Quilter

Quilter plc 2019 Half Year Results

Monday 5 August 2019

Paul Feeney
CEO: Good morning everyone. Welcome. To those of you who are with us in the room today and to those of you who have joined us on the webcast and on the phone lines.

We will follow our usual format this morning. I will give you my perspective on our solid first half performance and on the proposed sale of Quilter Life Assurance. Mark will then take you through the financials, before we take questions.

I wanted to start though with some strategic context. Our ambition is to build the UK's best advice-led wealth management company. We have been busy over the last few years and we have made great progress. But as I have said many times, Quilter is not yet the finished article.

This slide walks through the journey that we have been on and the key next steps:

- The sale of our European Life books;
- The acquisition of the core building blocks of our platform, Intrinsic and Quilter Cheviot;
- Our decision in 2017 to use FNZ to build a new platform;
- The sale of Old Mutual Global Investors and return of capital to shareholders;
- The acquisitions of Charles Derby and Lighthouse to build our National Advice proposition;
- Our optimisation plans to drive up operating margins;
- The build-out of Quilter Investors following the OMGI sale, now largely completed, and the broadening of their product range; and
- The sale of Quilter Life Assurance announced this morning, which will make us a simpler and faster growth business.

So looking back after just one year from listing, I am delighted with our clear strategic progress over the last 12 months. We are wholly focussed on simplifying our business and making it as efficient as it possibly can be. We are really starting to fulfil Quilter's potential, creating a modern wealth management company that will make advice more accessible and more valued. And as we do that, we will deliver both the revenue growth and returns that our owners expect.

So, let me turn to the first half highlights and then I will get into detail on the most important near-term success factors:

- Assets under Management and flows;
- Our UK Platform Transformation Programme;

- Optimisation; and
- Investment performance.

Now while the operating environment remains challenging, we have made significant progress in 2019. From a financial, from a strategic, and from an operational perspective, we are in a better place than we were a year ago.

We delivered adjusted profit growth of 5% to £115 million, and particularly important, given our announcement today, if we exclude Quilter Life Assurance, then our profit grew by 7% to £89 million.

This is a function of broadly stable average Assets under Management and Administration and a stable revenue margin, coupled with rigorous cost discipline.

We have made two key strategic moves in the first half.

First, we have taken a bold step forward to broaden the reach of our advice business, through the acquisitions of Charles Derby and Lighthouse. This has given us real scale in our Quilter-branded national advice business. It has also added further scale to the network business.

Secondly, as we have announced this morning, we have agreed the sale of our heritage life business, Quilter Life Assurance, to ReAssure Group plc for consideration of £425 million with this subject, of course, to regulatory approval.

I am delighted with the proposed sale price, which represents a great result for our shareholders. The sale price represents 120% of end December own funds after adjusting for the dividends we will have taken out this year and that compares very well to other similar transactions in the market.

As you know, Quilter Life Assurance is predominantly a run-off business where we have successfully managed its cost base together with those of our existing platform. Selling it now to a purchaser who is focussed on running businesses like this, before we go live with our new platform, is in the best interests of Quilter Life Assurance's policyholders as well as our shareholders.

Right, turning back to our ongoing business, we are pleased with the progress we have made with our UK Platform Transformation Programme and I will provide more detail on that shortly.

Our optimisation programme is also delivering results. In fact, you know, if anything, we are a bit ahead of plan.

Back in March, we told you that we expected the operating margin to reverse this year as a result of acquisitions, but actually we have managed to keep it stable at 29% despite that drag. And we remain confident in the overall circa 4 percentage point

increase in the operating margin that we are targeting by 2021. Although to be clear, this will, of course, be off a lower base following the sale of Quilter Life Assurance.

Finally for this slide, we are pleased to declare our first interim dividend of 1.7 pence per share.

So, let's turn to flows.

This is an updated version of a slide we have shown before: net flows versus market movements.

As expected net flows, whilst positive, were down on the previous half for reasons we have previously signposted. But it is reassuring to see that asset retention, shown in the grey boxes at the top, has remained relatively unchanged, excluding the outflow from the closed life book. So, let's dig a little deeper into what is behind the flows.

So this slide shows you the last three half-year periods… and what has been driving Assets under Management and Administration both in terms of flows and market movements.

The first half of this year was the opposite of the first half of last year. Last year we benefitted from strong flows but limited contribution from market performance. This year market performance has been strong, but flows have been lower as they have right across the industry.

Also, as you can see in the grey boxes, the contribution from DB to DC transfers has fallen off materially over the last year. With this business there is very little current drawdown and so gross contributions are broadly equal to net flows. Our conservative risk appetite has been a short-term headwind. But in the context of recent regulatory proposals on contingent charging, that's not a bad thing.

However, I want to emphasise that the machine is working and it's working well.

We generated £6 billion of new gross flows, excluding Quilter Life Assurance, in the first half of this year, which given the market backdrop is a solid performance, albeit that was down 5% on the second half of last year.

In contrast, and not broken out separately here, we have seen a stabilisation of flows within our International business. It's a modest contributor in the overall context, but we are pleased because it is evidence that we have successfully repositioned this business. It has now got deeper roots in fewer markets and it feels like it is on a more stable base from which to grow.

Now there are a couple of exceptional Quilter-specific reasons for the challenging net flow so far this year, which we have already told you about, so let's zoom into the last six months in more detail.

What we are showing here on the left, is a breakdown of the constituent parts that make up the £300 million of net client cash flow on the right.

As you can see, we saw robust gross inflows of some £6 billion. And then, what we would consider normal redemptions of just below £5 billion.

Then we are showing the two exceptionals. You will recall that this time last year we told you about a number of Investment Manager departures from Quilter Cheviot. As their restricted covenants are now off, we have started to see fund outflows from clients who are following them.

That is the £600 million you can see. Most of this was in the second quarter. In terms of volume it is about what we were expecting, but the timing is slightly earlier.

Importantly, we have recruited to replace those IMs. From 155 last December, we were up to 163 Investment Managers by the end of June, and the figure stands at 165 today.

Next, as we have also previously discussed, the expected departure of a low margin £200 million quasi-institutional account in Quilter Cheviot. This took place at the end of the second quarter, so as you can see, two outflows totalled around £800 million from Quilter Cheviot in the first half.

We expect the impact from the Investment Manager departures to run at a similar rate for the rest of the year and for the impact to fall away by early 2020.

If we adjust for these exceptional flows, the underlying performance of the business is clearly a lot better than the headlines suggest.

We expect net flows to remain muted therefore for the remainder of this year.

But over the medium term, the implementation of the new platform will be a catalyst for faster growth and market share gains in our business in the future.

So now let's turn to that.

Before I get into the detail of where we are now, I want to take a step back.

Just over two years ago, we signed our contract with FNZ. Since then we have achieved a huge amount in a short space of time.

We have designed, built, tested and soft-launched the new platform and it is currently being used by selected clients and the feedback has been great.

We are now in the final delivery stages of the programme, but we are a little bit behind our original timetable, as we warned we might be.

Along with ensuring our people, customers and advisers are ready, there are two key tasks to complete before we begin the first migration: migration preparation and final delivery of the full platform.

Taking migration preparation first – we have done an enormous amount of work here, and have almost completed our data validation. We expect it to move into the next phase of dress rehearsals very shortly and we will do. These are critical to ensure full business readiness ahead of going live.

Then there is the system itself. We have been working intensively with FNZ over the last few months to ensure code integrity. Now we had expected to be virtually complete by now. However, the final delivery of the platform will take approximately three months longer than planned. This is driven by the complexity of the programme and our commitment to a high quality outcome. We now expect to undertake our first migration of up to 100 adviser firms and up to 10% of platform assets by early 2020.

Back in March we said that an extension of the programme into 2020 would lead to modestly higher costs. Now to allow for our updated timeline, our dual running costs and additional activities to reduce migration risk, we now expect the cost of the programme to come in approximately £25 million above our original budget. But we still plan to complete the project by around this time next year.

Getting the new platform in safely is the principal deliverable for me and my team.

Getting it done, and done well, in a market that has been bruised by such projects is vital.

We will not rush delivery to the detriment of delivering a quality outcome.

We want to complete the programme and reap the significant benefits of the investment we have made. We are excited about the opportunities that the new platform will bring to our business. It will deliver enhanced functionality to existing clients and it will boost our competitive position, helping us to gain market share with advisers.

Okay, next I want to turn to optimisation.

The fundamental goal of the programme is about delivering sustainable cost savings to drive up the operating margin. We have progressed well this year. We have centralised certain activities to reduce duplication, and we are seeing the benefit of that through lower finance and marketing costs. But it is in 2020 and 2021 when we expect to deliver the main benefits from this programme.

So we are laying the groundwork for the delivery here, which is more strategic in nature.

We are investing in technology to automate standardised processes, as well as driving greater efficiency right across our IT estate.

By 2021 our new group-wide general ledger will be in place. It will reduce the manual intensity of our financial reporting and allow us to make the cost reductions that we have targeted.

We remain confident in delivering a 2 percentage point improvement in the operating margin next year, with a similar additional benefit in 2021.

Mark will go into more detail on expenses later, but I am also pleased we have delivered our target of broadly unchanged costs, excluding acquisitions, in the first half of the year, and our overall operating margin is stable on last year, despite the cost drag from recent acquisitions. So I think you will agree; a strong cost performance right across the board.

Let me now turn to investment performance. Both Quilter Investors and Quilter Cheviot continued to perform well for our clients, delivering out-performance relative to their relevant benchmarks over three, five and ten year periods, as you can see on the slide.

Looking at shorter-term investment performance, which isn't shown on the slide, our Cirilium range has delivered a good absolute return but more mixed relative performance this year, after a challenging 2018. And our 2019 performance for our Managed Portfolio Service, Wealth Select, is good in both absolute and relative terms.

We are rationalising and broadening Quilter Investors' product range, through fund consolidation and new product launches.

Over the last six weeks, we have launched Cirilium Blend, which combines active and passive building blocks to deliver a new client proposition, and we have launched a new income range following the hiring of Helen Bradshaw from Janus Henderson.

All of these are designed to meet our clients' changing needs and are in response to research, specific research, with our clients that we have received through our advice business.

Right now let me hand over to Mark to walk you through the detailed financials. Mark.

Mark Satchel
CFO: Thanks Paul and good morning everybody.

As well as covering the solid financial out-turn for the first six months, I want to spend a bit of time looking at costs where, as Paul has said, we have delivered another strong performance.

But a word first on the presentation.

As a result of the announcement that we are selling Quilter Life Assurance, in line with IFRS 5, we have classified the business as a discontinued operation. It is therefore designated as 'held for sale' in these results, with comparative results restated in compliance with the relevant accounting standards.

So to help your interpretation in my commentary on business performance, I have set things out on both a continuing business basis – that is excluding Quilter Life Assurance – and based on the current perimeter, which obviously includes Quilter Life Assurance, to ensure full comparability.

I will also give you a few numbers to help model the residual shape of Quilter once the sale has completed.

So in terms of results:

- Total adjusted profit grew 5% to £115 million. And what is particularly pleasing, is that it is comfortably ahead of average AuMA which was flat over the period;
- £89 million of the profit came from the continuing business, an increase of 7%;
- And £26 million came from our closed life book, Quilter Life Assurance, which declined by 4%;
- Adjusted EPS from the continuing business was flat at 4.1 pence, and here our better profit performance was offset by the predicted higher tax rate and modestly higher number of shares counting in the calculation;
- Quilter Life Assurance added another 1.4 pence of earnings to give 5.5 pence in total;
- The dividend per share was 1.7 pence, inclusive of a distribution of 0.43 pence in respect of Quilter Life Assurance's first half profits.

And a word of guidance on the dividend. Based on our guided one-third/two-thirds dividend split, you should be able to calculate an implied pay-out ratio of around 46% of adjusted post-tax profit, and that is a deliberate policy to walk up the 40 to 60 percent dividend pay-out ratio range. And you should expect us to continue on that sort of path, recognising the Board's commitment to capital discipline and the Group's structural composition.

Paul covered the picture on flows. All I would add is that we were pleased with the resilience of integrated flows and overall persistency in this market environment.

We were also pleased with the 13% growth in restricted financial planner numbers. Of that, 5% on an annualised basis was organic, which we see as a satisfactory out-turn, and 8% was from acquisitions.

Turning now to the detail of our operational and financial performance using a slide that we have talked to before.

As you can see top left, net flows plus market movements drive Assets under Management and Administration. So net flows of £0.3 billion plus market movements

of £9.1 billion led to average AuMA of £114.4 billion, which was flat on the same period last year. And total AuMA was up 8% since year end.

A stable revenue margin at 57 basis points and increased adviser fees drove a 3% growth in overall revenues. We held cost growth to 2% year on year and that increase was totally due to acquisitions, which I will come back to in a moment.

So overall, we delivered a 5% profit improvement. We were particularly pleased with the stability in the operating margin. You will recall that in March, we indicated that it would decline this year but our expense discipline has kept it constant. And had it not been for our distribution acquisitions, the operating margin would have been about a percentage point higher.

Finally, the overall EPS is unchanged year on year which, as I said earlier, is principally due to a more normal tax charge of 12% being accrued this half year.

Let me now drill down into costs. In the first half of 2018, our cost base was £275 million. This half year the total cost base was £280 million, a net increase of £5 million.

From left to right on the slide you can see:

- Acquisitions added £6 million to the cost base in the year, which was more than the net increase in costs that we saw over the period;
- Natural cost inflation within the business added £5 million;
- The build out of Quilter Investors added a further £3 million;
- And the normalisation of the FSCS levy added a further £2 million.

And these three cost items were all offset by our focussed execution on cost savings and optimisation benefits which delivered £11 million of savings in the first half.

Let me give you a few pointers on the second half cost base for your models.

First, we are planning some additional development spend that we expect to come in at around £6 million in the second half.

Second, Lighthouse didn't contribute to the first half cost base. So we expect this will add about £9 million to costs in the second half. And the second half full run-rate from Charles Derby and the PC acquisitions will be approximately £7 million. As I have said before, our investment in distribution through our advice acquisitions, results in an initial drag on profitability and operating margin for around six months after completion.

Thirdly, you will have seen in the announcement today that we have set out the costs of our London property office consolidation.

The cash costs of the office fit outs will be around £30 million, incurred over late 2019 and 2020. These will be capitalised and depreciated over time. The incremental P&L

expense is likely to be £3 million in the second half of this year, and around £10 million in 2020 due to an element of dual location running costs. Thereafter the incremental run-rate will be around £5 million ongoing per annum.

This next slide brings out that underlying picture. Here, we have broken down revenues, expenses and profit into three key components: Quilter Life Assurance in grey at the bottom of each column; the continuing business in the centre; and the incremental contribution from acquisitions, in lighter green at the top.

So, starting with revenues on the left: in the first half Quilter Life Assurance revenues were £47 million. The continuing business delivered £335 million in revenues up 3% on a year ago on a like for like basis. And acquisitions contributed £13 million.

On a similar basis, Quilter Life Assurance first half costs were £21 million.

Expenses in the continuing business increased by around 1% to £245 million

And the expense base from acquisitions was £14 million.

Putting all of this together, the organic growth in profit from our continuing operations, excluding the impact of acquisitions and Quilter Life Assurance, was near 10% on the prior period.

Given that average AuMA for the continuing business was flat, this is a good result and we are focussed on delivering further operating leverage in the future.

So let me now turn to the segments starting with Advice and Wealth Management.

As you know, we view this segment as the primary driver of our growth. In the first half of this year we saw good growth in revenues and costs which delivered 6% growth in adjusted profit. This is the segment where we have targeted investment and that has obviously had an impact on reported profits. Without the impact of acquisitions, profit growth would have been closer to 10%.

Quilter Investors revenue growth of 20% was again the main driver of revenue improvement. Notably, the revenue margin for the segment was up two basis points year on year. This reflects the combination of a steady revenue margin in Quilter Cheviot, and a five basis point improvement in Quilter Investors.

However, a word of caution on the Quilter Investors revenue margin.

Although we are pleased with the margin expansion over the last few reporting periods, we have been helped by mix shift benefits and over time we expect these to reverse.

That is because some of our newer products, such as our income offering and Cirilium Blend, are lower revenue margin products. So as we start to build assets in these, they will add to revenues, but will result in a decrease in Quilter Investors revenue margin.

Turning now to Wealth Platforms. Here revenues were down marginally, mainly due to the decline in Quilter Life Assurance and the lower run-rate of flows from our International business. But our focus on cost management led to a slightly larger percentage reduction in expenses. This gave us stable profits on the prior year with a particularly strong cost performance from the International business supporting the result.

Asset retention in the continuing business remained strong at 90% for Wealth Solutions and 92% for the International business.

The decline in the revenue margin was due to lower new business margin in the Platform and International businesses.

The revenue margin for new business for both the Platform and International is lower than that of the established book, so we will see further downward pressure here.

Of course this segment also includes Quilter Life Assurance and so let me say a few more words on that.

As we announced this morning, we have agreed a sale of Quilter Life Assurance to ReAssure Group for consideration of £425 million with this subject to regulatory approval.

So I thought it might be helpful to provide a bit of detail here to help you think about what Quilter will look like without Quilter Life Assurance.

First, as we said in the release this morning, if you exclude Quilter Life Assurance from the current Quilter group, the go-forward business will have a rebased operating margin of around 5 percentage points below the current level.

This reflects the higher operating margin at Quilter Life Assurance, coupled with stranded costs that we will need to manage down over time.

While we remain committed to improving the operating margin as we set out in March, the base from which we start will be lower.

Second, the Board is currently minded to return a meaningful proportion of net proceeds to shareholders, and before you ask me questions on how much or how we might make any such capital return, we will be consulting with our shareholders to solicit their views on the best way of returning capital to them.

We have a natural preference for mechanisms that would reduce the share count, to off-set the loss of earnings we are selling, and ensuring as much consistency as possible in per share metrics including our share price.

But given the nature of our investor base and our dual listed status, we want to ensure that we deliver an outcome that is best suited for the majority of our shareholders.

We also still plan to conduct an odd lot offer later this year and so we need to be mindful of the impact on investors who may participate in that as well.

So turning to the detail of Quilter Life Assurance, most of you will recall that we reported a MCEV figure for the business of £536 million at the end of December. And if you've been through the SFCR report, you will have seen that the own funds figure at year end was £394 million.

The difference between MCEV and own funds is mainly due to a foreseeable £90 million dividend which Quilter Life Assurance paid to Group earlier this year and which was deducted from Own Funds but not MCEV.

There will be a further dividend of £40 million paid prior to completion and which is excluded from the consideration. These dividends reduce the own funds figure to £354 million and MCEV to £406 million on a pro forma basis.

Using those figures you can see that the transaction was priced at 120% of pro forma end-December own funds, and 105% of pro forma MCEV, both of which I think are excellent outcomes.

Finally, I have often been asked if the potential sale of the Quilter Life Assurance business would release us from Group Solvency II regulation.

On technical fundamentals, we expect to remain Group Solvency II regulated following the Quilter Life Assurance disposal as we use a Life Wrapper to write pension business totalling around £26 billion on our UK Platform. However, we will have discussions on this topic with our regulator at some point in the future.

I should also say something about legacy costs. We are still working through the detail, but there will be an element of stranded costs associated with the transaction.

The impact of this upon the continuing business will be determined by the TSA arrangements we agree with the buyer between now and closing.

There are a number of moving parts here, but our guidance of approximately 5 percentage point impact on our continuing business operating margin from the sale is a reasonable estimate of this impact.

This next slide walks you through the movements in our capital position over the first half.

Our Solvency II coverage ratio stands at 181%. As you can see, the overall ratio has declined by 9% points during the first half.

The costs of the two advice acquisitions and our platform transformation are the notable movements here.

The half year ratio is also struck after declaring the interim dividend of 1.7 pence per share.

So where does that leave cash?

This next slide shows the movements in cash in our holding companies. This has decreased since the beginning of the year.

The cost of our full year dividend, Head Office expenses and capital injections into our subsidiaries for investment and to pay for acquisitions, has broadly offset the cash received by way of dividend from our businesses.

We also saw good continued cash generation in the first half with a 93% cash conversion of post-tax adjusted profits which is well ahead of our 80% target.

So, the overall message that you can take away from these two slides is that our financial position remains strong.

We have sufficient cash and capital on hand to ensure that we can complete our Platform Transformation Programme and our optimisation plans even under a stressed market scenario.

Over time we expect our dividend pay-out ratio to continue to move up the range and, ultimately, for our solvency ratios to trend towards that of our peers.

As you know, we are still a relatively young company, new to public quoted life and with a prudent Board.

Building a sustainable track record and market credibility are very important to us.

So, in summary, we are pleased with progress during the first six months of this year.

We have demonstrated solid growth in profits and good growth in continuing business profits, excluding those from acquisitions.

The balance sheet and cash position remain conservative, which provides us with flexibility.

We are pleased with the expense discipline that we have again demonstrated.

And we are focussed on our optimisation targets and driving operating margin improvements in 2020 and 2021.

And with the exception of flows, which we previously indicated would be weaker this year, we continue to achieve all the targets we outlined at our IPO just over a year ago.

Let me now hand back to Paul.

Paul Feeney: Thank you Mark.

Now before we open up for questions, let me summarise. It has been a good half for profitability and for strategic execution, both organically through optimisation and inorganically through acquisitions and disposals.

So where are we focussed in the near term?

First and most importantly, we are focussed on getting our new platform in, and our customers and advisers safely migrated, and this programme is going well.

Second, we are integrating the two acquisitions which we completed earlier this year: Charles Derby and Lighthouse. And it's early days, but progress is good.

We are building out our national advice business into a full-scale UK-wide business.

Third, we are focused on delivering our optimisation plans to drive the improvement in operating margin that we set out in March. As I said earlier, this is going well.

And finally, we will close the sale of Quilter Life Assurance and undertake a meaningful capital return to shareholders after we have consulted with them on the best means of achieving this.

So, in conclusion, as I said at the outset, Quilter is not the finished article but we are getting there.

And as you can see, we are moving at pace to complete the reshaping of our business and to improve its efficiency.

Just think for a moment about where we will be by this time next year.

We will be a more focussed, streamlined, simpler and higher growth wealth business.

We will have migrated to a new platform, with greater product scope, attractive client and adviser portals, faster payments, and stronger security controls to protect our adviser and client data.

We are confident that these investments will deliver, given their current delivery status and management's focus upon them. And all this will have been done within 24 months of our listing.

I am really excited about the growth opportunity ahead, and value creation we will deliver from this, not only this year, but in the years ahead.

Right. Let me now open up for questions. We will take questions from the room first and then we will see if anything else has come in from the phones or the web.

Andy, you had your hand up first.

Andy Sinclair: Thanks, it's Andy Sinclair with all the mics. Three for me as usual if that's okay?

Firstly on Lighthouse. Possibly not seen quite the pickup from a restricted financial planners I might have expected from Lighthouse. Can you just give us anymore colour on that?

Is that possibly just new people waiting till the new platform is live to transfer across?

Secondly, was just on after the Heritage sale, really good price by the way, is anything else being considered? So I am thinking particularly about International, is that still a core part of the business?

And thirdly, on the platform delay, clearly a bit disappointing again. You said that you expect the platform to be complete in development by this time next year.

Could you clarify what do you mean by complete? Does that include the switch off of Legacy systems and now much buffer is there in there for slippage and given migration windows, etc? Thanks.

Paul Feeney: Okay. Well I am going to take number 2 and 3, but I am going to ask Andy here to take number 1 on Lighthouse because Andy Thompson's the Head of Quilter Financial Planning. So Andy, do you want to stand up and just take the first one? Lighthouse, colour on RFPs. We have had a number of RFPs come across from Lighthouse. How many more and conversion of IFAs.

Andy Thompson CEO, Quilter Financial Planning: And I am happy to answer, so two main divisions of Lighthouse as Paul alluded to. So the national side of that business, which was restricted, so in other words when they come across to us they're automatically restricted. The other side, about 140 of those, the other side, is the network side and clearly they're independent already. So what happens now is that we are working through with them in terms of the integration into our business, moving them onto our systems and processes.

And as part of that we will be introducing the proposition to them and at that point engaging with them as to whether actually moving onto our restrictive proposition is better for their customers and themselves. So that's something we'd expect to really see take hold in the first half of next year.

Paul Feeney: Okay. Thanks Andy.

Heritage sale. Obviously we are delighted with that as you can tell, Andy. International, we have done a lot of work to reshape our International business to focus it on bigger core markets. We have come out of 83 markets in International. And you've seen that we have stabilised flows, decent net flows, it's a good part of our business and it's a, whilst it is not quite as high a growth as our UK business, it's a decent growth wealth management business, advice led, wealth platform, and predominantly for British citizens. I mean, two-thirds of all of our clients – over two-thirds are Brits. So certainly no plans there.

PTP, what does summer mean and what does completion mean? Completion means completion. We have said about this, we are standing up at the interims this year, I want to be able to stand up and I expect to stand up at our interims next year and tell you we have completed the full transformation of our platform including all the migration of assets and advisers. That's what I intend to be able to do.

Andy Sinclair: And including that switch off of the old platform?

Paul Feeney: Well I mean you say the switch off. Most of that just gets decommissioned over a relatively short period of time. I mean for all intents and purposes as soon as it's migrated, everything will be turned off there and we will … that won't be a long process. But that's the intention, that's what we are trying to achieve here.

Andy Sinclair: Thanks.

Paul Feeney: Okay. Johnny

Johnny Vo: Johnny Vo from Goldman Sachs. Just three questions.

No. Just in regards to at the moment you're telling your own advisers in terms of directed flows potentially on the platform to use alternate platforms. How much flows are going to alternate platforms from your adviser and what's your recapture rate ability once your platform comes back online?

The second question relates to Quilter Cheviot. I guess you've lost advisers and you've lost assets, but of the new advisers that you've got on, how much assets are accompanying those advisers. Actually, they are my questions…

Paul Feeney: Okay.

Johnny Vo: Okay, thanks for giving me the extra bit of time there to think about it as well.

Paul Feeney: So yeah, we are allowing our advisers to use other platforms at the moment, because as we know our existing platform doesn't do all the things that we would like it to do.

We are, you could either call it leaking or deliberately allowing around 50% of our flows to go to other platforms at the moment. Okay? That's a huge amount. Our new platform will have all the product capability, functionality, that we need. So go figure.

You know and … look, you know, we offer choice, we offer great choice and our platform will provide it. Our new platform, our platform, our new platform will provide that and will give us that opportunity to recapture a very significant proportion of the leakage that we now see.

New IMs. Yeah, delighted that we have now got up to 165 as I stand here today from 168. Clearly they've come on later than the ones who left, so there is a lag, you know? But we have taken high quality, we have attracted high quality, very experienced Investment Managers to us, who manage significant books of business, so I won't give an actual number but we expect and we are already now seeing that flow coming through.

The gentleman here please.

Ben Bathurst: Hi, it's Ben Bathurst from RBC. I've got a couple of questions on capital actually.

Just after you've sold QLA your risk profile's changed, arguably fundamentally. So I am just thinking from a Solvency II ratio perspective what would you be comfortable moving down to, now that you've lost that insurance business?

And then secondly on capital, you have £200 million worth of debt in the balance sheet right now. I am just wondering is it safe to assume that you'll keep that debt there as long as you remain within the Solvency II regime, and is that something you might look at potentially paying down if you're able to get out of Solvency II should that be able to happen?

Paul Feeney: Thanks Ben. I think those are definitely two for my CFO. Mark?

Mark Satchel: Well I will answer the first one, yeah, in terms of the debt. I mean that'll form part of the consideration that our Board deliberates over the next little while, so I haven't got a … certainly if we come out of a Solvency II regime it will have an impact from that perspective but there's no … we don't have any clear direction or we are not providing any clear direction on that. That'll be what gets deliberated over the next little while.

In terms of our Solvency II ratio, we have never given a ratio target that we aspire to. I have guided that we expect to move down. If you remember at the time of our listing, we had prefunded a lot of the capital commitments including the PTP expenses that we still expect to incur on our balance sheet which gives us a very high Solvency II ratio and that will reduce over time.

The QLA risk profile actually has a slight increase in the Solvency II ratio that we'd expect to maintain, given that overall it has a dampening impact on our overall risk profile, so

actually it adds a bit of ballast which we now lose, so internally when we model it, that actually goes up by a few percentage points.

Paul Feeney: Now …

Greg Simpson: Morning, it's Greg Simpson from Exane here. Three questions if I may.

First would be on the proceeds from QLA. Are you thinking about using part of the proceeds for acquisitions? How are you finding the environment, or are you pretty happy with the acquisitions you've done? A bit of colour there would be useful.

Secondly on DB to DC, the £0.4 billion of flows you highlighted in H1, is that the entire Quilter business including your own advisers, or is that just the platform? That would helpful in the context of the contingent charging proposed ban.

And then thirdly on the cost side, you used to be targeting a 2 percentage point per annum marginal improvement at the Group level including QLA and now you're targeting a 2 percentage point improvement on the Group excluding QLA. I am just wondering about the mechanics there, because presumably before you were targeting more than a 2 percentage point improvement in the business ex-QLA because QLA was being run off if that makes sense?

Paul Feeney: Okay. Kind of, maybe Mark would help me out there but we are still –

Mark Satchel: I understand the question, don't worry, yeah.

Paul Feeney: Yeah, yeah. Okay.

Mark Satchel: I don't know if you'll understand the answer but I will answer it.

Paul Feeney: Thank you.

I will let him do that one then. We are still targeting two and two. Okay, but from the ex-QLA perspective.

Mark Satchel: No, no, I mean effectively out of QLA, so what you've also got to think of is what part of the optimisation benefits are going to be within the QLA cost base, so you're right in that it's in running off, or getting less, but a lot of that really actually gets reallocated within the rest of the Group. So, in our assessment of the actual optimisation benefits we expect to obtain, you've clearly got a smaller chunk going on over there, so the two broadly offset so it ends up in neutral, so I wouldn't get too hung up about that.

Paul Feeney: Okay. And DB to DC, the £400 million is the entire Quilter Group, not just the platform.

QLA proceeds: we closed the deal Sunday evening. We are going to, the Board is minded to return a very – no, a meaningful amount of net proceeds to shareholders.

We have made two big acquisitions for distribution this year already. Our core priority right now is to integrate those. Whilst we will continue to make, you know, bolt on acquisitions of that area, our priority at the moment is that and looking with our shareholders as to the mechanism of how we turn funds.

Sorry, Gurjit, thanks Greg.

Gurjit Kambo: Hi, good morning, it's Gurjit Kambo, JP Morgan. Just two questions.

Firstly there's obviously been a lot of issues in the industry about sort of liquidity not in wealth management, more in the asset management industry, but how do you sort of think about the due diligence that you do on the funds and to ensure that there is no sort of issues around illiquidity?

And the second one, any thoughts around just regulatory developments, anything that you're sort of discussing with the FCA or anything we should be sort of aware of more broadly?

Paul Feeney: Okay. We take liquidity very seriously. In fact we did have quite a large mandate with Woodford Investment which we sold out in April before the, you know, quite a long time before the suspensions, but we stipulated they could not hold illiquid assets. So we do, you know, we do take this very seriously.

We manage, you know, liquid investments for our clients across the board, we watch all that, we look at it in terms of suspended funds, we look at commercial property funds, gates and so we manage liquidity very carefully.

We do have Paul Simpson who's the Chief Executive of Quilter Investors here with us but do you want to contradict me on that, Paul?

Paul Simpson CEO, Quilter Investors: No, obviously we are offering multi asset solutions, daily dealings, so our liquidity planning which we actually bolstered as part of the Brexit planning, we are really looking at this matter, so a very bad outcome for our clients is if our solutions are ever gated, so we manage them so the probability of that happening is extremely low and that's looking at the internal workings of the funds we invest in. So by and large we avoid any kind of a liquid strategy in an open-ended vehicle. We will typically use close-ended vehicles for that. Where we are using an open-ended vehicle will ensure that there's sufficient liquidity in our vehicle as well, so I think we have got a pretty developed policy of this, we have war gamed it over the Brexit planning process, and I think the probability of any of our solutions ever being closed, is extremely unlikely.

Paul Feeney: So Gurjit, second part to your question: regulatory developments. Obviously the regulator has come out and talked about banning contingent charging, there's consulting on that. It's looked at the default for in DC workplace which I think is quite constrained, so we don't see any issue there.

I see to a large extent the regulator, apart from Brexit, focussing on more thematic cross-industry things at the moment. Quite rightly, such as resilience, operational resilience, data security, information security. And I wouldn't be surprised if we see more focus on those sort of issues.

Any further? Johnny.

Mark Satchel: He's remembered his third question.

Paul Feeney: Yes.

Johnny Vo: Exactly, I remembered my third question. Just I guess the question is when you sold QLA, QLA from a cash perspective probably exceeded the profit perspective and so it probably helped from a dividend, so reconciling that with your dividend walk and the pay-out ratio, how do you reconcile that given the sale of this business?

Paul Feeney: Well I will hand over to Mark in a moment but two things.

First of all Quilter Life Assurance profit profile would, if left with in our business, run off quite considerably faster over the coming few years, because with our new platform now, and it's final delivery stage, we don't have the ability to transfer staff and costs from one to the other. That just gets 100% broken. So the profile falls quite considerably. So now is the right time to sell. That's the first thing.

Secondly, the Board is very minded of this, Johnny, that, you know, that's why we have said we prefer mechanisms, funding return mechanisms, which protect DPS and stuff like that. But Mark, do you want to …?

Mark Satchel: Yeah, Johnny, I mean the remaining businesses we have pretty much what you see coming through in profit is what the cash generation is, and other than increases perhaps in the capital requirements as businesses grow, the rest of it is distributable, so the actual mechanisms of getting the profit up to the Group through the dividend declarations from the subsidiaries of the businesses that remain, other than QLA, is very good and there's a good record of that that we have with the businesses. It's probably worth noting that for the last three of four years we haven't actually taken meaningful dividends out of QLA while the thematic review was underway which is why I said the MCEV that it did at the end of last year and why we have been able to take up another £130 million of dividends now, prior to the sales price.

Paul Feeney: Any further questions? Okay. Any on the web or the phone lines, JP?

John-Paul Crutchley: There is one from the web which Mark has already.

Mark Satchel: So I was asked how important it is for the company to maintain the company's Tier 2 debt ratings as investment grade.

I think I've got a call with the bondholders due tomorrow. You'll have noted that Fitch revised their outlook on the back of our strategic review announcement and you can go and read that see what they have to say about it and you can see the sort of things that they're looking at. But from management's perspective it's obviously important to maintain a strong credit rating that is important to us. We have got a very strong balance sheet in the fundamentals, all very solid from that perspective. So I am hoping that we will be able to maintain a good credit rating but that will obviously ultimately be for the credit rating agencies to opine on.

John-Paul Crutchley: There's nothing on the phones.

Paul Feeney: Nothing on the phones? Okay.

Thank you very much for coming, we really appreciate it. I know you're all busy. Hope you've enjoyed out presentation. Thanks guys. Cheers.

[End of Transcript]