Quilter Results – 2022 Full Year Results

8 March 2023

Steven Levin: So good morning, everyone, and thank you for joining us today.

First off, let me introduce myself to those who don't know me. I'm Steven Levin and I took over as CEO of Quilter in November last year. I've run a number of businesses within the Quilter Group, including the platform, Quilter Investors and several of the businesses we've sold.

Since taking the helm, I've been reviewing our whole business to assess what we do well and what we can do better. We've done a number of things well as a business. Capital discipline, the platform migration and cost management stand out here in this regard. We've got a great platform and we've got a great asset management business, and both of these are hugely scalable businesses. We've got an excellent proposition for our High Net Worth clients at Quilter Cheviot. We've got the second largest advice business in the UK.

Quilter's got a great market position and a huge amount of potential, and that's what really excites me about this business. But our business is more complex and less efficient than it could be. And I know that there are areas that we haven't delivered well enough. We've fallen short of our own targets and we've not delivered the growth that we're capable of. Frankly, the report card says 'can do better'.

For example, our historic acquisitions on the advice side, they weren't integrated well enough, leaving us with unnecessary cost and complexity. Some of our propositions could be better positioned in the market to compete more effectively. We've got great people in this business, but far too often they've been too inwardly focused. We need to fix all of these things.

And of course, there have been some material changes in the world since our Capital Markets Day in 2021. The war in Ukraine has led to rising inflation, much tougher markets, with lower asset levels and consumers under significant cost of living pressure. Many consumers are less able to save and even our wealthiest clients are wary of putting money to work in this volatile market environment.

Our UK advice-led strategy is the right one. It needs some tweaking as the market has changed and that's to be expected. However, tighter execution is what really matters in our business.

So today I'm going to take you through the steps that we're taking to drive performance. This will be a journey, and while I'm really impatient to deliver a significant improvement, today I'm setting out realistic targets as we build towards delivering faster growth and higher returns.

Before I get into the business, let me summarise some of the financial results and obviously Mark is going to go into this in a lot more detail later.

I'm pleased with the profit outturn of £134 million last year. It's down just 3% on 2021. You all know it was a very challenging operating environment, so in this context, it is a very good result. We held our operating margins steady, reducing costs in line with the pressures that we saw on revenues despite the inflationary environment. Our business transformation continues apace. We reduced costs by £65 million through optimisation and we've delivered £23 million of our £45 million Simplification target. Adjusted diluted earnings per share was up 7% to 7.9p supported by the reduction in our share count from the capital distributions. And our confidence and strength in the outlook and the strength of our balance sheet supports a higher dividend of 4.5 pence, an increase of 13%.

As you know, since we listed in 2018, we've done a lot to reshape our business. We're now a focused UK wealth management business and we're strategically well positioned across the entire wealth value chain. We've built the business to service High Net Worth and clients across two scale distribution channels - our own advisers and independent financial advisers. We've got a market-leading platform operating on a robust technology infrastructure. And we've demonstrated very strong cost discipline and capital management credentials by returning £1 billion to shareholders since listing.

The UK wealth market is a fundamentally attractive sector. It offers strong growth supported by favourable demographics, long-term customer relationships, high quality recurring revenue and high retention rates. Notwithstanding this, we've seen some short-term cyclical challenges from the economic environment and from markets. And we've also seen an increase in adviser consolidation, which has changed the competitive landscape. But all of this you already know.

This does mean that despite all the work we've done to reshape our business, we can't stand still. I'll come to what actions we intend to take in a moment, but first I want to share how I look at our business.

As you know, we run our business across two segments. And in those two segments, we've got three engines which drive our business. High net worth and then in Affluent, we've got the Quilter Channel and the IFA Channel. And each of these generate about £200 million of revenue and each can actually do better.

Going clockwise around the chart: first the Quilter Channel. Here we provide a platform and investment solutions to clients through our own restricted adviser network. While there's understandably a focus on adviser numbers, which is a proxy for growth, what's equally important to me is productivity, adviser alignment with our own propositions, good customer outcomes and generating a good return for our shareholders. We've got a good business here, which we've scaled through acquisition, but we haven't done as much integration as we should have. I see significant opportunities to eliminate IT duplication and simplify our processes in the back office.

Next is our platform business, which serves the IFA Channel. With our new platform, we can target a much wider range of IFAs. We continue to add new IFA firms, but we need to push harder. Generating stronger flows here is a key priority for me.

Third, our High Net Worth Channel where our net flows have stood up well against peers, but I believe that we can grow this business faster by improving productivity and adding more investment managers and financial advisers.

So, what actions are we going to take? My three areas of focus are building distribution, enhancing proposition and driving efficiency. And by delivering on each of these, we will increase our profitability. Let me take each one of these in turn.

Distribution. One of our core strengths is our two large distribution channels, but we're seeing increasing sponsor backed consolidation disrupting this market. So, what does that mean? First, when IFAs are acquired, that may be a catalyst for them to consolidate their assets onto someone else's platform. And similarly for their investment solutions. And this can impact our net flows. And that's relevant to both our High Net Worth and our Affluent segments. To counter this, we're progressing clear plans to build relationships with larger IFA firms who aren't actively using our platform and adding relationship focused investment managers and advisers in our High Net Worth business.

Secondly, we've lost some of our own network advisers to these consolidators. So, we're adapting our adviser offering to improve retention and to build alignment. We're tweaking our exit proposition for retiring advisers to protect our base.

Turning now to proposition. We need to be more agile, more responsive and more market focused. Quilter Investors' performance was strong in 2022 with all strategies outperforming their comparators except for Cirilium Active. Over the last quarter, I've reviewed our investment capabilities and to improve performance, we've unified all Cirilium funds onto a single desk. This action led to the departures of two Cirilium Active fund managers. We've also reinvigorated and repriced our Cirilium multi asset portfolios, which we've announced this morning. So, from the end of March, this will make them more attractive to clients and to advisers.

We've already got strong a ESG offering in our managed portfolio service, and we're now working to extend this across our multi asset range as well.

We've got a market leading platform with outstanding functionality, but we need to be more competitive. And so, we're making some pricing changes to drive growth and offer better value for our customers. I expect that this will reduce our margin by around a basis point over the next 18 months and that's on top of the single basis point per annum that we've historically guided to. But we expect this will be more than offset by greater flows over time.

Next, efficiency. We've made very good progress with our existing plans, but there's more cost and complexity to tackle in this business. We'll do this by investing in technology and rationalising operational support and the back office across our adviser base. And I'll update you more on this at our Interims in August.

All these actions will lead to a meaningful step up in profitability over time. Yes, some of these actions will impact revenues in the short term, but we're confident that they'll lead to higher growth in the medium term. My focus is on delivering the growth and returns that our shareholders expect.

Now let me turn to the flow dynamics across our business and our expectations for the future. The left half of this slide summarises our Assets under Management and Administration. We administer £93 billion of assets of which £26 billion is in High Net Worth and £67 billion is on our platform, with £17 billion of that managed by us as well.

Then we've got another £8 billion of assets which are managed by Quilter Investors, but which sit on third party platforms.

The right-hand side of this slide summarises the gross and net flows across each business and as you can see, they've got different levels of growth.

And now I'm going to tell you how we're going to work to improve each one of them. I'm going to start with High Net Worth.

The flow performance in this business has been good relative to peers. In the top left, you can see gross flows from the IFA and from the Quilter Channels, and on the top right you can see the net outcome. Given that the Quilter Channel, which is in green on this graph at the top there, it's relatively new. You can see that there's a very good net to gross ratio. And that's because the book is relatively young, so has a low natural drawdown rate.

By contrast, the IFA Channel in grey is more mature and so has a higher natural drawdown rate. Overall, net flows were around 3% of opening balances in a challenging year. A more normal level of growth would be mid-single digits. Our plans to improve productivity and grow IMs and advisers will allow us to deliver this on a consistent basis.

The chart on the bottom here gives you the breakdown of what we regard as regular business outflows. There will be client drawdowns and assets leaving through inheritance. And then the outflows that we regret leaving. But as you can see, this is a book with high retention rates.

Before we look at our Affluent Channel, I want to take a step back and look at the market as a whole. So, there are two messages here. The first is, since the introduction of our new platform, we've steadily increased our market share of new business from third place in 2019 and 2020 to first place in 2022. But second, the overall market was sharply down last year by around 20%. So, with that context, how has the Quilter Channel performed? So, the same format as before. Top left, the level of gross flows in 22. They were stable versus 21 despite the market decline. So, the Quilter Channel increased its market share of new business from 3.2% in 21 to 3.8% in 22. Basically, our advisers are putting more business on our platform and that's exactly what we set out to achieve by reshaping the business after our new platform launch.

In the top right, the net flows of 15% of opening AuMA is a good result and has been pretty stable in the mid to high teens. And as you can see in the bottom left chart, gross new business runs at about 22% of AuMA offset by regular and regretted outflows running in line with long-term averages at around 4% and 3% respectively.

Now let me turn to the IFA flows and this is a key priority for me. Again, in the top left you can see the gross flows from IFAs. These have improved since we launched our new platform, giving some modest gains in market share. But as you can see, the net performance has been a lot more volatile. That's because this business is much more mature. If you look at the chart on the bottom left, you'll see that the gross flows are currently broadly offset by the combination of regular and regretted outflows. Regular outflows continue to run at fairly consistent levels. Regretted outflows are part of the natural industry churn and I want to manage these down further, but the current industry consolidation is clearly a factor that's relevant here.

The most important lever that we can pull in the short term is to drive up our gross flows. So how are we going to do that? To increase the £4.9 billion gross flows, we need two things. We need to grow our share of IFA flows. We're targeting new IFA firms and getting more business from existing firms, but I'm not happy with the pace. We can and we need to move faster here. And secondly, we need the market to recover. But industry expectations for this year is that we'll only see a gradual recovery in market flows and this could constrain how quickly we can improve IFA gross flows.

To give the full picture for flows, let me touch now on some of the natural headwinds in our business. First, we've got around £1 billion of assets on the platform related to the International business that we sold to Utmost. And the only new business here is going to be top ups. So, this will remain in net outflows and I wouldn't actually be surprised if this increased over time.

Then there's about £8 billion of assets managed by Quilter Investors that sit on third party platforms. Around £4 billion of this was originated by Quilter Advisers, and we're actively encouraging this to move over to our new platform because it meets the vast majority of customer needs exceedingly well.

Then there's around £2 billion from IFAs, which are predominantly in legacy investment propositions, and these are likely to remain in structural outflow.

And finally, there's £2 billion of assets, which we're managing on behalf of the Heritage Life Assurance business, which we sold back in 2019. And that's obviously also in structural outflow.

So let me bring that all together now at the Group level. So, I expect High Net Worth to deliver growth in flows at around a mid-single digit growth rate. They represent around a quarter of AuMA and that gives us around a 1% to 1.5% contribution to Group flows. I continue to expect the Quilter Channel to deliver a mid-teens growth rate and that should give around a 2% contribution to the Group target. Our non-core and other platforms will provide a drag of around 1% and that leaves our IFA Channel, which is around 50% of our AuMA, and I'm pushing here for stronger market share growth to deliver a meaningful improvement in our reported Group net flows.

But winning business from IFAs does take time. Given our modest expectations for market improvements in 2023, we're targeting IFA Channel flows of 1% to 2% this year, building to 4% to 5% as investment sentiment recovers. For the Group, this means net flows a bit over 2%, assuming some recovery in market sentiment in line with our expectations.

The Quilter Channel will continue to perform considerably better than this and we expect the Group to quickly get to 4% to 5% in normalised markets.

I want to be clear. We've got aspirations for this business to outperform these targets in the longer term, but the first step has got to be to get our growth rate up to at least these levels.

Now let me turn to some of the actions we've taken to reshape our Quilter Advice business. As you know, we've repositioned our adviser force over the last few years and the results are clear. Adviser productivity is up. New sales generated by advisers onto our platform have increased since 2020 and that's reflected in the better market share stats you see on the right. And the proportion that ends up on our platform or into Quilter Cheviot has increased from just under 70% in 2020 to just over 80% in 2022. So, flows are better, but we are not done transforming this business yet. We are still too operationally complex and frankly inefficient. We're working on plans to simplify our propositions to give us more productive advisers, delivering better outcomes for our clients and for our shareholders. We're going to do that by investing in technology to improve the adviser CRM proposition and to realise the potential of hybrid. We're going to align our advisers and our propositions more closely and we're going to streamline the support processes in Quilter Financial Planning and we'll continue to add advisers. But fundamentally it's quality, not quantity, that's most important to me. And we'll update you more on our progress here at the Interims.

Right before I hand over to Mark, let me just conclude by covering the targets that we're driving towards.

First, operating margin. As we know, the environment today is very different to the environment that we set out our targets at in our Capital Markets Day in November 2021. As Mark said at the Interims in August this would lead to a delay in reaching our margin targets. A number of the actions we're taking to grow our business means that margin may actually fall temporarily this year. But it should recover in 2024 and we anticipate reaching 25% in 2025.

I still believe that an operating margin of more than 30% is the right goal for our business and I want our business to deliver that as soon as possible.

Next, in terms of flows, we only expect a modest improvement in net flows across the industry this year as investor confidence recovers. And that will likely constrain our net flows in the near term. But as markets normalise, we expect to deliver a 4% to 5% growth rate. Importantly, as we build momentum, we aspire to outstrip that target in the longer term.

Right, let me hand over to Mark to take you through the financials.

Mark Satchel: Thank you, Steven, and good morning everyone. There were three things that had a significant impact on our results in 2022. The decline in equity markets, the rise in bond yields which reduced the value of bond portfolios and higher interest rates globally. The first two had a negative impact on our results and Assets under Management and Administration. And the latter provided some revenue benefits to offset that.

Now the four messages that I hope you take away from my presentation are: one, that the business is delivering robust flows in a tough market and showing improved persistency. Two, the trend in revenue margin has been absolutely in line with our expectations. Three, we've got costs under tight control despite inflationary pressures. And lastly, we've got a strong balance sheet following the completion of our capital return programme.

In terms of the numbers, adjusted profit and operating margins stack up well against market expectations. Clearly net flows are below where we want them to be. But as you've heard from Steven, we have clear plans to improve that.

This next chart is a similar one that I used at our Capital Markets Day to remind you of the key contributors to our results by segment. As you can see, both our core segments delivered a smaller profit contribution in 2022 than in 2021. And that was largely due to markets. At the same time, the head office net expense drag was less and that was a function of both cost management and the benefit from interest income on our cash and capital balances held for liquidity and regulatory purposes. Interest receipts contributed around £7 million to income at the centre.

Let me walk you through the details. Starting top left, net flows of £1.8 billion were about half of the level a year ago. Our average AuMA was only modestly behind that of last year. And top right you can see the decline in revenues were broadly in line with that reduction in average AuMA. Lower management fee revenue was partially offset by higher other revenue, principally interest income. Costs bottom left were down 2% to £472 million versus the £480 million we guided. By completing our optimisation plans, accelerating some of the Simplification initiatives and maintaining cost discipline, we largely offset expense increases. As a result, adjusted profit declined by 3% to £134 million. That gave an operating margin of 22%, flat on where we were a year ago.

And all that translated into adjusted diluted earnings per share of 7.9 pence, an increase of 7%. That increase was mainly due to the benefit of a lower share count from the share buyback and share consolidation schemes, partially offset by a more normal tax rate. Our High Net Worth business delivered a resilient income performance in 2022 and here for the first time in years, we saw a modest margin benefit of around 50 basis points earned on clients' cash funds. That contributed around £7 million to income. And as a result, overall income was broadly unchanged.

However, inflation and planned investment increased costs by £11 million, which led to the decline in profits. That investment to drive future growth was mainly into new Investment Manager hires and building capability in Quilter Private Client Advisers. As you know, the cost drag of new hires always lags the revenue build and we expect to see the benefit from this investment in time.

Turning now to the Affluent side of our business. We're pleased with the stable operating margin outturn here. Yes, lower markets reduced revenue, but we delivered strong cost management to help offset that. So, the profit decline was in line with our expectations given the market influence, which was a good result for the year.

This next slide will be familiar to you, and the picture here is in line with our expectations. In High Net Worth - the black line - we're holding relatively stable margins around the 70 basis point level. New business is coming onto the book at a broadly similar margin to our existing stock. Next, our investment platform, in dark green at the bottom. Here, we normally expect to see a gentle decline of around a basis point a year and in fact, margins held steady last year.

Finally, the Affluent managed assets - the lighter green - has also been resilient this year. And as Steven has said, there are two things you need to bear in mind for your 2023 forecasts: the

Cirilium Active repositioning from the end of this month and the platform repricing. The former is likely to reduce our Affluent managed assets revenue margin by around five basis points on a full year basis and the latter will be felt more gradually over time. We expect this to improve our competitive positioning with benefits in the future.

Let's now turn to the cost side of the equation where I'm very pleased with the outcome. We've reduced our total 2022 cost base to £472 million, down £8 million on 2021 despite inflationary headwinds and investment in growth initiatives. And here you can see that we've continued to manage down base costs as a percentage of revenues and that's the hard work bit. And that's what will drive our planned operating margin expansion in the future. The cost of revenue-generating staff as a percentage of revenues have moved up modestly, principally reflecting the investments we've made in High Net Worth that I mentioned earlier. We've also accrued a variable compensation at a broadly similar level as a proportion of revenues to 2021. And the uplift in other variable costs reflect more normal levels of operational expenditure post-pandemic, an uptick in development spend and a full period of FNZ platform costs.

Finally, we benefited from a reduction in FSCS levies this year, resulting from the industry-wide levy surplus that was carried forward from 2021. The waterfall on the right-hand side summarises the main changes year-on-year that delivered the reduced costs. Cost increases came from inflation and more normalised levels of investment. Cost reductions came from lower FSCS levies and our management actions.

When it comes to thinking about 2023, we remain very focused on continuing our Simplification programme and driving additional cost efficiencies. You should also bear in mind that while we've achieved £23 million of run rate business Simplification savings already, a good proportion of those still to be achieved will be realised when the TSA relating to the sale of Quilter International expires towards the end of this year. And while there’s talk of inflation peaking, it's still going to push up costs. And we've also still got plans to increase business investment. It's been a tough market, but we want to be well positioned when the environment improves.

Now let me turn to the strength of our balance sheet, starting with the major movements in the solvency ratio, which are all straightforward. We began the year with the ratio of 275% and finished at 230%. The capital return programme reduced the ratio by 56 percentage points. Below the line transformation costs were a five percentage point drag, while profits added 12 percentage points. The full year dividend reduces the ratio by ten percentage points, bringing us to the 230% you see here. And you should also note that the end position includes the benefit of the cash we retained from the sale of Quilter International in order to fund the cost of Simplification and business revenue initiatives. As that money gets spent it will reduce the solvency ratio by around another eight percentage points.

Let me touch on the recent refinance of our subordinated debt issue as we’ve had a few questions on this. We decided the best outcome was to go ahead and refinance, albeit at a slightly higher cost. Essentially, a coupon of 8.5% versus a 7.5% coupon for the older instrument as it would have repriced had we not called it. The old bonds were issued five years ago with a ten-year maturity and a one-time call at the five-year point. And this structure is typically employed in bank and insurer subordinated debt and market convention is that the bonds are called on their first call date. So when the bonds were originally marketed, the investor expectation was that they would be called after five years. We ran the risk of damaging Quilter’s standing in the credit markets if we had not called. And I hope that explains our thinking.

Next, let me touch on the cash position at the bottom. You'll recall that we ended 2021 with £756 million in cash. Completion of the Quilter Life Assurance buyback cost £28 million. The B share issue and redemption cost £328 million and the final dividend cost £62 million, of which around £25 million was part of the Quilter International capital return. Remittances from subsidiaries totalled £163 million. And so, we are left with just under £400 million of cash in the bank at the end of December. We've earmarked around £120 million for the final dividend and our business Simplification and investment plans, which leaves the remaining cash balance of around £250 million, broadly in line with our risk appetite.

The Board has decided to increase the final dividend by 0.5 pence to bring the total dividend to 4.5 pence per share, up 13% on last year. This represents a pay-out ratio of around 57% and we expect to move up our targeted pay-out range in 2023 as higher tax and interest costs will have a pro forma impact of lifting the pay-out ratio by around 12 percentage points on a like for like basis.

So having stepped up the dividend this year, you should expect more muted progression for the 2023 financial year.

Before I get to detailed targets, I wanted to return to two of the high-level targets we set out at our Capital Markets Day. Operating margin, which I'll get into on the next slide, and EPS progression.

On EPS progression, we have continued to outperform our compound growth mid-teens target. However, I expect the actions we are taking in the short term to reinvigorate growth and our higher tax rate will lead to lower EPS this year before growth resumes. And that's likely to dampen the compound rate of growth in the near term.

You'll be familiar with our usual target slide. This time we've made a few changes to reflect what we've talked about today. We show our old targets on the left and how we have refreshed them on the right.

First on flows, you've heard the guidance from Steven so I'm not going to repeat that here.

Secondly, we are projecting a slightly faster decline in revenue margins as we look to reposition some of our investor propositions. We expect that to be more than compensated by higher volumes as we take increased market share.

Third, the combination of these, coupled with market levels being below where we expect them to be by this stage, means that there will be a delay to reach our operating margin targets. We now expect to hit a 25% operating margin in 2025. And I still very much believe that achieving an operating margin in excess of 30% is the right place for a business like ours. And that remains our goal.

Finally, in terms of consensus, we expect when you have reworked models, you'll end up with both higher revenues and higher costs than what the market is currently forecasting. The overall adjusted profit will therefore land somewhere between what we have achieved this year and the current 2023 consensus. The main revenue driver will be a higher contribution from interest income. And we've told you that we benefited by around £23 million in 2022 and I'd expect roughly double that in 2023, assuming interest rates remain stable.

We've then guided you to our revenue reduction of around £12 million from the Cirilium reprice and about £7 million from the platform reprice. And you can then factor in your own assumptions for markets and flows.

On costs, as I've mentioned, we don't expect a significant increment from Simplification this year as that will be more back-end loaded. However, the benefit we get will probably be offset by business investment. That means inflation will be the main driver of the cost uplift in 2023 and somewhere around a 5% to 6% level seems like a reasonable estimation, which was broadly the outcome last year.

You'll also need to factor in the higher interest rates on the new subordinated debt bond and make sure your forecasts reflect the current UK tax rates.

So, in summary, I'm pleased with our financial performance in 2022. The business is in good shape financially and we are pleased with the profit outturn, delivering solid results in a challenging market. We are strategically well positioned and are on top of managing everything that is in our control. The trend in revenue margins is broadly as anticipated and costs are very well controlled. Our balance sheet remains strong and supports the increased dividend return we are making to shareholders.

And finally, we are repositioning the business to deliver on the opportunities ahead and we are doing that from a position of strength. And with that, let me hand back to Steven.

Steven Levin: So, thank you, Mark. So, before we go to Q&A, let me summarise my key priorities. One, I want to build distribution. Growing our market share of IFA flows, doing more with the firms on our platform, ensuring that Quilter is an attractive proposition for all of our advisers and adding new Investment Managers and advisers in High Net Worth.

Two, I want to enhance our proposition. We are refreshing our Cirilium Active fund range and pricing, and our platform pricing will be more competitive where needed to attract flows.

Three, I want to drive efficiency. We will reduce the complexity and right size the cost base for the size and shape of the business that we are today, and we'll update you on that at the Interims.

All of this will drive stronger profitability and deliver a 25% operating margin by 2025 and 30% in the longer term.

Today, we've reset expectations and we'll be building from this space. Let me leave you the words that I started with. I know that there's a lot that we can do better. This is a business with a huge amount of potential and I want to see that delivered.

Right, let's open up for questions. Who's first? Alan?

Alan Devlin: Cool, thanks, Alan Devlin from Goldman Sachs. A couple of questions. First of all, on the investment you're making in both the investment side and on the platform side, I know you've given the financial investment you're making, but how competitive does that make you versus peers and how much do you think it will drive flows? And if you didn't make that investment, would you be uncompetitive and it would drive, potentially drive outflows or be a tailwind to your business?

And then and particularly on the platform business, which you said was one of your kind of key focuses, what do you think is your natural market share in that business? I think it declined slightly more in the market this year, but still in the in the 7%. What do you think the right market share is for that business?

And then finally on the pre-tax margins, first of all on the 25%, what do you need to do to get there? Is that going to be revenue driven? Is it going to be expense driven? And if it's expense driven, is a simplification enough to get you there or do you need to do more and how much is the TSA on that?

And then on the 30%, the follow-on, why is that the right number for your business? Why are you confident that you should get there at some point over time?

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Steven Levin: Okay. Thanks. That's three questions squeezed into five or something. Anyway, thanks. Thanks, Alan. So, I'll take the first two and I'll probably ask Mark to pick up the operating margin question in a bit more detail.

So, in terms of value, value and pricing, I think all of our propositions actually deliver great value. Our business has been focused on quality, quality of our proposition and the strength of that. And we've really seen that. We have made, as I said, some tweaks to where we think that we want to respond to some of the things we're seeing competitively. It is a competitive market, but I think that we will continue to deliver great value and I think at these levels I think the changes that we've made, we think we'll deliver exactly that. And so specifically I think we'll be very well positioned with these changes.

In terms of platform market share, our platform market share in the IFA market share is around 7%. It has at, historically it has been as high as 10% and that is the sort of number that we would want to get back to because we fundamentally believe that our platform can and should do that. It will take time, as I've said, but that is the journey that we're on.

Mark Satchel: So just on the up margins and there are quite a few different points. I’m not sure I picked them all up and if I don’t pick some of them up then we can maybe pick some of them up afterwards. But I think on the 25%, I think the first question is what do we need to do and is it revenue or expenses? Frankly it's both. It's very similar in achieving, it’s really similar to the guidance that I've previously set out at the Capital Markets Day. On the back of it, we expect a revenue improvement, but we also expect further cost containment around that also. We’re about halfway through delivering the Simplification benefits that we set out to be at £23 million on a run rate basis for this last year. We'll get a little bit of flow of that into this year because not all of that was achieved from the start of last year, so there’ll be some benefit coming in. That's about half, £45 million’s the total objective over there. But we are going to need to do more also. So, it's not just that and you’d have seen some of the things that we've been doing this year in just achieving our expense base of this year has been something, some of which are enduring, some of which are more temporary, but it's really going through all of those items.

In terms of the 30% being right. Look, I think these are all sort of staging posts. I mean I could say in 20 years’ time, I think we should be at 40% or something. But really sort of looking in the more sort of medium term rather than getting too carried away with the longer term, as we look at our own business and what we think we're capable of doing, we look at the scale and the efficiency that should come through from that with further time. I mean we also look at what competitors do. We believe that being an excess of 30% is absolutely what the business aspiration should be over the next few years.

And when you think about our business, we've kind of got the sort of what I sort of often describe as four components to it, two of which are highly scalable and that's Quilter Investors and the platform. Those are businesses that as you put more assets on over there, really the revenue benefit that falls through to the bottom line will be touched a little bit along the way by expenses, but the actual sort of it's got positive fiscal drag if you want to put it that way, that you should get a lot more benefit from it and that's what should drive that.

Steven Levin: Thanks, Mark. Andy.

Andy Sinclair: Thank you. Andy Sinclair from Bank of America. Three from me please. Mostly on advisers.

And firstly, is like you've given some new targets today, but one that you haven't given is for restricted financial planner headcount growth. Just when do you think you can get that back to net headcount growth and what growth rate do you think is sustainable?

Secondly was on the Financial Adviser School, which wasn't mentioned today I don't think. Just how many are in the Financial Adviser School today and what level of growth do you expect? How much of your gross recruitment is coming from your own Financial Adviser School versus external recruits? That's my second question.

And thirdly, it's clear your focus has been to work more on the IFA space and bring more of them onto the onto the platform. What catalysts do you see over the next couple of years to really bring those financial advisers who aren't using the platform today onto the platform? It's clearly a very competitive space. So why are they going to say now is the time to move to Quilter? Thanks.

Steven Levin: Thanks, Andy. So first up on adviser numbers. So, as I said, our focus is on ensuring that we get the right balance of productivity, adviser numbers, quality, all of those metrics. I think what I would say is that adviser numbers is a good proxy to look at in a steady state. Right now, as I've said, I think there's work that needs to be done in our advice business to improve productivity and to reduce some of the complexity in that business to get greater alignment. And that is actually the sort of the first and foremost focus.

We obviously have aspirations to grow the number of advisers and that is a target that we look at. I'm not going to stand up here today and give you sort of any targets. I'm still myself getting into looking at all of those things in more detail. It's not a part of the business I've historically run.

I think that one of the things that we called out and I would sort of draw your attention to is the net flow as a percentage of opening assets for that business. So, I think that is a good metric that that we look at and we're very pleased seeing 15% and that sort of number, that mid-teens number that we've guided towards. I think that level of growth coming out of our own adviser business is really important. It is not just about adding advisers if they're not going to be at the level of productivity that we want. So that's one of the things that we look at. So, hopefully that gives you some colour on how we think about that.

In terms of the financial Adviser School, it varies, but it's between 60 and 100 people in the school at any given time and that sort of number tends to come out every year. So, let's call it 60 plus coming out every year joining our network.

In terms of IFAs and catalysts. So, I think IFAs they do look at their platforms and I think our platform is incredibly strong and very capable. We have been, we've talked about before about how we've been trying to win over new supporting advisers and we've made progress in that regard. Last year was, and we and we actually had very strong numbers in 2021, last year was a more challenging year because what we heard from advisers is a lot of advisers have said they actually really want to start using our proposition and move over. But during the course of last year, particularly the second half, what we saw is with all the turmoil, advisers were focused actually on just maintaining and reassuring their existing clients. And so, there was a lot less activity, there was a lot less volume, there's a lot less new clients taken on. Advisers when they start supporting the new platform generally first start putting newer clients there and then over time, they move existing assets and things like that.

Given the nature of what happened in the markets last year, I think that caused sort of a slowdown or we saw less momentum in that. But the level of support we've got from advisers, the commitments and our continuing focus on that regard, I think is very important.

In terms of other things about catalysts, we've got now a very stable platform and we've gone through a platform migration, which we did very well. But if other platforms have service issues, migration issues, etc, that is always a catalyst and I think there's a lot of continuous change in this market. But fundamentally for us, we position our proposition as great value, great service, great support, fantastic features. And I think those will all serve us well to grow support from IFAs over the years ahead. All right. Yes, Andrew.

Andy Lowe: Hi, it's Andy. Andy Lowe from Citi. Just a quick question on the Cirilium fund range. So, you've cut the prices of the Active. Could you just elaborate a bit more on the economics between active and passive and your expectations in terms of client migrations. How much more do you expect to migrate towards passives?

And then the second question is just around any disclosure that you can give on the share of your own advisers using your platform, how has that developed and how much more is there to go? Thanks.

Steven Levin: Okay, so I'll cover the Cirilium stuff and Mark you may want to chip in. So, we give the details of the weighted average margin in Quilter Investors and we've given some guidance as to where that's going to go. They obviously, we'd have different revenues and to some extent different margins within those ranges. But that mix has been pretty stable over time. You know, we obviously we have Active Blend and Passive Solutions, we've got funder funds and we've got managed portfolio services. And we're not seeing a significant change in the mix of business there. But that is something that we guide to on the average margin.

In terms of the share, so the share of business from platform that is from our own advisers, that's going to Quilter platform and Quilter Cheviot is around 80% which we've given in and that has gone up from about 70%. We'd obviously like that to go up further. But just to note obviously that our advisers give appropriate advice and the best advice to the clients and there are going to be clients who will have an existing product from another provider and it may make financial sense for them to do a top up there and stuff. So, we don't think that number is going to sit at 100%. But we're pleased to see it rising and it's currently at 80%.

Mark, do you want to add anything on the margins?

Mark Satchel: No. I mean I'll just say on Active with the reprice for us in terms of our economics that we retain, it's about a 10 basis point reduction. And there's some changes also in Blend which are going to give a similar sort of amount. But obviously the differential in margin between Active and Blend is more marked where there’s about a 30 basis point differential between one and the other in terms of what we retain. So, I'm not talking in terms of the overall cost declines, I'm talking about the economics that you retain as a shareholder.

Steven Levin: Yes?

Enrico Bolzoni: Thank you, hi, it’s Enrico Bolzoni, JP Morgan. Just a few questions for me. So, one, have you ever thought about maybe expanding the product suite you have for Quilter Investors, maybe new product launches like alternative asset classes or something that could accelerate the growth in that division? Just because there are simply some asset classes which are in very high demand at the moment in the market.

My second question relates to the repricing you're doing in the platform. Have you already had conversations with some of your largest IFAs maybe on the new pricing and do you already expect to gain some market share there on the basis of the repricing you just announced?

And then I also wanted to ask you, you just mentioned that you're going to do an odd lot offer to simplify and consolidate a bit the number of shares. Can we get any colour in terms of what the total size of that might be? Thank you.

Steven Levin: Thank you. Okay, I'll take first two questions and Mark the odd lot offer. Sorry, you can take. Sorry about that. So, in terms of, we do look at our investment proposition all the time and we review if we've got what we think is the right thing. I mean maybe the first point to mention is that because of the nature of the clients and the advice that we give, most clients are looking for risk profile solutions that are multi asset risk profile solutions, which is the core of what they're going to use in a portfolio. We certainly are not looking to build portfolios of esoteric assets and things like that. We don't think that is appropriate for the advice that we give and appropriate for our target market.

But in terms of some alternative assets, we continue to review that, but I've talked about what our focus here is at the moment.

In terms of platform pricing, we do talk regularly to the larger IFA firms. And yes, we have engaged with them about ensuring that we're offering them deals and pricing that is appropriate for the size and for what they're looking for. So, we have done that. And Mark, do you want to pick up?

Mark Satchel: Yeah. Look at the current share price, it would have cost about £17 million. One seven. Is what we were expecting. You recall we did an odd lot offer a few years ago with the share consolidation and still having a very high number of South African retail shareholders that came out of the original demutualisation of Old Mutual back in 1999. We've still got over 200,000 shareholders on our register, many of which hold a very small number of shares. And this actually increases the size of that odd lot offering for shareholders up to 200 shares, whereas before it was only 100 shares. So, this is really trying to sort of get at the next tail of very small shareholders. But £17 million at current share prices is more or less what it'll cost.

Steven Levin: Thank you. Other questions? Do we have anything from the lines?

John-Paul Crutchley: Yeah, we'll go to the lines first I think, and we've got a call from Greg Simpson, yeah.

Steven Levin: Go ahead, Greg.

John-Paul Crutchley: Have we lost him?

Mark Satchel: Okay, we might need to get back to Greg later.

John-Paul Crutchley: If not, let's go to Rahim. I think he's on the line too. Then we have a few questions from the web afterwards. Rahim.

No? We've lost him.

Mark Satchel: Okay, that's not working obviously.

John-Paul Crutchley: Okay, well, while we're waiting for that to hopefully reconnect there's I think three or four questions from the web. I'll go through them one by one. The first is from Wallace Barnes, Steyn Capital Management. Are you pursuing any opportunities to reduce the regulatory capital requirements in the business? Where do you believe the Solvency II ratio needs to be over the medium term?

Mark Satchel: Okay, look, we manage the business in a prudent manner from a capital perspective as you've previously spoken about. We obviously are investigating ways to minimise the amount of capital we need to hold. We haven't previously provided capital solvency targets. I'm not about to start doing that right now. We're well ahead of those. What I probably would just remind people of is that it's the liquidity constraints that's more of a constraint for us for capital returns and what is actual sovereignty ratios. And we have been in discussions with our regulators and if this is a roundabout way of wanting to know if we're going to go into full ICARA group supervised consolidation and come out of Group Solvency II, but on pure fundamentals, you remain within Group Solvency II regulation and certainly in the discussions that I've had with the regulator, I expect us to remain in Group Solvency II compliance and in that environment for the foreseeable future. And indeed, that was one of the basis that we issued the new bond being SolvencyII2 compliant.

John-Paul Crutchley: Two questions from Ian Power at Truffle Asset Management. Why is the expected NCCF target of 2% so far below competitors? And why do you think you've lost platform market share, especially given all the investment and focus on improvement?

Steven Levin: So, what I've said about our flows targets is we need to look where we currently are and we need to grow and build up to that. Some of the reasons why we have some dynamics that are different to competitors is some of the age of our book and the maturity of our book, we have got that is, it does mean we have got potentially a higher drawdown rate for clients that are in pension and things like that. But all of those factors are what we are taking into account to drive and grow our business going forward. So that's what I'd say there.

In terms of our platform, since we've launched the new platform, we have been increasing our market share. So, the market share numbers I gave earlier were several, you know, many years ago when we were sitting at 10%. There is a slide which showed how we have increased our market share in the IFA space and we have certainly increased our market share in our own channel, in Quilter Channel. So, we want to increase that further. And I've sort of said how I want to increase the pace at which we've increased our market share. But I think some of the comments about what was happening in the market dynamic last year are relevant as well, which I gave in an earlier answer.

John-Paul Crutchley: A question from Asanda Notshe at Mazi Asset Management. Can you summarise the key competitive advantage of Quilter versus competitors and how you see that going forward? And can you give any update on the digital online advice opportunities that were discussed previously?

Steven Levin: Key competitive advantage? That's a broad, broad question. Depends on who the competitors are you're thinking about. I think our business, some of the advantages that I would call to are the strength of our dual channel model. There are very few businesses in this market that are both strong in an IFA Channel and in own advisers. I think then that the quality of our proposition, we've got a really strong business with, we provide really strong service, support and great value propositions to our customers and to advisers. And again, I think that stacks up really well and is one of the things that we position our business around. So, I'm very happy to go into more detail on that if you'd like later.

In terms I guess you're asking a question about hybrid. We have mentioned it here. One of the things that I talked about was the work that we want to do on the technology that's in our advice businesses, CRM systems and stuff. We did contemplate launching hybrid as a standalone channel and try to get something to market quickly. We have relooked at that and I, as I said, I talked about complexity in our business and said that we've got too much of that and that's causing costs for us. What we don't want to do is go and launch a new proposition that is alongside our other technology which just adds further complexity to our business. We see hybrid and digital advice actually as a very important capability for the future, but we see it actually as something that all of our advisers can use and should use. And they will be able to use that for the simpler client journeys and things like that.

And so actually we're looking to invest in our advice technology and build hybrid as part of a core offering for our core advice channel and for some advisers may focus on clients that only need sort of hybrid advice journeys. Other advisers may have a broader mix of clients, but will have that for part of their client base and use more sophisticated sort of advice engines for other stuff. But we've chosen not to build something as a standalone because I don't think that would have been the right decision to do. As I said, it would have created more complexity in our business. So, we want to do the right thing and we're in this for the long term. So, building up the right hybrid solution is absolutely critical for us.

John-Paul Crutchley: Thank you. There's one more from the web and then we'll try the phones again. From Ben Bathurst at RBC. Can you elaborate on some of the steps you can take to reduce the regretted departures to consolidators as presumably this is tough to overcome if they're receiving high bids from sponsors to move across? When advisers move, what proportion of assets typically move with them? And should we be expecting outflows to pick up in 2023 as a result of the increase in adviser losses in 2022?

Steven Levin: So, there are different consolidated models out there. Some consolidators have got their own platforms and often structure the deals then when they acquire advice firms basically to pay for the acquisition price based on the assets that are transferred. And obviously that's a pretty strong force.

There are other consolidators who are more open on platforms and have a panel of platforms and our strategy there is to make sure that our platform is one of the platforms of choice for those firms and we're working with those firms to provide them fantastic support and a fantastic proposition. So, those are the things there.

In terms of the other part, while the industry dynamic and consolidation will happen in the industry, our strategy has got to, as I've talked about, what we do in terms of those specific points. But also, obviously we are looking to grow our business in other areas. So that is through growing our own advisers and through winning more supporting advisers and more supporting IFAs, those that and we have a lot of opportunity to do that. And as we do that, I think you'll see the total picture in the round should be we should deliver the growth targets that we've set.

And the second question? I've forgotten. Just repeat that JP.

John-Paul Crutchley: The second question was what proportion of assets typically move across? And should we be expecting outflows to pick up as a result of the losses this year?

Steven Levin: I think I've probably answered that in terms of proportion that moves across. It depends on the model. And I think we've given guidance on the net flows.

John-Paul Crutchley: Okay. Shall we…? I thought he was on the phone, he must have dropped off the phone. But we'll try to get back to the phones. If not, I've got the question that Greg's going to try. Let's try for Greg on the phones.

Operator: Okay, we're just opening Greg's line and Greg, your line is now open.

Greg Simpson: Hey. I'm not sure you can hear me or not, but my questions are firstly would be can you share any feedback you're seeing on client behaviour appetite you're seeing right now? I guess in theory, a lot of things to worry about with cost of living and inflation. But yeah, anything you're seeing because the 2% flow aspiration is a bit of an acceleration versus where you were at the H2 stage. That that would be the first question.

Second question would be are you seeing any slowdown in the adviser consolidation dynamic as maybe higher rates does maybe make that strategy for private equity firms more challenging? Or would you expect that just to remain a challenge?

And then thirdly, just on the interest income, I think you said there was £23 million and £7 million from the Group, £7 million from Quilter Cheviot. The residual from presumably that comes from the mass Affluent. Can you just explain what exactly that comes from? Thank you.

Steven Levin: Thanks. Thanks, Greg. So, in terms of client behaviour, what I would describe and I think that you've probably seen a similar comment from other companies, is so far the year has started very similar to the way last year ended. So, sort of what we're seeing in Q1 is very similar to what we saw in Q4 last year. And last year, actually if you look at the quarterly flow data for ourselves then across the industry, the first quarter was very strong before the war in Ukraine and then every quarter was weaker thereafter. What we're expecting this year is actually it's going to be the reverse, is that the market should improve and every quarter should be stronger than the previous one. But we did say when I did talk about the 2% expectation for this year, I did say that we do need to see some improvement in market sentiment, which we believe will happen in the second half of the year as interest rates peak, inflation peaks and customers start getting more confidence.

But if there are more geopolitical shocks that happen that we aren't foreseeing, then I think you need to factor that in. That is the first thing I guess.

You know, what we're seeing, maybe just another comment on customer behaviour that we're seeing at the moment is we're seeing that pension products are holding up relatively well. Customers are continuing to invest in pensions, certainly regular pensions, and transferring around of pension. That sort of ongoing advice. And that is generally holding up relatively well. The more discretionary sources of investment, so ISA and collective investments, those are under a lot more pressure and that's not to be unexpected. You know, customers are a lot more reluctant to invest discretionary amounts in times of market uncertainty and also the cost of living crisis that we see at the moment.

So that I think is the first question or the first two questions. In terms of adviser consolidation, yeah, it's difficult to comment on whether that's going to slow down or not. Obviously, interest rates have risen and that is a factor that is relevant. However, there's a lot of money and there's a lot of acquirers that are trying to build models out there. I think that there are some that will no doubt come under challenge. But right now, we haven't seen any material sort of slowdown. We obviously watch the space.

And then the final question on interest income I'll hand to Mark.

Mark Satchel: Yeah, thanks. Greg, on the interest income, there are three sevens to take account of which gets you to 21. The first seven is what we called out and called a Cheviot clients and the 50 basis points over there. The other seven is interest income at the centre on the cash balances we hold there. The third seven, which I didn't specifically mention in the presentation, but it is contained within the detail of the board RNS comes from the cash balances that support the regulatory capital position of the Life company that's on the platform. So, Quilter Life and Pensions. So, that's another seven. And then we've got one further million each that comes through from shell to cash and Quilter Cheviot and Quilter Investors, which gets you to the 23. So, but I mean the three main blobs are the first seven that I spoke about.

Steven Levin: Thank you, Mark.

Greg Simpson: Thank you.

John-Paul Crutchley: And we have one more from on the lines from Rahim at Investec.

Operator: And Rahim, your line is now open.

Rahim Karim: Good morning and thanks for taking my question and apologies for not being there in person. Three questions, if I may. And one perhaps just following on from Greg's question on interest income. Is the profile for 23, I think you said kind of double 22, similar, either split between the three main buckets? So that was the first.

The second, Steven, you talked a lot about productivity and improving productivity in the adviser business. Have you got a sense of where you believe that could get to? And clearly, it's done well given the environment in the last year. But just wondering where you might hope that to get to.

And then thirdly, just what role will you perhaps see M&A playing for the Group more broadly? You talked a lot about consolidation outside of you, but I was just wondering if you saw that as being an opportunity to accelerate growth in the medium term?

Steven Levin: Okay, why don't I take it?

Mark Satchel: Steven, I'll answer the first one, while you think about the second two. Just on the interest income, there'll be a slightly heavier weighting towards the centre and the Quilter Investment platform than what there will be towards Quilter Cheviot and that's because the Quilter Cheviot amount is capped at 50 basis points on those clients' amounts. So, therefore I'm expecting that there'll be a slightly heavier weighting towards the others. But broadly it'll be broadly similar, but I'll just slightly weight it a little bit away from QC.

Steven Levin: So, thanks, thanks, Rahim. Then on the questions of productivity. So, adviser productivity, the way we measure it is we measure the total flows that the adviser generates in a year. And we look at that actually of all product and then we look at it and we've given some numbers today of just Quilter product. I think there are multiple drivers of that. There's obviously what the total gross flows are in the industry and there's a sort of a whole market confidence point. There's an alignment point as to how much the advisers are using our own propositions. And then there is the productivity of the actual advisers themselves. How much time are they actually able to spend serving clients and how much time are they spending on other processes? And that's one of the areas I said that we're looking to make improvements in our business to improve the technology so that advisers can actually spend more time on advising clients and that will up the productivity.

So, I think all of those things are a factor. I think we're not going to set out a target. I want to see the productivity continue to rise and improve, but it is going to be a function also as you would have seen on what markets are doing. So, you need to look at the productivity in that context. But we see that as still a metric that we look at very closely and we want to drive that up further.

In terms of the final question on M&A for the Group, obviously we are focused on organic growth, but we have done acquisitions and advice in the past and we will look at things when appropriate. So, we continue to monitor for opportunities, but our primary focus is on organic growth.

Rahim Karim: Great. Thank you so much.

John-Paul Crutchley: I think we're done.

Steven Levin: Any final questions from the room? Andy. Part 2.

Andy Sinclair: Two quick final follow-ups from me, Andy Sinclair, Bank of America. Firstly, it was just on the interest rate benefit. Will that be fully phased in 2023 or will there still be more to earn through in 24 if rates stay at current levels is my first question.

And secondly, you mentioned FSCS levy costs. I realise that's somewhat out of our control, but have you got any indication of what you're expecting for 2023 after a nice decline in 22? Thanks.

Mark Satchel: Okay. Look, fully phased. If interest rates stay where they currently are, I'm expecting that the guidance to be given in terms of the uptick is at current rates. I think the current rates came into effect not quite at the start of the year, but pretty close to the start of the year. So, Andy, there might be, if they had to stay at current rates for an extra two or three weeks compared to what we had this year, there'll be a slight benefit on that. But I think for the purposes of your modelling, you can just keep it the same if you assume interest rates are the same.

On the FSCS levies, I'm always worried to sort of predict too much what's an unknown third party's going to do to us when it comes to the levies. But certainly, the indications, certainly the public statements that have been made by the regulators so far lead me to believe that their FSCS levies this year should again be a slight reduction on what they were last year. Now clearly, they've got the supplementary levy that they'll slim. We'll let you know about later on this year. That's normally sort of September, October time that they come out with that. But based on what's been said so far, I'm expecting that the FSCS levy should be a slightly reduced cost for us this year in comparison to last year. And given the increases that we endured in the three years previous to that, that sort of gets us back on par with where we were maybe three or four years ago. So…

Steven Levin: Okay. Well, thank you all very much. Thank you for coming. Thank you for those who braved the weather. And we will see you again at our Interims in August. Thank you all.

[End of Transcript]