



# Australian Wealth Management

Annual General Meeting 2008

## Managing Director's statement



**Christopher Kelaher**  
**Managing Director**

Good morning ladies and gentlemen

Traditionally, my role at an AGM would be to update you on our progress over the past financial year.

This year, with unprecedented events globally, and with changes afoot within our own business, I believe it is prudent to dedicate parts of my speech today to more recent developments.

The current market conditions could continue for some little while and this could negatively impact profit. However this does not mean a departure from our current strategy.

While we cannot control the external environment, we can continue following our strategy and focusing on areas that we directly influence – exploring diversified revenue growth and refining internal processes to reduce costs across all areas of our business.



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AWM is predominantly a superannuation business, with approximately 80% of our business activities dedicated to superannuation and retirement. We benefit from the government-mandated 9% superannuation that all working Australian's must contribute.

In these unusual times, however, we are seeing investors and members reduce their level of discretionary contributions to superannuation and equally opting for more conservative investment options.

## **Achievements**

Turning now to the events of the past year, the 13% increase in net profit after tax to a record \$65.2 million together with a record dividend payout were pleasing, especially considering the challenging market conditions.

Total funds, or as we refer to it, Funds under Management, Administration, Advice and Supervision (FUMAS) increased to \$60.4 billion as at 30 June 2008. This total does not include the funds associated with the two transactions we completed this year.

Late in the financial year, AWM announced two transactions, the purchase of 70% of Ord Minnett Holdings Limited and the transfer of the trusteeship of assets associated with Credit Suisse Asset Management.



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### **Ord Minnett Holdings Limited**

In many ways, Ord Minnett is similar to our major distribution business Bridges Financial Services. Ord Minnett is a stockbroker, with financial planning services, and Bridges Financial Services is a financial planning business which offers stockbroking.

While they will continue to operate as stand-alone businesses, it is these similarities that allow AWM to assist the CEO, Karl Morris, who is with us today, and Ord Minnett in its continued transition from stockbroking to wealth management.

The purchase of Ord Minnett provides AWM with further distribution capabilities, increasing total adviser and financial planner numbers to well over 400. It also provides further opportunities for AWM's products and services to be sold throughout Australia, these include estate planning.

### **Trusteeship of Credit Suisse Asset Management assets**

Also in June, AWM signed a memorandum of understanding with Credit Suisse Asset Management to transfer the trusteeship for \$340 million in assets from its Pooled Super Trusts (PSTs) and non-super Private Investment Funds to AWM. To date we have only completed part of this transaction.

While the company's operating expense to revenue ratio appeared steady at 50.6%, compared with 50.0% last year, it should be noted that one month's worth of expenses attributable to Ord Minnett skewed the result. Without these extra



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expenses, the ratio would have continued to move favourably. It is my expectation that costs will continue to fall next financial year, albeit against reduced revenue.

I have mentioned only a few highlights here today. Further information about the performance and activities of each of our businesses is included in the annual report which is available here today, or you can download it from our website at

<http://www.awmlimited.com.au/ShareholderServices/annualreport/>

We continue to reduce duplicated systems in our business, following the appointment of Andrew Todd as Chief Information Officer in December. All staff around Australia now utilise the one phone system and shortly we will move to a common data storage and email domain.

Another key appointment made this year was Michael Carter as Head of the Wealth Management Division, who is responsible for all advice groups within AWM.

Michael's prior experience as General Manager, Alliances and Distribution and his knowledge of the financial planning industry generally made him an obvious choice to head this division.

Our people are an integral part of our business and I would like to take this opportunity to thank all staff for their efforts this year.



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## **Comment on IOOF transaction**

As you may already know, AWM announced its intention to merge with IOOF Limited earlier this week. The merged group will be known as IOOF Limited and will continue to be listed on the ASX.

Upon successful completion, I will become Managing Director of the merged entity.

IOOF is very similar to AWM in that it offers a range of investment and superannuation products for investors and employers. The merged company will be significantly stronger with:

- Better scale in its operations which will allow it to compete more strongly in the marketplace. Scale is vital going forward as the industry is likely to face increased margin pressure both from competition and from the impact of the current market conditions;
- Better sales and distribution reach;
- Broader product range;
- Lower overheads with the move from one corporate office for each separate entity to a single corporate office for the merged group; and

Under the terms of the deal, AWM shareholders will receive 1 IFL share for every 3.73 AUW shares.

The transaction involves IOOF acquiring AWM via a Scheme of Arrangement. The Scheme of Arrangement will take over three months to complete (estimated completion is April 2009) and is subject to a vote by AWM shareholders.



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Even though it is early days yet for the merger, I believe that this transaction is in the best interests not only for all shareholders, but for our clients and staff.

With the added experience from the most recent merger, we are well prepared to integrate both businesses successfully.

Further, the specific learnings and critical mass gained in a number of areas in recent years will accelerate our ability to uncover synergies between the two businesses.

## **Outlook**

The very nature of the global financial crisis makes it particularly difficult for all wealth management businesses to provide a concrete outlook for this financial year.

By virtue of its conservative nature, Australian Wealth Management is well placed to weather the current market conditions and emerge with strong future growth.