investors, we've seen some strong hires over the last couple of years. Is the team there now, or do you think there's still more to come?

Ingrid Johnson: I think I'll answer the first question; I missed the second, apologies, and then if Julian can perhaps touch on the third. So on the first question, I mean, definitely we had a very strong comparative quarter in 2013 and that you would have seen flow through into some of the outcomes that you've got here in this quarter.

Andy Sinclair: And, sorry, the second question was on Ecobank. Just wondered if you could give us a bit more detail on that and how we should be thinking about that from an Old Mutual perspective?

Ingrid Johnson: I think the Ecobank transaction is very valuable in terms of the breadth of its presence in central and western Africa in 39 countries. Clearly when you look at the opportunities in Africa, they're bank-led, supported by distribution agreements where we can offer our life and short-term insurance products into that network, while in addition also building our own businesses in selected countries. And that's really one of strategic partnership, which will take time to build, but one that we'd rather do with a really strong partner and do it together across our businesses, leveraging the size and strength of Nedbank, Old Mutual and Mutual and Federal and actually having, you know, a presence into the rest of Africa, but we do know it's a frontier market and it will take time.

Julian Roberts: And just going onto your third question, look, if teams become available that are in the type of competencies that we want then we will continue to add them. We did, as you saw, bring in an Asian team; we would like further expertise in emerging markets. We've also talked about global equities as well. You know, as people become available and would like to join us and we think they'd fit in to help build the franchise, we will keep adding.

Andy Sinclair: Very good. Thank you very much.

Ingrid Johnson: Thank you.

Michael Christelis: Hi guys. Thanks. I've just got two questions. Firstly, you've made no mention of the performance or the net client cash flows and assets at Quilter year to date. Can you give us some colour on what the flows have looked like this year and in particular in quarter three, if possible?

And then secondly just on the mass foundation cluster, obviously the impact of your high percentage of OMF coming through there, maybe you can just give us some colour on the sales run rate that you're seeing on a like-for-like basis and what the impact of the technology roll-out you had earlier this year and you know has it continued to be a sort of deterioration there as a result of that or not? Thanks.

Ingrid Johnson: Michael, thank you. Firstly on Quilter Cheviot, it would inappropriate for us to comment on their performance, given that we only complete in the beginning of the second quarter 2015. But clearly we're really delighted with what we saw in terms of the due diligence, thus underpinning our wish to actually buy the firm so I think on that I'd rather defer to Quilter Cheviot for that question.

And then from an MFC perspective, clearly we've taken a lot of work and understanding with implications for persistency; one is around product innovation which you've seen in the 2-in-1. From a technology perspective we've actually slowed the roll-out of technology because we recognised that the training was needing to be more comprehensive and rather to do that over time than perhaps what we were trying to accelerate in impact. And then what you're seeing in terms of us now guiding that we'd be in the bottom end of our 10-15% range, so that would give you a sense of the run rates relative to the third quarter.

Michael Christelis: Thanks.

Ingrid Johnson: Thanks, Michael.

Lance Burbidge: Morning. Yeah, a couple of questions. The first is on both Rogge and Nedbank flows. I wonder if you could comment on what's been happening since the end of the quarter.

The second is on the Mass Foundation business and what impact you are seeing in terms of new business margin from a greater density of savings products.

And the third is actually a request that the OMAM disclosure includes revenue margins, as you mentioned in terms of inflows and outflows. I wondered if you might adopt that for Old Mutual Wealth and some of your other businesses.

Ingrid Johnson: Thank you very much for the questions. I think certainly on Rogge we have shared previously we're in the middle of a management transition and as a consequence there have been outflows. However the performance has improved during the course of 2014, but that's just a reality of what we face in this business. And then I'm not sure that we can actually quote on October, so I'd rather wait for prelims for that. And then from a Nedbank perspective, clearly the impact of some of the Money Market funds and Core Income funds as a consequence of the ABIL dynamics that happened in August.

And then from an MFC perspective, absolutely, if you look at the mix of savings versus protection, it is lower margin business. However, given what clients require and the affordability, it's an extremely attractive product to give them access to short-term savings in the saving pocket for virtually no cost, to be able to withdraw that money versus them continuing to invest in their long-term savings plan and we've seen very good demand because it's right on the button in terms of what clients are looking for and that's just a reality of adapting to the market we're operating in.

And then from a request on providing revenue margins, in fact in chatting with Julian and Patrick, we used to, many years ago, and then stopped that. So we can reflect on that. Thank you.

Lance Burbidge: Okay. Thanks.

William Elderkin: Thank you. Good morning everybody, it's William Elderkin from Goldmans. Three questions, please. First of all, I see in terms of Intrinsic's contribution in terms of flows onto the platform; that seems to be improving nicely. I think you talked about 6% of flows or something in September. I'm just wondering, can you give us a sense of where that could get to?

Secondly, can you just give us an update in terms of how you see Solvency II discussions evolving I guess particularly from the equivalence perspective given your mix of business?

And finally, in terms of the MFC business, can you give us a sense of how persistency trends, lapse trends, are evolving?

Ingrid Johnson: Thank you very much, William. Firstly on Intrinsic, it's good to see the progress from a 3% in July to 6% now and September. Clearly we'd love to have a lot more of the flows coming through; we don't have an end target, but we'd certainly like to see that momentum continuing.

From a Solvency II perspective, it is a little bit concerning that we have a go-live date of 1 January 2016, and yet there's two very important decisions that would impact on that, which is ensuring we have equivalence, particularly for South Africa, and then the choice of method of calculating Solvency II and whether you go consolidation route or deduction and aggregation or some form of combination or internal model. We certainly won't be going internal model. In South Africa from a SAM perspective, the standard model is actually preferred for the initial period and clearly we would be looking to do what is optimal from a cost and outcome perspective that enables us to calculate our capital effectively in an appropriate process.

Julian Roberts: I think one thing, talking to the regulators in South Africa and in the UK, I think the chances of South Africa not getting equivalence are incredibly small, but that is still outstanding.

Ingrid Johnson: And then from a persistency perspective in MFC, that has definitely been a focus, so one is around sales effectiveness underpinned by the technology roll-out. What's pleasing is that when you look at our APE sales and MFC up 21% for the quarter, I think that's a very positive trend which shows that we are getting the underlying sales but clearly it's smaller in relation to the overall book profile, but one we will continue to improve, recognising though that there is a changing mix.

William Elderkin: Thank you.

Ingrid Johnson: Thanks, William.

Larissa Van Deventer: Thank you. Good morning. Two quick questions, please. The first one: on OMAM, you mentioned the additional allotments being taken out. Could you please comment on the net additional proceeds that came from the over-allotment being taken up?

And then second, on your Emerging Market sales, quite a good number, you did mention that there was a benefit from credit life in the Mass Foundation Cluster there but even if you compensate for that it seems like a strong number, if you could give an indication of what drove that and then trends going into the last quarter.

And then similarly for Asia and Latin America, where the numbers were quite strong on the recurring premium side, if you can comment whether that is a trend, whether you're seeing excitement in the market or whether there were one-off numbers included in that.

Ingrid Johnson: I think I'll do the first question and then ask Julian to pick up the other two. I think just from an OMAM perspective, the allotment from the additional amount was $30 million so you would have seen gross proceeds of £317 million as a consequence of the IPO.

Julian Roberts: And the – Larissa, the change really coming through the MFC is consolidation of OMF that comes in for one month rather than any change in the level of credit life sales. So we get one month of the increased stake in OMF and then, of course, from the fourth quarter we get a full quarter's worth. And then Asia and Latin America, nothing in particular of a trend nothing particular to add other than we've increased our marketing and we're quite pleased with the performance.

Larissa Van Deventer: In MFC, are funeral products sales back to the levels where you were hoping to see them or did you still have some strike action that went into July?

Ingrid Johnson: You certainly would have seen a slowing overall, just as a function of constrained consumer. Equally we've got very strong market share. And then if you look at us guiding in terms of our range that would be at the bottom end of our sales it gives you an indication of the rate versus preceding years.

Larissa Van Deventer: Thank you very much.

Greig Patterson: Good morning everybody. Greenlight, you said you did a re-launch. How does that impact margin? That's question one.

The second one is on restricted status, for the advisors I think you had 1,000 out of the 3,000. I wonder how progress has happened there in the quarter in terms of moving advisors to a restricted status.

The third thing is can you remind me – I was just thinking about it – is the strategic review that's coming up in March, what exactly is that going to cover? Is it debt, dividends, structural TNAV, whatever, just so we get an idea of what we need to think about.

And then finally a request. I know you've dropped embedded value reporting for the wealth management, rightly or wrongly, but you are still providing, at the half year, operating capital generation numbers which include an input from the wealth management area but you aren't providing any of the detail so we can't see how things are progressing in terms of persistency etc. I wondered if you could give us the detail of the underlying capital generation in wealth management so we can basically see the underlying drivers of the aggregation you give us.

Ingrid Johnson: Okay, thank you. A comprehensive question. I think then on the first one, Greenlight, we have noticed some competitive pressures and really understanding risk versus pricing, and have sought to reissue our product in a way that we believe is sustainable to meet both the needs of the client as well as delivering sustainable returns for ourselves. So that's really how we've responded in that way. It's a very important product and one that needed to be innovated around.

Greig Paterson: Does that mean margin goes down or up or flat?

Ingrid Johnson: Probably there will be margin pressure, given the competitive nature of the market we're operating in.

Greig Paterson: Alright, thank you.

Ingrid Johnson: From the restricted advisors we continue to see momentum. Clearly at the year-end quite a strong move into the first half of the year. The move, if you just take restricted advisors at the half year, there were 840 of the almost 3,000 and that's now up to another 20-odd people. Whereas the independents, at 720, is down to 674, so you can see the nice shift as people are moving towards more restricted and clearly you've got a sizeable number of advisors in protection or in both protection and in mortgage. Then the third question was meant to be actually the capital – we're just looking at our capital adequacy.

Julian Roberts: It's not a strategic review, Greig. It's just – there are so many things going on in capital, you know, you've got Solvency II, you've got SAM, you've got what is the targeted debt ratio, you've got lots of questions that people have had on buybacks and suchlike. So as part of you know the prelims we will go through in a bit more detail than we normally do our capital and what we're targeting in the capital and the ramifications moving forward.

Greig Paterson: Alright. So it's not a sort of discreet change in dividend policy or debt equity, alright, go on –

Julian Roberts: No – no.

Greig Paterson: Alright, cool.

Julian Roberts: No, it's just that little bit more – we think that so many people have said different things about capital, that you've got too much capital or not, we just decided that we'd go into a little bit more depth than we normally do.

Greig Paterson: Alright. Thank you. And then the other one was just a request if we can have some detail behind the wealth management operating capital generation numbers.

Julian Roberts: I know what you're saying but this is Q3.

Greig Paterson: No, no, no, no, no, not now. I'm just saying the full year so that we can model it going forward, yeah.

Julian Roberts: Okay. We'll take that away.

Greig Paterson: Thank you.

Lance Burbidge: Oh hi again. Yeah, a couple of things about the wealth business, actually. The first is that you mentioned there were outflows in the global strategic bond fund. I wondered if you could quantify that amount. And the second is on – it's hard to see, I imagine, in terms of rounding errors, but have you noticed a particular pick-up in terms of retention as people are holding on and not annuitising as they get beyond 55?

Julian Roberts: The second one - it's really too early to say what is going to happen when we get into next year. I think what we said before – and it's the same – we are getting more enquiries and you've also seen that we made the comment that we are getting more money into our CRA product, our pension product, which is the product that'll be used for drawdown. So you know I – it's positive but it's still early days that, you know, I think it's going to be next year before you see the real impact.

Ingrid Johnson: And then when you look within our Spectrum [correction: global strategic bond fund] fund, assets under management at the end of September, £635 million [correction: £652 million], and so if you look at overall net client cash flows for the quarter that would have been quite modest.

Julian Roberts: Okay. Thanks.

Ingrid Johnson: Thank you very much. And so in closing we're just very pleased with our performance in the third quarter and on that note, I just wish to thank our 16 million clients and 57,000 employees for achieving this. The strength and breadth of our group has allowed us to produce resilient results in challenging markets and with our significant corporate activity we are well-positioned for growth in our key markets which have attractive prospects. Look forward to speaking to you again at our preliminary results next year. Thank you.

Julian Roberts: Thanks a lot, everybody.