Presentation transcript

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BUSINESS UPDATE

Participants

Old Mutual Limited	Investors
Iain Williamson, CEO Casper Troskie, CFO Taskeen Ismail, Head of Corporate Finance	Andrew Baker, Citi Group Warwick Bam, Avior Capital Michael Christelis, UBS Baron Nkomo, JPMorgan Royce Long, Obsidian Capital Teboho Mosoeu, Investec Jarred Houston, All Weather Capital Kevin Harding, Investec Wealth & Investment

Operator
Good day, ladies and gentlemen, and welcome to Old Mutual's business update. All attendees will be in listen only mode. There will be an opportunity to ask questions when prompted. If you need assistance during the call, please signal an operator by pressing * and then 0. Please note that this event is being recorded. I would now like to hand the conference over to the CEO, Iain Williamson. Please go ahead, sir.

Iain Williamson
Thank you very much. And welcome to all of you who've joined us this afternoon. I believe we've got quite an attendance. So, thank you very much for your time this afternoon. We wanted to take the opportunity to verbally update all of our shareholders following the SENS announcement this morning. Casper and I will provide you with an update on the Q3 year to date performance, on our capital position and on the execution of our strategy. I'll ask that if you have not got the brief slide presentation, then please refer to our Investor Relations website. It is there as well.

So, moving into the operational update first. At interim results, we showed you that the business has started to demonstrate growth in our life sales owing to improved productivity compared to the prior year. And we also highlighted the risk of worsening persistency resulting from inflationary pressures impacting customers' living costs. I'll update you on both of these as I take you through the performance to the end of September 2022.

Starting with the life sales, life APE sales are up 17% year on year as the momentum evidenced at the interims continued during the third quarter and actually accelerate a little bit. We've seen improved productivity across all of our retail businesses with volumes reaching 5.4 lives per week for the quarter in the Mass & Foundation Cluster (MFC).

Issued sales are at the highest level in history of MFC given the continued return to worksites for field advisors, and the positive momentum from Old Mutual Protect. The positive shift in risk sales mix that we spoke about in previous results has continued, even in the context of growth in savings sales. Our strategy for MFC is still to grow the risk sales contribution, as it benefits our margins in that segment and lifts the overall group margins as well.

In Personal Finance and Wealth Management, sales are in line with 2021 over the same period at R3 billion and are still above both 2020 and 2019 levels. We've started seeing a gradual shift in the mix, which we highlighted to you as a key focus area at the half, with a pickup in our margin rich living benefit product volumes. Industry surveys indicate that we continue to make progress in recovering market share in life risk business. In Wealth Management life APE increased by 3% mainly from higher single premium sales into the Absolute Growth Portfolios (AGP) and fixed bonds.

In Corporate, sales were 11% higher with an improving pipeline, with management focusing on converting that pipeline into closed deals. The growth in sales was driven by higher Group Assurance Product (GAP) performance and annuity sales, offset by lower pre-retirement sales. We have, however, continued to see relatively longer lead times as clients delay on making swift decisions. The recently concluded Bula Tsela [transformation] transaction will move the Old Mutual Investments Group (OMIG) and Futuregrowth closer to the 51% black-owned threshold following the earlier Futuregrowth deal with the African Women Chartered Accountants Investment Holdings Group (AIH). We have confidence that this will also contribute positively to the appeal of both Old Mutual Corporate and OMIG.

Sales in our Africa Regions grew 21% driven by corporate volumes as the pivot-to-corporate approach gained further momentum. Corporate sales now account for 59% of sales in East Africa, and 57% in West Africa, and that's up from 56% and 52% respectively in the prior period.

In China, sales grew by over 100% as savings products were strongly promoted into the broker channel. I'm pleased by the sales performance right across the group with group life APE sales now 5% above the levels of 2019.

Moving on to gross flows, we've seen a 7% decline in gross flows driven by lower inflows into the investment business. At interims, we spoke about the non-repeat of large new mandates from the prior year, and we've seen that reduce marginally in the third quarter. Flows in the Africa Regions were up 28% buoyed by a strong corporate performance in East Africa. The outlook for flows and net client cash flow (NCCF) in Old Mutual Investments remains good with a very strong secured to flow and pipeline of business.

Net client cash flow was at a negative R1.2 billion at the end of the quarter. And that's a 56% improvement on the prior year and an improvement on the picture at the half [-year], as mortality claims moderated with reduced COVID-19 severity across the group.

Our funds under management (FUM) declined 6% compared to the levels at the start of the year, largely driven by a weaker international equity market performance. And we expect the combination of the Futuregrowth-AIH transaction at an OMIG level to contribute positively to win-rates of new business and to assisting us in defending existing mandates.

On loans and advances, we have retained a healthy risk appetite in this area and our loans and advances remain unchanged compared to the prior year. However, Old Mutual Finance (OMF) loans and advances ticked up slightly by 2% as we execute a gradual reopening, bringing the total OMF loan book to R15.1 billion. Africa regions loan book declined 8%, with lower disbursements due to the tough economic conditions. The group lending margin remains robust but pulled back by 180 basis points, as we've continued to see a moderating credit loss ratio.

Turning to results from operations, they were significantly above the prior period, mainly driven by improved profits in the life business as a result of the lower COVID-19 excess deaths in the current period, particularly in Personal Finance, Corporate and in the Africa Regions. Despite market volatility, Old Mutual Investments delivered higher asset-based fees due to higher average asset levels. Results from operations did suffer from two headwinds, one being deteriorating persistency experienced in the Mass & Foundation Cluster. This appears to be in line with industry trends given the macro environment. The second factor was the net catastrophe losses related to the KwaZulu Natal floods in the Old Mutual Insure business.

You will have seen in the SENS announcement that we updated you on the capital [status] and disclosing externally for the first time our discretionary capital. This is an extension of how we've always assessed our group capital position. And I'd like to hand over to Casper to give you further details on that. Casper, over to you.

Casper Troskie
Thank you, Iain, and good day to everyone on the call. Since listing in 2018, we have returned just under R60 billion to our shareholders in the form of special distributions, with a focus on reducing complexity and optimising our return on net asset value (RoNAV). These distributions were in the form of a special dividend of R4.9 billion in 2018, a share buyback of R4.9 billion in 2019, and the unbundling of Nedbank. The special dividend and share buyback were funded from the sale of Latin America and distributions from Residual Plc. Initially, we unbundled 32% of our Nedbank stake in 2018, followed by further unbundling of 12%, the total value of which was R49.5 billion.

We've been actively managing the group and life company's net asset value. The combination of the ordinary dividends and the balance sheet optimisations have actively reduced complexity and surplus capital, bringing the net asset value of the group, excluding Zimbabwe, down from R115 billion at listing to R58.3 billion in H1 2022. If you refer to the group net asset value slide on our website, the net asset value is our adjusted IFRS equity in green plus equity in respect of discontinued and non-core operations in orange. Adjusted IFRS equity as the base for return on net asset value has the same adjustments as adjusted headline earning.

The active management of the group net asset value allows us to optimise return on net asset value. And despite the reduction in net asset value, the group solvency ratio has remained strong over the period. The OMLACSA solvency ratio remains at 212% and at the upper end of the 175% to 210% target range, and the group remains well capitalised within our target range of 170% to 200%. On the OMLACSA solvency slide, you will see how we've managed our solvency position since listing. The intuitive risk margin approval that we obtained in 2020 resulted in a 20% improvement in this ratio.

Own Funds and the Solvency Capital Requirement (SCR) reduced materially in 2020 due to the dividend in-specie of 12.12% of Nedbank shares in preparation for the second unbundling in 2021. The move between the ratio of 203% in December 2021 and 212% in June 2022 was largely driven by the impact of subdued market markets on equity risk, and the mass lapse risk requirements of the group rather than any fundamental change in the balance sheet and risks. This movement reiterates the necessity for a wide range in the solvency ratio, as well as the alternative discretionary capital disclosure to provide users with a clearer view of our capital.

In line with our goals to optimise net asset value whilst growing our earnings profile, I would like to elaborate on the framework within which we make our capital decisions and how we allocate capital in the group. We follow a structured approach to new investments whether they form part of the core or new growth opportunities. The framework ensures alignment to strategy whilst ensuring that the return generated over time will exceed the cost of equity and will ultimately result in an increased return on net asset value. Other factors, such as the fungible nature of the capital and the impact on the wider group operating model, are taken into account through the process.

We also follow a gated approach on new ventures and ensure a portfolio split of capital allocation between our core operations and growth opportunities. Going forward, we will be disclosing our discretionary capital and the utilisation thereof. This will provide a clearer view of how we proactively manage our capital and maximise shareholder value by optimising the group's balance sheet and capital allocation. Discretionary capital represents the surplus assets that we hold at a group level and that are available for distribution, deployment or acquisitions. This discretionary capital for the current period was R3.5 billion.

This discretionary capital balance includes amounts earmarked for investments in growth and innovation initiatives, including building our transactional banking capabilities. Distributions paid up from our subsidiaries to the group contribute to the discretionary capital balance and our internal capital is managed in such a way that future group distributions from our subsidiaries would be sufficient to fund the holding company distributions. The Residual Plc board has approved a dividend of £39 million, which is expected to be paid to the group before the end of 2022. This dividend will increase the discretionary capital at the group level. Further detail on this discretionary capital will be provided at the full year results announcement. With that, back to you, Iain.

Iain Williamson
Thank you very much, Casper. And I'm going to move then on to the strategic update. As we repeated a number of times, we've anchored our strategy in our victory condition of becoming our customers' first choice to sustain, grow and protect their prosperity. We are pleased to announce several developments which bring us closer to delivering on that commitment. We recently announced that our Old Mutual Insure business has concluded an acquisition of a specialty insurance business, Genric Insurance Pty Ltd. This, however, remains subject to the receipt of a regulatory approval, which is expected to close early next year.

We've also closed the acquisition of a 51% shareholding in Versma Management Services which is an insurance brokerage. And that deal was negotiated as a package with another firm called Primak Brokerage, where we have also acquired a 51% shareholding. Our intention remains to broaden our presence across the short-term insurance value chain.

Referring to our cost savings target of R750 million to be delivered by the end of this year, as at the end of September, we had banked more than R700 million in savings in our life and savings businesses. And we continue to strive to extract efficiencies across our business beyond 2022. Given where we've got to by the end of September, we remain confident that we will achieve the targets that we had set by the end of the year.

You will recall that at the interims we announced a partnership with Bridge Taxi Finance. We have since then launched a pilot with them, which at this stage covers 40 taxis in the last month. And we are assessing the early insights that are emerging from that pilot. We will provide an update on this at our full year results announcement. We are also pleased that recent external research indicates that we've regained our number one position in the risk market in the Mass & Foundation Cluster.

In Personal Finance and Wealth Management, we have begun seeing the positive impact of the Old Mutual Protect (OMP) enhancements that we spoke to you about at the interim results. These continue to deliver results for the turnaround in the Personal Finance sales mix. We saw better traction in Q3 sales and volumes with average weekly cases on Old Mutual Protect jumping 16% in Q3 compared to Q2 excluding funeral business. And as we've indicated, living benefit products are amongst the most margin rich of our product set. This is a combination of the various management actions that we spoke about at the half year. But it is still early days in terms of seeing the impact. We continue to focus on delivering on our commitments and we will provide you with further updates on these and more at our full year results announcement.

We've previously mentioned that we're investing in expanding our transactional capability. I'm pleased to announce that on the 21st of October, we received Section 13 approval from the Prudential Authority. This means that we can now go ahead and lodge an application under Section 16 section of the Banks Act for the registration of a bank. The establishment of an entity in the group with a banking licence is a natural progression in our core strategy of providing a holistic set of financial services to sustain our customers' prosperity. Our current transactional solution, being Money Account, is delivered through a commercial arrangement with a third-party bank. As such, this carries a level of risk for Old Mutual, which we are seeking to manage through our application.

Adding a banking presence will allow us to achieve three key objectives. The one is to enhance our ability to have a regular, natural business-driven interaction with customers. The second is that this gives us proximity to customer data directly into the payment system and increases our cross-selling opportunities. And thirdly, it gives us access to cheaper sources of funding for our loans, as we will be taking deposits. We are building the bank through a digital-led functionality that will target the upper mass and lower affluent consumers, primarily. The Board-approved expenditure to complete the build of the transactional capability is R1.75 billion.

In line with the business case that we have put together, we have incurred costs of around R830 million to date, and approximately 10% of these costs have been capitalised. Once we receive the relevant approvals from the Prudential Authority, launch is targeted for the second half of 2024. However, there are potential costs and risks associated with the regulatory approval process and the timeline to obtaining that approval. We expect the entity to breakeven three years after its launch, and as the capability matures post breakeven, the return is expected to be significantly above our target return of cost of equity plus 4%.

I firmly believe we're making good progress on the commitments made and have laid strong foundations for continued growth. Also, I want to touch briefly on the Bula Tsela transformation transaction. We launched Bula Tsela yesterday with the issue of 205 million new Old Mutual shares to a number of beneficiary vehicles. The take-up of our retail scheme was pleasingly oversubscribed, in fact, heavily oversubscribed, which reinforces the need for schemes such as Bula Tsela, especially amongst those who have previously not had the opportunity to participate in such retail schemes. We're incredibly proud to have launched such a truly transformative and broad-based transaction.

In closing, our balance sheet remains well capitalised with a group solvency ratio within our target range. We remain committed to deliver on our medium-term targets, noting that our target for results from operations will be very difficult to achieve given the current economic climate and market volatility. We remain on track to achieve our cost savings target for the end of this year. And our value of new business margin remains within our medium-term target range of 2% to 3%.

We continue to be concerned about the impact that the current economic environment is having on policyholders' ability to maintain their commitments on either their policies or their loans. And at year end, we will reassess a package of our remaining COVID provisions, which you will recall are substantial, the long-term impact of COVID on our book from a mortality perspective, as well as the increased pressure that we have witnessed on persistency in the Mass & Foundation Cluster. We will now open for questions, if I could ask the operator to please assist with outlining how that process will work. Thank you very much.

Operator

Thank you. Ladies and gentlemen, if you would like to ask a question, you're welcome to press * then 1 on your touchtone phone or the keypad on your screen. A confirmation tone will indicate that your line is in the question queue. You may press * then 2 to exit the question queue. In the interest of time, we ask that you please limit yourself to a maximum of three questions. Thereafter you're welcome to re-join the queue for any additional questions. Just a reminder, if you would like to ask a question, you're welcome to press * and then 1. The first question comes from Andrew Baker of Citi.

Andrew Baker

Hi. Thanks for taking my questions.

- So, the first is on the Mass & Foundation Cluster. I was just wondering if you could give a sense of why the cost of living pressure is impacting persistency but not new business. And then on the persistency, whether you've seen the acceleration of the pressure there in Q3, or whether it's fairly in line with the first half.
- And then secondly, just on the bank. So, I'm just curious what happens to your existing partnership with Bidvest between now and 2024. And can I just check the timing of when you expect the remaining development costs to come through over the next couple of years?

Thank you.

Iain Williamson

Thank you. I'll deal with the persistency question first. I think it's hard to say whether persistency has had an impact on new business or not. Obviously, you don't have a comparator to tell yourself whether it would have been better without the challenges of the economic environment. I think it's fair to say that we certainly saw increased pressure in Q3. I think there is always a bit of a lag effect. Inflation peaked in July, as I indicated at the interims announcement. I do expect that as inflation starts to subside, that things will improve and that this is at least partly a significant cyclical issue. But cyclically, it was a little bit worse in Q3 than it had been year to date for the half year.

As far as the bank goes, we do have a very good relationship with Bidvest. We have informed them in advance of what we intended to do. They remain committed to supporting us. We do have a contractual relationship, which takes us far enough so that we don't run into any issues with that. So, there will be a congenial working relationship between the two parties as we go forward, until we are ready to go it alone as it were. So, I think we are managing that situation quite tightly. And to date, the conversations with Bidvest have been completely cordial and understanding, so I don't anticipate any particular issues. Thank you.

Andrew Baker

Great, thank you.

Operator

The next question comes from Warwick Bam of Avior Capital Markets.

Warwick Bam

Good afternoon, Iain and Casper. Thanks for the time. Three from me.

- Can you add some more colour on the improvement in mix that you've had in Personal Finance, and whether we should expect a material improvement in the value of your business for the second half in comparison to the first?
- The second question is just could you remind us of what the Rand value of your pandemic provision is at the 30th of September?
- And then lastly, just the Bula Tsela transaction. Do you have an updated figures as to what the financial impact will be from an adjusted headline earnings perspective for the 2022 period?

Thanks.

Iain Williamson
Okay. Thanks, Warwick. I'll take the PF one. Then I'll ask Casper to talk about the provision. And I think we've got Taskeen on the line regarding Bula Tsela. As I indicated in my voice over, the mix in PF has improved. However, it's been a quarter, and obviously you've got the first half. So, I think I wouldn't anticipate that you are going to see a materially better VNB outcome this year. The trend is our friend in the sense that it's certainly improving. You'll recall that at the half year, we indicated that two things need to happen for the numbers to get back to historical norms. One is the mix, and that that does appear to be trending in a better direction.

But the other is the absolute volumes. And obviously, with absolute volumes being flat on last year across the board now, not in the risk business, the risk business is up, we would need to see a further increase in volumes in order to really deliver the full benefit of the margin expansion that we perceive as possible. So, still work to do. I think it's early days, but hopefully we'll start seeing the first signs of it this year. But don't hold your breath for a massive improvement this year I don't think. Casper, can I ask you to talk about the COVID provisions and then yourself and Taskeen to talk about Bula Tsela?

Casper Troskie
On the COVID provisions, we haven't seen any significant movements in those provisions post June 2022. And we haven't disclosed the remaining provision as part of the SENS announcement. But I think you can work on the numbers that we've disclosed at the half year as a reasonable estimate of what we are holding at the end of September. I hope that helps.

Iain Williamson
On Bula Tsela, Taskeen, do you want to take that one?

Taskeen Ismail
Thanks, Iain. We haven't disclosed that updated cost on our income statement as part of the SENS. But we do give quite good guidance in the circular and prospectus that were issued earlier this year. There is a sensitivity table looking at what the actual OML price would have been when we eventually launched. So, in the circular we had done our initial pro forma numbers based on an OML share price of about R12.69. And we actually priced the deal at R10.22. That should give you some good guidance. From a facilitation cost perspective, we always targeted getting to an overall facilitation cost of between 25% to 30%. And we're quite happy to report that we have actually maintained our facilitation costs within that range, being towards the lower end of that range.

Warwick Bam
Okay, thanks.

Operator
Thank you. The next question comes from Michael Christelis of UBS.

Michael Christelis
Hi guys. Thanks very much for the time. Three questions from me.

- Can you confirm the amount you earmarked for spend on the bank that's over and above the R800 million spend to date? Or does that include the R800 million spend today? And does that include buying at Old Mutual Finance minorities? That's the first question.
- The second one, I'm a bit perplexed as to why this bank makes losses in the first three years if Old Mutual Finance is already making a profit of circa R500 million every year. I'm obviously not looking for a lot of detail. But on what

basis do you expect this to make losses obviously greater than that when you when you finally launch it as a bank on its own?

- And then maybe, I appreciate the comments you've given us on capital, and that you're going to talk to us more about excess capital. And that's certainly very welcome. But what's holding you back when you're trading at half of GEV from buying back shares at this point in time with some of that excess capital? Clearly, some of its going to be used for deployment, but why is there no buyback at this point in time, even if it's small, say R500 million to R1 billion?

Thank you.

Iain Williamson
Thanks, Michael. Okay, a couple of things on the bank, just to be absolutely clear. The R1.75 billion does include the R800 million spent to date. So that's the total for the build. I referred to regulatory risk. We could run into a situation where we are ready to go but we're not ready to launch, and then we'll have a holding cost for a period while we're not able to generate revenue. And if that happens, that will be over and above. So, the Board gating is around a budget to actually physically build and get prepared. And then we will separately go back to them for the subsequent releases of what we require for working capital to run the bank. It does include R800 million, but it does not include the potential cost to buy out the minorities. That exercise is imminent from a date perspective in the optionality that both parties have.

As far as the losses question goes, we've tried to be quite purist with ourselves around saying what this looks like on a standalone basis versus on a synergistic basis. The pieces we are quoting to you are the standalone. And obviously we would hope that when you add the stuff together, you get a slightly different answer. The reason we haven't done that in the way that we've disclosed it is because we would need regulatory approval in order to move various parts of the existing stuff underneath the regulated entity. So, the timing is not certain, etc. So, hopefully that gives you clarity on that issue. And then, Casper, maybe you could pick up the capital question. I'm happy to chip in as well.

Casper Troskie
Michael, we normally take decisions to our Board at year end and at the half year. And that's been consistent over time. So, we've said to you, we'll come back with further detail on the use of discretionary capital at our year end announcement. So, I think that's important. And I think the additional disclosure, which we'll be providing consistently, should be providing investors with a clear view of what discretionary capital is sitting at a holding company level. So, hopefully we can give you a much clearer view of the way forward at the year end.

Michael Christelis
Thanks, Casper. That's useful. Can you just clarify that the R3.5 billion either includes or excludes the level of capital in OMLACSA that's above the midpoint of its target range? In other words, if you moved OMLACSA back down to 185, or whatever the midpoint is, by paying a dividend up to group, is that included in the R3.5 million or is that over and above the R3.5 billion?

Casper Troskie
Let me just go back to the comments on that on the call. What we were trying to explain is that there's quite a big move in the OMLACSA capital ratio, just based on how the equity metrics shock. And the shocks are applied by the regulators. So, in times of markets falling, you get a very big benefit, which as I said in the commentary, you saw quite a big increase in the capital ratio from 203% to 212%, where we hadn't really seen much movement is the balance sheet and the risk profile. And it's really this mechanism, which means that we have to hold quite a wide range. I just wanted to get that point across. So, the discretionary capital is clearly the capital that we hold at a group level. And therefore, any excess

capital that may be sitting in OMLACSA license will be dependent on the Board declaring that up to be counted at a group level. So, at this stage, it doesn't include any undeclared capital that's sitting in OMLACSA.

Michael Christelis
Very clear. Thanks very much. Thank you.

Operator
The next question comes from Baron Nkomo of JP Morgan.

Baron Nkomo
Hi guys. Two quick questions from my side.

- About a year or two ago, you mentioned that you expected a material turnaround in most of your Africa Regions operations by 2023. I just want to ask if that's still the case. That's the first one.
- And then secondly, just to get some clarity on your guidance. Just reading your outlook statement, you said that it might be difficult to achieve your RFO targets. I just want to confirm if that means you might be changing the previously stated target, which was I think FY19 RFO plus 5% to 10% or achieving that in FY23? I just want to get some clarity on that guidance.

Iain Williamson
Okay, thanks. So, on the Africa Regions piece, yes, I am comfortable that that turnaround is well underway, whether you measure that from a total profit perspective, from a total VNB perspective, or from a top line perspective, or from a number of loss-making entities perspective. So, that is well underway. There is still work to do. But I think the statement we made in terms of a 2023 picture is not… I don't think what we are managing to deliver today is inconsistent with that. So, comfortable with where that's going.

And then as far as the outlook goes, I think at this stage we're just saying it's going to be tough. We will obviously as part of our year end process relook at the guidance that we provided. But the combination of market pressure, particularly H2 this year with where market levels have been, that's starting to recover again recently. So, it's a bit of a case of gazing into your crystal ball. And then the persistency pressures do create some quite material challenges around what that future might look like. So, it's something that I think we will guide more firmly as we get closer to the year end. Casper, anything you want to add to that particular issue?

Casper Troskie
No, Iain, I think you've covered it.

Iain Williamson
Thank you.

Baron Nkomo
Okay. Thanks.

Operator
Thank you. The next question comes from Royce of Obsidian Capital.

Royce Long
Thanks, guys. Two questions from me.

- The first one. In the first half your investment income dropped from R1.1 billion down to R400 million. And given a mathematical link to your dividend, that's quite a headwind in terms of growing your dividend. The second half of last year [shows] that basically you were up against for the full year was around R1.5 billion. There's no reference in the SENS announcement or in a presentation to what investment income is doing. Could you provide some guidance as to what the run rate is at the moment in relation to the H2 base from last year? And maybe just referencing the answer to the current bond yield that came in around 10.7%?
- And then the second question I would have is going back to your guidance for the full year, your RFO guidance. Does this assume that your COVID provisions remain untouched in making that guidance that will be difficult to meet?

Thanks.

Casper Troskie
Should I go, Iain?

Iain Williamson
Yeah, thanks, Casper.

Casper Troskie
I think on the investment return we haven't actually given any earnings numbers, as is our practice. We've given you operating indicators. But I think we've provided quite a bit of detail on the asset class exposures that we have in the interim results. So, you should be able to see how big our bond, our income, the cash piece, the equity piece is sitting. You should be able to go and have a look at that and get a sense of how markets have performed since June to get a sense of the performance of the shareholders' investment portfolio. You must remember that the return on the shareholder investment portfolio is directly linked to the underlying asset class returns.

So last year, we had positive returns. This year we've had negative equity returns. We've had negative bond returns. So, those will impact on the shareholders' investment portfolio. In terms of our business, where we hold client fees, it's a little bit more complex than that. You have to look at what the average funds under management have done and how those have performed over time. So, we have seen a small impact on the returns or the fees that we earn on RFO than what we would have seen on our shareholders' investment portfolio where the returns are directly linked to what happens to those asset class returns. I hope that answers your question.

Iain Williamson
And the second question with the COVID provisions. In terms of the COVID provisions, the commentary that we made at the half year stands, and what we said is that we are retaining the provisions at the half year. I said earlier that you could assume that the provisions we had at the half year are largely intact at the end of September. And we said that we will be looking at the impacts of long COVID and the impacts of persistency as part of our year-end position. So, that work is in progress, and we will give you an update at year end on what's happening there.

Royce Long
Just to be clear, Casper, are you saying the guidance that the RFO target is going to be hard to meet assumes that there is no release of any provisions?

Casper Troskie

For next year, yes, effectively it does. Guys, one of the reasons that the 2023 picture is difficult to give you a concrete view on is that we also have the transition to IFRS 17 happening at the beginning of next year. And we're still working through all of that in terms of what that might mean in terms of where that all goes. So, that's why I think we've been a little bit cautious around what we say about next year's picture at this stage. It's one of the contributing factors that makes it more complicated than usual.

Royce Long

Thank you.

Operator

Thank you. The next question comes from Teboho Mosoeu of Investec.

Teboho Mosoeu

Thanks for the call. Just a few questions from my side.

- I think you mentioned that from a MFC point of view, Old Mutual has regained the number one position. Is that primarily life or funeral, and has this been margin accretive? Or is it mainly volumes that were pushed with a slightly lower margin or reduced pricing? So that's the first one.
- Then secondly, with the introduction of a transactional banking capability, what does that mean for the remaining stake in Nedbank?

Thank you.

Iain Williamson

Okay, so on MFC, the comment that I was making predominantly refers to funeral business. That is still the majority of our risk sales in MFC. We have seen quite a nice uptick in the volume of underwritten life being sold by the distribution force in that business. And it is something that Clarence is driving. But at this stage, I think you can take the comment as predominantly referring to the funeral picture.

And then as far as the impact on the Nedbank stake goes, I think you'll be aware that our residual holding in Nedbank is of the order of 5%. I think just a little over 5% at the moment. It is hedged. And we have said for a while that that now continues to be held as just a normal part of our capital stack, to be dealt with in due course as hedges roll off and things make sense. But there's not really any longer a particular strategic rationale or strategic relationship between the two companies other than our history. We remain on a very good relationship with Nedbank. We have a number of business agreements with them. But they are all conducted on arm's length terms. In fact, there was something that they are assisting us with as of this morning. It was conducted on arm's length terms. But there's no longer a strategic rationale for holding onto a stake like that.

Teboho Mosoeu

Understood. And just on the break-even target, is there a metric that you can give us in terms of maybe number of accounts or something that we can use to actually track what it implies?

Iain Williamson
I don't have that off the top of my head and we haven't shared it, but we'll take it away and think about when we give an update at the full year results whether we can provide you with some guidance as to how to think about that particular item in terms of the drivers.

Teboho Mosoeu
Thank you.

Operator
The next question comes from Jarred Houston of All Weather Capital.

Jarred Houston
Afternoon, Iain and Casper. Thanks very much for the call and the additional detail. A few of my questions have been answered. But I'll ask a couple of extras.

- If you can just clarify on the Nedbank stake when the hedge actually rolls off, when the term of that hedge expires.
- And then just on the provision, I appreciate that you still have to go through the year end process in terms of any adjustments required to persistency in MFC. Can you just give us a sense? Clearly a lot of time has elapsed since September period end. Can you just give us a sense, is it a case of the hole in persistency could outweigh the R2.5 billion in excess COVID provisions? Is it a part offset? How must we think about the net impact of those two factors?

Thank you.

Iain Williamson
Okay. Thanks, Jarred. I'll ask Casper to talk to you about the basis. I'll just quickly deal with the hedge. It's not one hedge, importantly. It's actually a large number of hedges with staggered expiry dates over time. So, little pieces will come up for rollover at different points. At the rollover point, we'll make a decision as to whether we essentially sell that piece or roll it over. Casper, do you want to talk about any guidance?

Casper Troskie
We obviously haven't given guidance as to whether the impact is negative, neutral or positive. But we wouldn't have made the comments that we made at the half year around persistency. And now what we've seen around persistency in the third quarter warrants our concerns. And we wouldn't have made comments around long COVID if those weren't real issues that we needed to deal with. That's as much as I can say. We are in the process of completing our work on that. But along with other insurers, these are the two things that we have to address by the end of this year, the impacts of long COVID and persistency. And if we felt that they weren't serious concerns, we would have not raised that at the half year. So, I think it's important to understand.

Iain Williamson
I think we've got time for one last round if anyone has a residual set of questions they'd like to ask.

Operator
Thank you very much, sir. The next question comes from Kevin Harding of Investec Wealth & Investment.

Kevin Harding
Hi guys. Thanks all for taking the call today. Just one question.

- If you could just clarify, in setting a target for the bank of 4% excess above cost of equity, could you let us know what that cost of equity number is please?

Casper Troskie
I must refresh my memory. We update the cost of equity on an annual basis. I need to quickly check if I've got the right number in my head. I just want to make sure I give you the right numbers.

Iain Williamson
While he is looking up the number, the principle that we use is an empirical, backward looking, audited calculation that compares the yield curve to the equity curve, as you would expect. But it's not a forward looking assumption based thing about what's the [unclear] etc. It's very much a backward looking empirical calc.

Kevin Harding
So, would the 11.8% that you disclosed at the half year be an appropriate base?

Iain Williamson
Yeah, that sounds like the number that Casper was looking for. And as he says, we update that every year. So, once a year, we will update the number. It tends to move by tens of basis points rather than dramatically. But it does move a little bit every year, depending on the prevailing historical data that we're using.

Kevin Harding
Perfect. Thank you.

Operator
Thank you. Sir, it seems we have no further questions from the queue. Do you have any closing comments?

Iain Williamson
Thank you very much. Thanks, everyone, for your time. I hope you found it useful. If there are follow ups that you would like to check in with us after this, please get in touch with our investor relations team. We'd be happy to assist. Otherwise, we look forward to updating you further when we get to our results in the new year. Thanks a lot.

Operator
Thank you. Ladies and gentlemen, that concludes today's event. Thank you for joining us. You may now disconnect your lines.

END OF TRANSCRIPT