Chief Executive Officer's statement

2018 was a momentous year in the history of Quilter. We are a modern, purpose-built UK wealth management company that has many opportunities ahead of it.

Paul Feeney
Chief Executive Officer

Execution

As our Chairman, Glyn Jones, has noted, 2018 was a landmark year in the history of Quilter. Six years after we set out to build a modern UK wealth management company and after two years of hard work to get the business ready for Listing, on 25 June 2018 we completed the Managed Separation from Old Mutual plc and our shares began trading on the London and Johannesburg Stock Exchanges. I would like to thank all of those who worked tirelessly to deliver this outcome. We were delighted with the level of investor engagement and interest in Quilter from both new and existing investors throughout this process, and we look forward to delivering prosperity for both shareholders and our broader stakeholders.

The Listing of Quilter was the beginning of our journey as an independent company. In that context, we are pleased to deliver a strong set of maiden full year results, with an increase in adjusted profit of 11% to £233 million and a 30% operating margin* (2017: 29%). Our IFRS profit before tax from continuing operations was £5 million (2017: £(5) million).

Given the limited linkages between the Single Strategy asset management business and our retail-focused wealth business, the sale of that business was consistent with our objective of building the UK's leading wealth management company. The full consideration received from the sale of the business to its management team and funds managed by TA Associates, which completed at the end of June 2018, was £583 million. We paid a special interim dividend of 12.0 pence per share from the proceeds of this transaction, equivalent to a £221 million return of capital to shareholders. This represented the net surplus proceeds from this disposal after the repayment of the outstanding £300 million senior unsecured term loan.

Transformation

As I have said on many occasions, we know that Quilter is not the finished article. The task that my team and I are undertaking is nothing less than a multi-year transformation of our business. There are two principal strands to this process: successfully delivering upon our UK Platform Transformation Programme and optimising our business.

Our new UK Platform, once operational, will allow us immediately to widen the product set we currently offer to include SIPP capabilities, Junior ISAs and cash accounts as well as allowing us to hold a broader spectrum of assets on behalf of clients such as ETFs and investment trust shares. This will provide us with the opportunity to target a broader and higher net worth customer segment in the UK market than we are currently reaching. It will significantly enhance our position in the UK platform market by providing us with a modern, resilient system built on current technology rather than legacy code as is the case with the current platform.

We see four key stages to the successful completion and delivery of our new platform:

First, the core system completion enabled us to commence the soft launch phase in early February 2019. Soft launch was deliberately structured to be on a limited basis and this valuable phase is being used to verify core system functionality, processes and controls in a live environment and it continues to progress well.

Secondly, the final platform system, which will incorporate full adviser functionality, is in the last stages of development and, given the critical nature of this, is undergoing rigorous testing. Subject to these testing results, we are targeting this to be completed by early Summer.

The third key stage is migration planning and this is at an advanced stage. We will undertake a phased, controlled migration of our existing book. We aim to migrate an initial c.10% of assets under administration from our existing platform, representing the assets from around 100 adviser firms, in early Autumn. Once we have incorporated feedback from this into our processes, we will continue migration of the remainder of the book in appropriate phases considering, amongst other things, the time of year and market conditions.

Finally, our overriding principle is that high quality delivery is of the utmost importance and we are enhancing our detailed plans to ensure customers and advisers are well supported throughout the transition period. This, together with the challenges imposed by the need to train a large number of advisers on a new system, are key issues which have been highlighted in our reviews of a number of problematic high profile platform transitions across the UK financial services industry in recent years. As a result, we are considering adding additional adviser/customer call centre capacity and/or taking a more gradual approach to migration, which could extend the project timeframe slightly.

Our strategic priorities

We have a strong track record in terms of growth and delivering against our promises. We are well placed to grow sustainably, providing we simplify and unify our business. Post-Listing our strategic priorities over the next few years are as follows:

1 **Delivering on customer outcomes**
Ensure we deliver good customer outcomes, strong investment returns and quality customer service.

2 **Advice and Wealth Management growth**
Grow our advice business by adding financial advisers and investment managers, supporting them to improve their individual productivity. We will also complete the build out of our Quilter Investors team.

3 **Wealth Platforms growth**
Deliver our UK Platform Transformation Programme which will bring benefits including greater capability and functionality.

4 **Optimisation**
We will grow our business by enhancing our scale and efficiency whilst reducing unnecessary cost and complexity.

For detail on performance towards our strategic objectives, see pages 19 to 23.

As at 31 December 2018, we had incurred costs of £79 million since the programme commenced in May 2017. If migration is completed by the end of 2019, we would expect total programme costs towards the upper end of our £120 – £160 million guidance range. Should we decide that it is in the best interests of both customers and advisers that programme completion is extended into the first half of 2020, we would expect modest additional programme costs, largely reflecting the incremental potential initiatives referenced above and a longer period of dual system running than originally planned.

Turning now to Optimisation. Optimisation means making Quilter the best version of ourselves that we can be. We want to eliminate the inefficiencies in our operational processes.

First, we see an opportunity to deliver an improvement in operational performance and efficiency of middle and back office activities. Business areas which are involved in the new UK Platform Transformation Programme will be ring-fenced and largely protected until that project is complete to avoid any risk of disrupting the programme delivery timetable.

In addition to those Optimisation savings which have already been achieved through cost avoidance during 2018, we believe that the potential benefits from running our existing businesses better can deliver around a two percentage point uplift to our 2020 operating margin target of 30%. This is despite ongoing investment in distribution which has a negative short-term impact on our operating margin. We also expect a further two percentage point improvement in 2021. This increases our previous 2020 guidance to around 32% and our 2021 guidance to around 34%, although, given that the outcome here is a function of income and costs, this target assumes broadly normal market performance from around current levels together with steady net flows. The uplift will be achieved from cost savings with an expected cost to achieve of c.£75 million (inclusive of identified IT spend) to deliver the programme over the next three years.

Once the UK Platform Transformation Programme is complete, we will then be able to consider further efficiency initiatives from those areas previously ring-fenced until the UK Platform Transformation Programme has completed. Our goal will be to transition towards a simpler, higher-growth business, over time.

Operational performance

Good customer outcomes remain central to everything we do. Delivering this starts with trusted advice. Client confidence in our proposition is demonstrated through the strength of our integrated business model and is shown by our net client cash flow ("NCCF") and the resilience of integrated flows which have held up well despite more challenging conditions in the second half of the year. Integrated flows were down just 10% to £4.7 billion in the year.

Despite the significantly less buoyant market conditions in the second half of the year and more cautious investor sentiment, we delivered NCCF of £4.7 billion in 2018, excluding Quilter Life Assurance. This represents 5% of opening Assets under Management and Administration* ("AuMA") in line with our medium-term target. Overall NCCF of £2.7 billion was down 57% on prior year (2017: £6.3 billion) with this largely due to the pre-announced run-off of the low margin institutional life book within our Quilter Life Assurance (or Heritage) business and the natural attrition of the rest of that book.

We have also demonstrated resilience in AuMA (excluding Quilter Life Assurance) which declined by just 2% over the year. This contrasts with an overall decline in AuM across the industry of 6% during 2018, according to the Investment Association.

We added to our distribution capabilities within our Private Client Adviser business through 14 small acquisitions during the year, with a corresponding total consideration of up to c.£12 million that may be paid, with just over half of this subject to performance conditions being attained. This provides us with the potential to build our base of client assets over time.

Across our appointed representative firms, we achieved satisfactory growth of 4% in adviser numbers, and finished the year with 1,621 restricted financial planners ("RFPs"). This is below our historic growth rate of 5% and reflects a disappointing rate of growth in the first half and so this was an area of particular focus in the second half of the year when the majority of this growth was achieved.

On 14 February 2019, we purchased the remaining shares in Charles Derby Group that we did not already own. This business will be positioned as part of our national advice business instead of being an appointed representative firm within our network. We see significant opportunity from broadening the existing Quilter Private Client Advisers business model into the affluent

* See page 204 for alternative performance measure definitions.

market instead of solely servicing high net worth clients. The acquisition and repositioning of Charles Derby Group will provide us with meaningful scale and strong market positioning to serve customers in the affluent and mass affluent segment and will complement Quilter Private Client Advisers which focuses on high net worth customers. We will continue to consider acquisitions in advice and distribution capacity on a selective and targeted basis but only where quality and culture are a good fit with Quilter as well as offering a strong business and financial case.

As part of our commitment to advice we have developed the Quilter Financial Adviser School, which has been in operation since 2016. The School has contributed to growth in financial advisers across the industry with an average student age of 29 years and with 33% female participation. During 2018, the 100th student graduated, and currently we have 94 students enrolled on courses which cover all stages of financial advice; of these, 46 are potential RFPs. In light of the success to date we are increasing our investment to expand the capacity of the School to deliver a higher level of new RFPs to Quilter. At current capacity we can accommodate around 100 students per annum. The focused RFP programme takes 14 months to complete and so we expect to see this start to contribute to growth in our adviser numbers later this year.

Quilter Cheviot NCCF slowed over the course of the year mirroring the broader market trends. Whilst disappointing, this reflected lower levels of gross inflow and broadly stable outflows. We expect the first half of 2019 flows to be impacted by the loss of a c.£0.2 billion client where notice has been given and with the funds expected to move early in the year. The near institutional-type mandate of this portfolio means that we expect the loss to have minimal impact on 2019 profitability.

During the last 18 months we have been investing in the Quilter Cheviot investment team with Investment Manager ("IM") headcount increasing to 168 by mid-2018. Following Listing we saw a small number of resignations from a particular cohort of IMs. As a result, IM headcount fell to 155 by year-end and, while we have mitigation plans in place to reduce potential client departures, we are expecting this could lead to higher than trend outflows for Quilter Cheviot in the second half of 2019 and early 2020. Growing our IM count is a key focus for 2019 and recruitment is ongoing with a number of new starters in the pipeline.

Quilter Wealth Solutions achieved net inflows of £3.1 billion, down 31% on prior year. Gross sales of £7.7 billion (2017: £8.9 billion) were down £1.2 billion as a result of the slower trading environment seen in the second half of the year as well as reduced transfers of defined benefit ("DB") schemes to defined contribution ("DC") schemes, which were down 24% to £1.6 billion. We believe that this was driven by the impact of increased FCA scrutiny and resultant impact on the availability and affordability of IFA professional indemnity insurance. Overall, our pension propositions continue to perform well, with gross sales of £4.7 billion, representing 60% of total Quilter Wealth Solutions gross sales (2017: £5.4 billion representing 61% of 2017 gross sales).

We continue to reposition our International business and inflows have been particularly weak in 2018. Our strategy is to focus our international geographic footprint and maintain the quality and value of new business. We have deliberately taken an early adopter strategy to the shifting of the regulatory environment and, as previously reported, this has had an impact on new business flow but we believe this is the right approach for both customers and Quilter.

Quilter Life Assurance had net outflows of £2.3 billion, up from £1.6 billion in 2017, principally due to the closure of the institutional life book of business announced in 2017. The remainder of the Quilter Life Assurance book ran off at a rate of c.14% which is broadly in line with expectations.

Investment performance

2018 was a challenging year for investors. Most major asset classes declined, and the broad nature of the decline, particularly in the fourth quarter, made it difficult to achieve positive outcomes from Quilter Investor's diversified solutions.

Whilst we are conscious that short term performance in certain portfolios was disappointing, our multi-asset solutions are aligned to the advice process, led by well-regarded portfolio managers, with good long term records. We remain particularly pleased with the medium and longer term performance of our biggest ranges, Cirilium and Wealth Select as delivering to these goals here is how the products are positioned in the market.

Our largest multi-asset range, the £8.3 billion Cirilium active, had a disappointing first half of 2018, but, I am pleased to say, it has started this year strongly. Over the three, five and 10 year periods the performance continues to be strong. The £6.0 billion Managed Portfolio Service compares well against its peer group and met its investment objectives in 2018, defending well in the last quarter of the year. It hit its fifth anniversary in good shape.

Turning now to Quilter Cheviot, overall performance remained consistently good across all time periods relative to ARC benchmarks to the end of September. This is the most recent quarter for which we have the detailed ARC comparisons which are available as a benchmark.

Stewardship

We monitor employee engagement on a quarterly basis and are delighted that it has remained at a consistently high level despite the significant work pressures that arose through the Listing process.

Building an environment where our people can thrive is important to me. One of the principal benefits of Quilter being a standalone business is the reinforcement of our identity, and strengthening of the ties that bind our people in their delivery of our purpose. Virtually all of our staff were awarded shares in Quilter on Listing and so have a direct stake in the outcomes of their efforts as we build the UK's leading wealth management company.

We believe that an organisation needs to have a broader moral compass than merely profit maximisation. Our Shared Prosperity Plan, which is part of our Responsible Business strategy, seeks to improve financial capability across the UK population. By equipping people to make better financial decisions, we enable them to have a secure financial future and we aim to protect customer assets over the long-term through inclusive and responsible investment.

We were delighted to launch The Quilter Foundation at Listing. As a registered charity, the Foundation's mission is to tackle the barriers to prosperity in our society. The Foundation's first step is to work in partnership with charities that support young carers in the UK to help overcome the challenges they face such as isolation, mental health issues and poor outcomes in education and employment.

We also continue to make good progress in undertaking our voluntary redress for customers within Quilter Life Assurance who were subject to the terms of the FCA's thematic review into the fair treatment of long-standing customers. We, of course, welcomed the FCA's decision to close their investigation without any sanction on the

Paul Feeney visiting a carers centre in Camden, London.
"The Carers campaign makes me incredibly proud and humbled. I'm so thankful we're in a position to support these amazing young people."

Company. Of the £69 million provision taken in 2017 relating to our voluntary redress of historic business written, we have paid out £27 million and we remain confident that the remaining provision will be sufficient to meet the costs that were identified from our review process.

Outlook

The UK wealth management industry continues to offer strong secular growth potential notwithstanding the short-term headwinds. As it became apparent in the second half of 2018 that global macro and geopolitical uncertainty was impacting flows and market sentiment, we increased our focus on cost management and accelerated some of the benefits we expected to deliver from our first stage Optimisation initiatives.

As most of the decline in markets came late in the year, the impact on our 2018 revenues was relatively muted. Closing AuMA of £109.3 billion was £5.4 billion less than the average AuMA* for 2018 of £114.7 billion. Lower average asset values, if sustained, would impact revenue generation in the current year. While we cannot avoid external headwinds, we aim to keep 2019 costs broadly flat on 2018 (excluding acquisition activity), through Optimisation and other initiatives, to partially offset the anticipated tougher revenue environment.

We remain resolutely focused on growing our business and supporting our clients towards achieving their savings and investment goals. During 2019 we plan to increase adviser numbers, expand our national advice business including through the recently announced acquisitions, add Investment Managers in Quilter Cheviot, finish the build out of our Quilter Investors operation and complete, or substantially complete, the safe delivery of our new UK platform.

2019 will throw up other challenges for Quilter. Brexit and market uncertainty are having an impact upon investors' appetite to put new money to work. In addition, we anticipate that the migration of advisers to our new platform may contribute to a slowdown in the flow of new money into our platform services as advisers familiarise themselves with, and are migrated to, the new platform. As a result of both of these factors, while we remain confident in a target of 5% growth for NCCF on a medium-term basis, we may undershoot this target during calendar year 2019.

Early 2019 has seen a partial recovery in markets. By the end of February 2019 our AuMA had increased to c.£113 billion up from £109.3 billion at year-end. While this recovery in markets has been ahead of our expectations, the trend in net client cash flows has remained subdued. Brexit and market uncertainty continue to temper momentum in year-to-date flows and therefore we remain cautious on net flows going into 2019. However, as we set out in our Prospectus ahead of Listing, we are confident in our strategic path and growth prospects. We are a modern, purpose-built UK wealth management company that has many opportunities ahead of it. Our focus remains on embedding last year's cost successes into our 2019 performance, delivering organic growth and executing upon our transformation plans. I am hugely excited about the journey ahead and look forward to continuing to deliver on our promises.

Paul Feeney
Chief Executive Officer

* See page 204 for alternative performance measure definitions.