Chief Executive Officer's statement

Steven Levin
Chief Executive Officer

Before I get into the detail of our performance in 2022, I should extend my thanks to my predecessor, Paul Feeney, for his decade of service to Quilter as well as his long-standing support for me personally.

Turning now to the business, clearly, the operating environment has a meaningful influence on the flows we can attract and revenues we generate from the assets we manage and administer on behalf of our clients. 2022 was a particularly challenging year for the entire wealth management industry due to lower equity markets and higher bond yields. In that context, I am pleased we delivered a resilient adjusted profit outturn of £134 million (2021: £138 million) and a stable operating margin of 22% during the year.

Current market conditions are very different from those we anticipated at our Capital Markets Day in late 2021, prior to the war in Ukraine. This has led us to rebase some of the targets we set out then. Notwithstanding this, my focus will always be on managing the things within our control to deliver the best outcomes we can for all our stakeholders and, as I discuss below, my priority is on improving the revenue momentum and cost efficiency of our business.

Business Strategy and Transformation

Over the last ten-years, we have built a business that covers the full spectrum of the UK wealth industry. While we are well-positioned to meet the needs and provide good customer outcomes to our High Net Worth and Affluent clients, my initial assessment is that there is more to be done to ensure we are delivering on our potential as a business. We have three core channels through which we serve clients, each of which generated around £200 million of revenues per annum in 2022:

- Our High Net Worth segment operates under the Quilter Cheviot and Quilter Private Client Advisers brands. This business continues to perform well. While the growth rate of this business in terms of new flows has been good relative to peers, I believe we have the capacity to perform better. We will continue to drive our growth plans by improving productivity, as well as adding investment managers and dedicated financial advisers to enhance the support and value we provide to clients.

We serve our Affluent clients through two channels:

- First, our Quilter Channel where we provide platform and investment solutions through our restricted adviser network. While there is understandably a focus on absolute adviser numbers as a proxy for growth in this business, it is more important to me that we have a productive adviser force which is fully aligned with our propositions, that the business continues to deliver good customer outcomes and that we deliver an appropriate return to shareholders.
- Second, the IFA Channel where our platform business provides investment administration and investment solutions to the IFA market. The enhanced capability of our new platform allows us to support a wider range of IFA firms and to meet a broader spectrum of customer needs than has historically been the case. We continue to add new firms and generating stronger flows from this channel is a key priority for me.

Since my appointment as Chief Executive Officer on 1 November 2022, I have been reviewing what we have done well and what we need to do better.

In terms of what has gone well, we have successfully reshaped our business since Listing, transformed our platform technology, delivered significant cost reduction programmes, paid around £1 billion to shareholders through special capital returns, enhanced our investment propositions to include ESG overlays as well as variants to meet client risk and style preferences, and maintained excellent levels of service to our clients and advisers.

But we can do better. This is a business with a huge amount of potential, and we are not yet delivering the growth of which we are capable. To drive improvement in our business, with customer outcomes at the core of this, my focus is on **building distribution**, **enhancing propositions**, and **driving efficiency**, and for these to deliver better customer outcomes and a significant increase in profitability.

Taking each in turn:

- **Distribution** – one of the core strengths of Quilter is our two large scale distribution channels: IFAs and our own Quilter Channel advisers. We are strongly positioned in each channel, but we recognise the market in which we operate has evolved with sponsor-backed consolidation becoming an increasingly disruptive force. This has had two implications for Quilter. First, where IFAs who use our platform have been acquired, it can lead to outflows from our business as they consolidate their business elsewhere. Secondly, in the Quilter Channel we have lost some of our own advisers to consolidators. On the former, our counter is to leverage our new platform by growing our franchise with larger IFA firms. Progress is in line with expectations, but it is, by nature, a gradual build. On the latter, we are continuing to look at ways to ensure Quilter is attractive to advisers and that they are aligned with our propositions to provide good customer outcomes. We are also finessing our exit proposition for retiring advisers to protect our core franchise and ensure the Quilter proposition remains attractive compared to our peers.

- **Proposition** – here we need to be more agile, responsive and both customer and market focused. Quilter Investors' performance was strong in 2022, with all strategies outperforming their comparators except Cirilium Active. Over the last quarter, we've reviewed our investment capabilities and decided to unify management of all our Cirilium funds under a single team to ensure greater consistency of investment style and performance, and to better align our solutions with our customer needs. This action led to the departure of the two Cirilium Active portfolio managers. To reinvigorate the market positioning of Cirilium Active under the new team, we intend to reduce pricing at the end of March with an expected mid-single digit impact on the revenue margin on our Affluent Managed Assets on a full year basis. Finally, we will be launching a responsible investment multi-asset range which mirrors the well-received action we took with WealthSelect in early 2022.
- We have an award winning platform with market leading functionality. But we see increasing price competition and we need to be more competitive. We have planned actions on our Platform pricing to defend our existing flow, provide better value to customers and accelerate growth in new business. I expect this initiative to lead to around a basis point of margin attrition over the next 18 months over and above the basis point per annum to which we have historically guided, but with this expected to be more than offset by greater flows and revenues over time.
- **Efficiency** – we will update on additional efficiency plans later this year. We have made good progress with our Optimisation and Simplification programmes, but our cost base remains high. We have acquired businesses, particularly in advice, and not always integrated as far as we could. That has led to cumbersome business processes, unnecessary complexity and higher costs. So, there is opportunity to further simplify our business to improve the way we manage ourselves and the way we support our customers and advisers. Getting the operating margin in our business to a satisfactory level is an absolute priority for me.

All of the above is intended to drive a meaningful step-up in profitability and to make us a better business for our customers. I am determined to deliver the growth and returns our shareholders expect. Whilst some aspects of our plans might impact revenues and operating margin in the short term, we are confident they will lead to higher overall revenues and a faster growth rate in the medium term.

Flows and Investment Performance

Advice is central to all Quilter propositions and our goal is to deliver good customer outcomes in all that we do. That means providing excellent client and adviser support while delivering value including consistent investment returns, over time, in line with client risk and ESG preferences.

In 2022 we faced two particular challenges:

- First, across the industry, new business activity was hindered by 'risk off' sentiment following Russia's invasion of Ukraine in February which contributed to inflationary shocks from higher energy and food prices and cost-of-living pressures. This has naturally reduced the propensity for most households to save and invest beyond regular pension saving.
- Secondly, as I already noted, the adviser market has been going through a period of structural change with an increasing amount of private equity capital looking to back advice consolidation vehicles. As a result, we have seen a number of smaller independent firms seeking to move their clients to these new businesses which impacted on flows in our UK Platform which administers funds on behalf of clients of these firms.

While we have performed well in the current market with Quilter generating the largest share of gross flows across the retail advised industry based on the latest Fundscape data (to end December 2022), our net flows have been below the level we target.

Turning to investment performance, our Wealth Select portfolios continued to deliver strong performance while our Cirilium Active proposition remained stylistically out of favour. The management team who delivered a strong track record with our Cirilium Blend range have taken over the management of Cirilium Active with a view to revitalising performance.

2022 was a more challenging year for investment performance in our High Net Worth division and, over three years, we have slipped into 3rd Asset Risk Consultants ("ARC") quartile although the cumulative difference between 2nd and 3rd quartile is just over 1.2%. We have delivered outperformance over a 10 year period.

Business Performance

Our overall assets under management and administration declined by 11% over the course of the year to £99.6 billion with the reduction in revenues limited to 2% to £606 million (2021: £618 million). Lower management fee revenues were partially offset by higher levels of interest income from the corporate capital and cash held in our business. We reduced operating expenses by £8 million from 2021 levels to £472 million despite the impact of much higher than usual inflation across our business.

Across our two segments, High Net Worth delivered revenue stability, despite lower markets supported by a higher contribution from net interest income reflecting higher UK interest rates. Higher operating expenses of £11 million largely reflected planned business investment and led to a similar decline in profit to £45 million.

A 5% decline in revenues in our Affluent segment to £387 million reflected weaker markets and the repositioning of our adviser base contributing to the reduction in other income. Strong cost management combined with a lower overall FSCS charge limited the decline in profits to £6 million for the Affluent segment with a contribution of £105 million for the year.

Within our Head Office segment, we reduced operating expenses for managing the Group in 2022 by £6 million. In addition, higher interest rates contributed to an increase in net interest income generated on our available cash and capital resources which support our regulatory capital and liquidity requirements. Both factors contributed to a reduction in the net cost of the segment to £16 million from £29 million in 2021.

The Group's IFRS profit from continuing operations after tax was £175 million compared to £23 million in 2021. Adjusted profit before tax of £134 million for 2022 (2021: £138 million) represents the Group's IFRS profit, adjusted for specific items that management consider to be outside of the Group's normal operations or one-off in nature. The exclusion of certain adjusting items may result in adjusted profit before tax being materially higher or lower than the IFRS profit after tax. Adjusted profit before tax does not provide a complete picture of the Group's financial performance, which is disclosed in the IFRS income statement, but is instead intended to provide additional comparability and understanding of the financial results. Principal differences between this measure and our IFRS profit is largely due to non-cash amortisation of intangible assets, our business transformation expenses and the impact of policyholder tax positions on the Group's results. This latter item was significantly positive in 2022 because of the decline in markets over the course of the year.

Business transformation expenses will remain elevated in 2023 reflecting the pre-funded expenditure on our Simplification programme and other cost reduction initiatives and is expected to reduce substantially thereafter.

Total Group adjusted diluted earnings per share were 7.9 pence, an increase of 7% (2021: 7.4 pence from continuing operations). We target mid-teens compound annual growth rate in EPS to 2025 from the 2020 base. Compound growth of 23% from the 2020 base represents a strong performance against that metric. However, given the planned actions being taken to accelerate growth, the rate of EPS growth is likely to be slower over the remaining target period. On an IFRS basis, we delivered basic EPS from continuing operations of 12.2 pence per share versus 1.4 pence per share for the comparable year of 2021 on the same basis.

The Board is pleased to recommend a Final Dividend of 3.3 pence per share versus 2.8 pence for 2021, bringing the total dividend for the year to 4.5 pence per share, an increase of 13% on the continuing business dividend for 2021 of 4.0 pence per share (total dividend 5.6 pence per share, including 1.6 pence per share in respect of Quilter International distribution).

During the year, shares in issue declined by 252 million as a result of our share buyback programme which completed in January 2022 and our B Share Scheme and Share Consolidation which returned net surplus proceeds of £328 million to shareholders following the disposal of Quilter International in November 2021. Since Listing our capital return programme from disposals has reduced our total share count by around a quarter.

Responsible Business and Stewardship

Ensuring Quilter is a business whose actions go beyond making a profit, has been a core part of the culture we have built since we listed. For me, this comes down to how we act and how we invest.

How we act

Our fundamental commitment to acting responsibly is reflected in the excellent level of customer and adviser service we provide, mirrored by our commitment to being a responsible employer. The Quilter Foundation makes a positive contribution to the communities in which we operate and this year the charity launched a local community fund to further expand its impact.

During 2022, we significantly increased our focus on climate action. We set ourselves carbon reduction targets for both Scope 1 and Scope 2 emissions for our operations and expect to release a fuller climate action strategy (including Scope 3, emissions were possible) later in 2023.

How we invest

There are two approaches to being a responsible investor:

- Risk mitigation: the integration of ESG factors and stewardship within the advice and investment process.
- Specific responsible investment-related objectives; this builds on the risk mitigation and relates to linking products or strategies to specific responsible investment related outcomes or objectives.

Our focus has been on strengthening the integration of ESG factors within our advice and investment processes and building on our active ownership work through our stewardship activity including exercising our voting rights and engaging with our underlying investments, be they companies or funds. This is reflected in our achievement in retaining signatory status of the Stewardship Code for 2022. In addition, we have also significantly expanded our range of dedicated responsible investment solutions both in our High Net Worth and Affluent segments.

Outlook

My goal is to deliver the service and propositions our customers need alongside rates of growth and returns our shareholders expect. I am focused on driving towards that outcome at pace. We anticipate investor sentiment will slowly recover this year supporting a gradual improvement in IFA net flows coupled with another strong net flow performance from the Quilter Channel and a solid out-turn from our High Net Worth segment. The weighted average of these growth rates suggests an improvement in Group net flows to a bit over 2% this year. We expect this to improve to 4-5% as market activity normalises and we deliver the business initiatives I have set out, we clearly aspire to build momentum further from this level.

The Group's income levels depend to a large extent on market levels and interest rates. Assuming these remain broadly stable through 2023, then the Group's Adjusted Profit will again depend on careful cost control as well as the pace of our focused investment in customer proposition initiatives. Overall, our expectation is that these factors may lead to a decline in Adjusted Profit for 2023, although we currently anticipate the outcome being modestly ahead of current market expectations.

Given the changed market and economic environment since our Capital Markets Day in November 2021, we now expect to reach a 25% operating margin in 2025, rather than our previous target of 2023. Given our business mix, we continue to believe that an appropriate operating margin for our business should be higher than 30% and that clearly remains the longer-term goal which we are focused on.

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Chief Executive Officer