Ladies and gentlemen – I would like to talk to you about AMP, our largest Australian investment.

At Samuel Terry, we buy shares with uncertain upside if - and only if - there is very low downside. AMP fits that mold.

AMP has been a pillar of the Australian economy since 1849. Since it listed on the ASX in 1998 the shares have fallen over 90%. It has allocated capital poorly, overpaying for acquisitions and selling assets cheaply. The epitome of this was the fire sale of Australia's leading life insurance business.

AMP has long had a bloated cost structure and the Hayne Royal Commission exposed a culture that abused customers' trust, trashing its reputation. Remediating the customer losses has cost AMP billions of dollars.

So why do we own them?

The most obvious reason is that the parts of AMP are worth substantially more than its market capitalisation of $4 bn. AMP has a collection of unrelated assets, with few synergies between them. Our estimate of the sum of the parts is shown in the slide above. For starters, AMP has, or will soon have, surplus capital of over two billion dollars, or about half the market capitalisation. This could be distributed to shareholders or used to make acquisitions. It owns a profitable bank that has net assets of over $1.2bn. Based on recent sales of other mid-size banks, it could be sold for at least that, possibly more.

AMP also owns a profitable wealth management business in New Zealand, which is the market leader, highly profitable and completely separate from the Australian businesses. That could be sold for around $400m.

AMP's superannuation business has suffered from bad publicity and competition from industry funds, but it still makes around $100m profit managing over $50bn of assets. Superannuation is a growth industry in Australia, and one in which size matters. If put up for sale, AMP's superannuation business would be keenly sought by competitors and might realise a billion dollars.

AMP's Platform business makes around $100m a year, which is almost perfectly offset by current losses in the financial planning division. AMP has publicly committed to doing whatever is necessary to restore the financial planning division to at least break even, and we have been impressed by the progress so far. We think the platform business could be sold for about a billion dollars.

Finally, AMP owns minority stakes in two Chinese businesses as well as a stake in a US property platform. These are opaque and difficult to value, but they are great assets worth at least book value of $685m and maybe a billion dollars.

In total, we think the sum of the parts is worth over $2.00 per share, compared to a share price of $1.28.

AMP is not just cheap relative to break up value. Even with around half the market capitalisation in cash, the shares are trading at around 14x forecast earnings, and the board has expressed a desire to resume regular dividends. The current management team is doing a good job of improving AMP's businesses. The balance sheet is strong. If the company continues its stated course of returning some money to shareholders and spending some on acquisitions, the shares are so cheap that our downside is limited and we expect to make a satisfactory return.

We recognise that we aren't the first to make the argument that AMP is cheap relative to its assets and likely earnings. Value managers, like us, have been making this kind of argument for years, maybe decades - and so far, we have been wrong. AMP has a long history of being cheap and getting cheaper. Why is it different this time?

The most important change is that we finally have a first-class CEO in Alexis George. She is an industry veteran who has closely watched AMP's demise from the outside. She understands the nuts and bolts of all of AMP's businesses and is equally at home in a call centre as the board room.

Under Alexis George, AMP has been shrinking itself and returning capital to shareholders. In the last three years it has sold the life and capital businesses and returned or committed to return $1.3bn to shareholders. If the share price remains well below intrinsic value, we particularly like seeing AMP buying back shares. Last year, it bought back $200m worth and is currently buying back another $350m worth. These are positive first steps but much more can be done.

AMP's share price is about 60% of fair value. This means that whenever AMP buys an asset, that asset will be priced in the share market at 60% of what AMP just paid for it. In effect, if AMP uses a dollar to make an acquisition, then AMP magically turns a dollar into sixty cents. If AMP returns that dollar to shareholders, it turns a dollar (valued by the stock market at sixty cents) into a hundred cents in the shareholders' pocket. If it uses the dollar to buy back shares at a large discount it can potentially turn that dollar into a dollar fifty. Buybacks at large discounts to underlying value benefit both ongoing shareholders via increasing value per share but also benefit selling shareholders who receive a higher price for their shares. The larger the buybacks and the cheaper the buyback price, the greater the benefit to ongoing shareholders.

But, we are concerned that AMP has expressed a desire to make acquisitions and there have been newspaper articles saying that AMP is looking at potential large acquisitions.

The key question for shareholders is whether AMP has finally embraced shareholder value, or will it return to its bad old habits of wasting money on poor acquisitions?

AMP's mix of assets do not belong together. There are no synergies between an Australian bank, a New Zealand wealth manager and a minority stake in a Chinese pension firm. Keeping these assets together is costing AMP shareholders significant money. Shrinking and simplifying AMP should not be rushed; it should be done in an orderly and considered manner.

If AMP avoids acquisitions, continues selling assets and returning cash to shareholders, especially through cheap buybacks, the upside is well over $2.00 per share.

The choice facing AMP's board and management is between (1) growing the AMP empire and generating uninspiring returns for shareholders or (2) shrinking AMP to generate much better returns for shareholders.

This is a board decision, but the directors will be influenced by shareholder opinion.

So, the shareholder message to the AMP Board is:

1- Make No Acquisitions
2- Continue realising assets, but not in a fire sale
3- Return more capital to shareholders – especially through cheap buybacks.

Good afternoon