Quilter 2021 Half Year Results Transcription

11 August 2021

Paul Feeney: Hello and good morning everyone. Thank you for taking the time to join us this morning for our interim results presentation. Hopefully, when we next present, we won't be limited to a virtual format, and I look forward to meeting you in person. In the meantime, I hope you and your families are keeping safe and well. I'll start with some words about our industry, and cover the highlights of the entire business. Mark will talk to our financial performance, with a focus on the continuing business, and then we'll switch over to a live call, where I'll be joined by my Executive Committee colleagues to take your questions.

(Slide 4)
We're pleased to be announcing a good set of results today. Before we dive into those, I want to start with a broader perspective on Quilter's position within the wealth management industry, and the main themes defining the industry landscape. First, there's an enduring need for the advice we provide. Times are particularly uncertain as we adjust to living with the pandemic. Easy monetary policy and targeted financial support prevented a social and medical catastrophe from becoming an economic one. But as those measures are withdrawn, they'll have to be paid for, potentially through higher taxes. All these uncertainties create demand for financial advice, as clients look for guidance in a hard to navigate world.

Second, our industry is being transformed by digitalisation. Its potential to drive efficiency has been apparent for a while now, and the pandemic has turbocharged both client and advisor adoption of new and more convenient ways of working. Indeed, technological leadership was the philosophy that underpinned our investment in our new platform. The new platform provides the digital foundation for all things Quilter, by linking products, business lines and distribution channels. We can now do things that we simply couldn't have considered with the old platform. It allows client self-service options, and means we can offer a wider range of services more efficiently than ever before. Looking forward, both advisors and investment managers will continue to embrace digital means of serving clients to drive efficiency and enhance productivity. That makes embedding digital strategies into core operating models essential.

Third, our market will continue to consolidate, and I'm not just talking about M&A. Over time, assets will migrate to the scale players who can afford to invest to deliver compelling, competitively priced solutions. Weaker players, if they're not acquired, will simply fade away. We're going to be a winner here. And while we never rule out acquisitions, they're not currently on our agenda. Our business is in the shape we want. We have the scale and capabilities to cover all clients and their needs right across the wealth market in the UK.

Finally, ESG, and particularly the E, is increasingly central to any successful business model. Both the pandemic and the recent extreme climate events globally have brought this home even to the sceptics. I want Quilter to be the UK's leading responsible wealth manager, with ESG philosophies fully embedded within the advice process. We'll provide ESG ratings right across all the funds on our platform, and we're positioning our solutions in Quilter Cheviot and Quilter Investors to deliver good ESG outcomes and good investment performance.

(Slide 5)
Right, let's now turn to our first half performance. In our familiar format, let's consider progress along three dimensions, financial momentum, operational improvement and strategic progress. I'm delighted to report that we've made excellent progress on all three fronts. Financially, we've achieved a strong improvement in gross and net flows, driven by our new platform, and we delivered 20 percent growth in adjusted profit to £85 million. We've lifted our interim dividend to 1.7 pence per share versus a penny a share last year. We drove a three percentage point improvement in the operating margin, despite absorbing cost headwinds, which Mark will cover later. And as you know, we've also returned around £265 million to shareholders through our buyback programme, with nearly £100 million completed since our full year results in March, leaving just over £100 million to go, which we plan to get done this year.

Operationally, our optimisation plans, which we upscaled to £65 million back in March, are on track. We have deployed the first phase of our new general ledger, which will ultimately replace the multiple ledgers in place today, and achieve operational and control efficiencies right across the business. We've also been hard at work implementing productivity initiatives in Quilter Financial Planning, and we are investing to transform that business. Finally, in terms of strategic progress, we completed our platform migrations, and we announced the sale of Quilter International, which was overwhelmingly approved by shareholders in June. While we're pleased with where we are and the progress we have made, there is much more that I know we can do. That's why we have a plan, with demanding growth and efficiency targets to deliver much improved operating margins. I'm looking forward to sharing more details of these plans with you at our Capital Markets Day in November.

(Slide 6)
You've seen this slide before, a summary of our net flows. We haven't been delivering this level of client flow since 2018, and we're just getting started. I'm delighted by the strong improvement in our platform flows, and I'll drill down into that in a moment. But what I want to draw out here is the sharp improvement across the whole business. Our platform, shown in dark green, delivered its best performance in over three years. Quilter Cheviot, in black, doubled net flows on last year, and finished the quarter with strong momentum. We've also seen a welcome pickup of flows into Quilter Investors, in light green. This was supported by the strong improvement in investment performance for the Cirilium Active range over the last year. There's a slide showing investment performance at Quilter Investors and Quilter Cheviot in the appendix to this presentation, which summarises their strong performance outcomes.

(Slide 7)
Let me now turn to our advice business. Here, we're very focused on advisor productivity and strategic alignment. We want to ensure that we have the best targeted advisor force across the entire wealth spectrum. This is all about providing an integrated proposition for advice, platform services and investment solutions, to an excellent standard across all our core client segments. We are pleased with the more focused shape of the advisor mix. But it's not just about the number of

advisors. We have also been investing in Quilter Financial Planning's infrastructure, to support growth whilst strengthening processes and controls. You'll recall that at the full year, we said that we would see a reduction in advisors and an improvement in productivity, and you can see this is coming through in the charts on the right. Essentially, fewer, more productive advisors driving higher flow onto our platform and into our solutions. We expect further reductions in advisor numbers in the second half, with some departures still working their way through the system. By the end of 2021, we expect to be at a steady state. Thereafter, new additions will lead to a resumption in net growth. And rightly, we're being discerning on new hires.

Finally, you know that we've been working through some of the legacy DB to DC transfer advice given by Lighthouse with the Skilled Person Review. This review has identified some instances of unsuitable DB to DC advice beyond that relating to British Steel pension scheme transfers. Even though this advice predates our acquisition of Lighthouse, our focus remains on doing the right thing by customers. We've therefore increased our provision by £7 million to cover the potential for additional remediation, together with the associated costs.

(Slide 8)
Let me now say a few words on our UK platform. As you can see from the graphic on the right, we've seen substantially improved gross flows, up 50 percent from £3 billion to £4.5 billion overall. Now, beneath that strong performance are two distinct trends in flows across both channels, our own advisors and independent advisors, and both are excellent trends. Flows from our own advisors have been growing steadily for the last few years as we've grown the business. And despite a lower number of restricted advisors this year, we've seen a 30 percent increase in flows from them onto our platform. Our new platform is now capturing flows from our advisors which would previously have gone elsewhere. But it's in the IFA market where there has been a huge turnaround. We lost some market share with IFAs during the platform migration process, but we are definitely back. The 60 percent increase in flows from this channel absolutely demonstrates the attractiveness of our new platform to independent firms. It's still early days, but we're pleased with feedback and advisor activity on the new platform. Over 2,700 firms on the platform have increased their business with us year on year. Our new discretionary investment hub functionality allows advisors to hold assets in discretionary managed portfolios. We've been encouraged also by the speed at which early adopters have made use of this functionality, and look forward to building this momentum. And nearly 40 percent of all new business flows in the first half used our market leading family linking capability to join accounts and reduce their charges. Since the soft launch of the platform back in 2019, we've been using advisor and customer feedback to refine our proposition. We'll be implementing more enhancements to the system over the next couple of months.

Looking forward, our priorities include stepping up marketing of the new platform to independent advisor firms later in the year. And you'll see the benefit of that coming through in flows in 2022 and beyond. Linking Quilter Cheviot with the new platform. This will mean that Quilter Cheviot clients can use our platform to access pension wrappers, and it will mean that other platform clients can fully access Quilter Cheviot's discretionary fund management capability. Finally, we'll also be enhancing our wealth select offering as a more streamlined, ESG friendly proposition for both our restricted advisors and IFAs.

(Slide 9)

Before I hand over to Mark, let me summarise what is on our to do list for the next six months. We'll drive flows as we build towards our medium term targets. We'll complete our current optimisation plans, and keep focused on efficiency to meet our 2023 and 2025 operating margin targets. We'll continue the repositioning of Quilter Financial Planning, creating a highly productive, strategically aligned and client focused advisor force. We'll complete our existing capital return programme this year, assuming market dynamics allow. And finally, we'll complete the sale of Quilter International before year end. And with that, let me hand over to Mark to walk through the financials.

(Slide 10)

Mark Satchel: Thanks Paul, and good morning everyone. As Paul has said, we are pleased with our financial performance in the first half. I'll start with a snapshot of how the total business has performed, including Quilter International, then I'll drill down into the performance of the continuing business, which is obviously more relevant for the future.

(Slide 11)

So, let's get started with a snapshot of the entire group. We made £85 million of adjusted profits in the half year. That was up 20 percent on the prior period, despite some headwinds, which I'll get into later. Picking out some of the highlights on this slide, we were delighted with the big step up in flows. We continued to see good retention. We improved our operating margin, up three percentage points. We delivered stronger EPS growth and adjusted profit growth, supported by the ongoing buyback and our low tax charge. And through our higher dividend and ongoing share buyback, capital management clearly remains a focus for us. All good progress, I hope you'll agree.

(Slide 12)

Before I drill down into the ongoing business, I wanted to remind you of a few transitional items which arise from the Quilter International sale and the new UK platform implementation, all of which we've talked about previously. Let's start with Quilter International. First, as a result of the sale, there are recoverable costs, which we will reclaim from Utmost during the life of the transitional services agreement. We highlighted these in April, and we focus on reducing their impact as much as we can during the TSA period. And second, there are unallocated costs. Even though Quilter International remains within our corporate envelope until completion, its cost base now purely reflects its direct costs and those that will be reclaimed under the TSA. In these results, we haven't allocated Quilter International, any of the head office and IT costs that have previously carried. So, the continuing business has had to absorb approximately £5 million of costs, which obviously depresses profitability and operating margin.

Now the platform. When I talk to the financial performance of our new platform later, you'll see an uplift in costs, but you should bear in mind that the 2021 cost base is not directly comparable with that of last year. Last year's expense base reflected the costs of running our own platform, whereas this year we are paying FNZ to run the new platform. And what we pay FNZ is a bit higher than the internal costs we have been able to shed in the short term. As we've always said, the business case behind replatforming was about improved functionality, ensuring greater IT resilience, and driving long term operating leverage. It was never about reducing day one costs. Our operational platform costs on our linked to assets administration are on a tiered basis, as are our revenues. We've rebased to a modestly higher but more flexible cost base.

Finally, I wanted to explain the low tax charge, another anomaly in this half, but unrelated to the platform or Quilter International. You'll be aware that we have a net deferred tax asset on our balance sheet. When the Chancellor's proposal to increase the UK tax rate to 25 percent received royal ascent earlier this year, we recognised an uplift in the value of that net asset, which gave a tax credit of £12 million. That £12 million was broadly equivalent to the accrued tax liability for this half year, hence we show a zero tax rate in the first half, which flows through into post-tax profit and the EPS calculation. To be clear, the £12 billion credit is not expected to change for the remainder of this year. We anticipate a normal tax charge in the second half. This will probably lead to a high single digit tax rate for the group over the year as a whole. For 2022, following the sale of Quilter International, we would expect an average tax rate a couple of percentage points below the UK's standard rate, in line with our existing guidance.

(Slide 13)
Right, let's get back to the results of the continuing business. Adjusted profit was up 19 percent to £56 million. Let me walk through the detail of how we got there. Starting top left, net flows more than doubled on those of a year ago, with higher integrated flows particularly encouraging. Together with higher market levels, this led to an increase in average AUMA of 16 percent on first half of 2020. And top right, you can see revenues were up nine percent, reflecting the AUMA uplift and three basis points decline in the revenue margin, which was entirely in line with our expectations. Costs, bottom left, were up seven percent, or £16 million, so below the rate of income growth, positive jaws, if you like. That gave us an operating margin of 18 percent on a continuing business basis. This operating margin includes the costs that were previously allocated to Quilter International that I mentioned earlier, and FSCS levies, which, as you know, mainly come through in the first half. If the FSCS levies were evenly spread over the year, our operating margin would have been around 23 percent instead. As a result, we've delivered a 19 percent increase in adjusted profit. And, more impressively, adjusted diluted earnings per share of 3.3 pence was up 50 percent on last year. The higher growth in EPS than adjusted profit is due to the share buyback programme and the zero tax rate that I've just covered. So, good momentum across the business.

(Slide 14)
Let's drill down a little further, starting with revenue margins. This slide is one you've seen before. It breaks revenue margins up by business unit. As a reminder, our guidance on group revenue margin continues to be for margins to gradually ease and then stabilise over time as we drive up integrated flows as a proportion of total AUMA. This increases the proportion of assets on which we earn more than one revenue stream. Within the group, 32 percent of total AUMA is integrated, compared to 30 percent a year ago. Turning to the first half trends, nothing here should come as a surprise. Let me draw out some of the dynamics for you. First, you'll notice the two basis point decline in Quilter Investors' revenue margin, shown here in light green. This reflects our success in delivering one of Quilter Investors' strategic goals, attracting new money into a broader range of solutions. We've increased balances across the board, including Cirilium Active. But importantly,

we've seen particularly strong flows into our Wealth Select range, which we opened up to our restricted advisors last year. The proportion of Quilter Investors' total assets in the Wealth Select range increased by around 2.5 percent. Similarly, the proportion of assets in Cirilium Passive and Cirilium Blend has also increased. You'll find the detail on the product mix at the back of this presentation. Each of those three solutions comes at a lower all in cost than the more actively managed Cirilium Active range, therefore, the blended revenue margin for Quilter Investors is slightly lower, even though total income is higher. This is entirely in line with our strategy. As I've said before, we expect continued mix shift in Quilter Investors' revenue margin, with this driven by clients and advisor preferences.

Next, our UK platform. Here again, there was about a two basis point revenue margin decline from the second half of last year. About half of that is due to the normal attrition we expect over time, and the other half was due to two factors. First, market growth. High markets mean more client assets falling into lower pricing tiers. Higher equity markets led to a £5 billion increase in average assets on last year. That means more revenue overall, but at a slightly lower revenue margin. And secondly, and a lot less materially, a change in the way the average balance is calculated following the move to the new FNZ platform. So, revenue margins are as we expected.

(Slide 15)
Now let me turn to costs. This slide shows you how we've controlled costs year on year. I've taken last year's costs of £264 million and stripped out Quilter International's direct costs of £32 million. You can then see the impact of cost push from the external environment, inflation and higher regulatory levies. And then on the right, our optimisation activities, as well as the reversal of last year's tactical cost savings, which mainly relate to staff compensation. The net increase in costs was £16 million. I think it is a great outturn, especially given that the combination of the higher regulatory levies and the tactical cost unwinds added up to a £22 million drag, evidence that our optimisation programme and cost management initiatives are being effective.

(Slide 16)
Next, let's look at the platform's financial performance in the first half. This is a bit of one-off disclosure, if you like. Now that Quilter International is reported as a discontinued business, the platform's performance is clearer to see, so I thought a few words of context might be useful. You've heard Paul talk about the substantial improvement in flows, which are already growing in line with our medium term target, and I'm just as pleased with the year on year increase in profitability. As you know, our platform is highly scalable, and is going to be a source of considerable operating leverage. In that context, it is worth calling up the main contributors to expense growth. These were higher regulatory costs, a reversal of last year's tactical cost savings, and the switch across the FNZ running the platform, which I mentioned earlier. Improvement in the platform's operating margin will be one of the significant drivers behind achieving our operating margin targets, and the platform will also be a key contributor to our future profit growth.

(Slide 17)
Turning now to our capital and cash positions, starting with our solvency ratio, which you can see remains strong. The decline in the ratio to 203 percent at the end of June was principally due to share buybacks and the deduction of the interim

dividend. After allowing for the final £100 million of the £375 million buyback, which is still to come, the Solvency II ratio would be around 190 percent. We've always considered cash to be more important in terms of actually running the business, and here we're in a strong position too. Cash balances of just under £520 million at the end of December reduced to just under £400 million by the end of June. As with capital, the main drawdowns were the payments of the final dividend and £100 million of share repurchases in the first half. We up-streamed around £110 million from subsidiaries, a material improvement on the £27 million in the first half of 2020. You'll recall, we were cautious in extracting capital from subsidiaries last year due to the uncertainties around covid. Remittances this year were partially offset by around £40 million of capital contributions into subsidiaries, as well as £30 million spend on transformation initiatives and head office costs. The remaining share buyback, decommissioning costs for the legacy platform, optimisation spend and the interim dividend will reduce the end June cash position by around £150 million in total. That will leave about £250 million for managing the business, which is an appropriate buffer to cover stress scenarios.

(Slide 18)
The board declared an interim dividend of 1.7 pence per share. That is a meaningful step up on the penny a share we declared at last year's interims, when we were deliberately cautious given the uncertainties around covid. As previously announced, we are breaking this year's dividend down between the contributions from the ongoing business, of 1.2 pence per share, and Quilter International, at 0.5 pence per share, to provide a line of sight to a sustainable dividend base in 2022 and beyond. We continue to make good progress with the capital return from the sale of Quilter Life Assurance, and we've now returned around £265 million out of the planned £375 million at an average share price of about 140 pence. The current buyback tranche will complete by the end of August, and regulatory approval for the final £100 million tranche is in place. So, subject to Board approval, we expect to be able to push on once the current tranche completes, and aim to finish the total £375 million buyback by around year end.

(Slide 19)
Then, of course, we have the sale of Quilter International to look forward to. Here, all is going to plan. You'll recall that the transaction was structured as a locked box mechanism, with the sale price of £460 million, plus a ticker, which we estimated at £23 million, assuming the deal completes on 31 December 2021. Good progress is being made on regulatory approvals. This means there's the possibility of completion in the fourth quarter, prior to 31 December, and that would, of course, lead to a commensurate reduction in the ticker. We continue to consult with our shareholders on the best means of returning the majority of the net surplus proceeds, and expect to update on that by completion.

(Slide 20)
Now, guidance, you know this slide well. And the only notable change here is revised guidance from the tax rates for this year, which I explained earlier. The other thing you may want to note for your models is that we transferred Quilter Private Client Advisors into Quilter Cheviot at the end of July. You'll see in the press release that PCA had £13 million of advice revenues in the first half, and so you'll need to update your segmental forecasts accordingly. Segment costs, of course, do not change.

(Slide 21)

So, in conclusion, I'm very pleased with the first half results. The business is in good shape. The trend in revenue margins is in line with our expectations. We continue to keep costs well under control. And lastly, we've got a strong balance sheet with our capital return programme progressing well. We plan to conclude the current programme and update on the next stage of capital returns by the end of the year. And with that, let me hand back to Paul to wrap up.

(Slide 22 & 23)

Paul Feeney: Thank you, Mark. Before I open up for questions, let me just conclude with a few key messages. These results have demonstrated our continued ability to deliver strong top line growth and sharply improve flows, with more to come. We've created a highly scalable business that will drive operating leverage. We've got both a strong balance sheet and a strong track record of returning capital to shareholders, and there's definitely more to come there as well. We look forward to updating you all on this and more at our Capital Markets Day on 3rd November. And with that, let me open for questions.

(Slide 25)

Operator: Thank you. If you wish to ask a question, please dial 01 on your telephone keypads now to enter the queue. Once your name is announced, you can ask your question. If you find your question is answered before it's your turn to speak, you can dial 02 to cancel. So, once again, that's 01 to ask a question or 02 if you need to cancel. Our first question comes from the line of Andrew Sinclair of Bank of America. Please go ahead, your line is open.

Andrew Sinclair: Thanks. Morning everyone. Three from me, if that's okay. Firstly just on financial advisor numbers, I know something we've spoken about quite often. You've talked about returning to net growth from 2022, which is great to hear, but really just want to ask again, what sort of growth do you think is achievable? I think it would be really helpful to provide some guidance there. Particularly given that some of your peers are having some disruption in the short term, that may be something that can be exploited. I'm not sure if we'll hear more about this at the Capital Markets Day. That's question one. Secondly, just on Quilter Investors, flows there may be a little bit below what I might have hoped for in Q2. Just really, what sort of feedback are you getting here from customers? 0.2 billion a quarter and the net flows just doesn't seem quite where I'm sure you'd want that to be. And thirdly, just on Slide 8, I know you talked about the uptake that you got from your own advisors, but I actually thought that might even be a little bit more as maybe some of your own advisors moved to use the platform for the first time, and the new platform gives a bit more opportunity. Just could you give us a little bit more colour on what's achievable here for your own advisors? Thanks.

Paul Feeney: Thanks, Andy, it's Paul. Yes, we've said we expect to return to net growth in advisor numbers by 2022. This year, you're already seeing, I have to say, quite an increase in productivity from our own advisors, from £1.5 million per advisor to £2.2 million per advisor, a 47 percent increase. 30 percent increase in overall flow from our own advisor base. So, I'm actually quite pleased with that. But I think what we would expect to see is what we've guided to in the past, mid-single digit net percentage growth in RFP, restricted financial planner numbers, per year. You know, so, in the past, we've done a bit better, but that's where we've guided to, and I think that's what we'd expect to get back to from 2022. In terms of Quilter Investors' flows, I mean, certainly, better than last year. Our investment performance of Cirilium Active and our investment solutions, our one year performance has certainly been very good, and that adds to our longer term excellent performance. And of course, you know, we've got something that we want to talk to you about on the Capital Markets Day, which is a brand new, huge revamp of our Wealth Select investment solution coming towards the end of the year, which was not possible on the old platform. And I won't go too much into it because I don't want to steal our thunder at the Capital Markets Day. But, you know, we'd of course expect to see now that starting to ramp up with Quilter Investors as well.

What I really want to see is, first and foremost, greater capture of platform flows. As you know, last year we were capturing around 50 percent of platform flows from our own advisors. This year, to date, we're capturing around 77 percent, so we've seen a greater than 50 percent pickup, or, if you like, a vast reduction in leakage. It won't get to 100 percent so long as we've still got clients on other platforms that need topping up. And once we get to, let's say, the 80 percent level, I want to see a big proportion of that flowing through into our own investment solutions, whether it's Quilter Investors or Quilter Cheviot, with our private client advisor business. In terms of what's possible from our own advisors, clearly more. But again, I think I'm happy where we've got to within, you know, the six months of this year, given that we only landed our new platform in early March. But we will see that ramping up as we again continue to reduce leakage, which we are doing, continue to increase productivity, and continue to have a more strategically aligned advisor force. Because now it's all about us having the courage of our own conviction. It's all about having strategic alignment in the pursuit of a common purpose. And that's why those advisors who perhaps didn't want to come on the journey with us on this, you know, we've had to say goodbye to, but it means we've got a lot more to invest with those advisors and those advisor firms that are on the journey with us, and we're already seeing the fruits of that labour.

Operator: Thank you. Our next question comes from the line of Greg Simpson at Exane BNP Paribas. Please go ahead, your line is open.

Greg Simpson: Hi, good morning. Thank you for taking my question. So, if I could go back onto the advisor question, could you provide any colour on how the advisor school is going, building out a way to grow advisors without (inaudible) from the IFA industry, so any kind of update on how that's being developed. Second question is on strategy on costs. Could you provide any colour on how you're thinking about costs for the full year? Is that £5 million of inflation in that slide a good guide to the level of inflation you're seeing across the business? And then just finally on Slide 16, the following slide, £66 million of platform expenses, just to understand, does that still include costs of running the platform, of the previous but internally run platform and systems that eventually can be retired at some point, just to understand the mix between what is FNZ and what is other costs within the platform cost space. Thank you.

Paul Feeney: Thanks Greg. I'm going to ask Steve Gazard to answer your first question. Steve, as you know, is the CEO of Quilter Financial Planning. Mark, of course, can take the costs for the full year, and I think probably also you could take the third one on –

Mark Satchel: Yeah, the 66. So, Steve, you want to take about where we are with the advisor school?

Stephen Gazard: Morning. Yeah, no, we were really pleased with where we are with the advisor school. Last year, we did a lot of work to move it to primarily a digital offering in response to covid, but also as part of the generational move, as we bring younger advisors into the mix. That's going very well. We continue to see that drive new advisors into both our existing businesses in the network, but also our own national. So, we're pleased, we're where expect that to be.

Mark Satchel: And Greg, the first question was around the general costs for the business and guidance on that. We've previously guided towards about £560 million of full year expenses for this year, which I'm still more or less guiding towards. It obviously includes Quilter International in for a full year, so if completion of that had to happen earlier, there'd be a proportionate amount that would come down, but you're losing the revenues on that side whenever that completion did happen. In terms of inflation guidance, at the moment, we are pretty much still keen at around about a two percent inflation type impact overall, but clearly we've started to feel a bit of pressure in that, just as you would have generally noted in the UK more generally. So, you know, on a go forward basis for this year, I'm still guiding towards that sort of number, but down the line there may need to be some revisions just in terms of inflation expectations in so far as those go.

And what I'd probably also just use this opportunity to do is just remind you that, in the first half of this year, with the UK still being in substantially a remote working type environment, the tactical cost unwinds that we called up last year haven't fully unwound in total. So, while we've had the variable component come back, the areas around travel, entertainment, marketing, some developments, then those are the sort of things I'm expecting that, as the UK and as us as a business go into more of an office based working environment again, that some of those costs will go up in line with what we said at our full year results.

On the platform expenses, the first half is still a bit of a transitional period, because we've got a portion of it that was still operating the old platform and then a portion of it that's already on the new platform, so there's a little bit of a double counting into some of those costs. We are still going through decommissioning costs on the existing platform. Most of those decommissioning costs, the actual costs of the decommissioning rather than their own costs, are in the below the line item around the platform transformation programme. But operational costs do have an element of inefficiency, given that it was taken place over the transitional period. So, hopefully that answers that.

Greg Simpson: Thank you.

Operator: Thank you. Once again, if there are any further questions, please dial 01 on your telephone keypads now. And we've got some further questions coming through. (Pause) Okay, and our next question comes from the line of Gurjit Kambo of JP Morgan. Please go ahead, your line is open.

Gurjit Kambo: Hi, good morning. Just two questions from me. Firstly, in terms of the platform sales, it seems, you know, good gross sales increasing to 4.5, I think from 3 billion, and we've seen redemptions grow to 2.7 from two. Just on the redemptions, is that really a function of the advisors, you know, who are perhaps not restricted and therefore are leaving, and then, you know, as we get through this year, would you expect that redemption number to also potentially become more stable or even come down? So, that's the first one, just trying to think about the dynamics of net flows on the platforms. Obviously, gross is good. Maybe redemption's also come down, so you get a double benefit as you go into '22 and beyond. And then on the ESG, I think you mentioned, there's a bit more going on around the ESG, making your funds ESG compliant. What's the sort of demand you're seeing from clients? Is there a much bigger demand now for the ESG side, and where are you on that? Do you think you need to invest in it or are you already there? Thank you.

Paul Feeney: Okay, thank you, Gurjit. I'm going to pass to Steven Levin. I think he can take both of these questions, actually, but let me just say very quickly on ESG, we certainly are seeing greater demand. At the same time, you know, we're taking a view ourselves that we want to be leaders in this area. So, we're not waiting around for like demand to match supply, we're going to push forward with it. But Steven, first of all platform, what you expect on retention, redemption numbers, and then what you're seeing on ESG in Q1.

Steven Levin: Sure, thanks. So, on the out flows, out flows have increased as market activity has increased. So, if you go back to last year, actually, out flows were quite depressive as a rate because there was advisor activity, less transfer of pension business around. The whole market slowed down quite a lot last year. We've seen more of a normalisation of that. We also saw last year our customers actually reducing their drawdowns that they were taking, and customers were taking a conservative approach and not trying to sell out of markets, particularly in the first half of last year when markets were down. Again, that has normalised. We trackout flows, specifically looking at out flows to transfers to other companies, which is money moving around the industry, and out flows direct to customers, which are, you know, paying up the benefits of the product, so different drivers on each of those.

One of the other factors on out flows has been, as you pointed out, some of the advisors who have left, the restricted advisors. They typically can end up at another place and then end up using a different platform as a preferred platform, so we do see up flows from that cause. But by and large, actually, on a rate of out flow basis, our out flows are actually improving compared to longer term trends. So, we're seeing less transfers, and we're seeing that as a benefit of our new platform. And we're expecting that there will be some continuation of that, because there's less need for advisors to transfer assets away for acquiring different functionality and things like that. So, a little bit of a detailed answer on up flows, but hopefully that helps.

In terms of ESG, I think, as Paul mentioned in answer to an earlier question, we are investing heavily in a new expansion to our Wealth Select proposition, which will be launched towards the end of this year, or potentially early next year, and that will have a significant ESG offering embedded within it, and a whole lot of processes for advisors to give great advice and help customers select the ESG capabilities. We're in the build phase at the moment, and we're very pleased with where we are. So, I think that's probably all I'd say on ESG at this point. We do see it obviously as strategically very important.

Gurjit Kambo: Great, thank you, guys.

Operator: Our next question comes from the line of Ben Bathurst of RBC. Please go ahead, your line is open.

Ben Bathurst: Morning everyone. Three questions if I may this morning. Firstly, just on the platform. Appreciate the colour around the reduction in leakage. I just wondered if you could perhaps give an update or maybe just a reminder on the stock of advisor assets that are sitting on other platforms, and perhaps comment as to whether or not you're starting to see any sort of meaningful movement of that stock onto the Quilter platform yet. And also just sort of wondering, almost arithmetically, if you were to have an advisor transfer across, where would that sit within that kind of leakage statistic. Second, just on the financial planning revenues, I think in the outlook comments you referenced the benefit of higher residential property transaction activity in the first half. I wondered if I could ask for maybe just a split of the revenues that you think were linked to housing market activity in H1, and how that moves year on year, so we can try and form a view of how that might reduce in the second half and beyond if residential property transactions do fall down. And then third question was just to try and get kind of a temperature check on client sentiment and activity. I think others in the industry are expecting Q3 to be somewhat slower just due to people taking holidays and what have you. Would that be kind of a fair assumption for Quilter for Q3, and then maybe for flows and activity to pick up again in Q4? Thank you.

Paul Feeney: Thanks Ben. So look, I'm going to say a few things first on platform and advisor assets on other platforms, and then hand over to Steve Gazard very quickly to talk about what we're doing there. And then in terms of QFP revenues, particularly with regard to mortgage and protection revenues from our advisor force, I'll hand over to Mark. And then I think just in Q3, sure, I mean, you know, we've been pleased with how Q3 has started, but we certainly expect that we'll have some seasonality, as we always do every year. And Q3 is usually our slowest quarter, simply because people actually go away on holiday, and I think this year people are gagging to go away on holiday, certainly I am (laughter). And we'd expect that to then pick up properly again in Q4. So, just in terms of advisor assets on other platforms, our number one priority when our new platform went in in Q1 was not to move that box of assets from other platforms. It was to capture a far greater percentage of our own advisors' new business flow onto our platform, because clearly, that's the litmus test. Advisors will use your platform more for new business and basically try it out more before they'll move clients and assets from other platforms.

So, you know, I set myself an internal goal of what – I'm not even sure I want to state it, what I wanted to see in terms of total platform flows coming to our platform. I can tell you, we are very close at 77 percent to that number, but not quite at it yet. And for this year, that's the core goal, to capture a greater percentage of flow of new business. We'll never capture 100 percent of brand new business so long as there are clients on other platforms that need top-ups. So, as long as there's top-up business, there's always going to be that 20 percent going to other platforms, because that tends to be where the top-up business is, okay? And in terms of new business, we wanted to capture a big percentage, and we're at 77 percent.

So, in terms of the amount of other assets from QFP on other platforms, I'm going to ask Steve Gazard to come in and to say some of the things that we're looking at there.

Stephen Gazard: Yeah, so, I mean, entirely as Paul said, our focus has absolutely been on driving the adoption through new business. The way advisors work is that they will absolutely route that first and then look at the back book activity. We've been really pleased with our progress to date. And that clearly, with the reshaping of the QFP business, means that all of our teams, whether that be in the field or operations, have far more time to focus now on the right type of advisor who wants to engage with us and wants to move productively towards that. So, our focus, you know, is now shifting towards helping advisors look at their opportunities with their back books, and look efficiently at how we move across in doing so. That's really where we're driving our next set of agendas.

Mark Satchel: And if I just answer the question just around the actual proportion of revenues linked to mortgage, I can give you the mortgage and protection number and draw a bit more specifically. But across the business, in the £59 million of Quilter Financial Planning revenue, £13 million of that was driven by mortgage and protection business over the first half, so it's round about 22 percent, which is a very similar percentage to what it was for the same period in 2020. So, proportionately, that's the sort of number we're talking about. Clearly, there is going to still be a lot of activity in there, but there might be a slight softening of that in the second half given the change in the stamp duty situation in the UK. So, that sort of gives you I think a feel for the order of magnitude.

Ben Bathurst: That's great, thank you.

Paul Feeney: Ok, thanks

Operator: Thank you. Our next question comes from the line of Nicholas Herman of Citigroup. Please go ahead, your line is open.

Nicholas Herman: Yes, thank you for taking my questions. Hopefully you can hear me okay.

Paul Feeney: Yes can hear you fine, thank you.

Nicholas Herman: Three questions from my side, please. The first on advisors, the second on coming back to inflation, and then the third one on M&A. So, on advisors, just remind us, what are the quantitative metrics you've been using to analyse advisor performance and the ones that you've cut to a minimum level of flows, probably contribution and so on. That will be helpful. And also, are you able to confirm whether there is any revenue pushing from the advisors leaving, and if you could quantify that too, that would be helpful. Moving onto inflation, just continuing from the previous question, if inflation were to continue, would that impact your operating margins over time? Presumably, it's quite difficult to pass on, although I assume, you know, it's fair to say there wouldn't be any risk to your medium term targets, but just curious how sensitive the operating margins are to that. And then finally, on M&A, we've seen M&A in the UK wealth management section continuing at quite a rapid tick. Obviously, we didn't think that too long ago back in April. But I mean, how are you feeling about the market? Do you see yourselves as being more constructive on your potentials to acquire? Yeah, thank you.

Paul Feeney: Thanks, I'm going to say a couple of words on your first one on advisors, and maybe hand over again to Steve Gazard. I think inflation and its impact on our op margins is on the mark, certainly, and I'll come back and mention a bit about what I see in terms of M&A. One of the key metrics we use for looking at advisor productivity is just that, productivity, how much of our integrated flows per advisor are we seeing. And integrated flows, our advisors are using our platform and the products on our platform, and also our investment solutions. So, that has increased to 2.2 million per advisor in the first half of this year from 1.5 million last year. But I'm sure you've got a few others, Steve, as well.

Stephen Gazard: Yeah, I mean, our review in this area has been wide reaching, from integrated flows through to case counts, through to average case size, through to profitability of the business, through to alignment with our propositions, and ultimately that's not a one size fits all approach. We have various advisor models that we're operating in terms of our national and our network, and sole traders versus larger businesses, and that engagement has carried on throughout the process and certainly in our network in conjunction with the principles of that network environment. So, there isn't a one size fits all, but all the metrics you'd usually expect.

Paul Feeney: Inflation?

Mark Satchel: The inflation question, it depends. It depends on the rates of inflation and it depends what some of the second order impacts are going to be of having a higher inflation environment. So, if we have a higher inflation environment and interest rates go up, that will provide some offset to the higher cost base. It probably won't totally alleviate on a one for one basis, but it provides an offset. Now, clearly, at the moment, I'm not changing any guidance in terms of operating margin, but a higher inflation environment could have an impact on the achievement of those targets over time, but it does depend on what else happens at the same time as there is a higher inflationary cost environment, which I don't think is unusual for us. I think the same probably applies to most businesses in the UK operating in our segment.

Paul Feeney: I think on M&A, the first thing I'd mention is that Quilter does not have to do M&A. To build Quilter, we had to do some M&A, and as much disposals as we did acquisitions, if not more in fact. But we have now got the business and the shape of business that we want, and our two goals from here on in are growth and efficiency, not M&A. However, our market is consolidating and it continues to consolidate, and it's not just in the advice area now. It's in the platform area. It's in the money management area. And we're going to continue to see that. I think one of the key things for us, now that we do have our business in the shape we want – and we get offered stuff left, right and centre, but very little do we actually even really look at. But I think we've got a good business model now, a business in the right shape, and the core goal is organic growth.

Nicholas Herman: Great, thank you. And can I just follow up again on the first question on advisors, I mean, whether there was any revenue attrition from advice –

Mark Satchel: There is a bit of an annualised basis. It's sort of low single digit millions, around about 5 million in total, that we don't feel the impacts of it fully yet. It'll come in time. But it's more or less at that sort of level.

Nicholas Herman: Ok, thanks.

Operator: Thank you. And we have one further question on the phones at this time. That's from the line of Enrico Bolzoni of Credit Suisse. Please go ahead, your line is open.

Enrico Bolzoni: Good morning, thanks for taking a couple of questions. So, one is on advisor recruitment. So, some of the other players out there are quite aggressive in terms of trying to recruit as many advisors as possible. Considering that there is a limited amount of people at any time that are able or willing to shift from IFA to restricted, I just wanted to ask you, what is your view in terms of how aggressive you need to be in terms to convince these people to become your advisors. And related to that, I mean, clearly, you have a very, let's say, scalable DFM proposition. How important do you think that is in trying to convince IFAs to join? And can you give a bit more colour on actually the very good margins you had on Cheviot in the first half of this year, thank you.

Paul Feeney: Okay, again, I'm going to hand over to Steve Gazard for the first one and Andy McGlone, who's the Chief Executive of Quilter Cheviot, for the second one. But just very quickly on advisor recruitment, I mean, we said that from the end of this year we expect to grow our advisor numbers back again at sort of mid-digit percentage numbers, and we've done that or better than that in the past, and that's what we'll do again from the end of this year. Do you want to talk about the sources that we get advisor numbers from, Steve?

Steve Gazard: Yeah, absolutely. So, we've continued to recruit throughout this period. We expect to go back to single digit net numbers, as Paul's talked about. But from our perspective, we're rightly being discerning on who we're allowing in the door, and we have multiple routes to it. So, whether that is our continued organic recruitment through the recruitment team, but also the financial advisor school, as we've already said. And the financial advisor school definitely forms part of our long term agenda to bring the next generation of advisors, so that we're not reliant on a circle of existing market.

Paul Feeney: And in terms of our DFM proposition, we've got an excellent DFM proposition, great investment performance from Quilter Cheviot. We've just transferred Quilter Private Client Advisors over to Quilter Cheviot, and of course that is all run by Andy McGlone, the Chief Executive. So, Andy, do you want to say a little bit more about that, and margins?

Andy McGlone: Yeah, sure. I mean, you saw from the chart that the revenue margins have held up pretty well and they've been pretty constant for a number of years now, even though we thought they might drop down a little bit each year. But I think, you know, in some ways, even if they did drop, it wouldn't necessarily worry, because most of our fees are based on a tiered level. So actually, if markets rise, as markets rise, you get a lower blended cost to the client, and so that would have little impact on margins. But no, they've been holding up pretty well.

Paul Feeney: Great, ok.

John-Paul Crutchley: I think that's it with questions on the line, is that right, Operator?

Operator: That's right, there's no further questions on the phones.

John-Paul Crutchley: Okay, there's one question which has come in through the website in two parts. Maybe the first part is for Paul and Andy, which is what as the rationale for transferring – I should say, it's from Dave McCann at Numis. What was the rationale for transferring PCA to Quilter Cheviot? And he's noted the revenue number we've called out, the 30 million first half, and he's asked for the associated profit number, which we won't give, but just to mention that. But what was the rationale for the transfer there. And secondly, a question on costs for Mark. Should we think about the high FSCS charge as normal and ongoing, or high relative to what you'd expect in the future?

Paul Feeney: Let me say a few words, then again I'll hand over to Andy. One thing I think we've all learnt here at Quilter over the last 18 months of this pandemic is that we operate better when we operate around our clients, as opposed to operating around our corporate entities. So, making sure that we look at our core client group, so effectively high net worth and affluent/mass affluent. And the high net worth area predominantly is a discretionary investment management led proposition. So, having the right wealth planning force and capability inside Quilter Cheviot, as well as operating the open market, I think just makes things less clunky. You know, easier client journeys, not asking clients for the same information twice, good financial planning working hand in glove with the investment manager. I've probably stolen all your thunder there, Andy, so apologies (laughter).

Andy McGlone: That's largely it. I mean, it's about making the client journey, experience so much better, but it's also that makes it a lot easier for our staff. And, you know, not having to duplicate things, bringing people much closer together, geographically more aligned, we just feel that we can really focus the QC and the PCA businesses more closely by bringing them closer together.

Mark Satchel: And David, to answer your question just on FSCS levies, it's really one that you should be asking the regulator, because we're a bit of a price taker on that one, and have little direct influence over it ourselves. As you are aware, the FSCS levies have increased at an astronomical rate over the last three to five years, since they were first introduced probably a little bit before that even. Certainly, my own expectation is that FSCS levies going forward are likely to grow at well above the rate of inflation. So, I think even the regulator is trying seek ways to actually reduce that increase, because I think even they have seen that they're increasing at quite a high level. And you would know that, before Christmas, they set expectations then on what they expected the industry wide levy to be, which was significantly high compared to what it had been in the prior year, and then round about March time, April time maybe, they came up and announced they were actually undertaking the invoicing to the firms, that it was still an increase but not as big as the one that they'd previously indicated or suggested before Christmas. So, certainly, my own expectation is that, as I already said, FSCS levies will continue to increase at a higher rate than pure inflation over the next little while.

John-Paul Crutchley: Okay, nothing else. I think we can .... Do you just want to say a few words of thank you?

Paul Feeney: Yes, first of all, thank you for listening in this morning, everybody. As I said, I'm really pleased with the results that we've delivered to date, over the half year, a strong increase in profits, a strong increase in flows, both gross and net flows, a real reduction in leakage from our platform, our brand new platform in international sold and overwhelmingly supported by our shareholders, our buyback programme, likely to be finished by the end of the year. And now is about growth and efficiency for our business. We're not at our operating target guidance yet in terms of margins, or our net client cashflow guidance yet, but we're well on our way, and we'll get there. So, thank you very much, everybody, and hopefully next time we'll be able to do this face to face. I look forward to seeing you at our Capital Markets Day on 3rd November.

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