Chief Executive Officer's review

Steven Levin
Chief Executive Officer

Business performance

A year ago, I set out my plans to deliver better returns and drive faster growth through building our distribution, enhancing our propositions, and improving our operational efficiency. We have made good progress against each of these targets but there is more to be done to deliver on Quilter's full potential, which I discuss further below. In summary, 2023 was a good year for Quilter. We delivered:

- record profitability under our current corporate perimeter (following disposals of Quilter International and Quilter Life Assurance);
- increased new business flows across the Quilter channel and improved our market share of new gross Platform flows in both the Quilter and IFA channels, despite a lower new business market overall for the industry; and
- improved efficiency, while investing to deliver faster growth and higher returns in the longer-term.

Although higher than expected interest rates in 2023 led to a squeeze in consumer incomes and reduced clients' propensity to invest, we benefitted from higher investment returns on shareholder funds. This, together with robust cost management, delivered a strong increase in adjusted profit of 25% to £167 million (2022: £134 million).

I am pleased to report another year of lower costs, despite inflationary headwinds. In 2022 we reduced costs by £8 million from the 2021 base level of £480 million, and this year we reduced costs by a further £14 million, taking the cost base to £458 million. That represents a decline of 3% in 2023 and contributed to an improvement in operating margin to 27% (2022: 22%), a level that exceeds our 2025 target. We are now focused on our medium-term goal of 30%.

Across our two segments:

- High Net Worth delivered steady income with higher costs reflecting business investment through new adviser and investment manager hires. This led to a decline in adjusted profit before tax to £41 million (2022: £45 million).
- Modestly higher revenues in our Affluent segment of £393 million (2022: £387 million) reflected the contribution from interest income on the shareholder capital which supports the business, partially offset by mix changes and the planned margin reduction on managed assets following the Cirilium reprice at the end of the first quarter of 2023. Strong cost management combined with a lower FSCS levy led to a 18% increase in adjusted profit to £124 million for the year (2022: £105 million).

Group adjusted profit before tax of £167 million represents the Group's IFRS profit, adjusted for specific items that management consider to be outside of normal operations or one-off in nature. The Group's IFRS profit after tax was £42 million compared to £175 million in 2022. Principal differences between adjusted profit and IFRS profit are due to non-cash amortisation of intangible assets, business transformation expenses (which are pre-funded and expensed as incurred), finance costs and the impact of policyholder tax positions on the Group's results. This latter item was negative in 2023 due to the gain in markets and was significantly positive in 2022 reflecting the market decline during that year. Business transformation expenses will remain elevated in 2024 and 2025, reflecting spend on anticipated change programmes, but are expected to reduce substantially thereafter.

Total Group adjusted diluted earnings per share were 9.4 pence, an increase of 19% (2022: 7.9 pence). On an IFRS basis, we delivered basic EPS of 3.1 pence per share versus 12.2 pence per share for 2022.

Flows and investment performance

Turning to flows, at an aggregate level, net flows in our core business were 1% of opening balances, with the reported Group position (after non-core outflows) broadly flat. Although the Group position reflected muted activity levels across the industry, we saw varied trends across the business. Notably, both our Quilter channel and the level of new business onto our Platform were good relative to market peers:

- Across the Quilter channel, we achieved a 16% increase in gross flows to £513 million (2022: £443 million) in our High Net Worth segment, and a 12% increase to £3.6 billion (2022: £3.2 billion) in our Affluent segment.
- New IFA flows in Affluent were around 7% higher, despite lower levels of new business across the market, and declined by a similar amount in our High Net Worth business. We saw net outflows in both segments reflecting higher levels of redemptions and acquisitions of IFA firms and a small number of larger corporate/charity accounts heavily influencing this outcome in our High Net Worth segment.
- Within Affluent, we were particularly pleased that we maintained our position as the leading advised platform for new business flows during the year and we attained the position of the largest UK Advised Platform by assets during the second quarter of 2023 (according to Fundscape).

In terms of investment performance, High Net Worth has been strong, outperforming the ARC PCI Steady Growth and Equity Risk peer groups over 1, 3 and 5 years. Within Affluent, we continued to deliver good performance from our WealthSelect managed portfolio range. Cirilium Passive and Blend also performed well. Pleasingly, since the change in manager for Cirilium Active towards the end of 2022, the performance has improved. We are confident that the fund is now much better positioned.

Business improvement

Distribution

In High Net Worth, we continue to build our advice capability across the UK and internationally in our Dublin and Jersey offices. We also launched a brand refresh in November to reinvigorate market awareness of our Quilter Cheviot proposition and to bring the Financial Planning business under the Quilter Cheviot name. We plan to grow our client facing professional headcount (investment managers and financial planners) to around 300 over time through developing existing staff and external recruitment. Where appropriate, we will look to take advantage of recent market dislocation by making modest bolt-on acquisitions to bolster our advice business or add teams of investment managers to accelerate our growth plans.

Within Affluent, our Quilter channel is building distribution on three fronts. We are targeting increased:

- adviser numbers, where the position has broadly stabilised versus the reductions seen in recent years. Total adviser headcount declined marginally over the year reflecting a combination of natural attrition and retirements. The loss of advisers directly as a result of market consolidation was significantly lower than in the prior year;
- adviser productivity, where in 2023 we achieved a 22% increase in annual gross flow per adviser to £2.8 million (2022: £2.3 million); and
- adviser assets managed within our propositions through back-book transfers, which totalled c.£750 million during the year.

We continue to improve our share of gross market flows in the IFA channel. Total new business flow from IFAs onto our Platform was up 7% year-on-year despite lower market volumes overall. That led to an improvement in our share of new IFA business to 8.0% from 7.4% in 2022. Notably, in the latter part of the year our share of new business was ahead of our share of total assets under administration for the first time in a number of years.

Proposition

Our Platform and investment solutions are both market-leading propositions. My focus is on ensuring both remain competitively positioned and continue to offer value to customers.

- The reprice of our Cirilium proposition coupled with improved performance in the Active range repositioned the product and we continue to see strong appetite for our Blend and Passive offerings.
- We meaningfully reduced our Platform administration fee to clients, with this partially offset through a clearly communicated sharing arrangement on the interest earned on Platform-held cash. We use our purchasing power to obtain better interest rates than individual clients can get themselves and pass the majority of this benefit onto clients. The overall cost to us over an interest rate cycle is expected to be in line with the basis point of Platform margin attrition that we guided to in March 2023 and while interest rates remain elevated, the net outcome will be better returns for clients and a broadly neutral impact on Platform margins for Quilter.

The nature of our business model meant we were well-positioned for the introduction of Consumer Duty in July 2023. Our unique breadth of distribution means that all our products and services are available across the market, to both our financial advisers and independent financial advisers. That means whether through investment performance or in terms of price/value/service trade-offs, our products and solutions need to be competitive with third-party alternatives. As such, the need to both demonstrate and deliver value is central to our approach. Our unbundled pricing approach is aligned with Consumer Duty principles and puts client choice at the heart of our business. Notwithstanding this, Consumer Duty, rightly, creates an expectation on firms to continuously improve how they deliver customer value. This is something which we are focused on and, as well as the above, some of the initiatives we implemented in 2023 included:

- Tiered Adviser Charging: A Platform upgrade to implement automated tiered adviser charging meets a need that advisers have wanted from industry players for some time. This makes it easy for advisers to put sliding scale advice fees in place, linked to the value of their customers' assets. Most importantly, it supports advisers as they adapt their own businesses to be fully aligned with Consumer Duty principles.
- CashHub: Higher global interest rates means that cash is now seen as an attractive investment alternative for retail clients. To support cash as an asset class we introduced CashHub on our Platform in late 2023 for our advisers and rolled it out to IFAs in early 2024. This allows clients to manage their cash holdings alongside their other Platform assets, with instant access, notice deposits and fixed deposits held at selected banks. This provides market-leading rates together with the ability to maximise depositor protection by parcelling deposits up into individual accounts across a number of institutions, depending on client preference.

Also, in early 2024, we implemented a Platform software upgrade that ensured that clients would not pay an administration fee on cash balances but also allowed those cash balances to count towards the aggregate assets held by a client group for tiered charging under our family linking arrangements. This potentially allows cash held to reduce the overall charge that all members of the family pay for their Platform administration services.

Strategic Transformation

We have strategic programmes underway in each of our principal franchises: the High Net Worth segment, and, in Affluent, our IFA and Quilter channels. This activity is underpinned at a Group level with the next stage of our Simplification programme. Taking each in turn:

1. High Net Worth evolution

Over the last few years, we have built a Quilter-branded advice business in our High Net Worth segment which has contributed significant incremental flows to our business. For historical reasons our advice and investment management businesses have been managed through different legal entities which complicates integrated client servicing. In 2024, we plan to bring both teams together in a single legal and regulated structure under the new Quilter Cheviot brand, having applied to extend Quilter Cheviot's regulatory permissions to include financial planning. Alongside the rebrand, this will unify our market proposition for clients with often more complex financial needs and allow us to manage client relationships in a far more seamless way. We will implement this change as soon as necessary regulatory approvals are in place.

2. Affluent: IFA Channel

One of the defining characteristics of Quilter is the breadth of the advice proposition and distribution we support. Our dual channel distribution allows our Platform and solutions to administer and manage flows generated by both our own advisers and independent firms. This ensures we are strategically well positioned for however the advice market evolves over time. Both our Platform and investment solutions businesses have capacity to deliver strong operating leverage and have operating metrics which are as good as any in the industry.

Chief Executive Officer's review *continued*

Our Platform administers c.£60 billion of assets on behalf of IFA firms which are invested in both our and third-party funds. We aim to grow these assets by increasing the active numbers of firms using our Platform and the share of assets we administer for those firms.

We also offer our leading WealthSelect managed portfolio solution to firms on our Platform, with a view to increasing the percentage of their assets we both manage and administer. From early 2024, we have made WealthSelect available on three third-party platforms which will also provide another source of new business flows into our solutions.

3. Affluent: Quilter Channel Transformation

Our advice business advises on c.£15 billion of assets on our Platform and in our solutions, and around £10 billion on third party platforms. This integrated business has the potential to deliver higher returns, and our plans to transform this channel are already delivering improved results. Our focus is on increasing assets on our Platform, improving adviser productivity, reducing support costs, and delivering a better customer experience. This work is on track, and we are currently in the process of selecting preferred suppliers to work with us on this programme.

We have been piloting Quilter Partners – a co-branded proposition with adviser firms where flows are fully aligned with our investment solutions and Platform. This allows us to participate in the growth of these firms while retaining the entrepreneurial drive and focus of self-owned businesses. We have been working with seven potential Quilter Partner firms and will undertake further transactions where there is mutual economic alignment for firms to partner with us under this structure.

Adding new advisers to our business is a key contributor to future growth and training new advisers will be an increasing contributor to that growth. We aim to transition our Financial Adviser School into a profession-leading financial advice Academy, and in 2024 we expect a marked step up in investment here. Our target is for the new academy, coupled with new external hires, to deliver net growth in restricted financial planners ("RFPs") in 2024 with momentum increasing from 2025 onwards.

4. Simplification Phase Two

Following the sale of Quilter Life Assurance and Quilter International, the initial stage of Simplification focused on reducing complexity in our business and decommissioning legacy IT infrastructure. Targeted cost saves of £45 million from this programme were achieved by the end of 2023, on a run-rate basis, a year earlier than originally planned.

Simplification Phase Two targets a further £50 million of annualised cost savings to be achieved by the end 2025 on a run-rate basis, with a cost to achieve of approximately £65 million, inclusive of spend on our Advice transformation plans and High Net Worth initiatives. These savings arise from the simplification of our governance and internal administration processes, property rationalisation, coupled with IT and Operations efficiencies from our investment in Advice technology. These additional cost savings will support delivery towards our 30% operating margin ambitions and £8 million of this target was delivered by end 2023 on a run-rate basis.

Ongoing advice

Delivering advice is core to how we operate, and we have policies in place that underline the need for advisers to meet their ongoing servicing obligations. Our complaints related to ongoing servicing have remained at a low and consistent level over the last four years.

Where our regular adviser oversight has determined that a customer may not have received the servicing they have paid for, or where we have received complaints from customers regarding ongoing servicing, this has been investigated, and, where appropriate, remediation has been undertaken and recognised as a normal business as usual expense.

Subsequent to the year-end, on 15 February 2024, the FCA wrote to around 20 advice firms, including Quilter, requesting information regarding ongoing servicing. Consistent with our focus on delivering good customer outcomes, we are commencing a review of historical data and practices across our network to determine what, if any, further action may be required. This may lead to remedial costs but it is too early to quantify.

Outlook

Market expectations are for a period of UK interest rate stability before rates begin to decline around the middle of 2024. While that will eventually lead to lower investment income, we welcome this transition as we expect lower interest rates will support market performance and increase consumer focus on longer-term savings products. With wage increases in the UK now outpacing retail price inflation, the environment for longer-term saving is more constructive than has been the situation for some time. Our expectation is that flows will continue to improve over 2024 as consumer and market sentiment returns to more normal levels.

We are focused on driving towards a 30% operating margin. We intend to increase growth investment spend in 2024 and also expect the FSCS levy to increase from current levels. While this will lead to a mid to high single digit increase in operating expenses, our current expectation is for a modest year-on-year increase in Adjusted Profit, excluding any potential costs associated with the aforementioned review of historical advice.

The structural need to save for retirement combined with our growth plans and focus on operational efficiency, supported by a strong balance sheet, means we are well positioned as market conditions improve.

Steven Levin
Chief Executive Officer

Future ready

Q&A with Chief Executive Officer, Steven Levin

Q. What are your reflections one year into the role as Quilter's Chief Executive Officer?

A. Coming into the role a year ago, I was fortunate to inherit a business with good foundations; Quilter is both a strategically well positioned business and has a strong balance sheet. However we were not performing as well as I know we can – we are on a journey to fix that and I have been delighted with the enthusiasm of our people to join me in accelerating the execution of our strategy. Our colleagues all know the importance of what we do for our clients: building their prosperity and wanting to do their part in making Quilter the best business for achieving that outcome.

The positive achievements this year have been the things within our control: cost management, improving our propositions and distribution reach. We have seen really good momentum against our strategic objectives. Our adjusted profit performance was a strong result, well ahead of market expectations, and our efficiency initiatives meant we have already exceeded our 2025 operating margin target of 25%.

The main negative was weak flows across the market, with our flows well below the level we target. A large part of that was due to the impact of higher interest rates and cost of living headwinds, limiting households' ability to save. Focusing efforts on building distribution and enhancing our proposition will lay the foundations to improve our share of flows when investor sentiment improves.

Q. Why the evolution of the strategic priorities?

A. Our industry has huge potential and I am very excited by that. We have a leading position in each segment of the market in which we operate. The Board and I are agreed that Quilter has the right overall strategy and the right business mix to deliver that strategy, and it is now about making the right strategic choices. We have not delivered the growth of which we are capable and so we are now absolutely focused on delivering faster growth and driving efficiency.

Q. Is progress on transforming business efficiency in line with expectations?

A. Simplifying Quilter and improving our operating margin is a key priority for me. The next stage of our transformation, Simplification Phase Two, is well underway. This work is focused on reducing organisational complexity and unnecessary bureaucracy, and transforming our Advice business so that it is both more profitable and allows our advisers to be more efficient and deliver a better experience to their clients.

In 2023, we delivered Phase One of our Simplification programme which reduced costs by £45 million on a run-rate basis a year early. We have already delivered £8 million of run-rate savings from the new programme and expect to deliver run-rate savings of £20 million per annum from this programme in each of 2024 and 2025.

Q. What are you doing to improve things?

A. Although total net flows are not at a level I would like, the underlying performance has been pleasing when you look at the detail. First, our Quilter channel has continued to deliver a strong performance both in the Affluent and High Net Worth segments. Notably, gross new business were higher in both segments than in the previous year and net flows were flat, despite the market being more difficult overall.

Overall numbers of RFPs are modestly lower than the prior year, with the modest decline largely due to advisers taking part in a retirement scheme we made available which allowed us to retain the assets they advised upon after their departure. Our longer-term focus is on growing our adviser numbers, improving their productivity and capturing back-books which are currently on other platforms. In High Net Worth, we continue to hire investment managers and launched an internship programme to develop future talent.

The IFA channel has been more challenging. While new business levels have been good in the context of the market, consolidation activity and higher levels of client drawdowns have meant we have experienced net outflows in this channel. We need to do better here and I have made some changes to my management team and our sales force structures to drive better performance. I expect to see positive results from those changes in 2024.

Q&A

Chief Executive Officer's review *continued*

Q. What have you done to improve Quilter's client propositions?

A. We were very busy on the proposition front during 2023.

Early in the year, we announced a reprice of our Cirilium Active fund range which has been coupled with improved investment performance since the change in investment team in late 2022. This repositioned the product and we continue to see strong appetite for our Blend and Passive offerings together with our WealthSelect managed portfolio range which crossed the £13 billion level during the year. WealthSelect was launched on three peer Platforms in early 2024, broadening its distribution and the reach of flows it can capture.

Quilter Cheviot's MPS launched two new strategies on platforms, helping to fill a gap in our High Net Worth range and provide additional portfolio choices to clients.

A repositioning of our Platform pricing went live for new customers at the end of the second quarter and was rolled out to existing customers in the third. The repricing, together with tiered adviser charging functionality, has been well received by advisers and is in line with Consumer Duty principles – good customer outcomes are always at the heart of our proposition.

The advent of higher global interest rates means that cash is now seen as an investment alternative for retail clients. To support the needs of clients and advisers, we introduced a CashHub on our Platform towards the end of 2023. While flows into the CashHub are expected to be modest initially, the functionality gives advisers greater visibility of a client's assets, provides the client with Easy Access, Notice Deposits and Fixed Term Deposits, and solidifies Quilter's full service Platform proposition.

Q. Consumer Duty has been a new development this year, how is Quilter positioned for that?

A. The Consumer Duty regulatory regime came into effect in July and there has been a lot of media coverage about its impact. We welcomed the introduction of Consumer Duty as it provided a validation of how we think about the industry and serving clients. We always believed that Quilter's unbundled pricing approach to serving clients, with no lock-ins, puts client choice at the heart of our business. Moreover, our unique breadth of distribution means that all our products and services are available across the market, to both our financial advisers and to independent financial advisers.

For further insight into our approach to Consumer Duty, see the case study on page 53.

Q. What is your focus for 2024?

A. My focus remains resolutely on building distribution, enhancing our proposition, and improving efficiency so we can capture the maximum available flows across the market and are well positioned when industry flows return.

Initiatives we have in the pipeline to progress in 2024 include: the full launch of our strategic adviser distribution affiliation, Quilter Partners, and the relaunch of the Financial Adviser Academy; continue evolution of our product proposition; leveraging new professional connections in High Net Worth; progressing our advice transformation programme; and, executing on Simplification Phase Two initiatives.

Q. Why invest in Quilter?

A. There is huge potential within a secular growth industry where an ageing population has to increasingly focus on self-provision for their retirement savings. Market forecasts suggest that over the next decade, assets under face-to-face advice will experience a six to seven percent compound annual growth rate driven by new customers entering the market, an increased uptake in advice from younger customers as well as underlying market growth. That's a pretty attractive industry to be involved in.

In the near-term, the key catalyst for investor sentiment will be improved industry flows. As inflation continues to decline and interest rates start to fall in response, we believe clients will return to long-term savings products as the rate of return on cash becomes less attractive. Our proposition is well received by advisers and their clients, and we are well placed to be a winner in the asset gathering space when flows return to more normal levels.

My focus is on driving faster growth in revenues and profits, by broadening our distribution, enhancing our proposition, and improving efficiency. The opportunity for operating leverage in our business is significant and all our efforts are focused on delivering good customer outcomes and improved returns for shareholders.