

# NEWS RELEASE

Old Mutual plc

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## OLD MUTUAL PLC ANNOUNCES ACQUISITION OF QUILTER CHEVIOT

Old Mutual plc ("Old Mutual" or the "Group") today announces that Old Mutual Wealth, its leading retail investment business in the UK and cross-border markets, will acquire Quilter Cheviot (the "Acquisition") for a consideration of up to £585 million.

The acquisition of Quilter Cheviot will add a strong discretionary investment management capability, accelerating Old Mutual Wealth's strategy to build a vertically integrated wealth management business with £92 billion\* of funds under management ("FUM").

The Board of Old Mutual believes the Acquisition is highly complementary to Old Mutual Wealth's existing strategy and provides attractive strategic and financial benefits to the Group and its shareholders. The transaction is expected to meet the Group's ROE target range of 12 to 15% and generate annual Group synergies of £15 million by 2017.

### The wealth management market is large and fast growing

- Forecast growth of 6-8% per annum in the highly fragmented discretionary investment management market is underpinned by long-term structural trends and regulatory changes
- The affluent segment represents c.28% of the UK population and c.55% (£1.7 trillion) of the UK wealth market; the high net worth ("HNW") segment includes c.1% of the UK population and 29% (£0.9 trillion) of the UK wealth market

### Quilter Cheviot is a high quality business

- Leading UK-based discretionary investment manager well positioned to benefit from favourable industry dynamics
- Significant player with 38,000 clients and FUM of £16.2 billion at the end of September 2014
- Experienced and highly productive investment managers, many with long tenure
- Operating margins of 29% and attractive revenue margins of 85-90 bps

### Highly complementary to the Old Mutual Wealth strategy

- Expands retail client base into attractive affluent / HNW segments
- Enhances the capability to manage clients' money directly via skilled investment managers
- Creates a broad-based vertically integrated wealth manager across the investment value chain
- Significant extension of investment management capabilities

### Attractive opportunity to enhance value

- Delivers high-quality earnings in investment management to replace heritage insurance earnings, with 85% of earnings to be modern and capital light by 2017
- Annual operational cost and margin synergies of £9 million and further revenue synergies

### Strengthens value proposition for clients

- Extends solution and investment service offerings for clients of both Old Mutual Wealth and Quilter Cheviot
- Benefits from well-capitalised FTSE 100 owner, supportive of long-term development of the business

\* Pro forma FUM at 30 June 2014, excluding £4 billion FUM in Austria and Germany, which were sold on 1 October 2014

**Julian Roberts, Group Chief Executive of Old Mutual plc, said:**

“We have made considerable progress in the execution of our stated strategy this year as we increase the pace of change in the organisation. The acquisition of Quilter Cheviot delivers the final substantive part of our investment programme in the UK toward building a vertically integrated wealth management business of scale in the UK. Quilter Cheviot is a high quality franchise with excellent management, which delivers strong investment performance for its clients. The acquisition is funded from part of the proceeds of the recent disposals in Europe and the US IPO. We have a robust integration strategy for Quilter Cheviot. Our executive team is committed and accountable for delivering on synergy and ROE targets and creating value for shareholders. Quilter Cheviot is a good fit for our business. It complements and differentiates Old Mutual Wealth as the business develops into a highly valuable enterprise in the future in its own right.”

**Paul Feeny, CEO of Old Mutual Wealth, said:**

“I’m delighted that we’ve been able to acquire a business of the quality of Quilter Cheviot. We said two years ago that we wanted to build the leading, vertically integrated wealth management business. Since that time we’ve transformed Old Mutual Global Investors into a leading asset management player; we’ve acquired Intrinsic, the UK’s leading network of financial advisers; announced a deal with IFDS to outsource and renew our operating platforms; and innovated in our core investment solutions with new services such as WealthSelect. Quilter Cheviot fills a significant gap in our business, allowing us to serve better the affluent and HNW segments. We believe this acquisition confirms our position as one of the leading wealth management businesses in the UK, well placed to benefit from the current transformation in this market.”

**Martin Baines, CEO of Quilter Cheviot, said:**

“This is an exciting development for our business, our clients and our intermediary partners as we become part of Old Mutual Wealth, where our services will be complementary to the existing offering. Old Mutual Wealth has a very strong distribution network through which we will be able to promote our discretionary investment management services and we will get greater access to the market leading asset management capability within Old Mutual Global Investors. The long term parentage and financial security that the acquisition provides will allow us to continue to do what we do best, manage clients’ money on a bespoke discretionary basis, providing high levels of service to both clients and intermediaries without compromise.”

**Enquiries**

**External communications**

Patrick Bowes +44 20 7002 7440

**Investor relations**

Dominic Lagan +44 20 7002 7190

**Media**

William Baldwin-Charles +44 20 7002 7133  
+44 7834 524833

**Bank of America Merrill Lynch**

+ 44 20 7628 1000

Michael Findlay

Henrietta Baldock

**Pakenham Partners** + 44 20 7045 0801

Kevin Pakenham

Krzysztof Owerkowicz

**Rothschild** + 44 20 7280 5000

Christopher Kaladeen

Edward Griffin

### **Investor and analyst webex**

An online investor webex and conference call will be hosted this morning by Julian Roberts, Group CEO, Ingrid Johnson, Group FD, Paul Hanratty, Group COO, and Paul Feeney, CEO Old Mutual Wealth, from 9.30am to 10.30am BST (10.30am to 11.30am South African time). The presentation can be accessed from the start time via webex using the following information:

Webex URL: <https://arkadin-event.webex.com/arkadin-event/onstage/g.php?t=a&d=708183479>

Password: 651055

There will also be an audio dial-in facility, accessible on the following numbers by quoting pass code "28463172#":

UK / International: +44 (0) 2031394830

US +1 718 873 9077

South Africa: +27 21 672 4008

## Transaction rationale and overview

Since 2009, Old Mutual plc has radically reshaped its business by streamlining and simplifying its structure. Additionally it has strengthened its balance sheet considerably by reducing debt. The Group's strategy is now focused on five aims:

- In South Africa, to align Old Mutual, Nedbank and Mutual & Federal to become the leading and most trusted financial services group;
- To build an African financial services champion, while continuing to grow in other emerging markets;
- In Old Mutual Wealth, to build the UK's best retail investment business;
- In US Asset Management, to continue to improve and grow its multi-boutique asset management business;
- And, in each of its markets become the recognised financial services leader in responsible business.

In 2014, the Group has announced a number of significant corporate developments in line with this stated strategy. Its banking subsidiary Nedbank Group Ltd has announced it is investing \$493 million (£306 million) to acquire 20% of Ecobank Transnational Incorporated, a pan-African bank with operations in 36 countries. In South Africa, the Group has acquired control of its branch-based distribution business Old Mutual Finance for R1.1 billion (£62 million). It has also completed the Initial Public Offering ("IPO") of its US-based asset management business, OM Asset Management ("OMAM"), raising gross proceeds of \$308 million (£191 million) together with a pre-IPO special dividend of \$175 million (£109 million) as well as a number of non-core European insurance businesses which have either been sold (Germany, Austria and Poland) or are in the process of being sold subject to regulatory approvals for an aggregate of €310 million (£245 million). We have also acquired Intrinsic and Cirilium.

The Group has set Old Mutual Wealth a target for achieving operating profit before tax from continuing operations of £270 million (excluding Quilter Cheviot) in 2015 and it remains on target to achieve this. Old Mutual Wealth is seeking to grow high-quality, high performing revenue and earnings businesses that meet the investment needs of its target customer base in the UK and selected international markets. The business's recent achievements include: growing its asset management capabilities under Old Mutual Global Investors (OMGI); the acquisition of Intrinsic, a UK national distribution business of 3,000 advisors; an agreement to outsource non-client facing administration and IT solutions; and disposing of non-core European businesses. Shareholder value is being generated by increasing the share of revenue sourced from capital efficient products that generate attractive returns on equity invested.

Old Mutual is announcing today that it will invest proceeds from the sales of non-core European businesses and the minority listing of OMAM and the pre-IPO dividend, to acquire Quilter Cheviot. Under the terms of the Acquisition, Old Mutual will pay consideration of up to £585 million at completion. This will include c.£42 million of equity which will be deferred and contingent on the performance of the business. The acquisition will give rise to goodwill of £489 million.

Quilter Cheviot is a high quality business of size in a substantial but fragmented market with an experienced management team. The business has a strong track record of growing funds under management and profitable growth through the delivery of excellent service to a loyal client base.

## **The wealth management market is large and fast growing**

Quilter Cheviot is a leading, UK-based discretionary investment manager with total FUM of £16.2 billion at 30 September 2014, serving the attractive affluent and HNW segments of the UK private client market.

The total investable wealth held privately by affluent and HNW individuals in the UK (with investable assets of greater than £50,000) is £2.6 trillion. The UK discretionary investment management market is large and growing, representing more than two thirds of the total UK wealth management market and grew at 11% last year.

Discretionary investment management is highly fragmented with no dominant competitors and projected to grow at a rate of between 6 to 8% per year. The market is expected to benefit from long-term structural trends which include tax and pension reforms, trends towards higher savings rates following the global financial crisis, and the supportive demographics of an ageing population. Recent regulatory developments including the Retail Distribution Review (“RDR”) have resulted in wide scale reform in the Financial Adviser (“FA”) industry. Under the new model, FAs are focused on providing financial planning and pensions advice and are increasingly outsourcing investment strategy / investment management to discretionary investment managers.

## **Quilter Cheviot is a high quality business**

Quilter Cheviot has a long and proud heritage dating back to 1771, delivering a broad set of investment capabilities and services across a wide range of asset classes. Quilter was formed from the merger of Quilter and Cheviot in 2013. Quilter Cheviot’s head office is located in London with 11 regional offices including a presence in Ireland and Jersey.

Quilter Cheviot provides personalised investment management services including Discretionary Portfolio Services (“DPS”) and Managed Portfolio Services (“MPS”). Quilter Cheviot serves 38,000 client mandates including affluent, HNW private clients, trusts, charities and pension funds, which are sourced directly, through intermediaries and financial advisers. Quilter Cheviot’s approach to its client relationships is driven by its 165 Investment Managers (“IM”), who are responsible for developing and maintaining its client relationships as well as managing each client’s portfolio. The original Quilter IMs have an average tenure of 10 years.

Quilter Cheviot’s strategy is to grow its FUM through a range of distribution channels, including financial advisers, existing client referrals, and professional bodies such as accounting firms and law firms, which together account for the majority of Quilter Cheviot’s new business. Quilter Cheviot has a dedicated sales team, based in London and working through Quilter Cheviot’s office network, which is responsible for developing new business and establishing and maintaining relationships with intermediaries and financial advisers.

Quilter Cheviot has relationships with some of the largest advisory firms in the UK, some of whom, in turn, advise multi-billion pound sterling books of assets. Quilter Cheviot has built a large and diversified network of over 2,000 financial adviser relationships. As a result Quilter Cheviot is not reliant on any single financial advisory firm, with 11 financial advisory firms having more than £50 million of client FUM managed by Quilter Cheviot at 30 June 2014. Quilter Cheviot’s longstanding relationships contribute towards incremental new FUM inflows as the partner firms themselves grow.

Quilter Cheviot has a strong competitive position. It benefits from its direct and intermediary and FA channels, strong enduring relationships with FAs (35% of FAs have more than 10 year relationships), strong end-customer advocacy and attractive geographic footprint. In 2013, Quilter Cheviot reported

superior net new money inflows of £1.1 billion relative to its peers, net inflows per IM of £6.8 million, among the highest of peers, and the upper end of IM productivity relative to its peers. Operationally, Quilter Cheviot has among the highest operating margins at 29% and attractive revenue margins of c.85-90 bps.

Quilter Cheviot's business has experienced significant growth in recent years, with FUM increasing at a 16% CAGR from £11.2 billion at year end 2011 to £15.2 billion as at 31 December 2013. Quilter Cheviot generated revenue of £102 million, £110 million and £125 million for the years ended 2011, 2012, and 2013, respectively. Revenue margins, including trading commissions, were 92 bps, 92 bps and 87 bps in the same annual periods.

Quilter Cheviot has leveraged its highly scalable platform to expand operating margins in recent years, generating strong EBITDA growth at a 40% CAGR from £20 million year end 2011 to £39 million year end 2013. Quilter Cheviot's EBITDA is estimated to grow to £45 million by year end 2014.

Quilter Cheviot is well positioned to continue to benefit from favourable industry dynamics. While the majority of the fee income that Quilter Cheviot receives is calculated based on the market value of FUM, it also receives revenue fees from commissions driven by portfolio turnover. Quilter Cheviot has a proven track record of strong and consistent growth in FUM and stable returns on average FUM.

### **Highly complementary to the Old Mutual Wealth strategy**

The Acquisition accelerates Old Mutual Wealth's strategy to build the UK's leading retail investment business.

- Expands the retail client base in attractive affluent and HNW segments of the UK Wealth Management market
- Delivers immediate capabilities and scale in the discretionary investment management segment, including the capability to directly manage clients' money
- Brings a critical new business component to create a broad-based, vertically integrated business across the value chain.
- Enhances Quilter Cheviot's offering through extending Old Mutual advice and international solutions to Quilter Cheviot clients.

The Acquisition will enable Old Mutual Wealth to broaden its distribution capabilities, enhance its wealth management offering and increase the proportion of clients' asset management services that is conducted by the Group's companies.

## Attractive opportunity to enhance value

The Acquisition is expected to be value enhancing to Old Mutual plc:

- Delivers high-quality, high-margin wealth solutions earnings
- Supports the sustainable growth and profitability of Old Mutual Wealth
- Enhances the long-term return profile of the Group, in line with its ROE target of 12-15%
- Improves interest cover and maintains low gearing
- Provides attractive high-quality modern earnings to support transformation of earnings profile (85% new world / 15% heritage)
- Annual operational cost and margin synergies of £9 million and further revenue synergies.

Post-completion, Old Mutual Wealth will benefit from Quilter Cheviot's high quality, consistent earnings stream, as well as cost/margin and revenue synergies that are expected to develop over time.

Old Mutual Wealth estimates c.£9 million of pre-tax cost/margin synergies by 2017 largely from procurement savings across professional services and other functions and combined support services.

Old Mutual Wealth estimates further revenue synergies by 2017 resulting from Quilter Cheviot clients accessing top performing OMGI funds, and demand from Old Mutual Group's international clients for UK discretionary investment management solutions.

The Group also expects an immediate benefit from the utilisation of existing tax losses, which otherwise would not be used in the short to medium term.

## Approach to integration and governance

The Group and Old Mutual Wealth have a comprehensive integration plan. Old Mutual has appointed Old Mutual Wealth executives to lead the key integration workstreams including Finance/Operations, Product and Distribution. The execution of the integration plan will be closely managed and monitored.

Key immediate objectives include:

- Continuing "business as usual" service and maintaining regulatory standards, while identifying strategic linkages between Quilter Cheviot and Old Mutual Wealth
- Maintaining and supporting existing Quilter Cheviot client focus, while incentivising IMs with appropriate retention and short-term incentive plans
- Leveraging experience from the Quilter and Cheviot merger and the Intrinsic integration to implement a robust integration strategy with support from Quilter Cheviot's high-quality, committed management team.

The Quilter Cheviot Chief Executive Officer, Martin Baines, will join the Old Mutual Wealth Executive Committee and report to Old Mutual Wealth Chief Executive Officer, Paul Feeney. Paul Hanratty, Group Chief Operating Officer will continue to provide Group oversight. Andy Pomfret, the former Chief Executive of Rathbone Brothers Plc, has recently joined the Board of Old Mutual Wealth.

## Transaction Terms

Under the terms of the Acquisition, Old Mutual will pay consideration of up to £585 million at completion. A significant proportion of this consideration will be used to discharge outstanding third party debt and other non-operating liabilities of Quilter Cheviot.

Of the remaining consideration, an amount of £42m, which is payable to the Quilter Cheviot management shareholders, will be in restricted Old Mutual shares, deferred and contingent on the FUM of Quilter Cheviot in 18 months' time. The mechanism to deliver the shares has yet to be decided. Delivery of these shares will occur in two equal portions after the third and fourth years following completion of the transaction, and will, in addition, be conditional on each recipient's continued employment with the Old Mutual Group on the delivery date. Key employees of Quilter Cheviot have also agreed to restrictive covenants.

The transaction is subject to customary regulatory approvals and is expected to complete in the first quarter of 2015, after which time the results of Quilter Cheviot will be fully consolidated into Old Mutual Wealth.

Bank of America Merrill Lynch, Pakenham Partners and Rothschild are acting as financial advisers to Old Mutual and Bank of America Merrill Lynch is acting as Corporate Broker to Old Mutual on this transaction.

## Impact on Group capital and leverage of recent corporate actions

The table below shows the effect on the Group cash, FGD surplus and FGD coverage ratio from the acquisition of Quilter Cheviot and the other corporate activity since the Interim Results of 2014:

	Cash (£bn)	Group FGD Surplus (£bn)	% change in FGD cover
As reported (June 2014)	0.47	1.9	161%
Old Mutual Bermuda (reduction in capital requirement) <sup>1</sup>	0.00	0.1	4%
Nedbank acquisition of 20% stake in ETI <sup>2</sup>	0.00	(0.1)	(4%)
OMAM IPO proceeds and dividend	0.28	0.2	6%
Sale of Germany and Austria	0.18	0.1	5%
Intrinsic and Cirilium <sup>3</sup>	0.00	(0.1)	(3%)
Purchase of Quilter Cheviot	(0.59)	(0.6)	(19%)
Pro forma (June 2014)	0.34	1.5	150%

1. The Bermuda Monetary Authority has approved the reduction of the required capital of Old Mutual Bermuda to \$295m (£186m). This results in an increase in FGD surplus of £77m.
2. The acquisition of ETI was funded by Nedbank and therefore had no impact on plc cash.
3. The cash payment for the purchase of Intrinsic and Cirilium was included in the 2014 Interim Results.

### Pro forma effect on selected credit statistics

	As disclosed (30 June 2014) £ bn	Impact of Transactions £ bn	Pro forma £ bn
Gross Debt	1.38		1.38
Less: Holding Company Cash	(0.47)	(0.13)	0.34
Net Debt	0.91		1.04
Hard Interest Cash Cover	4.6x		5.0x

### ENDS

#### Notes to Editors

##### About Old Mutual plc

Old Mutual provides investment, savings, insurance and banking services to more than 16 million customers in Africa, the Americas, Asia and Europe. Originating in South Africa in 1845, Old Mutual has been listed on the London and Johannesburg Stock Exchanges, among others, since 1999.

In the year ended 31 December 2013, the Group reported adjusted operating profit before tax of £1.6 billion (on an IFRS basis) and had £294 billion of funds under management from core operations.

For further information on Old Mutual plc, please visit the corporate website at [www.oldmutual.com](http://www.oldmutual.com)

##### About Old Mutual Wealth

Old Mutual Wealth is a leading retail investment business in the UK and internationally. It aims to help people who want to make a positive change for themselves, those close to them or the society they live in by helping them secure their financial future.

It has an adviser and customer offering spanning:

- Financial advice via the Intrinsic network and independent financial advisers
- Platform based wealth management products and services via Old Mutual Wealth in the UK and Skandia International globally
- Asset management solutions via Old Mutual Global Investors

Old Mutual Wealth currently oversees £80.3 billion in customer investments (as at 30 June 2014).

##### About Quilter Cheviot

Quilter Cheviot is one of the UK's largest independently owned discretionary investment firms, which can trace its heritage to 1771. The firm is based in twelve locations across the UK, Jersey and Ireland and has total assets under management of £15.7bn (€17.88bn)\* (as at 30 June 2014). Quilter Cheviot focuses primarily on structuring and managing bespoke discretionary portfolios for private clients, charities, trusts, pension funds and intermediaries.

Quilter Cheviot Limited is registered in England with number 01923571, registered office at One Kingsway, London WC2B 6AN. Quilter Cheviot is a member of the London Stock Exchange, is authorised and regulated by the UK Financial Conduct Authority, is regulated by the Jersey Financial Services Commission for the conduct of investment business in Jersey and by the Guernsey Financial Services Commission to carry on investment business in the Bailiwick of Guernsey. Accordingly, in some respects the regulatory system that applies will be

different from that of the United Kingdom. The Group Company Accounts filing for Quilter Cheviot Holdings Limited at Companies House is held under Company Number 08257448.

### **Disclaimers**

This press release may contain certain forward-looking statements with respect to certain of Old Mutual plc's plans and its current goals and expectations relating to its future financial condition, performance and results.

By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Old Mutual plc's control including amongst other things, international and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing and impact of other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which Old Mutual plc and its affiliates operate. As a result, Old Mutual plc's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Old Mutual plc's forward-looking statements.

Old Mutual plc undertakes no obligation to update the forward-looking statements contained in this presentation or any other forward-looking statements it may make.

Merrill Lynch International ("BofA Merrill Lynch"), a subsidiary of Bank of America Corporation, is acting exclusively as financial advisor for Old Mutual Wealth Management Limited in connection with the Acquisition and as corporate broker to Old Mutual plc and for no one else and will not be responsible to anyone other than Old Mutual Wealth Management Limited for providing the protections afforded to its clients or for providing advice in relation to Acquisition.

N M Rothschild & Sons Limited, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the United Kingdom, is acting for Old Mutual plc and no one else in relation to the acquisition of Quilter Cheviot and will not be responsible to anyone other than Old Mutual plc for providing the protections afforded to clients of N M Rothschild & Sons Limited nor for providing advice in relation to the proposed transaction.