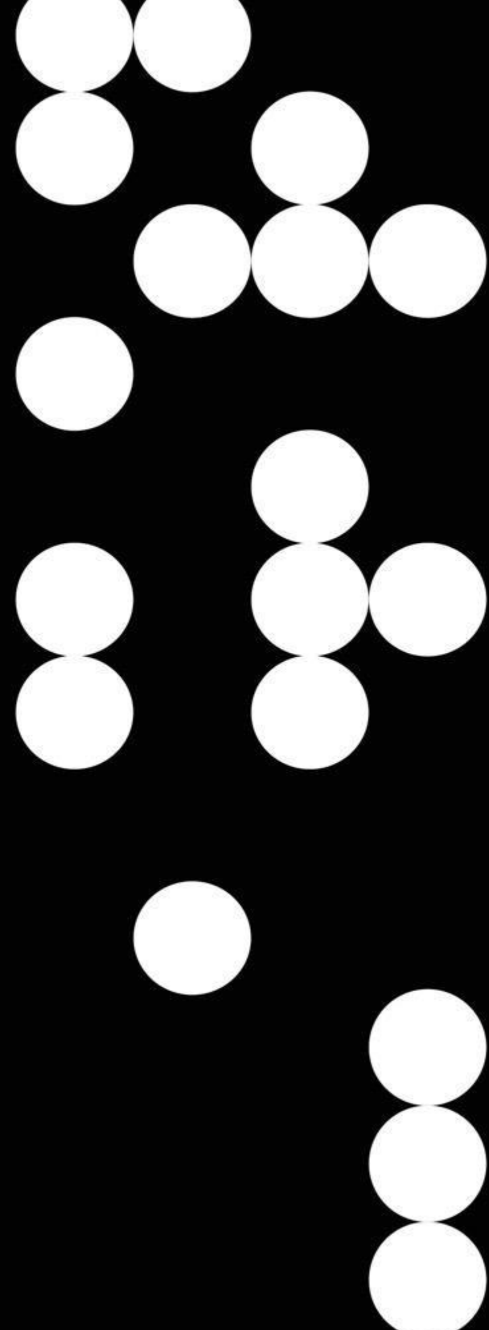
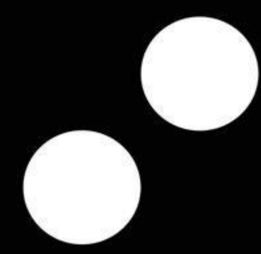


abrdn plc

Half year results 2024

presentation transcript

06 August 2024



abrdn.com

Jason Windsor – Interim Chief Executive Officer

Delivering better performance

Good morning, everybody. Thank you all very much for joining us here today. I'd like to welcome you all to our results presentation for the first half of 2024. I'm joined on the stage by Ian Jenkins, who many of you know already, he's our interim CFO. With me here in London, I have a number of my colleagues in the front row.

So, in terms of running order today, I'm going to start with some initial observations on our strategic priorities and then a short overview of our performance from the first half at a group level, and across our three businesses. I'll then hand over to Ian who will give us more detail on the financial performance and make some comments on the outlook. Then obviously, we'll open up for Q&A.

Initial observations and our key priorities

Turning first to my initial observations and our key priorities for the group. I joined abrdn as CFO in October last year, and I was appointed interim CEO just over two months ago. As you might imagine, it's been a very busy few months in the run-up to these results. I've been out and about, meeting with clients, colleagues, and spending a lot of time with the leadership team. I thought I would start out by setting out some of my initial observations.

It's clear to me that we do have solid foundations upon which to build. Our three core businesses, Investments, Adviser and interactive investor have established scale positions in attractive markets. Markets that are expected to grow significantly driven by long-term demographic and structural customer needs. Of course, in Investments, the structure of that market is evolving very fast.

In terms of headline numbers, our focus is on improving profitability, and that's showing some early signs of success. With group adjusted operating profit of £128 million in the first half, a small increase on both the first and second halves of 2023. However, this is not close to the level of profitability we aspire to. It's clear to me that all three of our businesses are yet to realise their full potential, and there is significant headroom in each one.

Turning to the top three priorities, which are all about execution and delivery. First, transform performance. We'll drive a significant uplift in profitability, in particular in Investments, and meet the cost commitments we set out in the transformation

programme we announced earlier this year. That means investing in technology, automation and AI, as well as simplifying our processes to drive efficiency. Second, focus on client experience. My overriding objective will always be to support our clients to achieve their investing goals. That means improving investment performance and winning in UK wealth by differentiating ourselves through customer experience.

And third, talent and culture. We are, after all, a people business. The heart of our success will be the engagement and motivation of our people. There's no quick fix and we need to take action on multiple fronts. Critical to this will be streamlining decision-making. We must also create the right culture to attract and retain talent as a modern organisation. Putting this all together in financial terms, our objective is sustainable, profitable growth along with higher net capital generation. It's not going to be easy, turning around performance never is, but I'm confident that by executing relentlessly against these priorities and by harnessing the energy and enthusiasm of our colleagues, we will build the foundations for long-term success across the group.

Realising the potential of our businesses

Turning now to the three businesses. As we head into the second half of 2024, our focus is on realising the significant potential in each of our three businesses. The CEOs and I have developed these strategic priorities together. In doing this, we've recognised that each business faces different challenges and benefits from different market opportunities in competitive positioning. The common theme is it will require a relentless focus on delivery.

Starting with Investments. Performance has been challenging in parts, with industry headwinds and a lack of appetite for active equities and emerging markets. Combined with our quality-focused investment style, it has put pressure on our investment performance, in particular in equities. Against this, we've seen good net inflows and investment performance in fixed income, quants and liquidity. And as you know, our focus here has been on transforming the cost base, and we've made good progress on that while also improving our client proposition.

In parallel, we will look to accelerate our growth where we have strong performance. And of course, continue to improve performance elsewhere, which together with the cost transformation will lead to materially higher profitability.

Next, Adviser. Simply put, our focus is on returning the business to positive net flows to benefit from the structural growth that we see in this market. Redemptions did remain elevated owing to factors affecting the market as a whole. As a result, net

flows remained disappointing in the first half, despite gross flows increasing 7% to £3.1 billion. So, to realise the benefit of the significant investment we've made in this business, we will enhance our proposition and pricing, complete the in-flight projects, and significantly strengthen Adviser's leadership team.

And, interactive investor. Through this business, we have a leading position in a significant and rapidly growing D2C savings and wealth market. ii benefits from a compelling subscription-based pricing model, leading technology, and excellent user experience. Our focus now is on innovating and broadening the proposition and investing in marketing to target attractive customer segments to drive strong organic growth.

Stable performance in Investments, with Adviser and ii continuing to contribute significantly

I'll turn now to the performance in the first half. Ian will provide more detail about the financial performance, but I'd like to give you a high-level overview of our progress over the last six months. Group-adjusted operating profit was £128 million in the first half. This represents a slight improvement relative to the same period last year, and an increase of 5% over the second half of 2023. The headline performance itself reflects differing trends across our three businesses. In Investments, operating profit was stable compared to prior year at £34 million. Actions taken to transform the cost base reduced operating expenses, offsetting the expected reduction in revenues.

Adviser contributed significantly, with adjusted operating profit of £65 million up a third since the first half of last year. The 16% increase in revenue compared to 2023, largely reflected the revised arrangement with Phoenix in respect of SIPPs, which I talked about at the full year results.

In interactive investor, adjusted operating profit was £55 million. After stripping out the sale of Discretionary Fund Management, this was 7% lower than the first half of 2023, reflecting our active decision to prioritise investment in marketing and product development to support growth, with customer numbers up 4% in the half. Group adjusted capital generation of £144 million was slightly up on the prior year, providing dividend cover of just over 1.1 times. Net capital generation was £104 million which is more than double the first half of last year, in part, reflecting lower restructuring costs.

I'm pleased to see this on the right path, but improving this metric remains a key priority. And finally, abrdn benefits from a strong balance sheet, which supports

investment in our business to sustain the long-term capital generation. Turning now to the performance of each business, starting with Investments.

Investments - focus on flows and performance

Critical to turning around abrdn is getting our Investments business back to a healthy level of profitability.

While we still have a long way to go, there are some signs of improvement. Overall, we saw outflows of £1 billion in the first half. This represents a materially better outturn than the equivalent trends seen over the previous 12 months. Within this, we have seen a significant improvement in flows across our institutional and retail wealth business, with the return to modest net inflows of £0.4 billion. This is encouragingly £11.6 billion better than the second half of 2023 and was driven by strong inflows in fixed income, quants and liquidity.

However, equities continue to experience outflows with £4 billion in the half. Our insurance partner business saw net outflows of £1.4 billion or approximately 1% of AUM. Underlying this trend, gross inflows from Phoenix's defined contribution pension business and bulk purchase annuities with more expected in H2, were offset by outflows from heritage business in runoff. Turning now to investment performance. Overall, our one-year performance, with 70% of AUM, outperforming benchmark, has increased from 55% six months ago.

We've continued to achieve strong performance on a one-year and a three-year basis in fixed income, quants, and liquidity, building on the change we've implemented with multi-asset strategies, which are already yielding tangible results. We have also implemented significant enhancements to refine and modernise our equities processes. These include team restructuring and integration of data, and behavioural analysis tools to refine portfolio construction. While equities performance is currently below our targets, particularly in Asia and emerging markets, we are seeing positive momentum in areas such as small cap and Asia country strategies, for example, India. Also, our emerging market income strategies continue to deliver top-quartile performance across multiple horizons.

We remain committed to our bottom-up quality investment style. We expect a combination of the internal steps we have in train, with better external market dynamics, for example, peaking real yields, to drive improved performance over the next 18 months. And year-to-date, we've seen an improvement in equities performance with 39% AUM outperforming compared to 23% on a one-year basis.

Investments – improve profitability and return to growth

Turning now to the first half highlights and priorities for Investments. Following the significant industry headwinds of the last few years which did create a challenging risk-off environment, market conditions have been more supportive in the first half, obviously, with last week's intervention. As a result, our total AUM in our investment business increased £3 billion to £369 billion. There are some signs that momentum is returning to the Investments business. Our institutional retail wealth business' gross flows, which are a good indicator of our success, were up 16% year-on-year to £18.5 billion. The total value of won-not-funded mandates increased by 68% to £9.4 billion compared to the year-end. And the number of RFPs has increased by 23% compared to the first half of last year.

Looking ahead, we have three critical priorities for Investments. First focus, we'll target growth in products and services where we have genuine strength continuing to focus on where we can win. We'll build on the progress made in sharpening our investment specialisms while also increasing our cross-business collaboration and leveraging our strategic partnerships to drive further growth.

Perform. Our success is predicated on delivering reliable outcomes, service and experience for clients. To do this, we'll continue strengthening our investment processes while also developing client-centric products and solutions.

And finally, modernise. We'll continue to invest in technology, automation and AI to improve efficiency and operational agility. As part of this, we'll upgrade our systems and tools while also streamlining and simplifying our operating model. We'll also invest in marketing and distribution to drive our commercial performance. Our ambition for Investments remains to improve efficiency and to return to growth, and through this, to restore the business to a much higher level of profitability.

Adviser – focus on return to net inflows

Turning now to the Adviser business. As highlighted earlier, our Adviser business delivered a strong financial performance in the first half of the year, with assets under administration also up by 2% to £75 billion. While gross inflows of £3.1 billion were 7% higher than the first half last year, net outflows were disappointing at £2 billion in the half. Customer numbers reduced by 3% compared to the end of 2023. Redemptions remained elevated and Adviser continued to suffer from factors affecting the market as a whole, such as cost of living and IFA consolidation.

Notwithstanding, we did maintain our market share of assets under administration, and we also saw a modest uptick in primary partner, AUA. Going into the second half, we have three priorities for the business. We've already made a start in delivering against each of them.

First, service and proposition enhancements. Our priority of returning to net inflows can only translate into sustainable growth if it is backed up by service excellence and a market-leading consumer proposition. We've recently launched on-platform cash solutions for our customers and have developed a sharper roadmap of further proposition enhancements, including the launch of an on-platform SIPP in due course.

Second, strategic reprice. It is unavoidable that price plays an important role in attracting and retaining customers, so in May, Noel announced changes to the pricing of our Wrap platform with simpler and reduced charging, improving our competitive positioning in the market, which will drive increased value over the medium term. Changes were made for new clients straight away with plans to extend to all clients by the end of Q1 next year.

And third, investment in people. We have enhanced the senior leadership team under Noel, with the appointment of a new dedicated Chief Technology Officer to drive the timeliness of our project delivery, and I'm excited that we also hired a new Chief Distribution Officer, as announced yesterday, and she has a strong track record in improving customer acquisition and she will start later this year. Benefits from these actions will take some time to realise, but we are focused on returning the business to a net inflow position as soon as possible.

interactive investor - driving profitable organic growth

And now, turning to interactive investor. In the first half, interactive investor delivered 4% organic customer growth to 422,000 customers, and within this, 17% growth in SIPP customers. In a growing and competitive market, ii saw record inward transfers over the six months, generating net inflows of £3.1 billion compared to £2.8 billion for the whole of 2023. And in the first half of the year, trading activity returned to that last seen since COVID, with increased levels of investor confidence. Daily average retail trading volumes are 23% higher than last year.

interactive investor has three key priorities to drive consumer growth. First, proposition enhancements. These include the recent launch in conjunction with the Investments business of a Managed ISA. This is a great example of how the businesses across abrdn can work together to add value for our customers with

nearly half of the assets held in the Managed ISA accounts invested in abrdn funds. Looking forward, the ii team have an exciting roadmap of product and proposition developments. These include the launch of a Managed SIPP account later this year, to be followed in 2025 by ii360, an advanced trading platform and ii advice, a digitally-led financial planning offering.

The second priority is consumer engagement. The trading capabilities and wrappers available through our platform continue to drive increased customer value and engagement. We continue to launch new research tools and features. Further roadmap delivery will bring *ii community,* a social trading app later this summer and a new premium service bundle will follow.

Our third priority is around brand awareness. ii has many strengths. It ranks number two in the market based on asset value and has an award-winning SIPP, which has been repeatedly recognised by Which. It is also valued by its customers with a high Trustpilot rating of 4.7. However, the ii brand is still punching below its weight. We're addressing this by investing in marketing to drive general brand awareness. Early indicators suggest our campaigns have been successful, with brand awareness up 10 percentage points compared to Q3 last year.

Talent & culture - creating foundations to sustain future success

Turning now to our third priority. Talent and culture is something that we just absolutely must get right. In fact, the value from getting this right cannot be overstated. We must focus on creating the best possible environment for our people to succeed. These are the principles that we'll hold ourselves to.

The corporate centre will be leaner with all customer-facing activity delegated to the business CEOs. We'll apply a consistent framework for ways of working rolled out groupwide. We'll streamline our processes, eliminating any cumbersome decision making. We'll invest in our people, their development and the bench strength of our leadership teams. And finally, and importantly, we'll foster a diverse and inclusive forward-looking organisation that has focused and deliverable sustainability commitments.

From this work, I expect a range of benefits, including faster decision making, improved efficiency, better risk management, rigorous performance management, and the greater ability to attract and retain people. And most importantly, we'll nurture a culture in which our people are motivated and engaged, with the belief and confidence to unlock the opportunity in abrdn. I'll now hand over to Ian who will go over the financials.

Ian Jenkins – Interim Chief Financial Officer

Improved profitability driven by cost efficiencies

Thank you, Jason, very much indeed. Good morning, everybody. Nice to see you all again. Let me begin with a summary of the 2024 Half year group results. The group delivered adjusted operating profit of £128 million, slightly higher than both H1 and H2 last year, and largely benefiting from the progress we are making in efficiency savings.

Net operating revenue of £667 million was 7% lower than H1 2023 and slightly lower than H2 2023, and this primarily reflects the cumulative impact of the prior year net outflows and revenue given up through business disposals. Recognising these revenue headwinds, we have taken actions to reduce operating costs, which fell to £539 million in the first half of 2024. This was 9% lower for the first half and 3% lower for the second half of 2023.

IFRS profit before tax of £187 million this half year compares to a loss of £169 million in H1 of 2023. This improvement was mainly driven by lower mark-to-market adjustments to the value of our significant listed investments and an £88 million gain on the sale of the European headquartered private equity business. Adjusted capital generation was up slightly on H1 2023 at £144 million, while net capital generation of £104 million, which takes into account below the line items, more than doubled, benefiting from lower restructuring and corporate transaction costs, which were £40 million compared to £92 million in H1 2023 net of tax.

This improvement, together with our strong Capital position, supported maintaining our interim dividend at 7.3p, in line with guidance.

Increased AUMA benefitting from positive markets

Moving to the businesses. AUM at the end of June rose to £506 billion compared to £495 billion at the end of last year and adjusting for the £7 billion sale of the European headquartered private equity business, this was an increase of £18 billion, primarily from positive market movements across all three businesses of £17.2 billion, and net inflows, including liquidity, of 0.8 billion.

Across the investments business, fixed income reversed the net outflows of 2023 to a net inflow of £1.2 billion, and we delivered strong liquidity net inflows of £2.4 billion. So, excluding fixed income and liquidity, the investments business saw a net outflow

of £4.6 billion, largely in equities. And as Jason has already covered, the market backdrop continues to present challenges for active management in equities, particularly in Asia and emerging markets.

Within Adviser, net outflows were £2 billion reflecting the higher redemptions in the period, and as you've again heard, we are taking action to address this. interactive investor's strong momentum continued with net inflows of £3.1 billion, demonstrating good organic growth with particular strength in the SIPP products.

Revenue impacted by net outflows and corporate actions

Turning to revenue and margins, group revenue of £667 million was 7% lower than H1 2023. £38 million of this was driven by the impact of net outflows, primarily from the prior year revenue margin decline across the investments business of £21 million, reflecting asset allocation changes.

Adviser and interactive investment margins increased revenue by £17 million, which includes £13 million from a revised distribution agreement with Phoenix in respect of the Wrap SIPP, along with higher trading and FX commissions at interactive investor. Positive markets and foreign exchange also benefited our revenue by £11 million. And the disposals of the Discretionary Fund Management business and the US and European private equity businesses, partly offset by the acquisition of Tekla in October last year, had a net impact on revenue of £22 million.

Looking now at revenue margin and trends. Within Adviser, margin increased to 31.4 basis points compared to the first half of last year, reflecting additional revenue from the revised distribution arrangements with Phoenix in H2 2023. Across Investments, as expected, the impact of asset allocation changes resulted in a margin decline to 22 basis points. Together, this resulted in the group revenue margin of 24 basis points compared to 25.7 basis points in H1 2023.

So, let's turn now to adjusted operating expenses to illustrate how we're proactively dealing with these revenue headwinds by taking action to improve efficiency.

9% reduction in costs, principally benefitting Investments

Compared to H1 last year, operating expenses were lower by 9% at £539 million, benefiting from £53 million of cost saving initiatives, principally within our Investments business. This reflected both the work done in 2023 and of course the cost transformation programme we announced in January 2024, which I will talk to shortly.

As we indicated at our Full year results, we're reinvesting some of our cost savings across the group, and you can see this within interactive investor, where we have added to marketing, proposition development and operational resources, providing the capacity to support organic growth. The lower adjusted operating expenses also benefited from corporate actions, which contributed net £17 million, primarily the sale of the Discretionary Fund Management business last year.

Performance benefiting from continued cost focus

So now, turning to business performance. Within Investments, cost improvements offset revenue reduction to leave adjusted operating profits stable at £34 million. The reductions in revenue were primarily due to the net outflows and changes in the asset mix, and we continued to take steps to stabilise and then grow revenues through sharpening our focus on areas where we have the right to win.

Moving to Adviser, adjusted operating profit increased to £65 million. This includes a £13 million benefit from the revised SIPP distribution agreement with Phoenix and a £2 million increase in treasury income to £17 million. Costs remain flat at £54 million and continue to benefit from the temporary third-party outsourcing discount of £7 million, again, in line with H1 2023. However, we do expect this discount will cease with the delivery of the abrdn SIPP functionality.

Across interactive investor, we exclude the Discretionary Fund Management business sold last year. We delivered revenue growth of 5% with increased trading and foreign exchange commissions accounting for most of that movement. The growth in costs arises from the investment to provide capacity to support future organic growth, and we have indeed targeted and delivered record high SIPP transfer-in volumes.

Transformation - creating a more efficient and client-centric business

So, looking now at the progress on cost transformation that we announced in January this year. This is an area where I've particularly become very involved in since last October, working closely with the rest of the leadership team. And as we said in January, we are targeting annualised saves to operating expenses of at least £150 million by the end of 2025 compared to the full year 2023, with approximately 80% of the savings benefiting the investment business.

Around £60 million of these saves are on track to benefit the group full year 2024 numbers, with actions taken in the first half already set to deliver over two thirds of this £60 million.

Our programme is designed to deliver a step change in sustainable efficiency and restore our core Investments business to an acceptable level of profitability, allowing for some needed reinvestment of the savings, but aimed at improving our net capital generation and supporting shareholder returns.

There are indeed more than 60 individual initiatives within the programme, primarily within our Investments business and support functions. And given the need for clear accountability and focus, we have an experienced central programme office to support, govern, and oversee delivery.

In the first phase, we targeted delayering management roles through a spans and layers exercise across our organisation. And as the programme matures, our focus is on process simplification, leveraging data and technology, negotiating sustainable reductions in third-party spend. Let me provide a couple of examples of the work ongoing.

So, we've looked end-to-end across performance management, investor services, client reporting processes, and generally increased the efficiency of those services to our institutional clients. We're also looking at rate cards, service agreements, and contracts to lower the overall costs and improve productivity. And as a last example, our people function are working towards implementing a self-service model, combining the in-house expertise that we have with market leading technology. So, overall the transformation programme is up, running and delivering at pace.

Improving our net capital generation is a priority

Turning now to our capital position, which obviously supports this transformation. The group continues to have a strong capital position of over £1.5 billion of CET1 resource which covers 146% of our total capital requirements. Net capital generation of £104 million is more than double H1 2023, but there is still more work to be done to ensure our dividend is fully covered on both an adjusted capital generation and on a net basis.

Adding to our net capital generation is the impact of corporate transactions. In this half, we completed the sale of our European headquartered private equity business and our Virgin Money joint venture generating £99 million of CET1 resource, which takes me onto the balance sheet.

Strong balance sheet reinforces resilience

In addition to our CET1 resources, we have £690 million of qualifying debt before the tier two restriction, all issued in a lower interest rate environment. Of this, around £470 million contributes to our regulatory capital. And as previously stated, we will look to optimise our capital stack over time. The group's cash and liquid resources are £1.8 billion, and of this just over £400 million is in the PLC or group treasury. In addition, we have £400 million in seed capital and co-investments. And this capital is used to support product development within the Investments business.

As before, it's worth remembering that our regulatory capital position does not consider two other significant assets. Firstly, our stake in Phoenix, which had a market value greater than £500 million at the end of June. This is a significant asset which underpins a very important relationship.

And secondly, we have a well-funded DB pension scheme, which has an IAS surplus of £800 million. And as we said, at the Full year results, we continue to explore options that could realise some of this value.

To conclude, our balance sheet remains strong, allowing us to invest in our core business as we seek to grow and improve efficiency.

Outlook and financial guidance

So finally, financial outlook and guidance. Our focus is on improving profitability and realising the significant potential of each of our businesses and good momentum as we head into the second half.

We expect a relatively stable interest rate environment, supporting stability in the cash margins earned in our platform businesses in 2024. Over the longer-term structural growth in the UK, savings and wealth, is supportive of our businesses.

And while market conditions and changing client demands create a challenging environment for active asset managers, we see opportunities in areas where we have distinctive capabilities. And as we said at the full year, given the trend away from active equities, we do expect some further contraction in revenue margin within Investments to below 22 basis points for the full year 2024. And subject to market conditions impacting the asset mix, of course.

We also expect further cost improvement with approximately 80% of the cost savings programme benefiting the Investments business.

We're taking steps to reverse the net outflows in Adviser, and we've already announced a competitive repricing with existing clients expected to benefit from Q1 2025, and we expect this to have a low-single-digit revenue margin impact.

We also expect the temporary third-party outsourcing discount, which has benefited expenses, to end. The cash margin in Adviser for the first half was 263 basis points, and we expect this to be broadly stable for the full year. Within interactive investor, the cash margin in the first half was 234 basis points. And again, we do expect this to be broadly stable for the remainder of 2024.

The investment to provide the capacity to support future organic growth will continue such that interactive investor costs in the second half are expected to be broadly similar to the first. And for the group, as I've said, we remain on track to deliver the targeted £60 million of cost savings this year with adjusted operating expenses expected to be below £1,075 million for the full year and to deliver at least £150 million of annualised cost savings by the end of 2025. Thank you, and now Jason, I'll hand back to you.

Jason Windsor, Interim Chief Executive Officer

Thank you, Ian. Before we start the Q&A, just a quick summary.

Key messages

With significant headroom in each of our core businesses, we've identified the key focus areas to enable them to realise their growth and profitability potential.

The transformation programme is on track, it's key to delivering sustainable profitability for the group as well as improved outcomes for our clients and colleagues.

The group's balance sheet is strong, in turn supporting our ability to invest in the business to improve sustainable net capital generation.

And my reminder of my three priorities for the group, transform performance, improve client experience, and strengthen our talent and culture.

As I said at the start of the presentation, I'm genuinely excited about the potential in abrdn. I'm confident that by delivering against these priorities, we can create an

organisation that our colleagues can be proud to work for, delivers better outcomes for our clients, and more attractive returns for our shareholders.

I look forward to keeping you updated with progress as we go along. And I'd like to open up to questions.

Q&A

Nicholas Herman, Citi: Thank you both for the presentation this morning. Three questions from my side please.

Firstly, on strategy, I guess this is unsurprisingly, it seems very much like it's a continuation in the evolution of the existing strategy, but I guess under your leadership, and I appreciate your currently interim CEO Jason, but are there any gaps or things you want to emphasize or de-emphasize compared to the past or previously?

Secondly, a question on Adviser. So, either to you Jason, or to Noel. You noted the pricing cuts and the leadership changes. Can you provide some more details on those leadership changes?

And maybe I was too simplistic about this, but I always thought that service was the most important thing in that business. So, what gives you confidence that lower pricing will drive Adviser forward from a growth perspective?

And then finally on capital, Ian, you mentioned that you continue to explore options to crystallise the value in the pension scheme. I know it's only been three months since we last spoke, but I'm just curious if there's any update on your thinking and probability around crystallising, that scheme surplus. Many thanks.

Jason Windsor: All right. I think I'll probably have a go at all three of those to kick us off. Thank you. On strategy, the key message is, we're content with the group as it's currently configured. We're committing to doing better within that and we've outlined plans to get after it.

I've been in this role two months, plus or minus. We've got sharper plans and we've got an absolute focus on delivery across the whole of the organisation. I guess the single thing I've been focused on doing is making sure everyone's clear on that and they've got the resources and the commitment of senior management to support the whole organisation to get after the plan. That's what I'm doing.

On Adviser, price is important. Service is crucial, but in terms of winning new business and retaining people, making sure that, in the context of the market, it is important that we are competitive on price.

We've gone through a process to look where we were. Obviously, this business was first into the market, nearly 20 years ago. Competition has materially intensified during that period, and we've reacted to that through an investment in the platform to provide better functionality, better client service. We also need to be realistic on price. So, the changes that Noel's announced will make us more competitive when it comes to winning new business.

And in terms of the team, I said there are two or three key hires, some of which we haven't quite announced, but one we did announce yesterday, is a new Chief Distribution Officer, Verona Kenny, who will join, early October time. So, when she comes, that's significantly more bandwidth into the team, which is great.

We've also got a new dedicated Chief Technology Officer, currently, an interim role, but that's to improve the timeliness of delivery. We've had a whole book of work, an enormous amount has been achieved. We need to finish some of the in-flight projects. So, adding a little bit more bandwidth, getting after that, getting it completed is what we're trying to do.

On the pension scheme, a bit of a fascination of mine, as you might imagine. It is more complex than I perhaps first thought. It's an archaic Scottish trust, which isn't straightforward.

Prior to my joining, the company had done a lot of work to clarify the beneficial ownership of the assets of the trust and has gone as far as to the court in Edinburgh to make that clear. That work was done about 12 months ago, but there are other complexities, so I won't bore you with those.

The project is up and running. We're reviewing run-on options, depending on where the DWP comes out, clearly a change of government has slowed that down or a buyout full or partial. Ian mentioned the IAS surplus. That's clearly an accounting surplus, but there's quite significant value in that pension scheme.

Hubert Lam, Bank of America: I've got three questions. Firstly, on strategy again. Jason, I hear you, you think it's about execution, about delivery, but do you think the three segments work together? Do you think that there are enough synergies or just

putting it together or would you consider any more radical changes if they don't? If you don't see the synergies together, will you consider breakup?

The second one is on capital. Can you discuss how much surplus capital you think you have, assuming a buffer as well? And if there is surplus capital, what would you consider? Would you consider buybacks, M&A or do we have to wait for further capital generation or to release the pension to get there?

And lastly, on fee margin, I know Ian's guiding towards lower than 22bps for this year. Can you tell us what the exit rate is and where you think the fee margin could be heading, just given the mix as well as where the flows are going?

Jason Windsor: I've been asked this question once or twice before on the group and its current configuration. We are very comfortable with the group structure as it is, and we are very focused on operating the three businesses under the one umbrella and doing better together. Where there are opportunities to collaborate, we are pursuing them. So, between the Investments business and Richard's business and Noel's business we're looking at where they can collaborate.

We are all in investing. We have all got ultimately the same customer needs that we're trying to support. We've got the same regulator; we've got the same capital base. There are probably cost synergies that are a little bit lost in the fray of lots going on around how we operate.

So, there is a strategic alignment. We talk about the same things, we've got similar needs, we've got similar opportunities, and there are specific projects that we're getting after. But I'm not setting up a department to look at cross synergies. We're doing it where it's natural, where it works, where we've got competitive strengths.

On the margins question, I think for the second half we are looking at… I'll stab a guess at 21.5 bps. There's a few standard deviations in that. If markets jump all over the place, which they have a little bit in the last four or five days. That's probably the best I can say today. It could be up or down a bit depending on equities and fixed income.

On the capital surplus, we feel the company's well capitalised, but we are not looking to return any capital above the dividend. The dividend is the primary source of return to shareholders and we're focused on creating capital generation that more than covers that.

Beyond that, the priority is investing in the business. So that's the transformation programme. It's upgrading of the platform and then it's pursuing other organic

growth initiatives across the whole company. In my hierarchy of capital, that's what it is. It's growth, then the dividend, and then if there’s some surplus, fine. M&A is not a high priority.

Obviously, we think about strategic positioning, we look at opportunities, but that's not something that we are prioritising at the moment and we're certainly not looking at one-off returns of capital.

Mandeep Jagpal, RBC Capital Markets: Three questions from me as well please. The first one is just on your Phoenix agreement. How does the new Future Growth Capital partnership between Phoenix and Schroders affect the level of new business flows from Phoenix, in particular into private assets?

Second, on restructuring costs, you're now guiding to slightly improved cost savings for FY24 versus your initial guidance. So just wondering if that also resulted to any changes in your £150 million guidance for restructuring costs this year, and also any restructuring cost expectation changes for the next two years?

And then finally, on the Adviser margin, this is up year-on-year and down half-on-half. What should we expect the net impact of the new Phoenix SIPP distribution agreement and the Wrap price reductions to be for the margin for the remainder of FY24?

Jason Windsor: Okay, so I'll just take those questions in turn. You can do restructuring, if you fancy Ian. On the Phoenix agreement, we benefit from a very significant relationship with Phoenix. I'm just looking up here - our total inflows from Phoenix in the first half were £13 billion and that pales in significance, other strategies they might be pursuing. We remain the primary provider and are supporting them across their business and we'll continue to do that. It's an incredibly important partnership for us. We're investing in it, and we'll continue to do better. And that's across private assets or liquid assets or annuity assets, whatever it is.

Our role here is to support them as our largest client and to do the best for them. We are not exclusive, but nor is that. So, we've got a continued range of different opportunities to grow that. Ian, on restructuring?

Ian Jenkins: Yes so, restructuring for the first half is £51m. We guided £150m for the full year. I suspect that it could be a little bit down on £150m. Some of the work that you do at the beginning requires less cost being invested in it to make those changes happen. The second half will probably spend a little bit more, we may not spend as much as to make it up to £150m. If it was £125m, I wouldn't be surprised.

Jason Windsor: On Adviser margins. This is complicated, but the prior way that the Phoenix distribution agreement was agreed was largely due to the sale of Standard Life, and we moved from a purchase price-type structure to actually recognise the SIPP in revenue.

It's changed. It changed for good, it changed for the good for us in terms of profitability. So that was effective from the beginning of the end of the first half last year. So, we've now had 12 months of it. And that will continue from here.

Gregory Simpson, BNP Paribas Exane: Three from my side, maybe one for Richard - can you update on the competitive dynamics in D2C and in particular having come from a private equity backed business, how much do you worry about the largest player in the UK maybe changing their strategy somewhat?

Second question is on cash margins. Can you walk through how you expect that to evolve as interest rates cuts come through, potentially come through in the UK?

And then thirdly on the won-not-funded pipeline in investments, £9.4 billion. Can you talk through what type of asset classes or products that is coming through in and should we expect investments to move into net inflows based on that kind of pipeline? It sounds pretty good.

Jason Windsor: Great, thanks. Richard, why don't you take the first two if that's all right?

Richard Wilson: Sure, morning everybody. So, the first question was about the competitive dynamics in the D2C space. It will be no surprise to learn that the marketplace continues to see greater competition from a number of sources, whether it be from the incumbents or from neo-brokers or from the US players.

What we ourselves are seeing, you'll see from our flow figures that in Q2 we had record net flows, which were around £2 billion, and we have over the last few quarters consistently eked out marginal gains in market share across most metrics.

In Q1 this year we had 20.5% of all new SIPPs in the market. In Q1, on the trading side, we increased our share of international trading to about 33%. And our overall share of AUA you saw on the board increased marginally to about 19.5%.

We don't see that position being under threat. We continue to have a structural price advantage. We are built on operating excellence where our core mission is

delivering great consumer outcomes and great value. We have a lot in the tank in terms of product development, which is continuing to come through over the following months. And in terms of our price versus cost position, we're pretty comfortable with our fully invested tech stack.

There will be further competition on price inevitably. And that leads us to speculation around Hargreaves, which as you all know, the Takeover Panel agreed to delay a conclusion on that until the 9th of August, which thankfully is after today.

We look forward to active competition with the incumbent D2C players. The decisions around Hargreaves are for them. We are very happy that we are investing as hard as we can in delivering better and better service and proposition to a broader audience while sticking to our guns in terms of a sub-60% cost-income ratio as we continue to invest, not just in product and tech, but in terms of brand and marketing. So, there's more to come, there's more in the tank, but that's in a context of expected greater competition.

Jason Windsor: Thanks, Richard. On the won-not-funded pipeline, I haven't got the full details of it in front of me, but it's a range of different strategies across quant, real estate, equities, and fixed income. It won't all come through imminently. It takes probably, 6 to 12 months for that to actually come through across the piece. So, we just thought it was a helpful metric to give you a sense of the momentum in the sales and the client uptake of our products within the investment business.

On cash margins, we've indicated for the full year that we expect to be consistent. Clearly interest rate environment is likely to evolve over the coming months, but we are comfortable with the margin guidance. Obviously, if rates fell sharply, that way we'd have to reassess. But we will remain competitive, and we'll remain customer-oriented when we make these decisions.

Andrew Crean, Autonomous: Firstly, you could talk about cash margins with a 3% base rate. What would be your planning at that point?

And then secondly, on capital - you used to talk about a half billion buffer being what you were happy with. Is that still the case? And why don't you take down the debt which doesn't qualify for capital?

And then finally, coming back on the strategy, you've been very clear that you want to keep the three businesses together. Let's ask the question the other way around because the market is asking it the other way around. Why don't you think about selling the Investments business? Is it because you can't sell it?

Jason Windsor: On the last one, we obviously do think about things. I'm primed to think about all sorts of options. What I'm communicating is where we are today, and we have no plans to change that. We think that the highest value is to remain with the current configuration and to get after the profit and the growth objectives that we've set out. It's no more complex than that.

Clearly, if something changed dramatically, we'd reassess. We're not blind to the external world, but our sole focus is about improving the core businesses that we've got.

On the base rate question, if rates fell to 3%, clearly, we would be looking at a lower margin. I think in the past we're given guidance of one and three quarters to two, that would come under pressure. Broadly, we pay 60, retain 40 around, that sort of shape. And it depends how things play out across the different markets. But that would be what we would expect.

On the capital, I didn't really take the £500 million surplus figure directly as I think about the capital of this business because that was on a regulatory capital basis, including a lot of debt.

So, we tried to represent the way we think about capital using core equity Tier One. As I've said just a moment ago, I don't think we have significant excess capital, but we're well capitalised.

The debt is not due. One of them is 2028, one of them is 2026. We could do something on that. We make a reasonable spread on it at the moment on it. It's not an urgent issue at all. We have cash, we've got potential other liquid assets. So, there are things that we could do, and we will obviously keep under review as we develop.

Thank you all very much for coming over. Really do appreciate you taking the time, and thanks to all who've dialed in. I look forward to keeping you updated with our progress as we go along. Thanks again.

ENDS

This transcript reflects best efforts to record the details of the call, there may be some errors.