

30 October 2014

AMP to acquire 19.9% of China Life Pension Company

AMP Limited, Australia and New Zealand's leading independent wealth management business, announced it has agreed to acquire a 19.99 per cent stake in China Life Pension Company Limited, the largest pension company¹ in China.

The acquisition, for a total consideration of AUD\$240 million, makes AMP the first foreign company in the world to purchase a stake in a Chinese pension company with three licences allowing end to end services throughout China.

China Life Pension Company was founded in 2006 to provide enterprise annuities (EA) products to state-owned and private enterprises and is one of only five pension insurance companies in China. It currently has around 850 employees and is majority owned by China Life Insurance Company Limited, China's largest listed life insurance group² and one of the largest institutional investors in China.

AMP has operated in China since 1997 and has had a formal relationship with China Life since 2005. In August 2009, AMP and China Life signed a Memorandum of Understanding for Strategic Cooperation.

"This acquisition provides AMP with a strategic foothold in the rapidly growing Enterprise Annuity segment of China's pension market and also extends our relationship with China Life, a leading global financial services brand," said AMP Chief Executive Officer Craig Meller.

"AMP has a proud 165 year history and has contributed significantly to the development of the AUD\$1.85 trillion superannuation and pension market in Australia, the world's fourth largest pension savings pool.

"Having had a successful venture in funds management from last year, we look forward to sharing our expertise in corporate superannuation and investment management to help grow China Life Pension Company's business in a market where we see significant growth potential."

Enterprise Annuities in China are forecast to overtake the equivalent size of the Australian employer sponsored superannuation sector in 2015³. Growth in this market has been around

¹ Largest pension insurance company by AUM

² China Life Insurance Company Limited is China's largest listed life insurance group by market capitalisation

³ Macquarie (June 2014) and DEXX&R (May 2013) projections

26 per cent per annum during the past five years and is expected to be aided by a significant ageing of China's population with the 65+ age group anticipated to double over the next 15 years, as over 100 million people enter this age bracket.

China's Enterprise Annuities market represents the second pillar of the Chinese pension system, a voluntary system provided by the employer. There are currently over 66,000 participating enterprises and more than 20 million members.

As part of the transaction, AMP will enter into a Business Cooperation Undertaking to provide technical support to China Life Pension Company. AMP will nominate two directors to the 11 member board of China Life Pension Company and be positioned as its second largest shareholder and a major strategic partner in this venture with China Life.


AMP forecasts China Life Pension Company, which already holds national licences for trustee services, investment management and account administration, to break even in the next 24 months. The acquisition is expected to settle in late 2014, subject to regulatory approvals, and is expected to be Earnings Per Share (EPS) accretive to the AMP Group results from 2017. EPS dilution will not be material in 2015 and 2016 to AMP Group.

"This strategic investment by AMP is a significant moment in the history of China Life Pension Company's development and is another important milestone event following the establishment of China Life AMP Asset Management Company, between China Life and AMP, in 2013," said China Life Insurance Group Chairman Yang Mingsheng.

"This marks a new chapter of transformation for China Life in the diversification of its equity base, internationalising its business and making its operations more market-orientated. China Life Pension Company will become an indispensable driver of new growth for China Life Group's business development strategy and provide a significant contribution to the Chinese social security system."

In September 2013, AMP Capital and China Life Asset Management Company formed a joint venture, China Life AMP Asset Management Company, to offer retail and institutional investors in China access to investments in domestic listed equities and fixed income.

The asset management venture launched its first mutual fund in January 2014, followed by three other funds during the year, and is already in the top third of fund management companies in China. The venture's Money Market fund has raised AUD\$3.8 billion to date. AMP Capital holds a 15 per cent stake in the asset management venture.

Consideration for AMP's 19.99 per cent stake in China Life Pension Company will be funded via existing surplus capital and liquidity facilities. It is anticipated the transaction will reduce the surplus capital over minimum regulatory requirements of AMP Life Limited (the acquirer) and consequently AMP Group by approximately AUD\$180 million. 

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About China Life Insurance Company Limited:

China Life is the largest listed life insurance company in the world by market capitalisation and has a total of 640,000 life agents working from around 2,000 branches across China. China Life is one of the largest institutional investors in China with approximately RMB2.0 trillion (over AUD\$370 billion) in assets under management.

About China Life Pension Company:

China Life Pension Company is the largest pension insurance company in China by AUM, with 35 branches and centres across China. China Life Pension Company holds Trustee, Investment Management and Account Administration national licences. China Life Pension Company has Assets under Trusteeship of RMB 114.7 billion (AUD\$21.4 billion⁴), Assets Under Investment of RMB 78.6 billion (AUD\$14.7 billion), and Accounts Under Administration of 1.2 million as at 30 June 2014. China Life Pension Company is a unit of China Life and is regulated by the China Insurance Regulatory Commission (CIRC) and the Ministry of Human Resources and Social Securities (MOHRSS).

About AMP Limited:

Established in 1849, AMP Limited is Australia and New Zealand's leading independent wealth management company. AMP has the largest financial advice network in Australia and New Zealand with 4,441 aligned and employed financial advisers and planners. AMP has around 835,000 shareholders and manages A\$205 billion in assets. AMP's wholesale superannuation business provides superannuation and insurance services to more than 50,000 companies and 500,000 members in Australia.

About AMP Capital:

AMP Capital is a specialist investment manager with more than AUD\$145 billion in funds under management as at 30 September 2014 and more than 250 investment professionals. AMP Capital is one of the most experienced global infrastructure managers with more than 20 years' experience and over 100 infrastructure (equity and debt) investments globally since 1988.

⁴ Exchange Rate AUD:RMB 5.35

Pension market in China

- Similar to Australia's 3 pillar system (basic pension, enterprise annuity (EA) and individual savings)
- China Life Pension Company operates in Pillar 2, enterprise annuities
- EA contributions are voluntary
- The Chinese EA product is similar to Australian corporate (employer sponsored) superannuation and is similar to the Australian defined contribution (DC) scheme
- The EA market is regulated by the Ministry of Human Resources and Social Security (MOHRSS)
- As of 2013, the EA market had:
 - o 66,000+ participating enterprises
 - o 20m+ members
 - o RMB600 billion+ of Assets Under Management (AU\$112 billion)
- China's EA market is forecast to overtake the equivalent size of the Australian employer sponsored superannuation sector in 2015 and grow to RMB3.8 trillion (A\$717 billion) by 2020
- The EA market is expected to bring the retirement income replacement rate from current levels of 30-50% (basic pension) to 60%-70%
- Employers can make pre-tax contributions of up to 8.3% of employees' salaries and employees can make additional pre-tax contributions of up to 4%. Prior to recent changes in legislation, employees contributed from post-tax income. The government intends that this new measure will provide greater incentives for employers other than SOE to participate in EA market
- Investment earnings are tax free
- Benefits are taxable upon retirement. On retirement, EAs can be drawn down as a lump sum or by instalments

Regulatory reform since 2004:

- 2000: State Council releases the 3 pillar design of China future pension system
- 2004: Release of "Pilot measures of the management of enterprise annuity"
- 2009: Introduction of Employer contribution tax incentives
- 2004-2011: A series of 29 separate regulations were introduced covering areas including: investment universe, master trust, pension products etc
- 2011: Release of "Measures for the management of enterprise annuity"
- 2014: Introduction of individual tax incentives on contributions

Transaction

- AMP will be the first foreign company in the world to enter the Chinese enterprise annuities market by acquiring a minority stake in China Life Pension Company that has three national licences across trustee, investment management and account administration
- 19.99% equity stake as a strategic investor in CLPC for a total consideration of AU\$240m
- The capital impact on AMP Life Limited of the acquisition will be approximately A\$180m, ie AMP's current surplus over minimum regulatory requirements will reduce by A\$180m
- Payment for the 19.99% stake will be via existing capital surplus and liquidity facilities
- AMP forecasts China Life Pension Company to break-even in the next 24 months

- The acquisition is expected to settle in late 2014 and is expected to be Earnings Per Share (EPS) accretive to the AMP Group results from 2017. EPS dilution will not be material in 2015 and 2016 to AMP Group
- AMP will nominate two Directors to the board out of up to 11 potential board members
- AMP has anti-dilution rights to remain as the 2nd largest shareholder (China Life being largest)
- AMP will enter a Business Cooperation Undertaking to support and assist CLPC through sharing AMP's pension knowledge and experience

China

- Annual GDP reached US\$9.2 trillion+, 2nd largest in the world behind US (2013)
- Forecasted to be the largest economy by 2020
- 23 million persons aged 80 years or over were living in China in 2013, by 2050, China will still be the country with the largest population (90 million) aged 80 years or over (United Nation - World Population Ageing 2013)
- In China, the 65+ age group is expected to more than double in size over the next 15 years, as over 100 million people enter this age bracket. Meanwhile the workforce (aged 20-59) is shrinking
- China has a savings rate of over 50% which relative to that of Japan (0.8%), Korea (3.8%), Australia (9.8%) is very high, but pensions penetration is very low

China Life

- Largest listed life insurance company in the world by market capitalisation
- Largest life agent network in China with a total of 640,000+ life agents, 2,000 branches
- One of the largest Institutional investors in China with RMB2.0 trillion (over AUD\$370billion) in AUM

China Life Pension Company

- China Life Insurance Company Limited, majority owns China Life Pension Company with other affiliates of China Life Insurance Company Limited
 - o China Life Pension Company was established in Beijing in 2006 and is the largest pension insurance company in China by AUM
 - o China Life Pension Company's primary focus is on growing its enterprise annuity business across the breadth of companies in China, from State Owned Enterprises to Small and Medium Enterprises
- Operates 4 branches and 31 centres across China
- Key facts about the company
 - o China Life Pension Company is one of only four pension insurers to hold 3 of the 4 licenses required to engage in each component of EA business, being account administration, trustee and investment management. A custodian license can only be held by a bank
 - o China Life Pension Company has leading market shares (17%) of the trustee business and is the 2nd largest investment manager with 12% market share.
 - o Asset Under Trustee RMB114.7 billion (~AU\$21.4 billion), ~17% market share with annual growth rate of over 40% for the last 2.5 years
 - o Asset Under Investment RMB78.6 billion (~AU\$14.7 billion), ~12% market share with annual growth rate of over 30% for the last 2.5 years
 - o Accounts under Administration 1.2m, ~5.8% market share

MEDIA AND INVESTOR BRIEFING will be held at 5.30pm AEDST

To access the combined media and investor briefing teleconference, please dial in to the appropriate number listed below before **5:30pm (AEDST) on Thursday 30 October 2014:**

AUSTRALIA:	Toll Free 1800 838 758
NEW ZEALAND:	Toll Free 0800 447 258
Canada/USA:	Toll Free 1855 237 2970
China:	Toll Free 1080 0140 1776
Hong Kong:	Toll Free 800 901 654
Japan:	Toll Free 0053 116 1314
Singapore:	Toll Free 800 852 9513
United Kingdom:	Toll Free 0800 051 4282

INSTRUCTIONS FOR TELECONFERENCE:

During the meeting, you will be in “Listen-only” mode until question time – this means you will be able to listen to the presentation but will not be heard if you talk. If you have a problem while listening and would like help from an operator, press “star, zero” (*0).

At the end of the presentation, there will be a question and answer session. If you have a question at any point during this session, please press “star, one” (*1) on your touchtone phone. This will place you in the question queue, your details taken at connection will be used to introduce you at question time. Each participant will be put forward in order of registering.

If you decide to cancel your question, press “star, two” (*2). Once you have registered, AMP CEO, Craig Meller, will be advised that there is a question waiting on the phone. The teleconference operator will introduce you to the meeting - please do not start talking until the operator introduces you. If asking a question, please use a telephone handset rather than speakerphone. The sound quality using a speakerphone is poor and cannot be heard at the venue, which means it is unlikely your question will be answered.