abrdn plc

Full year results 2021

Presentation transcript

1 March 2022

Stephen Bird - Chief Executive Officer

Welcome

Hello and welcome to our 2021 Results. I'm joined by Stephanie Bruce, our CFO, and Chris Demetriou, Rene Buehlmann, Noel Butwell and Caroline Connellan, our vector CEOs. I will kick off with a summary of our 2021 results, my first full year as CEO. I will then update you on our progress in delivering our strategy, which demonstrates the power of our client-focused business model. Stephanie will then take you through the financial results in detail and we will then open up for questions from the broader team.

Delivering on our strategy for growth

2021 was a reset year. We set out a clear strategy and the results that we expected to deliver. Our strategy is based on creating long term sustainable growth and, in the short term, arresting the decline in revenue. Today I'm very pleased to report strong progress for the first year of our three-year plan. For the first time since the merger, we have reported increased revenue for the full year, up by 6%. This is in the context of disciplined cost management, which has enabled us to improve operating leverage, our cost to income ratio and increase operating profits by 47%.

On this graph, you can see our progress in improving operating margin, an increase of six percentage points in the year. In year two of our plan, we will continue our relentless focus on improving operating margin, as we progress towards our target of 30%. This combines three year revenue CAGR of high single-digits and disciplined cost management to deliver a cost to income ratio of around 70% as we exit 2023. We are very alive to the heightened volatility of markets—so far this year it's been evident to everyone—and I will shortly highlight how we will continue to improve our operating margin in spite of this environment.

We will also improve our competitive position through the proposed acquisition of the UK's leading subscription-based direct investment platform, interactive investor. We expect ii to be double-digit earnings accretive in its first full year as part of abrdn.

I'm also pleased to report that this year our dividend is fully covered by the adjusted capital that we have generated.

Strong progress in 2021

These strong financials are underpinned by the various bold actions that we took in 2021 to drive growth.

Our strategic partnership with Phoenix is very important to us, and that's why we invested our time early in the year in simplifying and extending it to at least 2031. As our single largest client and a leading life company in the UK, we jointly bring best-in-class sustainable investment solutions to the UK pensions market. We have new and innovative solutions in the pipeline, and the first of these, tax efficient, low cost, sustainable funds, is already winning open business for Phoenix.

A lot of my time in 2021 was spent on the effective management of our capital. We successfully realized capital from non-core asset sales, particularly from the sale of Parmenion and Nordic real estate as well as the monetization of stakes. Together with the increased earnings from the business, these actions generated £1.6 billion of capital. In addition, in early 2022 we sold down some of our stake in Phoenix, and we're pleased to be returning these proceeds to shareholders. Our remaining holding of 10.4% in Phoenix represents a commitment to this key strategic partnership.

We also have streamlined our operating model to bring decision making closer to our clients and have established our three vector model with accountable, strong CEOs driving performance. We have brought in new talent, alongside promoting home-grown leaders, and I'm pleased to have Rene, Chris, Noel and Caroline here with us today.

We completed platform integration in the investment vector, which simplifies our global investment operations and improves efficiency and collaboration. And we have replaced five different brands with a powerful single brand—Abrdn—that works digitally and that we own globally. This successful implementation makes it simpler for our clients to understand who we are and serves to unify us as a single team.

Let me talk a little bit more about growth. We have sharpened our focus in our core investment strengths to those where our clients recognize that we are truly distinctive. We will not try to compete across the entire waterfront. For the Adviser vector, we are building and capitalizing on our leadership position. When I joined the company I described this business as a hidden gem, and its strong results in 2021 reinforce why. In the Personal vector, the acquisition of ii, the UK's number two direct investing platform, will transform our position in the rapidly growing UK wealth market. You can now see that two of our three vectors will be leading platform businesses, which we will support by investing in data, digitization, cutting edge research and information that expands our capabilities.

In 2021 we acquired Finimize, a global investing insight platform with over one million users. We are utilizing these insights daily alongside our existing capabilities in our Abrdn Research Institute. Quality information, the signal in the noise, sits at the heart of enabling clients to be smarter investors.

Our client-led strategy for growth

Before I turn to individual vector performance in more detail, I'd like to reinforce the power of our strategy. This will be familiar to you. We drive client-led growth and create value for our shareholders by enabling clients to be better investors. We have reorganized the business around our clients in three distinct areas: our Investments business, our Adviser business and our Personal business. And we appointed leaders with clear accountability. As a result, we're diversifying our revenue streams, accessing new growth opportunities and serving a broader range of clients.

We're focused on high growth areas where we believe we have distinctive capabilities: Asia and emerging markets, private markets, sustainable investing, solutions, and the UK advisor and consumer markets. This clear strategic framework is the bedrock of current and future performance.

The power of a client-focused business model

Here for the first time you can see the power of our client-focused business model. Each of these vectors has delivered growth in revenue, good profit performance and improved flows, a positive picture that Stephanie will look at in more detail shortly.

Global investment strengths

Let me focus now on our Investments vector, our largest business and where I spend most of my time. Firstly, as I mentioned earlier, we simplified our relationship with Phoenix, a very important step in underpinning the assets and revenues from our largest client. In addition to Rene and Chris, we have made new appointments in wholesale and institutional distribution and we flattened structures to speed up decision making. We've brought the public markets investments team together, under Devan Kaloo, to improve collaboration, sharing of ideas and efficiency. Within private markets, we consolidated our growing Real Assets business under Neil Slater. We completed the integration of our investment platform, and we've had the best flows since the merger.

With more than £100 billion of assets invested, we're unquestionably one of the world's leading investors in Asia and emerging markets. Rene has tightened the focus in Asia to allow us to go faster, exiting some onshore franchises such as Indonesia and Taiwan, and focusing resources where we're in the best position to compete and to grow. We are an acknowledged leader too in the UK and Europe in Real Assets. In 2021 our AUM increased by 25%. We have accelerated in the growing logistics segment through the acquisition of Tritax, and you'll have seen that we are the leading investor in the £1.7 billion fundraising for Britishvolt gigaplant.

Our Solutions capabilities enable us to address complex partner needs. The new solutions that we have created for Phoenix this year are helping them to win new business. And when they grow, we grow. In the UK wealth market, our investment content is increasingly well placed to compete on our and other open architecture platforms, and our connected ecosystem provides unique insights.

This industry has a critical role to play in decarbonizing the global economy. There are two key elements here: direct investment in green assets and the greening of brown assets. We do both, and our actions match our words. In 2021 we publicly committed to a 50% reduction in carbon intensity in our investments by 2030 and we launched four new climate funds, and have extensions to these fund ranges planned for this year.

In the context of the deeply troubling escalation of conflict by Russia against Ukraine, we have acted to reduce our holdings in Russia and Belarus in a disciplined manner, protecting our clients' interests. And we've concluded that we will not invest in Russia or Belarus for the foreseeable future on ESG grounds.

Central to our future success is our investment performance. For the third year in a row our rolling three-year investment performance has improved, now standing at 67%, up from 50% in 2018. Importantly, this figure includes 79% of assets outperforming in the critical institutional and wholesale channel. These performance numbers are testament to the significant work that has been undertaken in recent years by our investment teams.

Driving growth

It is the combined power of our three vector model that will continue to deliver profitable growth through time.

Let me cover just some of the highlights. Firstly, investments. To reinforce my comments from the previous slide, our focus in Emerging Markets is twofold. Firstly, we want to be the go to place for investors seeking asset exposure to Asia and China in particular. And secondly, we're enhancing our distribution in Asia and emerging markets for clients seeking exposure to global investment solutions.

In real assets, we will continue to accelerate growth in our logistics capability and are also building on our strong position in infrastructure and European residential. We have a number of new funds and products across thematics, sustainability, and wealth solutions planned over '22 and '23. At the same time, we will work towards rationalizing our existing fund suite, which is currently too broad.

I have mentioned our growth partnership with Phoenix, which will be further enhanced in 2022 by additional tailored solutions in workplace pensions and will support their announced acquisition of £5.5 billion of bulk purchase annuities. Beyond our Phoenix relationship, we're launching a newly created Abrdn Pension Master Trust, which is a consolidation vehicle for UK DB pension schemes. Our strong pipeline of £11.3 billion is up 20% from this time last year.

We have made progress in Morningstar ratings as well, which are a key indicator for the wholesale market. And we have 52 positive consultant ratings, which are important to our institutional clients.

In Adviser, the focus of our team is constantly improving the adviser experience to ensure that we sustain and build on the leadership position that we have. New technology in development will enable advisers to be more effective and more productive for their clients and will encourage advisers to use us as their primary platform. New capabilities like the junior ISA will be rolled out in '22 and '23, and we will continue to improve our service to advisers and to their clients. Together, this will enable us to serve more advisers, more of their clients and sustain our already high retention rates.

In the Personal vector, our market presence, scale and profitability will be transformed by the acquisition of ii. The connectivity between ii and abrdn will enable us to offer clients a full range of capabilities so that together we can grow faster. Our existing discretionary management business, for example, has top quartile performance and is very well placed to continue its growth journey, supported by our financial planning business.

Driving growth – interactive investor

Let me now take a more detailed look at the acquisition of ii, which is being put to shareholder vote later this month. ii is the UK's leading subscription-based direct investment platform. As I said when we announced the deal, this is right on strategy for us. We're building a leading position in a high growth market. Direct investing is the highest growth part of the UK's retail and savings market and ii is the clear number two. It is the disruptor and the consumers' champion. This, along with its simple pricing model and higher average customer balances is what sets it apart. It has leading and scalable technology already, so does not require significant technology investment or integration.

ii has continued to have good momentum during the second half of 2021, during which time the business added around 17,500 new customers, about 12% higher than in the comparable period in the prior year. It also continues to retain high levels of assets per customer, with trading volumes remaining significantly above pre-COVID-19 levels, as you can see on this slide. ii will transform the Personal vector and will give us both scale and client reach. There is scope to develop the existing offering for ii customers over time through thematic investment content, discretionary fund management, and digital advice.

On completion, I look forward to welcoming Richard Wilson, CEO of ii, as part of the abrdn executive team to ensure continuity and delivery of this plan. The ownership of ii by abrdn will provide the resources and the stability to drive further growth to realize our full ambitions.

Over to Stephanie now.

Stephanie Bruce – Chief Financial Officer

Financial progress and capital discipline

Thank you, Stephen, and good morning all.

Financial strength underpins delivery of our strategy

Our financial strength and strategic focus enable us to successfully navigate the impact caused by the pandemic and the ongoing uncertainties in global markets. I'm pleased to report the strong progress towards our financial aims, while recognizing that we have more to do.

With stronger markets persisting for the majority of 2021, fee-based revenue was 6% higher. Encouragingly, strong revenue growth was delivered in all vectors. In Investments, our activities in Asia and the US returned to growth following restructuring of these businesses. EMEA was impacted by the Nordic sale, and the UK remained constrained, largely due to the decline in insurance revenue. In Adviser, growth benefited from both the restructuring of the Phoenix arrangements and strong underlying growth of 12% on the lower base of 2020, which of course was during the height of the pandemic.

Within Personal, abrdn discretionary reported its best ever year. Higher levels of revenue growth in the Adviser and Personal vectors are delivering the diversification benefits we are seeking. Together, these represent 18% of group revenue compared with 15% in 2020. We've also been working hard to improve our operating leverage and we delivered a six percentage point improvement in our cost to income ratio to 79%.

Again, the improvement is evident in all three vectors. The benefit from both increased revenue and lower cost results in an increase of 47% in adjusted operating profit to £323 million compared to 2020. This result is also 7% higher than 2019, the last full year period of reference before the impact of COVID.

AUMA have increased by 1% to £542 billion, with the strongest growth recorded in the Adviser vector, which saw a benefit of 8% from markets and 6% from positive flows. Overall, the net outflows, excluding Lloyds and liquidity, are £3.2 billion, which is a significant improvement compared with net outflows of £12.3 billion in 2020.

Arresting the decline in revenue

So 2021 was a period of reset, as Stephen has outlined. Arresting the decline in revenue was key, and this is the first time in five years that revenue has increased. Markets were positive through '21, which benefited growth of AUMA and revenue.

Now an important contributing factor for revenue growth in '21 is the diminishing drag on revenue from both the impact of prior year outflows and in-year outflows. The impact on revenue of net outflows arising in the current year has, encouragingly, now reduced to less than 0.5% of annual revenue. It is worth reflecting overall that by comparison the impact of net outflows in 2021 is four times less than in 2020 and six times less than the impact in 2019. So this is a helpful tailwind now for revenue growth. And importantly, current year inflows are into higher margin assets, with gross flows into equities and real assets increasing by 7% and 43%, respectively.

Revenue from acquisitions, primarily through Tritax, was broadly offset by revenue foregone through disposals, of which the largest were Parmenion and our Nordic real assets business. Overall, total revenue yield improved slightly to 27.3 basis points. We also generated an increase in performance fees, a total of £46 million in total for 2021.

Improving momentum in flows

Now in terms of flows, excluding liquidity, the positive trends that we reported in the first half of 2021—pleasingly—has continued in the second half of the year. In quarter four, total flows excluding liquidity were positive. The improvement in flows was seen in all vectors. And within Investments it was really pleasing that flows in Asia, EMEA and the US all moved to positive net flows this year.

In Investments, while institutional and wholesale remained in net outflows for the full year at £2.1 billion, the improvement of £6.8 billion excluding liquidity creates a stronger position entering 2022. This improvement was most evident in private markets and fixed income, with good progress also in equities and multi-asset. An improvement of 14% in the level of redemptions, excluding liquidity, was a significant contributing factor.

Now turning to Adviser and Personal vectors. Here, net inflows more than doubled in 2021, driven by higher gross flows in both vectors, 44% and 55%, respectively. Adviser delivered the highest net flows in three years and Personal generated record flows from Abrdn discretionary.

Reshaping the cost base

Turning to cost. As I highlighted last year, our plan reduced costs in the near term and focuses on improving the split between fixed and variable cost in our business, so that costs can track performance in the medium term. It is essential that we take costs out of our existing structural cost base, thereby creating capacity for investing in the business and our ability to pay for performance as the business delivers that performance. This greater efficiency ensures delivery of our target operating margin and builds protection from market volatility given our reliance on ad valorem fee revenues and of course inflationary pressures.

Let me explain about progress in '21 and looking forward. In 2021 our costs have decreased 11% compared to the 2019 pre-COVID period and reduced by 1% compared to 2020. Now, while our cost to income ratio has improved to 79%, we have more work to do as we progress to our 2023 exit target, particularly on driving down the level of our existing structural cost in our Investments vector.

The reshaping of the cost base undertaken in 2021 included £82 million worth of reductions in cost, some 7%, relating to legacy technology services, disposals of non-core activities, and a 14% reduction in overall staff numbers. This in turn generated the capacity for investing £72 million into the business, a 6% increase, relating to the investments in Tritax, ESG, brand and increased compensation levels.

We have also now achieved the £400 million synergy target set in the context of the two historic transactions with our large integration migration program complete in Investments, and the separation program from Phoenix completing in 2022. And I am confident that the reshaping of our cost base can now move further and faster.

The key is addressing costs in our largest vector: Investments. Now, here the cost to income ratio improved in 2021 to 79%, not yet where it needs to be. We have, however, shown really good progress in Asia, US and EMEA to deliver the levels of efficiency required, where cost to income ratios are already at 72% or below.

However, costs remain too high in the UK. The new vector leadership team are focused on delivering growth, building on the momentum of '21 in the areas of core strength that Stephen has just highlighted. With this very clear focus on our growth priorities, the leadership team are also now able to drive faster the reshaping of the existing cost base in Investments and are doing so with a turnaround plan that is already underway.

The main focus is threefold: simplifying the UK operational model, rationalizing non-core activities in and subscale funds, and streamlining the complexity of specific mandates. This will result in further reductions in headcount and supporting operational costs to create the efficiency we're looking for.

The extent of future investments and performance-related costs will depend on the achievement of this efficiency. If we perform well, I would expect costs over the medium term to track the improving profile of performance of the business, as we have increased our ability to pay for performance and invest in the business. If performance is not delivered, then the absolute costs will have decreased from the current levels as a result of our turnaround plan. In addition, it's worth noting that ii obviously adds both revenue and cost to our business, but at a margin of 34% ii is already more efficient than our overall group.

Strengthening dividend cover

Turning to earnings per share. Adjusted diluted EPS has increased to 13.7p, a movement of 4.9p, reflecting the increase in adjusted operating profit. Adjusted capital generation benefits from the increased operating profit, increasing by 40% to £366 million and creating a 45% improvement on adjusted diluted capital generation per share. The dividend is retained at 14.6p on a full year basis, and on this basis dividend cover improved to 1.18 times.

Disciplined management of capital

We've also continued to strengthen our balance sheet in terms of both capital and liquidity, with surplus regulatory capital increasing by 50% to £1.8 billion on an IFPR basis and cash and liquid resources of £3.1 billion at year end.

Overall, our disciplined approach to capital management generated £1.6 billion of capital during the year, which Stephen highlighted earlier. In addition to the stake sales and capital generated from the business areas, we also issued an additional Tier 1 debt instrument of £0.2 billion, making us the first asset manager to offer this capital efficient security. Capital was deployed to support key growth priorities within private markets and digital content through the acquisitions of Tritax and Finimize, and circa £0.3 billion was returned to shareholders through dividends and the share buyback which completed in February 2021.

For the proposed acquisition of ii for circa £1.49 billion, we will fund the purchase from our existing strong capital resources. ii immediately improves growth in revenues and profits and the acquisition further diversifies our business from ad valorem revenue streams.

Supplementing our regulatory capital, we have significant further capital resources through our stakes in our listed financial investments.

Disciplined approach to capital allocation

We factor all these resources into our disciplined approach to capital allocation. Looking forward in 2022, our pro forma surplus post the acquisition of ii is around £0.7 billion.

Our listed stakes as of last Friday are £1.8 billion, following our successful monetization in January 2022 of our 4% holding in Phoenix, raising £0.3 billion. We have no plans to dispose of the remaining 10% holding in Phoenix, which remains our strategic partner.

Over time we plan, subject to market conditions, to monetize our Indian stakes, releasing further funds for deployment. Our capital allocation framework evaluates each opportunity in the context of the generation of long term, sustainable value for shareholders. We also balance within our capital allocation an appropriate management buffer for the business, above the regulatory capital requirement.

Following the deployment of capital to acquire ii, we have a clear view on the management buffer over the period to 2023. Subject to the regulatory and market environment, we plan to maintain a buffer of £0.5 billion. We will either invest our capital in those areas which create value for shareholders or deliver returns to shareholders. We will invest to innovate our business and accelerate growth with inorganic bolt-on acquisitions. This includes strengthening our wholesale offering and innovating our ESG product suite, digital skills and capabilities.

On returns to shareholders, we evaluate both dividends and other return programmes, for example the buyback, the last of which was completed in February 2021 for £400 million. Following our recent monetization of the 4% stake in Phoenix raising £0.3 billion, we announced our intention to return this to shareholders. And the details will follow as soon as practical.

We will continue to evaluate opportunities for further returns. Our dividend policy remains as previously communicated, set at the level of 14.6p per annum, with the objective of growing the dividend based on our estimate of sustainable growth, once the dividend is covered 1.5 times by adjusted capital generation. We are very focused on delivering our pathway to achieving that cover. We expect the acquisition of ii to positively contribute to this objective, given its projected contribution to earnings.

I'll now hand you back to Stephen.

Stephen Bird - Chief Executive Officer

Driving growth and shareholder returns

Thank you, Stephanie. To summarize, this was the reset year for abrdn, the first year of our three-year plan, and I'm proud of how our people have contributed to delivering a great performance. We set out our strategy to return the business to long term sustainable client-led growth. We've both arrested the decline and indeed generated growth in revenue and profit while improving our flow performance across the board. I recognize that there is still much to do. I have set out for you my areas of focus for years two and three of this strategy. We will continue to invest in high growth areas in a disciplined manner and remain laser-focused on improving productivity and efficiency across our business.

Despite the geopolitical uncertainties, we are positioned for both resilience and growth. We will adapt along the way to the challenges posed by the external environment. I'm confident that we have the right strategy, the right leadership and the right focus to drive the growth agenda that we have set for this business. Taking account of all the progress we have made in 2021 and our future plans, the company that is now emerging looks very different to the one that was created by the merger.

Thank you, and we'll be right back for your questions.

Q&A Session

Stephen Bird: Welcome back to the Q&A. I will ask you to open up the lines now for your questions.

Steven Haywood - HSBC: Good morning. Thank you for taking my questions. I've got three questions, please. After the announcement of the ii acquisition, are there any businesses, portfolios or capabilities or teams that you think you're missing or would like to have? Or if not, then can we assume that any further excess capital could be returned to shareholders?

The second question is related to that. On slide 16 you show £0.8 billion of allocated capital out of the £2.5 billion available capital resources. This is on top of the £0.3 billion already set aside to be returned to shareholders. Is this £0.8 billion potentially returnable to shareholders as further excess capital returns?

And then the third question from me is on ii. Is current market volatility, do you think, a driver of new customers for ii? And I see that a majority of new ii customers joined in the first half due to the tax year end, but can you provide any figures on customers leaving that were not associated to acquisitions, so organic customers leaving in a year? If you can compare that to the 47,000 new organic customers you got in 2021 that would be very helpful. Thank you.

Stephen Bird: First of all, Steven, thank you for your questions. Let me talk a little bit about capital, and I'll hand it over to Stephanie for a detailed answer. After acquiring ii, we don't need to do another deal of this size clearly. We formed our business model now. When I came into the company, I said that we would test any acquisition against the ability to drive revenue growth, drive returns for shareholders and have relevance and scale. And ii is a fantastic fit for that criteria, a number two player in a fast growing market with a strong margin already with its tech stack already built out. We are very confident that this is a very, very attractive investment for shareholders.

Now, you won't expect us to make another acquisition of that scale. We look at a lot of deals and we should, you would expect us to scrutinize many opportunities. And I think in the environment going forward and a tighter rate environment, I think there will be a lot of opportunities. But from our standpoint, we would be looking for bolt-on capabilities like Tritax, for example. Tritax, you saw we reported terrific results. The business is performing ahead of what we modelled when we acquired it and we will invest in areas of distinctive investment capability and where there's high exogenous growth, such as private markets. So you can expect us to look to do that type of transaction, which of course is not on the scale of an ii.

Let me ask Stephanie to comment a little bit about—we've given a lot of detail this morning—on our capital stack and the surplus that we have.

Stephanie Bruce: I think it really follows on from what you've just been articulating, Stephen, in terms of what we look to understand is really the value that we can create using that capital for shareholders. And the reason that we've provided more clarity this morning is having done the ii acquisition, we're very clear there from the buffer that we think is appropriate over our regulatory requirements. That's why I articulated that's £0.5 billion looking out in the current conditions.

The way we think about the additional funds that we have is exactly what Stephen has just said, it's about how we create that value. Tritax is a fantastic example, but we will also do other innovation within the business. For example, putting more into seed and co-invests when we can and when those opportunities present themselves. As I've said in my script there, it's very much about assessing both the opportunities to invest and if it's also appropriate we will of course look at further returns to shareholders using schemes such as buybacks in the future. So it's very much looking at all the time doing that sort of assessment.

Stephen Bird: Let me talk a little bit about ii. You've asked a few detailed questions there, Steven, and as you can imagine, we've done a very detailed data analytic on the customer numbers, their trading volumes, we've compared activities at different periods of market cycles. It's true that when there is higher volatility there is more trading. So the business does benefit from the increased market attention everyone pays when there's higher volatility.

I gave you some numbers, and we included them in the circular, but you've got to allow for seasonality because the business books a lot more clients in the first half of the year than the second half of the year. That's why I gave the numbers on the second half of 2021 versus the second half of 2020 and those 17,500 a full 12% higher than the previous same season.

We also have been able to demonstrate, when we looked at the numbers, that trading volumes are about three times higher than the pre-COVID level. So there's some real underpins to our projections. I also highlighted when we announced the deal that the business of course benefits from the tightening cycle. And in fact our original modelling already has been exceeded by the tightening cycle that's taken place, because the market rates have gone up more quickly.

Under low value customers, you mentioned about ii has done consolidations of share centre, EQI, etc., there are low value customers that leave when the consolidation takes place, because low balance customers don't fit the model of a subscription-based model. And the evidence of that is that ii has a far higher average balance than either Hargreaves Lansdowne or A.J. Bell, ii has £135,000 on average, so clients select that subscription model and have higher balances. And that's a great proxy for sophistication and need of financial planning and need of discretionary fund management. And that's actually why Richard and the team feel so good about abrdn ownership, because we already have those services, we've built them out already.

Haley Tam - Credit Suisse: Morning, everyone. Thank you for the presentation and the opportunity to ask questions. If I can just ask a couple, please. Firstly, in terms of costs and slide 13, thank you very much for the very clear message that you will be driving down the level of structural costs in the investments sector. I wonder, can you talk to us about the shape of maybe investment versus some of the rationalization plans you have this year rather than for 2023. And should we think about the 85% of core structural costs in 2021 as a proxy for fixed costs? That's my first question.

The second question in terms of fund flow momentum, I think it is, again, it's great that you saw positive flows in Q4 of £ 2.2 billion, which obviously was led by the institutional side. Could you give us any more colour perhaps on what your outlook is for other parts of the business in '22 and '23, and I guess I'm thinking in particular about Adviser and whether you're seeing the benefits of some of the improvements to the technology that you made last summer and trying to get more advisers to use you as their primary partner. Thank you.

Stephen Bird: Yes. Thank you very much, Haley, for those questions. Let me do this. I'd like to bring in Chris Demetriou to talk a little bit about it, because Chris and his team have already built a turnaround plan for the Investments vector, Chris and Rene, but Chris particularly, focused being here in the UK on addressing our UK. And as we've analysed we gave you more information today about the Investments vector in terms of areas where we're already seeing growth and we gave you some detailed cost to income ratios of those businesses. Because that's what happens when you run a three vector growth model, management's accountable for a smaller part of the overall business and you get much more detailed analytics around what's going on and your actions get more traction.

So we'll turn to Chris first and then we'll actually switch to Noel because he's got some stats on how we did in terms of primary position and what he can expect going forward. Chris.

Chris Demetriou: Yes. Thanks, Stephen. The starting point, I would say, is that really critical to our turnaround plan is the clear focus that we're articulating today. We picked five key areas of focus for the investment vector that Stephen stepped through, focused on Asia and emerging markets, Real Assets in private markets more generally and sustainability solutions and UK wealth. And these areas are arrived at because they are the areas in our business where we have absolutely credible credentials to go to market with. We have scale. We have investment performance that is greater than our book average. And we are demonstrating good progress in the marketplace from a flow standpoint. In addition, those are the areas that we see are most aligned to the the global megatrends that will provide the tailwind where investors are looking to invest behind those key themes.

This is the first time since the merger where we've been as explicit about what we're going to focus on as an investment vector, and that gives us and creates a framework for us to then look at areas that are not aligned to our key areas of focus and drive the rationalization and simplification of the business behind those areas. We're going to do this through a deep look at our existing product line-up, to work out where it's serving us in the pursuit of these key areas of focus and there's a number of processes and mandates that we can simplify in the UK that will enable us to operate at a more efficient level.

The plans are in place, as Stephanie alluded to in her comments, and those actions will be undertaken over the course of 2022. And the impact of those will most notably be felt from 2023 onwards.

And from a flow standpoint, we are already seeing net positive flows in the US, in EMEA and in Asia, and the UK is the one area where we still need to address a negative flow situation. But we are very optimistic because we have a really strong relationship with Phoenix here in the UK and the relationship that we have with the other vectors is giving us great insight to tighten the quality of our investment solutions for the wealth and advisory channels. So whilst the UK is our area of focus on both a cost standpoint and a flow standpoint, we've got a lot of levers to pull on both the growth and cost side to accelerate our journey towards the guidance that's been issued for the end of 2023.

Stephen Bird: Thank you, Chris. Stephanie, do you want to add anything to that?

Stephanie Bruce: The only thing I would add, Haley, is in terms of your question about how it will evolve as we go towards that target, I think it's also bearing in mind that we are continuing to create the benefits coming through from our synergy program as well. So obviously some of those fixed costs around premises, further reductions in technology, a similar process that we have already seen in 2021 will of course start to come through in '22 as well. And that also starts to help Chris and Rene and the team start to create some of that capacity, because our absolute focus is obviously to get from the 79% cost / income ratio to that operating margin of 30, i.e. the cost to income ratio of 70% by the end of 2023. So we will be stepping that down during '22.

Stephen Bird: Thank you, Stephanie. Noel, would you like to talk about the Adviser vector, please.

Noel Butwell: Yes, I would. Thanks, Stephen. And thanks for the question, Haley. First of all, just building, I suppose, on what Stephen touched on earlier, the Adviser vector is about sustaining and building on what is a leading position. So throughout last year we retained our position as the number one advice platform in the market for both gross flows and AUMs, and so from that perspective we ended the year in a very strong position. And that came through in the numbers, as you've seen, because obviously in terms of doubling our net flows, particularly in Q4, we had a particularly good Q4 in terms of flows, with gross flows at £9.1 billion as well.

I think the key thing looking forward then, Haley, is really around how do we build upon that position. As you know, I mentioned before around our adviser experience program and how we will compete and differentiate in this market on the quality of our content and the quality of our experience. As Stephen mentioned, we have a big delivery plan in progress that will deliver throughout '22 into '23, so you'll see a full range of junior suite tax warppers. But in addition to that, coming back to the focus on being the easiest platform in the market to partner with, which is about creating capacity for advisers to advise on more clients given the capacity constraints and the advice gap in the market, how does it actually follow through in terms of user experience as well as the launch of simplified journeys and the introduction of new processes all designed to make advisers much more efficient and allow them to spend more time in front of their clients and importantly also new clients, as they want to bring those onboard as well.

Nicholas Herman – Citigroup: Yes, good morning. Thank you for the presentation and for taking my questions. Three from me, please. Just one on surplus capital, one on ESG and then a quick clarification on margin. On the surplus capital and the ii acquisition you noted that you were looking to hold somewhere between £0.5 billion to £1 billion depending on the circumstance. Now you are committing to £0.5 billion, so just curious what's changed.

On ESG, you've invested into and developed your ESG platform quite notably in 2021, including carbon footprint and transition assessment and your health score. I'd be interested to know what the next steps are in the evolution of your ESG offering. And I'd also be interested, if possible, if you can provide the volume of ESG flows in 2021 but also what the pipeline looks like following the evolution of the offering. That would be interesting.

And then finally just on the margin, could you clarify, please what drove the strong step up in the Personal margin in the second half but also within institutional and wholesale there were some notable decreases in private equity and real assets, which are two asset classes which we would normally expect to be more resilient. So if you could help understand that and the drivers there, that would be helpful. Thank you.

Stephen Bird: Terrific. Thank you for your questions, Nicholas. Let's do this. So a question on ESG about the ESG program and then a question on margin within the Personal vector and then questions on where we're seeing flows. So let's do this. Let's ask, I think Chris, if Chris can talk a little bit about the development of our ESG offerings and flows and also I know we recently appointed a new head of sustainability and we're accelerating our actions there. And then we'll turn to Caroline. Caroline joined us last year, maybe five, six months ago, and has made great progress in the Personal vector and maybe she can talk a little bit about what we're doing there. So Chris, please.

Chris Demetriou: Thanks. ESG is clearly a key part of our growth projections going forward. What we've done over the course of 2021 is we've invested in ensuring that we have the appropriate systems and tools in place to make sure that we can offer our clients the appropriate level of transparency around what's going on in our underlying portfolio. This is increasingly important for our client base. It's not enough to show actual products to be complying with article 8 or article 9 or the equivalent of other regulatory jurisdictions. It's really important that we're able to evidence the actions that we're taking in the underlying portfolio. So we've been dialling up our investments to make sure that we can offer that level of transparency and authenticity to our clients. What you also saw in 2021 was the conversion of around 23 funds to article 8 and article 9, and we'll do at least the same number again in 2022. But we're expecting it to be more than that.

From a flow standpoint, most of the AUM shift has grown to around £29 billion of AUM that's explicitly in delivering sustainable outcomes, as coming from the conversions of strategies that already existed within our suite rather than flows. We've launched a suite of climate transition funds over the course of the year. They're in their early stages but we're really pleased with the progress and the traction that we're getting from consultants. We've had consultants provide positive ratings to our sustainability index as well as our climate transition fund, and so we think the outlook for 2022 from a flow generation standpoint is positive.

So far in 2021 it's largely been around getting the appropriate suite launched from a new product standpoint and getting the existing capabilities, which already met very high ESG standards, converted to meet the SFDR requirements.

Stephen Bird: Thank you, Chris. Actually I think just before we go to Caroline, I'd like to bring Rene in because we recently launched a sustainability institute in Singapore and we're getting a lot of traction and a lot of attention on our credentials in the Far East on sustainability. Rene, would you like to talk a little bit about that?

Rene Buehlmann: Sure. Thank you, Stephen. I think what is quite clear is that the demands and requirements that we see actually from Asian investors are not fully identical to what we see in demand in Europe, and so I think we found it incredibly important that the very large investment in these three regions, and we manage close to £100 billion, as you have seen from Stephen's presentation, in emerging market and Asian assets, that we make sure we set standards and help define standards here in this region. So one of the goals of the sustainability institute, is A) not only to lead and walk the talk but also engage with regulators, clients and stakeholders in the region to really accelerate the discussion that is necessary.

And as Chris earlier highlighted, we have launched quite a range of products and quite a few of them are Asia and China related. So we want to make sure we really differentiate our offering, particularly out in this region, around sustainability.

Stephen Bird: Thank you, Rene. Caroline, give us some insights into the Personal vector.

Caroline Connellan: Thank you, Stephen, and hi, Nicholas. I think there's two angles to this. One is that obviously we've had a great year from a flows perspective and that record flows of £600 million, getting to £14 billion of assets under advice and management. And that has really helped drive the revenue up. We've also seen from a revenue yield perspective that tick up very slightly. What we're not seeing is any pricing pressure. We are seeing a slight shift in business mix and we've had a very small amount of non-AUM related income come in this year as well, which has slightly ticked up a bit.

So I would expect to see that flat from a pricing perspective, but as I say we're not seeing any pricing pressure per se. But the business mix may shift it going into next year, particularly as we see MPS in line with the broader market really continue to drive increased growth along with our core offering in discretionary.

The other point to note is that financial planning has been through a year of cost reduction and transformation and we've taken significant cost out of that business, which will run into next year as well. But I would like to say that actually the cost reduction is now delivered and the focus on financial planning is all about growth, and that's really what we're looking to deliver going through 2022, which obviously where it's appropriate for our clients to use discretionary also flows through into that.

Stephanie Bruce: I'll maybe just come back to Nicholas's point on capital. Nick, you asked about it in terms of previously we've talked about £0.5 billion to £1 billion in terms of that overall buffer level. I would take you back to when we talked about that, we were still working through exactly what we were going to do in terms of the timing of monetization of the HDFC stakes, and we've made it clear today that our intention is over time to monetize those. So we're now very clear on that.

But obviously the biggest piece that has changed has actually very much been understanding the size and the scale of the shape of the inorganic acquisition that we were going to do in Personal. We're obviously very delighted that that is ii and therefore we have a very clear understanding of the parameters of that. That allows us now, through our capital allocation framework, to be very clear that it's now at £0.5 billion in the current conditions.

Stephen Bird: I'm going to turn to Devan to talk a little bit about flows and margins and the impact of flows. But just to put that in context, we actually feel very, very good about what we just delivered. For our overall business, we had a few revenue yield of 27.3 bps. That was up by 0.4 bps from 26.9. So that was for the overall business. Adviser, Noel's business, we expanded our fee revenue yield from 22.3 to 24.9. And in Personal, Caroline just talked about the fact that we had a fee revenue yield of 61 versus 58.5 in the prior year. Now coming to Investments, which we're going to talk about now, we had a stable performance, actually slightly better. We were at 25.8 in full year '20 and we were at 25.9 in full year 2021. So the overall effect was positive.

Devan, would you like to talk a little bit about flows within the different products.

Devan Kaloo: Absolutely. Thank you, Stephen. When we're looking at the flows, what we've seen generally speaking with regard to the equity book of business, first and foremost, is that there's been strong flows into some of our small cap products but also more broadly seeing recovery in flows with our EM, Asia and indeed the European franchise. More generally, we've seen continued strong flows into our fixed income business, although obviously one of the elements there has been the weaker than expected performance in terms of the insurance products flowing through that, and that's also impacted Multi Asset.

I think overall we certainly seen a much better gross flow picture than we were anticipating and the trend remains pretty positive. I think one of the key questions for us going forward obviously is what's going to happen in 2022, and there we still remain pretty positive about our outlook for that.

Stephen Bird: Thank you, Devan. It's 9:44, we actually have time for one more question, if we have any callers with a pressing question on the line.

Hubert Lam – Bank of America: Hi, everybody. Thank you for taking my questions. I've got three from my side. Firstly, more on the costs. You talked about costs being more variable, particularly if the performance is weaker. What is this performance based on? Is it based on markets, or some internal targets you have? Just to get a better sense of the basis of this durability. And I guess related to that also is if performance is weaker, does it mean you're going to have less investment going forward? First question.

The second question is on the revenue target. Again, it seems like you're reiterating your high single-digit revenue growth target. From where you stand today, how do you expect to achieve this? Is this through markets or on flows? What's the breakdown between the two? And obviously markets are off to a bad start this year, so I'm wondering what your outlook is in terms of achieving this target.

Lastly in terms of the stake sales, I think Stephanie mentioned that the Indian stakes are probably not strategic anymore. I'm just wondering if you can also confirm that the HDFC Asset Management stake is one that you would monetize. You currently have 16% of that company, do you expect this to go down to zero over time or do you expect a level that you're going to hold going forward? Thank you.

Stephen Bird: Thank you for your question, Hubert. First of all in terms of cost base, of course if markets aren't there and the revenue isn't there, there is a natural offset in variable compensation that's standard across the industry. So you do get a bit of a natural variation. But we've been working very, very hard to reduce our fixed and variabilize the structure in a way that we actually are more effective at dynamically adjusting in a different environment. We've actually made some good progress on that. Could I ask, Stephanie, to talk a little bit about it?

Stephanie Bruce: Yes. I think, Hubert, the way I think about it is it's about creating the capacity so that we can continue to invest. But being able to have clarity for the business as to how in particular vectors will they actually manage that. So investments, as we said, is very clearly focusing on this turnaround plan, they've got very clear steps to change that structural cost, but in order, therefore, that they can reinvest into the business. And that is precisely the process that they will be going through. Even once we get through into 2023, in terms of our operating margin at 30% with a cost income ratio of 70%, we will still have that ethos because it's about the business continuing to evolve, creating the capacity to reinvest in the future, to reinvest in innovation and to also pay for performance.

So that's very much the dynamic that the team are working on. But that would be the same in all of our vectors. We're particularly drawing out the focus in the UK investments this period, but let's bear in mind the Adviser vector, the Personal vector, once we've completed the acquisition of ii and the regional parts of the Investments business are already working to the cost to income ratios that we want. So they're already using that ethos to create the capacity to reward and to pay for performance and to make sure that they have those investments.

Stephen Bird: Let me talk a little bit about revenue, Hubert, because we said that we would really expand our margin. So when I joined the business we had a margin of about 15%, we have just reported a margin of 21%, and I've made a commitment to get to an exit margin of 30% in 2023. And if you look at the way the shape of the business is changing, we delivered for you 6% revenue growth this year in 2021, last year, and that was 5% came from the Investments business. We had 30% growth in our Adviser business, but underlying revenue growth of 12% double-digit. Our Personal business had 15% revenue growth. Now if you look at the composition of our revenues, our whole strategy has been increasing the quantum of revenue that comes from platform sustainable recurring earnings. Now, when we complete the acquisition of ii you're going to have the best part of £400 million across two large platform businesses that are operating in markets that have between 12% and 15% growth.

So that really is how you have to model this. As you grow the business and you have an increasing quantum of revenue coming from those businesses, you can easily see how we can deliver your CAGR through time in the high single-digits. And I was asked last year, what does high single-digits mean? It's anything above 6%. We just delivered one, which was 6% for last year. So that's the way we think about it.

Stephanie Bruce: And Stephen, just to add to that. I said earlier on, Hubert, that our diversification that we're now getting in our revenue stream from Adviser and Personal has now gone from 15 to 18. With ii, that goes to 26. So you can see all the time, as Stephen was saying, we're changing the makeup of the revenues so that it's not just about markets. Clearly it's a huge driver as well, but it's not just about that. So that's how we're thinking about different components that will help us grow our revenue.

Stephen Bird: And I'll end the call here, but it's important to recognize and leave with you the commitment that our job is to get this business to a 30% margin. We've now peeled the onion, and we've shown you for the first time three businesses with three P&Ls. And then we've also explained that within our biggest business, where I spend most of my time, we now have got Asia growing, the US growing, Europe growing and we've got a very strong chief executive in Chris, focused here, he's in London with us today, on addressing the challenges within the UK business. And we will do that.

The business is becoming much clearer in terms of how you drive a three vector model, where you derive growth and how you address the remaining challenges that we have. There's much still to do. We delivered a lot last year and we're going to deliver a lot this year too. Thank you very much for joining us this morning. Thank you.

Stephanie Bruce: Thank you.

[END OF CALL]