Quilter plc 2019 Full Year Results

Wednesday 11 March 2020

Paul Feeney, CEO: Good morning, everybody. We will follow the usual format this morning – I'll run through a summary of 2019 and I'll spend a bit of time on how we've been developing our business to better position us for the growth opportunities that we see ahead. Mark will then run through the financials and our progress on optimising the business before we take questions.

But before I start my review of 2019, let me hit the topic of the moment. The world feels like a very different place today than it was just a few weeks ago. Given the substantial market reset and ongoing volatility, providing any meaningful guidance is a challenge right now. So, right now, today, our day-to-day focus is on staff safety and client support. Quilter is a strong ship and we remain focused on the course we have set in these turbulent times, and so the message I'm giving to you and all our people is keep calm and carry on.

So, looking back, 2019 was a pivotal year for Quilter. In summary, we delivered on everything we said we would. Operationally, we performed well, delivering a solid financial performance and we've made great strategic progress. With our new platform, the opportunities ahead are huge, and we have a clear plan to deliver on that potential.

So, starting with our financial results. Adjusted profit, excluding Quilter Life Assurance, was up 3% to £182 million, and that was after the short-term P&L investment spend arising from our acquisitions. It was a difficult year for flow, but we were pleased to end it positively with a good fourth quarter. But 2019 wasn't just about business performance; we've also taken huge strides forward to transform and scale the business. We've established our new platform, with the first migration completed, great news. We've added breadth to our advice and investment management capabilities, we've built out our range of solutions, we've made real progress with the optimisation of the business, and the sale of Quilter Life Assurance has simplified our business and removed a drag on growth.

Turning to shareholder value, the Board is recommending a final dividend of 3.5 pence per share, taking us to a full year dividend of 5.2 pence per share. In addition, we will return the £375 million net surplus proceeds from the sale of Quilter Life Assurance to shareholders. We will start a share buyback shortly. And we've also announced the terms of our 'odd lot' offer this morning – a cost-effective way for our mostly South African small investors who own fewer than 100 shares to dispose of them at a modest premium to the market price.

Now, it's been a bit of a journey to get here, but today I'm really excited to tell you about the opportunity that our new platform provides. Quite simply, I view our new platform as the beating heart of our business. It will better connect our capabilities, it will provide a catalyst for stronger flows and it will drive growth. The chart shows you why the platform is at the heart of the business. You can see where flows come from, you can see where they go to, and you can also see the composition of the stock of assets.

On the left, you can see our two powerful distribution channels - our own restricted financial planners who generated a quarter of platform gross flows, and the open channel of IFAs who generated £4.5 billion, the remaining three quarters. On the right, you can see that we have an open architecture approach to investment solutions. £1.8 billion went into our solutions managed by Quilter Investors, and the rest went into third party products and funds where we use our scale to offer pricing benefits to our clients. Crucially, we make both our and third party investment solutions available to Quilter and third party advisers, and they can switch and mix between the two. In the middle, you can see the scale of the platform - £57 billion under administration at the end of 2019. Of that, 13% was introduced by our advisers, that's up from 11% in 2018, and Solutions managed by Quilter Investors represent 20% of the assets on the platform, up from 19% in 2018. This is from a standing start five years ago, and so those proportions will continue to grow.
Our existing platform, while old, is well-regarded and is still winning awards. It's impressive that it still manages to attract £500–600 million of new money every month, the majority of which comes from independent advisers. Why? Because we provide great support and tools for advisers to help them service their clients more easily. And that is across 4,000 adviser firms and 2,000 of our own advisers, and we don't compromise profitability to do that either. We're really pleased with the financial performance of Quilter Wealth Solutions in 2019.

But here's the point, it's about to get much better. There are another 4,000 adviser firms out there who have assets on our platform but who are not active, mainly due to our limited product and functionality at the moment. So, with the new platform, we're taking what already works well – that's the tools and the level of service we're renowned for - and adding market-leading functionality, a wider range of products and investment options, and ease of use. The slide shows you where we're adding something new, and where we're taking existing capability and making it better. We think this is going to be a very compelling proposition for advisers and clients. We are positioning our UK platform to drive market share, and we've simplified our pricing by reducing the number of price bands and introducing sector leading levels of 'family linking'. We've done that because the longer-term volume opportunity is compelling.

We see three near-term revenue opportunities linked to the new platform. First, to attract a greater share of platform business from our own advisers. Secondly, to target a wider base of advisers in the open market IFA channel. And, thirdly, to continue broadening the suite of solutions Quilter Investors provides. In the longer-term, the opportunity to add discretionary fund management capability, and to bring the portfolio bond managed by our international business onto the UK platform, will also open up new growth opportunities.

Let's now look at how the platform will steepen our growth trajectory. I'll start with

Quilter

Quilter Financial Planning, but before I go into how we have been growing this business, I do want to address the provision we have taken in Lighthouse head on. At Lighthouse, all pension transfer advice is now provided to our, to Quilter's, robust standards, but prior to our acquisition in June last year, Lighthouse provided advice to around 300 British Steel pension scheme members to undertake a DB to DC transfer. Of those 300 cases, approximately 80 were undertaken prior to June 2017. Now, why is this date important? Because after June 2017, the transfer values of the pension scheme were significantly enhanced.

We have recently been notified of around 30 complaints relating to this advice, all of which relate to the pre-June 2017 period. We are in the process of reviewing those complaints, and we have written directly to the customers involved. While Lighthouse has professional indemnity insurance cover in place, we have taken a provision of £12 million on a gross basis to cover costs of redress and for an external party to review all 300 cases on which Lighthouse provided DB transfer advice to British Steel pension scheme members. So, £9 million is for the redress, and the other £3 million, is to review all of the 300 cases. There were very different transfer values pre-June 2017, and so it's not surprising that that's where the complaints have arisen. Post-June 2017, transfer values significantly enhanced, but we're still going to review all 300 cases because it's prudent for us to do so. Now, I'm obviously disappointed by this situation and we are, of course, actively engaged with our regulator on these matters

Now, having addressed that, let me take a step back and remind you of the importance of our advice business. It's a core channel that brings flow to our platform. Those flows can be increased in three ways, (1) by increasing adviser numbers, (2) by increasing their productivity, and (3) by reducing leakage. Let's start with adviser numbers. We added 178 Restricted Financial Planners in 2019. 137 came from acquisitions and 41 were organic hires, a growth rate of 3%. In the second half, we were focused on integrating the acquisitions that have strengthened our advice business. We acquired Charles Derby Group, Lighthouse Group and Prescient which, together with the smaller firms we acquired, have assets under advice of £6.4 billion.
The integration process at Charles Derby is now virtually complete. The business was rebranded to Quilter Financial Advisers early this year. In one step, that gave us a national advice business with countrywide scale. The acquisition of Prescient scaled up the London operations of our high-end private client advice business. It links well with Quilter Cheviot's proposition. Lighthouse is complementary to both our national and network models. We expect the integration to be completed fully this year. In 2020, we are set up to deliver more organic growth as we gradually convert the IFAs within Lighthouse to our restricted model and migrate the restricted planners in Lighthouse and Prescient to our model. That, combined with the greater output from our Adviser School, means we expect higher growth in RFP numbers, which will drive flows in the years ahead.

Now, let me turn to productivity. We know there are huge efficiencies to be gained in the delivery and management of advice. As part of our optimisation plans, we are upgrading our core advice technology, and we expect to complete this by midyear. This enhanced system will be more informative for customers and it will allow our advisers to meet their regulatory obligations in a more timely and efficient manner.

The final area of opportunity is addressing leakage. The current leakage from our model is substantial – our advisers placed £1.6 billion on third party platforms during 2019. With our new platform, there is an immediate opportunity to capture incremental flow, and, over time, we'd expect to capture a proportion of the legacy business, provided it is, of course, in the customers' best interests. Charles Derby Group provides a proof point for this; since we acquired the business last year, the proportion of its flows onto our platform has increased from about 50% to around 85%.

So, our objective is simple. More restricted advisers delivering more of the flow they generate onto our platform, and the benefit to our customers is a single view of their financial assets through a more modern web portal and better service. And one more point here. We're particularly pleased that the quality of our model is being recognised externally. Notably, FTAdviser ranked us number one of their top 100 financial adviser firms when judged on aspects important to customers.

Turning now to Quilter Investors. By managing greater volumes, creating more solutions that meet clients' and advisers' needs on a highly scalable platform, we will deliver strong operating leverage. In 2019, we demonstrated our capability to do this. Restricted advisers told us their clients wanted a lower-cost alternative to the active Cirilium range, so we launched Cirilium Blend, which combines active and passive solutions at a lower price point. Advisers also told us that their clients needed an income solution, so we recruited an award-winning fund manager, and we launched two new income solutions. All of these new investment solutions have been top quartile since launch. We also completed the operational separation from Merian ahead of schedule. So, from a business and strategic perspective, Quilter Investors had a great year.

Let me talk about investment performance. As you can see, Wealth Select, the dark green bar bottom left, has continued to perform well. It is geared to the open market IFA channel and it is also sold through Quilter Private Client Advisers. Cirilium Active has been a consistent high-performer over a number of years, but as we flagged at the interims, an asset allocation decision to be underweight US large cap stocks and G7 longer-term government bonds last year led to short-term underperformance. Our investment performance is a key focus of mine, so we spent some time looking at process and what we might be able to do better, and I am pleased that we saw a turnaround in performance in the final quarter of the year. So, to summarise, Quilter Investors is well-positioned to attract flows from both our own and third party advisers, particularly once our new platform is fully operational.

Let me now talk about Quilter Cheviot. You'll remember that Quilter Cheviot isn't on our existing UK platform, but the new platform's capability to support discretionary fund management clearly represents an opportunity for the future. In time, we will allow Quilter Cheviot's capabilities to be much more closely integrated with the rest of our business and that will enable us to scale-up the service we offer to third parties. I'm really excited about that. Quilter Cheviot's story in 2019 was a combination of strong underlying business growth and very good investment performance. We saw top quartile one-year ARC performance and £2.6 billion of gross flows which were the second-highest ever, demonstrating the momentum in the business. But we also had to deal with outflows resulting from the departure of an investment team in 2018.

We're showing the trend in flows in the graph on the left of the slide. This clearly shows that Quilter Cheviot is a steady performer in terms of gross flows – the green line. You can also see that it is normally a steady contributor to net flows of between £100 million and £300 million per quarter – the black line. And if we exclude the impact of the 2018 team departure, that pattern remains consistent, as you can see, with the dotted black line for 2019. The total outflows related to that team to end December was £1.3 billion. These peaked in Q3, with the Q4 outflow falling to about half the Q3 level, and we've seen a further decline in Q1. We think the worst is behind us, but we expect to see a continuing modest drag to net flows over the next few quarters. We have, of course, added to our investment management team – we were back up to 167 Investment Managers at the end of the year, from 155 last year after the departures, and we are looking to grow the business from here.

As I mentioned earlier, we are very excited about the business potential of our higher net worth advice business, Quilter Private Client Advisers, or PCA. It is now working in close collaboration with Quilter Cheviot. PCA delivered £240 million of gross flows into Quilter Cheviot in 2019, up from £140 million the previous year– a big jump. We want to make the relationship between the two even more collaborative and, as part of that, we'll be opening a collocated Quilter Cheviot and PCA office in Leeds in the next few weeks. We also see opportunities from Quilter Cheviot and our International business working more closely together. The international portfolio bond is a great product for long-term estate planning.
So, with that, let me now turn to Quilter International. Quilter International provides a robust offshore fund administration and solutions platform for high net worth clients in the UK and overseas. As you can see, it's a lumpy business in terms of flows. You'll also remember that the business faces some revenue headwinds as its traditional, higher-margin regular premium product rolls off and is replaced by lower margin but higher-quality, single-premium portfolio bond business. For this reason, we have focused on cost reduction to drive profitability. In 2019, we reduced the International cost base by 17% whilst also investing in selective growth initiatives. More importantly, we are positioning the International portfolio bond for growth by aligning its proposition with the product offering in both Quilter Cheviot and Quilter Private Client Advisers, and, in time, we will bring the portfolio bond onto the UK platform to enhance its distribution potential. Again, we're creating new opportunities by connecting our capabilities through the UK platform. It gives you a sense of the exciting growth opportunities that we can see, and why the new platform is going to be the real power behind them. So, where are we with the platform transformation?

Well, we've now successfully completed our first migration and the report card reads 'so far, so good'. We showed you this slide back at the interims, and, as you can see, we have been incredibly busy since then. FNZ delivered the final system, we completed our functional testing, we worked through migration planning, and we had three full dress rehearsals. And all of this was the build-up to our first migration over the weekend of 22nd February. I'd like to express my thanks to all of the teams across Quilter and, of course, our partner, FNZ, for the incredible amount of effort that got us ready and over the line. Your dedication, because I know you're watching, your dedication and commitment over the last three years has been amazing, guys. I'm so proud of you. Thanks for getting us here. Work to do. We'll keep the champagne on ice because we've got the summer to do the full work, but were going to get it in, we're going to get it in safely, we're going to get it into a high quality. I'm so proud of you.

Right, back to the formal bit. But this slide doesn't really convey the scale of our first migration. This was no small exercise. We transferred around 25,000 customers with nearly 40,000 accounts, representing £4.3 billion of assets under administration, about 8% of the total. In fact, over 200 million lines of data were migrated, and migrated successfully. Adopting a phased approach was a good decision. We wanted to do things in a controlled and measured way. Early feedback, and it's only been a few weeks, from the advisers and customers using the system has been very positive, but remember it is still less than a month since the migration and we are still doing things on the new platform for the first time. For example, it is not until later this month that we do the first mass pension payment run, okay, so we're all ready for that.

We are still expecting a few bumps in the road, so we've got proactive monitoring in place to identify any problems rapidly, and we've got the resources available to resolve them quickly should they arise. So, for now, we are confident that our new system works well in a live, scaled environment, and can support our existing business, and, as an organisation, we've demonstrated that we can manage a major platform migration well. A lot of work is still required to get us ready for that final migration, as I've just mentioned, by the end of the summer, but we will do it, and we will do it safely.

All of this work has been focused on creating a modern, advice-led Wealth Manager built on a few simple principles. Choice, quality assured choice rather than unlimited choice, and choice in how clients access us, whether that's via our advisers or through one of their own financial advisers, their own independent adviser, and, of course, choice between active or passive, or active and passive, we don't care. Transparency. Transparency in fees with no hidden charges. Fairness, always doing the right thing for our clients and ensuring that they only pay for what they use. Competitive pricing across each part of the value chain, and no lock-in charges. And, of course, great service, which underpins everything we do. These principles have guided us as we've built Quilter - a model that is right for the current regulatory environment and adaptable to change. Getting to simplicity is a complex task, but we haven't shirked it, and I truly believe that we are nearly there.

Right, let me hand over to Mark to run through the financials, and then I'll be back to summarise and take Q&A a bit later.

Mark Satchel, CFO: Thank you, Paul, and good morning, everybody. You'll have seen three adjusted profit figures in our release this morning, so before we go any further, let me make sure that we are all on the same page with regards to those. We reported a profit, including Quilter Life Assurance of £235 million, up 1%, with QLA contributing £53 million, and this is based on the perimeter of the business we set out at listing, and this is the basis on which we have been reporting prior to announcing the sale of QLA. EPS on this basis was 11.3 pence. Next, we reported a continuing business profit of £182 million, up 3%, which excludes the £53 million profit from QLA, and this is what we regard as the ongoing business perimeter. EPS on this basis was 8.6 pence, slightly lower than last year as a result of a more normal tax charge and a slightly higher share count. Finally, we've also reported adjusted profit before tax of £156 million for the continuing business. This is the statutory reported view of adjusted profit and it takes the £182 million and reduces it by reclassifying £26 million of costs that will be partially recouped through a TSA. It's an accounting peculiarity that I'll talk more about later on.

Our dividend of 5.2 pence has taken our pay-out ratio up to 46% based on an EPS of 11.3 pence. And just a quick word on dividend guidance. I'm sure you'll have noticed that, based on continuing EPS of 8.6 pence, the pay-out ratio is at the top end of our target 40-60% range. We expect the pay-out ratio to be at a broadly similar level to this in pound-million terms in 2020, and so dividend per share will be a function both of profit performance and on how quickly we can reduce the share count through our share buyback programme and the odd lot offer.

Right, for the rest of my presentation, all the figures that I now talk to, unless I reference otherwise, will exclude QLA. We were pleased with our performance in our first full year as a listed group. So, on the top right, revenues were up 5% on a stable revenue margin, which I'll give some guidance on shortly. Then below, expenses were up 5%, reflecting investments we have made in distribution in the year, so, basically flat jaws reflecting the impact that investment in acquisitions have on our profits. That gave a stable operating margin of 26% supported by optimisation which I'll discuss shortly. All of this generated 3% profit growth.

I've also highlighted the £10 million P&L investment from the acquisitions and the costs associated with our London property move, and while I don't want to get into underlyingitis, without that spend, adjusted profit would have been up nearly 10% on the prior period. With an average AuMA for the continuing business up just 4%, that was a very good result driven by optimisation benefits which we'll keep on delivering. So, the end result was adjusted diluted earnings per share of 8.6 pence – slightly lower than last year for the reasons I mentioned earlier. So, a solid set of results, I hope you'll agree.

Right, let's dig into flows. The charts that you're used to seeing are in the appendix because I wanted to show you the quarterly trend over the last three years, which gives a better perspective of what has been happening in the business. We've broken out the contribution from DB to DC flows – that's in light green - which halved to around £800 million in 2019. We've also highlighted the one-off outflows in Quilter Cheviot that we've mentioned before, and you can see the stronger net Q4 performance.

Let me now turn to the two segments starting with Advice and Wealth Management. Profit growth of just 1% to £103 million might look a little disappointing. However, we were actually reasonably pleased with that result. There were two factors behind it. First, we continued to invest in distribution. That cost us around £7 million off profits, largely reflecting integration expenses. Secondly, the outflows from Quilter Cheviot shaved about £5 million off both revenues and profits. As you've heard, we've added new Investment Managers who are still building up their portfolios, but in the short-term, their costs are similar to those of the team that departed.

You'll have noted the improvement in revenue margins. There were two factors behind that - stability in Quilter Cheviot, which we expect to continue, and an improvement in Quilter Investors. However, there was a one-off benefit in Quilter Investors of two basis points from revenue provision releases which will not recur, and some benefit from taking over the Compass fund range managed by Merian. Remember, too, that the newer product range in Quilter Investors is lower revenue margin but with a lower cost to manufacture, so we expect the revenue margin to decline from here, but the operating margin should be more resilient. So, I am anticipating that the Quilter Investors revenue margin will trend towards a mid-50s basis point level, over time, with the speed of this decline driven by fund choices made by advisers and clients in the construction of their portfolios. On costs, the growth was a function of the investments we continue to make. And when it comes to modelling 2020 costs, do remember that Lighthouse will be in for a full year, adding around £8 million of costs to 2020.

Moving onto Wealth Platforms, it has seen a decent uptick in profitability driven by hard work on the cost line. First, we delivered good revenue growth in our UK business, Quilter Wealth Solutions, despite the lower gross flows in 2019. Revenue growth of 4% was achieved on our existing platform and we see huge opportunity to do more once the new platform is fully operational. Let me just give some guidance on the outlook for revenue margins. You'll have noted Paul's comments on adjusting platform pricing to drive volume growth, so when it comes to your models, I would assume around a two-basis-point decline in the UK platform revenue margin this year compared to the historic rate of around one basis point per annum, which is likely to resume thereafter.

Turning now to Quilter International, this drove the decline in segment revenues, principally due to the lower revenues that new business attracts. There were also some one-off gains in the other income line last year which have not been repeated. However, International delivered good profit as we reduced costs. Given the repositioning of this business over the last two years, it is ahead of peers in adjusting to changing regulation and so we have a solid foundation on which to build. In the near term, we continue to expect a constrained revenue outlook coupled with a cost focus.

So, sticking with the theme of controlling costs tightly, this is the only slide in my deck where I reference figures including QLA. You will recall that we had a cost base of £555 million in 2018 and the guidance for 2019 was to keep that broadly flat, excluding the impact of acquisitions, and at interims, we also called out the additional £3 million of P&L cost relating to the new London property relocation. As you can see, we did better than 'broadly flat' and brought the overall cost base in below the implied target of £580 million for 2019, with management action offsetting higher costs forced on us by the external environment through inflation, and the higher FSCS levy.

And while we are talking about costs, let me turn to optimisation. Right, we're back on an excluding QLA basis now. We delivered an operating margin of 26% in 2019 and, subject to market levels, we remain on track to deliver the efficiency improvements that will drive that to 27% in 2020 and 29% by 2021. The optimisation programme contributed £14 million of cost savings in 2019 and we exited the year with run-rate cost savings of around £24 million. So, you can see that we are about halfway through delivering on the programme targets at the end of last year, and we have achieved that by delayering and streamlining the business. The remainder of the operating margin uplift is more back-ended as we have some heavy lifting to drive out the remaining benefits. I have highlighted some examples of what we are doing on the slide. And once we've delivered the new platform, we see scope to deliver further efficiencies.

Now let me turn to the disposal of Quilter Life Assurance. We are delighted to be able to return £375 million to shareholders, and to kick this off via a share buyback. On the slide, I have set out how we got to the £375 million figure. The economic benefit to Quilter from QLA in 2019 was not the accounting contribution of £53 million, but the £425 million of disposal proceeds, plus the £21 million of interest, so £446 million in total. From this, we have deducted QLA's contribution to the group dividend to avoid double counting, and this was calculated by applying the 2019 pay-out ratio of 46% to their after-tax profit contribution. Expenses and provisions associated with the deal of £23 million, capital dissynergies amounting to around £15 million. Costs of around £10 million still to be incurred as we run the business through the TSA, and these will be expensed to the P&L in 2020 and 2021 as below-the-line restructuring expenses. This gets us to the £375 million available for distribution to shareholders.

We indicated at the interims that we would consult with shareholders on the best means of returning this capital and the broad consensus was for a share buyback. We will launch a buyback process across the London and Johannesburg stock exchanges imminently. As with any programme of this size relative to our market capitalisation, it will be subject to staged regulatory approval and, of course, the Board will keep the programme under review to make sure it continues to be the most efficient and effective means of returning capital to our shareholders.

Let me now turn to the QLA cost base. We have a clear plan here. Let me walk you through it. The business had a cost base of £43 million in 2019, and, of that sum, £17 million, principally staff costs, transferred over to ReAssure at the beginning of January 2020. This leaves £26 million which is not being directly transferred to the buyer, and, in accordance with IFRS requirements, remains as a cost deduction when distinguishing between continuing and discontinuing operations. This is the £26 million accounting anomaly that I mentioned at the top of my presentation. Of that £26 million, £14 million is subject to the transitional service agreement with ReAssure, so they will reimburse us that sum and the costs and the credit will be netted off in our adjusted profit. What's left is £12 million of 'stranded' costs, which we flagged as the expected operating margin drag when we announced the sale in August. Of that £12 million, we have plans to deal with £7 million, and we expect that to be largely dealt with by the end of 2021. This predominantly involves IT contracts that are currently bundled with other activities and some property and people costs. The remainder is our 'stubborn' stranded costs of about £5 million, which we will reduce over time, and these are included within our existing operating margin guidance.

Now, given that we have made a substantial disposal and have certain stranded costs, it's important that we're all at the right starting point when you come to modelling 2020 costs, so let me give you a bit of a steer. In 2019, we had a cost base of £530 million, excluding QLA. Onto that base, I would add the £12 million of QLA costs that I have flagged on this slide and the additional £8 million for a full year of Lighthouse costs, which I mentioned earlier. That gets you to around £550 million as a starting point. Then you need to think about how our business-as-usual costs will change through normal business growth, cost inflation, the additional London property relocation costs that we have also guided to for this year, and a likely higher FSCS levy. As a partial contra to that, we have signalled what the year-end run-rate was on our optimisation programme, and while there will be additional optimisation delivery this year, I mentioned earlier why those benefits would be more back-end-loaded. So, hopefully, that helps.

Let me turn to the balance sheet. Our strong balance sheet just got stronger. This slide walks through the changes in our solvency II ratio over the year. Let me just make a couple of points. The solvency position is very strong, and all the more so having sold Quilter Life Assurance, and note that our solvency II ratio is stated after payment of the final dividend, and not before. Our solvency ratios are relatively immune from market movements and so the recent market correction will not have had a meaningful impact on these numbers. Cash and liquidity is far more important than the solvency ratio when it comes to assessing capital available for distribution. This is one of the reasons I present the holding company cash positions. And also remember that a large proportion of our capital is the VIF in our Isle of Man subsidiary - very helpful for capital calculations, but less so when it comes to actually paying cash dividends or when assessing available liquidity.

So, if cash is more important, let's turn to that. This slide walks you through the changes in the holding company cash over the course of 2019. It's detailed, so let me draw out the salient points. We enjoyed a higher than normal level of dividends from subsidiaries, mainly due to the distributions from QLA prior to its disposal. We also made a higher level of capital contributions into our subsidiaries. Most of that was to fund advice acquisitions and costs associated with the UK platform programme during 2019. Finally, of course, we also had the benefit of the £446 million of cash from the QLA sale which arrived on the last day of the year. So, we finished the year with £815 million cash in our principal holding companies. I have highlighted some of the future drags that you already know about, and, after adjusting for all of that, we are left with around £250 million of cash on hand, which provides us with cash and capital to cover stress and contingent funding scenarios. Lastly, our cash conversion rate in 2019 was slightly ahead of guidance, at 85%. That is partly a function of the lower levels of new business written this year, and we'd expect the cash conversion rate to be a bit lower in a more typical year.

Now let's turn to guidance. This slide sets out the minor adjustments to guidance, and the usual detailed slides on guidance are in the appendix, where you will see that very little has changed. I'll just highlight two main points. First, as and when more normal markets return, our expectation is for our levels of NCCF to gradually improve and build back towards our 5% NCCF target. Second, I wanted to reiterate our expectations of revenue margin erosion, which we intend to offset through volume growth, operating leverage and cost efficiency. We have deliberately repriced our UK platform offering and we expect mix shifts to drive a reduction in the Quilter Investors margin, and so we are expecting the overall revenue margin to remain on a gently declining path.

Let me say a few words on the outlook and then conclude. I've already given you some direction on costs for 2020. I can also say that prior to the Coronavirus market correction, we were broadly happy with market profit expectations for this year and hitting our operating margin target, and that encompassed the guidance we gave you on revenue margins. However, following the significant Coronavirus-induced market correction, you'll each have your own views on how market levels and flows will evolve from here. From our perspective, it is simply too early to tell. So, the only further caveat to our guidance is that should the market stay at the current levels for an extended period, or decline further, then hitting a 27% operating margin this year will be challenging. There are cost actions we can take to protect profitability, but we aren't going to make rash decisions to the detriment of the long-term health or growth trajectory of the business. You know that our operating margin guidance has always been on the basis of market levels being around those of 2019 and early 2020, and they are clearly not there today.

So, let me also follow up on Paul's comment on the Lighthouse provision. We are at an early stage of this review and so figures are rough estimates, but we have made a provision of £12 million, and that's on a gross basis before any potential claim under Lighthouse's professional indemnity insurance. The £12 million is made up of an estimated £9 million for potential redress charges. Around £3 million is to undertake an external review of the rest of the advice undertaken by Lighthouse in respect of DB to DC transfers out of the British Steel pension fund. The provision has been taken to the balance sheet as an adjustment to the carrying value of Lighthouse, so it has lower net assets on acquisition leading to higher goodwill in our balance sheet. As you know, we have 12 months from the date of acquisition to finalise our acquisition accounting. We expect to complete our review of the Lighthouse British Steel DB to DC transfers before late June, so we are not expecting this to be a P&L event for 2020. I'm happy to take any questions on the accounting methodology we have used later.

So, in summary, I am pleased with the financial performance of the company in 2019. We delivered a solid profit slightly ahead of market expectations with cost performance contributing towards the overall result. Cost containment is something that will remain a focus in 2020 as we execute on our optimisation plans, and our full-year dividend of 5.2 pence per share is ahead of market expectations. So, irrespective of short-term market sentiment, you can see that we are well-placed for this year and beyond. Finally, we have a very well-capitalised balance sheet and I'm looking forward to returning a meaningful amount of cash back to shareholders.

Now back to Paul.

Paul Feeney, CEO: Thanks, Mark. Now, before I turn to our area of focus for 2020, let me share my perspective on the current operating environment. We began the year well, but, obviously, the last couple of weeks have seen pretty turbulent markets as we all try to understand the potential impact that Coronavirus may have on people, economies and markets. We do not expect it to change our business fundamentals one jot. Our customers still need to save for their retirement and Quilter will be there to help them, but in the short-term, lower markets may impact revenues, and higher volatility could reduce investor propensity to invest, leading to lower flows across the market. Conversely, it could do the opposite. You know, people could see that market levels are an attractive opportunity. It's just too early to tell right now.

So, as we work through the current period, my focus is two-fold. First, making sure our people are safe. We have contingency plans in place for home-working right across the organisation and we have identified our most critical processes and have implemented split working approaches whereby key teams are divided into A and B groups and are isolated from each other. Secondly, in turbulent times like these, we want our advisers and investment managers to be right there to support and guide our clients, so they are not left to deal with this level of uncertainty alone.

Right, turning to our objectives for 2020, we have four things that we will deliver. We're going to complete our Platform Transformation Programme, we're going to finish integrating the acquisitions we made last year, we're going to improve our operating leverage by delivering our optimisation initiatives, and, particularly for shareholders, we'll kick off our share buyback programme imminently.

As we look further ahead, beyond 2020, Quilter will be a simpler and more focussed business. We will continue to grow our advice business, our new UK platform will integrate our core capabilities and help drive higher flows, our highly scalable solutions business will continue to develop its product range to meet the needs of our clients, and we will begin the planning for the second phase of optimisation once the platform transformation is complete.

Right, with that, let me open up for questions. Who's ready to go first? Andy.

Andy Sinclair, Bank of America: Thanks, it's Andy Sinclair from Bank of America Securities. Three from me, as usual, please. Firstly, it's really good to see the platform going live. I realise it's very early days still and a bit of a bizarre market, but I just wondered if you could give us any colour on how the flows are differing for advisers who have migrated to the new platform versus those who are still on the old platform. Secondly, just on financial adviser recruitment, probably a little bit lower than I expected in H2. I just wondered if you could give us some colour on the pipeline for 2020 and longer-term for financial adviser growth. And, thirdly, just on professional indemnity insurance, you mentioned what's in place for Lighthouse, but I just wondered if you could remind us of Quilter's own approach for professional indemnity insurance and how the costs might change for that. Thanks.

Paul Feeney, CEO: Okay, thanks, Andy. I think I'll take those. So, adviser flows on the new platform versus off the new platform, it's too early to say. 22nd February was when we… That was the weekend over which we migrated, so 25th February was the Monday and I think we're on 11th March today, so I don't have flows even for last week just yet, so, Andy, I'm sorry, we're happy to give it to you, but it's just too early. One thing I can say is that it's so far, so good, it's gone well so far.

Our pipeline for 2020 and longer-term, you know, we haven't given an actual number, but we expect to see a higher rate of organic growth of recruitment, Restricted Financial Planner recruitment this year, than last year. We put quite a few planners on last year in terms of our acquisitions. We're focused on integrating those acquisitions this year and we do expect to see higher organic growth in RFPs this year than last year.

PI, Quilter, clearly, obviously, has PI insurance as well as Lighthouse. I don't think we ever give an actual number, but, you know, we have adequate PI insurance. The PI insurance market is getting tighter, you know, insurers are leaving the market and rates are going up, there's no doubt about that. Quilter's a very strong company, we do things the right way, and insurers see that, but we have PI insurance in place. Next question. Any other questions?

Ben Bathurst, RBC: Morning, it's Ben Bathurst from RBC. My first question is on the capital return. You mentioned that the Board will review the most effective and efficient means of carrying out that return. I just wondered, in light of the market sell-off and the current low share price, are you not minded to be a bit more opportunistic, perhaps, in the way you return that money, perhaps by executing it more quickly, reducing the share count further. The second question was just on the Lighthouse complaints piece. It seems as though you've had 80 complaints, 30 of which… Well, there's an area of 80 that are particularly sensitive, 80 pieces of advice where you've had 30 complaints. I just wondered, on the remaining 50, is there anything different about that 50, those cases that you know of that would suggest they're less likely to lead to the future complaint?

Paul Feeney, CEO: It's too early to say. We've, obviously, reviewed the 30 and made provision accordingly. You're quite right to say that those 80 are the most sensitive. If I said that over 75% were from two advisers, okay, so all the complaints we have relate to one adviser, so, clearly, we have to review the other- and not all of the other complaints relate to that one adviser, but two of them are 75%, okay. So, I can't say you can exactly extrapolate, but, clearly, there's more sensitivity within that population.

Mark Satchel, CFO: Yeah, and then the capital return question. We've consulted our shareholders in terms of what they most want to see in terms of capital return, and, really, the most overwhelming response we have had from shareholders back when we consulted with them in October/November and then again this year has been through a buyback programme, but we are trying to initiate that in the most expeditious manner possible. We've been in a closed period up until now, so we haven't been able to get going with it, but that should be commencing in hours or days.

Paul Feeney, CEO: Yes, it really depends on how quickly we can get you back to your desks.

Ed Gunby, Goldman Sachs: Hi, it's Ed Gunby from Goldman Sachs. Just two from me. The first is, obviously, we need to wait and see on the budget, particularly with respect to pensions, but can you provide a sense of the flow composition in terms of pension transfers and consolidations versus actual new money top-ups on the client side? And the second is, obviously, the PTP's very early in terms of migrating assets, but you have been outsourcing assets due to capabilities over recent years, so when should we expect to see the repatriation of some of those assets that had gone to other platforms over time?

Paul Feeney, CEO: Okay, can I just check on the second question there, Ed, that I got what you were saying. You were talking about pension transfers. I'm not sure I fully understood.

Ed Gunby, Goldman Sachs: On the DC side, you know, if we see changes to, you know, tax relief on pension contributions, how much of the assets are coming from, you know, transfers of pension pots that have been previously accumulated with other providers versus actual new money contributions?

Paul Feeney, CEO: Right, got it, got it, got it, okay. Okay, so, first of all, on the budget, we'll all wait and see from the budget, and we know the Chancellor's going to- it's going to be a big spending budget on infrastructure, no doubt about that. I mean, I don't know what on the pension side. There's been talk about reducing tax relief on the higher earners, that's a possibility. Personally, I'd love to see this, whatever you call it, this taper relief allowance go. Nobody has a clue how it works, and, actually, it's causing issues. It's causing issues in the NHS with doctors not turning up in case they trip over their pension allowance. I'd love to see that go, but we'll see. In terms of pension transfers, the vast majority of our pension business is DC to DC. It's not DB to DC, it's DC to DC, which has held up, you know, very well. So, it's transfers, people transferring existing defined contribution pots and consolidating a lot of that with us, which we're very pleased to see.

PTP, clearly, yes, you're quite right to say one of our opportunities, and it's opportunities for our clients, is to consolidate assets with us on our new platform. Now, we saw just in terms of flow, £1.6 billion went to other platforms to last year. There's an awful lot more than that in terms of stock on other platforms. It hasn't been possible to look to try and consolidate any of that to date because we haven't had the- the reason they're using the other platform is because we can't do stuff, yeah? So, we can now do stuff, or we will now be able to do stuff, so that's a big opportunity. It's an opportunity for ease of access for our clients to have all the statements in one place, to have all of that on the phone, on their app, ease of use, so it's big opportunity and, clearly, we're going to go after that opportunity.

Gurjit Kambo, JP Morgan: Hi, good morning, it's Gurjit Kambo from J P Morgan. A couple of questions. Firstly, on slide, I think, number seven, you give the chart at the bottom where you have the gross sales of £3.1 billion and then a split £1.5 billion/£1.6 billion with the Quilter platform and third party platforms, and then that goes 65% into Quilter Investors. In terms of- is, sort of, a big chunk of the Quilter UK platform going into that 65%? So, what I'm just trying to understand is, as you start to see the Quilter UK platform becoming a bigger part of that £3.1 billion, should that also increase that 65% going into Quilter Investors? Is that the expectation?

Paul Feeney, CEO: Well, clearly, when you're using other... We still try to link our investment solutions on other platforms, but, you know, let's be frank, you know, most of the multi-asset solutions on other platforms end up in their own multi-assets, but we do try and link them. So, I mean, the Board asked me the same question, but I don't know what the actual answer is going to be. More, okay, but... Because, clearly, there's- we don't get the MI from a lot of the other platforms, strangely enough, as to what's going into their solutions from our advisers. You know, they don't have to give us that, and, guess what, they don't give us that. But, clearly, there is leakage there.

Gurjit Kambo, JP Morgan: And, Mark, just one question for you. Just in terms of the operating profit margin, sort of, guidance, I think the quote is, you know, a normalisation from current levels. So, is that saying that if we start to improve from where we are currently or if we stay static at, let's say, 6,000 FTSE...?

Mark Satchel, CFO: If you said 6,000 FTSE, I mean, I think hitting the 27% op margin, for us, would be exceptionally challenging, and, frankly, I don't think we'd be able to make up the shortfall in the reduction that that would bring about from revenues. The guidance that we've provided, and I think we've consistently said this, also, when we've provided the guidance, has been, sort of, the market levels at that time, which, generally, if you look back around about 72, 73, 74, sort of, FTSE levels.

Gurjit Kambo, JP Morgan: Thank you.

Paul Feeney, CEO:	Further questions, please, here at the front?
Ben Williams, Liberum:	Morning, Ben from Liberum. Can I just ask a little bit, on the UK platform, obviously there's been a slight change in pricing and you're going for a big- you know, a volume opportunity. Could you just talk us through, you know, where the value proposition is now and, you know, give us a sense, are there any areas where you think you need to take pricing a little bit further, or do you think you're really now where you need to be to capture the opportunity?
Paul Feeney, CEO:	Yeah, well, the platform market is an evolving market. I mean, you've heard me say… I'll answer your question directly, Ben, but you've heard me say many times that the area of the value chain, if you will, which has got the greatest pricing pressure, is the part furthest from the customer, and that is the platform, okay? Advisory fees, we are not seeing despite, you know, issues in the market, we're not seeing those come under pressure. We are seeing it in the platform part of the market. We believe this gives us a great opportunity. We are positioning our platform as a competitively-priced full-service wealth platform, okay – a competitively-priced full-service wealth platform – and we believe the move that we've made really does do that, and really does actually put us, you know, in a very strong competitive position. Now, of course, we still have our old platform and we still have the limitations of the old platform. We've only moved about just less than 10% of the assets and clients so far, so we've got to get all of that done in the summer. But we want to be in a position pricing-wise, which we now are, that when we do move all fully onto our new platform and we leverage our distribution, that we are where we need to be pricing-wise. So, now we are. Further questions from the floor? I should have said I think we're having some problem on the phone line, so if anyone's on the phone line and you have got a question, would you just please run it through on an email and we'll catch it?
Mark Satchel, CFO:	On the web
Paul Feeney, CEO:	Oh, through the website, yeah, the website.
John-Paul Crutchley, Head of Investor Relations:	Paul, we have had a few questions come in on the web already, so I'll just highlight those. David McCann from Numis has asked with a £12 million provision on Lighthouse being about 30% of the price paid, does it lead to any changes in the way you assess adviser acquisitions and due diligence.
Paul Feeney, CEO:	Well, David, look, clearly, we will… We're doing a review, and I'm doing a review, not just of the cases we've had complaints and the population we've talked about, but, also, of the process of acquiring Lighthouse, to make sure if there are any lessons

learned, we will learn them. As I said, clearly, I'm disappointed we didn't catch it. The complaints we've had relate to one adviser – there are 400 advisers in Lighthouse. At the same time, there is a population which relates to the DB to DC pension transfers in British Steel. We'll do the review, it'll be a full review, any lessons learned, and I'm sure there will be, we'll take forward into any further acquisitions we do. At the same time, last year, before any of this, we did, if you like, take the foot off the gas on acquisitions a bit while we integrate the ones that we've got, and that's our priority at the moment, integrating those acquisitions.

John-Paul Crutchley, Head of Investor Relations: And two questions from Greg Simpson at Exane BNP. Firstly, he asks, adviser flows tend to be quite resilient during market weakness, but as far as he is aware MiFID II has brought in a new rule which requires advisers to notify clients if their portfolio falls more than 10%. I'm wondering if you think this has the scope to impact flows in the light of the current sell-off. And the second question is Cirilium Active funds seem to be underperforming benchmarks over three years. Can you talk through the drivers of this, and does it have an impact on QFP and IFA behaviour?

Cirilium underperformance - is it having an impact on adviser behaviour?

Paul Feeney, CEO: Okay. So, yes, under MiFID II, we have to inform clients if their portfolios drop by 10% or more. So, some of them have, and we have informed clients, and that's all happened over the last 10 or 12 days, quite frankly. So, if that happens, it's a legal requirement. Unfortunately, we don't have to inform them if they go up by 10%. So, yesterday, we saw somewhat of a reversal, so we've had to do that. But do I think it will affect flows? Too early to say. I mean, this has been a couple of weeks.

Cirilium performance. As I mentioned, Cirilium's been a strong performer over many, many years. It had short-term performance issues last year because of, potentially, mainly two calls were made on asset allocation. We also saw a fair bit of reversal of that at the end of last year. So, Cirilium Active's portfolios over one year to the end of December 2019 ended up in third quartiles and second quartiles, okay, so not where we want it to be, but not disastrous either. At the same time, we've also launched, as well, all of our new propositions – Cirilium Blend, we have Cirilium Passive, and our income propositions. All of those have done incredibly well and have been first quartile. So, you know, we're well diversified across our investment solutions base.

John-Paul Crutchley, Head of Investor Relations: There's one more [question] coming in.

Oh, no, actually, it's the same one on Cirilium Active funds performance, so that's fine, it's the same.

Paul Feeney, CEO: Okay, if there aren't any more questions from the floor, then I'll take a wrap-up there. Thank you very much for your time, and stay safe, keep well, see you soon.

[End of transcription]