Transcript of the Quilter plc Annual General Meeting 2020

Thursday 14 May 2020

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Good morning and welcome to the Quilter 2020 Annual General Meeting. I am Glyn Jones, the Chairman of the Board of Directors of Quilter. The AGM today is being held in unprecedented circumstances. Due to the impact of Covid-19 and the UK government advice to 'stay alert' and restrict gatherings, in order to ensure the health and safety of all participants, and in accordance with article 28 of our Articles of Association, this year we are holding a closed AGM. As the AGM is an important date in our calendar, we will publish a transcript of this meeting on our website immediately after the meeting.

Given the circumstances this year, and to comply with the UK government guidance to restrict gatherings, the attendees today are our CFO, Mark Satchel, our Company Secretary, Patrick Gonsalves and myself. Mark and Patrick are physically present at Millennium Bridge House and are forming the required quorum for our meeting. Therefore, after a short update from me, in order to meet our legal requirements, I will hand over to Mark who will Chair the formal part of the meeting.

Paul Feeney will not be present today to provide the usual CEO review of the year. However, his summary of the business performance last year is set out on pages six to nine of the 2019 Annual Report for you to review at your leisure. And I would also refer you to the Annual Results presentation slides on our corporate website dated Spring 2020. These slides, presented by Paul Feeney and Mark on 11 March 2020 cover amongst other relevant matters, our business performance and financial results in 2019 and the considerable strategic progress made.

Before I hand over to Mark to Chair the formal business of this AGM, I would like to report to you on four matters:

- Firstly, my view, as Chairman, on Quilter's progress in 2019.
- Secondly, how Covid-19 has impacted on our business and prospects.
- Thirdly, to brief you on Board changes and our announcement this morning of a new appointment.
- And, finally, some observations on capital returns and dividends.

So, firstly, in my own view, and indeed that of the Quilter Board, we delivered strongly in 2019 and in line with our promises to our shareholders:

- We delivered a solid financial performance of £182m adjusted operating profit (excluding Quilter Life Assurance) up 3% on 2018 despite the extreme political and economic uncertainty due to Brexit and Parliamentary impasse in the UK and wider trade and geopolitical concerns, particularly US-China trade relations.
- Industry net client cash flows were very weak given the above uncertainty affecting investor sentiment; and our own flows, therefore, were only modestly positive at £0.3bn but with a promising pick up in quarter 4.
- Equity markets, however, rebounded in 2019 from a weak 2018 position; this, plus our strong customer retention, meant that we closed the year with record AUMA of £110.4 billion

(excluding Quilter Life Assurance).

- Overall, we achieved a total shareholder return of 42% for the year, albeit aided by the weak share price at the beginning of the year after the market sell off in late 2018.

- A key initiative in 2019 was broadening the reach of our advice business. And in this respect we acquired the Charles Derby Group in February 2019 which gave us UK wide scale to our newly formed national business. The subsequent acquisition of Lighthouse Group in June 2019 added further critical mass to the national advice business and also broadened our network business. We also added restricted financial planners organically and have scaled up our Financial Adviser School to deliver a stronger pipeline of new advisers going forward.

- We sold Quilter Life Assurance to ReAssure in December 2019 for £425m (and interest income of £21m); a strong price for a closed life book. The sale simplified and focused our business and removed a drag on our growth trajectory.

- Our UK Platform Transformation Programme made significant progress and positioned us for the successful Phase I migration of 8% of platform assets under administration in February 2020.

- Our business Optimisation plans also progressed through Phase I and contributed to securing a stable operating margin in 2019 through the efficiency improvements achieved.

All of the above, and good progress in a number of other areas not mentioned above, but detailed in the Annual Report for 2019, positioned us well for 2020. However, as the world is now all too aware, in Q1 2020 we all entered a period of extreme turbulence and uncertainty.

- Covid-19, a coronavirus, has led to a global health pandemic stretching health resources across the world and sadly causing a significant loss of life.

- To limit the health crisis, we have seen a global shutdown and stay at home measures to limit the spread of the virus. These steps have led to an extraordinary downturn in economic activity and a sharp increase in unemployment.

- Unprecedented fiscal and monetary policy initiatives have been taken by many governments to contain the resulting damage giving rise to large increases in government borrowings.

- Equity and other financial markets sold off steeply and swiftly in March but in April have partially recovered with several major markets, particularly the NASDAQ and the S&P 500, enjoying double digit gains even as the economic data has significantly worsened. This is in the expectation that public policy initiatives and controls over the virus could lead to a rapid economic recovery in the second half of 2020.

Faced with the health crisis and lockdowns, our immediate priorities for Quilter were the health and safety of all of our staff and then continuing to serve our customers and their advisers. We mobilised quickly to get our staff working from home and now 98% are working remotely, thus self-distancing but still ensuring Quilter is open for business. Further information on our initiatives in these respects were given in our Q1 trading update on 21 April 2020, which is available on our corporate website. On behalf of the Board, I would like to thank all of our staff for their commitment to serving our customers and advisers in challenging times.

As well as being operationally resilient in this crisis, we are also financially resilient. We have a robust balance sheet with a reported proforma Group Solvency II ratio of c.210% at 31 March 2020, well above our peers, and a strong cash position of £750m as of the same date, undrawn revolving credit facilities and a very low level of debt. As we advised in our trading update, however, the fall in equity market levels impacts on our AUMA and thus income. Despite planned offsetting cost reductions, we are now expecting a lower adjusted operating profit in 2020 than planned and indeed against 2019, and a lower operating margin than previously advised to the market. Notwithstanding this, we are continuing to invest in core projects including the delivery of our UK Platform Transformation, albeit with some potential delay depending upon lockdown restrictions.

Looking forward, there remain very significant uncertainties in how the Covid-19 induced crisis will play out. Until a proven vaccine is tested and rolled out on a global scale, we all remain vulnerable to further waves of the virus and a delay to normal working and social interaction. The full economic impact is by no means clear at this early stage when unemployment is still rising and the viability of a number of businesses is challenged despite the policy initiatives in place. Notwithstanding Quilter's operational and financial resilience, given all the risks and uncertainties, we do not have any room for complacency. Your Board and the executive remain vigilant, closely monitoring developments and determined to be agile to respond to threats and to opportunities. We are also giving considerable thought as to what the 'new normal' could eventually look like and how best to respond and position ourselves.

Now let me turn to the Board. With the exception of welcoming Mark Satchel back to the Board as Chief Financial Officer in March 2019 after Tim Tookey stepped down, your Board was unchanged over the course of 2019. However, since year end, we have announced two changes to the Board. Cathy Turner and Suresh Kana have decided not to put themselves forward for re-election and so their appointments as Directors will cease at the conclusion of this AGM.

Cathy has taken up a Board role at a UK FTSE 100 company and as Chair of their Remuneration Committee. As a consequence, she will not be able to commit the required time to fulfil her duties to the Quilter Board and so has decided not to seek re-election. Cathy's deep experience in compensation matters and wider business experience has been incredibly valuable during our transition into public company life, and I would like to thank Cathy for her contribution to the Board over the last three years and to wish her well for the future.

Suresh has particularly provided wise counsel and insight into South African corporate governance practices, which again, has been very valuable to us during our formative period as a dual-listed company. However, given the extensive travel required as a result of his serving on a UK public company Board from South Africa, coupled with his other existing international commitments, he has concluded now that Quilter's governance processes are well established, and that this is an appropriate time to step down. We wish him well in his future endeavours.

Ruth Markland, the Board's Senior Independent Director, has agreed to succeed Cathy as Chair of the Remuneration Committee. Ruth has served on the Remuneration Committee since joining the Quilter Board in June 2018 and has a wealth of expertise in this area having previously chaired the Remuneration Committee at two large FTSE 100 companies. Paul Matthews succeeds Cathy as the Non-executive Director responsible for employee engagement and is also appointed to our Remuneration Committee.

Quilter

Following a search conducted by Egon Zehnder, we have announced today that Tim Breedon has been appointed a Director of Quilter with effect from 1 June 2020. Tim brings a unique blend of experience and expertise as a former CEO at Legal & General, a highly successful FTSE 100 savings and pensions business, and as a very seasoned Non-executive Director at Barclays plc and on the board of US private equity backed businesses. He brings a deep understanding of UK regulated financial services, corporate governance in UK public companies and in effective board challenge and support in building out a sustainable long term business. I look forward to him joining our Board.

Now let me turn to capital and dividends:

As shareholders in a UK public listed company, you will be more than aware that the payment of dividends by UK and international companies is a very topical issue. At the request of their regulators, most UK and Continental European Banks have withdrawn proposed dividend payments in respect of the 2019 financial year, and indeed agreed not to accrue them for 2020. EIOPA, the European Insurance and Occupational Pensions Authority, has made a similar determination, and while this has not been adopted universally, a number of UK insurance companies have also cancelled proposed dividend payments.

After taking note of the context in which we find ourselves the Board is continuing to recommend payment of the 2019 final dividend of 3.5 pence per share subject to it being approved by you, our owners, later in this meeting, in accordance with the relevant Resolution at this AGM.

Let me explain why we are comfortable with this approach:

Firstly, as I stated earlier, your company is in an exceptionally strong financial position. Upon completion of the first £50m tranche of our share buyback, the Odd-lot Offer and payment of the proposed final dividend, our pro forma Group solvency II ratio is c.210% at 31 March 2020, well above our peers. Our balance sheet is highly liquid: we finished the first quarter of 2020 with around £750 million in cash in the bank across our principal holding companies; an undrawn revolving credit facility and a low level of debt.

Secondly, our business is not capital intensive – even if we were to decide not to recommend payment of the final dividend and retained that cash on our balance sheet, for all practical purposes, it would have no impact on our ability to write incremental business or to do more to support our customers; and

Thirdly, as a significant provider of retirement solutions to the UK public, your Board believes companies, like Quilter, who are in a position to do so, should maintain dividends which remain important in the provision of income for pension plans, particularly those of individuals who are in retirement.

Therefore, after taking these factors into consideration that we continue to recommend payment of the final dividend. I would also note that Quilter is not furloughing any staff and has no need to use any of the UK government's Covid-19 related policy support initiatives.

So, on a related point let me now turn to capital returns.

Following the sale of Quilter Life Assurance, we consulted with our shareholders on how best to return the net surplus proceeds from the sale – the clear majority response to that consultation was to implement a share buyback programme. Subsequently, we mandated JP Morgan to begin the first £50 million tranche of a planned buyback programme for the whole of the net sale proceeds of £375 million.

We have submitted an application to our regulator, the FCA, for a second tranche to the programme. Once the first tranche of purchases has been completed and the second tranche approved by our regulator, your Board will wish to review the company's latest financial position and prospects given the uncertainties and risks arising from the economic impact of the Covid-19 crisis on Quilter before deciding how best to proceed with further buybacks.

In a similar vein, and despite market volatility, your Board deliberated and decided to continue with the Odd-lot Offer that you approved at last year's Annual General Meeting.

The Odd-lot Offer is part of our Optimisation programme and aims to simplify our share register which is unusually large for a business of our size. We inherited a large share register from our previous parent, Old Mutual plc. Old Mutual was demutualised in 1999 and millions of its customers and policyholders received free shares in Old Mutual which at Managed Separation converted into Quilter plc shares.

An Odd-lot Offer is an established and frequently used mechanism in South Africa where the majority of our retail shareholders are based. The Odd-lot Offer is therefore intended to allow Quilter shareholders with 99 shares or fewer, many of whom acquired their shares by default and shareholders with very small holdings that can be difficult to sell economically, to dispose of their shares in a simple, straight forward way without incurring dealing costs.

The pricing mechanism for the Odd-lot Offer was set before the offer was launched to be a 5% premium over the average share price across a five trading day period. That period was set towards the end of the Offer Period in order to allow those Odd-lot Holders who wished to see the actual Offer Price in cash terms before making their decision to do so. Clearly the Covid-19 crisis has caused significant volatility in the markets and our share price has also been affected. However, your Board believes that many Odd-lot Holders will still find the offer a simple and straightforward way of divesting a relatively small holding. The price for the Odd-lot Offer was announced on 24 April, including in newspaper advertisements in the South African press, and Odd-lot Holders can, ahead of the deadline for electing to accept the offer on 15 May, choose to keep their shares for the long term or choose to retain their shares and sell them outside the Odd-lot Offer at a time that suits them. We have also allowed South African shareholders affected by the closing of postal services to make their elections by telephone.

In conclusion, before we turn to the formal business of the meeting, let me just note that the role of your Board is to steward your company in good times and in turbulent times. We are in the most turbulent of times with a health and economic crisis well beyond a 1 in 100 year event. However, Quilter is well positioned to ride out the current crisis and is focused on supporting our staff and customers as well as the broader community to the best that we are able. I would like to thank all our shareholders for your continued support in these challenging times.

Now, shareholders were invited to submit any questions that they would like to be put to this meeting. As no questions have been received, I would now like to move on to the more formal part of the meeting and I will therefore hand over to Mark to conduct this.

Thank you, Glyn. As Glyn explained, in accordance with article 32 of our Articles of Association, I am acting as Chairman of the formal part of the AGM.

Resolutions 1 to 17 are set out in the Notice of the Meeting which was made available to shareholders on 26 March 2020. I propose that the Notice of the Meeting be taken as read and I give formal notice that voting on each of the 17 resolutions will be conducted by a poll. Our Registrars, Equiniti, have been appointed to conduct the poll. As Chairman of the meeting, a number of shareholders have appointed me to vote their shares during the meeting.

I will now hand over to Patrick Gonsalves, our Company Secretary, who will say a few words about how we will conduct the poll.

Thank you Mark.

Mark Satchel as Chairman of this meeting has exercised his right under the Articles of Association to require a poll in relation to each of the 17 resolutions to be proposed, as set out in the Notice of Meeting.

The Chairman of the Meeting, Mark Satchel, will now complete a poll card to vote the shares as directed by shareholders.

Thank you, Patrick. There are 17 separate resolutions, each explained in the Notice of Meeting, which I now propose.

I am advised by our Registrars who have conducted the poll that all the resolutions put to this meeting have been passed.

The results of the poll will be announced to the London and Johannesburg Stock Exchanges as soon as is practical. They will also be published on our website.

This concludes the formal business of the meeting and I declare the meeting closed.

Now, let me hand back to the Chairman of the Board, Glyn Jones.

Thank you, Mark.

And thank you too Ladies and Gentlemen for your understanding and I sincerely hope that we can physically meet at next year's AGM.

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