FINAL

Bloomberg Transcript

S1 2021 Earnings Call

Company Participants

- Andy McGlone, Chief Executive Officer, Quilter Cheviot
- Mark Satchel, Chief Financial Officer
- Paul Feeney, Chief Executive Officer
- Stephen Gazard, Chief Executive Officer at Quilter Financial Planning
- Steven Levin, Chief Executive Officer, Quilter Investment Platform & Quilter Investors
- Unidentified Speaker

Other Participants

- Andrew Sinclair
- Benjamin Bathurst
- Enrico Bolzoni
- Gregory Simpson
- Gurjit Kambo
- Nicholas Herman

Presentation

Paul Feeney {BIO 17570862 <GO>}

Hello, and good morning, everyone. Thank you for taking the time to join us this morning for our Interim Results Presentation. Hopefully, when we next present, we won't be limited to a virtual format, and I look forward to meeting you in person. In the meantime, I hope you and your families are keeping safe and well.

I'll start with some words about our industry and cover the highlights of the entire business. Mark will talk to our financial performance with a focus on the continuing business, and then we'll switch over to our live call, where I'll be joined by my executive committee colleagues to take your questions.

We're pleased to be announcing a good set of results today. Before we dive into those, I want to start with a broader perspective on Quilter's position within the wealth management industry and the main themes defining the industry landscape. First, there's an enduring need for the advice we provide. Times are particularly uncertain as we adjust to living with the pandemic. Easy monetary policy, and targeted financial support, prevented a social and medical catastrophe, from becoming an economic one. But as those measures are withdrawn, they'll have to be paid for, potentially through high taxes. All these uncertainties create demand for financial advice as clients look for guidance in a hard to navigate world.

Second, our industry is being transformed by digitalization. Its potential to drive efficiency has been apparent for a while now and the pandemic has turbo-charged both client and advisor adoption of new and more convenient ways of working. Indeed technological leadership was the philosophy that underpinned our investment in our new platform. The new platform provides the digital foundation for all things Quilter by linking products, business lines, and distribution channels. We can now do things that we simply couldn't have considered with the old platform. It allows clients self-service options and means we can offer a wider range of services more efficiently than ever before.

Looking forward, both advisers and investment managers will continue to embrace digital means of serving clients to drive efficiency and enhance productivity. That makes embedding digital strategies into core operating models essential.

Third, our market will continue to consolidate and I'm not just talking about M&A. Overtime, assets will migrate to the scale players who can afford to invest to deliver compelling, competitively priced solutions. Weaker players if they're not acquired, will simply fade away. We're going to be a winner here. And while we never rule out acquisitions, they're not currently on our agenda. Our business is in the shape we want. We have the scale and capabilities to cover all clients and their needs right across the wealth market in the UK.

Finally ESG, and particularly the E, is increasingly central to any successful business model. Both the pandemic and the recent extreme climate events globally, have brought this home even to the skeptics. I want Quilter to be the UK's leading, responsible wealth manager, with ESG philosophies fully embedded within the advice process. We'll provide ESG ratings right across all the funds on our platform and we're positioning our solutions in Quilter Cheviot and Quilter Investors to deliver good ESG outcomes and good investment performance.

Right, let's now turn to our first half performance. In our familiar format, let's consider progress along three dimensions; financial momentum, operational improvement, and strategic progress.

I'm delighted to report that we've made excellent progress on all three fronts. Financially, we've achieved a strong improvement in gross and net flows, driven by our new platform. And we delivered 20% growth in adjusted profit to GBP85 million. We've lifted our interim dividend to GBP0.017 per share versus GBP0.01 a share last year. We drove a 3 percentage point improvement in the operating margin despite absorbing cost headwinds, which Mark will cover later. And as you know, we've also returned around GBP265 million to shareholders through our buyback program with nearly GBP100 million completed since our full-year results in March, leaving just over GBP100 million to go which we plan to get done this year. Operationally, our optimization plans, which we upscaled to GBP265 million bounce back in March are on track. We have deployed the first phase of our new general ledger, which will ultimately replace the multiple ledgers in place today and achieve operational and control efficiencies right across the business. We've also been hard at work implementing productivity initiatives in Quilter Financial Planning and we are investing to transform that business.

Finally, in terms of strategic progress, we completed our platform migrations. We announced the sale of Quilter International, which was overwhelmingly approved by shareholders in June, while we're pleased with where we are and the progress we have made, there is much more that I know we can do. That's why we have a plan with demanding growth and efficiency targets to deliver much improved operating margins. I'm looking forward to sharing more details of these plans with you at our capital markets day in November.

You've seen this slide before, a summary of our net flows. We haven't been delivering this level of client flow since 2018 and we're just getting started. I'm delighted by the strong improvement in our platform flows and I'll draw down into that in a moment. But what I want to draw out here is the sharp improvement across the whole business. Our platform, shown in dark green delivered its best performance in over three years. Quilter Cheviot in black, doubled net flows on last year and finished the quarter with strong momentum. We've also seen a welcome pick up of flows into Quilter Investors in light green. This was supported by the strong improvement in investment performance, for the Cirilium active range over the last year. There's a slide showing investment performance at Quilter Investors and Quilter Cheviot in the appendix to this presentation which summarizes their strong performance outcomes.

Let me now turn to our advice business. Here, we're very focused on advisor productivity and strategic alignment. We want to ensure that we have the best targeted advisor force across the entire wealth spectrum. This is all about providing an integrated proposition for advice, platform services and investment solutions to an excellent standard across all our core client segments. We're pleased with the more focused shape of the advisor mix, but it's not just about the number of advisors, we have also been investing in Quilter Financial Planning's infrastructure to support growth while strengthening processes and control. You'll recall that at the full year, we said that we would see would see a reduction in advisors and an improvement in productivity and you can see this is coming through in the charts on the right. Essentially, fewer more productive advisors driving higher flow onto our platform and into our solutions. We expect further reductions in advisor numbers in the second half with some departure still working their way through the system. By the end of 2021, we expect to be at a steady state. Thereafter, new additions will lead to a resumption in net growth and rightly we're being discerning on new hires.

Finally, you know that we've been working through some of the legacy DB to DC transfer advice given by Lighthouse with the skilled person review. This review has identified some instances of unsuitable DB to DC advice beyond that relating to British Steel Pension scheme transfers. Even though this advice predates our acquisition of Lighthouse, our focus remains on doing the right thing by customers. We've therefore increased our provision by GBP7 million to cover the potential for additional remediation together with the associated cost.

Let me now say a few words in our UK platform. As you can see from the graphic on the right, we've seen substantially improved gross flows, up 50% from GBP3 billion to GBP4.5 billion overall. Now beneath that strong performance are two distinct trends in flows across both channels; our own advisers and independent advisers and both are excellent trends. Flows from our own advisors have been growing steadily for the last few years as we've grown the business and despite a lower number of restricted advisers this year, we've seen a 30% increase in flows from them onto our platform. Our new platform is now capturing flows from our advisors, which would previously have gone elsewhere, but it's in the IFA market where there has been a huge turnaround.

We lost some market share with IFAs during the platform migration process, but we are definitely back with 60% increase in flows from this channel absolutely demonstrates the attractiveness of our new platform to independent firms. It's still early days, but we're pleased with feedback and advisor activity on the new platform over 2,700 firms on a platform have increased their business with us year-on-year. Our new discretionary investment hub functionality allows advisors to hold assets in discretionary managed portfolios. We've been encouraged also by the speed at which early adopters have made use of this functionality and look forward to building this momentum. And nearly 40% of all new business flows in the first half, used our market-leading, family-linking capability to join accounts and reduce their charges. Since the soft-launch of the platform back in 2019, we've been using advisor and customer feedback to refine our proposition. We'll be implementing more enhancements to the system over the next couple of months.

Looking forward, our priorities include stepping up marketing of the new platform to independent advisor firms later in the year. And you'll see the benefit of that coming through in flows in 2022 and beyond. Linking Quilter Cheviot with the new platform, this will mean that Quilter Cheviot clients can use our platform to access pension wrappers, and it will mean that other platform clients can fully access Quilter Cheviot discretionary fund management capability. Finally, we'll also be enhancing our wealth select offering as a more streamlined ESG-friendly proposition for both our restricted advisors and IFAs. Before I hand over to Mark, let me summarize, what is on our to-do list for the next six months. We'll drive flows as we build towards our medium-term targets. We'll complete our current optimization plans and keep focus on efficiency to meet our 2023 and 2025 operating margin targets, will continue the repositioning of quarter financial planning, creating a highly productive strategically aligned and client-focused advisor force. We'll complete our existing capital return program of this year assuming market dynamics allow.

And finally, we will complete the sale of Quilter International before year end. And with that, let me hand over to Mark to walk through the financials.

Mark Satchel {BIO 18275874 <GO>}

Thanks, Paul, and good morning, everyone. As Paul has said, we are pleased with our financial performance in the first half. I'll start with the snapshot of how the total business has performed including Quilter International, then I'll drill down into the performance of the continuing business, which is obviously more relevant for the future. So, let's get started with the snapshot of the entire group. You made GBP85 million of adjusted profit in the half year that was up 20% on the prior period despite some headwinds, which I'll get into later. Picking out some of the highlights on the slide. We were delighted with the big step up in flows. We continue to see good retention. We improved our operating margin of three percentage points. We delivered stronger EPS growth and adjusted profit growth supported by the ongoing buyback and a low tax charge and through our higher dividend and ongoing share buyback, capital management clearly remains our focus for us all good progress, I hope you'll agree.

Before I drill down into the ongoing business, I wanted to remind you of a few transitional items, which arise from the Quilter International sale and the new UK platform implementation all of which, we've talked about previously. Let's start with Quilter International. First, as a result of the sale, they are recoverable costs, which we will reclaim from Utmost, due to the lack of the Transitional Services Agreement. We highlighted these in April and we focused on reducing the impact as much as we can during the TSA period. And second, they are unallocated costs, even though Quilter International remains within our corporate envelope until completion, its cost base now clearly reflects its direct costs and those that will be reclaimed under the TSA. In these results, we haven't allocated international any of the head office and IT costs, that had previously carried. So the continuing business has had to absorb approximately GBP5 million of costs, which obviously depresses profitability and operating margin.

Now to platform. When I talk to the financial performance of our new platform later, you'll see an uplift in costs. But you should bear in mind, that the 2021 cost base is not directly comparable with that of last year. Last year's expense base reflected the costs of running our own platform whereas this year we are paying FNZ to run the new platform. And what we pay in FNZ is a bit higher than the internal costs we have been able to shed in the short-term. As we've always said, the business case behind replatforming, what about improved functionality, ensuring greater IT resilience and driving long-term operating leverage, it was never about reducing day one costs operational platform costs on our links to assert under administration on a tiered basis as are our revenues, we've rebased to a modestly higher but more flexible cost base.

Finally, I wanted to explain the low tax charge, another anomaly in this half, but unrelated to the platform or Quilter International. You'll be aware that we've have a net deferred tax assets on our balance sheet when the Chancellor's proposal to increase the UK tax rate to 25% received royal assent earlier this year, we recognize an uplift in the value of that net asset, which gave a tax credit of GBP12 million. That GBP12 million was broadly equivalent to the accrued tax liability for this half year. Hence, we shows zero tax rate in the first half, which flows through into post tax profit and the EPS calculation. To be clear, the GBP12 million credit is not expected to change for the remainder of this year. We anticipate a normal tax charge in the second half. This will probably lead to a high single digit tax rate for the group over the year as a whole. For 2022, following the sale of Quilter International, we'd expect an average tax rate, a couple of percentage points below the UK standard rates in line with our existing guidance.

Let's get back to the get back to the results of the continuing business. Adjusted profit was up 19% to GBP56 million. Let me walk through the detail of how we got there. Starting top-left, net flows more than doubled on those of a year ago with higher integrated flows particularly encouraging together with higher market levels this led to an increase in every inch AuMA of 16% on first half of 2020. And top right, you can see revenues were up 9% reflecting the AuMA uplift and three basis points decline in the revenue margin, which was entirely in-line with expectations. Costs bottom-left were up 7% or GBP16 million so below the rate of income growth, positive -- if you like. That gave us an operating margin of 18%

on a continuing business basis. This operating margin includes the cost that we've previously allocated to Quilter International that I mentioned earlier. And FSCS levies, which as you know, mainly come through in the first half. If the FSCS levies were evenly spread over the year, our operating margin would have been around 23% instead. As a result, we've delivered a 19% increase in adjusted profit, and more impressively adjusted diluted earnings per share of 3.3p was up 50% on last year. The higher growth in EPS and adjusted profit is due to the share buyback program and the zero tax rate that I've just covered. So good momentum across the business.

Let's scroll down a little further, starting with revenue margins. The slide is one you have seen before. It breaks revenue margins up by business unit. As a reminder, our guidance and group revenue margin continues to be for margins to gradually ease and then stabilize over time, as we drive up integrated flows as a proportion of total AuMA. This increases the proportion of assets on which we own more than one revenue stream. Within the group, 32% of total AuMA is integrated compared to 30% a year ago. Turning to the first half trends, nothing here should come as a surprise, but let me -- some of the dynamics for you. First, you'll notice the two basis point of declining in Quilter Investors revenue margin shown here in light green. This reflects our success in delivering one of Quilter Investors strategic goals, attracting new money into a broader range of solutions. With increased balances across the board, including Cirilium active, but importantly, we've seen particularly strong flows into our Wealth Select range, which were opened up restricted advisors last year. The proportion of Quilter Investors total assets in the Wealth Select range increased by around 2.5%.

Similarly, the proportion of assets and Cirilium Passive and Cirilium Blend has also increased. You'll find the details on the product mix at the back of this presentation. Each of those three solutions, come at a lower all-in cost than the more actively managed Cirilium Active range. Therefore, the blended revenue margin for Quilter Investors is slightly lower even though total income is higher, this is entirely in line with our strategy. As I've said before, we expect continued makeshift in Quilter Investors revenue margin with this driven by clients and advisor preferences. Next, our UK platform. Here, again, there was about a 2 basis point revenue margin decline from the second half of last year, but half of that is due to the normal attrition we expect over time and the other half was due to two factors: First, market growth; higher markets mean more clients to more client assets falling into lower pricing tiers; higher equity markets led to a GBP5 billion increase in average assets on last year, that means, more revenue overall, but at a slightly lower revenue margin; and secondly, and a lot less materially, a change in the way, the average balance is calculated following the move to the new FNZ platform. So, revenue margins are as we expected.

Now, let me turn to costs. This slide shows you how we've controlled costs year-on-year. I've taken last year's cost of GBP264 million and stripped up Quilter International's direct costs of GBP32 million. You can then see the impact of cost push from the external environment inflation and higher regulatory levies. And then on the right, our optimization activities as well as the reversal of last year's tactical cost savings which mainly relate to staff compensation. The net increase in costs were GBP16 million. I think it is a great upturn especially given that the combination of the higher regulatory levies and the tactical cost unwinds headed up to GBP22 million drag, evidenced that our optimization program and cost management initiatives are being effective.

Next, let's look at the platforms financial performance in the first half. This is a better one-off disclosure, if you like. Now that Quilter International is reported as a discontinued business, the platform's performance is clear to see. So, I thought a few words of context might be useful. You've heard Paul talk about the substantial improvement in flows, which are already growing in line with our medium-term target. And I'm just as pleased with the year-on-year increase in profitability. As you know, our platform is highly scalable, and it's going to be a source of considerable operating leverage. In that context, it is worth calling out the main contributors to expense growth. These were high regulatory costs, reversal of last year's tactical cost savings and the switch across the FNZ run in the platform, which I mentioned earlier. Improvements in the platform's operating margin will be one of the significant drivers behind achieving our operating margin targets and the platform will also be a key contributor to our future profit growth.

Turning now to our capital and cash positions starting with our solvency ratio, which you can see remains strong. The decline in the ratio to 203% at the end of June was principally due to share buybacks and the deduction of the interim dividend after allowing for the final GBP100 million of the GBP375 million buyback, which is still to come. The Solvency II ratio would be around 190%. We've always considered cash to be more important in terms of actually running the business and here we're in a strong position too. Cash balances of just under GBP520 million at the end of December, reduced to just under GBP400 million by the end of June. As with capital, the main draw downs were the payment for the final dividend and GBP100 million of share repurchases in the first half. We upstreamed around GBP110 million from subsidiaries, a material improvement on the GBP27 million in the first half of 2020. You'll recall we were cautious in extracting capital from subsidiaries last year due to the uncertainties around COVID. Remittances this year were partially offset by around GBP40 million of capital contributions into subsidiaries as well as GBP30 million spend on transformation initiatives and head office costs.

The remaining share buyback decommissioning costs for the legacy platform, optimization spend, and the interim dividend will reduce the -- cash position around GBP150 million in total. That will leave about GBP250 million for managing the business, which is an appropriate buffer to cover stress scenarios. The board declared an interim dividend of 1.7p per share. That is a meaningful step up on the 1p a share we declared of last year's interims when we were deliberately cautious, given the uncertainties around COVID. As previously announced, we are breaking this year's dividend down between the contributions from the ongoing business of 1.2p pence per share and Quilter International at 0.5p per share to provide a line of sight to our sustainable dividend base in 2022 and beyond. We continue to make good progress for the capital return from the sale of Quilter Life Assurance and we've now returned around GBP265 million out of the plan GBP375 million at an average share price of about 140p.

The current buyback tranche will complete by the end of August and regulatory approval for the final GBP100 million tranche is in place. Subject to Board approval, we expect to be able to push on once the current tranche completes and aim to finish the total GBP375 million buyback by around year end. Then of course, we have the sale of Quilter

International to look forward. Here all is going to plan. You'll recall that the transactional structured as a locked box mechanism, but the sale price of GBP460 million plus the ticker, which we estimated a GBP23 million assuming the deal completes on 31 December, 2021. Good progress has been made on regulatory approvals this means there's the possibility of completion in the fourth quarter prior to 31 December and that would of course lead to a commensurate reduction in the ticker. We continue to consult with our shareholders on the best means of returning the majority of the net just proceeds and expect you updates on that by completion.

Now guidance, you know the slide well and the only notable change here is revised guidance from the tax rate for this year, which I explained earlier. The other thing, you may want to note for your models is that we transferred Quilter Private Client Advisers into Quilter Cheviot at the end of July. You'll see in the press release that PCA had GBP13 million of advice revenues in the first half. And so you'll need to update your segmental forecast accordingly. Segment costs of course do not change. So in conclusion, I'm very pleased with the first half results. The business is in good shape. The trend in revenue margins is in line with our expectations. We continue to keep costs well under control. And lastly, we've got a strong balance sheet with our capital return program progressing well. We plan to conclude the current program and update on the next stage of capital returns by the end of the year. And with that, let me hand back to Paul to wrap up.

Paul Feeney {BIO 17570862 <GO>}

Thank you, Mark. Before I open up for questions, let me just conclude with a few key messages. These results have demonstrated our continued ability to deliver strong top-line growth and sharply improve flows with more to come. We've created a highly scalable business that will drive operating leverage. We've got both a strong balance sheet and a strong track record of returning capital to shareholders and there's definitely more to come there as well. We look forward to updating you all on this and more at our Capital Markets Day on the 3rd of November. And with that, let me open for questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) Our first question comes from the line of Andrew Sinclair of Bank of America. Please go ahead. Your line is open.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. Good morning, everyone. I have three for me, if that's okay? Firstly, just on financial advisor numbers and of something we spoke very often. You've talked about returning to net growth from 2022, which is great to hear, but really just want to ask, what sort of growth do you think is achievable? I think, it'd be really helpful to provide some guidance there, particularly given that some of your peers are having some disruption in the short-term. That may be something that can be exploited. I'm not sure, we'll hear more about this in the Capital Markets Day. That's question one.

Secondly, just on Quilter Investors, flows there are maybe a little bit below of what I might have hoped for in Q2. Just really, what sort of feedback are you getting here from customers GBP0.2 billion a quarter and that flows just doesn't seem quite for you -- I'm sure, you'd want that to be.

And thirdly, we're just on slide 8, I know you talked about the options that you got from your own advisers, but I actually thought that may even be a little bit more as maybe some of your own advisors move to use the platform for the first time and the new platform gives a bit more opportunity, just could you give us a little bit more color on what's achievable here for your own advisors? Thanks.

A - Paul Feeney {BIO 17570862 <GO>}

Thanks, Andy. It's Paul. Yes. So, we said, we expect to return to net growth in advisor numbers by 2022. This year you're already seeing, I have to say, quite an increase in productivity from our own advisors for GBP1.5 million per advisor to GBP2.2 million per advisor, 40% odd, 47% increase. 30% increase in overall flow from our own advisor base. So, I'm actually quite pleased with that.

But I think what we would expect to see is what we've guided to you in the past. Mid-single digit, net percentage growth in advisor in RFP, restrictive financial planning numbers per year. So, in the past, we've done a bit better number than that. But that's where we've guided to. And I think that's what we'd expect to get back to you from 2022.

In terms of Quilter Investors' flows and it's certainly better than last year. Our investment performance of Cirilium Active and investments solutions, a one-year performance is certainly been very good and that adds to our longer-term excellent performance.

And of course, we've got something that we want to talk to you about in the Capital Markets Day, which is a brand-new kind of huge revamp of our wealth select investment solution coming towards the end of the year, which again we think, which was not possible on the old platform. Now I won't go too much into it, it's going to still thunder at the Capital Markets Day. But we of course expect to see now that starting to ramp-up with Quilter Investors as well.

What I really want to say, is first and foremost, greater capture of platform flows. As you know, last year, we were capturing around 50% of platform flows from our own advisors. This year, to date we're capturing around 77%. So, we've seen up greater than 50% pick up or it's like vast reduction in leakage. You won't get to a 100%. So long as we've still got clients and other platforms that need chopping up. And once we get to, let's say, the 80% level, and I want to see a big proportion of that flowing through into Quilter, into our own investment solutions, whether it's Quilter Investors or Quilter Cheviot with our private client advisor business.

In terms of what's possible from our own advisors, clearly more, but again, I think I'm happy where we've got to within the six months of this year, given that we only landed on new platform in early March. So, we will see that ramping up as we again continue to reduce leakage, which we are doing, and continue to increase productivity and continue to have a more strategically aligned advisor force. Because now it's all about us having the courage of our own conviction. It's all about having strategic alignment into pursuit of a common purpose. And that's why those advisors who perhaps didn't want to come on the journey with us on this, we've had to say goodbye too. What that means, we've got a lot more to invest with those advisors and those advisor firms that are on the journey with us and we're already seeing the fruits on that labor.

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thank you.

A - Paul Feeney {BIO 17570862 <GO>}

Sure.

Operator

Thank you. And our next question comes from the line of Greg Simpson at Exane BNP Paribas. Please go ahead. Your line is open.

Q - Gregory Simpson {BIO 18850594 <GO>}

Hi. Good morning. Thank you for taking my question. If I could go back onto the advisor question, could you provide any color on how the advisor school is going, which is building us the way to grow advisors, about everything, on partnering, from the IFA industry, and also add any color updates on that how that's going on? (Technical Difficulty) question based on paid on costs. Could you provide any color on how you're thinking about cost for the full year? Is that kind of GBP5 million of inflation in that slide, a good guide to the level of the inflation you're seeing across the business? And then on just finally on slide 16, following slide, GBP66 million of Platform expenses. Just to understand, does that include -- does that still include kind of costs for the running the Platform of the previous, can internally run Platform and systems that eventually can be -- can retired at some point? Just to understand, the mix between what is going to be (inaudible) debt and what is other costs of within the Platform costs base? Thank you.

A - Paul Feeney {BIO 17570862 <GO>}

Okay. Thanks Greg. I'm going to take -- I'm going to ask Steve Gazard to answer your first question. Steve, as you know, the CFO of Quilter Financial Planning. Mark, of course, containment costs for the full year, and I think, probably also you could take the third one on the other 66. So, Steve, do you want to take about where we are with you?

A - Unidentified Speaker

Hi. This is Scott. Again, we're really pleased with where we are with you last school, last year, we did a lot of work and move it through primarily a digital offering it in response to

COVID, but also as a part of the generational move as we bring younger advisors into the mix. That's going very well. We continue to see that drive new advisors into both our existing businesses and in the network, but also are in national. So, we're pleased with where we expect that to be.

A - Stephen Gazard {BIO 21784069 <GO>}

Great. Okay. And Greg, just on your first question, it was around the general cost for the business and guidance. On that, we previously guiding towards about GBP560 million of full year expenses for this year, which I'm still more or less guiding towards that, obviously includes Quilter International in for a full year. So, if completion of that had to happen earlier, that would be a proportionate amount that would come down but if you vision the revenues on that side into whenever that completion did happen. In terms of inflation guidance, at the moment we pretty much sort of still I think seen around about of a 2% inflation type of impact overall. But, clearly started to feel a bit more pressure and that's just as you would have generally noted in the UK more generally. So, on a go-forward basis for this year, I'm still guiding towards that sort of number, but down the line and may need to be some revisions just in terms of inflation expectations in (inaudible). And what I'd probably also just use this opportunity to just remind you that in the first half of this year, with the UK still being substantially a sort of, a remote working type environment. The tactical cost unwinds that we called out last year haven't fully unwound in total. So, while we've had the variable components come back, the areas around travel, entertainment, marketing, some development spend, those are the things I'm expecting that has the UK and as we as a business, going to more of a office-based working environment, again, that's some of those costs will go up in line up focusing at our full-year results.

A - Mark Satchel {BIO 18275874 <GO>}

On the Platform expenses, that the first half is full of bit of a transitional period, because you've got a portion of it, that was still operating the old platform and then a portion of it, that's all being on the new Platform. So, there's a little bit of a double count in terms of some of those costs. We are still going to decommissioning costs on the existing platform. Most of those decommissioning costs, the actual cost of the decommissioning rather than the run costs, are in the below the line item around the Platform transformation program, that the operational costs do have an element of inefficiency given that it was taken place over the transitional period. So hopefully that answers.

Q - Gregory Simpson {BIO 18850594 <GO>}

Thank you.

Operator

Thank you. (Operator Instructions) And we've got some further questions coming through. Okay. And next question comes from the line of Gurjit Kambo of JP Morgan. Please go ahead. Your line is open.

Q - Gurjit Kambo {BIO 6300383 <GO>}

Hi. Good morning. Just two questions from me. So, firstly, in terms of Platform, the sales, you've seen good gross sales increasing to GBP4.5 billion, I think from GBP3 billion. And we've seen redemptions grow to GBP2.7 billion from GBP2 billion. Just on the redemption, is that really a function of the advisors who perhaps no restrictive and therefore leaving and then as we sort of get through this year, we do expect that redemption number too -- so, potentially sort of become more stable, they even come down. So that's the sort of first one. Just trying to think about, the dynamics of net flows in the Platform, if you see, the growth is good, maybe (inaudible) come down. So, you get a double benefit, as you go into '22 and beyond. And then on the ESG, I think you mentioned you did -- there's a bit more going on around the ESG, making new funds, ESG from client. What sort of demand you're seeing from clients? There are much bigger demand now for the ESG side and then and where are you on that edge, are you using it to invest in or are you kind of already there? Thank you.

A - Paul Feeney {BIO 17570862 <GO>}

Okay. Thank you, Gurj. I'm going to pass to Steven Levin. I think you can take both of these questions. Let me just say very quickly on ESG. We certainly are seeing greater demand. At the same time, we're taking or give ourselves that we want to be leaders in this area. So, we're not waiting around for that demand to match supply. We're going to push forward with it. But Stephen, first of all Platform, what you expect on retention -- redemption numbers and then what you're seeing on ESG in Q1.

A - Steven Levin {BIO 18803363 <GO>}

Sure. Thanks. So, on the outflows. Outflows have increased as market activity has increased. So, if you go back to last year, actually, the outflows were quite depressed as the rates, because those advisor activity, less transfer of pension business around, the whole lot markets slow down, quite a lot last year, we've seen more of around normalization of that. And we also saw last year, but a lot of customers actually reducing the is -- they draw down, that they were taking and customers were taking conservative approach and not trying to sell a lot of markets, particularly in the first sort of first half of last year, when the markets were down. But again, that has normalized. We track outflows specifically looking at outflows to transfer to other companies, which is many moving around industry and outflows direct to customers which are paying off the benefits of the product. And so, different drivers on each of those.

And one of the factors that, outflow has been, as you point out, some of the advisors who have left, the restrictive advisors, they typically can end up at another place, and then end up using a different platform as a preferred platform. And so, we do see outflows in that cause. But by and large actually, when a rate of outflow bases, our outflows are actually improving compared to longer-term trends. So, we're seeing less transfers and we're seeing that as a benefit of our new platform. And we're expecting that there will be some continuation of that, because there's less need for advisors to transfer us the way for acquiring different functionality and things like that. So, little bit of a detailed answer on outflows. But hopefully, hopefully that helps.

In terms of ESG. I think as Paul mentioned in response to an earlier question, we are investing heavily in a new expansion to our Wealth Select proposition, which will be launched towards the end of this year or potentially next year. And that will have a significant ESG offering embedded within it and a whole lot of processes for advisors to give great advice and help customers select the ESG (inaudible). We're in the both phase at the moment and we're very pleased with where we are. That's probably all I'd say on ESG at this point. We do say that obviously it's strategically very important.

Q - Gurjit Kambo {BIO 6300383 <GO>}

Great. Thank you, guys.

Operator

And our next question comes from the line of Ben Bathurst from RBC. Please go ahead. Your line is open.

Q - Benjamin Bathurst

Good morning, everyone. Three questions, if I may, this morning. Firstly, just on the Platform. Appreciate the color around the reduction in the leakage. I just wonder if you could perhaps give an update on the stock or maybe just a reminder on the stock of advisor asset, that are sitting on other platforms? And perhaps comment as to whether or not you started to see any sort of meaningful movement of that stock on to the Quilter platform yet?

And also, just sort of wondering, that's almost automatically if you were to have advisor transfer across where that would sit within that kind of leakage statistic, exactly was just on the financial planning revenues. I think, in the outlook comments, you referenced the benefit of higher residential property transaction activity in the first half. I wonder if I can ask for, maybe just a split of the revenues that you think were linked to housing market activity in H1 and how that moved year-on-year, so we can try and form a view of how that might reduce in the second half and beyond, if residential property transaction do fall down?

And third question was just to try and get a kind of a temperature check on client sentiment and activity. I think others in the industry are expecting Q3 to be somewhat slower. Just due to people taking holidays and what have you -- would that be kind of a fair assumption for the Quilter of Q3, and then maybe distinct flows and activity to pick up again in Q4? Thank you.

A - Paul Feeney {BIO 17570862 <GO>}

Thanks, Ben. Look, I'm going to say a few things first on the Platform and advisor assets and other platforms and hand over to Steve Gazard very quickly to talk about what we're doing there. And then in terms of QFP revenues I'll hand over, and particularly regard to a mortgage and protection revenues from our advisor force, and I'll hand over to Mark.

And then, I think interesting in Q3, we've been pleased with how Q3 has started, but we certainly expect that we'll have some seasonality as we always do every year and Q3 is usually our slowest quarter, simply because, people like to go away on holiday. And I think, this year people are gathering to go away on holiday. Certainly I am. Yeah, but well and we'd expect that to then pick up properly again in Q4. So, just in terms of advisor assets with the platform.

Our number one priority, when I knew platforms went ahead in Q1, let's not to move that books of assets and other platforms, it was to capture a far greater percentage of our own advisors, new business flow onto our platform. Because clearly that's a litmus test. Advisors will use your platform for new business and basically try it out more, before they'll move clients and assets from other platforms. So, I checked myself an internal goal of what I'm -- I'm not doing a mistake, what I wanted to see in terms of total platform flows coming to our platform, I can tell you, we're very close at 77% to that number, but not quite at it yet. And for this year, that was the core goal, that is a greater -- to capture, a greater percentage of flow of new business. We'll never capture a 100% of brand-new business, so long as there were clients under the platforms that need top-ups. Okay? So, as long as top-up is, there's always going to be about 20% going to other platforms, because that tend to be where the total business is. Okay? And in terms of new business, we wanted to capture a big percentage and we're at 77%. So, in terms of the amount of the assets from QFP and other platforms, I'm going to ask Steve Gazard to come in and to say some of the things that we're looking up there.

A - Stephen Gazard {BIO 21784069 <GO>}

Yeah. So, I mean, (inaudible) our focus is absolutely been on driving, the adoption through new business, the way advisors work is that they will absolutely read that first, and then look at the back books activity. We've been really pleased with our progress to date and naturally with the reshaping of the QFP business, means that all of our teams whether that would be in the field with operations have far more time to focus now on the right type of the advisors who want to engage with us and want to move productively towards that. So, our focus is now shifting towards helping advisors look at their opportunities with our back books and look efficiently how we move across in doing so. That's really where we're driving our next agendas.

A - Mark Satchel {BIO 18275874 <GO>}

If I just ask the question just around the action portion of revenues linked mortgage, I can give you the mortgage and protection number on it rather than mortgage specifically, we've had across the business in the GBP59 million of Quilter Financial Planning revenue is GBP15 million of that was driven by mortgage and protection business over the first half. So, it's round about 22%, which is a very similar percentage to what that was for the same period in 2020. So, you'd expect a, so proportionately that's the sort of number we're talking about. (Inaudible) is going to still be a lot of activity in there, but there might be a slight softening of that given in the second half, given the change in (inaudible) situation in the UK. So that's, that sort of gives you, I think, a feel for the order of magnitude.

Q - Benjamin Bathurst

Okay. Thank you.

A - Paul Feeney {BIO 17570862 <GO>}

Okay, Ben. Thanks.

Operator

Thank you. And our next question comes from the line of Nicholas Herman of Citigroup. Please go ahead. Your line is open.

Q - Nicholas Herman {BIO 18097295 <GO>}

Yes. Thank you for taking my questions. Hopefully, you can hear me. Okay?

A - Paul Feeney {BIO 17570862 <GO>}

Yeah. We can hear you fine. Thank you.

Q - Nicholas Herman {BIO 18097295 <GO>}

Three quick questions from my side, please. The first one on advisors, the second on, coming back to inflation and then the third one on M&A. So, on advisors, can you just remind us what are the quantitative metrics you've been using analyzing advisor performance and the ones that you've cut also the minimum level of flows profit contribution so on? That would be helpful. And also, are you able to confirm whether there is any revenue question from the advisors leading, and if you could quantify that too, that would be helpful.

Moving on to inflation, on presumably, if you can just continue from the previous question. If inflation was to continue presumably, are you (Technical Difficulty) with that impact, your operating margins every time, and presumably it's quite difficult to pass on. Although I assume it, on (inaudible) side there wouldn't be any risk on your immediate targets. But just curious how, on the ability to talk how sensitive your operating margins are to that?

And then finally on M&A, we've seen M&A in the UK wealth management side that continued quite a rapid tick, obviously, you've been speak about that too long ago back in April, I mean how you feeling about the market and as you yourself -- see yourselves being even more constructive on the M&A option, on your potentials to acquire? Yeah. Okay. Thank you. Thank you.

A - Paul Feeney {BIO 17570862 <GO>}

Thanks. I'm going to say a couple words on your first one on advisors and maybe hand over to again to Steve Gazard. I think inflation and its impact on our margins over to Mark, certainly and I'll come back and mention a bit about what I see in terms of M&A.

So, one of the key metrics that you looking at advisor productivity is just that productivity. How much of our integrated flows per advisor are we seeing -- an integrated flows that our advisors are using, our platform and the products in our platform and also our investment solutions. So, that has increased to GBP2.2 million per advisor in the first half of this year from about GBP1.5 million last year. But I'm sure you've got a few others, Steve.

A - Stephen Gazard {BIO 21784069 <GO>}

Yeah. I mean, I'll review in this area. It's been wide-reaching from integrated flows through to case counts, through to average case size, through to profitability of the business, through to kind of alignment with our propositions, and ultimately, that's not a one-size fits-all approach. We have various advisor models that we're operating in central, our national and our network and so, traders versus larger businesses, and that engagement has carried on throughout the process and certainly in our network, in conjunction with the principles of that network from environment. So, there isn't a one-size fits-all, but all the metrics you'd usually expect.

Q - Nicholas Herman {BIO 18097295 <GO>}

Okay.

A - Paul Feeney {BIO 17570862 <GO>}

Inflation?

A - Mark Satchel {BIO 18275874 <GO>}

So, look, the inflation question is kind of, it depends. It depends on the rates of inflation and it depends what some of the second order impacts are going to be of having a higher inflationary environment. Say if we have a higher inflation environments and interest rates go up, that will provide some offset to the higher cost base, that probably weren't totally alleviated on a one-for-one basis, but it provides an offset. Now, Cirilium, at the moment, I'm not changing any guidance in terms of operating margin, but a higher inflation environment could have an impact on the achievement of those targets over time, but it does depend on what else happens at the same time as there is a higher inflationary cost environment, which I don't think, we use unusual for us. I think the same probably applies to most of the businesses in the UK operating in our segment.

A - Paul Feeney {BIO 17570862 <GO>}

I think on M&A. The first thing I'd mention is that, Quilter does not have to do M&A. To build culture, we had to do some M&A. And as much disposals as we did acquisitions, if not more in fact, but we have now got the business and the shape of business that we want. And our two goals from here on in are growth and efficiency, not M&A. However, our market is consolidating and it continues to consolidate, and it's not just in the advice area now, it's in the platform area, it's in the money management area. And we're going to continue to see that. I think one of the key things for us will be to, now that we are, we do have a business in the shape you want. We get offered stuff like (inaudible) Center. Very little do we actually, even really look at. But I think we've got a good business model now. A business in the right shape and the core goal is organic growth.

Q - Nicholas Herman {BIO 18097295 <GO>}

Great. And can I have just follow-up again, on the first question on the advisors. I mean, what do you saw, any revenues that we bill, but there wasn't any revenues session from advisors.

A - Paul Feeney {BIO 17570862 <GO>}

There is a bet on annualized basis. It's sort of low single-digit millions, around about GBP5 million in total. That's we don't feel the impacts over (inaudible) coming from, but it's more or less that sort of a level.

Q - Nicholas Herman {BIO 18097295 <GO>}

Good bye. (Inaudible)

Operator

Thank you. And we have one further question on the phones at this time. That's from the line of Enrico Bolzoni of Credit Suisse. Please go ahead. Your line is open.

Q - Enrico Bolzoni {BIO 19966397 <GO>}

Hi. Good morning. Thanks for taking a couple of questions. So, one is on advisor with crew. So, so some of the other players out there are quite aggressive in terms of (inaudible) how many advisors possible. Considering that there is limited amount of people at any time that they are able to winning seat from pay to restrict that I just wanted to ask you, what is your view in terms of how aggressive you need to be in terms to convince these people to become your advisor. And related to that, I mean, clearly you have a very, I'll say, a scalable DSM proposition. How important you think that is and try to convince ISA to join and can you give a bit more color on the actually the very good margins you add on Cheviot in the first half of this year? Thank you.

A - Paul Feeney {BIO 17570862 <GO>}

Okay. Again, I'm going to hand over to Steve Gazard the first one and Andy McGlone, who is the Chief Executive of Quilter Cheviot, for the second one.

But just in, I'll say quick on advisor crew. And we said that from the end of this year, we expect to grow our advisor numbers back again, at sort of mid-digit percentage numbers. And that's what we -- we've have done that all better on that in the past and that's what we will do again from the end of this year. If you want to add or if you want to talk about the sources that we get advisor numbers from.

A - Stephen Gazard {BIO 21784069 <GO>}

Yeah. Absolutely. So, we continue to recruit from (inaudible) We in respect to go back to kind of single-digit net numbers as Paul talk about. But from our perspective, we are rightly being discerning on who we're allowing in the door, and we have multiple routes. So, whether that is our continued organic or recruitment through the recruitment team, but also the financial advisor school we've already said. Yeah. And financial advisor school definitely holds part of our long-term agenda to bring the next generation of advisors, so that we're not reliant on a circle of other existing market.

A - Paul Feeney {BIO 17570862 <GO>}

Yeah. And in terms of DSM proposition. We've got an excellent DSM proposition, great investment performance from Quilter Cheviot. We've just transferred Quilter Private Client advisors over to Quilter Cheviot. So that's, and of course, that is all run by Andy McGlone, the Chief Executive. So, Andy join, and say a little bit more about the margins that you see.

A - Andy McGlone {BIO 18492549 <GO>}

Sure. I mean, you saw from the chart, that the margins revenue, margins have held up pretty well. They've been pretty constant for a number of years now, even though we've thought they might drop down a little bit each year. But I think in some ways even if they did drop it, it wouldn't necessarily worry, because a lot of that fees, most of that fees is based on the tiers level. So, actually, if markets rise -- as markets rise, you get a lot of blended cost to the clients and see that would have a little impact on margins. But now they've been holding up pretty well.

Q - Enrico Bolzoni {BIO 19966397 <GO>}

Great. Okay.

A - Paul Feeney {BIO 17570862 <GO>}

I think that's it for questions on the line. Is that right, operator?

Operator

That's right. There's no further questions on the phone.

A - Unidentified Speaker

There's just one question that is coming through the website, with two parts. May be the first part is for Paul and Andy. Which is, what was the rationale transferring, as she says, (inaudible) what was the rationale for transferring PCA to Quilter Cheviot? And as noted, the revenue number we've called out the GBP13 million in first half, and is after the associated profit number, which we won't give, but I just mentioned, but what was the rationale for the transfer there.

The second question is of course for Mark. Should we think about the higher FSCS charge as normal and ongoing or higher with assets what you'd expect in the future.

A - Paul Feeney {BIO 17570862 <GO>}

So let me just start and share a few words and then I'm going to hand over to Andy. One thing, I think we've all learned here at Quilter over the last 18 months of this pandemic, is that we operate better when we operate around our clients, as opposed to operate around our corporate entities. So, making sure, that we look at our core client group, so effectively high net worth and affluent and much affluent, and the high-net-worth area predominately is a discretionary investment management led proposition. So having the right wealth planning effort and capability inside Quilter Cheviot, as well as operating the open market, I think, just make things less clunky, easier client journeys, not asking clients for the same information, tries good financial planner working hand in (inaudible) with the investment manager, but I probably stolen all your thunder there. I apologize.

A - Andy McGlone {BIO 18492549 <GO>}

That's largely, I mean, if I'm making this client journey experience so much better, but it's also that makes it a lot easier for our staff and, not having to duplicate things, bringing people much closer together, geographically more aligned. We just feel that we can really focus the QC and the PCA businesses more closely by bringing close together.

A - Unidentified Speaker

Yeah. And David to answer your question, just on the FSCS levies. It's really one that you should be asking the regulator, because we are a bit of a price taker on that one and have little indirect influence over at ourselves. As you are aware, the FSCS levies have increased at an astronomical rates over the last three years to five years from, since they were first introduced probably a little bit before that even. Checking my own expectation is that FSCS levies is going forward, are likely to go to well above the rate of inflation. So, but I think even the regulator's trying to seek ways to actually reduce that increase, because I think that they are seeing, that they are being -- they are increasing at quite a high (inaudible) And you would know that before Christmas day set expectations then on what the -- what they expected the industry-wide levies to be, which was a significant hike up and what it had been in the prior year. And then round about March time, April time, maybe they came out as an announcement then which time that they were actually undertaking the invoice into the firms that it was still an increase, but not as big as the one that had previously indicated or suggested before Christmas. So, it should be, my own expectation is that, as I've already said, FSCS levies will continue to increase at a higher rate than pure inflation over the next little sort of while.

Okay. Nothing else. I think, we can (multiple speakers) do you want to say few words?

A - Paul Feeney {BIO 17570862 <GO>}

Yes. Let me -- first of all thank you for listening in this morning, everybody. As I said, I'm really pleased with the results that we've delivered today over the half-year. Strong increase in profits, strong increase in flows, both gross and net flows, real reduction in leakage from our platform, our brand-new platform in international, so that overwhelmingly supported by our shareholders, our buyback program likely to be finished by the end of year. And now it's about growth and efficiency for our business and we're not operating target guidance yet in terms of margins or a net client cash flow guidance yet, but we're well on our way and we'll get there. So, thank you very much everybody. And hopefully, next time we'll be able to do. Hopefully, we'll be able to do this face-to-face and look forward to seeing you in our Capital Markets Day, on the 3rd of November.