AMP-Investor-Day-Investor-Briefing-10017323-311121

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Alexis: Good morning everyone and welcome to AMP's investor day for 2021. So disappointing that yet again we're holding this virtually and won't get to meet you physically, but I hope – and I know – I'm going to get to see some of you in person over the coming days, so I really look forward to that. Now before we talk about what we're going to introduce you to today, let me acknowledge the traditional owners of the lands on which we hold this meeting today; for me, that's the Gadigal people of the Eora Nation. And I'd like to pay my respects to the elders past, present and emerging, and pay my respects to all First Nations people. So to today, what are we doing to talk about in this very special day for us here at AMP?

Firstly, I think it's really important that we give you an update on where we're up to in terms of the demerger and take a little bit of time to remind you why we're on the track to demerger. Secondly, I'll have the opportunity to present to you where we're going in terms of AMP Limited. Now I've been in the job for just over a hundred days now and I think we've done a lot of work in that period of time in thinking about what we want to be in that post-demerged environment. We're also lucky enough to have our CEO of AMP Capital – or PrivateMarketsCo – here virtually also today, Shawn Johnson. And I'm really looking forward to him being able to share his vision of the new company.

And of course a person well-known to many of you, James Georgeson – our CFO – who'll walk you through the financials. And I hope you appreciate that we've listened to the feedback about being a little more open about our financial position, about our segment accounting, and we've given you a lot more information today. I'm also joined today by some very important members of our management team. In the room here today we have Kylie O'Connor, who's our head of Real Estate; we have Sean O'Malley, who's the head of our Bank; and on the phones we have Blair Vernon, our head of New Zealand Wealth Management; and of course Scott Hartley, our head of Australian Wealth Management, and they'll be involved if the need arises or if you have some specific questions.

Of course, as always, everything is posted on the website and on ASX, but I know already that many of you have started to digest that information. So let's kick off and start with the demerger. Now before I talk about where we're up to, I think it's important to just step back and say, "What are these two companies that we're looking to demerge? What are the differences?" Firstly, if I look at AMP Limited, we're a retail business, predominantly Australian and New Zealand operated and focused, about one and a half million customers and 130 billion. So very much retail, domestic Australian New Zealand business. If we look at PrivateMarketsCo, it's an institutional business. I think we all understand that. Less than 500 clients.

And we have assets across the globe. Yes we have a big real estate business locally, but we've got assets across the globe. So they are very, very different businesses with different cultures, remunerations and outlooks. I know you're probably sick of hearing this, but let's go back to why we are doing this demerger. Firstly, you heard me talk about it: different businesses, different culture, different rem structures. But the demerger also allows us as management teams to be much more focused; focused on what the core businesses are of both these organisations. And as we look to the future and look to those growth aspects, it also allows us to come to the market with individual propositions.

So I feel really clear in my mind that it's the right way forward for the businesses, the right way forward for our shareholders, our customers and of course our people. So where are we up to today on this demerger process? This is a complex beast. There is a lot of work to be done. And there is a lot of work that has been done. And before I talk about what's coming next, I think it's important to reflect on where we're actually up to now and what we have achieved. So firstly, just remind you this has only been announced in April this year. Since that date, we've sold our GEFI business, we've announced that we're going to transition our MAG business across to Limited and that gives us end-to-end superannuation and investment opportunities.

We've also announced new Chair and Deputy Chair Elect, and I know those names have Patrick Snowball and Andy Fay will be very familiar to many of you listening to us today, and that was a really important milestone. Shawn's also announced his new management structure for PrivateMarketsCo, making it global structure so we can try and work together to really take advantages of those opportunities we see. And as we come to December, there'll be an operational separateness with the functional heads reporting in to Shawn. Yes, there's a lot still to be done, and I don't want to underestimate the complexity of moving towards that June demerger date.

We've still got regulatory relief to achieve, we've still got separation exercises to undertake, we've still got to complete the MAG transition – although that will be happening in the coming weeks – and of course the GEFI sale. But we've got a dedicated team, and I feel comfortable that we're moving towards those dates at the right trajectory. Both the management – including myself – and the Board have dedicated committees monitoring and providing oversight to this delivery. So now we've talked about the demerger, let's talk about what AMP Limited is going to look like, and that's the business I will be responsible for as the CEO.

Before we look forward though, I think it's important to think about what we actually have done – and I don't incorporate myself in the have done, because the team has very much worked on this. So we have made progress. But there's a long way to go. What have we done? We did sell the Life business and we've just completed the sale of the remaining ownership. And at this point it looks like those transitional service arrangements will roll off mid next year; a major achievement to our simplification agenda. We spent time and effort upgrading our core banking system. Now you may say, "What's the point of that," but it really allowed us to increase our operational capacity.

And I'll talk about the Bank a little later and the opportunities we see for growth there. The team has spent an enormous amount of effort and work reshaping our lined advisor network; setting up new terms, explaining to the advisors the services that we're going to offer into the future, and get rid of those overhangs of institutional ownership and BOLR. We've sold our AMP employed advice network into a joint venture, and I'll talk a little bit more about that later because that is something we haven't really talked about – although immaterial from a financial perspective. The team have done the hard yards about repricing our superannuation solutions, whether that's on the platform or whether it's in our Master Trust, whether it's default or whether it's choice.

And we are on track to deliver those 300 million savings that were committed to the market; 40 million of that will be delivered in '22, but we are on track for FY21. And I think it's important to say that I am not walking away from those commitments; as the new CEO it would be easy to do that, but I think it's very important that we continue to deliver on those commitments we've made around costs. And I'll talk a little more later about what else we're needing to do there. And of course we just recently announced the retention of the management rights around our AWOF fund – or Office Fund. Now we have to do more work there, clearly, but it's great to be able to let the team get back to doing the business that I know they're great at, and so I think that is a milestone we should be proud of.

There's more to be done in '22, as I said. We have to get this demerger done, we have to complete it by that June period. We need to finalise the Life TSA arrangements and make sure that is a clean cut with Resolution Life. In the next weeks we'll transfer the Multi Asset Group – or MAG – across, which will give us that end-to-end super offering, the GEFI sale needs to come and we have to work through the mechanics of what it means to separate balance sheets between two companies that have lived together for some time. I think the fact that we reset our balance sheet last week also gives you comfort that we've had a good hard look at the assets on that balance sheet, making sure they're going to help us deliver value in the coming years.

I'm also proud of the fact that over the last three months we have spent a lot of time thinking about where we sit in the market, what does the competitive environment look like, and what do we want to be – both companies – in that demerged environment. But now let's talk about AMP. And before we do that, I want to just hit you with a few trends that we've considered as we laid down the strategy we're presenting today. Some of these will be well-known to many of you. What's happening? We know especially in Australian superannuation, it's becoming a game of pure players; bigger, fewer players. Margins – because of transparency, because of the regulatory environment – are starting to decrease, and that's a good thing for our customer base; much greater focus on the propositions that we're delivering.

We know there's an ageing population in Australia and we know there's not good retirement solutions out there. You heard me talk about it before – the digital data automation – you can't just talk about that now, it has to be part of our DNA, and while I've already said that I wanted a technology person to sit at our executive team, and we'll be having announcements about that shortly. And we all know the need for advice. In our country – especially in Australia – good advice is the difference between a great retirement and an average retirement. But it's just not accessible to many Australians today. So how, as an industry and as a major player in that industry, do we face into that challenge?

And of course we're going to have ongoing regulatory change and we're going to have supervision of our industry – it's an important industry, it's a big industry – and I'm not scared of that. While I think about the letters to success for our company, I don't think they're rocket science; they're things we've been talking about for years, but I think they hold well into the future. We have to be important in customers' lives, we have to have competitive and compelling options. Scale is going to be important; we're a big player today, we need to continue to be a big player to be able to compete. We've got to simplify the rest of our legacy products. A lot of work's been done, but I don't want to be distracted by the past, and it's good for us to move and be more agile and be more nimble; Digital and Data heard me mention it many times, and it remains important.

And of course in this new world, we have to understand that we can't build everything ourselves; we don't have the capacity, we don't have the capability. And in my mind, learning to partner better with fintechs, traditional suppliers and other players in the market, will become a skill that we have to hone; very important skill. So over the last three months, I really have sat down with the teams and thought about, "What do we need to be? What is my one page strategy of where we want to go as a group?" And I came up with three things that I think we need to focus on: repositioning our existing business, continuing to simplify, but not only being internally focused, being very aware of what's going out in the environment we compete in, so explore, is something I thought was absolutely necessary to have on this page.

Now I'd love to be standing here today with the purpose that we had determined up to that was excitable to our customers, to our shareholders and to our people. We haven't got that purpose today; we're very much working on it and we'll have it by the time we hit demerger. But I still think it will definitely have that element of customer in it. and once we get that enduring purpose it will be part of everything we do at AMP; I want to very much be a purpose-led organisation. So let me quickly take you through the pillars and the enablers I think are important before we delve into those in a bit more detail. Firstly, repositioning the existing businesses.

I think the two growth opportunities for us in the short to medium term are the Bank and are our platforms. I've talked about both of those in the past and I see both of those as great opportunities for growth. We need to focus on efficiencies in our Master Trust and New Zealand Wealth Management businesses. They're both really important businesses. They're both well-run. But as we look forward, there's going to be challenges around margins. So continuing to build on efficiencies, continuing to deliver those customer propositions will be important. And lastly in that space, we have to accelerate the transformation of advice. Advice has been a core part of AMP and it's hard to imagine that it won't be core part of AMP, but it has to be sustainable for us and for our advice partners, and James later will share some of the economics around that business.

If I talk about simplify, I know I'm going to say it again and again, but we need to move forward on the demerger. More importantly, we have to right-size the operating model. We're going to be a much smaller company. We have to think differently, act differently, make decisions differently, think about our committee structures differently. And together with our head of New Zealand, we're working on some of that right now, to make us a more streamlined organisation going forward. And of course I have to think about disciplined capital management, and I know you as our shareholders have given me feedback on that. So that's reposition and simplify.

But as I said before, that's not enough. That's what we have to do. But we also have to think, "Where can we be different? Where are our growth opportunities outside our traditional models?" And so there's a couple of things there we're talking about. The retirement space; you've heard me talk about that as an opportunity definitely in line with our brand parameters. I think we need to start to think about direct to consumer. Not suggesting that's an opportunity in the very short term, but we know our customers are moving in that direction. And I want to be aware of the changes that are happening in our industry. We have to participate in those discussions.

We have to be able to make concrete decisions about where and where not to go. And of course enabling all these things are things like purpose and culture; you heard me talk about that. Brand and reputation; I said on day one to our people that restoring our reputation to the iconic nature of the brand is really important to me. And it's important that our customers know who we're going to be going forward. Digital and Data; talked about that a number of times. And finally respect risk. And I use those words very carefully because it's not a void risk, it's not take no risk, it's be respectful of risk and be conscious of the risks that we're taking. Now let's talk about reposition and delve into those businesses that I talked about in a little more detail.

Before doing that, let me just quickly talk to the dynamics of these. Again, this is not rocket science; many of you will be very familiar with these dynamics. If we look at the Bank, I think we all know that the brokers are becoming more and more important to the customers when they're looking for that home ownership. It still is a very confusing process for many people, and so we see an increasing reliance on brokers. But the digital self-serves, follow-ups etc are becoming hygiene factors and we've got to continue to build that capability. And as we look longer term, I think we can all see a world where mortgages in a completely digital environment are likely to happen.

We come to the New Zealand space. It's voluntary superannuation there, although we are starting to see the Kiwis say the balances grow, and we are seeing our Kiwis show a greater interest in saving in that form. But property remains the dominant asset class. That doesn't mean we're going to be running to a bank in New Zealand at this point, but I think it's important to acknowledge that. And it is an outlook that's going through similar changes to what Australia has done; with greater transparency around fees and investment performance. And I feel we've got great experience to enable us to be successful there. On the Wealth Management side, you heard me talk about a few of the drivers that are influencing our thinking here: the ageing population and of course retirement.

And that covers both our Master Trust base and our platform space. In platforms you've got these mono line competitors really starting to focus their business and provide good competition, and we have to make sure we can keep up with them. You've got advisor trends, which I know most of us are familiar with. Had large exodus of advisors from the market over the last few years, but we know the need for advice continues to increase. But at what price and how can we do that differently? And as a result of those reducing advisor numbers, they're very much moving into the high net wealth area and how are we going to service that mass affluent and mass area?

We know as we move forward in Master Trust, the margins are not going to increase; pricing is competitive, pricing is transparent, as it should be. But we need to make sure that we can continue to deliver that competitive pricing. Investment performance; absolutely critical. And it's great to see the criticality – the importance of that being demonstrated outside now as well as internally. As we move to the changed environment of stapling and transparency of investment performance, there's opportunities there around direct to consumer, but we all know that scale's important. And when we come to advice, all the trends I've talked about: declining numbers of advisors focused in one area, costs of advice currently is not what people want to pay, or for that matter can afford to pay, so how do we make it more accessible?

The cost subsidisation of the past has stopped and we have to make sure our businesses can stand alone, can offer to customers yes, but be sustainable in their own right. And of course we have to embrace technologies everywhere we turn. Technology is changing our world. We're not in the fourth revolution for no reason and we can't ignore that. So that's the trends that we think about when we put forward our strategies. So now let's delve into the individual businesses. And let me start with the Bank. And we probably haven't talked about Bank enough in AMP, so I thought it would be good to give you a flavour for the book that we have and remind you we are a simple bank, we are a challenger bank, we have two solutions: mortgages and deposits.

We have no branches. We are a digital bank. And if I look at our book, I see a really clean book. It's principally owner occupied, principally P & I, in that age bracket of 30 to 50 and really good LVRs. So it's a well-managed book. But we're small. I think when I was looking at June around 1 percent market share, so real opportunities for that. Let's just talk about what we've done in our bank, and why I think we're really at a point when we can deliver growth. Firstly, you heard me mention it at the start, but we spent the time re-platforming the backend. We did have an old system; we needed to modernise it to enable us to be able to cope with more volume.

That work has been done and we've seen the efficiencies from it. We've absolutely focused on the auto-credit decisioning rates, and that is important to ensuring we can get a time to decision for customers that meets their needs. Now today we know that can be weeks, but if we look into the future, I know that's coming back to days and potentially hours. One of the things I'm really proud of at AMP is that we've consistently ranked among top five for service with the brokers. And you'll remember I mentioned that one of the important trends is that brokers are playing an increasing role in that space, so maintaining that service ranking is really important.

And while our NIM is great at the moment, I understand that there's pressures on that, but I don't think they're pressures that cannot continue to support both our ambitions financially as well as our ambitions from a customer perspective. So, yes, I see some decline but I certainly feel that we're well-positioned in that space. So I feel real opportunities in the Bank. We're a small bank, we don't have branches, we have simple solutions, we have a good cost/income ratio, we have good return on equity, and we have a NIM that I think is well-positioned. So how are we going to grow this? Well firstly, I could sit here and I could talk to you that we're going to build a customer value proposition that's very focused on the ideal customer for us, and we will do that, but it isn't an immediate priority for us.

As I talked before, the operational capacity has been our constraint, not necessarily the ability to attract customers. And by doing the work we've been doing around re-platforming auto-credit decisioning, we're giving ourselves greater capacity. So, yes, that will come but not right now. We do need to focus on our lending origination and make that more streamlined, and we're currently looking for partners to help us with that. It comes back to the points I said before: we don't have to build everything ourselves; partnering is a skill we must have, we must develop, and we need to move forward on. And of course we've got to get better at digital; that is always the case at getting better at the digital, because it's what our customers expect, it's what the brokers expect, and to be honest it's what we expect.

And finally, we've just launched our brand campaign. Now I know that one brand campaign does not make a company, but I think that brand campaign was really important in laying down what the AMP of the future looks like: we are not a life insurance company, we are a bank, we are a super provider, we are a retirement provider, and we are an advice provider. And the early signs of that are that people are starting to see the changes that we have at this organisation. So what are our ambitions here? We want to grow two to three times system. Two in the earlier years, and three in the later years. Why do I believe we can do that? Just before I walked in here the statistics came out for the month and we did 1.9 this month, and have been above one and a half the last three months; so there's really good signs there that we can continue to deliver these ambitions.

We have been good at maintaining our funding ratios of deposits around 75/80 percent, and we need to continue to do that. Importantly, we have to continue to be highly rated in terms of service. That is critical for us to get the flows in the future. And of course we want to optimise our NIM, acknowledging, "We're doing pretty well at the moment, and we may have to have some declines there." I'm very convinced that we've got a growth opportunity here. Now let's work to our Australian Wealth Management business which is our advice super business, including both Master Trust and platforms. I won't spend a lot of time talking through the dynamics again here, we've talked about the ageing population, we've talked about the capacity constraints and advice.

But what I also think is important to highlight is we have a platform which is in the highest growth phase of this industry. Of course platforms and not-for-profits. And we have a good platform; we have a platform that is in that growth part of the business. That's what's important for us to think about. So in Wealth Management what do we want to be and where have we been? Let's talk about each of these individually before we dive into them. Firstly, in platforms. Let's be honest with ourselves, a while ago we typically relied on a line distribution, we had multiple legacy products, and we probably under-invested in that business. What do we want to be going forward?

We want to be a market competitive platform. We don't have to be leading in everything, but we have to be a market competitive platform.

We want to be able to support of course our lined advisors – they're part of our history, they're part of our future – but we need to be competitive in that external financial advice market as well; and that is our aim. And we want to deliver some innovative retirement solutions and see that as a competitive advantage. In Master Trust, again we have very much relied on our lined advice distributions and our corporate super channels. And they continue to be important. But we have to be able to compete in the multi-channel opportunities, and that includes direct to consumer.

In advice, I think we'll all agree in the past, not today, it's been very much a product focused play and moving forward we need to be a professional advice service provider, and we need to do that sustainably. And you'll see later that we've got some work to do there. So now let's talk about each of these businesses in a little more detail. If we come to the platform space, let's look about where we are and where we've been. When I talk to you at the half-year, I mentioned that we did have one material service gap which was the managed equity portfolios: now addressed. Pricing: implemented; we have competitive pricing. And we need to continue to have competitive pricing.

We have good options there in terms of guarantees and non-guaranteed products, and we have many manager options. And we've got a leadership team in there now which is dedicated to platforms – not spread across – and really thinking about, "How can we be different going forward? How can we deliver growth? How can we deliver service to our customers?" So I feel really optimistic about this because we do have a good platform today in MyNorth, we do have good service, and I think we have more than a good team; we have a great team to enable us to push forward. So how are we going to grow this space? Firstly, we need to accept that we have to rely on advice support, not just from our traditional aligned networks, but from the external market.

I don't think that necessarily means changing our solutions we're offering today, because as I said before, they're very competitive solutions whether from a price or offering perspective. But we do have to change our mindset that we've got to get out there, sell our product to that external environment and be confident enough that we can get the flows. So Scott and the team are very much working on that right now. We have to continue to build our digital experience; that goes without saying. But I really think there's an opportunity for us to differentiate in this space, and it goes across to our Master Trust in the retirement play. We've just brought on a team who's completely focused on retirement, and I think you'll agree, we don't have great solutions in this great country in that space.

We've got a lot of history from our life ownership, from the guarantees that we've put onto those, and so we've really set ourselves some hard tasks in bringing to new solutions to market through '22; the first one with the Lifetime Pension. We have to maintain service standards, we have to be highly rated by all those independent experts. But I really want our success to be judged by how many new flows we can bring in from that external market. There's still a bit of clean-up to do on some more legacy products as well, which we'll focus on through '22. So great opportunity for us in that platform space. Let's now move to Master Trust. And you know, I haven't lived through the changes in Master Trust in AMP, but as I was sitting here getting ready for today, you look at what the team's achieved and it's quite phenomenal.

We've completely rationalised the number of trustees, the number of super funds, the number of systems, the number of products; really is quite phenomenal in terms of the amount of work that's been done. And more recently, we've really faced into those pricing issues, making sure we are now competitively priced. And we've addressed the back front-book issues that we've traditionally had. On top of that, we relaunched the brand campaign. Now I said before, a brand campaign does not start momentum, it doesn't change things immediately, but it really is starting to reset the agenda on what the new AMP looks like. Again, we're a bank, we're a super provider, we're a retirement provider.

And I think that has helped with our Master Trust solutions, and particularly with our advisor support in our corporate super support. So a lot of work has been done and that really sets us up for the business we need to drive forward. So let's talk about what we want to be here. Firstly, of course we have to continue to be competitive in terms of price. I think we've taken most of those price reductions, although if you look further out, there could be some more in those latter years. We have to focus on investment performance and the MAG transition really allows us to have end-to-end opportunity for our customers. And the fact that we've now got rid of the life insurance structure around that, certainly assists us in continuing with that simplicity agenda.

Asset management capability is going to be important. The other thing is we know we need to do further work in terms of efficiencies, but we don't have an abundant amount of money to put into this space, so we've got to be creative about how we think about those efficiencies; and we're talking to partners, both traditional and fintechs, about how they can help us in this space, because that will be important going forward; that constant focus on efficiency and in delivering those customer propositions. So in this space efficiency, brand, customer needs continue to be important. And finally in the reposition, let's talk about advice. We've done a lot of work in advice and I'm very glad to see that the team didn't stop when I hadn't arrived at AMP.

We've almost finished the remediation. From an accounting perspective, provided. Still some cash to go to the customers, but that is a major thing to get that behind us, because it's just a focus that management doesn't need; we need to be focused on the future. Of course we have to deal with the past; great to see that we're nearly there. We set up new commercial terms with advisors and we've been transparent with our advisors. We've removed BOLR effective 1 January. We've removed institutional ownership effective 1 January. And we've really said to our advisors, "We've got to be thoughtful about the services we're going to offer you going forward."

And they have to be charged at a rate that is sustainable for our advisor partners, but also for us. And when you look at the numbers you'll see we've got some work to do there. So we have to be competitive, but we have to be sustainable. And I should highlight here as one thing on that journey is we recently sold our employed advice network into a minority joint venture. That was important for us because we weren't the best managers of that business, so we moved that to a place where we feel they are better managers, albeit we take the opportunities still to have that service. So where are we going with advice? I'm not standing here today saying our targets here are not ambitious, they are ambitious; we're putting out very ambitious targets to make this a break-even business by the end of FY24.

But as a team, we know that we have to really push to get there. That does not mean that we want to drop every service, that does not mean that we're not going to have our best staff at the frontline; we absolutely are, and the cost will come from the whole organisation. But we have to drive towards that break-even point. At the same time, let's look for growth opportunities in advice. There are some practices out there who need capital to be able to grow, maybe combine with other practices, so we'll be very diligent about that but we may well take equity stakes where we see opportunities. And where we don't have the capability, where we don't have the capital, we will partner.

And I think in the advice space there's been some very good examples of that with the recent working with Creativemass and of course Salesforce. And that will continue to be important in that space because we have to deliver services to our advisors, but we have to deliver it in a different way. That's great, but we all know this isn't going to solve the industry issues. And as a big player in advice, I think we need to engage with industry bodies, with regulators, with governments, to work towards better solutions around advice, better ways to deliver advice, in ways it can be accessible to the everyday Australian. Because it is important for Australians to get advice in an environment which is quite complex.

So ambitious targets in advice: we want to be in a zero position by FY24, we want to improve our revenue per advisor, and we want to make sure we can bring a lot of those costs forward to '22. Now let's talk to New Zealand, and we often don't get the opportunity to talk to New Zealand in these spaces. If I look at our New Zealand business, it's a well-run, efficient business. There's not a lot of growth opportunities in the short term, as we see it in New Zealand, but I want to make sure that our business is as well-run, is as efficient as it can be so when those opportunities present themselves we can take advantage of it. We've done a lot of work in those business.

Interestingly, we have moved more towards employed advice, a little bit away from the IFA market. But we have also changed our distribution arrangements for general insurance, so going into the future we're not taking risk in that space. So we've done the hard yards. Where do we see this business going? As I said before, we have to continue to focus on efficiencies and I know the team there is doing that. We have to fix any product gaps we've got. And we will launch a new digital unit pricing solution in 2022. And we have to continue to focus on the customer. When opportunities present themselves, I know our business is in a good shape, and that's what we've focused on with New Zealand right now.

So I'd expect relatively stable position. So that's where our businesses are in reposition. Let's talk to simplify – and you've probably heard me talk a little bit about this already – but simplification is one of my top agendas. I know you'd expect me to say this – and you probably want me to say this – but one of the things we really have to focus on is our operating model. We have built an operating model for a company that was much bigger, and make decisions for a company in a way that a company that was much bigger would make decisions. And we have committee structures in place for a company that was much bigger. And I know we have to challenge ourselves to think differently going forward.

So firstly, I'm not walking away from the commitments we've made to the outside world; we do have to deliver those 300 million of controllable costs savings by 2022, and that means another 40 million on top of what we've delivered today. Not walking away from that. But I know that that is not enough if we're going to be successful in the future. I know we need to invest in our business to take advantage of those growth opportunities that I've talked about. And so as a result, I need to make a commitment that we will deliver further costs than that 40 million. And so we're saying that we need to deliver an additional 115 million over the planned '22 to '24.

Again, I'm not suggesting they're easy targets – they absolutely are not – but as a team, we all know that it is important for us to commit to that, to (a) enable us to grow, but (b) make sure we can be successful into the future. What does that actually mean? We've talked about advice, we need to simplify that. We need to continue to focus on Master Trust. But we've got to look at our functions. We've got to sit down and say, "In this new world, what do we want our functions to look like?" I'm doing that, so are the rest of my team. We have to continue to look at simplifying our entities, our governance, our decision making, and of course explore those partnerships where the make sense.

This will give us the ability to grow. This will give us the ability to focus on the things that are important. So we're talking about 155 million of costs over the three-year period; certainly ambitious targets. And finally, I want to talk about our portfolio of assets. Now I just want to be clear, there is nothing on the agenda today, there are no big announcements today – but I think it's important for us as an organisation to have that constant discipline of asking ourselves regularly, "Are we the right owners for these assets? Are we the owners that can help these assets flourish and add value into the future?" Yes, we've done a lot of that work already; you're very familiar with what we've done: life insurance, GEFI, MAG, all that's an integration, I've just talked about employed advice, and of course we're having a bit of a change in tack on technology.

But we have to continue to make sure that we challenge ourselves in that area. And always ask, "Are we the right owners of these assets" into the future. Now let's talk about explore. So I've talked about where the business is at now, where we see the growth opportunities, how we need to continue to simplify, but I believe we've got to constantly challenge ourselves that there's a big world out there; we have to understand what the changes are, we have to understand what competitors are doing, we have to understand what the fintechs are doing, and we have to be involved in those discussions – including with our industry bodies.

And I see two real opportunities here. The first one is retirement. You heard me talk a little bit about it, but our brand has been synonymous with retirement. We had a life insurance business in our entities, so we know about guarantees, we know about what the future looks like and how we can manage those retirement options. We've bought in a fantastic team and I'm really excited by some of the work they're doing there, because I think this can be a differentiator for us at AMP. And why do I say differentiator? Because we have all the elements. We have the investment management now. We have the advice component where we can think about how a customer would react.

And of course we have the various platforms. So I think this is a real opportunity for us; we'll start launching new product next year. And I think the team is really thinking about the interplay with aged care, with the pension system, and how we can optimise those benefits for our customers. So very exciting opportunities. The second thing which we're really committed to is the direct-to-consumer space. Now we've talked about that it's important in the Master Trust space, it's important in the Bank space, in fact it's going to be important for everything going forward. The logical place for us to start learning from this is in the Bank, and so we're really focused on working on a digital mortgage to be launched in the near term.

And I'm not suggesting that we're going to get huge revenue from that in the short term, but I think it's really an opportunity for us to learn about how consumers want to interact and to take those learnings across the rest of the business, and I would say the super business is the obvious choice. Of course the self-serve digital offerings have to continue to enhance; that's not what I'm talking about, I'm talking about end-to-end engagement in the digital space. And so that is a focus for us with learnings to go across the business. We just recently hired a new head of brand and marketing helping us with this, and as I said we'll be announcing a new CTO in the coming days; so an exciting opportunity.

And by no means last, in terms of value, but it's our China assets. I know we don't spend much time talking about these, but we do have a strategic alliance with China Life and the China Life Pension Company. China, as you know, it's not very mature in terms of superannuation yet, and we are offering advice to them about how they can interact with their customers. I don't want to overplay this space; I think it's an opportunity for us. We got our first cash dividend this year which is really exciting. But it's an opportunity that we sit there and we need to continue to watch and understand how it can create value going forward. It would be remiss of me not to talk about the enablers, because I've talked about our business, but enablers are important for us to deliver this.

And so let me just quickly go through my views on what our enablers are and why they're important. I've probably talked about purpose enough; purpose is incredibly important to me. I want to be the leader of a purpose-led company. And we are feverishly working on that now. We've got input from customers, we've got input from our people, we're getting input from shareholders with a view of becoming a purpose-led company and having that launched as we demerge. The second thing that's really important to me is our brand and reputation. I've talked about the brand campaign, but we know that's not enough. We need to think differently about what we want to be.

I'm really pleased that we saw a recent uptick in our reputation ratings, but we've still got a long way to go. And for me, that's about constantly delivering on our promises, and I am certainly committed to doing that. And of course we must treat ESG important. And I'm not just talking about the E; E is really important and I think we've got a well-understood climate change policy. But so are the S and G. We have a foundation that's doing amazing work in the community but perhaps we don't talk about it enough. And I think we all know that we need to continue to get better and better at that G. I'm not going to talk anymore about digital and data – don't worry – but I think you know I think it's really important.

I was even listening to a podcast this morning where we said, "In less than a year's time, customers want us, as providers, to know what they want and provide it at the right time." And of course respect risk; not avoid risk, it's not create risk, but it's respect risk. So let's understand the risks we're taking, be aware the risks we're taking, but not avoid those risks, because I think it is important that in our business we take risks, we just need to know what they are. So as we move forward on demerge, we will be launching our purpose, we will be launching new values, we have a new strategy, and of course we have a financial position that we want to enhance going forward.

So what does all this mean, and where do we want to be in three years' time as AMP? Firstly, you've heard me talk about the strategy: reposition. We want to grow our bank. We want to grow our platforms. We want to protect our New Zealand and Master Trust businesses, which means being efficient. And we need to, and want to, accelerate the transformation of advice. We're targeting two to three times systems growth for our Bank. And as I said, 1.9 in October so we're well on the way. We need to increase the flows from that external advice market. And of course we've got to focus on cost reduction in our Master Trust area. And as you've heard me talk about, break-even in advice.

Ambitious I know, but towards the end of '24. In simplify, we've got to complete the demerger. We have to right-size the operating model, we have to think like a smaller company. We need to keep the discipline of reviewing assets and we've got to be conscious every day we come in about, "Are we managing capital in a disciplined way?" So there we've targeted more controllables, and some variable cost reduction over the period; 155 million '22 to '25. And we want to deliver the low double digit return on equity through that period. When we come to explore, we've got to remind ourselves there's an external world out there and we have to be thinking about it.

That means looking at direct-to-customer, that means looking at retirement, that means looking at partnerships, and that means participating in industry discussions. And so we've made a few commitments there about the services that we'll deliver through the '22 and '23 year. So that's our ambitions through the cycle. So let's be a little more tangible now and bring it back to, "What about next year? What about 2022?" And for me, the priorities that I lay out today are not too different to where I was when I started. Complete the demerger: critical; critical for both these businesses. Focus on the operating model. Focus on the cost reduction.

We need it to invest in our growth, but we need it for the future success of our company. Grow the Bank. We've shown we can do it. We need to keep that momentum going. Might be slightly more difficult market next year, but with our market share, I only see upside. Focus on independent financial advice network flows. Yes, we have a greater line network. We need to continue to support them; they're incredibly important. They give us knowledge we wouldn't get anywhere else. But we need to go outside and make sure we can compete there as well. While we're doing all this, we've got to keep thinking about, "What is changing in this outside world? What discussions do we need to be part of? What discussions do we not need to be part of? How do we partner better?"

I'm really conscious that is important. And of course continuing the cultural changes that we've been party to over the last years. I think we have a culture here that really wants to get on with this job, and that's what I'm going to harness into the future. So as I stand here today as the CEO, I remain really excited about what we've got going forward. Yes, there's some challenges, but there's some enormous opportunities as well, and I'm certainly looking forward to embracing those. So, thank you for listening to me for a very, very long time now. I'm sure you all need a quick break. So what we'll do, with your forbearance, is take a five minute break now, so if we can be back just after 12 o'clock and then we'll listen to Shawn Johnson, our CEO of PrivateMarketsCo. Thank you.

[Pause]

Well, welcome back everyone. I hope you had a chance to get a cup of tea and maybe have a biscuit. I am very pleased now to welcome our CEO of AMP Capital – or formerly known as AMP Capital, now PrivateMarketsCo – and welcome him now to talk about that business; from our New York office, so hopefully technologies will continue to work for the next 40 minutes or so. So over to you, Shawn.

Shawn: Thanks, Lex, thank you very much, and good afternoon everyone. I am coming to you from our New York office, and I should be in Sydney early in the new year. So it's great to talk to you today about PrivateMarketsCo – the business you would know as AMP Capital – and talk to you about our strategy and how we're going to go forward as our own public company in June of next year. Now we focus on the private markets industry, and specifically within that we'll focus on infrastructure and real estate. And the team has put together a little video that I want to share with you to just give you an idea of the things that we do in our asset management business. So if you could roll the video, please:

> "As a pioneer in infrastructure investment, we first participated in the funding of the Sydney Harbour tunnel project back in 1988, creating another way for the city to grow and move smoothly. But the world is ever-changing and we've been helping shape its future by investing in forward thinking projects: infrastructure that moves people, provides power where it's needed, helps us all stay connected, and cares for the health and wellbeing of communities. Our global infrastructure equity team gives you solutions right across the [unintelligible 00:57:18], led by Damian Stanley, Ruben Bhagobati, Michael Bessell and Michael Cummings.
>
> We're sector and investment specialists, driven to deliver solid, long term returns, inflation protections and insulation from volatility for our clients, by capturing what we believe to be the best infrastructure investment opportunities across the world. Our award winning team of over 50 investment professionals is ranked in the top 10 of global infrastructure equity managers. It takes careful consideration of environmental, social and governance factors to move the world forward and to improve long term returns. Starting the journey in 2001, we adopted the UN PRI in 2007, and we're a founding member of GRESB infrastructure, setting global standard, investor-driven, ESG benchmark for infrastructure funds and their underlying assets.
>
> Our global infrastructure debts team is one of the most experienced in structuring and negotiating deals in the world. Led by Patrick Trears, the team of 18 investment professionals has a strong track record delivering innovative opportunities that generate consistent returns

across varied economic cycles. This experience means we can source and select assets that deliver superior returns. As one of the few newer face subordinate debt managers, we're uniquely placed to take discretionary positions of up to US 750 million per transaction as an anchor, sole or majority lender. This eliminates syndication risk and gives access to unique opportunities to reduce downside risk and enhance cash yields in a core asset [unintelligible 00:59:01].

Awarded the Global Debt Fundraiser of the Year in 2019, and Best Debt Fund Manager in 2019 and 2020, across transport, energy and utilities and communications. And the team is also recognised as one of the top six of global infrastructure debt managers, with over 90 investments made in over 20 years. From Australia's first skyscraper to the dynamic quay quarter Sydney, and the newly redeveloped Karrinyup Shopping Centre, Perth, we are one of the largest real estate fund property and development managers in the Asia Pacific, and we're proud to have some of Australia's most iconic assets under our management. Our team of over 500 real estate professionals is headed by Kylie O'Connor.

With more than 60 years' experience, we leverage our active, integrated management model to make sure we create long term, sustainable value for our investors across retail, office and industrial sectors. Our specialist fund management capability supports our ability to attract and manage diverse pools of third party capital without conflict of interest, making us a preferred partner. Our purpose is to shape a better future. We do this by creating exceptional real estate experiences that speak to, deliver strong returns for our investors, support our tenants' customers to achieve their goals, and add value to the lives of communities and the millions of people who shop, work or experience our managed places each day.

Our commitment to sustainability and the ESG is matched with actions and initiatives. We are a founding member of GRESB Real Estate, helping set the standard for ESG benchmarks in global real estate, and we lead the way for a principles approach to business. It's how we create momentum to shape a future we all share."

Thank you. All right. I hope that presentation gave you some sense of just the depth and the breadth of the PrivateMarketsCo business, and I'm going to take you through now a bit of the market opportunities that is in front of us, and how it is we are going to execute. First, what is the market backdrop? This is what the growing global demand for private market assets looks like. So if you see the chart going from 2019 to 2025, the three colours at the top are infrastructure, real estate and private credit; that's where we really play. The big purple box at the bottom is the private equity part of the marketplace. Now while that is quite large, it is also very competitive on a global basis and we are focused more in the niche areas of infrastructure, private credit and private real estate; all of which are growing quite quickly and these are US dollars in trillions – just to give you the size of the market opportunity.

I think the most important bullet on this slide is the first one. As we get to 2024, global private markets assets under management is forecasted to represent 17 percent of the total industry AUM, but it's going to capture 49 percent of the growing revenue potential. So that's a product of two things: what it's growing, and also fees are being compressed in other areas of the portfolio, so this is where the revenue opportunity really is going forward. So what does our business look like today? As the video articulated, we have a really unique investment platform; certainly a premiere real estate business. We have both core and value-added infrastructure equity capabilities, we have a mezzanine infrastructure debt capability, we generally focus on deals in the 200 to $700 million range – what we would classify as mid-market.

We have about 492 of leading institutional clients around the world. About 77 percent of our direct institutional clients are outside of Australia, so this is a very different business than AMP Limited. So we have over 100 investment professionals around the world. We have a deep track record; 30 years' experience in the real asset space. Consistently strong investment performance. And with 50 billion in AUM, we've grown over 10 percent per year since 2015. Over 100 high quality assets really throughout the world. Very, very strong ESG credentials which are very important to many of our institutional investors. And we certainly can add value across the lifecycle of assets that we own.

If you take a look at the $50 billion and how it's divided up amongst the three areas of our business, the real estate business is our largest – just under half of the assets, principally in Australia, New Zealand business, focused on retail, office and logistics management. Our infrastructure equity business is really a global business with operations both in Australia and around the world. At 19 billion in assets, it's just slightly smaller than our real estate business. With expertise in transportation and logistics, energy and utilities, health and social, investing, digital infrastructure and public private partnerships as well. We are a global leader in infrastructure debt as the video pointed out. It is our smallest business at 6.9 billion, with expertise in transportation, energy and digital infrastructure.

Now this map sort of shows you two things: one, it shows you where the volatility in the world – or where the assets are in the world that we invest, and where our locations are around the world in red. Our real estate business is a team of over 500 professionals. Seventy-five assets managed across Australia and New Zealand. Fifty-three investments in our infrastructure equity platform, with over 50 investment professionals. And our infrastructure debt business has 18 investment professionals, and have made over 90 investments over the last 20 years. As mentioned earlier, about 77 percent of our clients are outside of Australia; you can see the growth in our clients by region on the left hand side of the chart. Currently the largest region for us is Asia.

The clients that we have by location, you can sort of see Australia, New Zealand by AUM at 46 percent. And then over on the right our direct clients by AUM type. Most of our clients are either pension funds or founder funds. Now the bullets here I think are really interesting is the US market is largely untapped for us; less than 2 percent of our direct AUM under management comes from the US. We have very strong performance in South Korea, and it's an indicator for more opportunity for us across Asia. Europe is our most established market outside of Australia, and there are room to grow in both Europe and Australia for our business.

Looking at how we grow across each of those areas, you can see in North America we're now at about 6 billion in AUM sourced there, since you know it's not really a US footprint, it's prints are from Canada. Europe, Middle East and Africa has grown quite nicely, now at 9 billion in AUM. And in Asia we've hit 7 billion. The balance of our assets are across our Australia and New Zealand platform, which is both our real estate business and our core infrastructure equity business. You can see each of the number of clients: 55 in North America, 124 in Europe, Middle East and Africa, just under 200 in Asia, and 114 in Australia and New Zealand. All of this is underpinned by a global solutions team – a global client solutions team – that work across all markets and products.

So where are we going to go from here? Really our strategy is very straightforward in four steps. First, we have to complete the demerger. Right now we will move to operational separation at the year end. We should be listed on the ASX in June of 2022. And then full separation from AMP as we exit any Transition Services Agreements. The second step is we have to simplify our business. I have implemented an organisational structural change to make our firm truly global. And we need to create some efficiencies and remove some duplications across the firm. Then we need to grow our client base. We have a great client solutions team. We need to scale the existing funds that we have. Generally our clients use us for one strategy only. And we'll have to grow our infrastructure debt and our infrastructure equity business that we have today.

And lastly, we're going to diversify the product offering. We have a lot of ideas for new products. Since I've come on board – almost five months ago now – I think I've done 65 client meetings and we have lots of interesting ideas that we can put in front of our clients. The enablers for our business are a strong balance sheet – which we'll talk about in a minute – and our cost management programme as well. We have embedded ESG philosophy across all of our businesses, and we really have talented people in the leadership team that will be aligned with our shareholders and our clients. This is a chart similar to the one that Lex showed in her presentation.

Key on this is operational separation in December. You can then see the demerger scheme booklet coming out in the March timeframe. The GEFI sale completes in April. We have the AGM and shareholder meeting in the May timeframe. And then, after approval, we would demerge on the ASX. Step two is to simplify and restructure our cost base. So AMP Capital at year end 2020, which was everything, had a cost base of about $522 million. Our MAG transfer, which also was highlighted in the presentation from Lex, will move over to AMP Australia. Our GEFI sale will remove about 26 million in costs. There'll be about 144 million in costs to be removed.

About 70 million of that is related to some public markets operations that have to go over to AMP Australia, as well as then about 74 million have to come out of PrivateMarketsCo itself. Then there is actually an add-back of about 10 to 15 million that we have to stand ourselves up as a standalone business. We are targeting a $300 million run rate in costs for the 2023 year. So that gives you an idea of how we're getting there. Now how do we grow our client base? You can see that our global client solutions team is made up of four functions: our sales function globally, our client relations folks, our consultant relations teams, and our marketing brand and digital team.

All of those come together under global client solutions' function, and their job is to represent to clients all of our investment capabilities around the world. So it will enable us to serve our clients much better, and also give them access across geography. Now, the last step is to diversify our product offering. We'll be implementing a client-led product innovation process, as I mentioned earlier. With 492 clients around the world, we have a very good idea of what clients would like to do, and where they would like to move money. So we're assessing the client demand on the left hand side of the chart, both from a geographic standpoint, a sector standpoint, what type of legal vehicle clients like; those sorts of things.

And on the right hand side, we have to assess that relative to our strengths. What can we do? We have certain skills in-house. We certainly have a good global footprint for providing deal flow. We really have a market-leading developing capability. And we are pioneers in ESG, which is very important to some of our largest clients in particular. On the right hand side are just a sampling of some products we're already thinking about; that clients have talked to us about. We will of course have to assess all of these, prioritise them, decide which ones to do which ones not to do, as we grow the business going forward. As I mentioned, ESG is very important to all that we do from an investment standpoint, not just the E but the S and the G as well.

And you'll notice over on the right that we were an early signatory to the UN Principles for Responsible Investment back in 2007. ESG is embedded throughout the entire investment lifecycle across all of our assets. First in origination, we make an assessment then, and in the acquisition process if we choose to make an investment. Then we actually have an active management process to review our ESG capabilities and impacts. And then lastly, and something I'm adding more resources to, is to monitor and disclose better just how we have impacted the assets in which we own or invested in or lent to over the time in which we have held it.

I want to talk now a little bit about what we call our closed-ended funds products. This is very different than the fund structures that you're used to seeing in Australia. Australia is more of an open-ended fund marketplace. Private assets are generally owned outside of Australia in closed-end funds. And you can see by this chart, some of the funds that we have launched and now about 41 percent of our revenue actually comes from closed-end fund products. A little bit of a difference between the open-end versus the closed-end fund: open-ended funds clients can redeem or add capital, they may have some schedule which they have to follow to do that, fees are generally based as a percentage of AUM.

They may or may not have annual performance fees associated with them, but they generally have a perpetual life – so long as you keep clients, you keep the fund operating. Your job is to maintain performance and grow your assets. That's most classically the way the Australian fund market works. In closed-end funds, there are no redemptions or additions to capital after the final close. So you run around and you raise a fund, once the final close occurs, that's the amount of money you have to invest in that particular strategy. The fees are also based as a percentage of AUM. Now most funds that are created that way will have a hurdle rate that the investment manager will have to come above, but once above that hurdle rate, there is a carried interest where the fund manager and the teams get to share in returns above the target for clients.

Typically a fund might range from eight to 12 years in life. It's often about a 10-year with two one-year extensions as an example. But key to this is you need to generate returns above the hurdle and then you have to continually raise new funds faster than you are selling assets and your funds are maturing. So different fee structures exist. You can see in the graph there some fees may be charged on committed capital. In other cases fees might be charged only once you put the capital to work. But over the life of that strategy, you would want to see the value of the assets rise because you're managing those private assets well, and then over time your fees will come down as you start to sell assets out of the fund.

So here you can see what the steps are in management fees upon receipt of committed capital. That's the way our gift fund series works; that's our international equity fund. But on invested capital, that's how our debt funds work. These are more annuity-like, but over time if you influence the NAV, you would influence your revenue. Investment whole period is driven a bit by how the fund is structured, or what it is investing in. IDF tends to be a bit shorter, because they make generally loans that may be refinanced after three years. And so to the extent a borrower wants to refinance that, that money would be paid back and then it would go back out to the fund investors. Gift fund series generally are much longer dated. They tend to hold assets in the five to seven-year category before they would start a sales programme.

During the divestment period, you get fees and you're trying to generate returns in excess of your hurdle. And so the fees are generated towards the end – those carry fees are at the end. So when people say, "Is this like a hedge fund business?" The answer is, "Not really. In the hedge fund business, you might get some performance fees every year. In a closed-end fund structure it's generally towards the end of the fund lifecycle." Instead you can see here the existing closed-end fund calendar is on the right hand side of this chart. Here is a breakdown of our historical earnings within the PrivateMarketsCo piece of what we call AMP Capital – so we've carved out the pieces that will not be being demerged. And you can see there is a strong based management fee structure.

The non-AUM based management fees are the next layer. There are performance and transaction fees that may occur both in open-ended or in closed-ended types of funds. You can see the first carried interest team that actually hit in 2020, and then seed and sponsor revenue – which I'll talk about in a minute – is the money that we take off our own balance sheet and invest it and align it with our clients. So that is what the revenue mix looks like. Now recent developments to highlight why it has come off between 2019 and 2020, and sort of how that's impacting us going forward, we did lose the AMP Capital Australia Diversified Property Fund in the first half of '21. So that will reduce revenue.

We have some margin compression in our real estate and core infrastructure businesses as we move to defend those businesses, and we may have slower or reduced fundraising – just as we're doing this demerger period – that causes the hesitancy on part of clients, and so we are observing that in some of our funds. Sponsor alignment of capital: this is the typical or more typical in what we see in the private funds marketplace and will make us very different than asset managers who are more traditionally invested in stocks and bonds and liquid markets. When we demerge, we'll have about a billion dollars in sponsor investments to support growth.

Roughly speaking, just over a half of our balance sheet will be invested to support the real estate business, but just under a third of our infrastructure equity business, and just less than 20 percent in infra debt. Now, these all generate returns. In the private markets business your clients can request somewhere between zero and 5 percent, are the typical numbers, depending upon the type of strategy. So we anticipate that this portfolio will generate sort of mid to high single digit returns coming back to us, so we will have a yield coming back into the company. That will allow us additional sponsor capital to redeploy in new products. Likewise some of those sales that may occur will generate principal that will come back to the company, and we can again use that to recycle it into new products to fuel growth.

As we think about our people, this is a very important aspect of our business, particularly in private markets, because we have such long lived investment strategies. And we have a very global business so we have to compete for talent around the world. And we want to align our investment teams in particular with a share of success with our clients, as well as a share of success with our shareholders. And we want to be recognised as the employer of choice for the talented people that exist around the world. As a result, as we demerge, we're implementing a management equity plan. As I mentioned, we compete with global businesses, and you can see some of them there in the middle of the page.

And how much employee ownership – [pause] – compete directly and for [unintelligible 01:22:56] capital, so we've put in place a management equity plan. The quantum is up to 12 percent of the equity would be available for the PrivateMarketsCo investment management and broader management team. That puts us just below the Blackstone or KKR type of opportunity. Of course 4 percent of that would be service based and then the 8 percent is something that we – as the management team – would have to earn over a very long period of time; it goes out with vesting as far as 2028. So as we think about our outlook for the business, we have a very stable core revenue base for management fees. Then we have an episodic portion of our revenue which is driven by transaction fees, performance fees, or carried interest.

We also have to fundraise to offset assets that we may be selling out of our closed-end fund structure. And our growth will be driven by new product development and product diversification with our client base. We're targeting a cost run rate basis in FY23 of about 300 million. Our EBIT will likely be in the 20 to 25 percent range in the short run as we transition away from AMP. And then in the longer run, it should be targeted more in the 30 to 35 percent range. A bit more in the 30 percent range because our global footprint is actually expensive, but it is also a competitive advantage for us, so that will show up somewhat in our cost structure relative that if we had had just a few locations around the world.

So in summary, it's a global private markets business, it's highly attractive to our clients, and we certainly are in the markets which we think have significant moment. We are poised for future growth, although as I said, 2022 is a bit of a transition year. Our strategy is quite straightforward; it separate from AMP in the demerger – we're going to simplify our business, we're going to grow by marketing our business to our existing client base, and we're going to diversify by offering new products and grow around the world.

Alexis: Thank you very much, Shawn, and we look forward to hearing more from you later. I know we had one small hiccup there – you probably didn't realise it, but we managed to get through that – so thank you very much. Listen, we're going to take about a 20 minute break now, so I think we're looking at 12:35. If people can be back at about 1 p.m. that would be great; gives you an opportunity to stretch your legs. So we'll see you at 1 p.m. when we'll walk through the financials.

[Pause]

James: Welcome back everyone. For those who don't know me, my name is James Georgeson and I am the AMP Group Chief Financial Officer. You will see today that we've continued to enhance our disclosures with additional business unit splits for both AMP Limited and PrivateMarketsCo, and also reviewed our costs allocation for group costs to more reflect the usage of central services. In the detailed appendices to the pack, we show the historic P & Ls of the businesses across full year '19, full year '20 and the first half of '21. This is how we will report going forward. I will now take some time to go through what we expect the financials to look like for both businesses post the merger.

I will first cover how the earnings will be split going forward between the two businesses. Second, I will cover an overview of the results from each of the sub-business units. Thirdly, I will cover the expected movements in group surplus capital and corporate debt. And lastly, I will finish with a summary of our new costs ambitions going forward. Staring on slide 71 which shows a summary of the earnings following the demerger of PMCo. The chart illustrates how the group's 1H 21 reported underlying earnings of 181 million would have been split between AMP Limited with 148 million, and PrivateMarketsCo with 33 million. The split reflects the perimeter changes and moving MAG and CLAMP from AMP Capital to AMP Limited.

Of the 28 million of first half 2021 earnings being transferred to AMP Limited, 20 million relate to the MAG business and 8 million for CLAMP. The GEFI business which has been sold to Macquarie will be included in the group's results up until settlement, which is expected in early Q2 of next year. As you can see, the GEFI business result for the first half of '21 was negligible. Slide 72 shows the underlying profit summary for the AMP Limited business on a pro forma basis over the last two and a half years. Please note the numbers shown here are for full year 2019, full year 2020 and only a half year for 2021. There are a number of key comments I'd like to make here.

Firstly, we've split out the Australian Wealth Management business into its component parts of platforms, superannuation Master Trust, and advice. Second, the adjusted P & L also reflects the transfer of MAG and CLAMP into AMP Limited. The MAG earnings will emerge across our superannuation Master Trust, platforms and Wealth Management other business segments: 11 million, 6 million and 3 million respectively in relation to the first half of '21. CLAMP earnings will be reported in investment income alongside the share of our CLPC earnings. And thirdly, we've moved to allocate more group costs to business units to better reflect the usage of those costs.

This change resulted in approximately 38 million of costs to be allocated to the business units in first half '21. Of this, 31 million is expected to emerge in Wealth Management, and the rest across the Bank and New Zealand. On an annual basis, this new allocation is expected to be 70 to 75 million of pre-tax additional group costs allocated to business units. This has been reflected in the numbers on this chart. In terms of some of the movements between the various periods, the Bank result was impacted by COVID-related provisions in full year '20, approximately 35 million pre-tax, of which 12 million has been reversed in our first half '21 results. The growth in platform earnings was impacted in full year '20 by lower average investment markets given the large market falls post the initial COVID outbreak in March 2020.

Our superannuation Master Trust results have also been significantly impacted by a number of factors since full year '19. These include the success of fund transfer migration in relation to the AMP Life sale, regulatory impacts from the Protecting Your Super legislation and the cessation of grandfather commissions, and pricing impacts as a result of product simplification. You can also see the advice business incurs a significant loss reflecting the high support costs for being advice licensee. The advice 1H 21 result included a one-off 18 million pre-tax impairment relating to the carrying value of practice investments. The removal of grandfather commissions has also impacted the advice business results over the last 18 months.

As we've discussed today, we have an ambition of break-even for the advice business by full year '24. Investment income which is net of interest expense reflects the growth in returns from our China investments, along with our returns from our residual stake in resolution which were included in the second half of '20 results and the first half of '21 results. Following our recent announcement to dispose of the investment resolution stake, no further returns are expected post the first half of '21. Turning to slide 73 which shows a summary of the PMCo business and the contribution by each sub-business line. Again, please note the numbers here are shown for full year 2019, full year '20 and only a half year for 2021.

In terms of the business perimeter, it excludes the GEFI, MAG and CLAMP results and therefore shows the key segments as real estate, infrastructure equity and infrastructure debt. There is also a corporate centre including the finance, risk, people and culture, and legal teams. In terms of some of the movements between periods, for real estate the 1H 21 earnings are lower reflecting the partial impact from the loss of ADPF. And the full year '20 results included a one-off adjustment in relation to our PCCP investment. The infrastructure equity business earnings in full year '20 and the first half of '21 were impacted by materially lower performance and transaction fees given the impact of COVID on infrastructure assets, particularly airports.

In addition, there was a one-off commitment fee from the launch of Gift 2 in full year '19. Infrastructure debt business earnings were supported in full year '20 by the first carry payment out of the IDF series of approximately 20 million. The first half ’21 results for infrastructure debt has been impacted by higher staff and retention costs as the business looks to expand its client offering. Turning to slide 74 which shows the 30 June 2021 pro forma capital surplus, and associated movements we’ve announced since the half year results. The 30 June 2021 pro forma capital surplus is expected to be in the order of 440 million and reflects the following movement since our last reporting period.

We received 459 million of net proceeds from the divestment of the resolution life stake; this is net of the 65 million of warranty and indemnity provisions required. We’ve also allocated 470 million of alignment capital to support the Real Estate business. Two-hundred-and-fifty million of capital was freed up by redirecting surplus tier 2 instruments to support group office capital. And 250 million of capital was consumed by the impairments we announced last Friday, as well as the APRA enforceable undertaking we announced the week before. This results in a pro forma capital position in the order of 440 million. Please note it is before the demerger costs and the split of the balance sheet to reflect the demerger of PMCo.

In relation to demerger costs, as previously guided, we expect post-tax costs of approximately 200 million across full year ’21 and full year ’22. We are still working through the exact split of the balance sheet, levels of leverage and allocations of surplus capital. A further update on capital will be provided closer to the date of the demerger. The Board continues to maintain a prudent approach to capital management to support the transformation of the business. The capital management strategy and the payment of dividends will be reviewed closer to the demerger. As you’ve just heard from Alexis, we have bold ambitions for the growth of the Bank and hence we will be investing to grow that business.

Accordingly, and as previously guided, we do not expect to pay a final full year ’21 dividend, and it is also unlikely for there to be dividends in full year ’22 given the impact of the demerger, continued transformation of both businesses and the growth of the Bank. Moving to chart 75 which shows the movements in our corporate debt position since the 30th of June. As you can see, and as previously guided, by the end of this year we’ll have repaid approximately 70 million of corporate debt. As a result, we expect pro forma corporate debt position at 31 December 2021 to be approximately 1.4 billion. Looking forward, we expect to further reduce corporate debt in full year ’22 as we right-size the balance sheet post demerger.

As mentioned in the previous slide, the split of the balance sheet and any associated debt between AMP Limited and PrivateMarketsCo is still being considered. Chart 76 shows the expected controllable costs position of AMP Limited ex AMP Capital in full year ’21 and our future ambitions post that. As previously guided, and I can confirm again today, we’re expecting controllable costs to land at 775 million for full year ’21. We are continuing to make good progress in delivering sustainable costs savings. Therefore, by the end of 2021, as Alexis has previously raised, we will have achieved approximately 260 million of our 300 million of gross costs savings.

On a net basis, this translates into approximately 160 million of total costs savings, leaving only 40 million of residual savings to be delivered in 2022 to complete the overall cost-out programme. Looking forward, we are targeting controllable costs base for AMP Limited in the order of 710 million by full year '24, which reflects a net 135 million reduction from the 2021 controllable costs base once adjusting for the transfer of MAG costs. The 135 million reduction reflects the final 40 million from the previously announced $300 million cost-out programme, and a further 95 million of net costs savings across the next two to three years. Furthermore, we see a further 20 million of net savings emerging in variable costs, bringing the cumulative total further costs reductions by full year '24 to 155 million.

Stepping back, for the AMP Limited business we are targeting a low double digit return on equity by full year 2024. On slide 77 we summarise the key drivers of this outcome. Firstly, we expect growth in the North cash flows with double digit growth in AUM, and for total Wealth Management flows to be positive by full year '23. Second, we're targeting strong growth in AMP Bank with the team targeting two to three times system growth over the next three years. Thirdly, we are targeting significant cost reductions of approximately 155 million reflected in completion of the 300 million cost-out programme and further costs reduction between 2022 and 2024.

Fourth, we also have ambition to break-even in advice by 2024. And lastly, we expect to see continued growth in investment income from both our Chinese investments and the impact of lower corporate debt. However, this will be partly offset by margin compression expected across a number of our businesses. With margin compression of wealth business expected to be 10 basis points in full year 2022, and a further five bits in full year '23. The higher amount in 2022 reflects the full run rate of the Master Trust simplification repricing changes that we announced and implemented in October 2021. We are also expecting some compression in the NIM in the Bank with up to a 10 percent compression from current levels as we target above system growth over the next few years.

In addition to these impacts on underlying profits, we will also be completing the demerger and the transformation cost-out programmes with a total of 300 of post-tax costs expected here. Approximately 200 million on the demerger and approximately 100 million on the transformation cost-out. As previously mentioned, we're looking to aggressively grow the Bank which mean we'll be reinvesting that business, limiting dividends over the next 18 months. And in terms of the PrivateMarketsCo on slide 78, the PrivateMarketsCo business has performed well over the last five years, with strong investment performance in the three businesses, and a good history of fundraisings, although COVID has impacted performance and transaction fees in 2020 and 2021.

The events of the last 12 months, including the portfolio review and the demerger, have created some client uncertainty and consequently it has slowed fundraising activities. We've also seem some impacts to AUM-based revenue as a result and you can see the impacts on this slide. Some of the revenue impacts we flagged here are expected to recover in full year '23. As Shawn is our CEO for private markets, and Patrick Snowball is the Chair Designate, with the AWOF business retained we are making good progress towards operational separation by the end of full year 2021. Whilst performance and transaction fees remain uncertain, the investment of co-alignment capital in the Real Estate business is expected to increase seen sponsor income substantially in full year '22.

And from an industry perspective, there are strong tailwinds which support a strong growth outlook into the future with Shawn and the team targeting an EBIT margin in the order of a 30 to 35 percent range over the medium term. So that now concludes the formal presentation part of today. To recap, you've heard from Alexis on the progress we're making on the demerger and our strategy for AMP Limited, with a particular focus on growing the Bank and the platforms business, reducing the losses in advice, and continuing to simplify and reduce our costs base. Shawn then talked about the PrivateMarketsCo business and the growth opportunities in global private markets.

And I've just covered the main financial elements of the respective strategies and the impacts on the group's earnings, capital, debt and cost positions. We'll now move to Q&A so I'll hand over to Jason, our Director of Investor Relations, to run this part of the session.

Jason: Thank you, James. We'll now open the phone lines to Q&A. You can register for a question by pressing star one on your telephone keypad. We'd ask that you avoid using speakerphone when asking your questions, so we can hear you clearly. Thank you. We'll now hand over to the operator to introduce our first question.

Operator: Thank you. Your first question comes from Matthew Dunger with Bank of America. Please go ahead.

Matthew: Thank you very much for taking my questions. If I could ask the first one on the independent payout ratio; I know you're flagging those dividends over the next 18 months. Should we still be thinking about that 40 to 60 percent payout ratio target as being relevant, particular given the growth in the Bank?

Alexis: Thank you, Matthew. Maybe I'll take that and then ask James to talk more about it. I mean I think you're right, we've been very clear today that given the fact that we are growing the Bank and platforms over the next period of time, it's very unlikely – and I want to stress that – that we would be paying any dividends in that period. We haven't yet set out dividend policy for post that, and we need to consider that both for PrivateMarketsCo and for Limited into the future. So at this point I don't really want to commit to a payout ratio but, James, is there anything else you wanted to say?

James: I think, Lex, that's the right message for today, Matt. We are aggressively targeting growth in the Bank, which will mean we'll recycle most of the profits there back into the capital of the business. Definitely that's the plans over the next two to three years, and I think post that we'll then review what the broader go forward dividend payout ratio is. But again, I think Lex has given us the right context for how to think about that for the next 12/18 months.

Matthew: Great, thank you very much. And if I could ask a follow-up just on the private markets business. You've talked about 500 million set aside for growth in Real Estate; what will be required to grow infrastructure and private debt on the back of some of those opportunities that Shawn talked about this morning?

Alexis: Yes, thanks for that question. And, Shawn, I might pass to you to answer those questions in relation to growth in private markets, and what we would need.

Shawn: Yes, thanks Lex. It depends a little bit on exactly the product profile that we launch in the given quarters and years. So again, somewhere between zero to 5 percent is required typically in the private markets business. Traditionally it's been a little less in the debt business and a little bit more in the equity business. So if we launch different strategies, some of them may be smaller in size, but something that clients are very interested in. So I do believe we'll be able to fund most of our seed or sponsor requirements through the cash flows coming off of the balance sheet that we have. We may have some debt lines if necessary, but I think we'll be able to fund it ourselves.

James: Matt, maybe just to give some further context on that question is, in our current infrastructure debt series – as Shawn rightly says – our capital commitment is up to 5 percent but capped at US 50 million. And in the current infrastructure equity series, the commitment is up to 5 percent but capped at US 150 million. So that is the current fundraising – the capital commitment needed in those funds. But as Shawn says, it will depend a little on the products and the location they're going in, but that's just the last couple of funds we've done.

Alexis: Thank you, Matt.

Matthew: Thank you.

Alexis: We have the next question, operator.

Operator: Thank you. Your next question comes from Kieren Chidgey with Jardens.

Please go ahead.

Kieren: Good afternoon guys. I've got a couple of questions. Just firstly on costs, I'm just hoping you can help me understand the 70 mil that was called out on slide 53 relating to the AMP – so the capital public markets costs that need to be removed by AMP Limited – how that sort of fits in with the AMP Limited cost-out targets of 95 from a controllable costs point of view – is there any overlap between those two numbers?

Alexis: Yes thanks, Kieren, a really good question. James, would you like to answer that one?

James: Yes. No that's right. So we would see the 70 million is really related to the sale of GEFI to Macquarie and the public markets operation, so the back-office that supports GEFI and MAG. That is in addition to the 155 that we've announced as the gross costs savings today. Effectively, most of those costs will exit very soon after the business is transferred to Macquarie, so we will probably have a small amount of stranded that will happen through 2022; it's probably in the order of 10/15 million, something like that. But we would be hoping to remove that fully by the end of 2022. So it's in addition to the 155, Kieren.

Kieren: OK. With the new cost-out targets you've given beyond the current $300 million costs programme – I know with that initial costs programme there was a proportion that were expected to be reinvested, but with this new number you're saying that that is a number we should expect to hit the bottom line – is that correct? And by '24 the number you've put up of 710 mil of controllable costs; are you assuming sort of no additional inflation between now and then?

James: Yes. The 710 is net of inflation, so we thought it was easier just to provide the net reduction that we're delivering. But, yes, that would be meaning that we would take inflation into account as we delivered the number. So effectively you've got to deliver a little more than 155 to get to that net number.

Alexis: But there is still some transformation costs there as one-off costs through the next two years.

James: Yes.

Kieren: OK, thanks. And my second question was just on Australian Wealth Management in regards to a couple of the revenue comments you made. Firstly, on the fee pressure in '22 and '23 – I think sort of '22 is probably more a function of the repricing you've done more recently from October on the Master Trust. But can you just clarify what the '23 five basis points change and sort of really reflecting?

Alexis: Yes, you're very right there, that the play through '22 is a result of the price reductions we made to both Master Trust and our platform business through '21. I think we've looked out into '23 conservatively and have another slight reduction there – optimistic that won't have – but we've built it into the revenue forecast in that '23 year. And I think that's –

James: That's right. So you will see the very last little bit of the – be given the Master Trust repricing, the big change happens in October, so you'll get the pull through all of that into '22. We will see some further investment menu simplification which will probably likely lead to a couple of extra basis points in '23. So, Kieren, that's probably what you would see, why we said the further five in full year '23; we probably think that's say at the upper end, but from where we can see 18 months out, that's about the right level.

Kieren: OK. And finally just on the advice line within AWA, and it's great to see the full profitability of – I should say fairly large losses there currently – but just keen to understand if you're looking to take that from losing 240 mil of EBIT currently to break-even by '24, what is sort of the composition there, between revenues and costs – how do you think about the revenue side of things?

Alexis: Yes, do you want to walk through that?

James: Yes, sure. So look if you kind of double where we were at the half year, you're looking at a run rate at the NPAC level of a circa 140 mil. The sale of the employed advice channel will free up about – it will create an improvement of about 20 to 25 million to the NPAC level because we've got about 65 million of costs which emerge primarily in variable costs, and about 35 million of revenue. So we would see a revenue hit and a big variable cost reduction in the first move, we would then see probably 15 to 20 million of revenue uplifts as we reprice the fees to advisors, so that's the change we flagged in relation to removing BOLR but higher licensee fees to our advisors, and we'd probably see in the order of 30/35 million of controllable cost reductions.

Now they're all the 2022 numbers. And then you'd probably see a further similar amount of controllable costs coming out next in 2023/2024. So I think you're fair to say that it's majority cost which is exiting employed advice and the big cost reductions, probably would see at least half of the additional cost-out that we've announced today coming from advice.

Alexis: But I think it's important to note that won't just be the facing people; we've got to cut that out across the functions, which is why you'll see the benefits coming through other business units as well.

Kieren: All right, thank you very much.

Alexis: Thank you.

James: Thank you, Kieren. Operator?

Operator: Your next question comes from Simon Fitzgerald with Evans & Partners. Please go ahead.

Simon: Hi there, thanks for taking the questions. Just the first one, you mentioned that the surplus capital allocation between AMP Capital and AMP Limited still needs to be worked out, from memory AMP Capital's capital requirements would be fairly light, so can we rely just on the 440 million as being very close to that level? Obviously there's some other costs associated with the separation there that you've mentioned as well, but it should be too far from that number I wouldn't have thought.

Alexis: Maybe I'll open and then I'll pass to James to add some flavour, but firstly I think it is important that we've got demerger costs to be offset against that in the realm of about 200 million post-tax. I do think it's important to understand that's yet to come through. And that will come through obviously some this year and the rest into the first half of '22. The other thing is we really have a lot of work to do in terms of making sure we separate this balance sheet and prepare both those companies for success into the future. We've still got six months to go to the demerger, so there's still many things that keep changing; we need to monitor that, which is why we haven't made a commitment today about what each of the balance sheets look like, what the surpluses may or may not be in either of those.

We also want to make sure we set them both up to take advantage of the growth opportunities. So I think, at this point, I'd remind you about the demerger costs and then we just will continue to update your on developments. Is there anything else you want to add?

James: The only thing, Lex, I would add is we are currently one larger group and we'll move ourselves post-demerger into two smaller businesses, so we will look to see what is the right levels of leverage that we have in each company. So I did allude to it, at a group level we'd probably expect to pay some further corporate debt down over the next 12 to 18 months. So as we sort of right-size both businesses, we will look at overall leverage levels. So if there was to be a further reduction leverage, we would obviously need to think about how that impacted the capital base as well.

Simon: That's clear. Another question just about retirement products. You mentioned, Alexis, in your presentation that there weren't a lot of options available in this country in terms of choice of products for retirement. But wondering what other sort of products you had in mind in terms of where you think there might be some gaps that you think are worthwhile offering to the market?

Alexis: I don't want to go into too much information because we don't want to remove our competitive advantage, but I know Scott would be happy to elaborate. I think there is opportunity for us to look at the whole system. There's not too many products that think about the interplays into aged care and into the pension products. That's why we've hired, Scott would say, the best in the business to come in and help us develop these solutions. And I probably don't want to go into too much more detail yet; we'll be launching the first product mid next year.

Simon: OK, that's very clear. Thank you for taking my questions.

Operator: Thank you. Your next question comes from Lafitani Sotiriou with MST. Please go ahead.

Lafitani: Good afternoon everyone, and thank you for the increased disclosure. I just wanted to follow-up on the PrivateMarketsCo and the 74 million-odd that you've identified in efficiencies for your cost-out for the [unintelligible 01:53:54] business. Can you give us an idea of what the run rate of that cost-out programme would be by 2023, and if there's any cost associated with you achieving that cost-out?

Alexis: Thanks very much, Laf, and thanks for that question. I will ask Shawn to comment on that because there is a 74 million reduction, as you said, and whether there's any cost. So, Shawn?

Shawn: The answer is there are costs associated with that, yes. And some of those costs are people costs, so that's where we would see that over some period of time going into 2023. Some of those costs are also associated with simply the fact that we're a smaller business without the GEFI assets of the MAG assets, so we would – in a sense – have stranded costs in our businesses, so that's part of what's calculated in that number.

Alexis: But, Shawn, I don't think you're expecting any one-off costs to achieve those; it is mainly reduction in our people costs predominantly?

Lafitani: [Unintelligible 01:55:08] as well.

Shawn: Yes, that's correct There are also some system costs as well because we won't need certain systems because we're not in the listed markets business end.

James: So in the guidance we provided, Laf, on the demerger costs, we have an allowance for redundancies and programme costs that we'd look to remove and also support the removal of that sort of 74 million of PMCo related costs, although it would be mainly redundancies because it's generally corporate staff that have been supporting both the public markets and the private markets business within AMP Capital.

Lafitani: Got it. And just the rough timing of that cost-out; so was it pretty evenly spread as we head towards 2023 or is it back-loaded, or how should we think of the matter?

James: No, I think, Laf, we would sort of probably see the team trying to get across most of that in full year '22, with the residual coming through in full year '23.

Lafitani: OK, got it. And just a follow-up question to the advice piece. So thank you for breaking a detailed first year how you get to the half – to a large number, roughly half of the deduction in the cost of the lost rate, can you just give us a bit more idea around what's in the controllable costs buckets and specifics for just not only the current year but the future years as well?

Alexis: Well I'll let James focus on that, but maybe we'll just focus on the current years which we've done more work on.

James: So in terms of some of it, yes – thanks Lex – so some of the activities we'd be doing is – and some of it has started, which is – we now have a small align network, so we will need to shrink our support costs. We've come from an advisor network which is more than 2,000 advisors, and we're now probably heading towards half of that number. So therefore that's sort of reducing the field support. It's making sure also the services we provide are actually tailored to be the right services for the advisors – the ones that they need. So that is another reduction. And we're also trying to look at how would we automate some of the compliance activities that we do.

So we do a lot of manual physical vetting checks, there's lots of other things that tests best interest duty, and so we're looking to probably put more system related activities around them. We have partnered with Creativemass as well as Salesforce to kind of deploy better technology solutions to advisor practices which also reduce some of our costs. So they would be some of the things that we're looking to do. But it's also, as Lex has said, there are support costs that sit in finance and legal, that also support the advice business. And as we right-size those support costs, that will help also reduce some of the things. But one of the big drivers is also removing that employed network.

Whilst that's not included in the 155, it does go to support the big improvement in the advice result, because it loses 20 to 25 million at the NPAC level annually. So it's a big uplift just from exiting that business which will complete early in the new year.

Lafitani: OK. Just finally, on some of those closed-end performance fees, there's a good chart where you've given some of the dates and some of the big buckets that are coming up – how should we – I think I missed some of the comments when you were on this slide, but how should we think about the trajectory or profile of those performance fees over medium term?

Alexis: Let me just jump in – I think with the carry that Shawn was talking about, it's never guaranteed. I have heard him say that a number of times, "It's never guaranteed." Obviously we always strive to those performance fees. Shawn, in terms when you expect the additional performance fees to start emerging?

Shawn: That would be a very dangerous thing for me to answer. You want to think about those in our business. Whenever they occur, you say, "Thank you." But you never plan for them.

Alexis: Yes, and I think I quoted you quite well there at the beginning, so thank you.

Shawn: Yes.

Lafitani: No worries, thank you.

Alexis: Thanks, Laf.

Operator: Thank you. Your next question comes from Nigel Pittaway with Citigroup. Please go ahead.

Nigel: Good afternoon. First of all if I could ask a question on the Bank. I mean you're flagging obviously up to 10 percent net interest large in decline, but also you think you can grow the volumes pretty aggressively. Previously you had a double digit profit growth for the Bank, so how do we reconcile your new guidance versus what you used to say about the Bank?

Alexis: I can make a few comments and I'll get James to talk about the financials in detail. Firstly, I think the NIM that we're experiencing – I'm talking about today as opposed to run rate which we do anticipate – we have already seen a drop in our NIM, and that is because we do think that volume into the Bank is very important. And so I'm not suggesting there won't be a basis point or two drop into the future, but I expect that we'll be able to maintain it where we are today in terms of NIM. So we do want to invest back into the Bank as I talked about. We are making sure that we invest into that digital space. But I think we can do that and protect the existing NIM that we have – the run rate that we have today.

James: In terms of profit, Nigel, I have to say COVID made that forecast very difficult because we've had a very significant downdraft in earnings in full year '20 as we put aside collective provisions, and then you've seen some of those reverse in the first half, and we'll probably likely get a little bit more in the second half of this year. So there's some quite significant swings across those two periods. But if we sort of normalise for those – or that impact across those two periods, we would expect that the double digit earnings growth would still be there on a year-to-year basis over the next couple of years. And what does that reflect? It reflects a high growth in the mortgage book, the NIM compression that we talked about and Lex has just covered, but also us trying to keep the cost base pretty flat as we grow.

So trying to get some positive momentum there by growing the revenue base and trying to keep your cost base flat, or growing at a lower rate than the revenue, would hopefully give us that circa 10 percent proper growth year-on-year –

Alexis: Over the period.

James: Yes.

Nigel: Yes, OK, that's great, thank you. Second question is on retirement. You talked about external providers in a different part of the presentation, but is retirement something that you feel to get that competitive advantage you would have to do all in-house, or is it somewhere where you would look to potentially partner in that space?

Alexis: At the moment we are building the solutions in-house and relying on the expertise that we've brought into the organisation under Scott Hartley, together with the expertise that we had internally. I think the fact that we have advice, we have the platforms, the Master Trust business, puts us in a distinct advantage there. But I'm not saying never when it comes to looking outside; I think we've constantly got to be looking outside. I think to build these things without considering things like aged care, without considering the interplay into the pensions, is a bit naïve. But at this point we're focused on building the expertise internally because of the reason I said: I think it's a competitive advantage for us.

Nigel: OK, thank you for that. And then maybe just finally, there's been a couple of questions around this already, but when you went through and talked about the target for break-even advice you did say it was ambitious, yet obviously now you are saying that a good deal of it is coming from cost reduction. So what do you think are the most challenging aspects of bringing advice to break-even in the time horizon you specified?

Alexis: Yes, and I do want to stress it is an ambitious target; it's one we have set for ourselves. But I think when you think about it, I don't look at advice as a separate entity within our organisation, and James just said it – yes, there's a resetting because of the reduction and the number of advisors that sit within our line network, and of course that means we have less to service, we need less technologies etc, etc, and there is cost reduction specifically sitting in that space, however a lot of it's sitting in our more corporate functions – whether it's finance, people and culture, risk, technology – where we have served our much bigger company, and we now have to stand back and say, "OK, we're not going to be that company into the future, what do we actually need?"

Not, "What have we got?" Not, "What have we had?" But, "What do we actually need?" And I think we'll be doing quite a lot of work benchmarking ourselves against organisations of a similar size to where we'll be and making sure we keep ourselves honest in that. So yes, some of it will specifically come out of the direct advice, but not solely there; it has to come across from the organisation, which is why I said there'll be other benefits feeding into other areas.

Nigel: So it's the bit – so just to clarify – it's the bit from the other ranked organisation that you think is still uncertain and sort of unknown in quantum, and that's why it makes the target challenging – is that the right interpretation of what you've just said?

Alexis: Well you know with these things you always look at the near term first and then extend it out. So I think in terms of '22, we've done quite a bit of work already understanding what the operating model needs to look like, understanding what we need to achieve that. But you know I'm looking at three years; I don't know what the regulatory environment's going to be like, I don't know what the demand for advice is going to be, or that I know it will be different. So I don't want to say here today this is 100 percent, but I can tell you we're all going for it, and it's something I think we've set ourselves as a goal to achieve.

Nigel: OK, that's clear, thank you very much.

Operator: Thank you. Your next question comes from [Sean Liu? 02:05:08] with Morningstar. Please go ahead.

[Sean?]: Good afternoon everyone. I've got a couple of questions. My first one is around [unintelligible 02:05:16] capital. My understanding is that whereas that historically has benefitted from falling interest rates, if interest rates start to keep increasing from here, how much would this change the appeal of the asset class [unintelligible 02:05:29]? Would it maybe have [unintelligible 02:05:31] inflation or something?

Alexis: Shawn the question was what do you think the impact of falling interest rates may be on our assets in the various –

[Sean?]: Rising.

Alexis: Rising – sorry, rising interest rates.

[Sean?]: Yes.

Alexis: I don't think we're going to be in falling interest rates anymore – but rising interest rates on the asset classes.

Shawn: Yes, thanks Lex, I couldn't hear it so I appreciate that. No, certainly rising interest rates can have an effect on real assets, most clearly people generally see it in their homes as a real asset; rising interest rates negative impact home prices, all else being equal. There may be some impact on some real assets that we're invested in, in a similar way, but these are different types of assets; these are infrastructure assets, so the cash flows themselves can also be adjusted in certain types of assets to offset the fact that interest costs are rising. So it's not as clear-cut, but I would say it's probably a modest negative, but probably not as material as you might think.

[Sean?]: The question is around AMP Bank. The Bank has [unintelligible 02:06:50]. I'm just curious, how are you confident in those [unintelligible

02:06:55]? I mean, you have a very different cost base and I think cost to income ratio [unintelligible 02:07:04], but how severe the [unintelligible 02:07:05] your investment [unintelligible 02:07:09]?

Alexis: Yes, I think that's a reasonable question about how on earth can we achieve these growth with costs. Firstly, there's a couple of things I would like to say. We did invest in the Bank platform in 2020 into 2021 to make sure we had a modern backend, so I think that's really important to understand. And prior to that, we were restricted from an operational capacity perspective and we had very low auto-credit decisioning. So a lot of that has already been done. Secondly, we're talking about a bank here that has had 1 percent market share, so when we're talking about growth, yes we've really got ambitious targets for ourselves but it's off a 1 percent market share. And we have been, I think, very disciplined to making sure we didn't let our service standards blowout in relation to mortgage brokers, so I think there's a real opportunity to bring customers in.

Clearly though, this means we have to fund that growth which is why we're sitting here talking about the fact that we're unlikely – very unlikely – to have any capital management opportunities in the ensuing 18 months, and we will need to invest a little bit through 2022 to help us with the origination process. But as I said, we've already gone close to two times system in October. I think the indications are November's looking pretty strong as well so I feel fairly comfortable. I'm not saying it's going to be easy; our market in Australia's very competitive around mortgages. But the fact that we've maintained our service standards and are still a small nimble bank gives us that advantage.

[Sean?]: My question is really around external financial advisors. Can I get a bit more colour around how you can grow more close from the [unintelligible 02:09:00] growth on year basis just been around 5 percent of close, so – and I'm curious what's been done beyond adding – I guess adding [unintelligible 02:09:10]. Do you have some context around that?

Alexis: Yes of course. And I might actually ask Scott to give you some flavour for this as well because I know he feels fairly passionately about this and it would be good to have some other people, but I think the reality is – mainly because of our history – we have relied on our align channels, and we haven't had a mindset of going out there into the external market and showing our wares, for want of better words. And I think we do have a platform that's very compelling in terms of price, in terms of proposition, in terms of offering, so I've never seen that as the issue; it's mainly us really changing our mindset to face into that world. But Scott, I know you would love to comment on that.

Scott: Yes, thanks Lex. It is true that in AMP's history there's focus on aligned advisors and therefore has not thought about and orientated its products to the external financial advisor market as much. That is the significant shift that we make as we move from that vertical integration model of the past through to a contemporary and competitive wealth model of the future. As

Lex mentioned, we have adjusted our pricing, we have improved our service levels. We've more to do in that regard, which we are currently implementing. And we have to differentiate the platform to really have a point of difference in the market, and we believe retirement is a key opportunity for that.

But we also need to adjust how we go to market both in terms of sales and marketing. So we are also repositioning the North brand as a standalone brand, without AMP attachment. That is probably more symbolic than anything else because it's recognition that we're no longer simply focused on align products or advisors, and whilst they're important to us absolutely going forward, we want to be open to the whole market, and we also need to adjust the way we sell the platform in the market as well. Thanks, Lex.

Alexis: Thank you.

James: Operator.

Operator: Thank you. Your next question is a follow-up from Lafitani Sotiriou with MST. Please go ahead.

Lafitani: Yes, good-day, just a couple of follow-ups. The first one is how should we think about the AMP Group 20 percent-odd investment or holding in private companies or PrivateMarketsCo going forward? What are the variables that you would take into consideration to determine what percentage stakes that you guys maintain in these split entity?

Alexis: Yes, thanks Laf for that question and I'm – yes, we have left that there; you would have seen it in the presentations. And as I said before, we've got this surplus capital that we've talked about, that James walked through. We've got the demerger costs to come off that. We've still got another six months to move forward in this business and in financial services and in the world we live in, there can be a lot happen in that six months. So we still want the optionality to have a holding up to 20 percent. The things that would come in to our consideration in that is just the cash and capital requirements to be able to grow both these businesses into the future. That is predominantly what it comes down to. And given that we've still got that six months to go, I just think we need to leave it at that point right now as we go through this separation. Is there anything –

Lafitani: So are you indicating that it's possibly that it's not just an in specie transfer, that there may be a raising as part of the sell-down in the process?

Alexis: No, no.

James: No, Laf, we wouldn't be doing a capital raising as part of the demerger, it will just be a straight demerger. I think Lex, the point she's making here is around that the up to 20 percent retained stake that the drivers for that are what are the capital needs of both businesses going forward? We've obviously heard from a number of stakeholders that they are supportive and not so supportive of a retained stake, so we are just taking all of those things into account as we determine what's the right stake to have, and if there was one, what would be the right holding period for that.

Lafitani: Not a problem. And just to this extra disclosure you've got for the various divisions, would we expect to see this going forward such as advice being split up so we'll be able to track it going forward?

Alexis: Yes, I can assure you that when we made the decision to give the extra disclosure today, we made the decision to give the extra disclosure going forward and that will be for both businesses, yes.

Lafitani: Excellent, thank you.

Operator: Thank you. Your next question is a follow-up from Kieren Chidgey with Jarden. Please go ahead.

Kieren: Thanks. I just had two questions around the AMP Capital business. Firstly, on the 30 mil revenue fee reduction you've highlighted in '22, I just want to be clear whether or not those are all permanent fee reductions, or whether or not some of those are temporary fee reductions around fund retention measures?

Alexis: Yes, I'm sure we don't want to go into too much detail here because it starts to get into a very competitive market, but I'm sure you can comment James on that level.

James: Yes, so in my notes, Kieren, I said I think about half of that will come back over '23 and '24, so the 30 mil we'd probably think is a 15 mil permanent change in the order of that. So some of it will come back as some of the initial periods of discounts will roll off.

Kieren: All right, thanks. And secondly, just a question for Shawn in regards to some of the cultural and brand issues that AMP's been facing around a number of AMP Capital funds – obviously investors here domestically are a little bit closer to the coalface – I'm wondering what the international client feedback and reaction has been to some of these issues?

Alexis: I don't know if you heard that question, Shawn, but the question – and I know you've been speaking to tens and tens of clients over the last weeks – what their reaction has been to AMP, and it's probably worthwhile commenting on the separation as well.

Shawn: Yes, as far as the past and what the issues were that impacted AMP and in AMP Capital I'd say the further removed from Australia I would say it's not as palpable, but still these are all very, very well-informed investors and they are very knowledgeable. So the reaction has been not quite as – you might see it in Australia, but certainly has been negative by our institutional clients globally.

Alexis: Thank you.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Jason.

Jason: Thank you, operator. If there are no further questions, I'd like to say thank you to everyone for joining us. On behalf of Lex, Shawn, James and the rest of the AMP team, thank you and have a good afternoon.

[End of recorded material at 02:17:05]