Quilter 2020 Full Year Results Transcription

10th March 2021

Paul Feeney: Good morning everyone. Given the circumstances, we've recorded this presentation in advance.

I'll cover the business highlights and talk about our strategic evolution. Mark will talk to the financial performance. And then we'll switch over to a live conference call and take your questions. And for the Q&A, I'll also be joined by some of my colleagues.

Let me start by acknowledging something that we all know. 2020 was a tough year for everybody. Many of us, including some of our Quilter colleagues, have had to contend with individual hardship, mental health challenges and personal grief. My heart really goes out to anyone who has had to deal with these issues. I know it hasn't been easy.

So I want to acknowledge right up front, the dedication of my colleagues in these very challenging times. I'm proud of how our teams have been there for each other and for our customers, advisers and for our charitable partners.

Turning to Quilter, while 2020 has had its challenges, it's also been a year of achievement. We've made excellent strategic progress. We've completed our platform transformation. We've largely integrated the acquisitions we made in 2019. And we've also initiated a strategic review of our international business.

We demonstrated considerable resilience. Most importantly, we've supported our clients and we've won several awards in the process, including company of the year from the Financial Times. And by taking strong action to protect the P&L from revenue headwinds, we've delivered robust results. At the same time, we've made sure the business is positioned to accelerate growth and improve efficiency in the years ahead.

Our new platform will enable us to drive faster growth in net flows. To capitalise on the opportunity ahead, we're repositioning our advice business. We've broadened Quilter Investors' suite of solutions, and we will also complete our initial optimisation plans this year, delivering the targeted £50 million reduction in costs, as well as a bit more we've identified, which Mark will tell you about later.

Finally, we've continued with our buyback programme. We've completed £175 million of share buybacks. And we also completed our Odd-lot Offer, which shrank our share register by nearly half.

Quite a year. Now let's look at the numbers.

I'm very pleased with our financial performance for the year given the volatility in markets. Overall adjusted profit, flows and our operating margin all stacked up well against market expectations. Net flows were over five times the level we saw in the previous year, still below our 5% target, but making good progress. And we expect to narrow that gap further this year.

Our AUMA at the end of December was up 7% on a year earlier, and we achieved an operating margin of 25%, limiting the decline on the previous year to just one percentage point. And we delivered adjusted profit of £168 million, down 8%.

But the decline in EPS was limited to just 1%, thanks to a lower share count after the buybacks. And by moving up our dividend pay-out range, we raised the underlying dividend by 15% on last year after excluding 2019's distribution from the proceeds of the sale of Quilter Life Assurance.

Now, let's look at operational performance, starting with flows.

We delivered £1.6 billion of net client cash flows in 2020. As I mentioned, that's up over fivefold on 2019.

On this chart you can see how each business contributed. The line shows total net flows after adjusting for double count between our businesses. We enjoyed three particularly good quarters last year, but the third quarter's usual seasonal weakness was exacerbated by the effects of the first lockdown which, given the lead times in our business, took a few months to come through.

Let me draw out a few key points for you.

First, you can see the real power of our UK platform in dark green, the beating heart of our business. In 2020 it brought in £1.5 billion of net flows, up from just under a billion in 2019. And that was despite the distractions from platform migrations.

Secondly, you can see Quilter Cheviot in black. The impact of outflows from the team that resigned in 2018 is clear. And pleasingly that drag is now behind us.

Next you can see the solid performance for most of the two-year period from Quilter Investors. It is fair to say that the contribution from them in the latter half of last year was below the level we expect. This is because we saw some outflows and switching to passive products, partly as a result of Cirilium Active's underperformance in mid-2019, which has now been rectified.

Finally, you can see the slightly more volatile contribution from the international business. That's lumpier business from higher net worth clients.

The other point to note on this slide in the boxes is that our DB to DC flow contribution was broadly unchanged year-on-year.

Now let's turn to investment performance.

We achieved strong performance in 2020. The detail is in the appendices, but you can see the key points here.

First, Quilter Cheviot has continued to deliver. It has broadly outperformed its ARC benchmark over three, five and ten years. It's also been solid on a one-year basis.

Turning to Quilter Investors. Our Cirilium Active range has performed well since markets bottomed in late March 2020. And, actually, as at end of January, it was back to first quartile one-year performance across four out of the five portfolios, with the other one just dropping into second quartile.

Our Wealth Select range has continued to deliver excellent performance.

And finally on this slide, our passive offering is now Quilter Investors' third largest solution with over £2.5 billion under management.

Let's remind ourselves how our business fits together. Our platform sits at the heart of our business linking advice with investment solutions. But the thing that is unique to Quilter is the two powerful distribution channels on the left of the slide. Our own Restricted Financial Advisers who generated around £1.8 billion, or a third of the total gross flows onto the platform last year. And Independent Financial Advisers who generated the remaining two-thirds.

None of our competitors have the breadth of distribution that this combination of channels brings. And now that our new platform is fully operational, we think it will enhance flows across both channels.

So that's where the money comes from. Now, where does it go?

On the right you can see that we bring high quality wealth solutions to our clients through whatever channel they want, and in the appropriate investment wrapper, our Omni-channel approach.

In 2020, £1.6 billion went into solutions managed by Quilter Investors. And the rest? Just over £4 billion went into third party products and funds where we use our scale to offer pricing benefits to our clients. And our unique selling point is that we make both our and third-party investment solutions available to Quilter's and third-party advisers. And customers can switch at will between the two.

In the middle, you can see the scale of the platform. £63 billion under administration at the end of 2020. And within that you can see the proportions that are managed within the Quilter ecosystem. 16% of that was introduced by our advisers, up from 13% in 2019. And 21% of the assets on the platform are in solutions managed by Quilter Investors, up slightly from 2019.

Now let's turn to the platform transformation programme.

I'm delighted to say that we've brought the project to a well-executed completion. I want to record my thanks to the team who delivered this, the largest platform build and migration ever undertaken in the UK.

It was completed in circumstances that could not have been imagined when we set out on this journey back in 2017. The two major migrations were both completed under full UK lockdowns. My colleagues were incredible in getting this over the line.

The key statistics listed here don't really do justice to what we achieved. I encourage you to watch the video on our website in which Steven Levin talks about the migration process and the business opportunities ahead of us.

The new platform is powerful. It gives us market-leading functionality, a wider range of products and investment options, improved ease of use and all on technology that is robust, agile and scalable.

So how will we harness this capability?

The platform will help us to deepen relationships, to broaden relationships and to innovate more rapidly.

So, starting on the left, we believe these capabilities will encourage our restricted financial advisers to move client assets that are currently managed on other platforms across to our platform where it makes sense for the client.

Second, with new functionality on the platform, we expect to capture more of the flows from our restricted advisers that are currently going to third party platforms.

Third, we can broaden relationships. While we've got active relationships with around 4,000 adviser firms, the majority of assets are concentrated in about a half of those firms.

We have detailed marketing plans to deepen our relationships with firms where we've already got good engagement. And we'll broaden our relationships with those where we don't. And the new functionality that we can offer will help us achieve this.

And finally, the richer functionality on our new platform gives us more scope to innovate. We want to be a leader in the provision of integrated digital advice, enabling advisers to work more closely with clients, including offering self-service options. So I hope you can see the scale of the opportunity here.

Turning now to Quilter Investors. Our plan here is simple. By creating more solutions to meet clients' and advisers' needs, we aim to grow assets under management giving strong top-line growth and operating leverage. For a number of years, we've only had two cylinders driving the engine here. The Cirilium family of solutions in green for our restricted advisers and Wealth Select, in orange, for the IFA channel. And we've been broadening that out.

Restricted advisers told us their clients wanted a lower cost alternative to the fully active Cirilium range. So we broadened the Cirilium family by adding a passive solution. And we followed it with Cirilium Blend, combining active and passive solutions at a lower price point.

Advisers also told us that clients needed an income solution. So we launched two new solutions back in 2019, despite it being a tough environment to safely find yield. While these decumulation solutions are still modest in size, they have performed well versus their peers and we've got great expectations for them.

Looking forward I also see huge opportunity to develop dedicated ESG solutions for investors. And Bambos Hambi is the man I have hired as Quilter Investors' CIO to drive that process.

Now, you'll recall that Mark provided some guidance on the product mix effect on Quilter Investors' margins back at the half year and this chart provides some context behind that.

Cirilium Active is our highest revenue margin product. It's a premium, multi-asset, multi-manager product. But we also offer alternatives for those who want lower priced solutions. That's one of the reasons why we opened up Wealth Select, our managed portfolio offering, to our restricted financial planners back in the summer. We expect the majority of our incremental growth to come through these solutions which typically have lower revenue margins than Cirilium Active. But we don't run our business to protect an arbitrary revenue margin. We're focused on driving growth in revenues and improving our operating margin.

Now let me say a few words about our advice business. Stephen Gazard took over as CEO of the business in the middle of last year. He is focused on simplifying our proposition and organising it to support two broad customer groupings. Higher Net worth and then Affluent together with Mass Affluent. We will make the business better positioned to deliver improved client journeys.

Taking High Net Worth first. We've previously talked about the increasing alignment between our high net worth advice business and Quilter Cheviot. We're now formalising that relationship by moving Quilter Private Client Advisers from Quilter Financial Planning across to Quilter Cheviot. And we expect that to become effective later this year.

We think a competitively priced integrated advice and investment management proposition with exemplary personal service will be very attractive to clients in this demographic. By aligning these two complementary offerings and providing clients with two layers of Quilter expertise, we have clear potential to attract and retain more clients within the discretionary wealth management space.

Of course, Quilter Cheviot already has strong relationships with IFAs. And we don't see this as a replacement for that at all. Our whole model is focused on servicing and delivering high quality solutions to both open market and our own advisers. And that remains as important for Quilter Cheviot as it does for our UK platform.

We know there will always be a bit of blurring at the margins between High Net Worth and Affluent. One of the benefits that our new platform adds is the DFM capability which will allow our network firms with wealthier clients to offer discretionary portfolio solutions to them directly.

Turning now to Affluent and Mass Affluent. Following the acquisitions of Charles Derby and Lighthouse in 2019, we've now built our advice business to a point where it's got critical mass right across the UK. We are now simplifying the business so that it operates on a fully self-employed basis. This model works better as a means of aligning customer and adviser interests, though it will lead to some advisers leaving this year. It will also shorten the timeline required for the business to operate on a breakeven basis, which has always been our medium-term objective. And, of course, we still intend to grow the business organically through hires and new graduates from our Adviser School.

But our focus in 2021 is on driving productivity and increasing high quality flows. To deliver a more seamless proposition for our Affluent and Mass Affluent customers, I announced this morning that Steven Levin will be taking on an additional role as CEO of Quilter Investors while maintaining his UK platform responsibilities. These are completely symbiotic businesses and we believe that bringing them closer together makes sense from both a customer focus and business efficiency perspective.

I have tasked Steven with simplifying the client experience and ensuring a fully joined up approach to customer pricing and proposition development, with the goal of delivering even better customer outcomes.

So, in summary, I think you can see how our UK capabilities are both complementary and mutually reinforcing. Experience has shown us that around 60% of the flows that come through our own advisers and around 20% of the flows from the IFA channel will end up in a solution managed by Quilter Investors.

So, by bringing more flow to our platform, and by broadening the range of solutions from Quilter Investors, we intend to drive up the amount of money coming in the door and increase the proportion that ends up in a Quilter solution.

As this slide shows, our two distribution channels have driven an increased proportion of our AUMA being managed and administered within our ecosystem. Top left you can see in green some £10 billion of assets on our platform are advised by our restricted advisers. That's shown a compound growth rate of 28% since 2017. And top right, just over £13 billion of the assets on our platform are managed by Quilter Investors. And that has grown by a compound growth rate of 17% since 2017. While along the bottom you can see that almost half of the assets managed by Quilter Investors are advised by our restricted financial advisers and 56% of Quilter Investors assets are now on our platform.

And you can clearly see momentum in our integrated proposition has been increasing for the last five years and we expect that trend to continue. We'll achieve this by taking market share in the IFA channel, capturing more flows from our own advisers, and by offering new DFM capability to win business that we haven't previously been able to compete for. So, exciting stuff. We're really looking forward to fulfilling the growth potential of this great business.

Now, before I hand over to Mark, I wanted to say a few words about the international business. Back before Christmas, we announced a strategic review of the business. That review is still ongoing, so I can't say anything in terms of conclusions today. But here's some context. International is a good business, but it hasn't been growing its top line. So the question we are asking is, "What is the best way of maximising value to shareholders from our international franchise? Can we make International a growth business? What would that require in terms of capital, investment and management bandwidth? Can we deliver a better profit trajectory by restructuring the business? And what would it cost to achieve that? And, finally, might it create better economic value for shareholders if we sell International? And is it better for Quilter to be more diversified or to be a simpler more UK focused business?"

We're still working through those questions and we'll update you once we've reached our conclusions which will be before the end of the second quarter.

And with that, let me hand over to Mark to take you through the financials.

Mark Satchel: Thanks Paul and good morning everyone.

I don't need to tell you that 2020 was a pretty extraordinary year for a whole range of reasons. But let me say upfront, the four messages that I hope you take away from my presentation are that the business is in good shape, the trend in revenue margins is in line with our expectations and we're more resilient in the second half, we've got costs well under control and having delivered a strong performance here in the first half, we did an even better job in the second. And, lastly, we've got a strong balance sheet with our capital return programme progressing well. And we plan to step up the pace of return in this year.

So let's get started. As you've heard from Paul, we made £168 million of adjusted profit for the year. Let me walk you through the details behind how we got there.

Starting top left, net flows were much improved on those of a year ago with better persistency particularly encouraging. And despite considerable market volatility over the course of the year, average AUMA was up slightly on 2019.

And top right you can see revenues were down 4%, reflecting the slight decline in the revenue margin which mainly came through in the first half. Costs, bottom left, were down 3%, or £16 million. And I'll get into more detail on costs later.

That gave us an operating margin of 25%. As a result, we saw around an 8% decline in profit contribution. And that was after absorbing a number of items including Quilter Life Assurance stranded costs, significant increases to the FSCS levy, double running London property costs and COVID related expenses.

So the end result was Adjusted Diluted Earnings per Share of 8.5 pence, a decline of just 1% on last year. That's a smaller decline than we saw in adjusted profit as a result of the share buyback programme.

Right, let me give you a broader perspective on the year, starting with revenue margins and I'll break it out by our business units.

First, Quilter Cheviot, the black line, saw relatively stable margins. New business is coming on the book at a broadly similar margin to our existing stock.

Second, Quilter Investment Platform, in maroon at the bottom. Here we see dilution of around a basis point a year, in line with our guidance, and broad stability in the second half. The expected decline reflects the new business being generally priced in the mid to high 20s, so the slightly lower margin than the stock. The new business differential is most pronounced with clients of Quilter Financial Planning where we offer the platform at our keenest price point. Although it is dilutive to our overall platform margin, we'd like more QFP clients on the platform as we benefit from other incremental revenues. You can also see the impact of the platform repricing which came into effect in April.

Thirdly, Quilter International, the blue line. Here, as you will remember, new assets have been coming onto the platform in our Portfolio Bond at lower margin than legacy assets for several years. That's why we have been very hard on costs here to maintain profit levels.

Finally, Quilter Investors, in the orange. You can see the margin was at a high base back in late 2019 which reflected two things. The revenue provision release that we called out this time last year, which added about two basis points. And secondly a mix effect from the proportion of funds in Cirilium Active.

Quilter Investors margin was boosted by that asset concentration within Cirilium. We always anticipated that this benefit would be transient. So, we're now seeing the margin normalise, as we've guided. And as Paul showed you earlier, as we broaden our range of multi asset propositions we expect a lower margin, faster growing business. I expect that the Quilter Investors margin should settle in the mid-40s to low 50s range in the medium term, similar to where it was back in 2015 to 2017, and this dynamic will obviously be influenced by client and adviser choices.

So, in summary, at a group level, the green dotted line, you can see a modest decline in margin, with that decline mainly taking place in the first half. My expectation here is that we'll continue to see a gradual decline in the overall group margin reflecting the mix shift as we step up in growth in platform assets.

Now, let me turn to costs.

Since we listed this business, I have often been asked about our ability to flex our cost base. And I think 2020 really demonstrates our cost credentials in a tough market environment. Our total cost base of £514 million for the year was down £16 million on 2019, despite acquisitions and some notable headwinds. Lighthouse and other acquisitions added £12 million of costs including restructuring spend. Quilter Life Assurance stranded costs and dual London property costs added around £15 million. FSCS levies were £7 million higher than in 2019 and are likely to increase by about the same amount again this year. The 2020 cost was double the 2018 level and represented around 4% of the UK cost base last year versus 2% three years ago and that percentage will be higher again this year. They are becoming a meaningful cost right across the industry. In addition, other costs including unexpected COVID expenses added about £5 million to the cost base.

These were largely offset by our optimisation programme, which has delivered incremental benefits of around £23 million in the year, taking the run-rate savings by year-end to around £46 million. That isn't far shy of our £50 million target by end 2021. And separately, we've also had the benefit of our tactical initiatives which reduced costs by £42 million, well ahead of our £30 million target.

So, with optimisation and other management actions we've reduced the cost base by around £65 million. And notably, total costs were down year-on-year despite continued investment in the business. So, a really good outcome on costs, I hope you agree.

Let's relate that to revenues and look at the operating margin dynamic.

So, working from left to right, taking revenues first. Under what we would regard as business investment, you can see the uplift contributed by our advice acquisitions, principally Lighthouse, and the impact from our platform repricing to improve competitiveness. Next, the contribution from slightly higher average AUMA. And the net client cashflow we generated in the year also added to revenues and hence operating margin. Then mix shift delivered a net reduction of about 4 percentage points to the margin. And there were also other impacts from the external environment including lower interest income and the non-recurrence of the provision release I mentioned earlier.

Now looking at the cost side of the equation. Under investment, you can see the cost contribution from acquisitions and the dual running cost from consolidating our London properties. Then there are incremental costs which we don't have a lot of influence over, higher inflation, higher FSCS levies and, of course, one-off COVID related expenses this year. Together these reduced the operating margin by just over two percentage points, with the higher FSCS levy contributing about a half of those headwinds.

Finally, you can see the positive impact of our management actions, including both our optimisation programme and tactical savings. As I said earlier, these reduced costs by around £65 million in aggregate. Overall, we delivered an operating margin of 25% in 2020 versus 21% for the half year. However, before you start extrapolating from the second half operating margin, let me make a few points to frame the outlook for 2021.

The main support to the operating margin was the tactical cost savings, mainly from lower staff compensation and T&E expenses, as well as deferring some development spend. So our expense base in the second half reflected the benefit of a fuller period of cost reductions compared to the first half. Most of the costs associated with dealing with COVID-19 were incurred in the first half, which is also when most of the FSCS levy is charged. But, of course, we enjoyed a much stronger revenue environment in half two given the market rebound.

Given the better tone to markets, we expect the majority of the tactical cost saves to return to the P&L in 2021. So, when you think about operating margin progression this year, you need to consider a starting point which excludes the benefit of those tactical cost saves.

Now let's look forward into this year.

Our 2020 cost base was £514 million and the waterfall on this slide highlights some of the moving items we expect this year. First, we expect a meaningful reversal of last year's tactical cost savings. Then you need to think about higher FSCS levies and inflation. And the remaining optimisation benefits will provide some offset. In 2020, we delivered in-year savings of £40 million off the 2018 cost base and exited 2020 with run-rate savings of around £46 million. So, under the existing programme, you can expect a further £4 million of incremental savings to give an in-year benefit of around £10 million in 2021.

And, as we have gone through the optimisation programme, we have identified some other costs we plan to take-out during the course of this year. We expect to spend about £16 million more than our original £75 million restructuring budget target additional cost saves of around £15 million. Most of that should come through during 2021, but some of that will be back ended into 2022.

When you put that all together, we are targeting a cost base of around £560 million for 2021, subject to markets being broadly stable with where they are now. And my caveat here is deliberate. If we have much better markets over the course of 2021 and that drives better revenues, then we might spend a bit more to invest in driving faster growth. So you'd expect a slightly higher cost out-turn.

Right, let's turn to capital returns starting with the dividend.

You will recall that last year we paid a total dividend of 5.2 pence. As we said at the time, that dividend was made up of a two components, a regular dividend from our continuing operations of 4 pence per share, and a contribution of 1.2 pence from Quilter Life Assurance which was part of the capital return from the sale proceeds. The pay-out ratio last year was 46%, whether calculated as the total dividend on total reported earnings or the 4p dividend on continuing earnings of 8.6 pence.

This year the continuing EPS is essentially flat, but we've increased the dividend from 4p to 4.6 pence per share. That's a healthy increase of 15% and is a good progression up our target pay-out range in line with what we said we would do at IPO. And given the year we have had, I think we've landed in the right place. We expect to remain in the upper part of our dividend pay-out range with future pay-outs.

Turning now to our capital return programme.

As you know, we commenced our £375 million buyback programme last year, with it subject to staged Board and regulatory approvals. We've spent £175 million to acquire around 131 million shares at an average price of just over 132 pence. We also spent just over £20 million on the Odd-lot Offer in May which shrunk the number of shareholders on our share register by nearly half. We have regulatory approval in place for our next £100 million of buyback. As you would expect, we won't restart the programme until the Board has updated the market on its strategic intentions for our International business.

One other point to note. A limiting factor to the pace of our buyback last year was a desire to mirror the buyback to our share register structure. That meant we split it equally between the LSE and JSE. We are removing that constraint which we expect will allow us to accelerate the pace of repurchases this year while remaining within the safe harbour requirements.

Now let me turn to our balance sheet.

In this slide, I've summarised the major movements in our solvency ratio and our cash position. We began the year with a solvency ratio of just over 220% and £815 million of cash in the holding companies. The capital return programme reduced the solvency ratio by around 22 percentage points and cost us around £200 million in cash. The remaining capital return programme will reduce the solvency ratio further, by around 23 percentage points, and cost another £200 million.

We've also called out the impact on the solvency ratio of our below the line expenditure on PTP and optimisation which, as a cash item, comes through in the Head Office costs line.

You will recall that in the first half we had injected a bit more cash into subsidiaries than we received from dividends and remittances given the COVID environment. I'm pleased that position has normalised with £170 million up streamed from our subsidiaries over the course of the year.

Of the end-of year cash balance of £517 million, do bear in mind around £300 million is earmarked for the final dividend, buyback and cash spend in respect of PTP and optimisation programmes, so the final cash position is not quite as large as it looks.

You will be familiar with this slide. It is our current guidance and updates. We've highlighted particular points to note in green.

As you've heard, our strong operating margin out-turn in 2020 was supported by tactical cost savings. To help you think about the likely 2021 out-turn, we have been pretty granular on the cost outlook and you'll all have your own views on market levels and likely margin trends. If I look at our cost guidance relative to consensus revenue expectations, it points to a broadly stable operating margin for this year. That looks like a pretty sensible conclusion to me.

And, as I mentioned earlier, we are looking to spend £16 million of additional restructuring costs to drive incremental savings of around £15 million per annum with these to be achieved by mid-2022.

Finally, in terms of dividend guidance, we are pointing to the dividend being sustained around the current pay-out ratio, in line with our existing policy.

So, in summary, I am very pleased with the financial performance of the company in 2020 and in particular our cost control. The business is in good shape. Revenue margins are tracking as we expect. Costs are well controlled and will remain under a tight grip this year. And our balance sheet remains in a strong position with our £375 million share buyback programme on track.

And with that, let me hand back to Paul.

Paul Feeney: Many thanks Mark.

Right, before we get to Q&A, let me take a step back. Since before we listed, we've had a clear vision about what we wanted Quilter to be. A modern, full service, wealth manager with two strong distribution channels, our advisers and the independent advisers across the UK. We wanted Quilter to be seen as the best place to go for trusted financial advice in the UK. We wanted to have the most technologically advanced adviser platform offering a full breadth of investment solutions from the fully active to completely passive as well as blended and income solutions for specific needs. And we insisted on a model built on quality assured customer choice, flexibility and transparency.

And with all of that now in place, we've built a really strong foundation for our next phase of growth. So now, as we look forward, our plans are focused on first, driving a sustained improvement in net flows. And pleasingly, we've seen good momentum here in the first two months of 2021.

Second, completing our optimisation plans. And we're developing plans for the next stage of improving business efficiency.

Third, we'll complete the restructuring of Quilter Financial Planning to deliver a highly productive adviser base driving flows into a broader range of Quilter solutions, as well as third party ones, where appropriate.

We'll also complete our review of International. And then set about implementing the conclusions we reach.

And, finally, we will complete the remaining £200 million of our £375 million buyback. And we hope to accelerate the return with a view to essentially completing the programme this year.

So, we've done a lot. And we're now firmly focussed on execution in 2021 and beyond. I'm really excited about taking this business to its next level of performance.

And with that, let me open up for questions.

Operator: Thank you, if you wish to ask a question press zero one on your telephone keypad, if you wish to withdraw a question you may do so by pressing zero two on your telephone keypad. Once again, please press zero one on your telephone keypad if you wish to ask an audio question. There will be a brief pause whilst we wait for questions to be registered.

Right. Let's go with our first question. Andy Sinclair from Bank of America. Your line is now open. Please go ahead.

Andy Sinclair: Morning, thanks everyone. Three from me as usual if that's okay.

Firstly is on flows. Congratulations on completing the platform migration. I know I've given you a lot of grief over the years about that. But it looks really good to see all the migrations go smoothly and the project complete. But now it is complete I just want to think about the 5% net inflows target we've had historically. That was set prior to the platform completion. Just really wondering why shouldn't that go higher now that we have got the platform online?

Secondly is just on adviser headcount. You've talked about pruning the existing portfolio a bit to focus on productivity. Do you think we'll finish 2021 with higher or lower headcount than we finished 2020? And after that pruning, what sort of rate of growth do we expect?

And then thirdly was just on excess capital. I think you've mentioned that maybe your leverage is a more important constraint than holdco cash and solvency ratios. Just wondering how we should be think about excess capital within the business and unless I'm mistaken I think you've got a call available on your debt in 2023. How would you be thinking about that?

Thanks.

Paul Feeney: Okay, thank you Andy. It's Paul and certainly it was a great incentive and motivation for us to get the platform in so that to prevent me from having to face you on the obvious question if we hadn't. So I'm delighted that we have and thank you for your good wishes.

So I'll take the first two questions and I'll obviously let Mark take the second question.

So 5% inflow target. So certainly our inflows last year were fivefold the previous year but still below our 5% target. We do expect to move certainly towards that target this year. And I can tell you the first two months of the year are pleasing compared to – certainly very pleasing compared to the previous year. So we are seeing a momentum there.

Look, and, you know, you're right in what you say. We have the power within Quilter to do more. At the moment we're not changing our guidance. We need to – we're still in a national lockdown. It will depend a little bit on markets. But certainly we want to move right through to that target increasingly this year. And we'll see. But early signs are very encouraging.

Adviser headcount. Yes, adviser headcount was up last year, 2% up last year despite the extraordinary conditions last year. So I'm actually quite pleased with that given that we were hardly able to recruit anybody face to face. We're still not able to recruit anybody face to face given the fact that we're still in a lockdown. We will see some pruning. The key goal for us this year with our new platform in is to make sure that our great adviser force is aligned properly with our proposition and fully supported in doing so.

So, for instance, last week we just announced – well, we announced internally – but that our national business has got an exclusive tie on our brand new platform. That wouldn't have been possible on the old platform.

Now with the huge network business, we want to take them on the journey with us. But certainly we want to make sure that we're seeing increasing flow, increasing high quality flow, increasing productivity. And, of course, we're still recruiting. But maybe I can just very quickly bring Steve Gazard in who's our new Chief Executive I appointed last year to take over Quilter Financial Planning. Steve, do you have anything to add for Andy?

Steve Gazard: Yeah, sure Paul. I mean in any normal trading year we'd expect a kind of 10% number attrition. Last year we saw that at around 12% as advisers took some kind of lifestyle decisions on the back of COVID and kind of draw a conclusion to their kind of trading world earlier.

In addition to that we led specific initiatives across the national and the network to ensure that actually, yeah, any advisers who represented too much risk, too little margin, or a combination of both, you know, were no longer with us. That combined with the kind of natural attrition led to the numbers that we have published. This year we expect that we will continue that journey. So we will end up probably with a modest decline in numbers by the end of the year.

However, alongside that, our pipeline of interested parties to join us is probably at its strongest as it's ever been. But clearly, as Paul has already indicated. It becomes difficult for people to see the whites of our eyes in those kind of conversations but remain hopeful on our organic growth numbers throughout the course of this year.

Paul Feeney: Yeah, and also we've got 104 graduates going through our financial adviser school and the majority of which will come through to us this year as well. So that's also supportive.

Mark, do you want to take the final question?

Mark Satchel: Just on excess capital, I mean you can see we've got a very strong solvency ratio, are CRD4 surplus is also very strong. As I've said previously those aren't the constraints in terms of our capital what we, what is our contraining factor is our free cash. And that's why I have shown again the holding company position because that actually is a indicator of our free cash and not everything at a holdco level is free cash because we do retain liquidity at a holdco level because it's more efficient to do it that way to support liquidity stress events in the underlying operating businesses that we manage.

So if you take the numbers that I put up previously, which got just over £500 million of our excess cash, £300 million of that is earmarked for buybacks as well as completing both PTP which we've still got a little way to go on, the winddown and some staff changes and things like that. That needs to be funded as well as some of the optimisation expenses. That gets you to just over £200 million of cash at a holding company level which I'm very comfortable with at the moment as being a indicative amount that supports liquidity requirements in stress events around the businesses.

So and I think the other part of your question was just around the call on the Tier 2, which you were correct. That there is a call on that that we have in two years' time. And the Board hasn't actually deliberated much on that at all. And at the moment I don't have any specific plans to seek to call that at the moment. But that may well change over the course of the next years.

Andy Sinclair: Fair enough. Well much appreciated. Thanks all.

Paul Feeney: Thanks Andy.

Operator: Our next question comes from Gurjit Kambo from J P Morgan. Please go ahead. Your line is now open.

Gurjit Kambo: Hi, good morning everybody. Yeah, and congratulations on a good set of numbers, you know, I guess in a very difficult environment. So I just wanted to say that.

So in terms of questions, firstly just around the flows on the active side, clearly, you know, Cirilium, active performance has improved. Do you think that will start to drive a bit of an acceleration in flows and maybe how long historically does it take for the lag between performance and flows to come through in those sort of funds?

And then just on the cost side, there is an additional £15 million you've identified and I think you've said some of that will come through in 21 and then the rest comes in 22. Just I know very helpfully, Mark, thank you for the very clear guidance on 21 costs, but when we look out a little bit further, there's clearly a bit of help from the new facilities coming through there. But just, yeah, just any sort of broader way to think about 22 costs would be helpful.

And then just finally can I just clarify, on the buyback, I think you mentioned that you won't start that new buyback until the Quilter International review is completed. I just want to confirm that is the case and does that mean there's nothing between now and let's say the spring in terms of buybacks?

Thank you.

Paul Feeney: Thank you, Gurjit. Well, obviously, I'll take the first one on flows and investment performance. And Mark can take the one on costs and buyback.

So, first of all, flows. First of all I'd say I'm really pleased with the investment performance across Quilter Cheviot and across Quilter Investors. So if you go back to this time last year, we did have quite a large drawdown in Cirilium Active. And since that time it's pulled the, not only it all back, but I was looking at the numbers last night. And certainly to the end of February all of the five Active portfolios, Cirilium Active portfolios, I mean, first quartile over one year, and predominantly second quartile over three years and pretty much first quartile every, virtually every period longer than that. So tremendous achievement.

We did see a switch last year within the Cirilium family more from Active to Blend and Passive. Net it was about a billion out of Cirilium Active and into Cirilium Blend and Passive. So on a net basis – sorry, on a net basis it was zeroed out. But it did have an effect on the revenue margin though because it was more to the Passive side.

We're seeing that reversed to a certain extent at the moment. Cirilium – sorry, Active right now is doing better than Passive. And Active has done better than Passive over the last six or seven months. Now, we'll wait and see. The thing about at Quilter is to a certain extent we're agnostic. There is a lower margin obviously on Passive obviously versus Active. But there's also a lower cost to provide Passive than there is Active. So it doesn't have a huge effect on the operating margin. It has obviously an effect on the revenue margin.

But we will see. At the moment we're seeing a bit of that reverse because Active is doing so well. Clearly our Active is doing well and Active's doing well in the market. But, you know, we'll see.

Mark, do you want to take costs and buyback?

Mark Satchel: Yeah, so just on the costs side of things, looking out to 22. When we launched the optimisation programme about two years ago, or sort of certainly made announcements around it, I'd always said then that we would chunk it up into two phases. The initial phase which we're just about close to completing now is really looking at a lot of the support functions and the sort of underlying operations of the business. And we said at that stage that due to two reasons, one we had the big migration going on, but also just due to bandwidth and management distraction, there was the other side of the optimisation thing still to come.

We are still in the process of going through those. So you're going to have to be a little bit patient in actually sort of getting a clearer picture of what that might mean in the more medium-term. But you'd have seen today I have included some additional optimisation activities which almost I see as an extension of really the Phase 1 activities that we've currently been doing that we plan to deliver another £15 million of cost saves at about the same sort of cost to achieve that.

On the buyback, look, we completed this last tranche of the buyback this week. So that's come about. There's likely to be a period of time now, exactly how long that'll last I can't categorically say. It will be at least before the end of the second quarter. But hopefully potentially earlier but I can't commit to that at this stage until we commence the next tranche of the buyback.

Gurjit Kambo: Just on that Mark, why did – I'm just, why wait until the end of Q2? Because I guess the sale of International, it's still slightly unrelated to this buyback. You know, is there any reason you need to wait for that period?

Mark Satchel: There are constraints over what can get launched, when and where and how, which I won't go into a whole lot of detail on that now. But I'm not saying that it is going to wait until the end of Q2. It could happen earlier than that.

Gurjit Kambo: Okay, thank you.

Operator: Thank you. Our next question comes from Greg Simpson from Exane BNP Paribas. Please go ahead. Your line is now open.

Greg Simpson: Okay, good morning. Just a few questions from my side. Just on Quilter International, Slide 14 shows some colour on the management fee contribution. Can you provide a bit of colour on the operating profit contribution last year? And also to confirm the business I think pays minimal tax due to the domicile, so it's just to check the numbers given the potential strategic review of the business.

Secondly, could you maybe share some comments around the adviser reception to the new platform? How is it being received? How is uptake? Has there been any kind of behavioural impact from advisers that have shifted over?

And then lastly, I'd just like to check how the integration of Lighthouse is going. I think at the time of the deal it had a potentially a very large reach in terms of clients with various contractual relationships it had. So how has that been given the pandemic? And also if there is appetite for further M&A, has the pandemic caused things like higher regulatory costs, caused more groups looking to maybe sell?

Thank you.

Paul Feeney: Okay, thank you, Greg. Well I'm going to ask Mark to take the first one on International then I'm going to go over to Steven, Steven Levin, to talk about the adviser reception on the new platform. And then integration of Lighthouse I'll touch on with Steve Gazard and I'll mention appetite for M&A. So Mark, do you want to take the point on International?

Mark Satchel: The last time that we would have publicly disclosed sort of profit information on International was when we were still part of Old Mutual plc. And at that stage you'd have seen a profit sort of in the low £50 million adjusted profits in the low sort of £50 million type mark.

Over the course of the last few years you would have heard us say that the revenues have been declining, and indeed Paul said it again today. And that we have been particularly hard on expenses in order to maintain profitability. So I think you can take from that sort of a more or less number in terms of what the International profit contribution is.

And it is effectively at a 0% tax rate just on the other point that you were after.

Greg Simpson: Okay.

Paul Feeney: So adviser reception to our new platform. Steven.

Steven Levin: Thank you. Yes, so the adviser reception to the new platform has been largely positive. Advisers are saying that they like the fun stuff we've done on discretionary investment management, on how easy it is to manage and model portfolios and rebalance portfolios. They like enhancements we've made for reporting tools to make it easier to manage their business. They find that the platform itself is easy to use and quick to use for their clients, which is something we've invested a lot of time in. So there's a lot of positive feedback in terms of things like that, streamlined processes for quite complex transactions.

And there's a lot of feedback from advisers sort of saying that our platform, it's easier to use than it appears which is very positive. We've had some advisers taking a little bit of time to get used to some of the changes which I think is to be expected. And we've got a lot of support for advisers to help them through this. The final migration was actually only two weeks ago, so a tranche of advisers are still getting used to the platform for the first time. And we're supporting them with that.

Paul Feeney: Okay, there's also a great video that Steven's done. It's on our website but we can, you know, if you want to we can email it to you as well, Greg, but which talks about the platform, gets into a bit more detail, and the opportunities we've now got for it. So I couldn't tell you. I'm just so delighted that we've landed this and landed it so well.

In terms of integration of Lighthouse, appetite for further M&A, maybe I'll just take that one. Look, we sort of took the foot off the gas a little bit on M&A while we integrated our big acquisitions that we made the latter part of 2019. Those are now pretty much done now to a large extent. So pleased with that.

Our priority this year is as I said, aligning our adviser force, supporting our adviser force now that our new platform is in. You know very well that we've leaked, which is almost 50% of leakers going to other platforms. That's what we want to get onto. That's where our major opportunity is.

We're still looking in the private client adviser space and I'm sure that we will still do some stuff there. But right now our total focus is on really making this business hum. So Steve, integration of Lighthouse, its reach in terms of client affinity group.

Steve Gazard: Yeah. Yeah. I mean from an integration of Lighthouse I'm really pleased with the progress there. I mean two cohorts of advisers really, one in the network and one in our national. Both of those have now adopted our client proposition. So, you know, that's a really key aspect and as Paul said earlier our national business is also accepted and taken on board the exclusive single type platform proposition, so that's a big step on the integration journey for us.

With regards to the reach to the end user consumer through the affinity relationships, you know, that remains strong. You know, like everyone we and the clients involved in that had to get used to a new way of operating last year remotely. Our teams embraced that and had gone really well. And last month we had our best month for an engagement of interest from those affinity groups that we'd had over 12 months. So it feels like that one's back on track.

Greg Simpson: Excellent.

Paul Feeney: Okay, thank you, Greg.

Greg Simpson: Thank you.

Chair: Thank you. Our next question comes from Ben Bathurst from RBC. Please go ahead.

Ben Bathurst: Morning everyone. I've got two questions, thanks.

Firstly, just on the short-term flow outlay, given the sort of high levels of cash savings among wealthy households that the Bank of England highlighted right now, I wondered are you undertaking any sort of particular initiatives to capitalise around this tax year end in ISA season and it feels as though it does have the potential to be a sort of unusually productive period for flows.

And then second question is just on the planning business. You guided at half year the potential for subdued housing market activity to impact the revenues in QFP. I just wondered to what extent that ended up really being a feature of the 2020 results? And also what the outlook is for that source of revenue looking into 2021 given the housing market dynamics? Thank you.

Paul Feeney: Okay. Thank you, Ben. So, first of all, in terms of short-term flow outlook. Look, there is a lot of pent-up demand out there. We know that. There's a lot of money sitting in very low earning interest deposits that will look to find a home and it's been sitting there because there's been a lot of headwinds, pandemics, and US elections, Brexit, call it what you will.

For us our focus in terms of that clearly is supporting our advisers. So with our new platform in place we can do so much more. So we have major marketing campaigns out to our own financial planners, and of course the open market financial advice market.

So, you know, I think we're – as I said, we're seeing some good momentum in the first couple of months. Early days because, as I say, as Steven just mentioned, our brand new platform fully only went in two weeks ago. So but it's got in in time.

In terms of QFP, subdued housing market, I'm going to ask Mark and then maybe Steve as well, Steve Gazard can come in, but how that has affected our revenues and what we feel for 2021.

Mark Satchel: So at the time of providing that guidance we've seen a massive slowdown in the housing market that is taking place during Q2 as a result of coronavirus. And probably at about the time that we provided that guidance was at about the time that the Chancellor announced all his stimulus plans in terms of stamp duty thresholds under £500,000, etc, etc.

So and although actually the benefit of that has flown through very well in the fourth quarter, which means that actually on a like for like basis year on year we're probably actually slightly ahead of where – well, we are slightly ahead of where we were in 2019. So my guidance at the time was very much consistent with what we were seeing and experiencing in the market. And that then changed in the latter half of, actually the last half, so really Q4.

And obviously with the extension to that and the tapered variation of it that was announced, what, last week, you know, I'm expecting that there'll be some sort of decent support for that going forward into this year.

Steve, I've probably said pretty much all that you were going to say. Is there anything you'd like to add?

Steve Gazard: No, I mean it remains a core part of our proposition and a core part of the way in which advisers engage with clients from a full financial planning perspective and it remains strong at the moment.

Ben Bathurst: Thank you very much.

Paul Feeney: Thanks Ben.

Operator: Just as a reminder, if you wish to ask an audio question, please press 01 on your telephone keypad. Once again, that's 01 on your telephone keypad if you wish to ask an audio question. I will now hand back to the room for any questions on the web.

John-Paul Crutchley: Thank you, operator, we have I think two or three questions from the web, so I'll read them out and then Paul can redirect them. The first is from David McCann at Numis. Yeah, he asks, "There have been some comments in the trade press suggesting some advisers and clients are having issues with the new platform. How widespread are these issues and have the issues highlighted now been rectified?" His second question is, "On costs," he says, "you mention that £560 million costs could be higher if we have stronger markets. If we see weaker markets would you consider taking tactical actions again to protect the margin?"

So the first question I'll pause there and we can deal with that and come back.

Paul Feeney: Okay. I'll take the first one and maybe Steven can comment too and obviously Mark will take the second one.

Really there was one article and I was really surprised to see that because the feedback we've had has been pretty much overwhelmingly positive. So, you know, I think we've done remarkably well. We've landed the largest platform build and migration ever undertaken in the UK. And we did it predominantly through national lockdown. And I think a lot of our competitors have had very little to say because we landed it well. But so, yeah, obviously it's a huge undertaking, £63 billion. Steven, what's been your…?

Steven Levin: Yeah, as I said earlier, I mean the feedback has been overwhelmingly positive. As with everything there can be issues when you do change of that scale. And we have had some. We've rectified any issues we've had very quickly. We've got teams in place. And we remain in that basis. You know, as I said earlier, the final migration was only two weeks ago. We have a process of support and extensive monitoring in the first few months after a migration. And if there are any issues that emerge we deal with them very quickly and we support advisers through that process.

Mark Satchel: Yeah, David, clearly I think we've demonstrated this year that we would take tactical action on expenses in the event of market declines or sort of significant market falls. Clearly the impact that that's going to have on a particular year's P&L is going to be dependent on the timing of when that happens as well as the nature of it, etc, etc. Our revenues obviously are far more reactive on a day to day basis in terms of what market levels are doing. The expense space is a little bit more of any time around it. So it all depends on the nature and the timing. But clearly management I think has demonstrated their credentials or our credentials when markets have to deteriorated.

John-Paul Crutchley: Okay. Let's have a question from Warren at Bateleur Capital which is asking for an indication on whether over revenue margins should stabilise around current levels. And what should we be considering around the outlook for future revenue margins?

Paul Feeney: Okay, Mark, I think that's one for you again. (Laughter)

Mark Satchel: So I've previously guided that I'm expecting that revenue margins overall on a blended basis within the group are likely to sort of decline by a basis point or so per year. And when you look across the various part of our business, you know, we've experienced a good period of stability in the Quilter Cheviot revenue margin over the last few years. The platform we are expecting a decline of about a basis point a year and part of that's due to mix and more, a bigger proportion of the assets on the platform being managed through Quilter Financial Planning. And those clients who offer the keenest pricing, and we, I mean if I've said quite a few comments about that earlier on.

So I mean my guidance from the revenue margin is there's going to be some clients and adviser choice that's going to influence that. There's the mixture and blend of our business. I'm expecting that our platform is likely to grow at a faster rate than the rest of the business on an overall thing. So it's a lower margin so you'd expect that's going to have an impact on the blended revenue margin for the group.

So, you know, I'd be expecting the 51 bps that we've got at the moment is going to sort of have a gradual decline but the overall revenues that we generate and the overall AUMA that we manage will continue to increase.

John-Paul Crutchley: We have one more question from the web and then hand back to phones to see if there's any further questions. The question is from Greg Wood at Melville Douglas asking whether we would ever consider white labelling offerings from our platform and Quilter Investors for South African distribution channels.

Paul Feeney: I think our focus that we have got now, I think it would… you know, it would be somewhat strange for us to do that. I mean we have a large shareholder base in South Africa and which have been very loyal, very supportive and quite frankly wonderful.

But we don't have a client base in South Africa. So I think we have got, you know, we operate here and the fourth largest wealth management market in the world and I think it's a good focus. Steven, what would you say?

Steven Levin: Yeah, I think that's the right answer at this point.

Paul Feeney: Yeah, so I think we'll stay focused.

John-Paul Crutchley: I think there may be one more question at least on the phones.

Operator: Our next question is from Alex Medhurst from Barclays. Please go ahead. Your line is now open.

Alex Midhurst: Morning, guys, and thanks for taking my question and I hope you're all keeping well.

I just have one follow-up on net flows and specifically the split between your restricted channels and the external channels. It looks like obviously the restricted channel did well this year but in the second half of the year maybe outflows from external IFAs accelerated in Quilter Investors and flows to the platform from the external IFAs fell to approximately zero in the second half.

So perhaps could you give us a bit of colour on that and then perhaps also address whether you've seen a reversal in the first couple of months of this year? And when we might see that external channel to really kick into gear.

Thank you.

Paul Feeney: Yeah, sure, but I'll ask Steven Levin to come in in a moment on the platform side.

If you look at our platform, we did really well last year. Growth flows were very stable around £5.7 billion. A third of the gross flows on the platform were from our restricted financial planners, and two-thirds from the external market. And then if you look into Quilter Investors, you know, we've seen strong inflow into Quilter Investors from the external channel, somewhat less from the external channel last year. But overall a decent showing.

But we've got big plans. One of the issues on the external market, of course, has been what our platform can and cannot do. So maybe, Steven, you could talk a little bit about what our plans are now for reigniting IFA flows.

Steven Levin: Yeah, absolutely. I mean as Paul said, there is a more detailed video on the Investor Relations website which has a little bit more detail. But just to give a short answer to that, so I mean in essence our strategy for driving flows in the market is about both broadening and deepening our distribution footprint. So there are a whole lot of advisers that we've got very strong relationships with and always have, but we have not had as big a share of the wallet of their business in the past because our previous platform wasn't able to do everything. So we had capability gaps in terms of cash accounts and junior ISAs, products like that, investment trusts, etc.

With the new platform it sort of ticks all of those boxes. So we can go back to all those advisers who we've got strong relationships with and drive up our share of what is there. So that's first strategy.

The second is there is a significant segment of the market which we have very low market share in. And those are advisers that we are now going to target and we have already been doing that obviously.

And those are advisers that want to make heavy use of discretionary models which our other previous platform was not as strong at and things like that. And so in those advisory firms our new platform can now do everything they need and we sort of call that broadening our distribution, finding new friends so to speak and that is a key focus of us this year and that will be one of key growth drivers.

Alex Medhurst: Okay, thanks. That's helpful. Perhaps if it's okay just to ask a quick question just drilling down on that. Can you just maybe comment over whether those external adviser channels have substantially moved back into net inflows this year in either the platform or Quilter Investors?

Steven Levin: I would expect there to be significant net inflows in the platform this year. In Quilter Investors too.

Paul Feeney: Yeah. Indeed. Absolutely.

Alex Medhurst: Okay, thank you.

Operator: Thank you. There appears to be no further questions so we'll hand back into the speakers.

Paul Feeney: Okay, I just want to say thank you to everybody. Thank you to on the call and obviously to our shareholders and your customers.

We have delivered. We’ve had a strong year of strategic delivery in the platform. Good set, resilient set of financial results. I think pretty much a market beat across the board. But more importantly I think, we are set up now for the growth in one of the UK’s fastest growing secular financial services markets. And we’ve positioned the business that way.

So our key priorities now are simple. They’re growth and efficiency. And that speaks to flow, performance and, of course, to operational efficiency and cost efficiency.

And so thank you very much everybody. I hope that was helpful. And I’m sure we’ll see you in the rounds that follow. Okay, take care. Bye bye.