# S1 2019 Earnings Call

## Company Participants

- Andy McGlone, Chief Executive Officer, Quilter Cheviot
- Andy Thompson, Chief Executive Officer, Quilter Financial Planning
- Mark Satchel, Chief Financial Officer
- Paul Feeney, Chief Executive Officer
- Paul Simpson, Chief Executive Officer, Quilter Investors
- Unidentified Speaker

## Other Participants

- Andrew Sinclair
- Benjamin Bathurst
- Gregory Simpson
- Gurjit Kambo
- Johnny Vo

## Presentation

### Paul Feeney {BIO 17570862 <GO>}

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'll follow our usual format this morning. I'll 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've been busy over the last few years and we've made great progress. But as I've said, many times, Quilter is not yet the finished article. This slide walks through the journey that we've 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 on return of capital to shareholders. The acquisitions of Charles Derby and Lighthouse to build our national advice proposition. Our optimization plans to drive up operating margins. The build out of Quilter Investors following the MG sales 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'm delighted with our clear strategic progress over the last 12 months. We are wholly focused on simplifying our business and making it as efficient as it possibly can be. We're really starting to fulfill Quilters potential creating a modern Wealth Management Company, that will make advice more accessible and more valued. And as we do that, we'll deliver both the revenue growth and the returns that our owners expect.

So let me turn to the first half highlights. And then I'll get into detail on the most important near term success factors. Assets under management and flows, our UK platform transformation program, optimization, and investment performance. Now while the operating environment remains challenging, we've 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 GBP115 million. And particularly important given our announcement today, if we exclude Quilter Life Assurance, then our profit group by 7% to GBP89 million. This is a function of broadly stable average assets under management and administration under stable revenue margins, coupled with rigorous cost discipline.

We've made two key strategic moves in the first half. First, we've taken a bold step forward to broaden the reach of our advice business to the acquisitions of Charles Darby and Lighthouse. This has given us real scale in our Quilter branded national advice business. It's also added further scaled to the network business. Secondly, as we've announced this morning, we have agreed the sale of our Heritage Life Business, Quilter Life Assurance to reassure group PLC for consideration of GBP425 million, with this subject of course to regulatory approval.

I'm delighted with the proposed sale price, which represents a great result for our shareholders. The sale price represents 120% of end December owned 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 was focused on running businesses like this, before we go live with our new platform, is in the best interests of Quilter Life Assurance's policy holders as well as our shareholders.

Right. Turning back to our ongoing business. We're pleased with the progress we've made with our UK platform transformation program. And I'll provide more detail on that shortly. Our optimization program is also delivering results. In fact, if anything, we're 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've 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're 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're 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've shown before. Net flows versus market movements. As expected, net flow as whilst positive, were down on the previous half for reasons we've previously sign posted. But it's reassuring to see that asset retention shown in the gray 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's behind the flows. So this slide shows you the last three half-year periods. And what has been driving assets under management 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 benefited from strong flows, but limited contribution for 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 gray boxes, the contribution from DB to DC transfers has falling off materially over the last year. With this business, there is very little current draw down, so gross contributions are broadly equal to net flows. Our conservative risk appetite has also 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 emphasize that the machine is working and it's working well. We generated GBP6 billion of new gross flows, excluding Quilter Life Assurance in the first half of this year, with 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've seen a stabilization of flows within our international business. It's a modest contributor in the overall context, but we're pleased, because it's evidence that we've successfully re-positioned this business. It's now got deeper roots in fewer markets and it feels like 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've already told you about. So let's zoom into the last six months in more detail. What we're showing here on the left is a breakdown of the constituent parts that make up the GBP300 million of net client cash flow on the right. As you can see, we saw robust gross inflows of some GBP6 billion and then what we would consider normal redemptions of just below GBP5 billion. Then we're showing the two exceptionals. You'll recall that this time last year we told you about a number of investment manager departures from Quilter Cheviot. As though restrictive covenants are now off, we've started to see fund outflows from clients who are following them. That's the GBP600 million you can see. Most of this was in the second quarter, in terms of volume it's about what we were expecting, but the timing is slightly earlier.

Importantly, we've 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've also previously discussed, the expected departure of a low margin GBP200 million quasi-institutional account in Quilter Cheviot. This took place at the end of the second quarter. So as you can see, two outflows totaled around GBP800 million from Quilter Cheviot in the first half of this year.

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 headline 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've achieved a huge amount in a short space of time. We've designed, built, tested and soft launched the new platform and it's currently being used by selective clients and a feedback has been great. We are now in the final delivery stages of the program. But we're a little bit behind our original timetable, as we warned we might be. Along with ensuring our people, customers and advisers are ready, there were 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've done an enormous amount of work here and have almost completed our data validation. We're expected to move into the next phase of dress rehearsals very shortly, and we will do. These are critical to ensure the full business readiness ahead of going life. Then there is the system itself, we've 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 program and our commitment to a high-quality outcome. We now expect to undertake our first migration 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 program 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 program to come in approximately GBP25 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 principle 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 program and reap the significant benefits of the investment we've made, we're 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 optimization. The fundamental goal of the program is about delivering sustainable cost savings to drive up the operating margin. We progressed well this year. We've centralized certain activities to reduce duplication and we are seeing the benefit of that through lower finance and marketing costs. But it's in 2020 and 2021 when we expect to deliver the main benefits from this program. So we are laying the groundwork for the delivery here, which is more strategic in nature. We're investing in technology to automate standardized processes as well as driving greater efficiency, right across our IT state. By 2021, our new group wide general ledger will also 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 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'm also pleased that we've 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 continue to perform well for our clients, delivering outperformance relative to the 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, are 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 rationalizing and broadening Quilter investor's product range through fund consolidation and new product launches. Over the last six weeks, we've launched Cirilium blend, which combines active and passive building blocks to deliver a new client proposition. And we've launched a new income range following the hiring of Helen Bradshaw from Janice Henderson. All of these are designed to meet our clients changing needs. And our in response to research, specific research with our clients that we've received through our advice business.

Right now, let me hand over to Mark to walk you through the details financials. Mark?

## Mark Satchel {BIO 18275874 <GO>}

Thanks, Paul. And good morning, everybody. As well as covering the solid financial outlook 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 relevance accounting standards. So to help you interpretation in my commentary on business performance, I've said things out on both a continuing business basis, that is excluding Quilter Life Assurances, 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 GBP115 million. And what is particularly pleasing is that it is comfortably ahead of average AuMA, which was flats over the period. GBP89 million of the profits came from the continuing business, an increase of 7%; and GBP26 million came from our closed life book Quilter Life Assurance, which declines by 4%. Adjusted EPS from the continuing business was flat at 4.1 pence and here our better profit performance was offset by a 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 Assurances first half profits. And a word on guidance on the dividends. Based on our guided one-third, two-thirds dividend splits, you should be able to calculate an implied payout ratio of around 46% of adjusted post-tax profit. And that is a deliberate policy to walk out the 40% to 60% dividend payout ratio range.

And you should expect us to continue on that sort of path, recognizing 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 markets environment. We are also pleased with the 13% growth in restricted financial planner numbers, of that 5% on an annualized basis was organic, which we see as a satisfactory upturn, and 8% was from acquisitions.

Turning now to the detail of our operational and financial performance using the 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 GBP0.3 billion, plus market movements of GBP9.1 billion, led to average AuMA of GBP114.4 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 advisor fees drove a 3% growth in overall revenues. We hold cost growth to 2% year-on-year and that increase was totally due to acquisitions, which I'll come back to in a moment. So overall, we delivered a 5% profit improvements. 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 8 percentage points higher. Finally, the overall EPS is unchanged year-on-year, which as I said earlier, is principally due to more normal tax charge of 12% been accrued this half year.

Lifting our drill down into costs. In the first half of 2018, our cost base was GBP275 million, this half year the total cost base was GBP280 million, a net increase of GBP5 million. From left to right from the slide you can see, acquisitions added GBP6 million to the cost base in the year, which is more than the net increase in costs that we saw over the period. Natural cost inflation within the business added GBP5 million, the build out of culture investors added a further GBP3 million, and the normalization of the FSCS levy added a further GBP2 million. And these three cost items were all upset by our focused execution on cost savings and optimization benefits, which delivered GBP11 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 sound that we expect to come in at around GBP6 million in the second half. Second, Lighthouse didn't contribute to the first half cost base. So we expect this will add about GBP9 million to costs in the second half. And the second half full run rate from Charles Darby and the PCA acquisitions will be approximately GBP7 million. As I've said before, our investment in distribution through our acquisitions results in an initial drag on profitability and operating margin for around six months after completion.

Thirdly, you'll have seen in the announcement today that we have set up the costs of our London Property Office Consolidation. The cash costs of the office fit-out will be around GBP30 million incurred over late 2019 and 2020. These will be capitalized and depreciated over time. The incremental P&L expense is likely to be GBP3 million in the second half of this year and around GBP10 million in 2020 due to an element of geolocation running costs. Thereafter the incremental run rates will be around GBP5 million on going per annum.

This next slide brings out better underlying picture. Here we've broken down revenues, expenses and profits into three key components. Quilter Life Assurance in gray at the bottom of each column, the continuing business in the center 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 GBP47 million. The continuing business delivered GBP335 million in revenues, up 3% on a year ago on a like-for-like basis. And acquisitions contributed GBP13 million. On a similar basis, Quilter Life Assurance first-half costs were GBP21 million. Expenses is in the continuing business increased by around 1% to GBP245 million. And the expense base from acquisitions was GBP14 million. Putting all of this together, the organic growth in profits from our continuing operations, excluding the impact of acquisitions in 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 focused 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 the 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's obviously had an impact on our 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 from the segment was up 2 basis points year-on-year, this reflects the combination of a steady revenue margin in Quilter Cheviot and a 5 basis points improvements in Quilter Investors. However, a word of caution on the Quilter Investors' revenue margin, although we are very pleased with the margin expansion over the last few reporting periods, we have been helped by mix shift benefits. And overtime we expect these to reverse. That's because some of our newer products such as our income offering and the 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 the particularly strong cost performance from the international business supporting the result. Asset retention in the continuing business remains strong at 90% for wealth solutions and 92% for the international business.

The decline in the revenue margin was due to low in your 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, the 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 the sale of Quilter Life Assurance to ReAssure group for consideration of GBP425 million, which is 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 that of the current level. This reflects the higher operating margin at Quilter Life Assurance, coupled with stranded costs that will need to manage down overtime. While 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 retain 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 offset 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 an MCEV figure for the business of GBP536 million at the end of December. And if you've been through the SFCR reports, you'll have seen that to the own funds figure at year end was GBP394 million. The difference between MCEV and own funds is mainly due to a foreseeable GBP90 million dividend, which Quilter Life Assurance paid to group earlier this year, and which was deducted from own funds, but not from MCEV. There will be a further dividend of GBP40 million paid prior to completion, and which is excluded from the consideration. These dividends reduce the own funds figure to GBP354 million and MCEV to GBP406 million on a pro-forma basis. Using those figures, you can see that the transaction was priced at 120% of pro-forma in December own funds, and 105% of pro-forma MCEV, both of which I think are excellent outcomes.

Finally, I've 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 rapper to write pension business totaling around GBP26 billion on our UK platform.

However, we will have discussions on this topic of the 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 points impact on our continuing business operating margin for from the sale includes a reasonable estimate of this impact.

This next slide walks you through the movements in our capital position over the first half. A solvency II coverage ratio stands at 181%. As you can see, the overall ratio has declined by 9 percentage points during the first half. The costs of the two advise 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 dividends, head office expenses and capital injections into our subsidiaries for investments and to pay for acquisitions has broadly offset the cash received by way of dividends 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 program and our optimization plans even under distressed market scenario. Overtime we expect our dividend payout 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're still a relatively young company, neutral public Quilter Life and with the prudent board. Building a sustainable track record and marketability 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 focused on our optimization targets and driving operating margin improvements in 2020 and 2021. And with the exception of flows, which we have 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 no hand back to Paul.

## Paul Feeney {BIO 17570862 <GO>}

Thank you, Mark. Now before we open up for questions, let me summarize. It's been a good half for profitability and strategic execution, both organically through optimization and inorganically through acquisitions and disposals. So where are we focused in the near-term?

First and most importantly, we are focused on getting a new platform and our customers and advisers safely migrated. And this program 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're building out our national advice business into a full-scale UK-wide business. Third, we are focused on delivering our optimization plans to drive the improvement in operating margins 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 yet the finished article, but we're getting there. And as you can see, we are moving up pace to complete the reshaping of our business and to improve its efficiency.

Just think for a moment about where we're going to be by this time next year. We will be a more focused, streamlined, simpler and higher growth wealth management business. We will have migrated to a new platform with greater product scope, attractive client and adviser portals, faster payments and stronger security controlled 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'm really excited about the growth opportunity ahead and value creation that we will deliver from this, not only this year, but in the years ahead.

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

# Questions And Answers

## Operator

(Question And Answer)

## Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. This is Andrew Sinclair Bank of the Merrill Lynch. Three for me, as usual if that's okay. Firstly on Lighthouse, (Inaudible) not sitting there quite the pickup from number of restricted financial planners. I might have expected from Lighthouse. Just give us any more color on that is a possibly just you people waiting to tell a new platforms live to transfer across.

Secondly, was just on after the heritage sale really good price for the way as anything else being considered something particular about international is that still a core part of the business.

And thirdly, on the platform delay clearly a bit disappointing again. You said they expect the platform to be complete and development by this time next year. Could you clarify? What do you mean by complete is that including switch off of legacy systems? And how much buffer is there in therefore selection given migration when those etc.

## A - Paul Simpson {BIO 15955718 <GO>}

Okay. Well, I'm going to take number two and three. But I'm going to ask Andy here to take number one, on Lighthouse some head of our of good financial planning should. And did you want to stand up and just take the first one Lighthouse color on RFPs; we've had a number of our peace come across from Lighthouse. How many more and conversion of our face.

## A - Andy Thompson {BIO 21347296 <GO>}

And have to answer say two main divisions of Lighthouse as Paul alluded to say 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 those the other side is the network site. And clearly, they're independent already say, what happens now is that we're working through with them in terms of the integration into our business. Moving them onto our systems and processes and as part of that will be introducing the proposition to them. And at that point engaging with them as to whether actually moving on to our restricted 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.

## Q - Andrew Sinclair {BIO 17749036 <GO>}

Okay. Thanks, Andy. How did you sell, obviously, we're delighted with that as you can tell. Andy international we've done a lot of work to reshape our international business focus it, on bigger core markets will come out of 83 markets in international. And you've seen that we've stabilized flows decent net flows, it's good part of our business and it's say, as it was it is not that quite as higher growth as our UK business, it's a decent growth, wealth management business, advice lead, wealth platform for and predominantly for British citizens.

I mean set two-thirds of our entire client over two-thirds a Brexit. So certainly, not that, no plans there. PTP what does -- what the summer mean and what does completion mean. Completion means completion, we've said about this to be standing up at the entrance this year, I want to be able to stand up and I expect to stand up other interns next year. And tell you, we have completed, the full transformation of our platform including all the migration of assets and the adviser's, that's what I intend to be able to do, and including the switch off of the of the old platform.

## A - Paul Simpson {BIO 15955718 <GO>}

But when you showed this the switch of most of that just gets decommissioned over a relatively short period of time. I mean for all intention purposes as soon as it's migrated everything will be turned off there. And will that won't be long process. But that's the intention, that's what we're trying to achieve it.

## Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks.

## A - Paul Simpson {BIO 15955718 <GO>}

Okay.

## A - Unidentified Speaker

Johnny.

## Q - Johnny Vo {BIO 5509843 <GO>}

Johnny VO from Goldman Sachs. Just three questions. The first question, just in regards to had a blank actually. Just in regards to at the moment you're telling your own advisers in terms of directed flows potential on the platform to use alternate platforms. How much flows are going to alternate platforms from your adviser? And what's your recapture ability once your platform comes back online?

## A - Andy McGlone {BIO 18492549 <GO>}

Sure.

## Q - Johnny Vo {BIO 5509843 <GO>}

The second question, just relates to Quilter Cheviot. I guess, yes, you're lost advisers and therefore you've lost assets, but often new advisers, you've got on, how much assets are accompanying those advisers. And actually that my questions.

## A - Andy McGlone {BIO 18492549 <GO>}

Okay. Thanks for giving me the extra bit of time there to think about it. So yeah, we are allowing our advisers to use other platforms at the moment, because as we know 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.

## Q - Johnny Vo {BIO 5509843 <GO>}

Okay.

## A - Andy McGlone {BIO 18492549 <GO>}

As huge amount. Our new platform will have all the product capability functionality that we need. So, go figure. And look we offer choice, but we offer great choice and on our platform will provide it, a new platform -- a 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, so delighted that we've now got up to 165, as I stand here today from 168. Clearly, they've come on later on the ones who left. So there is a lag, but we've taken high quality, we've attracted high quality very experienced investment managers to us. Who manage significant books of business? So I give an actual number, but we expect and we are already now seeing that flow coming through. (Inaudible)

## Q - Benjamin Bathurst

Hi, Benjamin from RBC. A couple questions on capital actually. Just a few so cure you risk profiles changed. I could be fundamentally. So I'm just thinking from a solvency two ratio perspective, what you would be comfortable moving down to now that you've lost an insurance business.

And then secondly on capital. You have GBP200 million of debt on the balance sheet right now. I'm 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 storms you to should that be able to have.

## A - Paul Feeney {BIO 17570862 <GO>}

Thanks, Ben. I think those are (Inaudible) to for my CFO. Mark?

## A - Mark Satchel {BIO 18275874 <GO>}

But I want sufficient in terms of the debt. I mean, they're called form part of the consideration that our board deliberates over the next little while. So, haven't got a certainty for come out of a solvency II regime, before Quilter impact from that perspective. But there's no, we don't have any clear direction or not providing a clear direction on that we'll be what gets deliberated over the next little while.

## A - Andy Thompson {BIO 21347296 <GO>}

In terms of our solid situation, we never given a ratio target that we aspire to have guarded that we expect to move down. If you remember at the time of our listing we had pre-funded a lot of the capital commitments including the PTP expenses that we still expected 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 would expect to maintain given that overall it has a dampening impact on our overall risk profile. So it actually adds a bit of ballast, which we now lose. So internally, when we model it that actually goes up by a few percentage points.

## Q - Gregory Simpson {BIO 18850594 <GO>}

Morning, its Simpson from Exane BNP few questions, if I may. First, be on the proceeds from QLA. You thinking about using part of the proceeds for acquisitions? How are you inviting the environmental or are you pretty happy with the acquisitions you've done, a bit of color they'll be useful.

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

And then thirdly on the cost side, you used to be targeting 0.2 per annum marginal improvements at the group level including QLA. And now you're targeting 2% point improvement on the group excluding QLA, and just wouldn't you about the mechanics there, because presumably before you were targeting more than 2%point. Preventing the business QLA, because QLA was in runoff if that makes sense.

Okay, kind of maybe Mark, would help me out there, but I will still--

## A - Mark Satchel {BIO 18275874 <GO>}

I understand the question. Alright?

## Q - Gregory Simpson {BIO 18850594 <GO>}

Okay.

## A - Mark Satchel {BIO 18275874 <GO>}

I mean, if you understand the answer, but I like it. All right and do that one then we're still targeting two and two.

## Q - Gregory Simpson {BIO 18850594 <GO>}

Okay, but from bit QLA.

## A - Mark Satchel {BIO 18275874 <GO>}

That means, but I mean effectively out of QLA. So what you've also got to think of is what part of the optimization benefits are going to be within the QLA cost-based. So you're writing that it's in running off or getting less. But a lot of that's really actually gets relocated within the rest of the group. So in our assessment of the actual optimization benefits, we expect to obtain. You've clearly got a smaller chunk going on over this the two boards you have set so it ends up being neutral. So when get chunk about that.

## Q - Gregory Simpson {BIO 18850594 <GO>}

Okay. DB to DC the GBP0.4 billion is the entire Quilter. Not just the platform. QLA proceeds we close the deal Sunday evening. We are going to the board is minded to return and very meaningful and meaningful amount of net proceeds to shareholders.

We've made two big acquisitions, well, it's and for distribution this year already. Corporate right now is to integrate those, whilst we will continue to make bolt on acquisitions of that area, approach it in the moment is that and looking with our shareholders as to the mechanism of how we return funds?

## A - Mark Satchel {BIO 18275874 <GO>}

(Inaudible) Thanks, Greg.

## Q - Gurjit Kambo {BIO 6300383 <GO>}

Hi. Good morning, it's Gurjit Kambo, JP Morgan. Are just two questions. Firstly, there have obviously been a lot of issues in the Solvency about the liquidity not in (Inaudible) more asset management industry. But how do you think about the due diligence that you do on funds and to ensure that there is no sort of issues around liquidity.

And the second one is just a thoughts around just regulate redevelops anything that you're sort of discussing with the FSCS [ph] anything we should be able to wear of more broadly.

## A - Andy Thompson {BIO 21347296 <GO>}

Okay. We take liquidity very seriously. In fact, we did have quite a large mandate with Woodford [ph] investment, which we sold out in April, before the quite a long time before the suspensions. But we stipulated, they could not hold liquid assets. So, we do take this very seriously. We managed liquid investments for our clients across the board, we watch all that we look at it in terms of suspended funds, and we look at commercial property funds gates. And so, we manage liquidity very carefully. We do have poor symptoms of chief executive of culture investors here with us, but do you want to contradict me on that?

## A - Mark Satchel {BIO 18275874 <GO>}

You don't know, obviously, we're offering multi-asset solutions that are daily dealing. So our liquidity planning, which we actually bolstered as part of the Brexit planning was really looking at this matter. So a very bad outcome for our clients is if our solutions are of a 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 liquid strategy in an open-ended vehicle will typically use closed vehicles for that what we are using an open landing vehicle will ensure that there's sufficient liquidity in that vehicle as well.

So, I think we've got a pretty developed policy of this we war games is over the Brexit planning process and I think the probability of any our solutions ever being closed is extremely unlikely.

So, go to the second part of your question, regulatory developments that we like obviously, the regulator has come out and talk about planning contingent charging and consulting on that. It's looked at default for in DC workplace, which I think is quite constrained so we don't see any issue there. I think to a large extent the regulator apart from Brexit focusing on a lot more thematic cross-industry things at the moment, quite rightly such as resilience -- operational resilience, data security, information security, I wouldn't be surprised if we see more focus on those sort of issues.

## Operator

Any further -- Johnny. (Inaudible)

## Q - Johnny Vo {BIO 5509843 <GO>}

Exactly, how I remember 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. Reconciling that with your dividend walk and the payout ratio, how do you reconcile that give you this out of this business?

## A - Paul Feeney {BIO 17570862 <GO>}

Well, I'll hand over to Mark in a moment, but two things. First of all, Quilter life assurance profit profile would have left within our business went off quite considerably faster of the coming few years. Because with our new platform now, and its final delivery stage. We don't have the ability to transfer staff and cost from one to the other that just gets a 100% broken. So the profile falls quite considerably. So now is the right time to so that's the first thing.

Secondly, board is very minded of this Johnny that-- that's why we've said, we prefer mechanisms funding return mechanisms, which protect DPS and stuff like that. But what do you want to tell me?

## A - Mark Satchel {BIO 18275874 <GO>}

I mean that 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 business groups 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 track record of that we have with the businesses. It's probably worth noting that for the last three or four years, we haven't actually taken meaningful dividends out of QLA while the thematic reviews underway, which are why it said the MCV that it, did at the end of last year. And while we've been able to take out another GBP130 million of dividends now prior to the sales process.

## Operator

Any further questions. Okay, any on the web or the phone lines JP.

## A - Unidentified Speaker

(Inaudible)

## A - Andy McGlone {BIO 18492549 <GO>}

So, I was asked how important this for the company to maintain the company's cheer to debt ratings as investment grade? I think I've got a call with the bondholders due to tomorrow. You'd have noted that (Inaudible) the arctic on the back of our strategic review announcement and you can go and read that and see what they have to say about it. And you can see the sort of things that they looking at, but for management's perspective, it's obviously important to maintain a strong credit rating. That is important to us, we've got a very strong balance sheet in the fundamentals are all very solid from that perspective. Some hoping that we'll be able to maintain a good credit rating that level obviously, ultimately be for the credit rating agencies to a final.

## Operator

Okay. Thank you very much for coming. Really appreciate it. I know you're busy and hope you've enjoyed our presentation. Thanks, guys.