Quilter 2023 Half Year Results

8th August 2023

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

We'll cover two things this morning. First, our business and financial performance during the first half of the year. And second, I'll take you through the initiatives we're driving to strengthen our business around the strategic priorities I set out in March.

Executing our plans will take time, but six months in and despite a tough external environment, I'd say we're in good shape having delivered sharply improved profits and higher operating margins, and we're focused on improving our business to deliver faster growth and higher returns.

Let me start by summarising the key financial highlights. Adjusted profit of £76 million was up 25% on last year with an operating margin of 24%, up four percentage points. That reflects strong cost performance as well as the benefit of higher interest rates. Mark will get into the detail later. We've accelerated our simplification plans. We expect to achieve the target a year early, so the £33 million on this slide will become £45 million by the end of this year. Adjusted diluted earnings per share was up 34% at 4.3 pence supported by the share consolidation last year. And our confidence in our outlook and the strength of our balance sheet supports a higher interim dividend of 1.5 pence, an increase of 25%. All in all, very satisfactory given the challenging market environment.

So next let me summarise the picture on flows where we saw mixed trends across the business.

Let me start by echoing what you've heard elsewhere. Current conditions are squeezing discretionary investments. Clients are keeping more money in cash, paying down debt and withdrawing funds to maintain lifestyles. That's contributed to a slight reduction in persistency levels. Bottom line was net annualised inflows of 1% for our core business and was flat after non-core outflows. That's not where we want to be and I'll get on to what we're doing about that in a moment.

But first let me draw out three numbers that I think are the story of the half.

First, the performance of the Quilter Channel. In high net worth we delivered net flows of 17% of opening balances, and second, in Affluent we achieved 11% and that was after a more conservative restatement that Mark will talk to.

I'm really pleased with the performance of our advice channel. It demonstrates the strength of our integrated model and validates the tough decisions we made to reposition our advisor base.

Third in Affluent £2.6 billion of gross flows from IFAs. That declined year on year, but we've actually increased our IFA platform market share in both Q1 and then again in Q2. That's a strong result. Improving advisor traction in a tough market sets us up well for when the market improves. But we know outflows have broadly offset the new business we generated over this period and that reflected the lower level of new business and slightly lower persistency. We will do better on net flows. We'll do that by driving even stronger levels of new business and we've made some changes to our leadership team to ensure that happens.

Both our distribution channels in the Affluent business have been brought together under common leadership. This team is well advanced in a review of our IFA sales processes to

accelerate performance here. As I said previously, my three areas of focus are building distribution, enhancing proposition and driving efficiency. We've made significant progress over the last six months.

Let's start with distribution. First top left, advisor numbers. I'm pleased to report a stabilisation in our restricted advisor numbers. It's a base we're looking to build from, but given the competitive environment, that may be gradual. As you can see, we've sharply improved advisor productivity in this half up to £2.7 million of new flows per advisor on an annualised basis. That's a great result in a difficult market.

Next, top right alignment, i.e., capturing more of the assets our advisors manage. You can see the meaningful progress we've made. We transferred £326 million of advisor backed books onto our platform by the end of June with momentum building over the period. We expect to at least double that by the end of the year with plenty more to go for in 2024 and beyond. And to be clear that where those assets are in a Quilter solution on another platform, as they generally are, those transfers do not boost the Quilter channel net inflows I mentioned earlier because they're already in our AuMA numbers. We don't double count.

Third, I'm pleased that we've maintained our leading position on advised platform flows. We were the only advised platform to write more than £2 billion of new business in the first quarter and we broadly maintained that level in the second quarter despite a smaller overall market. More importantly, while the decline in our year on year gross flows was broadly in line with the market in Q1, we significantly outperformed our leading peers and the market in the second quarter with a 5% year on year increase in gross new flows that compares with a 9% decline in the markets with our leading peers underperforming that benchmark.

Finally, bottom right gives you a longer-term perspective. Since our new platform went live in 2021, we have rebuilt new business market share back to low double digit percentage levels and I still believe we have room to improve further. There are two things driving that. We're improving our share of IFA flows and we're getting a higher proportion of flows from the Quilter channel onto our platform. That's what we set out to achieve. This rebuild of market share is really important because we'll drive flows as market activity recovers.

Next proposition. As I said back in March, we need to be more agile, more responsive and more market focused. We've taken several steps here. Having changed the investment team for Cirilium Active, we've already seen better investment performance. And we continued to see good performance and exceptionally strong support for our Cirilium blend and wealth select offerings. We repriced the Cirilium propositions at the end of March to make them more attractive to clients and advisors. Feedback has been positive.

Moving to platform. Our platform is market leading with outstanding functionality. To be more competitive we reduced pricing at the end of Q2 for new customers and we're in the process of doing the same for our existing customers. Our revised proposition means a meaningful basis point reduction to customers with this partially offset by us retaining a margin on client cash for the first time. We've structured this as a sharing arrangement as the size of deposits we can make with banks attracts better interest rates than our clients could achieve individually. And we offer one of the highest rates across the markets. Again, these changes have been well received by advisors.

We've also introduced automated tiered advisor charging, which is something advisors want, and it's something that very few platforms support. This makes it easier for advisors to set advice fees on a sliding scale linked to the value of their customers' assets. It helps advisors align their business to the new consumer duty principles. There's been a lot of discussion around consumer duty. As you know, we built Quilter to be a modern wealth manager with clients at the heart of what we do, so no lock ins or exit penalties, our pricing structures are unbundled. Customers choose what they want from us and only pay for what they take. The

introduction of consumer duty has given us the opportunity to reinforce the advantages of our approach to advisors and their clients, and I'm delighted with the positive feedback we're getting.

Lastly, with interest rates, we want to allow customers with high interest rates, we want to allow customers and advisors to manage cash as another asset class on our platform. So, we'll be adding a cash savings hub later this year.

Overall, we're confident these changes will leave us in a materially better position to capture more flows when market conditions improve.

Finally, efficiency. As you can see, since 2021 we've reduced our first half costs by 5% in absolute terms and that's particularly impressive given inflation levels. That's contributed to a six percentage point improvement in our operating margin since 2021. We've also increased profits by 36% over the same period. That's a 16% compound growth rate.

I've seen some commentary that our focus on cost is limiting our ability to invest. I want to be categoric on this point. That is simply not the case. While we've been reducing costs, we've also been investing in the business and we'll continue to do so.

In addition to these initiatives, we've also got major work streams underway to improve each of our business segments over the longer-term. These are evolving our high net worth business to service customers in a more seamless fashion, revamping our IFA sales processes, continuing the transformation of our advice business and all of this will be underpinned by the next stage of our cost reengineering simplification Phase 2. Let's take each in turn.

I'll start with our plans for high net worth. This has been a strong and stable business for us. Building our own advice business to add another distribution channel has delivered significant incremental inflows. But for historical reasons, our high net worth advice and investment management businesses sit in different legal entities. That complicates integrated client servicing. Once we obtain the necessary regulatory approval, we intend to bring both teams together in a single legal and regulated structure. That will allow us to manage client relationships more seamlessly, enhance productivity and drive efficiency. That's a win/win both for clients who want a one stop solution and for us.

We're happy with the size and shape of our high net worth business and believe we've got significant organic growth as we add investment managers and financial advisors. But as you know, there's been a lot of consolidation in the DFM sector over the last year and we think the fallout from some of that activity could create opportunities for us to accelerate growth.

Now the Affluent segment where we have strategic initiatives in place for both distribution channels. In both cases, one of our objectives is to increase flows and to have more of those flows managed by Quilter Investors. We've got around £70 billion of assets on our platform covering all advice models across the market. We are unique in the breadth of distribution and proposition we support in advice. We've got clear plans to grow assets on our platform and increase the use of our solutions.

I'll start on the left with IFAs, where we want to make this channel work harder. We administer around £57 billion of assets for IFA firms, and on this chart I've broken the IFA base down into two categories. Platform partners who either don't use our solutions or have a limited amount in Quilter Investments. There are some firms in this category who run their own investment models, so they are unlikely to use our solutions, but we can still do a lot more good business with them given the scalability of our platform.

Next, there's our strategic partners the vast majority of whom have at least £5 million in Quilter Solutions. Here it's about deepening our relationships and increasing our share of their business.

As to specific plans, we want to become the primary platform for more IFAs across both groups now that we've got a platform that covers everything they need. There are clear efficiency benefits for advisors putting the majority of their flow onto their primary platform. We are achieving good gross flow performance, but we want to accelerate momentum. Our platform repricing will help us here.

We will support IFAs to move their back books to us where it makes sense for the customer. And we'll take on board what we've learned from the Quilter channel back book transfers to ensure this is a smooth process. We know our leading large strategic partner firms have up to 50% of their assets in our Solutions and again having a preferred centralised investment partner helps them to be more efficient and deliver consistent outcomes for their clients. We see consumer duty as an opportunity to encourage more advisors to outsource their investment proposition to us.

Our Wealth Select MPS was designed to meet advisor needs and its strong track record with over £11 billion under management speaks for itself. So, we see a great opportunity here.

And finally, we're making sure that our business development efforts are more targeted where the greatest opportunities lie. These are some of the things that the review I mentioned earlier is focusing on.

Let's turn to the Quilter channel on the right where our advisors have around £12 billion of assets on our platform of which roughly £9 billion is managed in our investment solutions. To grow our advice business, we need to continue to do two things. Increase advisor numbers and ensure greater alignment. As I mentioned earlier, we've stabilised advisor numbers and we are looking to grow from the current base. We will do this by increasing graduates from our advisor school, selective hiring and potential acquisitions as well. Greater alignment also ensures we capture more of the flow onto our platform and into our solutions. Part of this will be capturing the £6 billion back book that our advisors manage on other platforms, highlighted on the right of the chart.

A second opportunity to increase alignment comes from the heightened market consolidation activity we are seeing. Advisors are now much more aware of the value that can be created through proposition alignment. So, we see potential for a new franchise style model that complements our existing propositions. And so, we're piloting a new proposition that we're calling Quilter Partners. We're looking to combine the entrepreneurial drive and focus of owner operated businesses with full alignment with our investment and platform propositions as well as brand. We've already signed up several founder firms and are working with them to evolve a compelling proposal. It's early days and you'll hear more from us in due course.

So, I hope you can see we've got clear plans to drive growth through each channel.

Now, as I said back in March, we also need to transform our operating model. We're investing to move away from multiple advice systems and technology solutions onto a consolidated set of modern advice technology. We've also got opportunities to reengineer our processes and deploy automation to reduce costs, improve controls and ultimately enhance client experience.

Now let me turn to our group efficiency plans which complement what we're doing at segment level. Since we listed, we've run a number of successful cost programmes. As we made strategic business divestments and returned sale proceeds to shareholders and as we've restructured our business, we've created further opportunities to unlock additional cost savings. Optimisation was the good housekeeping we didn't have the bandwidth to get done

prior to listing, such as moving to a single general ledger and driving efficiencies in HR procurement and an initial phase of technology rationalisation. And you'll recall we targeted £50 million of savings and actually delivered some £65 million by the end of 2022.

Following the completion of our platform transformation which increased automation together with the sale of Quilter Life Assurance and Quilter International, this allowed us to deliver our second programme of savings called Simplification. That's targeted £45 million of savings by extricating ourselves from costly legacy IT infrastructure. And now the second stage of simplification where we are targeting a further £50 million of additional cost savings. This will capture rationalisation benefits from fully implementing our revised segment structure as well as investing in the systems used by our advisors in the Quilter channel which will enhance productivity and reduce support costs. This is all about making Quilter a leaner, more efficient organisation. We aim to deliver these cost savings by the end of 2025 on a run rate basis.

So, stepping back, as you can see, we're doing a lot to invest in our business and drive towards our longer-term targets.

Before I conclude, let me summarise how we see current market trends and how we are responding to them. While market uncertainty weighs on flows, we've continued to increase our strong platform market share position, maintained a healthy level of flows in the Quilter channel and continued to grow our share of IFA new business. The Quilter platform is the number one advised market platform for new flows.

Despite consolidation across the market, we've stabilised our advisor numbers even though it remains a challenging environment. And we've offset PNL headwinds from high inflation and a lack of market momentum by maintaining strong cost discipline. This has reduced costs by 5% in absolute terms over the last two years.

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

First, operating margin. We're highly confident of reaching our 25% operating margin by 2025. The acceleration of our original simplification savings will support this and may well allow us to deliver this target earlier, assuming supportive markets. I still believe an operating margin of more than 30% is the right goal for our business and I want the business to deliver that as soon as possible.

Next, in terms of flows, back in March, we were guiding towards only modest improvement in net flows across the industry this year as investor confidence recovers. Echoing the sentiment you've heard from others in the market, the environment feels like it's more challenging than we thought back then. So, while we still expect to deliver a 4% to 5% flow rates when markets normalise, that may now take slightly longer to achieve than we previously anticipated. Importantly, we are building momentum and we're confident of our expected profit trajectory this year, again assuming broadly stable markets.

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

Mark Satchel: Thank you, Steven, and good morning, everyone.

Before I start, I want to call out three changes to the way we report today.

First, given its increasing prominence, we've called out the £27 million of investment income we generated on shareholder funds that are held in cash as a separate line item in the PNL. That comes through mainly in the corporate centre and the Affluent segment given the amount of regulatory capital that supports the pension business.

Secondly, where we earn a margin on client cash that is now included in management fee revenue rather than other revenue. It's a change from last year and brings us into line with the rest of the industry. For the half year this includes £6 million in high net worth and £1 million in Affluent.

And thirdly, we've slightly changed our flow disclosure. We've merged the aggregate flows on the Quilter channel between our platform, which shows strong inflows and third party platforms which shows outflows as the net of these two is a better representation of in period performance. We've also called out non-core assets and funds of £3.5 billion, which predominantly relates to businesses we have sold more clearly as they should obviously be looked at separately from what is going on in our core business.

Now the four messages that you should take away are one, we're aware the cost of living is having a modest impact on persistency, and we are managing through that. Two, the revenue margin has been resilient. Three, we've continued to deliver strong cost control. And lastly, our balance sheet remains in great shape.

In terms of the numbers, adjusted profit and operating margin, both of which include investment income, stack up very well against market expectations.

This next chart reminds you of the key contributors by segment. As you can see, our high net worth segment was broadly unchanged on last year and overall, we delivered £15 million increase in profit from broadly equal contributions from our Affluent segment and from the head office. That out-turn was a function of both good cost management and the benefit from interest income on our cash and capital balances held for liquidity and regulatory purposes.

Let me walk you through the details. Starting top left net flows of £0.7 billion in the core business were about half of the level a year ago. Our average AuMA was about 3% below that of last year. And top right you can see the slightly lower management fee revenue was offset by higher investment revenue.

Costs, bottom left were down 2% to £236 million. By accelerating some of the simplification initiatives and maintaining cost discipline, we largely offset inflationary expense increases. As a result, we increased adjusted profit by 25% to £76 million. That gave an operating margin of 24%, up four percentage points on a year ago, and puts us well on track to deliver our 25% target in 2025.

We delivered adjusted diluted earnings per share of 4.3 pence, an increase of 34%. The increase in EPS outstripped the profits increase because we have a lower share count after the share consolidation last year. An effective tax rate of 24% is slightly higher than last year and broadly in line with the UK standard rate.

Our high net worth business delivered a stable performance this year. Gross and net flows held up well in the Quilter channel and while we experienced a steady gross flow performance in the IFA and direct channel, we did see a net outflow during the half. And that reflected two things. First, a number of one-off larger client withdrawals as investors sought to deploy cash into other investments and undertake some restructuring of their finances to reduce debt. And second elevated levels of withdrawals from other clients looking to maintain their lifestyles. There's a small tick up in the revenue margins as the margin we earn on client cash is now included here. This time last year, the contribution from that was minimal.

Turning now to the Affluent side of our business. Revenues grew 1%, reflecting solid administration fees and higher investment income, which more than offset a decline in advice and investment management fees. The revenue margin decline for our affluent managed assets reflected the Cirilium Active reprice in March that we told you about. We'll see the full impact of that in the second half.

As you can see, costs are under control with the 3% decline year on year. So, the net outcome was a 15% increase in adjusted profit and a 4% improvement in the operating margin. All in all, a good result for the half.

Let's now turn to the cost side of the equation where I'm very pleased with another year on year decline in the cost base to £236 million. And that was achieved despite inflationary headwinds and investment in growth. But what's really important here is that we've continued to manage down base costs as a percentage of revenues and that's what will drive our operating margin expansion. The cost of revenue generating staff as a percentage of revenues has been broadly stable, principally reflecting investment in the business. We also accrued variable compensation at a broadly similar proportion of revenues to 2022. The waterfall on the right hand side summarises the main cost changes year on year. Increases came from inflation and investment in the business, including costs associated with consumer duty and other responsible business obligations. Cost reductions came from management actions, including acceleration of our simplification programme delivery and slightly lower FSCS levies. As Steven said, we now expect to deliver the target savings of £45 million from the simplification programme on a run rate basis by the end of this year.

When it comes to thinking about the rest of 2023, I'd expect a slightly higher second half cost base than the first, and that's because I do expect higher levels of above the line expenditure on change projects and the full impact of staff salary increases, which came into effect in April.

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 half with the ratio of 230% and finished at the end of June at 240%. The main point I'd highlight is that the ten percentage point increase in the ratio this year is primarily due to the favourable impact of higher interest rates and improved equity markets on the solvency capital requirement.

Next, the cash position at the bottom of the graph. You'll recall that we ended 2022 with £392 million in cash. The final dividend cost £45 million. Remittances from subsidiaries totalled £122 million and we contributed £72 million into subsidiaries. And so, we are left with around £360 million of cash at the end of June. Around £120 million is needed for the interim dividend and to fund our business simplification and investment plans, which leaves the remaining cash balance of around £240 million, which is broadly in line with our risk appetite.

The board has declared an interim dividend of 1.5 pence per share, an increase of 25% on last year. This represents a payout ratio of 61%. As you will have noted from the release, we expect to be broadly in line with our one-third/two-third guidance this year, which should take the total dividend towards the top end of our targeted payout range this year.

As I've highlighted on the right of the slide, we also expect to undertake a further odd lot offer later this year. Essentially, we will acquire the holdings of any investor with fewer than 200 shares at a 5% premium to market unless they opt to remain a Quilter shareholder. More information on this is expected to be posted to shareholders later this year and for the avoidance of doubt, the interim dividend will be paid before we undertake this exercise.

Before I get to detailed targets, I want to turn to the operating conditions for the business, which can be characterised by challenging environment for flows, a lack of market momentum and higher inflation and interest rates, with the latter providing some support to the PNL to offset weak markets and cost headwinds. Our expectation is that inflation and interest rates will peak later this year, remain stable for an extended period before starting to gradually decrease in 2024. That will mean that investment income will probably remain elevated through 2024 before starting to ease. That would lead to a shift in the nature of the PNL with lower investment income offset by an expectation of higher fee revenue as markets pick up and flows increase.

You'll be familiar with our usual target slide, and I'm really just showing it here for completeness as there is no change to our formal targets. On flows the near term flow target is probably a little more challenging than we thought it would be when we set it back in March and it may take a bit longer to get back to a more normal level of market flows. When it comes to modelling, as I've already indicated, the revenue repricing on Cirilium and the platform happened during the half and you'll need to factor in the full impact of that in the second half. Investment income on shareholder cash balances should be slightly higher than first half levels and we expect to have an increase in the client margin contribution given the pricing changes we announced earlier this year on the platform. This will broadly offset the reduction in the headline platform charges. And so, from a modelling perspective, it is incorporated within our guidance on the platform revenue margin.

And just to repeat what I said earlier, I'm expecting a slightly higher second half cost base reflecting some incremental spend on change projects and selective business investment. So, while the second half profit is likely to be modestly below the first half levels, the net impact is likely to be modestly higher revenues and lower costs for 2023 and a higher consensus adjusted profit outcome for the year.

In summary, I'm pleased with the profit performance and current trajectory of the business. We are in good shape. And with that let me head back to Steven.

Steven Levin: Thanks, Mark. Before we go to Q&A, let me conclude with some final thoughts. What should you take away from today? There are three key points. First, we're improving our market share in both the Quilter and IFA channels. Second, we've absolutely got costs under control while continuing to invest in the business. And third, our business has strong operating leverage that can drive significant bottom line growth. And that's what you saw in the first half with the increase in profitability. So, we've delivered well in the current environment and will be even better positioned for when market activity improves. Looking forward, you can continue to expect one, a focus on improving flows and driving productivity, two, continued cost discipline which will support further investment in the business, and three, continued focus on shareholder returns. We expect to keep moving up the dividend payout ratio. Right, let's open up for questions.

Operator: Ladies and gentlemen, as a reminder, if you have any questions, please press star one. The first question comes from Andrew Sinclair with Bank of America. Please go ahead.

Andrew Sinclair: Thank you and good morning, everyone. Three from me and well done, a really good update today.

The first thing for me was just on the advisor headcount and again, well done and on stabilising that. Just really wondered if you could unpack that a little bit just between advisor school graduates, experienced high earners and marchers in the period and if you could just give some, look for H2 and beyond on sustainable growth rate for financial advisor headcount. So, that's my first question.

Second one, shorter. It's just on the financial advisor school, just really wondering if you can tell us how many are in the school today and what's the pipeline for graduates and your expected growth of the advisor school?

And then third was just on Quilter Investors. Probably there's one place where there's still maybe a little bit of a kind of drag. It looks like there were still negative flows in Q2. It's a business that had double digit percentage net inflows if you look back 2017/18. So, and it's been quite a long time now we've been in turnaround. What do you see as a sustainable level for flows for that business over the medium term? And what do you think it takes to get back there? Thank you very much.

Steven Levin: Thanks Andy. I'll take those questions and on the super detail you want on advisor headcount, I may ask Steve to come in with just a bit more detail. But first up, yeah, we're pleased to see that the advisor numbers have stabilised. The growth has come from a mix of recruitment, people coming out of the advisor school and other things. But I'll let Steve just give you a little bit more detail on that in a moment.

In terms of the advisor school itself, we've got about 150 people in the advisor school. That includes some people who are training to be mortgage advisors as well. We would expect to see about 60 people come out of that in the second half of the year joining the restricted network from the advisor school. And we're looking to continue to grow and strengthen our advisor school. We are investing in it further to support that and grow it even more.

In terms of Quilter Investors, we have seen outflows from Cirilium Active. That is part of the book that we are working on and turning around. That is also just to remember that is the oldest part of our book. So, by nature there are a whole lot of clients that are starting to draw down and advisors, some of whom who have actually left us and moved through some of the advisor consolidation. So that has been an impact. In terms of the growth, we're seeing very strong flows into Cirilium Blend and Cirilium Passive and very strong continued performance from our Wealth Select proposition. So, I think that we will continue to invest and to drive that forward.

I think one thing you need to look at, Andy, is the difference between core and non-core. There is quite a lot of the non-core assets sit within Quilter Investors and so some of the numbers I think you mentioned in terms of the outflow are actually the non-core outflows which we've given details on and guided on. So those are assets that sit within Quilter Investors but that are effectively now part of Reassure which is a closed book and run off. And Utmost which is where we sold our Quilter International business to. And again, those things are running off and we've given some details of where the run off is. But I think the core part of Quilter Investors is in good shape and we see strong growth from that proposition and they're doing well. Steve, do you want to add anything on the advisor numbers?

Steve Gazard: Yeah. Morning, Andy. So, I mean I think advisor numbers combination have always have joiners and leaver, so 20% up on this time last year on joiners but importantly 40% favourable on leavers, which is great to see. Equally those leavers tending to be advisors from existing AR firms where retiring advisors we hold onto the assets within the firm anyway. Strong pipeline building, but it's a tough market. We're not interested in doing some of the city deals that are out there in the kind of war for talent, so we'll stay focused on it. From a FAS perspective, just to unpack that a bit more for you, Andy. 23 so far this year authorised through the school, 20 in the authorisation process. As Steven says, we're expecting a further 60-odd before the end of the year. Currently 153 in the school. But what we're beginning to see is in the current market some of those choosing to come out as mortgage and protection to begin with rather than for full RFP.

Steven Levin: Thank you. Next question.

Operator: From Greg Simpson with BNP Paribas. Please go ahead.

Greg Simpson: Hi, morning, morning guys. Three from my side, the first would be on this kind of cash saving hub. Is this something that Quilter will be able to make a revenue margin on or is it something that's kind of being outsourced with a different provider? A bit of colour there would be great.

Second question is on if you can share any broader thoughts on consumer duty on the advice market in general over for instance is percentage based charging which I think most advisors operate on. Is that still feasible do you think in the medium-term?

And then thirdly, with the additional £50 million of cost savings, can you help frame how much of what the level of reinvestment are you are you kind of thinking? Just kind of conscious that it's I believe the 25% operating margin for 25 is kind of reiterated that there's quite a lot of new savings there. Thank you.

Steven Levin: Thank you. So, I'll take the first two and probably at Mark pick up some of the detail on the cost savings.

So first up the cash hub. We are working with a partner, but we will make a small margin on it. It will be something that will allow clients to invest in a marketplace of instant access and fixed term deposit accounts on our platform. So that will be complementary to our offering. And I think we'll be very competitive compared to clients who've currently got money in bank savings accounts and other places. And we would like to encourage those clients and those advisors to get access to great rates on our platform and to be able to make sure we can leverage as those clients are looking to invest into risk based investments in the future as well. But so, it will be a range of those things and there is a revenue margin on it.

In terms of consumer duty and advisor charging, I think that we obviously are watching the space. We've implemented consumer duty and I think we've done it very well. I think in terms of the charging models, advisor charging as a percentage is a model that is reflective of some of the costs and some of the requirements that advisors have to do. We see at the large end, we see advisors tiering their charging. So, we have announced that we've launched tiered advisor charging. I think that is a direction that the market will be moving in. So, I don't think advisors should charge the same percentage rate irrespective of client size. And we've created functionality on our platform to support advisors doing that in an automated way which I think is really, really important. So that's what we'd say on consumer duty and advisor charging at this point.

And Mark, do you want to pick up the…?

Mark Satchel: Yeah, I think, Craig, I think your question's really sort of how much of the £50 million is going to get reinvested in the business down the line. And obviously we've got a strong balance sheet. We've pre-funded the actual cost associated with undertaking the investment to get the £50 million out as we've done with previous simplification and optimisation programmes, and our balance sheet is in good shape. So, I'll be expecting that as we move up the dividend payout ratio and we've got, there's no plan at the moment to change our dividend payout policy. You know, 70% of that would be or that that benefit would be going back to shareholders and 30% would effectively be retained to support the business from a CapEx investment and regulatory capital perspective. Yeah, I hope that's the nature of the question you're asking. If I've answered incorrectly, we can pick it up outside of this.

Steven Levin: Thank you, Mark. All right, next.

Greg Simpson: Thank you. Perfect.

Steven Levin: Thank you. All right, next question.

Operator: From David McCann with Numis. Please go ahead.

David McCann: Good morning. Three from me, please. So just first of all on the consumer duty, you said, Mark, that you fully aligned with that duty. You made some similar comments just now on that as well. You do also go on to say that you want to do more for your customers. So, can you confirm whether or not you will be changing the pricing in response to consumer duty in the future? And also, was the recent platform repricing driven by consumer duty explicitly? The first question.

Second question. I mean, what is the justification for you to include interest income on your own cash with an operating profit? That would seem to be a financing line to me rather than operating.

And you know, I guess just finally a broader question. I mean why should shareholders, I guess, believe now this latest round of cost savings and revised operating margin targets will be achieved when obviously you fallen short many times in the past? Thank you.

Steven Levin: Thanks, David. So, let me take some of those questions. Mark, I'll ask you to come in on the operating the cash interest question. In terms of consumer duty, we have implemented everything we need to for consumer duty. We are not announcing any new changes to pricing today and we don't have any plans to do so. We made some changes earlier in the year, which we told you about. We made some changes to Cirilium Active’s price. And the platform reprice was not in response to consumer duty. It was something that we'd talked about before and we were doing anyway. And so, I think that's the answer to that question.

And I've talked about our model and stuff. I'm very happy to talk further about that. But we see our model as being one that can really, that does deliver exceptional value in the environment that we're in and we’re actually really looking forward to the opportunities that consumer duty brings to demonstrate the value to our customers of our model.

In terms of the question on operating cash market, if I can hand that over to you then.

Mark Satchel: Okay. Well, I'll get onto the next two. David, on interest income, back in the days when we did used to earn interest income that was where we disclosed it. We’ve just reverted back to the same disclosure that we previously did. And some competitors do that, some don't, right. So, we've chosen to do it, but we're very transparent about it. If you look at Notes 5B and 6C or it might be 5C and 6B, I can’t remember which way round, the back end of the accounts, I think it's all very clearly laid out and set out over there and I make numerous references to in the financial review. So, if you're wanting to make your own adjustments for that, all the information and data points are there for you to be able to do that.

On the cost savings, it's interesting that you think we've fallen short on cost savings that we've achieved in the past when we've actually over delivered on those. And where we are announcing that we're accelerating some of the initiatives that we’ve got in place now, I actually think we've built up a credible track record of delivering on cost savings in absolute terms in a much higher than usual inflation environment in the UK.

When it comes to op margin, I have always said that our op margin targets are predicated on three things. It's predicated on net flows. It's predicated on market improvements and by that I mean equity market and bond market indices. Those are not really in our control very much at all and those have been things with the invasion of the Ukraine last year and then those things with those indices have moved the wrong way. You'd know that from operating in the industry. And the third thing that we relied on the op margin is the delivery of the cost savings which I think we are evidencing that we are doing and which is very much within our control.

Steven Levin: Thank you very much, Mark. I think we've got a very clear track record of exceptional cost management, David. Next question.

Operator: From Harry Botha with Anchor Stockbrokers. Please go ahead.

Harry Botha: Hi, good morning. Well done on the results. Can you possibly elaborate on the targets in the IFA business and how should we think about things like net flows relative to the markets, AuMA and the number of firms in the IFA channel, particularly in that strategic partner segment. And then with regards to consumer duty, what has the impact been on the expense base and profitability in the advice business in the first half and what would the outlook be for the second

half? Is any kind of step up? And then last year on guidance on free cash flow versus your operating profits results for this half please.

Steven Levin: Okay. Thank you very much. So, in terms of the IFA business, we gave targets in the first half of the year in March when we talked and we set some targets, long-term targets for both the IFA and the Quilter channel and those targets remain. We talked about those being when markets normalised and I think it's fair to say that we're not there as yet. We are really focused on driving greater performance out of our IFA channel. I think it's first important to say that we have continued to gain market share and we've reported that from in our results. And you know from the latest fund scope data that we've got for Q2, we have gained market share in Q2 in IFA which is a positive.

But I want to go faster and I want to go harder. And so, we have made a set of changes and initiatives in our IFA business to drive performance even more there and that's key for our future growth. In short, our strategy's around broadening and deepening our distribution, so broadening is getting new supporters and we're making good progress there, in winning new firms over to support our platform. We call that our potential growth segment. And we've got some good progress on that in this half and over last year as well. And the deepen is our share of wallets. So that's the advisors, some of those strategic partner firms that I talked about where we've already got a good share of their wallet. But actually, we want to go even further. Our new platform does everything that the advisors need. Historically, we would have had sometimes advisors may have needed to use a different platform for certain parts of their target markets or their client segmentation. That is no longer the case with our new platform. So, we're working to deepen and increase the share of wallet of the IFA firms where we've already got a good relationship. We know them well and now we're showing them that actually we can meet all of their needs and really become the dominant platform in their business. So that's on the IFA side.

In terms of the expense base and the impacts on QFP related to our advice channel, related to consumer duty. Those are all included in the numbers. We have not yet to make any sort of material changes or anything that's worthy of calling out in the results. We have implemented consumer duty. We have got very strong processes and controls. We've done stuff on correspondence. We've looked at work on ongoing advisor fees. All sorts of stuff just to make sure that our business is really well positioned. But from a pure cost perspective, I don't think there's anything to call out in terms of increase in run cost as a result of that.

Mark Satchel: Your question on free cash at the half year, we actually had quite a high free cash conversion rate in the mid 80%s. On a go forward basis, I do expect there'll be some variation to that and frankly on a sort of an average type basis, I'd expected between 70% and 90% of that. That's an order of magnitude.

Steven Levin: Thank you, Mark. Okay, next question.

Operator: From James Allen with Liberum, please go ahead.

James Allen: Hi, morning, guys. Two questions from me please. First one, on the Quilter restricted planner headcount could a part of that increase be attributed to a slowdown in PE backed consolidation in the wider market this year? And if you could put any numbers to that, that would be really helpful in terms of leavers to those PE backed consolidators versus prior periods.

And then second question on Quilter Partners. Please could you give a bit more information on this and in particular why it won't cannibalise other business streams?

Steven Levin: So, in terms of advisor numbers, we're not going to give more breakdown than we've already given. Steve gave quite a bit of detail already. We have seen and some people have reported in the press that there's been a bit of a slowdown in advisors joining PE aggregators, but it

remains an area that we keep under close watch. We have said, Steve said earlier that there has been an improvement in the number of leavers and that can be for a range of reasons. I think just one thing probably worth mentioning and noting about the different propositions out there, advisors can, you know, when someone comes to market with a new proposition, they can show their wares to a group of advisors and some advisors that it appeals to will move. But once you've just sort of done that actually I think it is probably relatively natural that growth may slow because not every advisor wants to move down to some of those options.

In terms of the Quilter Partners. So, Quilter Partners we see as a strong addition to our business. It is a way, as we said in our earlier comments, it is a way for advisors to benefit from greater alignment, to work more closely, to manage towards an exit, which could be a sale of their business or a retirement, to get the benefits of co-branding with Quilter and working around tighter alignment. In terms of cannibalisation, we don't see it as a cannibalising thing. You know, if members of our network choose to join Quilter Partners, the network, there is a whole lot of choice. And if they move to a more closely aligned model in Quilter Partners, that will be a strength for us. So, we don't see any sort of cannibalisation concerns. In fact, we see it as a great opportunity. Okay, next question.

James Allen: Thank you very much.

Steven Levin: Yeah, we've got one more question on the phones.

Operator: Alex Medhurst with Barclays. Please go ahead.

Alex Medhurst: Yeah. Hi everyone. Three from me. Firstly, I just wanted to push a little bit harder on IFA channel platform flows. So, it was interesting to see these are backing out for in Q2. I'm conscious of your comments that the market's been under pressure. But it's been several years now since the new platform was deployed and each quarter since then, you've lagged the market in large periods on IFA net flows. You know, market share of AuA has fallen and continues to fall quarter by quarter. What's your take on what continues to drive that net flow underperformance? And when do you realistically expect to see better performance relative to peers, mindful of the environment?

And then a couple of sort of quicker follow-ups. Effectively does the introduction of tiered advisor charging affect the outlook for advice revenue growth? And more broadly, how should we think about that advice growth going forward?

Finally, you mentioned consolidation in the DFM space. Can you give some general colour on your appetite for M&A? Thank you.

Steven Levin: Okay, so thanks. I think we have given some detail and you should look to some of the slides which actually show how our platform is done relative to the market and relative to peers. That's on gross flow terms in Q1 and Q2. So actually, we are doing well in gross flow terms and we are gaining market share. The challenge that we have on net and we've given these details before are that we have an older book than a lot of our peers. We've been in the industry for longer. And so, the outflows are driven by the size of the assets that we have and the inflows are driven by a lot more about market sentiment and obviously your share, the sort of how big the slice of the pie that you get. We're doing really well on our market share. We need to see that markets improve so that customers are investing more. And that will then move the net position actually very quickly.

So, I think that one of the biggest drivers is the relative size between inflows and outflows across the industry given the size of the market. But we're in this for the long-term and I think that the indications that we have or that the net flow position should get to the numbers that we've guided to in the past. As soon as we start seeing an improvement in markets we really are pleased with the share gains that we are getting. And I think that we probably have a sense

that you should look at the numbers a little bit more closely because I think we're probably doing a bit better than you think relative to peers on flows. And actually, the platform in particular was not in outflow in Q2 on IFAs. It was pretty flat. But that's just our Q2 totals.

The tiered advisor charging, that is, we don't see the tiered advisor charging is going to have a material impact on the total revenue in our advice business or anything like that that you need to manage I think. Advisors have tried to do this where they've needed to in a manual way, so they will charge £1 million customer a different percentage rate than they will charge a £100,000 customer. And so, some of them will have different fee models. What we've done with tiered advisor charging is we've automated that for advisors. So, in the same way our platform charge, you set up a sliding scale and if a client moves up and down bands the charges automatically change. So that's a positive step forward and allows advisors to really demonstrate things in an aligned way with their customers and to make sure that they don't forget to reset charges if clients move bands or make a down their big additional investments etc. So that's what tiered advisor charging does. It's really about seamlessly making that really easy for advisors to deliver the service at the values that they believe are appropriate.

And then finally in terms of DFM consolidation. Look, obviously we're not going to comment in a lot of detail about our plans or our thinking in terms of M&A. As I've said, we see the consolidation in the industry as an opportunity. It's one we will keep a close watch on and where opportunities arise we are absolutely prepared to act on them.

John-Paul Crutchley: Okay, if there's nothing else on the lines? No. There's probably about five questions from the web. I'll take them in the order in which they came through. The first is from Andrew Lowe at Citi. Two questions, one for Mark. How much revenue from client cash is now included in the first half management fees? And the second is on Quilter Investors. You said the performance of Cirilium Active has improved since the managers changed in November 22. Could you elaborate on this with data? What's your expectation for flows in Cirilium Active? Looks like the run rate is currently about £400 million per quarter of net outflows. Any signs of stabilisation following the fee cuts? And what is the feedback from advisors on this product?

Mark Satchel: Okay, so if I just take the first one. It was all in my presentation. We have got £6 million in high net worth and £1 million in Affluent from client cash within our revenues.

Steven Levin: Thank you, Mark. So then in terms of Cirilium Active, I'll take that. But Marcus Brooks, CEO and MD of Quilter Investors can go further. So, the performance since the managers took over in November has been broadly second quartile which we're pleased about and it has been a quite a volatile market. And remember they have also been repositioning portfolios as they've taken it over. So sometimes that obviously gives some challenges for new managers.

And then in terms of flows, Cirilium Active, as I said, is the older part of our book, Cirilium Blend and Cirilium Passive were only launched much more recently So, by nature some of the assets in Cirilium active, the natural outflow rate from that product is higher. And we are seeing a level of sometimes clients are switching into Blend or Passive solutions for cost to other reasons. Advisors are doing that. And we have a model that absolutely recognises that and delivers value across whatever the client or the advisor is looking for. And I think the feedback and response to the changes we've made to the manager and the changes made to the fees have been very positive from advisors and from their clients. And we continue to work hard to improve the performance and the net flow position of Cirilium Active. I think that probably covers everything that we need to say there.

John-Paul Crutchley: Very good. Okay, then there's one for Ben Bathurst at RBC. I'll do one part of his question first and there's a second on Quilter Partners, which I'll do in conjunction with another question. So, the question firstly to Mark on interest income, Mark, you set out that you've delivered £35

million for investment and interest income in the first half versus for 21 for the full year 22. At the full year 22 results regarding for low £40 million for full year 23, where do you expect to be in full year 23 now?

Mark Satchel: So, I expect we'll be slightly ahead of, I think you said it's take what we did in the first half and add a little bit on given the change in the Bank of England base rates. That's pretty much more or less where we'd be for this year. Look, interest rates have kept on going up as everyone's aware of, and that obviously has a beneficial impact that flows through.

John-Paul Crutchley: Okay. I mean next, I'll put these two together as a question from both from Ben on Quilter Partners and one from Rahim at Investec on Quilter Partners. Ben asked will there be any differences in the way these advisors are remunerated for sales or Quilter products compared to other affiliated advisors? And Ben also asks how aggressively do you intend to push for this initiative looking forwards? Is it fair to say that it is just a trial phase for now?

Rahim at Investec also asked can you talk a little bit more about the franchise model? Presumably it has been designed in consultation with partners. How does it impact economics? And do you have any targets for this initiative?

Steven Levin: So, I'll give a little bit more colour, but we have said that this is something we'll give more detail on later. So, you may have to be a tiny bit patient or we'll give you a bit of a teaser and you'll have to wait for a bit more.

In terms of the questions around remuneration. So, the advisors set the advice fees. The way our model works is we have a retention rate which is the amount that it costs to get the support from the Quilter network or Quilter Financial Planning. I wouldn't expect to see a material change in that from our network. Our current network retention rate, this model will be completely aligned with Quilter. So, we may make some sort of changes in the round, but they will balance each other out in terms of higher penetration and stuff like that. So, from an economic perspective, I wouldn't look to try to model anything fundamentally different to what you currently already see.

In terms of how aggressively we plan to roll it out, we're starting as a pilot. We've signed up four firms which are going to be the first hubs. And we are going to build it out from there, but we want to make sure that, and to link to the previous, sorry, to the next question from Rahim which is around feedback from advisors. Yes, we have obviously built this in consultation with advisors in our network. And the reason why we're doing it in a pilot is to get that continued feedback so you get the feedback at the start as you're designing it, but once it is in play and actually being used by advisors, we'll continue to build on that. So that's how we will refine it over time and we, as I said earlier, we will update you more on this in due course.

John-Paul Crutchley: Okay, I have two shorter questions from two shareholders, one from Ian Power at Trust Asset Management asking about quantification of a fee reduction on the platform on an annualised basis and what impact do we think it will have on the flows?

Steven Levin: Thank you. So, we previously guided that we would have a one basis point fee reduction this year. In the end, we actually did a slightly higher fee reduction, but coupled with the cash margin, they net out at about the same thing. So, we actually reduced fees on the platform by around five basis points. It depends and you can look at our sliding scales and the data was in a press release earlier in the year. In terms of flows, we think that it will be positive for flows, particularly in the IFA market. But the fee reductions, just to be clear, we only made them at the beginning of June, so right at the end of this quarter. So, we are now even more competitively priced and offer even greater value for our platform. So that's what we'd say there.

John-Paul Crutchley: And one last one from Louis Kruger at 36 One Asset Management. Assuming the savings in staff costs came from headcount reduction, can you give us some colour around headcount versus last year as well as any targets going forward?

Mark Satchel: We don't typically target and or publicly disclose sort of where we think we're going to get to with it. But I think headcount overall is down a few percentage points year on year. A lot of the cost saves that have come about have been in IT operational efficiencies and other things.

John-Paul Crutchley: And that's it for questions.

Steven Levin: Okay. Well, thank you all very much for your time this morning.

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