



## **Managing Director's Address to AGM**

Good morning Ladies and Gentlemen

The record result your company has achieved in the last financial year can be attributed to the effectiveness of IOOF's growth strategy that we adopted in 2009. It focuses on the increased use of our existing products, targeting an increased marketshare of netflows and growth achieved through acquisition. This strategic focus has underpinned the growth of IOOF in recent times and will continue on into the future.

All of IOOF's operating segments, namely financial advice, platform, investment management and trustee services, experienced an increase in revenue and profitability this last financial year.

It is pleasing that IOOF has been able to report a record \$123.0m underlying net profit in its 10th year since listing on the Australian Securities Exchange.

At the same time, we have again managed operating expenses prudently ensuring cost growth is kept to a minimum. Operating costs increased only \$3.0m or 1% from 2012/13.

As a result of this cost management, our cost to income ratio fell by 1.2% to 57.5%.

Another highlight for the company was the acquisition of wealth management and advice firm, SFG Australia (SFGA) in August 2014.

Our increased size following the acquisition of SFGA in August creates opportunities for the group and accelerates our ability for future growth, particularly in relation to organic funds flow and our earnings profile.

I have been encouraged by the progress we have made on integrating the SFG business into IOOF. We have moved swiftly to re-organise affected areas and ensure that common teams are working collaboratively. The unification of our suppliers has begun and we have started bringing in-house many previously outsourced services.

It remains our intention to keep the successful Shadforth Financial Group advice model operating largely unchanged, whilst targeting more than \$20m pre-tax cost savings per annum by FY2016.

For the year ended 30 June 2014, the money we manage on behalf of others (i.e. Funds Under Management, Advice, Administration and Supervision, or FUMAS) increased by \$1.7b to \$121.9b this financial year.

On a standalone basis, IOOF's flagship platforms (our actively marketed platforms), experienced record net funds flow growth of \$1.4b, a 65% increase on the previous financial year. When all of IOOF's platforms are included, total platform net flows increased by \$1.0b. This is a milestone for IOOF to achieve such a figure within a financial year, and also represents the third consecutive half of total platform positive net flows.

IOOF's integrated service offering, our partnership with quality advisers and strong brand awareness are generating these strong net flows. The result is a reflection of the investment in time, expertise and branding. Since the launch of our awareness campaign in September 2011, and



the subsequent addition of television and radio advertisements last year, we have seen a marked improvement in our net flows.

This trend continued into the first quarter of the new financial year. In October, IOOF announced its first quarter FUMAS result of \$142.9 b. The large increase is due mainly to the incorporation of SFGA's funds, however IOOF was able to attract a further \$700m in funds since 30 June via organic methods. Importantly, our flagship platforms added \$424m for the quarter. This represents a 35% improvement on the same quarter last year.

The flows for the investment management segment were positive and our funds under advice continued a four year positive trend.

Pleasingly, adviser interest in IOOF appears to be increasing, with a recent survey suggesting that IOOF would be a preferred destination for as many as 20% of advisers if they were to move dealer groups.

## Introduction of MySuper

In September 2013, IOOF was granted a license by the industry regulator, ahead of the 1 January 2014 implementation date, to operate a MySuper product, called IOOF MySuper.

This significant change to superannuation has impacted the entire industry. MySuper is a product with low fees and default insurance cover and replaces any existing default employer superannuation fund.

A lot of work went into both our license application and the implementation of the new product. The collaboration between teams and the dedicated effort from so many people at IOOF during the project has been impressive.

Just last week, an independent researcher, Super Ratings, awarded IOOF's MySuper product a Gold rating. The rating system has been designed to reflect each fund's "value for money" for members and a Gold rating is the second highest rating available.

Even though the product has lower fees, IOOF's revenue in this area is stable under the transition to MySuper despite our competitors forecasting large reductions. This is because our newer products and services, including IOOF MySuper are more cost efficient to run.

The past few years have been notable for the uncertainty created by regulatory change. Unfortunately this uncertainty continues with the recent decision by a group of Senators to disallow the Federal Government's FoFA amendments. This continuing burden has affected all industry participants greatly – particularly financial advisers.

The need for greater certainty on the regulatory front for superannuation and financial advice remains a key priority for our industry. If certainty existed, IOOF's focus can return to making our business more efficient, and providing valuable assistance in the form of better products and services to our advisers and their clients.

## Outlook for IOOF

IOOF's strong partnership with quality advisers is paramount to delivering positive client and shareholder outcomes. The important acquisition of SFGA, combined with a higher starting base for FUMA in this financial year provides the solid platform IOOF requires for continued growth.

With rising markets and interest rates at historically low levels, investors are re-entering the share market with confidence. We are encouraged by the enhanced confidence that advisers and their clients are displaying through increasing fund flows into our products which has been evidenced through our first quarter funds update.

I would like to publicly acknowledge the efforts of my management team and all of our employees for their achievements towards this record result this year.

It is these achievements that have placed IOOF in such a strong position, and as a group we look forward with confidence to the future.

Christopher F Kelaher  
Managing Director