abrdn plc

Q4 2024 AUMA and flows trading update Statement 2024

Call transcript

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Jason Windsor, Chief Executive Officer, abrdn plc

Good morning, everyone, and thank you very much for joining our call this morning. I'm joined in the room by Ian Jenkins, our Interim CFO. Let me start by walking through the key points of today's statement.

At the end of December, AUMA was £511bn, up 1% in the quarter and 3% for the full year. As it has done throughout 2024, interactive investor delivered strong organic growth in Q4. In the year as a whole, customer numbers are up 8% to 439k. In Investments, we saw a net inflow in the quarter, including £2.3bn into Institutional & Retail Wealth – IRW - driven by alts, quants and liquidity. In Adviser, AUMA was flat in the quarter with positive markets offsetting outflows. Returning to net inflows remains our top priority for this business.

One year ago, we announced an ambitious transformation program to create a stronger and more efficient group, and I'm encouraged by the progress we made in 2024. We've achieved just over £100m of run rate savings and we remain on track to deliver our target of at least £150m of annualised savings by the end of 2025.

A return to group inflows in Q4 caps a substantial improvement in flows year-on-year. I believe we've laid the foundations for growth, including strengthening our leadership team to ensure we have our best people in front of our biggest opportunities and challenges.

Xavier Meyer, our new CEO of Investments, and Richard Wilson, our new Chief Operating Officer, were both appointed two months ago with Richard remaining focused on sustaining the impressive growth in interactive investor while also being asked to improve operational efficiency and automation across the group, utilising his proven track record in ops and technology. Xavier's first focus is our clients, bringing them better experience, service and product performance. Together, we're all focused on realising the significant headroom that exists in this Group.

Now, just a moment to look at each of the businesses in a little more detail, starting with Investments. AUM was up £1.5bn in the quarter to £370bn driven by inflow into I&RW, together with positive markets. I&RW saw £2.3bn of inflow in the quarter and an overall inflow of £0.3bn for the full year. This is a huge improvement on the £17.9bn of outflow in 2023, reflecting a material reduction in redemptions and a 31% improvement in gross flow, year-on-year. Fixed income achieved flat flows for the full year compared to an outflow of £4bn in 2023 and had an outflow of £0.4bn in the quarter.

Unpicking the net inflows a little more, in the quarter there was £2.3bn into liquidity, £1.1bn into quants, and £0.7bn into alts, driven by private credit and active ETFs. Insurance Partners had a net outflow in the quarter of £1.8bn with AUM flat in Q4, and up 2% in the year. Gross inflows amounted to £7.7bn in the quarter with offsetting outflow primarily reflecting the heritage business in runoff.

We still have further to go on flows, but 2024 was a step forward, recognising our growth is in lower-margin areas. Looking across the Investments business, we have seen a further improvement in investment performance with all major asset classes improving on a three-year basis.

Let me now turn to Adviser. AUMA at the end of the year was just over £75bn, and in Q4 positive markets were offset by outflow of £0.9bn. Broadly speaking, this follows the trend throughout 2024 with AUMA up 2% for the full year. As you know, our priority is to return to positive net flows as soon as possible and to do this with improved service for all of our IFA clients. On that, key achievements in Q4 included improved sign-up and transfer-in times on our Wrap platform with this progress reflected in our higher Net Promoter Scores for service. However, there is more work to be done to restore the business to growth and a market leading position. I'm pleased that all three senior hires I referenced on the Q3 call, in finance, technology and distribution, are now in role and have started. I know they'll be instrumental in helping Noel deliver on the strategic priorities we've set for the Adviser business.

Finally, turning to interactive investor, it's been another strong quarter for **ii** with customer numbers up 2% in Q4 and 8% for the full year. The business attracted £1.4bn of net flow in Q4, and £5.7bn for the full year, which is almost double 2023. **ii** ranked as the number one platform for UK direct-to-consumer flow in the first nine months of the year, attracting approximately one third of industry flows. This is an incredible strength we can build on. And on SIPPs, which are a strategic focus area, we have now surpassed 80k customers, up 5% in the quarter and 29% for the full year. AUMA in **ii** was up 4% in the quarter to £77.5bn, which is 17% higher than the end of 2023 with customer cash balances of £6.2bn at the end of the year.

Trading volumes in 2024 were up 29% year-on-year with increased use of our platform's global trading and FX capabilities supporting a notable increase in international trading. And you can see we have added a table of KPIs in the release as you requested on the Q3 call. We expect the strong organic growth in **ii** to continue this year and we're confident that increased customer numbers, AUMA, and trading activity will lead to increased profits and a more significant contribution to the Group's operating profit in 2025.

To conclude, we've finished 2024 on a stronger footing with a notable improvement in flows year-on-year and operating profit expected to be broadly in line with consensus. This provides us with a solid base for growth in 2025. There does remain much to do to achieve the level of profitability that I, and my team, believe the Group is capable of, but I am confident that the talent we have in the business will allow us to achieve sustainable long-term growth. I'd like to say thank you to our clients and my colleagues for their support in 2024, and I very much look forward to working with you all in 2025.

And with that, we are now happy to take your questions.

Q&A

Nicholas Herman, Citi: Two questions from my side, one on Investments, one on Adviser. Could you please talk about Investment's pipeline in 2025? And then from a margin perspective, you said that you expect to be below 22bps in the second half, that seems pretty reasonable. In light of the recent flow mix with subdued demand for higher margin EM & APAC products, how are you thinking about margin for FY25?

On Adviser, you said that you're aiming to return to net inflow this year. What service improvements have you put through so far that have driven the improved engagement and customer reviews, and what's outstanding? In terms of timing to get back to net inflows, is it fair to say that's more of a second half event rather than a first half event?

Jason Windsor: In Adviser, we've taken significant steps this year to improve services as I mentioned, and we've looked at every process. It's all been mapped out and very carefully thought through working with FNZ, on how they provide that.

I also mentioned in my comments the improvement around transfer-in and lead times onto the platform - money in and money out. These are two key processes that we have to get right and have to do quicker; we've been laser-focused on making sure that works very smoothly for our clients. It's getting better and you can see that in the NPS scores. I think we just need it to bed in a little bit and to see that quarter after quarter and we can start to get people's confidence going up in the platform, but it's performing well. Much to Noel's chagrin, we look at the Management Information weekly, we get into it, we go through all of the data and we're seeing real progress in terms of client support for that.

We've also made a pricing change; we shouldn't walk past that. We do need to be more price point competitive as we get out into the market. So, all of this takes a little bit of time, and there's still a bit of propositional work to complete. The most notable piece is to bring the pension onto the platform. At the moment it's still hosted on Phoenix. We need to bring that in, and there's work to do which will be completed this year. It works now, but it'll work better once we have it in one environment.

I'm not going to give you a precise when do we break even phrase, but I'm committing to it this year. It does take a bit of time, and we are building momentum in terms of the way that we see it, but we are absolutely focused on that.

On the Investments side of the fence, we haven't given a specific margin update, but the points you make are sensible. We have seen growth in lower revenue margin, AUM, and a slight mix shift in the book. Therefore we would expect the revenue margin to be lower both in the second half of this year and going into 2025. We will give more details on that with the results call, but yes, directionally you're absolutely right. The margin will be ticking down as we have a mix shift, but that is still profitable business, let me be clear on that.

The pipeline remains good. We gave some specific updates on that previously. We continue to win some good mandates, particularly in the fixed income side, which are due to fund in the first half of this year. There's a couple that we've lost as well. I'm not going to be Panglossian about this, there are a couple that we've lost. There are things in, things out, and we will give a further update, but we do see momentum in fixed income, in alts, in quants continuing through 2025. On equities, we do continue to trade, but the net flows in equities are still not where we want them to be.

Mandeep Jagpal, RBC: On **ii**, numbers up 2% in the quarter with an increase is brand awareness. Can you give an update on what you see as a reasonable growth rate going forward? Then on Investments, in alts, you mentioned private credit as a driver of inflows. What is the fundraising and product pipeline looking like for the asset class?

Jason Windsor: On **ii**, I think 2% a quarter is a pretty good number to stick with. We're trying to aim for high single digits. Around 7-8% growth for the year would be a very good outcome. If we can sustain that growth in 2025, so we repeat what we did in 2024, I'd be really pleased with **ii**'s performance. So, that's the sort of level that we're aiming for in 2025.

On private credit, I haven't got specific numbers for you, but we continue to be focused on developing that segment, and we do a lot for Phoenix there. We continue to support them, and we have some good capabilities. We're not huge in private credit, but we have continued to create growth, and we do see real upside there and continued demand. We have a high quality, lower volume business. I want to have higher quality and an increasing volume business, that's something we're working on in 2025.

Hubert Lam, Bank of America: Firstly, can you expound a little bit more on the fund performance? I know you said you're improving on a three-year basis. Could you say more about equities and fixed income, and how they're performing on a one and three-year basis.

Second question is on fixed income outflows. You continue to see outflows in the quarter despite industry inflows, particularly on the DM side. Can you just point to the reasons as to why you think you're underperforming in fixed income?

And lastly on Insurance Partners, for the full year you had outflows of about £4bn, mainly you said stemming from the heritage business. How should we think about the run rate going forward per year, say, the next year in terms of outflows from here? I think £4bn is a little bit higher than we expected.

Jason Windsor: On fund performance, I said that all asset classes are up on a three-year basis. If you look at the June performance numbers, which you've got from the half-year results: we were at 54% on a three-year basis, we're now at 60%. Everything's up, including equities and fixed income. I'm not going to go through each one of them.

The equities number that I'm most focused on is the one-year performance, which is up from 23% to 32% outperforming. That's about industry standard now, unfortunately for the industry. We continue to try and push that further forward and we want to do better than the industry. We've made some progress there, but we've obviously got further to go. So, that's where we are on the one-year basis. The total figure is up from 70% outperforming to 77%, just to compare the last six months. That's still work in progress, but we're going in the right direction.

On fixed income outflows, last year it was £4bn out and we're flat for this year with £0.4 billion out for the quarter, so an improvement. We've got new leadership there, and we've got renewed initiative. I just commented on one or two very large wins in fixed income. Again, we need to balance that. There will be other losses in the camp. Some of our mandates are huge, so flows are lumpy between quarters, but we do see growth in fixed income throughout 2025. Nothing to flag there around investment performance. There's probably one client who did move from more active to more passive strategies. That happens, but there was nothing particular there.

On Insurance Partners, to repeat what I just said that that can be a bit lumpy as well. I think the key thing for me is that we support Phoenix in their growth strategies, and we continue to do that on DC pensions and BPA. We are doing everything that we can to support them, and we have a strong partnership. I think the heritage side is evolving. I don't know Phoenix's book, but from my experience, heritage books run off around 7-8% a year. So, across the board it's probably slightly higher this year.

What I'm really focused on actually is the revenue base within Phoenix rather than the AUM, because we could lose some very large mandates but very low bps or we could start to grow that. I'll talk more about this at results, but continuing to support them to simplify the operation and maintain the revenue is really the top priority.

Enrico Bolzoni, JP Morgan: on **ii**, you mentioned that you expect an increase in profit contribution. Can you please give us an update on the margin you think is achievable on cash? Also, what cost-income ratio should we expect for this division over the medium term?

On Investments, you've appointed new management there. What do you think the key area of focus will be? More on the investment process or more on the sales and commercial effort?

Is there an update you can give today on the pension surplus? Or do we need to wait for the numbers to settle in March?

Jason Windsor: I'll take those in reverse order. There's no update on the pension surplus, but I will commit to giving you an update on March the 4th. We have been making some progress, two steps forward, one step back, is probably the right way to put it. We continue to focus on that, and we'll update you when we can.

On the **ii** cash margin, this year, not wanting to forecast it too far in advance, we're not expecting any significant reduction in the margin. Obviously, the yield curve does make a difference, and the rate and the shape of moves, but in a falling yield environment, you'd make slightly more, certainly in the near term. So, we will see how that plays out, just because we can invest slightly longer through the cycle. As I think about 2025 and 2026, we are pretty confident about the margins there.

On **ii**, the single biggest strength of the business is its operational strength, its efficiency, its technology. Frankly, it's excellent. That is seen in its very low cost-to-asset ratio, which we will try and sharpen. But on the cost-income ratio, I think we're pretty confident that it should be below 60%. We might strive for a bit better than that, but certainly if you're going to pin me on a Q4 trading call, I'll go with below 60%.

Regarding Investments, Xavier is hugely experienced, both in Europe and in Asia. And we're working through focus areas for our products. Peter Branner, the CIO, has been in place now nearly two years, and I've elevated him to the executive leadership team, just to demonstrate and reinforce the importance of investment performance in the group. So, nothing major on investment performance. Through Peter's work, we're starting to see real progress there, and we'll continue with that.

I think, with Xavier's leadership, frankly, it's about getting the organisation back to focus on its core strategic strengths, and to grow the business efficiently. The cost reduction plan is well progressed, but it's not finished, so that needs to be completed. Operational efficiency within that business, given the level of profitability, does need to improve, so there is a cost out continuation, but we won't achieve our goals in that segment if we can't grow it. We are very focused on that.

Gregory Simpson, BNP Paribas: In H1, **ii**'s subscription or account fees were down slightly half-on-half, year-on-year. I'm just wondering if we should expect those to converge more with client growth going forward which, as you say, is pretty good at 8%, year on year?

On alternative investment solutions, you had good inflows, but the revenue margin in that category is pretty low at 13bps, relative to the alternatives industry. Could you share your thinking about what you see abrdn's role or positioning in alternatives is going forward, and what you want to build out?

Jason Windsor: On alts, you're right, we have got a lower margin proposition. Some of that is the attractive rates we provide on our bulk deals for major insurance clients, which is fine. We continue to be price attractive on that. I think we've got an opportunity to improve that as we go into more third-party growth. We've seen really strong growth in some of our active ETFs in the US, particularly in commodities, with metals and mining, which is doing well. And, I think, likely to continue, frankly, with this change of government. I think that's a good place to be. Not super high margin either, but I think it's our best performing growth fund, certainly in the US.

And then, if by alternatives, you're thinking of real estate as well, clearly, real estate is a key element for us. And getting that business back to sustainable growth is a high priority. We do see increasing demand for real estate as the interest rate cycle settles a little bit. We can see good outlook there now. So, our real assets business is really at the heart of what we're actually trying to grow in alternatives.

Jason Windsor: On **ii**, the growth in subscription revenue should broadly follow the growth in customers. There's a bit to consider around product mix, it does range between SIPPs at £19.99 per month through to Investor Essentials at £4.99, so in subscription products there's been a slight mix shift. I think we saw a little bit of a runoff of a final book that's now done and out of the numbers, which is good. So, absent a better answer, I think the 2% growth in customer numbers would be 2% growth in subscriptions *prima facie*.

David McCann, Deutsche Numis: On interactive investor, you may have seen the FCA's priorities list published in December, including progress they'd like to see made on Consumer Duty. Interestingly, that had platform interest margin listed as their number one priority for 2025. Based on your recent conversations with the FCA, do you think anything has changed in their thinking or approach to this? And, indeed, versus your own thoughts which you've shared with the market on this topic?

Second question, in your closing comment in the statement, you said, 'I look forward to providing further information on our strategy with the full-year results.' Was that intended as a subtle signal that you expect to have something meaningful to say on the strategy, or am I just reading far too much into that comment?

Jason Windsor: Nice try in the last question. I've been in this role coming up to four months as permanent CEO. I certainly plan on talking much more at results about how we're trading, and the outlook for 2025, and our focus areas, but it's as part of a results presentation, to be clear. I will be spending more time talking about strategy than in a standard results presentation. So, if you calibrate what I'm likely to be saying in a results presentation, it's very much focused on the organic improvement of the three core businesses, I'll go that far. Plus, an update on the pension surplus, which I know you're all excited about.

Regarding Consumer Duty, we think, and I'm pretty sure the FCA agrees with us, that **ii** is an extremely attractive platform, both from a price and a service perspective for consumers. We think it gives excellent value and, frankly, that's why it's growing so fast. It has service and value at its heart, it's done very well and will continue to do so. I think your question is probably around what risks I see to platform cash, and frankly, I don't see significant regulatory risk there. We've had this topic for over a year now, we've engaged on it, and we've taken some simple steps to make sure that disclosure, and there's no implicit attempts to bring people in on a cash proxy basis. These are relatively straightforward, I think. So we're really confident where we are.

David McCann: To clarify that last one, it doesn't sound like you think anything has changed the regulator's thinking, or their approach, based on their recent conversations. Is that a reasonable takeaway for myself?

Jason Windsor: I think a year on, if they were going to do something they would have done it. I'll have another look at what you just referred to, but certainly as it relates to us, and I can only really comment on us, rather than either the regulator or others in the industry. The question was raised over a year ago, we've engaged very proactively, and there's no further action that we are expected to take.

David McCann: Okay. It was just because it appeared so high up their list in a document in December, and like you say, this has been outstanding for a year or more. I was just quite surprised to see it so high up their priorities list in that publication.

Michael Werner, UBS: You mentioned the gains you've seen in ETFs. Can you just remind us of the size of your ETF platform and what the flow trend has been over the past couple of quarters?

Secondly, you noted the cost-cutting program is going well. Seems like you may be even a little bit ahead of schedule. Is there a scope for you guys to increase that in 2025?

Jason Windsor: On the cost side, we've got good progress. We're about £10 million ahead of what we said in terms of P&L, so that's it. It's not radically different, but I'm pleased with where we are. I'm pleased with the progress, and I'm pleased by the way the organisation has reacted to the Transformation programme. I'd like to thank everyone involved in it because we've made real steps on that. We will continue to strive for operational efficiency, and we will look for that wherever we can find it, but I'm not signalling an increase in targets here. We will move from a big target to just operational efficiency just being a key plank of what we're about. That's something that I'll talk more about during the course of the year.

On the total ETFs that we have, I'll probably get IR to give you a call if I may, on this. I'd rather not give you a number. I don't have it at my fingertips. Thank you.

Charles Bendit, Redburn Atlantic: On the Investments business, it looks like quantitative net flows were strong at £1.1bn in Q4, and that was quite significant in the context of the I&RW segment, which had zero net flows ex-liquidity. But then there was also a £1.7bn transfer of assets from quant to Insurance Partners. So, is the quant flow being enhanced by a mandate switch from Insurance Partners that's then been reallocated back to Insurance Partners?

Jason Windsor: Okay. No is the answer. It was just the way we were trying to best present that movement in the numbers. There was some language in the release about other movements, which I think you picked up on. It was a re-allocation between two lines, but overall the growth in quants is good. We are still relatively small in an industry sense, but actually it's a very high-quality business that we have built from good technology, and the pipeline in quants remains very good as well. Okay, it's not the highest margin, we know that, and you know that, but we continue to be good at it. It was described by one of my colleagues as a little bit of a hidden gem. So we're continuing to think about how we deploy its capabilities more broadly.

Charles Bendit: On Adviser, after the repricing was announced in May and implemented in part then and in part now, how competitive does the platform look now versus the competition?

Jason Windsor: We think very competitive, both in terms of price and service. We took our medicine, there was no point in taking half of it, so we went to the level that we thought we'd be competitive. On rack rates, there's still ability to be commercial for large clients. We'll continue to trade intelligently to make sure that we return to positive flows. But I wouldn't want price to become an impediment to people using our platform, which is really all about service.

Steven Haywood, HSBC: Can you give us an update on whether you've been looking at any M&A recently?

Jason Windsor: Actually pretty quiet on that front. We sold Focus Business Solutions just before the year-end, which was a software business that Standard Life had bought a decade ago. They do some good things, but it just wasn't core to what we wanted to do going forward. On M&A appetite, as I've said consistently, it's relatively quiet on that front.

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