

TRANSCRIPTION

Company: AMP Limited
Date: Thursday, 30th October 2014
Title: AMP Joint Investor and Media Teleconference
Time: 5:30pm AEDT
Duration: 25 minutes
Reference number: 587620

Howard Marks: Good afternoon and welcome to AMP's Joint Investor and Media Teleconference. I'm Howard Marks, Director of Investor Relations and with me in Sydney are Julia Quinn, AMP's Director of Media and Community Relations and Gordon Lefevre, AMP's Chief Financial Officer. On the line from Beijing is AMP's CEO Craig Meller.

After market today AMP announced the acquisition of a 19.99% stake in China Life Pension Company. Craig will take you through the transaction details and strategic rationale before we open to Q&A. Just before handing over to Craig I would ask if you could please keep your questions to this transaction only as I'm sure you understand the time constraints we have in Sydney and China. Thank you, over to you Craig.

Craig Meller: Great, thanks Howard and good afternoon everybody and thank you for joining in the call which I appreciate is a little late in the day in Sydney. So as Howard said today we announced that we're acquiring a 19.99% stake in China Life Pension Company for A\$240 million. China Life Pension Company is the largest pension company in China based on assets under management. The acquisition provides AMP with a strategic foothold in the rapidly growing Enterprise Annuity - which is the Chinese word for pensions - segment of Chinese pension market and it comes at a very opportune time.

AMP will be the first foreign company in the world to own a stake in a Chinese pension insurance company with the three licenses [needed] to offer end-to-end services throughout China. China's Enterprise Annuity

market, similar to our defined contributions system, currently has over 66,000 participating businesses and more than 20 million members and ¥600 billion or that's over A\$100 billion of assets under management. That's forecast to grow to ¥3.84 trillion or over A\$700 billion by 2020.

AMP's role will be to contribute to the strategic growth of the business as well as providing advice and expertise in areas such as governance, risk management, client servicing and product innovation by bringing our Australian expertise and introducing best practice standards. The investment continues our already stated strategy to expand offshore by building strong relationships with national champions in key markets and importantly this investment extends our relationship with the China Life Insurance Group, the largest listed insurance group in China.

China Life Pensions Company has access to China Life's distribution network of 640,000 yeah that's 640,000 life insurance agents working from about 2000 branches. AMP has operated in China since 1997 and has had a formal relationship with China Life since 2005. In 2009 AMP and China Life signed a Memorandum of Understanding for Strategic Cooperation. This strategic and well planned entry into the Chinese pension market complements our funds management joint venture with China Life which was announced in September last year and is now in the top third of funds management businesses in China.

From our perspective the partnership is a further example of the significant opportunities in financial services in China and we're confident our businesses will continue to grow strongly. AMP will be nominating two directors to the eleven member Board of China Life Pension Company and will remain its second largest shareholder after China Life Insurance Company. Consideration for our 19.99 per cent stake will be funded via the Group's existing surplus capital and liquidity facilities. The transaction will reduce the surplus capital over minimum requirements of AMP Life Limited which is the acquiring entity and consequently AMP Group by approximately A\$180 million.

I think that's the sort of brief summary of the outline of it. I might just go back to Howard in Sydney for questions.

Howard Marks: Thank you, ready to take questions now.

Operator: Your first question comes from James Coghill with UBS, please go ahead.

Question: (James Coghill, UBS). Hi there Craig, just a couple of questions. The first one is I guess more general around strategy so just to pick up on your comments there around an already stated strategy. When I read the investor report you say that the strategy is to invest selectively in Asia but through AMP Capital taking investment capabilities into new markets. This really sits outside that and I was interested to hear whether this was part of a new broader strategy to grow outside of AMP Capital - is this - or the other businesses within China Life that you can enter into these types of JVs or is this really a one-off?

Craig Meller: Well - so this was the opportunity that's available to us at the current time James. One of the interesting things about China Life Pension Company and the Enterprise Annuity market as a whole is it can do its own investment management. So the four licenses that you need to operate as an Enterprise Annuity business in China are a custodian license which is the one that China Life Pension doesn't have, an administration license and a trustee license. If you like that's the equivalent of the Australian wealth management business and also an investment management license. So this is a pensions and investment management company and my personal view is that China Life chose us as a partner because of our investments expertise but also because of our broader superannuation expertise.

So I see it as being somewhat of an extension but very much on strategy and I don't think anyone would turn down an opportunity to get an entry point into the Chinese pensions market with the best known brand, the largest player and a significant stake in that business.

Question: (James Coghill, UBS). Yeah, okay now that makes sense and perhaps just a detailed question on your assumption that you'll break even in 2017. Just looking the China Life accounts, if I am looking at the same entity here, so in 2013 it lost ¥234 million [but it's recorded about] A\$45 million. Without giving the entire P&L which I appreciate you can't do over the phone but perhaps you can just at the high level talk through the assumptions that get you to breakeven in 2017 from that level of losses last year?

Craig Meller: Yeah, so China Life Pension Company is three years old and it's gone from nothing to quite a significant business where its assets under management are the equivalent of our Australian corporate superannuation business and has had a very strong organic growth rate over previous years. That's

expected to continue going forwards and it's that organic growth that is going to deliver the business passing through breakeven. So if you think of it more as a start-up going through to breakeven James it's gradually getting - it's almost getting to the point of breakeven and should therefore grow profitably thereafter.

Question: (James Coghill, UBS). Okay that makes sense thanks and just one last quick one. I mean it looks and feels very much like corporate super as we understand it. I mean is it just quite simply a margin on [FUM] type business obviously with some administration costs that sits below that?

Craig Meller: Yes, so think of it as part corporate super and part then - if you think of it in AMP terms, part of the corporate super components of AMP's wealth management business and part the funds management services that come out of us being the corporate superannuation provider to companies in Australia, so it has both margins in it.

Question: (James Coghill, UBS). Okay that makes sense, thanks very much.

Operator: Your next question comes from Ross Curran with CBA, please go ahead.

Question: (Ross Curran, CBA). Thanks gents and sort of further to James' questions just on how the product works. Is there any residual product liability that AMP as the administrator wears? Like is this in any way a defined - is there any defined benefit component to it? Then further to that, can you give us a feel for maybe the assets underneath it like what's underwriting the pension contract that you've got outstanding?

Craig Meller: So think of it in the context of the Australian defined contributions system. So we've got no underpin like a defined benefit system and in that context there's individual balances that grow according to the investment performance and the savings rate of the individual.

Question: (Ross Curran, CBA). Great, thank you.

Operator: Your next question comes from Arjan van Veen with Credit Suisse, please go ahead.

Question: (Arjan van Veen, Credit Suisse). Hi Craig, I was just curious, there's a lot of talk in China about introducing the third pillar as you referred to at the individual tax deferred annuity product. Would that fall on to this Company and therefore if that's the case now your breakeven scenario or would that

potentially be deferred if you had to invest more to build the capabilities for that eventuality and finally...

Craig Meller: I don't think it does at present Arjan - sorry go on.

Question: (Arjan van Veen, Credit Suisse). Okay and then is there any foreign ownership restrictions on pensions and so can - do you have the option potentially down the track to take more?

Craig Meller: Yeah, there is a restriction. I don't believe we have an option under the current regulations. Now whether that opens up in the future, who knows?

Question: (Arjan van Veen, Credit Suisse). Okay thank you.

Operator: Your next question comes from Toby Langley with Bank of America Merrill Lynch, please go ahead.

Question: (Toby Langley, Bank of America Merrill Lynch). Thanks everybody. It's Toby Langley here from Bank of America Merrill Lynch. I wanted to ask about the - your comfort around the capital adequacy of the China Life Pension Company itself and whether or not given the growth profile that you're talking to, you see the prospect of you needing to contribute further capital amounts further down the track?

Craig Meller: We're very comfortable with the capital position of China Life Pension Company. It doesn't chew up huge amounts of capital because it's a defined contributions business and all of the capital we're injecting is going onto the balance sheet of the Company, not being sold on to a different shareholder if you like. So this is actually strengthening quite significantly the capitalisation of the business.

Question: (Toby Langley, Bank of America Merrill Lynch). So there's enough here for you to deliver the sort of growth that you're talking to as far as you can see.

Craig Meller: That's our current expectation.

Question: (Toby Langley, Bank of America Merrill Lynch). The growth rate for this business is that a function of the market growth that you talk to?

Craig Meller: Well the same as in Australia we're very hopeful that we can beat market growth but clearly a market that's going to be growing 20%, even 30% per annum is going to deliver strong growth, if we can grow faster than the market even better and that's certainly the commitment that we and China Life have.

- Question: (Toby Langley, Bank of America Merrill Lynch). Okay and then lastly on accretion what rate of return were you assuming this capital was delivering were it to have remained in situ?
- Craig Meller: I might hand that one over to Gordon in Sydney.
- Gordon Lefevre: Yeah, happy to take that Toby. We're assuming a minimum of 15% and the discount rate that we applied in acquiring the entity was a touch above that given the nature of the investment, so in line with our current hurdle rate for the Organisation and slightly above given the nature of the investment.
- Question: (Toby Langley, Bank of America Merrill Lynch). So the ROIC in year 2016 is over 15% then, is that right?
- Gordon Lefevre: Well it's not currently making any profit so not in 2015 through to the time where it actually finally breaks even. But beyond that our expectations are that it'll be accretive to our return on equity because the discount rate that we applied in valuing the business was in excess of our hurdle return.
- Question: (Toby Langley, Bank of America Merrill Lynch). Okay so just to confirm then so you're expecting it to be accretive in 2017 and the ROIC for year 2017 is going to be over 15%, is that right?
- Gordon Lefevre: Ultimately the business over the long term will produce a return on equity that is in excess of our hurdle of 15%. It will grow into that though over the period of time that it takes to break even and beyond.
- Question: (Toby Langley, Bank of America, Merrill Lynch). Okay, all right thank you.
- Gordon Lefevre: Thank you.
- Operator: Your next question comes from Kieren Chidgey with Deutsche Bank, please go ahead.
- Question: (Kieren Chidgey, Deutsche Bank). Thanks. Craig, just interested in sort of a bit more perspective on the growth opportunity here and how well you know embryonic that market is in your perspective? Obviously your notes today said that's grown 26% per annum over the last five years and the growth outlook I think you're talking to similar over the next five years. But can you talk to how widely - what the penetration is across [unclear] is for this and at what stage in its life cycle you think the development of this system is?

Craig Meller: Yeah, so the Enterprise Annuity system essentially is one where employers contribute around about 8% of earnings to the fund and employees have the discretionary option to contribute a further 4% and then capital gains and yield on those investments are tax-free. So it's a tax incentive scheme but it's not a compulsory scheme at the present time. It's one that's encouraged by the Government so my understanding is perhaps a little over half. I'm not exactly sure but it's around about that of state owned enterprises participate in the scheme and actually the SOEs have to reach a level of profitability before they're allowed to participate in the scheme. So it's seen as a good thing to do.

Outside of the SOE sector the market penetration is a lot lower. It's our belief that the Government wants to encourage further participation in the EA market and therefore the broader market penetration is on the cards but clearly that's all going to be the subject of changes in regulation and whether or not the Government chooses to push it faster and stronger. You know it's really only grown in the last three years because of the changes to encourage it. So we're confident that with the current regulatory settings, current growth rates are going to be beaten but we're also optimistic that the regulatory settings could become even more positive towards this business.

Question: (Kieren Chidgey, Deutsche Bank). Okay thanks.

Operator: Your next question comes from Nigel Pittaway with Citigroup, please go ahead.

Question: (Nigel Pittaway, Citigroup). Hi Craig, just a couple of questions, first of all can we just confirm there's no regulation of profitability from this and - either current or anticipated? Secondly I was just wondering if you could comment on any restrictions of investment because I think my understanding is there's no overseas investment allowed and I just wanted to confirm whether that's correct?

Craig Meller: Yeah, there are - I don't believe there are any restrictions on the profitability that businesses can make and the restrictions on equity investments are there. They are gradually being relaxed and are getting more generous. I think you can have up to 30% in equities at the present time but not offshore. But again our expectation is that regulatory settings are going to be loosened over time and as

the Government and the sector become more comfortable with this system so it'll become more - if you like more like the Australian system. I think it's part of the recognition of that that has made AMP such an attractive partner for China Life Group.

Question: (Nigel Pittaway, Citigroup). Okay thank you.

Operator: Your next question comes from David Humphreys with JCP Investment Partners, please go ahead.

Question: (David Humphreys, JCP Investment Partners). Good afternoon Craig. Stepping back, just a question on strategy. I guess this is an interesting option but in the context of a group that's been fighting some significant head winds in life has been - just finished an integration of an acquisition and is now exploring an efficiency program, how do you reconcile - well what was your sales pitch to the Board to convince them that now is the right time to, I guess, distract management in some respects and go forward and invest in optionality like this?

Craig Meller: Yeah, it's a good question Dave. Look firstly and foremostly these opportunities don't come along to a timing of our choosing and secondly whilst we think it's an exciting opportunity the cost is the equivalent of 1.5% of AMP's market capitalisation. We expect to have a team of about eight people dedicated to managing our relationship with China Life Pension Company. So it's an investment that we're going to have significant input into but it's not like us setting up a 100% company where we're going to have responsibility for the day-to-day management of the business.

That sits squarely with China Life Pension Company and they have access to all of the resources of China Life. So I don't believe it's going to be an inappropriate distraction from the management of the Company and I believe it's one that we easily have the capability to manage alongside the existing business.

Question: (David Humphreys, JCP Investment Partners). Does it signal a medium term aspiration to deploy four or five funds, that amount of capital in the region?

- Craig Meller: We're very happy with this investment partly because of the existing length of our relationship with China Life, the success that we've had over the past year in the partnership with the asset management company. So whilst investing capital offshore is undoubtedly a higher risk than investing capital onshore we expect to be rewarded appropriately for it. As I said in the context of AMP more broadly it's only what 1.5% of the market capitalisation of the Company. So I don't expect us to be looking for more country champions in China if you like, we're very happy with the partnership we've got with China Life.
- Question: (David Humphreys, JCP Investment Partners). Thanks.
- Operator: Your next question comes from Brett Le Mesurier with BBY Ltd, please go ahead.
- Question: (Brett Le Mesurier, BBY Ltd). Thanks it Brett Le Mesurier here. Can you tell me what the NTA of China Life Pension Company is before you make your investment?
- Craig Meller: Oh I haven't got that to hand, Gordon have you got that one to hand?
- Gordon Lefevre: Yes, good afternoon Brett, ¥1.3 billion and that at the conversion rate just on A\$245 million.
- Question: (Brett Le Mesurier, BBY Ltd). Okay so you're putting in - you're basically doubling the capital base for a 20% stake, that would be - that's the right analysis isn't it?
- Gordon Lefevre: Yes.
- Question: (Brett Le Mesurier, BBY Ltd). Why is it that it's only A\$180 million reduction against your capital?
- Gordon Lefevre: Yeah, so Brett the way in which the capital works is that we are equity accounting the investment. So what you do is when equity accounting the investment for APRA they look to the intangibles through the acquisition. Those intangibles are a 100% reduction from capital or an additional requirement of minimum regulatory resources. So there's A\$130 million of capital associated with that and then for the balance of the A\$110 million we effectively under [LAGIC] stress test that and get to a minimum regulatory

requirement which we put a buffer on top of. So that then gets us to the A\$180 million that we we're going to set aside from our surplus capital.

Question: (Brett Le Mesurier, BBY Ltd). Thanks very much.

Operator: As there are no more questions I will now hand back to Mr Howard Marks.

Howard Marks: Thank you. Thanks for joining us today on short notice everyone. For investors, if you have any further questions please do not hesitate to call either myself or Stephen Daly. For media enquiries please call Julia Quinn. Thanks a lot.

Operator: That does conclude our conference today, thank you for participating, you may all disconnect.