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Half year results 2022
Presentation transcript

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Stephen Bird – Chief Executive Officer

Welcome

Good morning and welcome to the abrdn first half results for 2022.

I'm joined by Stephanie Bruce, our CFO, Richard Wilson, CEO of the Personal Wealth vector, Noel Butwell, CEO of the Adviser vector, and Chris Demetriou and René Buehlmann, CEO's of the Investments vector.

Firstly, I will cover our performance as a group and show you how the strategy of diversification and investing our capital in growth areas is beginning to benefit the group results. Secondly, Stephanie will go through the detailed financial performance and then I will look at the impact of the market environment on the timing of the delivery of our strategy, our capital stance on dividend returns and how we see the near-term outlook before opening to questions.

Building a more resilient model

In the first half, revenue was 8% lower, adjusted operating profits 28% lower and cost income ratio increased by 4%, all compared to the first half of last year. Net flows overall recorded a creditable performance in this market, with net outflows at 1% of opening AUM.

At the half year, assets under management (including liquidity and Lloyds), were 6% lower than the start of the year. The group results have been reduced principally by the market impact on revenues within the Investments vector, where profits were 40% lower, while the Adviser and Personal vectors were up 3% and 75% respectively. The latter bolstered by one month's contribution from interactive investor. I'm pleased to report that ii is performing ahead of our expectations, when we signed the deal last year.

We deliberately structured the group into three vectors, two of which have grown, even in the most challenging of markets. When I joined what is now abrdn in late 2020, I said that we would pursue a strategy of refocusing our Investments vector to areas of strength and growth potential and that we would expand our reach in the higher growth and higher margin UK savings and wealth market.

Despite the challenging market context, we are doing exactly that. While a worsening market environment inevitably means that it will take longer to deliver our stated financial targets, we have the right strategy and we have the team, the right capabilities and the capital resources to execute it well.

We have now successfully addressed a significant gap that we had in our business model by acquiring ii, which has transformed our position in the UK savings and wealth market.

Our balance sheet remains strong even after significant returns to shareholders and is significantly stronger than we believe should be necessary to support investment in our business and meet our stated dividend commitments.

As we now have greater clarity on the capital needs of the business, we will continue to allocate capital to deliver shareholder returns, returning capital in excess of business needs as further stake sales are realised.

I will first focus my remarks on our global Investments business, where our ambitious programme of change is underway and where the benefits that will accrue from management actions are greatest.

The pro-cyclical nature of asset management means that it has been most impacted by the fall in markets and this illustrates precisely why our strategy of diversification for abrdn has been so important.

I will cover the progress we are making in Adviser and share further details of the strong performance in interactive investor, and the plans that we have for the future growth of the Personal vector.

Investments vector faced headwinds

Turning to the Investments vector, this is the business with the greatest foundations in people and process, however, it has been hampered by having to deal with legacy issues and a lack of modernisation. The rebuilding programme is already underway and we will show you the progress to date as well as outlining in detail, our approach to addressing an unacceptable cost/income ratio.

Financial results in the first half have been impacted by industry-wide negative returns from falls in market levels, which have resulted in 11% lower revenue and 40% lower operating profit, and an increase in cost income ratio to 86%.

As the business continues to build out from its legacy position and traditional core equity and multi-asset strategies, it is no surprise that we have seen the majority of AUM declines in those areas.

Pleasingly, areas of more recent strategic focus that generate longer-term revenue streams and attractive revenue margins such as Real Assets and other Alternatives, have delivered AUM growth in the first half.

Despite the challenging environment, we are progressing well with reshaping our equity franchise to focus on Asia, Sustainability and Thematic capabilities.

Our multi-asset capabilities provide the crucial foundations for the delivery of client led solutions. I'm confident that these areas of our business will return to growth over the medium term. Even in current market conditions, our flow position continues to stabilise, with outflows of £3.3 bn excluding liquidity, driven largely by public markets.

Resilient net flows in a challenging environment

Turning to flows geographically, as I said, overall this performance represents encouraging stability in our position despite the environment. You can see there have been differences depending on region, driven primarily by asset types and local market dynamics.

Institutional and Wholesale outflows were limited to 1% of assets. In the UK, our home market, we have seen important progress with net flows improving by 33%. There has been continuing benefit delivered from diversification, including commodity ETFs in the US. And in Asia, we've seen broadly flat net flows in a market experiencing net outflows.

I'd like to focus in on one of our bolt-on acquisitions for the Investments business, Tritax. We purchased 60% of Tritax in late 2020 as part of our repositioning of real assets. This gave us exposure to the warehouse and logistics distribution sector. Since its acquisition AUM has grown by 33%. Tritax works closely with our established abrdn real assets team and, as an illustration of how we're working together, has contributed to the win to lead in capital raising for the Britishvolt power and electrification project. The addition of Tritax to the vector has added capability specifically in the logistics ecosystem and green energy area, and the collaborative approach to delivering growth, scale and client access. I draw specific attention to this acquisition because it demonstrates commitment to our strategy. The role of bolt-on acquisitions demonstrates how we can grow, even in tough markets.

Impact of market downturn varies across asset classes

Of course, the prime driver of flows in the long term is investment performance, which is best viewed relatively. Over one year, our performance shows 53% of AUM ahead of benchmark, three years 63% and five year 61%.

We have seen the impact of market conditions result in mixed performance across asset classes. Performance in real assets, alternatives and fixed income is highly competitive over the short and longer term. Our performance in Equities and Multi-Asset remains a critical focus and both were impacted in the period by the market derating of growth and rotation into value.

We are reshaping these franchises o be considerably more focused. Our overarching goal is to achieve more consistent investment performance and we are investing in our people, processes and technology to make that happen.

Focused Investments aligned to megatrends

We outlined how the Investments vector strategy fitted into the group strategy in March last year, and while the environment has changed dramatically across all economic indicators, we remain fully committed to deliver. Indeed we will step up the pace of change in this market dislocation.

We are changing the shape of our Investments business and repositioning ourselves in higher growth asset classes that play to existing abrdn strengths and global trends.

Through this repositioning, we are focusing and investing in growth areas, exiting subscale businesses and driving down costs. This will possession us optimally when broader global economic recovery resumes.

We see highly attractive investment opportunities aligned to the global trends and we have the investment expertise that is necessary to capitalise on them. And to be clear, you will see us progressively move away from a broad waterfront offering, as we focus the business, on areas where we have competitive strength and scale.

Key programmes of work to deliver a focused business

There are three things that we are doing in the Investments vector. I've already talked about the focus on improving investment performance. Secondly, we're working to drive improved flows, and thirdly, we are reducing costs.

We are continuing to accelerate fund development and launches in areas of growth. Increasingly through time, we will shape new retail offerings, guided by the data that flows from our market leading Adviser and Personal vectors. But right now, we are executing our programmes to drive transformation and reduce the cost base of the Investments vector itself.

Our new product and solutions are designed to capitalise on the global growth trends, let me highlight recent launches: Asia Sustainable, China Next Generation, follow-on funds and Commercial Real Estate Deb and Core Infrastructure; and easy to access packaged solutions such as My Folio Sustainable and Global Risk Mitigation. We are confident that these new product initiatives, combined with actions to improve investment performance in our existing capabilities, will contribute to growth as market conditions improve.

We are well into an ambitious fund rationalisation programme that will result in the closure or merger of about 110 funds. We're simplifying our organisation resulting in lower headcount and fewer management layers. Over the coming months we will complete the transition to a single global middle office for Public Markets, unlocking cost benefits from strategic use of partners.

As a result of these actions, we are committed to delivering gross cost savings of £150m by 2024 and over the same period we will reinvest £75m in the business.

Solid performance from Adviser vector

Turning to Adviser, we have the UK's largest adviser platform by assets under administration with an impressive reach of more than 50% of UK advice businesses partnering with us. The strength of our existing offering and the quality of service is already highly regarded, with a 96% customer satisfaction score. We are building on that strength investing to further enhance our technology capability and the adviser experience.

We've already added new portals and new ways of engaging with us, and in the second half we will launch our next significant upgrade – overhauling the look and feel of the platform, making it much more intuitive, streamlined and focusing on helping the advisory businesses that we serve. By ensuring that when firms partner with abrdn they can deliver more for their business success, we in turn increase advocacy, growth and retention for abrdn. Our continued investment in adviser experience will further enhance our leadership position in a market that is estimated to grow AUM by 19% CAGR through 2025.

In this half year, the Adviser vector has performed strongly with growth in both fee-based revenue up by 6% to £92m, and adjusted operating profit up by 3% to £38m, despite a tightening consumer environment.

ii's robust operating model delivering growth

The acquisition of ii, completed at the end of May, has transformed our position in the vibrant UK wealth market and delivers a significant acceleration of growth revenue and diversification for the group.

The transition of ii into abrdn has been smooth and Richard's senior leadership team ensures continuity in management and delivery of the next phase of growth.

In terms of financial results in the first half, ii has performed ahead of our business case expectations in terms of revenue and profitability, of which one month is recorded in the first half.

Despite the less active savings market ii has grown its customer base to 408,000, adding 19,000 customers in the half, and has maintained its industry leading assets per customer of £128,000. This has driven a 17% increase in revenue and 47% increase in adjusted operating profit on a full year 2021 run rate basis, while the cost/income ratio improved by nine percentage points to 56%, highlighting ii's operating scale.

ii delivering strategic growth

As we said at acquisition we believe abrdn is the best home for ii as it brings stability and certainty for the business and we have a clear roadmap to add significant scale going forward. Growth in ii is underpinned by three drivers: strength of the platform, compelling pricing and scale of the customer base.

ii has a fully scalable operating platform, supported by cutting edge data that drives personalised customer content and experience; this is what will enable significant future margin expansion. ii's transparent flat-fee subscription model is favoured by customers and over recent months it has launched a series of offerings to further grow the existing customer base, including bundling, fixed-fee, pension provision and advice.

As part of our growth strategy plan, we are folding the abrdn established Personal business - wealth services, digital advice and the financial planning team under Richard, who will lead this as CEO of the entire Personal Wealth vector.

This will enable us to offer an 'end to end' customer proposition, from simple online transactions, to more complex financial advice. We are developing further synergies to fully serve this integrated customer group.

Taken together, growth in the Adviser and Personal vectors will significantly increase our exposure to the fast-growing UK wealth market and will transform the shape and the source of group revenue in line with our stated strategic ambitions.

Richard is with us today for any questions. I'll hand over now to Stephanie.

Stephanie Bruce – Chief Financial Officer

Good morning and thank you Stephen.

Markets impacting profitability while diversification drives benefits

As Stephen has highlighted, our results in this half have principally been impacted by market levels in 2022 which have reduced our fee-based revenue.

At a group level, revenue is 8% lower due to an 11% reduction from the Investments vector with Adviser and Personal partly mitigating this impact through revenue growth in both vectors.

Adjusted operating profit is £45m lower than prior year due to a £50m lower contribution from the Investments vector which has been significantly impacted by the market performance and equities in this half year, together with the impact of net outflows in equities in the last twelve months. This has resulted in an increase in the cost income ratio in the Investments vector to 86%.

While this has been disappointing, the benefits of the actions taken to diversify the business are already evident as our vectors operating in the UK wealth sector are both delivering resilient revenue growth and profit contributions even in these volatile markets with decreasing consumer confidence.

As a proportion of the group results, profits from our UK platform and wealth management businesses have increased from 26% to almost 40% and of course we only have one month of ii results included at the half year.

Now if we had owned ii for the whole of the first half, Adviser and Personal would have accounted for over 50% of proforma group adjusted operating profits in the period. Given the acquisition of ii, this higher contribution of adjusted operating profits from the Adviser and Personal vectors is a trend we now expect to continue.

The Adviser team have driven increased revenue of 6% due to higher average AUA and stable yields over the period. Adjusted operating profit of £38m was 3% higher. The cost/income ratio of 59% is a small increase on prior year and reflects the current overlap of specific outsource services, as we continue to transform this business.

The consolidated results for the Personal vector include just one month's contribution from interactive investor but given its scale, its impact has been to increase the vector's revenue by 41% and adjusted operating profit by 75%. ii's cost/income ratio of 56% will have an immediate uplift to the efficiency of the

Personal vector overall. To demonstrate the ii impact for the group, just the one month's profit contribution is 6% accretive to the group's EPS for the half year.

In the management report provided today, we have provided the key financial and operating metrics for ii for the full year 2021 and half year 2022 and these evidence the strong growth trajectory of the business and the resilience of its subscription-based model.

Our dividend policy is unchanged and the interim dividend is 7.3p.

Asset base benefits from diversification

Benefits from our actions to diversify the business are also evident in a change of mix in our assets under management.

AUMA at the half year are 6% lower than at the year end, with market movements contributing £52bn or 10% of opening AUM; the primary negative headwind in Institutional and Wholesale was within equities. This movement was largely offset by the value of ii's AUA of £55bn at acquisition.

Within overall group net outflows of £36bn, circa 90% reflects Lloyd's exits and liquidity net outflows. The Lloyd's exits are now complete with the final transfer of £24bn executed in this half year period. Liquidity net outflows in the half year of almost £8bn arose as corporates drew down cash built up during COVID. Now you will recognise that these are relatively low margin products so the revenue impact is less significant. We have been successful in retaining around £7.5bn of Lloyd's assets in a new quants mandate which will be run in our Institutional Wholesale team.

Excluding these Lloyds and liquidity flows, net outflows were circa £4bn which at 1% of AUM is similar to prior year levels and reasonably encouraging given the challenging markets.

Adviser and Personal continue to attract positive new business at £1.7bn, albeit at a lower level than the prior year, reflecting less consumer activity. Personal flows have also benefited from one-month contribution of flows from ii.

Within Institutional and Wholesale, our AUMA highlight increasingly different patterns of investment between the traditional asset classes of equities and fixed income compared to the real asset and alternative franchises. Our increased focus on these latter asset classes has benefited performance in this half year.

Since the start of the year, about two thirds of the book which is in traditional areas of equities, fixed income and multi-asset saw decline in overall AUM, principally due to market impacts. In real assets and other alternatives which represented around one third of our book at the start of the year, we have increased levels of AUM even in these challenging times.

As a result, the AUM in these asset classes have now grown during this half year to represent 43% of the total book as at June and generated 2% growth in revenue. Our focused growth strategy in the Investments vector is underpinned by concentration on our areas of competitive strength.

Within Institutional and Wholesale, real assets has grown to the second largest asset class, driven by the investment in Tritax, which complements our established abrdn capability.

Revenue movement dominated by declining markets

Decline in markets based fee revenue and performance fees accounted for the majority of the reduction in revenue in this half year. There was a small net £4m negative impact on revenue from disposals and acquisitions versus the comparative period, the biggest of which was Parmenion. It is important to note that net outflows and yields each had less than a 1% impact on revenue.

Within Investments, the main reduction in revenue was concentrated within equities, which remains the largest source of fee-based revenue in the Investments vector at 42%. There were reductions in revenue across most other asset classes other than alternatives and real assets, which saw a £7m increase largely due to Tritax.

Looking forward into the second half, we have revenue tailwinds from a full six month contribution from ii and certain specific fee uplifts of circa £9m. In addition, our performance fees are skewed to the second half and we expect continued positive flows in Adviser and Personal Wealth. Market levels have shown some signs of improvement in July and if this trend continues, provides a further tailwind. With a greater contribution from ii, our sensitivity to market based fee revenue will be lower.

Flows reflecting market activity

With net outflows at 1% of opening AUMA, flows activity has been relatively stable in these challenging markets.

Insurance flows continued to be lumpy and we had minimal benefit in this first half of 2022 from levels of bulk purchase annuity activity by our insurance clients. In addition, the continued de-risking is impacting asset allocations for insurers to lower margin exposures. We expect these market conditions to drive continued volatility in the pattern of both flows and mix of business in these mandates.

Adviser flows have been resilient. As Stephen highlighted, there are a number of new products and service improvements coming in 2022 and 2023 which are aimed at growing assets on our platforms.

Personal flows of £0.3bn include the flows from ii of one month that we are consolidating. ii's net flows for the full six months to 30 June were £2.2bn, gaining 2% market share in the period.

Cost management key to fund investment for growth

As I explained at the full year, we are reshaping the cost base by reducing the core structural costs required to operate our investment activities, improving efficiency and creating the capacity to invest in our chosen growth areas.

We have continued with cost actions in the first half of 2022, which of course have been undertaken in a changed environment for both inflation and interest rates. Overall, the adjusted operating costs at half year are 2% lower than the prior comparative.

The first half cost benefited about £20m from the disposals made in 2021, namely Parmenion, the Nordics Real Estate business and the Hark and Bonaccord businesses in the US - this broadly offsets the increased cost from Tritax, Finimize and ii.

Across the three vectors, excluding ii, we have reduced the head count by circa 10% from around 5500 at June 21 to 5000 at June 22.

Even with the additional costs from acquisitions notably Tritax and ii for full year 2022, we have a clear pathway in current markets to lower overall operating costs. We aim to deliver a similar percentage level of cost reduction for full year 2022 to that we have achieved in H1. This will be driven by cost management within the Investments vector, a further reduction of headcount by about circa 10% and continued cost control across the group.

Delivering an efficient Investments business model

If we are to achieve our cost income ratio target, we need to deliver growth of revenue in the Investments vector as well as reducing the cost base.

Looking forward, three factors in the Investments vector are now impacting the timing of the achievement of our objective of high single digit revenue CAGR by the end of 2023 - the current significant uncertainty in global markets, the associated impact on flows and the shift in client asset allocations to lower risk and lower margin products.

This adds priority to our continued focus on delivering the programme of cost savings through the rationalisation, simplification and streamlining of activities in the vector which we have previously reported in March.

On this slide, each of the five areas of activity are designed to realise substantial savings and are already well underway. A few areas that I'll highlight:

- We have now reviewed circa 550 funds and concluded that 20%, with an AUM of about £7bn are sub-scale, inefficient or no longer aligned with our core strengths. These will be merged or closed, resulting in simplified fund ranges across the UK and Luxembourg Domicile funds. Removing duplication and simplifying our product offering and freeing up resources. This programme of work will continue through the second half of 2022 and into the first half of 23, resulting in a product shelf aligned to our key strengths and to client demands. Although there will be a revenue impact from actions which target both fund rationalisation and disposal of non-core activities that are inefficient or subscale, once completed, the overall cost/income ratio of the group will improve as a result of these initiatives.

- As our client's asset allocation profiles are changing, we continue to review the cost of servicing these complex mandates across the equity and multi-asset businesses. We are confident that we can unlock savings in technology and information servicing costs, as we change how we service such mandates.

- We will continue to exit non-core businesses which are no longer aligned to the overall strategy and where we do not have scale or a strong growth franchise. Recent examples are Hark and Bonaccord and the Nordic Real Estate businesses. We do not expect any further such disposals to impact the revenue or cost base before 2023.

- We are simplifying our investments operating model to realise efficiencies - by creating a single middle office operating model, we increase capacity and delivery of client service while our reshaping of the vector has recently unified the UK and European equities teams in order to streamline processes.

The full suite of actions in train is targeted to deliver net savings of £75m with gross savings of circa £150m before reinvestment of £75m to support growth. The majority of the initiatives will impact 2023 with benefits fully realised in 2024.

Additional restructuring costs associated with these actions are expected to be broadly funded by proceeds from the disposal of our non-core assets.

Financial discipline over our strong balance sheet

We continue to have a strong balance sheet even after the acquisition of ii and an uncovered dividend due to the capital actions we have taken.

Movements in capital in the first half were dominated by the consideration for ii, which was settled in cash from our group liquid resources. We benefited from the sale in January of part of our Phoenix stake, which raised £0.3bn.

At June available capital is £2.3bn comprising a regulatory capital surplus of £0.6bn and £1.7bn of additional but unrecognised capital from our value of listed stakes. We will continue to restructure and invest in the business to support organic growth across our diversified business model, in order to achieve our ambitions for sustained revenue growth and a 70% cost/income ratio.

We use an internal management buffer for the regulatory surplus simply as a management tool to support a disciplined approach to capital management, with the objective of supporting both our growth ambitions and continued shareholder returns.

We are conscious of disappointment in our share price and remain focused on growth of return for shareholders. We announced our intention to return £300m to shareholders and commenced in early July a £150m share buyback programme, which we estimate will take H2 to complete.

As previously stated, we will continue to monetise the Indian stakes as a key element of our disciplined approach to capital management. As a result, and as we deliver our priorities in investments and generate performance from all three vectors, adjusted capital generation will more closely track profits.

Given the scale of our resources, we can support investment in our businesses as well as our state of dividend policy. Where we generate capital beyond the needs of our business, we will continue to make capital returns to shareholders. Such returns will reduce the overall cost of servicing future dividends as the share count is reduced.

Back to Stephen.

Stephen Bird – Chief Executive Officer

The dramatic shift in the global economy has impacted the industry and our financial results. Despite these headwinds, by concentrating on what we can control, we have continued to deliver our strategy of building a much more durable business through the three vector model, based around diversification of revenue sources.

The current market turbulence strongly reinforces that this is the right strategy. The two vectors operating in the UK wealth market have both delivered resilient performance and are on track to increase our diversification into higher growth, higher margin businesses. Performance in the Investments vector was, like all of the sector, hit by market turbulence, combined with us being in a period of restructuring.

We are doubling down on focusing the business on the strengths that lean into the macro global growth trends, cutting costs and driving efficiency. The current economic and market conditions mean that our ambition for group revenue growth and cost/income improvement will take longer to deliver, depending of course, on the speed of the market recovery.

We are continuing to execute on our client-led growth strategy, first by improving the performance of each vector and then by extracting value across all three.

We are confident our approach will diversify earnings, improve efficiency, deliver our revenue and cost ambitions and ensure optimal use of capital. Now that the shape of the group is largely settled you can expect inorganic actions on a more modest level. These will likely include both further divestments and selective reinvestment where we see capabilities that we need and compelling value.

We are announcing a half year dividend today of 7.3p. As I said earlier, our disciplined approach to allocating capital is focusing on delivering shareholder returns, and we will continue to return capital in excess of business needs as further stake sales are realised.

While the global economic outlook remains very uncertain, we are focusing on what we can control, namely the continued execution of our strategy and that will provide diversification of revenue streams and put the group on a sustainable growth trajectory.

That concludes our presentation, we'll now take a short break and resume for your questions, thank you.

Q&A

Stephen Bird: Welcome back. I'd like to ask the operator to open up for questions please.

Nicholas Herman - Citi Group: Good morning, thank you for taking my questions. A lot to dig into but I'll try to limit myself to one question and one clarification if that's okay. So, the clarification is, could you please clarify the expected revenue attrition from the fund consolidation and rationalisation? And then my question on costs is, the £540 m cost for the core business and about £40 m costs for ii. So, in terms of the cost decline coming from the core business, just to confirm that is coming from your initiative and not from flexing or delaying investment spend, where there may be a catch up later on. And I guess as part of that then, when do you think you can now achieve your cost/income ratio target of about 70%? We're talking 2024 or 2025? Thank you.

Stephen Bird: So, let me open that up and then I'll ask Stephanie to talk a little bit more about the detail and the cost reduction. The fund rationalisation that we're doing is very obvious. You've got 110 funds that comprise £7 bn of assets. So, this is a £508 bn business, you've got one and a half percent of funds that have 110 fund management activities around them. So, it's the right thing to do. Now of course it takes time to do it, but it's really compelling logic to rationalise that tail, such that our energy, our focus, our research and our disciplines apply to the go forward growth business. So, when you think about the AUMs on the scale of the total business, you can see that it has a very small impact on revenues. And Stephanie will talk a little bit of detail the cost reduction but let me address your question on the 70% cost income ratio target.

So we're focussed in this market environment, there's market dislocation underway. It's impacted the entire asset management sector. We're using that environment to accelerate the actions that we need to take that we can control. We're not sitting here waiting for the market to recover, we are addressing the things we can control and that's what you would expect us to do. Now, the cost/income ratio is a function of revenue growth and costs. So, because revenue is uncertain in this market environment, I'm specifically sharing detail on the things we control, which is cost. Where will the revenue environment be, where will the market environment be, what will market levels be over the piece is we don't know. This is a point of maximum market uncertainty, so it would be foolish to give you the cost/income ratio, a timeline for that. The ambition to achieve it is unchanged. The resolve to take the actions against the cost base is strong and we're well into the process, but I'm not going to speculate on where the market revenue is going to be at this point. Stephanie.

Stephanie Bruce: Nicholas, thank you. I think I caught most of that question, but in terms of the 2022 costs and being able to give you the guidance that overall, we see a total reduction in 2022 full year, it's not about delaying investment at all. We're doing a very considered series of actions that we already have well underway that will play out into 2022. And we can make that statement around the total overall cost reduction in 2022, even taking account of the additional costs coming through from ii. And where are those coming from? Principally from the impacts of the actions that we've had through in terms of headcount but also in terms of very close management of our supplier contracts and those are having benefits as we come through into 2022.

The programme of costs, that we've talked about very specifically within the Investments vector is also well underway. The majority of those actions will be complete by the end of 2023 and we will see many of the benefits in 2023, but equally, we will see the full realised benefits in 2024 and that programme, as I say, is well underway already. Thank you, Nicholas.

Arnaud Giblat - Exane: If I could just ask a clarification in terms of the quantum of net savings achieved, that will be achieved in 2022 out of the £75 m announcement today. And my question is on net interest margins at ii. Can ask you what the net interest margin you currently earn on client's monies and can you give us a bit of a sensitivity to the short-term base rate in the UK? And do you see a risk of the FCA stepping in at some point and maybe imposing some further passthroughs of high interest rates for your clients? Because generally in the retail brokerages we've seen that a lot of the upside from interest rates is being kept by the platform. I'm just wondering if it's a risk of the FCA stepping in at some point and asking you to pass on it specifically for the clients. Thank you.

Stephen Bird: So, thank you for your question. Actually, I'll hand over to Richard in a moment to address that. The first thing that I would say, and I think this is very important. In terms of net interest margin, first of all, if you look at the UK bank sector, the entire bank sector has so far passed on only 15% of the increase in net interest margin. So that is obviously a much bigger factor for the market overall than any of the direct investing platforms.

Now, our platform ii, offers the best value for the direct investor in the UK and we analyse that value across the entire total cost to a client. So, the subscription model, we recently reduced the cost associated with subsequent trades and we analysed that relative to our peers and we are committed to ensuring that ii remains the best value platform and the best way to access investing in the UK. We actually also just did announce a pass through to the ii clients as a consequence of rates moving up. Let me hand it over to Richard to illuminate that a little bit further.

Richard Wilson: Thank you, Stephen. Clearly what we're also seeing here is, this is the end of a very long period of quasi zero interest rates and ii has started paying interest for the first time ever in July, as Stephen mentioned. Currently, and in terms of through the business lifecycle, our assumption, subject to the vagaries of market forces, is that our net interest margin will hover around 100 basis points. That's subject to all sorts of uncontrollables, not least of which is the Bank of England, the shape of the yield curve, competitive pressures, etc. But what we should be seeing, compared to what's been the case for the last 15 years, where we've had artificially super compressed rates, is some reversion to a more normal level of interest margin accruing to the business, as opposed to quasi zero.

With respect to the question around regulatory action and just to build on Stephen's point, but today the clearing banks I believe, actually pay lower interest than we do. It would be an extraordinary step for the regulator to price regulate in this space and it's something which would move their footprint a long way from where they are today. And given the fact that platforms, including ourselves, are listening to market forces and we are paying interest on accounts, it would be a very surprising move. It’s something that’s been a concern raised occasionally over the last 15 years and it usually dies after the first breath. I don’t think it really has any great substance. So, to the original point, our spread expectations are around 100 points and that, I think, represents a reversion to some more normal level of interest rate behaviour as we go through the business cycle. Thank you,

Haley Tam - Credit Suisse: Morning Stephen. Morning Stephanie. Thank you very much for taking my question. Could I ask quick questions and it will be shorter, hopefully. On costs, first of all, the £150 m of gross cost savings in Investments, that's a big number, it’s 15% of your cost based in that vector in 2021. Does that mean that they're unlikely to any further sources of savings after that? So, we should look at revenue growth as the driver beyond those? And could you clarify for me just exactly what the scale is that you expect to spend in terms of additional restructuring costs associated with that so that we can better understand how much of the proceeds from non-core asset disposals that might consume in the future?

And then just one point of clarification if I may, on interactive, I noticed that your net new customer growth seems to have been 4000 in H1 because it's 404,000 in December and 408,000 now at the end of June, yet you say you added 19,000 new customers. So, I just like to understand if there was something one off about some redemptions there, perhaps. Thank you.

Stephen Bird: Yes, thank you Haley. What I'm going to do is we'll take the ii question first because you do need to understand that the net new number I gave you is correct. You need to understand the post-acquisition activity that is going on in ii. Richard will talk to that and then I'll hand over to Chris.

You're right, the gross level of saves £150 m is material because we are materially reshaping the business but we did state that it's a net save of £75 m because we have specific investments associated with the change programme as well. Richard, would you like to comment on the numbers?

Richard Wilson: So, on that, the question of the net new customers, we have two things going on. On the one hand, we have our organic engine, which is currently producing net annualised 5% growth. So that's around 20,000 net new customers on a current run rate basis, clearly that's easily skewed, so the Q1 tends to be higher. But to your comment on the absolute numbers, we also have the tail effect of a number of previous acquisitions. You will recall that we acquired the Share Centre and in June 21, the EQi business from Equiniti and those tale books have some runoff which skew those two numbers. Thank you. Thanks, Richard.

Stephen Bird: So, Chris, would you like to talk about what we're actually doing, what you're actually doing in the business to drive these simplifications and the rationalisation of this?

Chris Demetriou: Thanks Stephen. Thanks, Haley. As you say, we're targeting £150 m of gross savings and our cost/income ratio at the moment, certainly on the cost side of that equation, is largely a function of the inherent complexity that exists in the organisation as a feature of a business that has grown inorganically in the past. Through our programme of simplification, we are eliminating a lot of that complexity, that sort of complexity premium that exists in the cost base. The fund rationalisation is a material part of that, but so is the disposal of non-core assets.

And to your point around the restructuring costs, we think the capital that we are going to generate from non-core assets should broadly offset any requirement for significant restructuring costs. So, we wouldn't anticipate you needing to model for material step up in restructuring costs over and above the capital that we're going to generate from simplification. So, our programme is really quite clear now, we know exactly which asset classes we are looking to move forward with and invest in, we know which strategies inside of our desks we don't believe are aligned to the trends that Stephen outlined earlier on.

And the programme of shutting down 110 funds or merging 110 funds into areas to create more scale in the business is well underway and making really good progress. So, it is a large number as a percentages of our overall cost base, but it's available to us as a result of the inherent complexity that has existed in the business historically and we have got a clear plan to reduce that complexity and therefore take that out.

But it's really important to think about the extra £75 m of investment in the business because the organisation really is demonstrating the ability to raise assets in our focus areas and good revenue yields. Some examples are the largest revenue generating fund in the business at the moment is Tritax's Big Box Fund, which has a blended fee margin of over 50 basis points. We're in the market raising a core infrastructure fund that will attract 70 to 80 basis points depending on the size of the commitment.

And so, we're really optimistic about our ability to raise assets in high margin strategies that over time, as we get our flows into the right place, will create a growth business and attractive margins. And so, it's important that we invest to make sure that we can deliver on that growth potential that the organisation has.

Haley Tam - Credit Suisse: Terrific. Chris, sorry, could I clarify the capital from non-core assets that will cover the restructuring costs? Are you referring there to investment stake sales or actually sales of non-core assets within the investment vector?

Chris Demetriou: In reference to disposals within the Investment vector.

Stephen Bird: Yes, it's not related to the stakes.

Haley Tam - Credit Suisse: Thank you.

Tom Mills - Jefferies: Good morning. I saw that the NII from interactive investor was £17 m in the first half and I appreciate your answer to Arnauld's question, but could you just give us maybe what you're expecting the run rate contribution from that to be based on the rate rises that we've already seen come through? That would be helpful. Thanks very much.

Stephen Bird: Thank you very much, Tom. Let me switch over to Richard for that.

Richard Wilson: Hi, thanks. Tom, you got a wonderful answer to the previous question. I'm not sure I can give you additional guidance on go forward run rate. There were a few variables out there and rates are, as Stephen said earlier, we have a dislocation period and a great deal of volatility. So, I'm going to stick to my previous comments, I'm afraid.

Stephen Bird: Thank you, Richard. I think we're getting close to the end of the call. Operator, do we have another question?

Steven Haywood – **HSBC:** Hi, Stephen. Good morning. Sorry about background noise. Two questions from me. The 56% combined income ratio ii, is this sustainable? Can it get even better going forward?

And then secondly, I think Stephanie mentioned that capital resources cover the dividend cost but can you tell us when will yearly adjusted capital generation cover your dividend cost? Thank you.

Stephen Bird: Okay, so we'll take that in two parts. First of all, the 56%, yes, it can get better. This is a scalable business. One of the things that attracted us to it was the fact that the tech was built out, that it's a terrific data model that uses the data to be able to inform the way it develops its products, services and its growth. And we fully expect to be able to improve that from this point going forward.

Stephanie, would you like to talk a little bit about adjusted capital generation?

Stephanie Bruce: Yes. I think increasingly, as I referenced Steven in my script, we see just the way that we're being very disciplined approach to capital, that increasingly adjusted capital generation will very much track adjusted operating profit. And therefore, you should think of that in exactly the same way increasingly in terms of its cover for dividend. Thank you, Steven.

Stephen Bird: Well folks, we've reached the end of the call. Thank you very much for your interest in our turnaround story and the progress that we've made in deploying capital into successful businesses.

We're confident that we are very focused on the things that we can control in a highly uncertain world and I think that's what you really want us to do.

So, thank you very much.