Quilter 2024 Half Year Results

7 August 2024

Steven Levin: Good morning, and welcome to our 2024 interim results.

I'll do three things this morning. I'll take you through the business highlights and update you on our strategic priorities, I'll cover our improved flow momentum and I'll provide an update of our key transformation programmes. Mark will walk through the financials and then I'll summarise and we'll take questions.

We've had a strong first half and we're in really good shape having delivered excellent profit growth and higher operating margins. Let me start with the key highlights.

Net flows were sharply higher, up around 160% year-on-year. Adjusted profit increased 28% to £97 million. That reflects robust cost performance as well as higher revenues. Our operating margin at 29% remains above our 2025 targets. Earnings per share increased by 21% to 5.2 pence and the Board is proposing an interim dividend of 1.7 pence, which represents a third of last year's total dividend.

As you know, we have three clear priorities to improve our business, building distribution, enhancing propositions and driving efficiency. As you can see, our work is delivering tangible results.

Let me draw out a few things that I'm particularly pleased with.

First, Distribution. We're generating much higher flows from both of our channels and I'll get into more detail shortly. We remain the largest advice Platform by flows and we've continued to build out Quilter Partner’s geographic hubs.

Second, Propositions. We've continued to enhance our Propositions with the introduction of our CashHub as well as launching Wealth Select on third party platforms. We're also investing to extend our digital capabilities.

And third, we've maintained our focus on Efficiency. We've delivered £26 million of our £50 million cost saving target and in High Net Worth, we'll be able to offer advice and investment management from the same legal entity later this year. That will improve our client proposition and support our efficiency plans.

So good momentum across our business.

You'll be keen to hear about the regulatory uncertainty that has been a feature of the first half, so, let me give you an update on the Ongoing Advice Evidence Review.

Advice is central to the Quilter business model and we've got policies in place that underline the need for advisers to meet their obligations in respect of ongoing advice. This slide sets up the timeline so far this year.

In March, we said that we would undertake a review of historical data, practice and practices across our network to determine what, if any, action or remediation may be required. Naturally, we discussed our approach with the FCA. We agreed the work would be undertaken by a Skilled Person. That Skilled Person was only appointed in June. The initial work is focused on reviewing a statistically significant sample of records across our network for the years under review. The conclusions from that will provide a basis to determine what, if any, further work and/or remediation is required. Based on current timelines, we expect to be able to provide an update to the market by early 2025.

The reason we haven't taken provision for remediation with these results is because it's still too early in the process to determine any potential liability here. Rest assured, we'll update the market on this as soon as we can. We are all keen for clarity on this. That's all I can say on this process for now, so, let me turn back to the business.

I'll start with flows. This slide gives you a snapshot of the first half group flows by quarter on the left and the longer-term trend on the right. The key points are the second quarter was better than the first, and net inflows were 3% of opening assets. A year ago, there was zero, so good progress towards our goal of 4% to 5% per annum, which we expect to deliver in a normalised environment. Taking a slightly longer-term perspective, you can see the material step up in flows this half compared to the last couple of years. That's the green line on the right.

Turning now to the segments. First, High Net Worth. We've seen a strong increase in gross inflows this year. New business levels have been consistently running above £200 million a month, which is higher than the trend rate over the last couple of years. Net flows also doubled, albeit off a low base. But like our peers, we've experienced elevated outflows in the IFA & Direct channel. There are three main reasons for this.

First, IFA consolidation.

Second, in line with the industry, the number of higher value withdrawals by clients remains high. The total level of withdrawals greater than £5 million was at a similarly elevated level to last year.

And third, on top of this, in the second quarter, we saw one particularly large withdrawal of around £130 million related to a low margin fund mandate. Excluding this, our net flows would have annualised at 2% of opening assets.

Looking forward, we expect an improving trend, reflecting our business development activities and new propositions such as our “Big Four” offering to leading accountancy firms.

We're also continuing to reposition our business to drive a clearer demarcation between our Discretionary Portfolio Service, or DPS, for our wealthier clients and our Managed Portfolio Service. In time, that might lead to some gradual easing of the revenue margin, reflecting the change in mix, but overall, the strategy should deliver better revenue growth and improved operating margins.

Let me turn to Affluent, where I'm really pleased with the progress. Both our distribution channels are showing strong year-on-year momentum and that's leading to a meaningful step up in our Platform flows. Importantly, the fastest growth is coming through in higher revenue margin, longer duration assets. You can see strong year-on-year growth with a percentage increase highlighted in the ovals. Across the board, we delivered a better second quarter performance than in the first. Our Platform is currently delivering net flows of 6% of opening balances, which is very positive, and we believe there is more to come.

Let me drill down into what is driving the improved performance by looking at each channel. I will start with the Quilter channel.

As you know, for the past couple of years, we've focused on ensuring adviser alignment across our network firms. That has delivered a better advice business demonstrated by sustainably higher total net flows from our advisers onto our Platform and increased productivity measured by gross flows per adviser, which as you can see in the top left, is now running at £3.2 million on an annualised basis, up from £2.4 million in early 2021.

Those metrics have been supported by the continued progress in back book transfers, which you can see on the right. So, we've got a more productive, better aligned adviser force delivering increased flows, which is clearly a good result.

Now delivering increased productivity has led to some shrinkage of our adviser base, some but not all of this has been intended. So, let's turn to adviser numbers and the initiatives we've put in place to drive growth.

The waterfall provides a breakdown of the key changes in our adviser numbers this year. Let me call out the important movements.

First, the increases. As we said back in March, we've refreshed our recruitment teams and this is producing a strong pipeline of new joiners with well over 130 applications in progress from both recruitment and the Academy. That's more than double where we were at the start of the year. We've had 13 new firms join our network in the period to June, which is a meaningful increase on the last couple of years. And you may also have seen our announcement on Monday that another four firms joined in July. We expect the number of new joiners in the second half to be higher than in the first half. Around 20 Academy RFP graduates joined the business in the first half. As you know, we've put more investment into this initiative, so we expect at least that number again in the second half and we're targeting an uplift to nearer 80 in 2025.

Next, leavers. Exits have been running at a bit over 10% per annum as a result of two main factors; natural attrition and consolidator activity. For those who are looking to leave the industry, we've been running a National Retirement Plan where we acquire their books and pass them on to an adviser in our National business to manage. Under that programme, we've retained about £160 million of assets from leavers. Of the remainder, some have decided to switch to becoming directly authorised or have gone to consolidators.

In summary, we expect our growth initiatives – direct recruitment and the Academy – to show a more meaningful contribution in the second half of the year and to grow off that base in 2025.

Next, let's look at the IFA channel. Our ambition here is twofold. First, to improve our share of gross new business flows and secondly, to become the Platform of choice for a greater number of advisers. We're doing this by leveraging the strength of our proposition and the quality of our adviser offering and enhancing the effectiveness of our sales teams. And it's working well.

On the left you can see our Platform market share. The black line represents our Platform share of stock and the green our share of new business. As you can see, our share of new business continues to improve. Since we completed our Platform Transformation Programme in 2021, the main driver of improved market share has come from the IFA channel.

Next, on the right, I have summarised net IFA flows between our Platform and peers. Clearly, we gain more assets from competitive platforms than we lose and the level of business being transferred to us has increased materially year-on-year.

Last year, the main drag was from consolidators and pleasingly, outflows to them have reduced. So, we continued to gain share in 2024 and you can see the benefit of that through the positive inflexion in the black line, which shows the market share of stock on the lefthand side.

Now let me bring things together. This slide shows why we emphasise the importance of having two strong distribution channels. In the first half are two channels combined to deliver gross inflows of £5.6 billion onto our Platform. That's an impressive 40% increase on the prior year.

Now, because our Platform is highly scalable, incremental assets generate a very attractive operating margin. So, we're happy adding assets from IFAs that just want to use our Platform, but obviously we prefer it where assets are both on our Platform and in our solutions. In the first half, £2.2 billion, or around 40% of the £5.6 billion of new flows went into our solutions. And by channel, about 80% of the flows from our advisers go into our solutions versus about 20% for IFA flows, but obviously 20% of a very big number.

That's not just good news for us, but it's good for advisers and their clients as well because our solutions are carefully structured to meet the needs of the advice processes. So, while growing our adviser base is very important to me, maintaining and growing our relationships with IFA firms is equally important.

Now let me turn to net flows. On the right, this slide shows the cumulative weekly net flows onto the Platform this year and on the left you can see the 2023 comparative. Last year, we generated good net flows onto the Platform in the Quilter channel, but IFA net flows weren't at the level we wanted them to be. But the actions we've taken, coupled with a modest market improvement, have driven dramatic and consistent improvement in net IFA flows onto the Platform. Net flows onto the Platform of £2.2 billion in the first half were more than double what we achieved last year and that means the net Platform flows this year have already surpassed the 2023 full year total.

Clearly, lifting Platform net flows to £2.2 billion is a great result, but let me give you a further perspective on that figure. What's important to me is the assets that we're growing the fastest as a percentage of opening assets are the assets that we both administer and manage. Growth in those assets was 11% of opening assets last year versus 4% for assets which we just administer. And equally important is the type of assets we're attracting, which you can see on the righthand side. The core of what we do is to support our clients to save for retirement and our success at that is clearly demonstrated through the growth in our pension and our differentiated investment bond propositions, both of which are longer duration, stickier assets.

So, in summary, we're delivering sharply increased flows from two strong distribution channels and the fastest growth is from assets where we enjoy integrated margins. It's the breadth of our distribution that makes us the leading advice Platform in terms of new business flow and underpins our strong strategic position relative to peers. These are all good trends, which we intend to keep this momentum going.

Now let me talk about our broader transformation plans. The three programmes that will drive a step-change in productivity are our Advice Transformation, the evolution of our High Net Worth operating model and organisational simplification. And we're well into the implementation on each.

The most significant remaining work is for our Advice Transformation Programme, which will deliver results over the next two to three years. The project is progressing well and we're already seeing some incremental operational benefit and cost savings here. As I said earlier, we're in the process of obtaining regulatory approval to simplify our High Net Worth operating structure. We're also increasing our focus on higher value customers. And in Simplification, we continue to make really good progress.

Right, before I hand over to Mark, let me conclude by repeating a slide you've seen before which sets out the targets that we're driving towards.

First, flows. We've seen a significant improvement on where we were last year, but we can and will do better as we feel client sentiment is yet to fully turn. We are already above the 4% to 5% target flow rate for the Platform and I believe we will get the whole Group to that figure as the environment normalises.

Second, operating margin. We are now operating just below our 30% goal and our aim is to sustainably operate above that level in the medium term. We are really pleased with the momentum in our business and with our profit trajectory running ahead of where we thought we would be back in March.

On that note, let me hand over to Mark.

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

I'm pleased to report that our business is in great shape. Let me set out my key messages.

One, we've delivered revenue growth of 5%.

Two, the decline in revenue margin to 45 basis points was planned and reflects last year's pricing adjustments.

Three, we've maintained cost discipline which has led to a 28% profit increase and a five percentage point improvement in the operating margin.

And four, our balance sheet remains in good shape, supporting our dividend capacity.

Let me walk you through the details. Starting top left, net flows of £1.7 billion in the core business were more than double the level we achieved for the whole of 2023. Our average AuMA was up about 8% on last year due to stronger net inflows and supportive of market conditions. And top right you can see all revenue categories grew, giving £329 million in total. Costs, bottom left, were down 2% to £232 million. As a result, we increased adjusted profit by 28% to £97 million. That gave an operating margin of 29%., So we remain above our 25% by 2025 target. All of that led to Adjusted Diluted Earnings per share of 5.2 pence, an increase of 21%.

Now getting into the detail. Let's turn to revenue margins. This slide looks at the exit run rate at the end of 2023 and the changes in the first half of this year. In High Net Worth, on the left, the overall margin increased modestly, reflecting the loss of some larger accounts which tend to be lower margin. In Affluent, there were two main contributors to the lower funds management margin. First, outflows from Cirilium Active were just over a billion pounds in the first half with the majority of these funds going into other Quilter Solutions like Wealth Select, Cirilium Passive and Cirilium Blend. The mix effect from this resulted in a revenue margin reduction of around two basis points. And secondly, AuM scale discounts and other changes resulted in another basis point reduction.

Looking ahead, I expect the overall margin to fluctuate around the mid-30s basis points level with fund mix being the main driver of movements.

Next to our Platform or administered margin was more resilient than expected last year and as part of a normalised trend we have seen a slightly larger decline in the first half of this year. There are two main contributors to that.

First, removing the Platform charge on cash balances in line with FCA guidelines in February, had a modest negative drag beyond what we would normally expect.

And secondly, there was a tiering impact. Higher market levels have pushed more clients into lower basis point tiers on our charging bands and that means lower margin but higher revenues. So obviously a sensible trade-off.

Going forward, some of the interest rate benefit we generate on client cash will diminish as rates begin to decline. As a result, my expectation continues to be for a decline of around a basis point a year.

Let's now turn to revenues looking at it by segment.

Our High Net Worth business delivered a good performance. The increase in management fees reflected the benefit of higher assets on a broadly unchanged revenue margin. The contribution from advice revenues and other income was broadly stable. As a result, total revenue increased by 4%.

In the Affluent segment, revenues grew 6%, supported by higher Platform administration fees, coupled with higher advice revenue and investment income. This more than offset lower investment management fees, mainly due to the Cirilium Active reprice last year.

Let's now turn to the detail on costs at both the Group and segment level. I'm pleased to report another year-on-year decline in the cost base to £232 million despite inflationary headwinds and our investment in growth. The cost of revenue generating staff as a percentage of revenues was broadly stable, primarily reflecting investment in the business. Variable compensation has been accrued at a similar rate to last year. The waterfall on the right summarises the main cost changes year-on-year. Increases came from inflation and business investment. Cost reductions came from lower regulatory costs and management actions, including the benefits of our simplification programme.

In the bar, far right, you can see how the overall cost base breaks down by segment. High Net Worth segment costs were up 2% year-on-year, reflecting front office investment. Affluent segment delivered a 5% reduction in costs, primarily reflecting the impact of our Simplification savings and the lower regulatory costs.

So, putting the segment revenues and Group costs together, this slide summarises the segment contribution to Group profitability. Both segments increased profits and operating margins. High Net Worth delivered profits of £25 million, up 9%, and Affluent profits rose 33% to £72 million. Both segments increased their operating margin with a one percentage point increase in High Net Worth to 22%, but an increase of three percentage points on the full year 2023 outcome and a seven percentage point increase in Affluent to 35%.

This next slide takes a step back to look at longer-term progress since we established the current business structure. Since 2021, like-for-like first half costs have reduced by £16 million delivering an 11 percentage point increase in our operating margin which has led to an increase in adjusted profit of 73% despite challenging markets over the majority of that period.

What is particularly noteworthy is how the nature of our cost base has shifted during that time. Bottom right, you can see that we have actively reduced the core base costs of running the business by around £20 million and reinvested that into business growth which have come through in the variable cost category.

Now let me turn to the balance sheet. I've set up the usual graphical walk showing the major movements in the solvency ratio and cash positions. The half year solvency ratio was 268%, broadly unchanged on the full year ratio with all the movements pretty much self-evident. In terms of cash, as you can see, we have around £400 million of cash available in the centre. The interim dividend and the remaining Simplification restructuring costs will absorb around £100 million of that, leaving us with a good buffer to cover capital requirements, contingencies, liquidity management and business investment.

The Board has declared an interim dividend of 1.7 pence per share, which has been set at third of last year's total dividend. As our results release indicates, when it comes to the full year dividend, the Board will make a decision based on business performance, the operating outlook, the strength of our balance sheet and the outcome of the Ongoing Advice Evidence Review.

You'll be familiar with our usual target slide and we're not changing anything material here. You'll have noted our comments that the strong outturn in first half costs means that our current guidance for full year costs is modestly lower than we originally anticipated back in March. I'm expecting an increase in business investment in the second half of this year, particularly driven by our Financial Adviser Academy activities. So, the cost outcome for the full year is anticipated to be more than double the first half out-turn and that reflects both timing factors and our progress and Simplification initiatives.

In summary, I'm very pleased about our 2024 profit progress and current trajectory of the business.

And with that, let me hand back to Steven.

Steven Levin: Thanks, Mark.

Right, let me summarise.

We're really pleased with the first half. Flows, revenues, costs and profit are all moving in the right direction. And strategically, we're in great shape. Clearly, we're very mindful of the Ongoing Advice Evidence Review and we'll update you on that as soon as we can. Notwithstanding that, the three messages I'd like to leave you with are; we offer structural growth as a scale player in an attractive fragmented UK Wealth Management Market. We've got a great differentiated dual channel distribution model and it's really starting to deliver. And finally, our strategic transformation is delivering clear benefits and there is more to come.

Right, let's open up questions.

Moderator: Thank you. If you would like to ask a question, please press star followed by one on your telephone keypad. If you would like to remove your question, please press star followed by two. When preparing to ask your question, please ensure your phone is unmuted locally.

And the first question goes to Erico Bolzoni of JP Morgan. Erico, please go ahead.

Erico Bolzoni: Yeah, thank you. Good morning all. Thanks for taking my question.

So, the first one, I was not seeing that the productivity of your advisers increased very nicely to £3.2 million. That looks pretty high. I guess it's among the highest in the industry. So, my first question is, looking forward, do you expect the growth will come mainly from a further increase in productivity, or rather from a growth in the partnerships, in the number in the number of advisers?

Related to my first question is the second one. Of the advisers that left, not because of consolidation, but for other reasons, can you give us some colour in terms of what was the reason behind their departures?

And then finally, can you please remind us what sort of excess capital you currently have? I appreciate you have the slide that shows versus Solvency II, but I was more curious to understand what sort of cash balances you feel comfortable having at any point in time to run the business and how easily accessible this liquidity would be in the event of a provision further during the year or early next year as you guided. Thank you.

Steven Levin: Thanks, Erico. I'll take the first two questions and I'll ask Mark to pick up the question on capital.

So, on the question of our productivity, yeah, we are really pleased with the growth in adviser productivity. We do think there is still more opportunity to improve that. We are investing in the technology. We've talked about the Advice Transformation Programme that will give us benefits over the next few years. And we think that will also help with productivity because it's about making the processes more efficient and taking time out of the processes that the advisers have got to follow, so, that will allow them to have more time to spend serving clients and bringing on new clients. But specifically, to your question, I would say that we would expect to see the growth coming from both avenues, from adviser numbers and from continued work and focus on productivity.

Your second question on where advisers go who are leaving which is not consolidation. That is just the two main sources would be retirement, which is obviously a big one. You know, advisers are allowed to retire. And the other thing is there's just a natural movement of advisers becoming DA, directly authorised. So, we get advisers who are directly authorised who join networks and then sometimes advisers want to go and be a bit more independent. It's sort of a natural slack.

When you've got a large adviser force there's some people who have different preferences at different stages of their life. So, those are the factors that drive it.

Mark Satchel: So, Erico, just on your question around capital. I'm not going to give you a specific number, which I know is probably what you're after, but what I would say on it is that we have got, as you can see from the results, we remain very well capitalised. We've got a very healthy balance sheet. We've got a very strong liquidity within our capital ratios too, and you can see that on the balance sheet too in terms of the cash balances that we have. Our balance sheet is in a very strong, stable position. So, that's probably as much as I'm going to say on it. But I mean we are a well-capitalised business with a strong balance sheet.

Steven Levin: Alright. Next question.

Erico Bolzoni: Thank you.

Moderator: Thank you. The next question goes to Ben Bathhurst of RBC. Ben, please go ahead.

Ben Bathurst: Good morning. I've got questions in two areas if I may, starting on the Quilter Investors margins. I wonder if you could just comment on the revenue margins in MPS. You've obviously given guidance on the Affluent managed trending down to mid-30 revenue margins. To what extent does that pricing anticipate reductions to charges on your MPS solutions, or is the underlying assumption that your MPS solutions will remain attractive at around the 30 to 25 basis point price point?

And then second area, just on the Advice Evidence Process, in the note to your accounts, you've referenced that the Skilled Person Assessment spanned the period from the start of 2017, the end of December, and I think that's a year earlier than your peer who's also implicated in this situation. I wondered if you could just share your thinking as to why that's the right start date for your review you think.

And also on the Advice Evidence Process, could you just comment on your complaints experience following the announcement of the Section 166. Have you seen any uptick in complaints at all? Thank you.

Steven Levin: Thanks, Ben. So, on the margin in MPS and more broadly the margin in QI, the biggest driver of the margin in QI is mix, and that is the mix from our funder funds range, our managed portfolio ranges and then the choices within them because we've got Active Blend and Passive varieties of all of those. So, and as you can imagine, obviously the Passive ranges have lower margins than the Active and the Blended ranges. So, mix is actually the biggest driver. There's no material plans for changes in the margins or the pricing of our MPS offering specifically though, if that's what you're asking. That's not what's affecting the margin. It's not pricing decisions within our MPS range. It is just where the flows are going.

In terms of the Ongoing Advice Evidence Review, the 2017 point. 2017 is the date that the FCA asked, when they asked for data from 20 large firms. Obviously I can't comment on anyone else's process and review, but that is the date, that's the period that is sort of being analysed. That doesn't mean necessarily anything more than that at this point, but that's what our review is based on.

And then the question on complaints, we've seen a small increase in complaints. We sort of expected that that would happen. Complaints still remain at relatively low levels in absolute terms, but just more broadly, the review is not a complaints-driven review or the only thing about that. We've got to look at whether there is evidence of the ongoing advice being given and that's obviously the primary focus.

Moderator: Thank you. The next question goes to James Allen of Liberum. James, please go ahead.

James Allen: Hi, morning guys. Three questions for me, please.

First one, of the £7.4 billion reported gross flows in H1, how much of that was from peers that maybe seeing disruption in pound billion terms?

Secondly, linked to that, of that disruption that peers benefit and flows, do you think is due to Platform migration issues versus business as usual leakage, i.e., what are the sustainable flows from peers in your own flow number?

And then third question, on Slide 17, you mentioned that improving the adviser/client experience is a key part of the transformation across advice and High Net Worth. Could you just walk us through some of the improvements you've made in terms of what has visibly changed for advisers in their experience?

Steven Levin: Thanks. Thanks, Ben. Sorry, James. Sorry. Sorry, James. Thanks.

So, the first question in terms of gross flows. Look, we're not going to give any more detail of where we're getting the flows from and which competitors and things. We've given some detail on one of the slides which shows you at aggregate level, the flows from peer platforms and you can see that's a big improvement on the previous period, but there's quite a few platforms included in that. I think that in terms of your points, I would look to it, I don't think, you know, you're obviously trying to understand are there any one-offs or sort of temporary sort of effects in that? I don't think that is the case. We're getting the benefit of a very strong Platform with very good service, very good proposition and features and the changes and enhancements we've made in our distribution channels and we made some changes as I talked about in how we run, particularly our IFA channel, our segmentation approach. We're targeting and focusing becoming the primary Platform for more and more advisers. So that can be supported when other platforms are going through challenging times in terms of service or any of those other factors. But I think once you've got advisers that start supporting your platform, it does, it's quite easy or it's very difficult for someone else to turn their head again, even if they now have dealt with whatever issues they may have had. And we've had that experience over time. It takes a long time to win market share. We've been at it for many years since our Platform migration and we've got the results now to show and we're pretty confident that the gains that we've made are sustainable. You can make your own calls about what's going on in the in the market and the sector and other things.

I think the only other point I would make on that is it remains a very fragmented platform market with a lot of players out there and a lot of players that are smaller and I think weak and subscale and I think advisers are increasingly looking to that to look to a quality provider who's clearly committed to the market for the very long-term and has got the service and proposition capability to back it. So, I think we feature very well on those measures.

In terms of your second question, I think I've answered your first two, I think you had those as two. So then the question then about the High Net Worth client experience. So, what we're talking about there is it is about getting our High Net Worth business to be directly authorised to give advice and we've talked about that before and we're in the process of that. Today, the advisers that sit, these are the Quilter Cheviot financial planning advisers that sit within our High Net Worth segment. They're actually authorised through Quilter Financial Planning which is our sort of sits in our Affluent segment. So, what that means is that clients who use one of those advisers in a discretionary solution are actually technically contracted today with two different legal entities. And then that complicates things like know your clients, contracting, all sorts of things, Chinese walls that we have to have and all of those things.

Now, as we get our business directly authorised, that will all change, and so that improves the client experience and you can imagine just makes everything a whole lot simpler, slightly cleaner experience for clients and more efficient for us behind the scenes, because then we don't have to duplicate certain processes. So, that's what it is. A lot of that is still to come, James, because as we said, that is going to be coming as we get authorised and start using those permissions towards the end of the year.

I think I've answered all your questions. Let me know if I've left any out.

James Allen: You have. Thank you very much.

Steven Levin: Thanks, James.

Moderator: Thank you. The next question goes to Gregory Simpson of BNP Paribas. Gregory, please go ahead.

Gregory Simpson: Hi, good morning. Thanks for taking my questions. Just three on my end. First one is can I check on the back book transfers that the Quilter channel has been delivering well on with £450 million this half? What's the kind of quantum of assets remaining that you can go for?

The second question is on costs. In H2 normally you have much lower regulatory costs and then you've still got the benefit from the Simplification plans to come through. So, I just wanted to square the kind of guidance and what is the gross investment there? Yeah, normally there should be some decent tailwinds in H2 versus H1 on the cost side.

And then thirdly on, sorry for the shorter-term question, but can you comment at all on how flows or client behaviour has changed, if at all, since the UK election given potential changes around capital gains? Is this kind of backdrop helpful or a headwind activity? Thank you.

Steven Levin: Thanks, Greg. I'll take the first and the third question, I'll ask Mark to pick up the cost question.

So, in terms of transfers, yeah, we're really pleased with the back book transfers. We have said before that we think there's a pool of around £5 billion of assets that we can target. And we think that that number is still about that level. As you bring in new advisers, they find they have clients that have got other back books and things like that. So, we still think that number is a significant number and many more years of capacity for the back books transfer programme.

Then in terms of the third question you asked which was about shorter-term update on flows post the election. We have not seen any downturn. In fact, flows have continued strongly after into this quarter. We're really pleased about that. We have, you know, we remind, just to remind you that obviously there's a need for advice and even if there are tax changes that come, which we don't know exactly what changes could be coming down the line, but actually what happens is that clients call their advisers and ask what they should be doing in those situations. So, we think it's well suited to our business.

I think the bigger issue that's driving flows is an improvement in market sentiment and client sentiment. So, we're really pleased, as we've said in the presentation, about our market share gain and that's a Quilter specific point. But we are starting to see that there is an improvement in flows because of client sentiment. But we think we're actually towards the start of that and there's quite a bit more to come. We've only seen the first interest rate cut right now and our expectation is as interest rates continue to fall, clients will invest some of the significant excess balances that exist in our target market in bank accounts and other short-term saving vehicles. We believe that they will invest those in longer-term vehicles as we talk about as markets normalised. So, we're actually pretty optimistic about flows on a go-forward basis. Mark?

Mark Satchel: Yeah. So, Greg, just on the cost. When the FSCS levies were running at very high amounts and there obviously was sort of far more of a seasonal weight into H1 compared to H2 in terms of our cost base. As that levy has actually reduced, you have less of that seasonality. But the other things that I'm guiding towards in the second half is we have been investing in distribution, in our business consultants. We've obviously also got the Adviser Academy that I called out in the presentation earlier. And all those things I'm expecting we're going to continue. Well, first of all, we're going to have a full half's run rate of those costs that we didn't have in the first half. And secondly, some of those costs are going to be increasing in the second half.

You've also got the inflationary impact from salary increases, which of course in the first half, our salary increases go through in April, so you've got three out of the six months impact of that in the first half, you've got a full six out of six months of that in the second half. And some of our variable cost base is aligned to AuMA and as average of that in the second half, I'm sort of anticipating is going to be higher than what it was in the first half. We're going to get some extra costs coming through there.

And of course we will get some Simplification benefits, but on a net/net basis. I am expecting that the second half of the year will run at a slightly higher click in terms of expenses in comparison to the first.

Gregory Simpson: Very helpful. Thank you.

Moderator: Thank you. The next question goes to Andrew Sinclair of Bank of America. Andrew, please go ahead.

Andrew Sinclair: Thanks. Morning everyone and well done on good figures. Three from me please.

First was just on the, first good colour on the pipeline for returning to adviser growth. But just looking at the Academy briefly, how many are in the Academy today and how many graduates per annum do you think can be actually absorbed into existing advice businesses? If you can give any colour on how many go into existing practices versus go to just be standalone when they graduate would be quite helpful. So, that's my first question.

The second was just on, Mark, you mentioned there just on the FSCS now being at lower levels. Do you think that's sustainably lower or what do you see as a normalised level for regulatory and PI costs when we think of 2025 and beyond?

And then third, just if you can give us a little bit of guidance, apologies if I missed this somewhere, but just on the impact of lower rates, what sort of impact for the P&L would you expect if we do get 100 bps of rate cuts? I agree it will hopefully lead to better flows, but in the short term, what does it mean for the P&L from lower interest income? Thank you very much.

Mark Satchel: Okay, well, should I…? I'll leave the first one for Steven to answer in a bit, but if I just talk about FSCS. So, look, the FCA's got a lot better in actually putting out communications on the size of the levy parts, how they're thinking about it, what the forward sort of projections and guidance and all of those sort of things are and all of that's out in the public domain. And if one reads and analyses that, you can see that they've actually built up a credit part that they currently utilise in order to pay a lot of the compensation claims and run the function and everything else like that which we're currently benefiting from. So, when we had the very high FSCS levies of a few years back, that actually allowed them to build up a big credit balance which they're now in the process of running down. So, I'm expecting at some point that that is going to be fully utilised and then we'll get more back into a normalised environment.

We incurred just over £4 million FSCS levies in the first half of this year, which contrasts to about three or four years ago when that number was over £20 million. I actually think a more normalised rate is probably somewhere between 10 and 15 with probably 12 is about a guesstimate average. But Andy, as you know, we're a price taker on this, not a price maker, and some of this is going to be determined a lot by the regulatory activity that they undertake, what compensation schemes they end up getting involved in, etc, etc. So, there's quite a high level of volatility or uncertainty in terms of what that number is and I can't really, well, I'm not in a position to actually give you fundamental guidance on it because, frankly, I don't know that much more than what anyone else knows in terms of some of the statements that have been made there.

When it comes to lower rates in the P&L, Andy, if you look at the first half interest income that we generated on shareholder balances, for about every 25 basis point reduction in that I'd be expecting about £3.5 million revenue impact on a full year basis. So that's kind of the degree of sensitivity that that has. So, it is this quite a high degree of sensitivity to it. We've obviously made the points around we'd expect that if interest rates are to come down, markets would improve. I don't expect those are going to happen in lockstep that they happen in the same week or the same month, but over a medium term trend, you'd expect some benefit of that to come through in the markets if the interest rate environment is easing. On the interest that we generate on client and cash balances. That has less of a material impact and frankly, there's not that much of, if basis points are to come down by 100 bps, I'm not expecting that they'll actually change significantly at all.

Andrew Sinclair: Sorry, just before we go on to Steven, apologies, just to clarify on that 10 to 15 you mentioned for the FSCS and kind of £12 million normalised. Is that just for the FSCS? And then what should we add for PI and other regulatory costs on top?

Mark Satchel: There'll be about another four, five of regulatory costs and about a three to four for PI and that sort of level. So, Andy, if you're trying to get to a number in total, I guess probably around about 18 to 20.

John-Paul Crutchley: Yeah, we're guided generally to being a 4% to 5% of revenues as a way of thinking about it over the long term. So that's probably yeah as best an estimate as we can give.

Steven Levin: Alright, if we're done with that, I'll go on to your first question, Andy, which is about the Academy. So, we've got just over a hundred people in the Academy at the moment. Out of that, but those are including a lot of the people that will graduate only next year. The programme, the course in the Academy, runs for about seven months and there'll be more than one tranche open or tranche going at a time or cohort. The number of people that go into existing firms is basically all of them. So, we're expecting 80 to come out as we said and to qualify during the course of next year and we would expect all of those to go into either the network or the national. None of them go and become individual advisers and setting up themselves. Those that join the national get a whole lot of support as well through our national business and through the leads that we supply.

Andrew Sinclair: And about how much do you think the advice for us as a whole could absorb into the advice business each year if you continue to ramp up the Academy?

Steven Levin: We're certainly comfortable that the 80 that we're expecting next year that they can absolutely all be absorbed. We can, you know, we will look to decide if we want to stretch that further, but right now we need to deliver that number. And I think that there is more potential, but we're not going to, I'm not going to sit here and give you an exact number on what I think the capacity is. But note that across this market there is a huge advice gap. So, I don't think that that is the limiting factor is the number of advisers that we can absorb.

Andrew Sinclair: That's great. Thank you very much.

Moderator: Thank you. The next question goes to Andrew Lowe of Citi. Andrew, please go ahead.

Andrew Lowe: Hi, guys. Thanks for taking the question. A couple of follow-ups on margin, if that's okay. I know that you've said that your revenue margins are broadly unchanged. In the first half, I sort of get to a Platform margin of 24.5 basis points. You talk about the one basis point decline per year, so, that would sort of take us down to 24 and then throw on another hundred, another one basis point decline in 2025 as per your guidance. So, should we think about it as 23 basis points next year before you factor in any reductions from falling rates, or are there some moving parts that mean maybe the first half reduction in the Platform margin was half-on-half, maybe a bit more aggressive and that normalises in the second half of the year?

And then the second follow up is I know that you've said that your revenue margins are unchanged, but I think you have reduced your Affluent managed guidance from mid to high 30s to mid-30s mixed dependent. Can I just clarify if that is solely to do with the AuM outflows in the Cirilium Active and underlying that is unchanged? That's the two questions. Thanks.

Mark Satchel: Okay. Thanks, Andrew. Look, on the Platform margin, with the reprice that we had and a lot of the reprice we had last year sort around the June/September time that came through on the Platform and some of the changes that we made then in terms of introducing the interest charge and reducing the headline basis point rates and all the rest. I mean that's obviously had an effect which I'm really trying to call out as having been accelerated in the first half of this year when you compare it against the H1 of last year that actually had very little of that has changed actually in the comparative. So that sort of provides quite a big change within that.

On a look forward basis, I'm still expecting the overall margin to reduce by about a basis point a year. The actual interest rate component within that is relatively small, so it's going to be far more driven just by the natural attrition of clients, clients moving to higher tiering charges if markets carry on increasing, etc, etc. New clients, new distribution coming on board, a higher mix of our own advisers within the overall mix and those clients do get better pricing than what clients maybe do for IFAs, etc, etc. So, there's a whole component factor of that.

So, the guidance that I've provided on about a basis point a year on a forward-looking basis is still my current expectation. The two bps now is really a bit of a catch up on last year when last year we had very little margin change at all on the Platform. So, in a way, this is kind of a timing factor that's kind of coming into that.

On your question on the Affluent managed margin, we said that we came into this year in that segment with I think about a 39 basis point margin and we expected that to carry on reducing to get to, at the start of this year I think we did say mid to high 30s. We are seeing that trend continue. I've called out the outflows within Cirilium Active, which is a big driver of the reduction, and I think your main thrust of the question is, is most of that down to the Cirilium Active mix? Well, it is, but it's also down to the success that we've had within Wealth Select, which is now a £16 billion fund, which is actually, you know, proportionately a much higher proportion of the total assets that we have within the managed basis point revenue margin. So, Cirilium Active has become a lower proportion in comparison to the success that we've had within some of the other propositions that we've got going on there.

Andrew Lowe: Just as a follow up, if that's okay, could you just provide a little bit more detail on the Wealth Select margins and how much of that is, because as far as I understand it, there's still a mix where you get higher margins in Active, lower margins in Passive. So, could you maybe give a bit more detail among the mix within the Wealth Select between the Active and Passive?

Mark Satchel: Yes. So, within Wealth Select Active, we retain about 33, 34 basis points, and again, here it depends on which range of Active it's in, but that's more or less where we are. Within Blend we're retaining in the high sort of 20s. Within Passive, we're retaining around about 15 bps. So, that's the sort of the more or less range within Wealth Select. Wealth Select overall, we're in the high 20s to low 30s. That's the sort of range that we operate within.

Andrew Lowe: Great. Thanks very much. That's really helpful.

Steven Levin: Right. I think we're now going to the web.

John-Paul Crutchley: Go for the, a couple of questions coming in from the website. The first is from David McCann at Deutsche Numis asking about costs into 25. Would it be better to think about your starting point as being the second half annualised or taking the full year overall as the basis for thinking about costs? And then second question asking to the degree that the improvement in the operating margin, you've evidence over the longer-term, Mark, is a function of interest income as opposed to the reduction in costs and how you think about that?

Mark Satchel: Okay, so I think costs into 25, I think probably total year, the total year or second half annualised is probably a better route to take when looking at that. So, I'll probably answer this question better in March next year, but that's certainly what I'd be, at the moment, that's what I'd expect.

In terms of the op margin, look, our op margin has undoubtedly got some support from the interest rate environment that we've benefited from over this last half. Well, I mean, we've said a few times and I've actually said I think already in answer to some of the questions what some of the expectations are on that. Clearly the op margin is a function of two things and it's revenue and expenses obviously. Our revenues are very much dictated to by external factors, what goes on in the markets, average equity market indices are probably the biggest driver of our op margin because that's the bigger influencer over our revenues. But this year and for the last 18 months or so for the first time in a long while, there has been interest income generation off shareholder cash balances that have also had a positive impact on that, which is one of the reasons why I'm not getting too carried away by trying to declare any sort of victory around achieving a 30% op margin because obviously if interest rates do come down it will have a negative impact on that, all other things being equal. But as I have already said, I'd expect a lower interest rate environment should be supportive to overall market conditions, which should help improve both flows as well as average AuMA balances on a forward-looking basis.

As I said before, I don't expect those two to work in lockstep, but over a medium-term period you'd expect some degree of correlation in that.

I hope that answers the question or at least provides a bit more colour in terms of my thinking on it.

John-Paul Crutchley: A second question from Rahim Karim at Investec. The first on the High Net Worth, the second ROE. On High Net Worth, given the changes to the structure you've talked to the High Net Worth business, it sounds like it will be effectively be operating on the standalone business by the end of the year. Is that correct, and if so, can you talk to the synergies that come from having both businesses operating in the Group? And the second on ROE, if the ROE for the period was 9.6% showing an encouraging trajectory, can you talk to how you think about the evolution in this and whether you have a medium-term aspiration?

Steven Levin: Alright, I'll take the first question. So, the structures that we're doing, the changes that we're making to High Net Worth are about actually getting better client experience and better synergies within the High Net Worth business for the reasons we've talked about. In terms of how we think of High Net Worth within our Group, we think of it as we've got two really strong segments focused on allowing us to offer solutions to the whole market, the Affluent and the High Net Worth market, with the breadth of solutions and offerings. We see both the Affluent and the High Net Worth segment as attractive growth segments for us and that's absolutely what we're focused on. I don't think I have anything else to add on that.

Mark Satchel: No, I think it's right. Just on, Rahim, on ROE, I want it to be bigger and but we don't have a target. I'd just like it to be higher. I think something sort of in the mid-teens would be good, but we haven't got a specific target that we're trying to manage the business towards.

John-Paul Crutchley: Okay. And I think the last question on the web at the moment is from Keenon at Anchor Stockbrokers. On the IFA net flows, are the increases onto the Platform reflective of a deepening in the existing IFA relationships or attracting new IFA firms?

Steven Levin: Alright. Thanks, Keenon. It's actually both. Those are our two strategies, they're called broaden and deepen, broadening our adviser footprint. That's sort of finding new friends, so to speak, and that is going well. We track that, that's how our segmentation works and things like that as well.

And then the other is, as I talked about becoming the Platform of choice for even more advisers and increasing our share of wallet at individual advice firms, and that has actually driven also very strong flows. So, those are our two key levers of our growth strategy and they're both delivering very well. So, it is both.

John-Paul Crutchley: And that's it on the web and I don't think anything else on the lines. No?

Steven Levin: No? Alright. Well, thank you all very much. Have a good summer for those going away on holiday.

[End of Transcript]