AMP Half Year Results
Analyst Briefing
12 August 2021

Introduction

Moderator: Thank you for standing by, and welcome to the AMP 2021 Half Year Results Analyst Briefing. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key, followed by the number one on your telephone keypad. I would now like to hand the conference over to Jason Bounassif, Group Treasurer and Investor Relations. Please go ahead.

Jason Bounassif: Thank you, Harmony. Good morning, and thank you for joining AMP's First Half 2021 Results updated. My name is Jason Bounassif and I'm responsible for AMP's Treasury and Investor Relations functions. I would like to thank you all for your attendance and patience, as we undertake our first results briefing virtually from our respective homes and offices in light of the current lockdown restrictions.

I would also like to welcome Alexis George to AMP. Both Alexis, AMP Limited Chief Executive Officer and James Georgeson, AMP Limited Chief Financial Officer will take us through the Results presentation. Following this we will go to Q&A. Lex, over to you.

Presentation from Alexis George

Alexis George: Thank you very much Jason, and good morning everyone. Let me start by paying my respects to our First Australians. I'd like to acknowledge the traditional custodians on the land on which we meet. For me, that is the Cammeraygal People of the Eora Nation, but I'd also like to acknowledge the custodians of the land from which you are all joining us today. We pay our respect to the Elders, both past and present and extend the same respect to all First Nations People.

I'm glad to be addressing everyone today, albeit virtually. As Jason said, it's unfortunate we can't meet in person, but we're in unprecedented times with half of Australia in and out of lockdown. I certainly hope everyone stays safe and well, and I look forward to meeting in person when the situation allows.

As you all know, today is my ninth day in the new seat, but it's great to be in the door and getting started. As I said to our teams, it's an absolute privilege to be leading this iconic business at such a critical time and I'm excited to be involved in shaping a new future for AMP. I've worked in wealth and financial services most of my career and know intimately, the huge impact the industry has on our customers across Australia, New Zealand and more broadly.

I've used my gardening leave to take time to listen to many stakeholders, to read and to consider the strategic challenges and opportunities that lie ahead. Over the last week, I've also been able to engage widely inside AMP and so far, what I've seen is an organisation that is committed and working hard to simplify, improve efficiency and return to growth. There's no lack of energy or drive, and you'll see that reflected in the progress we highlight today.

So if we move to the agenda for today. I'll start with a brief introduction of where we're currently at and what I want to be the focuses for the second half. After nine days, I'm not going to be laying out a long-term strategy and need further time to talk and listen to the various stakeholders before I'm able to do this. James will then provide an overview of the first half financials and the progress we've made against our 2021 market commitments. We'll then provide an update on our demerger plans. While it remains one of the top priorities for me, and for the company, and for our new CEO of AMP Capital, Shawn Johnson, today will be a high level progress update and a roadmap for the next 10 or so months.

We are targeting demerger in the second quarter next year, and we'll provide detail on the future structures, strategy, operating model and equity story for both companies in an investor day later this year. This will enable Shawn and myself to have a more considered approach.

So starting with an overview. Overall the result demonstrates a respectable first half performance compared to the same time last year, with a 57% improvement in underlying net profit after tax to $181 million. The favourable economic and market conditions have certainly assisted with mixed performances across our businesses. However, the results reflect the hard work that has taken place, particularly with regard to the simplification agenda where we've seen an absolute reduction in costs.

We remain on target to deliver on our commitments to reduce controllable costs by $300 million on a run rate basis by the end of 2022 and absolute reduction of $40 million in this half. We've also returned close to $200 million to shareholders via the buyback and still maintained a capital surplus at the end of the half. As we approach the demerger and begin to finalise the new strategies, we will continue to take a prudent and conservative approach to the management of capital. We will review the capital management strategy and payment of dividends once we have completed the demerger.

We're also starting to see positive growth signs emerging from the transformation within our businesses, which is extremely promising. Our pension joint venture with China Life, CLPC also delivered its first cash dividend of $7 million and the future trends appear positive. So you know, CLPC grew by approximately 8% in the first half 2021 to $280 billion in AUM.

I'm also pleased to share that our client remediation program will be largely complete this year. The file reviews are finished, we're fully provisioned and the majority of payments will be made to our customers by the start of Q4. The reshape of advice and simplification of our approach and superannuation both have momentum, although it's early days and the teams remain focused on delivering further benefits.

The investments made in our bank and platforms businesses are also starting to deliver growth and we'll be driving that hard in the second half.

In AMP Capital, we've restructured our public markets businesses, announcing the sale of global equities and fixed income or GEFI and started the internalisation of the multi asset group business. This has set up a clear perimeter for the demerger of the private markets business in the first half of next year, and our New Zealand business has continued to drive through change to its operating model while maintaining a consistent earnings profile.

Culture, rightly, has been a major focus for the Board and all of our leaders. AMP has started the journey to reinvigorate in the culture, improving systems in reporting and putting in place a clearer performance framework. More important to me, however, is the way I can see the changes being embraced within the employee base. Shaping the culture is top of mind for our people and will absolutely be so for me. The focus from here would be to become a truly purpose-led business with a culture that's dynamic, inclusive, accountable and customer centric. While it's a work in progress, it remains a focus for me personally, and I'll be leading it from the front.

Finally, the priorities for the second half. Of course, one of the primary focuses will be the AMP Capital separation and demerger preparation, which we'll talk to a little later. I'm also very clear that we have a strategic simplification program in flight and we need to deliver on our commitments, including costs. Of course, we'll look at a strategy refresh as part of the demerger, including the appropriate cost base and operating model for both our businesses, but that's going to take some time to work through.

Before I hand over to James, I wanted to quickly address a broader stakeholder view on Slide 6. I understand we've presented this slide before, calling out highlights of what we've delivered to customers, employees and the broader communities, and I think it's important that we continue this tradition. As we look to reinvigorate our brand, it is important that we remember all of our stakeholders. AMP's on the journey to customer centricity. I've had some experience with customer-led transformations in my previous organisations, and I have to say that I'm impressed with the NPS scores that AMP's been able to achieve in some pretty difficult times.

It's also been a year where the company has had to be adaptable, helping our customers affected by natural disasters and of course, the COVID pandemic.

I've mentioned culture, but I do want to call out our people's committed response to COVID and lockdowns and the support we're providing to customers. It's an uncertain time for many and we can, and will continue, to play an important role in helping customers throughout this period. Similarly, our commitment to our employees is paramount, and it's wonderful to see the support that is being offered in such difficult times. On that note, I'll hand over to James to talk through the first half performance and progress on our strategic commitments. James, over to you.

Presentation from James Georgeson

James Georgeson: Thank you, Alexis, and good morning all. I will move to the financial results first and then cover the progress we are making against the strategy, before handing back to Alexis to cover the demerger and closing remarks before we head to Q&A. The turnaround and results we are reporting today reflects a recovery in overall profitability of the Group following the impact of COVID across most of our businesses last year.

On Slide 8, we showed a half-year 2021 profit summary where underlying NPAT is up 57% to $181 million. The recovery in earnings was largely driven by improvements in the Bank from the release of loan loss provisions and improved investment income, including the first half of results from our Resolution Life retains at 19% investment.

Improved investment markets helped both our Australian and New Zealand wealth businesses, however, performance and transaction fees and AMP Capital remain subdued given the ongoing impacts of COVID on certain infrastructure assets such as airports. Our bottom line result includes a number of non-recurring items, which are a net loss of $35 million. I will cover the main items shortly.

Taking all of these into account, the bottom line statutory result for the half is a profit of $146 million.

Turning to Slide 9, which shows the key items reported below underlying profit. The key items of note include; the provision top-up in relation to our three-year client remediation program. Transformation costs outspend which was $61 million in the first half. This spend relates to the $300 million cost out program. Another item is totalling $71 million in the half. This includes the one-off gain on the sale of the New Zealand precinct property management rights, which we announced earlier in the year, partly offset by costs associated with conducting the portfolio review, as well as the initial spend on the demerger.

Moving to the summary business unit performance on Slide 10. Our Australian wealth management business has performed resiliently in a period of ongoing change to both our advice network and from product simplification. Net profit of $48 million for the half reduced $10 million compared to the same time last year and reflects the following impacts. A $23 million reduction in AUM base revenue, including the impact of the removal of grandfather remuneration and AMP Life SFT impacts. It also includes the $40 million impact to advise revenues, from impairments to advise practice investments and the network reshape activities. This result mostly offset by a $31 million improvement in variable costs following the phasing out of advice support payments and restructures to the employed plan and network.

AUM was up 8% higher than the first half 2020, closing at $131.2 billion reflecting the strong recovery in investment markets over the last 12 months. The net cash outflows of $2.7 billion for the half compared to a $4 billion net outflow in the same time last year. However, the prior period result included $1.3 billion of outflows from lost corporate super mandates and $900 million from the early release of super payments.

So adjusting for these large one-off impacts, underlying cash flow performance is down compared to last half year. We are seeing better inflows into our flagship North platform, but have also seen elevated outflows given the level of market competition.

At a net cashflow level, AMP's North Platform continues to perform well, with net inflows of $1.4 billion this half and AUM is just shy of $57 billion, up 10% in the half.

Total revenue margins declined to 71 basis points, a 4 basis point reduction from the first half of last year, then held flat across compared to second half last year.

The movement from first half last year primarily reflects the impact of the AMP Life SFT pricing changes as well as the cessation of grandfather remuneration. We do expect total revenue margins to decrease by approximately seven basis points across 2021 to approximately 66, reflecting the impact of the master trust re-pricing and simplification activities. These changes have been delayed a few months, hence the minimal compression this half compared to the second half of last year.

We are continuing to see good traction on the cost out program with absolute controllable costs in the half in wealth management, it's $13 million lower than the same time last year. This largely reflects the impact of the cost savings achieved as part of the ongoing simplification and efficiency work.

As mentioned earlier, we also reduced variable costs in the half off the back of the continuing advice network reshape activities. We continue to focus on supporting advice practices to become scalable, profitable and compliant. You can also see from the graph on this slide the improvement in the practice scale we have achieved over the last two years. As we have guided previously, and as you can see in our numbers today, the pricing and margin changes are being offset by cost efficiencies in the business.

As we continue to transform the wealth management business, the second half net profit for wealth management is expected to be at a similar level to the first half as the ongoing margin and compression is offset by efficiency savings within the business. This obviously assumes normal investment market conditions.

Moving to AMP Bank on Slide 11, which has performed well. Net profit of $88 million was about 76% on the same time last year. This half included the benefit of $12 million dollars of pre-tax loan loss provisions reflecting the more favourable macroeconomic outlook. Whereas the first half of last year included at $35 million pre-tax provision increase.

Lending conditions in the half remain competitive, with ongoing pressure being placed on mortgage growth and revenue margins. Pleasingly, we have seen growth return to the book. At the same time, we’ve continued to maintain a prudent approach with a focus on high quality credit. To that end, importantly, arrears rates continue to perform well and were favourable against the first half of last year across both the 30 and 90 day arrears categories.

The NIM increased 8 basis points from the first half of last year to 171 basis points, reflecting the roll-off of expensive excess funding and liquidity held through last year, given the uncertain market environment following the initial COVID market shocks.

Looking forward for the Bank, we are seeing a continuing positive growth outlook into the second half, with a strong mortgage pipeline into Q3. However, we are cautious given the recent lockdowns in place across most of the country. From a NIM perspective, we do expect funding costs to provide some offset to the pressure on revenue margins, given the competitive backdrop. And the Bank continues to target double digit earnings growth over the medium term. But we don’t expect to have the same level of provision releases in the second half.

On Slide 12, you can see the New Zealand wealth management’s net profit, which was $20 million for the half, $2 million higher than the same time last year, reflecting stronger investment markets and tight cost control. AUM was up in the period benefitting from strong investment markets, however, cash flows in the half were impacted by negative sentiment arising from the loss of our default KiwiSaver status. These funds are yet to transition.

Turning to Slide 13, AMP Capital results were down with 1H 2021 net profit of $61 million, a reduction of 19% period on period. The main impacts were from the following items. Firstly, there were lower AUM based revenues in both real estate and infrastructure equity. Secondly, lower non-AUM based revenues and performance and transaction fees, of which non-AUM based fees decreased materially in the half, reflecting

$15 million of GIF II infrastructure commitment fees which did not repeat. And performance and transaction fees were impacted by $20 million of carry on our Infrastructure Debt Fund II in the period last year, which did also not repeat this year.

And thirdly, there were FX impacts on foreign denominated revenues given the appreciating Aussie dollar. This period's performance in transaction fees continues to be subdued, reflecting COVID impacts, particularly on airport assets. The [unintelligible 00:17:33] of the non-AUM based revenues and performance in transaction fees will remain until we transition to a full series of closed end funds. Outside these one-off impacts, AUM based management fees reduced by only 4% and proved resilient despite the challenging backdrop.

Seed and sponsor income was $7 million, up from a $16 million dollar loss in the prior period. This was driven by a recovery in some real asset valuations across the portfolio, given the large unrealised valuation impacts in the first half of last year. AMP Capital controllable costs were broadly flat year on year.

Net cash outflows were at $9.4 billion for the half. The outflows were mainly due to the loss of the Australian Diversified Property Fund, representing a $4.2 billion impact and outflows in the public markets business. As a result of the cash outflows in the half, average AUM decreased by approximately $10.4 billion to $187.2 billion at 30 June.

Second half 2021 cash flows in public markets will include the impact of the New Zealand wealth management passive mandate transferred to BlackRock. This AUM is predominantly low margin business. Whilst this period was impacted by subdued performance fees, AMP Capital is well placed to take advantage of future market opportunities with $1 billion of capital deployed in our infrastructure equity business in the first half of this year and with $5.2 billion of committed capital yet to be deployed across the business.

Turning to control the costs on Slide 14. This chart outlines the controllable cost movements across the half, which shows an overall 6% decrease. This is a good outcome as we begin to see the benefits from our cost out program flow through. The key movements include a total of $53 million of CPI reinvestment and regulatory and compliance cost increases in the half, which was more than offset by a total of $66 million of reductions from the cost out program, reflecting both the flow through of 2020 activities, as well as in year actions taken. The $10 million of COVID-related costs in the first half of last year, did not repeat this year.

As part of the 1H 2021 controllable cost performance, we have absorbed the more normal level of short term intensive accruals following two years of low outcomes. We continue to expect overall controllable costs in AMP Capital to be approximately $775 million in 2021.

Over the page on Slide 15, we outlined the cumulative progress on the cost out program. We continue to remain committed to delivering $300 million of cumulative gross annual cost savings by the end of 2022. The net benefit to flow through is still expected to be $200 million with approximately $140 million in controllable costs and approximately $60 million variable costs. Albeit, we may see a slightly higher proportion of variable cost reductions based on our current estimates.

We've already made good progress on this front, with approximately 40% of the 2021 target already achieved as we head into the second half.

On Slide 16, we show the latest position on our climate remediation program. Really pleasingly, we've completed the file reviews of the remediation program and are now fully provided for the total costs. We are proud of the team's effort to get this outcome, given the substantial work undertaken.

Stepping back, after three years, we have now completed all the file reviews, ahead of our internal expectations and with a final cost within 6% of the original estimate we made three years ago. During the half, we did recognise a final $33 million post-tax provision adjustment relating to the fee for no service program, as well as some minor adjustments to our other remediation activities.

As Alexis said, the programme will look to ramp up payments to customers over the next quarter with the large majority of payments to be completed by Q4 of this year. As previously indicated, no insurance recoveries have yet been recognised and we continue to pursue our insurance recovery options.

On Slide 17, we show the capital movements in the first half. Surplus capital is in a strong position at 30 June with $452 million surplus to our target requirements. The previously announced $200 million buyback was completed during Q2 following the conclusion of the portfolio review earlier in the year. The remaining surplus will be used to invest in the transformation strategy, support business growth and to complete the various separation activities to demerge the private markets business, including completing the sale of the GEFI business to Macquarie and the transfer of MAG to AMP Australia.

Accordingly, the Board has resolved not to declare an interim dividend, a prudent approach has been taken to capital in the lead up to the demerger.

Slide 18 highlights the key guidance for the various businesses across the rest of this year. Overall, the first half set of results shows a good recovery in earnings, which was helped by favourable investment and economic conditions. In Australian wealth management, we do expect earnings to be broadly flat, half on half as the impact of the delayed pricing changes and advice network reshape is offset by cost out in the business. We expect approximately seven [bits] of revenue margin compression across this year.

AMP Bank is performing well in a competitive environment. We will continue to focus on driving stronger mortgage growth in the second half. Earnings are expected to be a little lower in the second half as the one off provision releases are not expected to be repeated.

AMP Capital earnings continues to be impacted by a subdued performance in transaction fees as the business continues to transition to closed ended funds and we'll see a lower average AUM in the second half, given some of the challenges in the business I flagged already. However, AMP Capital is well-placed to take advantage of future market opportunities with $5.2 billion of committed capital yet to be deployed across the business.

New Zealand is performing well and we expect earnings to remain at similar levels into the second half. As a result, we do see a more subdued overall second half, given some of the one off benefits in this half won't repeat. From a strategy perspective, we continue to say good momentum across each of our businesses and I will now touch on these activities.

On Slide 20, we outline the progress on our strategic objectives. The momentum in the delivery of our market commitments has continued into the first half of 2021 off the back of a strong performance in 2020. There is still a lot of heavy lifting required in delivering the strategy, but we are proud of what the teams have delivered to date. As you can see from the progress bars, we are making good headway to deliver each of the commitments.

I'll briefly run through some of the highlights from the half on our progress. Starting in Australian wealth management on Slide 21. Our advice reshape program is now largely complete as we move to a consolidated adviser network that is more productive, professional and compliant. At approximately 95% complete, the program is tracking in line with project spend and capital expectations.

Looking to the next stage, we've announced a new contemporary advice service model that gives our remaining aligned network of advisers increased choice and flexibility on how they partner with AMP. As part of this, we will release institutional ownership of clients from AMP Financial Planning to advisers and the buyer of last resort obligations will fall away at the end of this year. The new advice service model and associated fee changes will be progressively introduced from the start of 2020.

Turning to Slide 22, in superannuation, we've now completed the first two phases of our simplification program, delivering significant benefits to superannuation members. Our product simplification will continue in the second half with a reduction of the number of master trust products from 11 to three and rationalising the number of investment options, making it easier for clients to navigate and understand. This will drive the margin compression I mentioned earlier. The transition of the MAG business from AMP Capital to AMP Australia is well underway and we plan to complete this work by the end of this year. As you can see, we are taking significant steps forward in superannuation to simplify the offers, improve investment performance and deliver more for our members.

Moving onto platforms on Slide 23. The repricing of MyNorth in the first half delivered some of the lowest fees in the platform's market. While the industry remains highly competitive, North continues to show its strength with gross inflows increasing. We'll continue to invest in the platform functionality in the second half, including the launch of the new equity managed portfolio capability and a continuing focus on the ESA channel.

Over the page to an update on AMP Bank on Slide 24. Our aim to deliver double digit earnings in AMP Bank is on track after a strong first half. We've increased the efficiency of the home loan application process and improved our automated credit decisioning. This is resulting in faster and more consistent loan approvals for mortgage brokers and clients. Speed and consistency of approvals will remain important drivers of the Bank's growth and we'll continue to make improvements here in the second half, in addition to our activity to build brand awareness. We're also continuing to expand our channel reach with the continuing development of more direct to client channels.

Turning to New Zealand on Slide 25. Blair and the team in New Zealand are in the final stages of embedding a new investment approach underpinned by BlackRock that delivers a clear focus on client ESG expectations in the New Zealand market, particularly around sustainable investing. As part of the change, a new investment philosophy and fee structure has also been developed, including a material reduction in fees for customers. We also completed three small acquisitions in the half, and the team continue to seek further opportunities through our advice first business.

On AMP Capital, on Slide 26. In addition to the good progress that has been made on the demerger in the first half, delivery of AMP Capital's 2021 business priorities has continued. As previously flagged, we've restructured our public markets business, announcing the sale of GEFI to Macquarie Asset Management, which is expected to complete in the first quarter of next year. And the transfer of MAG to AMP Australia is progressing well and will complete by the end of this year. These changes are important steps of our demerger pathway and timeline.

In infrastructure, we've continued to see strong commitments in our infrastructure debt strategies including a new Asia focus fund. We'll continue fund raising in the second half, at the same time as exploring new investment opportunities in infrastructure equity. Real estate is continuing to deliver strong results for clients, particularly in the AMP Capital wholesale office fund or AWOF, which is Australia's best performing office fund over the one, two and three year time horizons. The real estate business has faced some challenges over the last 12 months. However, we have not lost focus on delivering for our clients. The success for property development pipeline and investment performance are two clear examples of this.

We have a long-standing history and strong capabilities in real estate and remain committed to support the business, whether it be through balance sheets or additional resourcing.

Onto our commitments to creating a simpler, leaner business on Slide 27. As covered earlier, we've made good progress on reshaping our cost base and we're on track to reach our full year 2021 targets. And from a capital perspective, we've also completed our on market share buyback of $200 million that we committed to after the AMP Life sale. This completes the two capital initiatives following the completion of that sale.

In the second half we will continue to pay down Group debt with approximately $700 million of maturities expected. We'll also launch a share sale facility in Q3 to assist shareholders with small holdings to sell their shares.

Moving to an update on our culture initiatives on Slide 28. As Alexis has already discussed, the transformation of AMP's culture will continue to be a priority. We've implemented a number of initiatives that have helped accelerate our cultural transformation. In the half, we implemented a new flexible work policy to support an inclusive workplace. We've also commenced a culture domestic with employees to identify the values that most matter to AMP.

Whilst we have made a lot of progress, we know we have more to do and we have a clear path to execution in the second half.

Stepping back, we have achieved a lot in the first half of 2021. We've made significant progress with the advice reshape and have recently announced our new contemporary advice service model and the cessation of BOLR obligations. We have reduced prices on the North platform and continue to focus on the EFA market and make North the platform of choice for advisers.

The transfer of the multi asset group is well underway, building out the end to end superannuation business in AMP Australia. The sale of our GEFI business to Macquarie was announced recently, and in conjunction with the MAG, ticks off a number of material prerequisites for the demerger.

In the Bank, we are focusing on delivering automation at scale, with better automated credit decisioning capabilities and faster turnaround times to deliver a stronger client experience. We're continuing to drive cost out as part of our transformation, with good progress being made on our $300 million target.

Capital continues to remain in a strong position in the lead up to the demerger and we continue to optimise the balance sheet with approximately $700 million of debt expected to be repaid in the second half. All our customer file reviews in our remediation program are now completed and we are fully provided for. We will focus on getting money back to our clients' hands in Quarter 3.

And with that, I'll now hand back to Alexis to provide an update on the demerger.

Presentation from Alexis George

Alexis George: Thanks, James. I called out earlier that getting the demerger completed will be one of my and the new CEO of AMP Capital's key priorities. I chaired my first Demerger Steering Committee last week and I was pleased to see that we're well in train, with a good sense of what's necessary to get to this key milestone.

We've talked to strategic rationale and benefits before, but in short, this demerger will create two independent businesses that can focus on growth opportunities in the respective and very different markets. Secondly, it will enable further efficiencies and the removal of corporate overheads with more focused management teams. Thirdly, it will enable both businesses to accelerate their growth agendas, including the ability to access capital markets to fund them.

The private markets business is already a leading player in the asset classes of infrastructure equity, infrastructure debt and real estate. The investment teams have a strong track record of performance in these capabilities, delivering consistent returns for clients around the world. I believe we've hired an exceptional leader in Shawn Johnson to take private markets through the demerger and into the future. Shawn, as you know, is based in the US at the moment, where he's meeting with our clients and teams in the region and elsewhere before making his way to Australia later this year, COVID restrictions permitting of course. His clear feedback from the clients, and to me, is that they support the demerger and want us to press ahead with haste.

AMP Limited will also benefit from the narrower focus and the extra agility. We'll be a retail world player comprising super, retirement, investments and banking, and we start from a position of scale and market leadership in Australia and New Zealand. We'll also hold AMP's strategic non-operating investments, including the China Life AMP Asset Management joint venture. At this point, we're also considering holding a minority stake, up to 20%, in the private markets business to provide flexibility for the group and to ensure stability through the transition period. However, it would not be our intention to hold that long term.

Now if we talk to the demerger progress, as I've said, we have a well-developed roadmap in place and work streams established to deliver critical components of this work. The demerger will be delivered in the second quarter of next year, however by the end of this year, we're committed to having the businesses operationally separated. We're turning our focus towards operating models for both businesses and have made good progress on the management equity plans for private markets. We're also working on a new brand, as well as investing in the AMP brand itself, and as I've called out earlier, working on the post demerger strategies.

Separating businesses that have been together for such a long time is no small task but I'm assured we have strong expertise within the team from the separation and sale of AMP Life in 2020, which came with huge complexity.

Finally, the timeline, on page 32. As I've called out, we've taken steps already, and we have a clear set of deliverables taking us through to full demerger. As mentioned, we intend to hold an investor day later this year where we'll provide further detail on the strategies of the two businesses, allowing Shawn and me to consider and debate the right way forward. We'll be continuing to engage with our investors, clients, and people in the lead up to demerger, including seeking approval from our shareholders around May next year.

So to conclude, I want to acknowledge the progress that's been made in simplifying the business and delivering on the commitments the team made at the start of the year. Amid the change, which is ongoing, we've been able to deliver an improvement in earnings in the first half 2021 and we're seeing some positive signs for growth. Our capital position remains strong, enabling us to invest in our transformation and deliver the separation. The completion of client remediation reviews, and being fully provisioned, is also a significant achievement. Looking forward, we have a clear set of priorities to finalise the demerger, continue our transformation, and focus on reinvigorating the brand and culture. The shape of AMP is changing and we're taking it forward for our customers, shareholders, and our people. I'm only eight-and-a-bit days in the job and know there is more hard work and challenges ahead, but I'm optimistic about what I've seen so far.

So on that note, I'll hand over to you Harmony for Q&A.

Moderator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press start two. If you're on a speakerphone, please pick up the handset to ask your question. Your first question comes from Matt Dunger from Bank of America. Please go ahead.

Matt Dunger: Thanks for taking my question. If I could just ask firstly, on the performance fees in the first half, obviously pretty subdued. You've been talking for a while about the shift to close end funds. Just wondering if you could give us an indication of the timing for realisation for some of those close end funds?

Alexis George: Thanks very much Matt, and I might let James answer that question, because I'm sure he has more detail than me.

James Georgeson: Yeah, absolutely. Thanks Alexis and thanks Matt. So you're absolutely right, we are transitioning to a series of closed end funds. So the first of those was obviously the GIF I and GIF II funds, which are in the infrastructure equity business. Then we've got now five – actually six – funds in our infrastructure debt range. So the first five are in our core range and we've got our new Asia fund, which we're just launching now.

So we have seen, in the first half of last year, the first of the performance fees come through on infrastructure debt two. That was a $20 million performance fee, or carry as it's known, last half. We haven't had a closure of, or the end of a fund result in this half. I think we're probably two, three, four years away from having a full, I guess, series where you have funds that are coming to the end each year with new funds launching. So it's probably going to take us that time period to get to that full transition.

The other thing that's happened in the half, and really the trend over the last 12 months, is we had historically been generating some really good performance fees out of our airport assets. Clearly, with COVID, airport assets have been much lower in value and so haven't hit the thresholds for outperformance. So that has been sort of the other impact that is probably more extreme this last 12 months, which is making that transition a little more obvious.

Matt Dunger: Thanks, James. If I could just ask a follow-up, also? On the demerger and separation costs, $100 million you've flagged. Do you also anticipate any further transformation related costs for AMP Capital, noting that was originally excluded from the $1- 1.3 billion transformation program?

James Georgeson: So, Matt, the 100 million is, I guess, a post-tax figure representing both the demerger, the MAG transfer and the GEFI work, and that's the second half number. We will obviously have some costs into the first half of next year. When we come back to the market in November with our investor day, we'll get Shawn and Alexis to sort of provide some more guidance and direction around where they will do from a transformation spend. I think the areas where we obviously need to do is continue to reshape the cost bases of both those businesses.

But in the end, the AMP Capital private markets business is very much a people business, a lot less in systems and technology, and much more is about the quality of the investment professionals and their investing and managing of the assets. So we wouldn't envisage material big spend, but I guess we'd come back in November and later this year to give more insight in relation to that.

Matt Dunger: Thank you very much.

Alexis George: Thanks, Harmony. Can we go to the next question?

Moderator: Thank you. Your next question comes from Andrew Buncombe from Macquarie. Please go ahead.

Andrew Buncombe: Hi and thanks for taking my questions. Just the first one is in relation to the wealth management business. You've mentioned in the Investor Report that you think AUM-based revenue will drop below 70 BPS in 22. Should we be thinking that that's the bottom? Or do you think over the medium term that will continue to grind down? Thanks.

Alexis George: Thanks for the question, Andrew, and I'll perhaps talk at a high level and then ask James to comment. I think in terms of the AUM-based revenue, as we've already highlighted, we're expecting to make some further reductions in the third quarter this year and that includes simplification of the funds. We're also continuing to focus on some cost reduction. So while we see some margin decrease, I think they'll be offset by costs. I mean clearly we're still seeing outflows and that is a real concern to me, and something I want to focus on. I don't think that's just about service and price. It is about some reputation issues, which we need to improve, and we're all focused on doing that.

As we look into the future, post-22, I think there's going to be continued pressure in that space and we need to make sure that we become more efficient to offset that. But, James, do you want to provide any further colour on that?

James Georgeson: Yeah, thanks Alexis, and thanks for the question Andrew. So the 70 BPS you referred to is obviously the superannuation product margin compression. Because if you roll that back to the total wealth level, we reported 73 for full year 21. If you take the seven basis points guidance, we'd be at 66 when we get to the end of this year. We will see obviously a step down into 2022, given the large portion of the master trust repricing is happening in Q3. So we'll get the full run rate of that not to come through until 2022.

But you're right, the commentary – as we've said – is they're heading towards below 70. We think it's sort of in the mid-60s will be where it will probably settle, from what we can see at the moment. That's much more on our retail super business, which is where that reduction is coming. Because we think the corporate super book is probably priced reasonably competitive at the moment, given you have to price the large schemes in there pretty aggressively to win them, given their size of AUM and the scale benefits that the plans expect.

Andrew Buncombe: OK, that's super helpful. Thank you. Then maybe just for my second question, a little bit related, just as you've been dropping these fees in wealth management, have you been seeing any positive impacts on volumes? Or is it still too early? Thanks.

James Georgeson: Look, I think we're definitely seeing the benefits come through in volumes. Prob North is the one where it's most obvious, where the fees are, we would argue, at the very sharp end of everywhere. So you've seen our – continued to drive net inflow. A little bit lower than where it was first half last year, but definitely where we've got prices to be at the competitive level, we're definitely seeing good inflows. I think given the master trust repricing will happen much more in Q3, that will start to help.

Look, we've also had a really strong period of investment performance. Obviously all – the rising investor markets have helped all boats lift higher, but our funds have particularly done well and have beat a lot of the benchmarks over the last 12 months, which has really lifted the multi-year performance. So, look, we think it's both price – it's about investment performance and it's also about the service offering. We are starting to see some green shoots, but I think we just want to see how these pricing changes land in Q3.

But if we look forward to cash flows, I think Francesco and I have always said previously we thought the wealth transition and recovery post-Royal Commission was always a three year exercise. We're probably two years through that and we would be looking to hopefully report net positive cash flows for the full 22 year. That's our hope and we're trying to do the changes to support that.

Alexis George: If I can just add to that, that's definitely where my hope is at. I think we've got a really good, strong team there who knows exactly what we need to do in terms of getting the business back on track. You know, and I mentioned before, but also we have to address the reputational issue. So I'd like to think we're close to the bottom. We've just got some hard work ahead.

Andrew Buncombe: Fantastic. Just my final one on the cost to income ratio in the capital business, please. It's obviously stepped up this half. I missed the start of the call, so apologies if you've covered this already, but can you give us a bit of an idea of whether that was cost or revenue driven and how easy that will be to rectify in 2022? Thanks.

Alexis George: Well I think it was revenue driven. But James, do you want to add anything to that?

James Georgeson: Yeah, that's right. It was revenue driven. We held – costs were $2 million lower, half on half, Andrew. So, look, it is much more a revenue story. I think in the short term we would see, with the subdued performance in transaction fees, given the items I just referred to earlier around airport assets and the moving towards the close end funds over the next couple of years, we would sort of see that cost owing income ratio staying sort of a little higher than our historic guidance. Look, it's definitely a focus for

Shawn and the team, particularly as we approach the demerger, around looking at the cost base and continuing to get it to – continuing to target a lower level and lower cost to income ratio than it is today. I think as we come back to the market later this year, he'll have a chance to really outlay the plans that he wants to do to take that business forward and to get the cost to income ratio to a lower perspective than where it is today, absolutely.

Andrew Buncombe: Great. Thank you for taking my questions.

Alexis George: Thanks, Andrew. Harmony, the next question please.

Moderator: Thank you. Your next question comes from Kieren Chidgey from Jarden. Please go ahead.

Kieren Chidgey: Morning, Alexis and James. A couple of questions if I could. I might just start off just recircling back on some of that wealth management margin discussion. James, just to be clear sort of on what you're saying, you're at 70 basis points of AUM sort of related revenue this half. Full year, are you saying the exit rate is 66? Or are you saying full year will be 66? I'm just sort of not clear on that, because it kind of suggests that if that's the case, FY20 could end up sort of being around 60 basis points or below.

Jason Georgeson: Good question, Kieren. For clarity, the 66 would be the average across 2021. So, as we reported an average of 70 across full year 2020, it would be 66 is the equivalent full year number. Our exit run rate will be below that. It will be – and that's reflecting those price step downs that we're doing in the master trust repricing through Q3. So we would be expecting that to be below the 66 as the exit run rate across the second half. We'd probably be a little bit below where the 66 is for the second half of this year and heading into next year.

Kieren Chidgey: OK. All right. That's clear. Secondly, you've mentioned the current cost programs will probably offset that pressure from an even sort of basis point, point of view within the wealth management business. But even with that, it would seem the cost base when you comp it to other platform businesses around the market in basis point terms still looks fairly elevated. Do you think, beyond the current cost program, there are still remaining opportunities to do something more strategic around how you're running that business and would you consider outsourcing to third party administrators in terms of the back end?

Alexis George: Kieren, maybe I can talk to that. I mean we've talked about the demerger and the investor day later this year, and clearly something that I'm focused on from an organisational perspective is cost. As James said before, Shawn is certainly focused on that from a private markets perspective. I mean if we're to move into this demerged environment, we need to be operating more efficiently and I'm well aware of that.

In terms of the actual technologies that we use going forward, I think we're going to explore all options. Because we know to be able to compete in the future we have to be more efficient. So I'm not ruling anything out at this point in relation to the actual technologies that we use. The market is continuing to evolve in this space and I think we really need to embrace that.

Kieren Chidgey: Thanks, Alexis. Just a second question on AMP Capital. There's clearly been a number of funds subject to external parties looking to take management rights. Can you update us on the current positioning around that and what retention initiatives, such as fee reductions, have been implemented, and what sort of impacts those initiatives will have on AMP Capital as we move into second half and FY22?

Alexis George: Yeah, let me talk to that. Clearly I spend a bit of my time talking to Shawn and the various teams about this and it remains a complete focus for all of us. If I look at where we're at, at the moment, I'm really optimistic about retaining the funds that have kind of been under scrutiny. If I look at AWOF, I mean we do have the best performing office fund there across the one, two and three years. In my view, we've got the best team in place, led by Shawn and Kylie, and we've laid down a clear plan to demerger and I think those teams are looking for some clarity around their future. I think we've got to continue to build on the reputation and culture work that's already started. So I'm not saying it's easy, but I feel we've really laid down a plan there, and are certainly sharing that with the various customers and clients.

Where appropriate, we have put in financial retention plans and, look, I hope they'll have the right impact and we'll continue to monitor that as we move down this path to demerger. But I think we have to look at all retention plans. Optimistic at this point, but clearly some more work to be done and Shawn is very well aware of that, liaising with the clients on a regular basis.

James, is there anything else you want to add there?

James Georgeson: Yeah, thanks, Alexis and thanks again, Kieren. We've definitely done some small fee reductions in some of those funds to, I guess, sometimes respond to the approaches we've had. So Kylie and the infrastructure team have looked at some of those. So that's in relation to AWOF and CommIF. We also passed some benefits through to ADPF before it was transitioned to Dexus. So, look, we've done those. They're moderate, Kieren, I think is probably the best way to describe them. Sometimes they're a rebate for one to two years before then returning to a normalised level. Sometimes they're permanent step downs. But they're in the small order of magnitude rather than anything else.

I think the other thing we are looking at is continuing to drive alignment between shareholder and client. There's continuing reflection and thinking about how do we deploy balance sheet support to help some of these funds? That's the other thing. It's similar to where we do in the seed and sponsor capital across the infrastructure funds. We'll be looking at some of those options as well.

Kieren Chidgey: All right. Thank you, both.

Alexis George: Thanks, Kieren. Harmony, can we move to the next question please?

Moderator: Thank you. Your next question comes from Simon Fitzgerald from Evans & Partners. Please go ahead.

Simon Fitzgerald: Hello. Thank you for taking my question. James, a question for you first with the Resolution Life investment income. Just wondering if you can give a little bit more background in terms of the drivers of that and if you had any sort of views in terms of the outlook for the full year?

James Georgeson: Thanks, Simon. Look, the first half of this year compared to last year, obviously we didn't have that return. So we've obviously got the step up in group investment income half on half, given that return. Look, talking to the team over the last few weeks as we've finalised our results – and I talk to Megan Beer, their CEO, every month as well as through our separation program. The outlook for the business has actually stabilised. They aren't seeing any material change in their claims trajectory. Obviously lower interest rates have hurt some of their mature portfolios as those rates came down last year, but obviously the recovery in the outlook for bond yields has definitely helped.

It's fair to say they're seeing a stabilised business. They haven't seen any shocks. They definitely didn't see any material impacts from COVID. I mean the big risk there was that you were to go into a broader, deep recession which would then trigger a whole round of new income protection payments. That didn't evolve, obviously, thankfully for all of us. So, look, generally the outlook is positive. It's never going to grow its return. It's a business that they're deliberately running down over time in an efficient and controlled manner. But their acquisition strategy for Resolution is to continue to grow that run-off business by acquiring other books. But, look, we would sort of say a stable outlook from where we are.

Simon Fitzgerald: OK, thank you. Then a question for you, Alexis. This might be a philosophical account question, if there even is such a thing, but I look in the past and we've seen AMP sometimes a bit hastily write things off below the line and a lot of non-recurring items. Some of those are even maybe a little bit questionable in terms of increasing compliance costs. But if we sort of add it up, between 2018 and 2020 it's something like $3.7 billion of non-recurring items, which is even larger than the current market cap today.

Admittedly, some of that relates to goodwill and write offs of the life business, et cetera, which is acceptable. But I'm just interested to know from your point of view whether you're going to be a little bit more cognisant of expensing such items rather than just putting them through as non-recurring items and how you feel about such matters.

Alexis George: Great question, Simon. I have to declare that I am a chartered accountant by trade, although a long time ago. I think when we look into the future, certainly around technology, I would be very conservative about putting things on the balance sheet. I think we've all realised that's a continuing investment. So I'll certainly be watching that.

I think as we move through the demerger process, it's a real opportunity for me as a new CEO to take a good look at some of those practices and policies that we put in place so we do give ourselves clean air for the future. So good question and certainly something I'll be thinking about.

Simon Fitzgerald: Thank you.

Alexis George: Thanks, Harmony. Can we move to the next question?

Moderator: Thank you. Your next question comes from Nigel Pittaway from Citi. Please go ahead.

Nigel Pittaway: Good morning. Thank you for taking my questions. Just first of all, on a similar vein to that first question from Simon, in the investment income there obviously is a much bigger contribution from China Life and you've called out the first cash dividend of 7.2 million. Am I right in thinking that's been a key delta in terms of that investment earnings? What's the prospect for those dividends continuing into the future?

Alexis George: James, would you like to take that one?

James Georgeson: Sure. Thanks, Nigel. So look, the big delta half on half, Nigel, is actually the Resolution stake. So first half last year it was recorded in the AMP Life earnings row, which is right at the very bottom of the group P&L. So really the step up half on half is on Resolution. As well as, the prior period we did have some derivative movements on some of the group capital and group items. So, really, the Resolution is the big – the CLPTs continue to improve but it's not by any means the material contribution to the step up half on half.

Going forward, the pension company – the reason we got the first dividend was they have recouped all of their cumulative start up losses and so they are in a net retained earnings position. So they looked to return a percentage of the profit above that breakeven point in the prior calendar year. Obviously now they've recouped that, we would hope that dividend would increase, given their profitability continues to increase, their AUM continues to increase. They're obviously in a growth phase and so they are reinvesting. It's not a high payout ratio, but again, it's moved and recouped all its accumulated losses so we would hope that the dividends would continue to flow for China.

But the step up is much more to do with the Resolution stake as well as the unwinded derivative positions from the first half last year.

Nigel Pittaway: OK, thanks for that. Second question: I just wanted to explore your confidence that the new contemporary advice service model won't lead to a sort of reasonable exodus of advisers. I mean obviously you are sort of taking away the constraints on them, so can we just sort of get a bit of colour on why you seem so confident that you won't see a big exodus?

James Georgeson: Alexis, do you want me to take that one?

Alexis George: Yeah, I'll start with it. I mean I think it's a point of view. It's early days. We literally announced this I think the day before or day after I arrived. It's kind of been a bit forgotten. Look, I've spoken to the team at length about this and I think we've liaised with advisers, we've liaised with all the heads of the dealer groups, we've liaised with the heads of the adviser councils. You saw that some of them gave positive feedback on this. I think it's too early to predict the exact outcome of this, but I'm confident if we continue to deliver those promises, not just the reduction of BOLR and the release of the institutional, but the other service enhancements that have to come through, that we've got a compelling proposition.

But at the end of the day, they'll judge us by our actions and I think there's a little way to go through that. But I'm certainly optimistic. I think it's a more sustainable way forward. I think we've also got a really experienced team there under Matt Lawler now.

James Georgeson: Alexis, I would add to that. Obviously, Nigel, for Charter and Hillross – the other licensee brands – we've never had the institutional ownership arrangements and so those advisers have always had the flexibility to move clients as and when they desired and as they wished. We have not seen any significant, or any, new BOLR notices since the terms were announced. I know it's only a few weeks, but that's an important symbol, that there was no rush. To be honest, this year we've only seen half a dozen BOLR notices come in, which is a material reduction from, say, two years ago when we announced the changes.

So I think – again, we won't judge a summer by the last couple of weeks, but definitely that churn in advisers has materially slowed over the last six to 12 months. I've seen no spike, no nothing, since the terms were announced. So that's, I guess, why we would see that confidence and expectation at the moment from where we are. From a capital and impairment perspective, we were able to – over the last couple of years as we went through the reshape, we ended up buying back a lot less revenues and practices and registers than we thought. So the allowances that we had made, if there was something to happen here, we've got enough buffer to absorb what our modelling suggests. At this stage, it's performing exactly as we expected.

Nigel Pittaway: OK, thanks for that. Just maybe on a similar vein, obviously you say you're sort of 95% complete on your advice reshape. You've still got the license fee changes to come. Then I'm not sure whether you were quoted correctly, Alexis, but you were quoted in the paper as saying to make advice cost effective you don't think it's an easy road. So how much more [unintelligible 01:00:49] the advice network to make it ready, I guess, to fully compete in the new world and attract customers?

Alexis George: Look, that's a good question. I did make that comment, but that comment was more from a client perspective. I think if we look forward, all the research would suggest at the moment that many clients aren't prepared to pay for advice at the cost it is today. If we want to make sure that all Australians do get good quality advice, then we have to start to think about how we can reduce that cost and how we can embrace technology to reduce that cost. So that was what that was in relation to.

Look, I think the hard yards have been done in advice by the team over the last month. But as I said, I'd like to be able to really give good quality advice to more Australians out there and that's going to be about using technology to reduce the cost and make it more accessible. On that front, I think we do have a way to go.

Nigel Pittaway: OK, thank you very much.

Alexis George: Thank you very much. Harmony, are there any further questions?

Moderator: Thank you. There are no further questions at this time. I'll now hand the conference back for closing remarks.

Jason Bounassif: Thank you, Harmony, and thank you everyone for your time today. Please feel free to reach out to Michael or myself if you have any further questions. Thanks, everyone.

Moderator: Thank you. That does conclude our conference for today. Thank you for participating. You may now disconnect.