Q2 2018 Earnings Call

Company Participants

- Paul W. Feeney, Chief Executive Officer & Director
- Timothy James William Tookey, Chief Financial Officer & Independent Non-Executive Director

Other Participants

- Adam Uddin, Analyst
- Andrew Sinclair, Analyst
- Arnaud Giblat, Analyst
- David L. McCann, Analyst
- Gregory Simpson, Analyst
- Gurjit S. Kambo, Analyst

MANAGEMENT DISCUSSION SECTION

Paul W. Feeney {BIO 17570862 <GO>}

Welcome to our first results presentation as a listed company. We've deliberately started a bit early this morning. We know that one of our competitors is reporting a little bit later, and we wanted to make sure that those of you who cover them as well as us are able to make both presentations.

Now, we've shared a lot with you over the last few months, and so this session is going to be quite focused. I'm going to review the highlights. Tim will then take us through the financials. And then I'll be back to summarize and take questions. We'll aim to be done by about 9:30.

It's been a busy first six months, with the highlight being, of course, our listing on the London and Johannesburg Stock Exchanges. Before I get into the detail, I do want to formally record my thanks to all those who worked incredibly hard over a two-year period to complete our listing six months ahead of the original deadline. As well as getting our listing over the line, our focus has been on delivering good results, which is exactly what we've done.

Despite a more challenging environment for flows, we are pleased with net client cash flow, excluding Quilter Life Assurance of £3 billion, and we saw a strong growth in integrated flows, which increased to £2.8 billion. I'll drill down on these in more detail in a moment.

We're also really pleased with good profit growth in this period. Adjusted profit was up 16% to £110 million and EPS was up 25% to £0.055. Our Platform Transformation Programme remains on track, on time and on budget. I'll say more about this later too. We completed the sale of our Single Strategy business just after listing. And we are delighted to announce that the board has decided to pay a special interim dividend of £0.12 per share, returning all of the surplus proceeds around £220 million to our shareholders, so a busy but very good six months and we're very much where we expected to be at this stage.

Now let's look at flows in more detail. Let's start by looking at flows from a longer-term perspective. Last year was a record year for flows across the industry and for us also. While the first quarter this year was strong, the second quarter has been somewhat slower. Along with our peers in 2017, we benefited from a positive market backdrop as well as good volumes from transfer activity.

Now the graph here shows, while actual quarterly flows can be quite variable, we have consistently delivered growth in both, benign and more challenging markets. What we do need to recognize is that not all flows are equal. What's really important for us in terms of driving revenue and profit is of course integrated flows. And as you can see, these were up strongly year-on-year. Also while we have not seen industry data for Q2 yet, in Q1 we took market share relative to our advised platform competitors. And that's something that we're obviously pleased about.

A few words on DB to DC pensions. We think that the trend here is a structural shift that will continue to underpin flows for many years to come, but it's clear that the regulatory and operational mechanics of these transfers is still evolving and so a more measured market is a good thing. This is too important an issue not to get right for customers.

Let's look at the flow numbers in detail. As I said earlier, excluding Quilter Life Assurance, our net client cash flow was £3 billion. As a proportion of opening AuMA, this was 6% on an annualized basis, and so ahead of our 5% target.

Overall, we've seen excellent growth in net client cash flow for the Advice and Wealth Management segment at £2.3 billion. This is up 10% from the £2.1 billion seen in the first half of 2017, principally reflecting strong flows for Quilter Investors into Cirilium, but a slower Q2 for Quilter Cheviot.

The Wealth Platforms segment contributed net client cash flow of £1.2 billion versus £2 billion in the first half of 2017. However, this masks (00:04:49) another strong performance from Quilter Wealth Solutions, our UK Platform, which matched the record flows of last year. But the slow start to the year in Quilter International that we indicated in Q1 has continued in Q2. And with the run down in the institutional book, outflows in Quilter Life Assurance business were as planned.

As you know, we add together these flows, where we have more than one touch point. That's why we call them integrated flows and then more valuable to us in terms of generating margin and revenue as the result for the half year here are (00:05:29) clearly showing. So, the most important number to me on this slide is the 17% in the bottom-right-hand-corner. That's the increase in integrated flows. These were up from £2.4 billion in 2017 to £2.8 billion in 2018.

As we know, Quilter Financial Planning plays a key role here, generating £1.4 billion or 78% of Quilter Investors' net flows, £117 million or 20% of Quilter Cheviot's net flows, and £0.6 billion or 29% of Quilter Wealth Solutions' net flows.

Direct flows onto our platforms and into our overall propositions also are an important source of new business generation for us. During the period, we attracted non-integrated net client cash flow totaling £1.7 billion, so a solid outturn for flows in an environment that has had pockets of challenge.

Let me now turn to the two business segments. Back at our Showcase presentations, we said that the Advice and Wealth Management segment would be the growth engine for our business and we certainly saw that come through in the first half. We've continued to grow the numbers of Restricted Financial Planners in Quilter Financial Planning and Quilter Private Client Advisers, and have recruited new Investment Managers in Quilter Cheviot. An increase in assets under management of £1.5 billion or 9% within Quilter Investors since the year end and this has led to revenue up 22% to £181 million.

During the last 12 months, we've been investing in the Quilter Cheviot investment team, and investment management head count has increased by 9 over the year to reach 168 at the end of June. However, I want to be balanced in my comments. Since listing, we have had 12 resignations, which indicate that Investment Manager head count will fall back in the short-term to around the level of a year ago. As this is a people business, we would not be surprised if these departures led to higher than trend outflows in QC in 12 to 18 months' time.

Of course, client support plans are in place just as you'd expect. Beyond this, we've actually been really pleased with both, staff retention and the small increase in the level of asset retention in QC, which reached 92% in the first half.

Finally for this slide, I wanted to highlight the improved productivity per advisor within Quilter Financial Planning, which is up to £1.8 million from £1.6 million a year ago. This is of course something we remain focused on as a key leading indicator of performance.

We have continued to deliver good medium- and long-term investment performance for our clients. All of our discretionary and multi-asset funds are performing well against customer targets and have met the relevant target outcome. Within Quilter Investors, we remain pleased with medium- and long-term performance, especially in the Cirilium range. Short-term performance in certain portfolios has been held back somewhat by a range of factors, but investment performance over the long-term remains a top priority.

Now turning to Wealth Platforms. This is obviously the more established part of our portfolio and we were really pleased with the overall outcome here. At a segment level, revenue growth was up 3% and costs were down by a similar amount, which delivered positive operating leverage and good profit growth as you'll hear from Tim later.

Let me walk you through each of the businesses. First, we saw flat revenues in Quilter International, obviously not where we want to be, but not surprising given the slow outturn that I mentioned earlier. So, why flat? We've taken Quilter International through a major transformation. Over the past two years, it has withdrawn from 84 markets, placed renewed emphasis on best practice and it's been targeting higher quality new business. This has put the business in a stronger position for long-term success and positioned it well for the inevitable regulatory change that is coming in overseas markets, just as being the case in the UK. However, it will take a bit of time to get back to be firing on all cylinders.

Secondly, we saw a decline in revenues as the book runs off in Quilter Life Assurance. Again, completely in line with our expectations. Overall, that business has delivered flat profits as we look to manage the cost profile in line with revenues. We're making good progress in delivering mediation for customers, who fall within the terms of the FCA's thematic review and believe that our £69 million provision remains sufficient. Although, this is obviously subject to the conclusions that the FCA eventually reach from their review.

But most importantly, the jewel in the crown. You can see the strong revenue growth momentum in our UK Platform business, Quilter Wealth Solutions. Here, we've delivered revenue growth of 10% off the back of annualized assets under administration growth of 8%. And, of course, that growth has been achieved on our existing legacy platform. There really is a huge opportunity to be even better once the new platform is up and running.

UK Platforms are obviously a hot topic right now with competitors either having recently listed or announcing plans to list. Let me be clear, we think the key attributes for success in the platform space are scale. We are the second largest advisor (00:11:43) platform in the country. Service, we consistently win awards for best-in-class performances here and good technology. We're in a decent position now and it's about to get a whole lot better.

We don't think that there will be a big market for platform consolidation, at least not at the multiples that potential sellers would like to see. So, ultimately, weaker platforms are likely to wither on the vine. Our scale, client and advisor proposition, combined with our new platform technology, will ensure we have all the attributes that we need to be a winner in this market segment as our current profit growth trajectory is already demonstrating.

So, where are we with the Platform Transformation Programme, I'm pleased to confirm that we remain on track, on time and on budget with this critical program. We're making great progress. All the core code for the system has now been written and delivered to us by FNZ. There was excellent progress in code validation, which will continue throughout the summer. Integration and user acceptance testing are progressing well and we've already executed thousands of test scripts to identify possible software defects with these being quickly fixed by FNZ. Our teams are working very well together.

We anticipate, as we said, a soft launch either later this year or early in 2019. And again, as previously stated, this will be on a limited basis and is expected to be followed by a controlled migration of a portion of our existing book and this will determine the pace of the migration for the rest of the book. We're also taking note of other industry migrations and ensuring that relevant lessons are incorporated into our plans. We are focused on ensuring wholly uninterrupted financial advisor and customer service throughout the transition period.

Right. As you can see, the business is evolving very much in line with our expectations. I'll come back in a few minutes to talk about my focus and Quilter's growth drivers. But for now, let me hand over to Tim to take us through the numbers in a bit more detail. Tim?

Timothy James William Tookey

Great. Thanks very much, Paul. So, let's get into the numbers. I want to review our business from a top-down perspective, look at the key trends within each of the segments, share a bit of color on revenues, margins and cost trends, and give some further information on the balance sheet and capital.

I've provided here a quick snapshot overview of how Quilter works, starting top-left and working our way forward. Net client cash flow drives Assets under Management/Administration, which drives revenue which comes with costs that leads to profit and after-tax EPS. So, how has the business performed?

Well, as you heard from Paul, headline NCCF is down, but we think our outturn is pretty solid. Within this, flows into Advice and Wealth Management were up and they remained consistently good in Wealth Solutions, a solid result for NCCF and also a solid outturn for AuMA growth, which was up 2% from year-end against a more challenging market backdrop.

So, top-right, revenues are up 11% on a fairly stable margin, which I'll come back to in a minute and slowing cost growth up 10% despite the headwinds of listing and separation activities we've spoken about before. So, positive jaws leading to an operating margin of 29%. All this generated 16% profit growth to give £110 million of adjusted profit for the half year. Now, this drove 25% growth in earnings per share to £0.055, helped by a lower than expected tax charge.

Now, I do expect a broadly similar tax rate for the second half of this year, with this more likely to be at a normalized rate thereafter. So, a good set of maiden results, I hope you all agree, and one which delivers in line with/or slightly ahead of guidance albeit this is simply a half year checkpoint. Overall, though, the benefits of the business model and the investments in previous years are working alongside a disciplined approach to costs to drive profits forward.

Right, let's dig a little deeper, and let's start with Advice and Wealth Management. As Paul said, at a segmented level, this is the primary engine of future profit growth, and that's what you can see here. Profit growth of 47% to £47 million, I like those kind of numbers.

Now, that's obviously an excellent result, but before you extrapolate that into the future, I also wanted to highlight that the year-on-year comparison is being slightly boosted by a lower-than-expected FSCS levy.

As a result of the year-end alignment between the FCA and the PRA, the charge for this year for all industry players is only a nine-month charge. So, for us, this came in at £11 million when we were expecting £3 million to £4 million more than that. We'll be back with the full 12-month charge next year. So, this is a one-off benefit.

We're pleased with the modest improvement in revenue margins. Quilter Investors has benefited from continued flows into higher margin products. Now, here's good investment performance has continued to make these attractive funds for advisors and their clients. While this has been a clear positive, we think the overall margin within Quilter Investors will trend down due to mix considerations over the next 12 to 18 months. We therefore expect the normalized level of margin to plateau at a (00:17:47) modestly lower level than where we're currently at. All of this is absolutely aligned with the overall Quilter level revenue margin guidance we gave at the time of listing, which remains unchanged.

Now, the other thing that I did want to call out, which is something we regard as a particular success is that within the other revenue line, in the Quilter Financial Planning, we include advice fees. And these are up 17% year-on-year, much higher than the rate of growth in RFPs. Now that shows how much the value of advice is recognized by individual customers, together with the benefits of increased productivity and asset retention.

The growth in costs in this segment is a function of the investment we continue to make. Now, obviously carers (00:18:32) was only there for a month in the first half of last year and so were seeing the full impact from that. (00:18:37) continued expansion of Private Client Advisers, which saw nine business acquisitions in the second half of 2017 and the first half of 2018.

We've also seen the impact of building out our standalone business in Quilter Investors, and that process has reasonably advanced. We started the year with a head count of 45 in that business and we're now up to 79. We expect to reach steady state at around 100 people by 2019. However, revenue growth of 22% and cost growth of 16% is the sort of dynamic that we do like to see and now (00:19:14) that is not forward-looking guidance.

Moving on to Wealth Platforms, where the year-on-year growth and profits of 12% is a great outturn, even though we had a slight benefit from timing around costs with about £4 million of delayed technology spend falling in the second half of this year. As you can see, costs were well-controlled in Wealth Platforms, where if you adjust for the £4 million timing difference, costs were broadly flat with revenues up 3%, again, delivering positive operating leverage to drive the bottom line results.

12% profit growth is a very pleasing outturn. But as you know, this includes the drag from Quilter Life Assurance, which is roughly a quarter of Group profits. Quilter Life Assurance profits were flat, which in itself is a great result for a runoff business, but it does also mean that the profit growth as a go-forward businesses within this segment is around 19% year-on-year, despite the lackluster performance of Quilter International.

Now, this slide provides the bridge between NCCF generation and market movements to give the closing AuMA. And what was a more challenging backdrop for flows, as you can see the benefit of our diversified model, which still delivered £3 billion of net flows in the first half. Also note that market investment performance did not contribute any benefit in this half. We also highlight revenue margins at the (00:20:41) top line of the chart, the biggest driver of change here is mix.

I've said at our Capital Markets showcased in April that I expected revenue margins to slow in the near-term and become increasingly stable. Actually, we've seen a small improvement in revenue margin by 1-basis point to 57 bps. Now, this is primarily due to mix effects. I just mentioned the benefits of fund choices by advisors and customers within Quilter Investors, but we've also seen mix deliver margin stability in Quilter Cheviot. We would not necessarily expect these mix benefits to be sustained. And so at the Quilter level, we continue to expect to see a slowing of the rate of decline in revenue margins, which will then become increasingly stable.

Turning now to the cost picture. Now, the chart here walks you through what has changed in terms of our cost base compared to a year ago.

We have the additional costs associated with the LTIP, and other variable stock costs to accommodate this year. Standalone Managed Separation costs are now fully embedded at the guided level, adding around £14 million on a full year basis to our cost base. And, obviously, we've added to the business the (00:21:58) acquisition came in late in the first half of last year, and we've also had several bolt-on acquisitions within PCA business over the last 12 months.

So, this takes us to £275 million of costs for the half year. And as we think about the remainder of the year, bear in mind what we said about the FSCS levy, the timing of some of the cost within Wealth Platforms, and the ongoing build out of costs within Quilter Investors.

Let me talk to the operating margin for a second. And like Paul, my comments are designed to be balanced. At the headline level, we can see that the operating margin was 29% in the first half, obviously, a great outturn of flat to where we were for the 2017 full year. When we spoke back in the spring, I said that we expected some attrition in the operating margin from last year's 29% before we go back to the 30% target by 2020.

Now, I think the result for this half is broadly consistent with that and I want to explain why. Well, two things come to mind. First, as I said earlier, like all industry players, we had a bit of a windfall in this half from the FSCS levy coming in at about £3 million to £4 million less than expected when we gave a guidance at Showcase. That's equivalent to about 1% on the operating margin.

Secondly, as I also highlighted earlier, the Wealth Platforms' result is somewhat flatted by the timing on certain costs by about £4 million as well. So, adjusting for these two items, the 29% same for this half would on a sort of a like-for-like basis really are being 27%, which is where I had expected it to be.

A few final words on cash and capital. As you can see the Solvency II position after provision for the special interim dividend is 195% on a pro forma basis, a very strong position. The big movements from the 171% we discussed at Showcase are, of course, the completion of the sale of Single Strategy sale and the special interim dividend.

Now, one of the things we're often asked about during the IPO roadshows was about holding company cash, and therefore we've provided details here. Following the sale of the Single Strategy business and the various capital movements that occurred both, externally and between ourselves and our former parent in the run up to listing, we're left with a closing cash balance of £587 million.

Now, I'll be the first to acknowledge that this is a lot of (00:24:34) cash to have around. But it is before we pay the special interim dividend, obviously, and that will reduce it by just around £220 million. And, of course, as I said at Showcase, we're holding cash on the balance sheet to fund the remainder of the PTP costs, the UK Platform Transformation Programme, as well as having a contingency for any unexpected costs that may come out of the FCA's thematic review, including the ability to pay any potential fine against which, as you know, no provision has been made.

In addition, we're giving ourselves capacity to fund any initial costs associated with our optimization program. And of course, we need to have sufficient resources for the kind of severe market stress that underpins a prospectus (00:25:18) working capital statement.

So, we know we're in a conservative position. And whilst I accept that, I don't apologize for it. Conservatism is what you would expect from a newly-listed company with a few key areas to conclude and resolve.

And with that, let me hand you back to Paul.

Paul W. Feeney {BIO 17570862 <GO>}

Thanks, Tim. So, some clear messages there, which highlight that these are a good set of results. The business is very much where we wanted and expected it would be at this stage. We've always been clear with investors that while we think that Quilter's story is a good one, it isn't a finished one. We still have a lot to do.

This slide sets out what we think the key achievements of the first half were and what are our main priorities for the rest of the year. I'm not going to summarize them all, so let me emphasize that our near-term agenda is focused on four key priorities. First we need to implement our new platform and execute a successful migration for existing clients.

Second, I want to ensure that we continue to invest in growth by recruiting and building our base of Restricted Financial Planners and Investment Managers. Third, we want to ensure that we optimize our business, so that we deliver faster revenue growth than expand - expense (00:26:50) growth. And I look forward to updating you on our plans here with our full year results in March 2019.

And finally, delivering the right outcomes for our customers is still our guiding principle. Giving good advice, delivering good investment performance and ensuring excellent customer service are things that we will never compromise on.

So, in conclusion, let's recap on what we've done. We've delivered good growth in integrated flows and solid net client cash flow. We have delivered record profits, which grew by 16% and with EPS of 25%. We've listed the business. We have completed the sale of our Single Strategy business. We've repaid £300 million of debt and we've declared a special interim dividend, which gives all of the surplus proceeds arising from selling the Single Strategy business back to shareholders. It's been a busy half year and a good one. We remain confident of meeting the guidance that we set out in our prospectus to the market.

Now, let's open up the questions. Who's first? Andy?

Q&A

Q - Andrew Sinclair {BIO 17749036 <GO>}

Thanks. It's Andy Sinclair from BoFA Merrill Lynch. Three as usual for me. Firstly, on the number of Restricted Financial Planners. That's up to 1,590 at the end of the period. Just wondering if you can give us thoughts on H2 growth - and growth outlook there if still strong recruitment.

Secondly, just on the institutional pensions' outflows. Just wondering if you could let us know how much is going in H1, what your expectations are still for the run up (00:28:44) for that. And thirdly, just on DB to DC transfers. I think you said previously about a third of pensions' growth flows. Is it still around that level for H1? Thanks.

A - Paul W. Feeney {BIO 17570862 <GO>}

Okay. Thanks, Andy. Three questions there. 1,590 Restricted Financial Planners at the half year, up about 2% since beginning of the year. Decent showing. Not as good as I'd like it to be quite frankly. And we know that we (00:29:11) need to get moving on that for the second half. So I'm not going to give you a number, but I can tell you that we're very focused on it. Institutional pensions, if you look at we were...

A - Timothy James William Tookey

I know the answer.

A - Paul W. Feeney {BIO 17570862 <GO>}

You know the answer? Go on then...

A - Timothy James William Tookey

You want me to know the answer.

A - Paul W. Feeney {BIO 17570862 <GO>}

Well, I know then.

A - Timothy James William Tookey

You know the answer...

A - Paul W. Feeney {BIO 17570862 <GO>}

What do you think it is? What do you think?

Q - Andrew Sinclair {BIO 17749036 <GO>}

(00:29:26)

A - Timothy James William Tookey

(00:29:29) at the end of the half.

A - Paul W. Feeney {BIO 17570862 <GO>}

So, if you look at what we had six months ago, what we have now, you'll figure that would be a pretty simple sum. Thanks.

Q - Andrew Sinclair {BIO 17749036 <GO>}

DB to DC was about 25% of our platform flows.

A - Timothy James William Tookey

Gross. Gross flow.

A - Paul W. Feeney {BIO 17570862 <GO>}

The gross flow - our platform gross flows, yeah. Push it down a little bit on the same time last year, which is kind of what we'd expect. And this, Andy, as we all know, the industry and the regulator, we've got our training wheels on, okay? This is going to be a generational shift, and we need to make sure that it happens safely within the right, safe, secured framework. So, whether that means paying to Cheviot (00:30:12) what happens to contingent charging and qualification, we're all trying to put that framework in place. So, I would expect this to ebb and flow a bit over the next year or two.

Q - Andrew Sinclair {BIO 17749036 <GO>}

(00:30:24). Thank you.

A - Paul W. Feeney {BIO 17570862 <GO>}

Okay. Please.

Q - Adam Uddin {BIO 20403377 <GO>}

Thank you very much. Adam Uddin from Goldman Sachs. Just three questions from me please. The first was just on the operating margins. So, as you mentioned, it was impacted by a couple of one-offs in the first half. So, how might it develop for the full year?

And the second was on the UK Platform business. So, Quilter Wealth Solutions I think had net flows for Q2 standalone appeared perhaps a little bit more below trend than your other divisions, and I was wondering if there were any key drivers behind this. And then finally just on your advisor business and do you expect to grow it more by acquisitions or by organic means going forward? Thanks.

A - Timothy James William Tookey

Do you want to take the first one? I'll take the (00:31:05)

A - Paul W. Feeney {BIO 17570862 <GO>}

Yeah. Sure.

A - Timothy James William Tookey

So, we've been very transparent, Adam, and I wanted to be transparent to the market this morning on a couple of things that have impacted margin in the first half, because I don't want people getting too carried away. I'd actually expected margin to come in a couple of points lower than it has. Part of the reasons is a timing difference. So, clearly, you need to think about that in your full year. I'd also encourage you to think about some of the comments I made around cost in the context of costs in there.

But overall, we're very focused on the profitability of the business. We clearly got good momentum that we're continuing to enjoy in the business. We're very focused on driving that up and I stand by the guidance that we're going to get to 30% pre-optimization by 2020, the operating margin level. If we can get there sooner, that'd be great, but I'm not guiding to that, because I can't see it yet and that's why I wanted to just call out a couple of points in the half year margins, so people understood how I felt about the result.

Okay. UK Platform, we did £2.1 billion of net client cash flow in the first half of the year, which is same as last year and last year was an absolute record year for the industry as well as us. So, we've seen other competitors come in substantially lower. So, we're very pleased with that. We did see a softer Q2 than Q1. But again, I think that we're seeing that across the industry, where - I don't think that is an issue regarding our business.

Our job is to grow our business and to beat the competition. And from what I'm seeing so far. I think we're doing pretty well there, one of the reasons for this slight slowdown probably a bit less DB to DC. We've seen four (00:32:44) regulatory papers and there's (00:32:45) many months on this issue. As I say the industry is taking a breath to make sure we've got the framework right.

In terms of the advisory. Yeah. Certainly, we expect to grow our advisory - our advisor business through organic growth recruitment, through acquisitions and you're seeing we're still making relatively small acquisitions, but in the - particularly (00:33:05) in the Private Client space, and the growth of our Financial Adviser School and all of those levers are available to us, and we expect to be pulling all of them.

Q - Adam Uddin {BIO 20403377 <GO>}

Thank you very much.

A - Timothy James William Tookey

Okay.

Q - Gregory Simpson {BIO 18850594 <GO>}

Hi. Good morning. It's Greg Simpson from Exane. Just three questions. The first was on you mentioned advisor tenure helping productivity in the period. Could you give any guide as to what the average kind of tenure is it at the moment and where you find productivity kind of peaks, so. And, therefore, where you see the £1.8 million productivity at the moment evolving?

Second question was on the Investment Manager resignations. Could you talk about the reasons for that and any quantum you could give us on the AUM (00:33:54), potentially associated with those Managers? And then just finally on the tax rate, 8% is kind of the guidance for the full year. You mentioned a normalization. What is that normalized tax rate and how quickly do we converge to that? Thank you.

Okay. I believe (00:34:14)

A - Timothy James William Tookey

(00:34:16)

A - Paul W. Feeney {BIO 17570862 <GO>}

Why don't you (00:34:16) that one?

A - Timothy James William Tookey

Yeah. Okay. I thought you were going to take that. So the effective tax rate for this half I think will be replicated for the full year. We're still going through the finalization of the quite complex sort of unraveling of some of the tax aspects of the separation from the parent, and some of the co-promotion, some the costs associated with that. So, that's giving us access to some tax losses slightly earlier perhaps than I had anticipated. I can't see those into the future, which is why I think it's safer to guide that I think we will get back to what I will call the normalized rates back for next year and beyond.

And if I go back to sort of prospectus peak (00:34:59), where we were guiding on the tax rate, then you would have - most people interpret what we said in there to be around sort of 13%, 14%, 15%, low-mid-teens-percent for the company as a whole. So that would be the right kind of space for you to be thinking about. But if I do have an update to give on that, then it would be at the time of the March results.

A - Paul W. Feeney {BIO 17570862 <GO>}

Okay. In terms of advisor tenure and productivity, Greg. And we're very pleased with the fact that we've seen advisor productivity pick up to £1.8 million per advisor from £1.6 million. Don't forget, this is net. We look at net flow for our advisors, not gross flow. Some of our competitors look at gross. If you look at over the last few years, it's gone from like £0.6 million to £0.9 million to £1.6 million to £1.8 million. So, it's still increasing, but you're probably seeing the tail of the growth slowing a bit.

And what is the main reason for it? Tenure. It's simply that as advisors have longer time with us, they're getting more used to our products, to our services. Not surprisingly, those advisors who have been with us three years plus are our most productive advisors. Those who have been with us six months and below are our least productive advisors. So, as we bring in more advisors on, you will see ebb and flow a bit. So, I don't have actual number for you, but I'm pleased with the trend.

IM resignations. Yes. (00:36:20). As I say, we've had 12 resignations, some more senior IMs, some more junior IMs, and that's out of a total population of 160 IMs in Quilter Cheviot. We just had a major event, which is a listing of our (00:36:33) business. It doesn't happen every month. Few advisors have decided to move on. We're recruiting at the same time. So, I'm not going to go into actual numbers of portfolios and sizes, but 168, 12 have left, and we intend to continue to be aggressive recruit back.

And again, we have strong customer retention plans in place. We're unlikely to see any issues of 12, 18 months, but we've just - we're being conservative and being a conservative company, we want to let the market know there could be some impact (00:37:12) 18 months down the line on the QC side. But by that time, we expect QC to have built up its our investment management base again. Okay. Gurjit?

Q - Gurjit S. Kambo {BIO 6300383 <GO>}

Hi. Good morning. Gurjit Kambo, JPMorgan. Just a couple of questions. Firstly, do you charge any exit fees on your platform? Obviously, that's one of the things the FCA talked about in its platform market study. Secondly, just on client cash, and how do you deal with that in terms of paying out clients or do you charge anything clients holding cash? And then finally, just in terms of the Quilter Life Assurance business, the other revenue sort of dipped year-on-year. Is that just a function of the book running off or is there anything else in there?

A - Paul W. Feeney {BIO 17570862 <GO>}

Okay. Tim, I know that. (00:37:54) You take the third one?

A - Timothy James William Tookey

(00:37:55) third one I didn't hear, because I was thinking about the answer to the second one.

A - Paul W. Feeney {BIO 17570862 <GO>}

Okay. The Quilter Life Assurance, other revenue just running off, is that just...

A - Timothy James William Tookey

Oh, no. We had some particular claims in the protection – some of the protection products. Now, you've finally look at narrative halfway down at the right-hand-side of the page. I'll get you the page number. I'll give it to you afterwards.

A - Paul W. Feeney {BIO 17570862 <GO>}

Yeah. Okay. So, Gurjit on the first one, exit fees in our platform, no. We don't charge any exit fees in our platform. Holding client cash on our platform and charges that – we're very fortunate not to be able to do that. So, our new platform will be able to do that, but at present -platform does not hold cash on the platform...

Q - Gurjit S. Kambo {BIO 6300383 <GO>}

Okay. Thank you.

A - Paul W. Feeney {BIO 17570862 <GO>}

...so not an issue for us.

Please, gentleman here.

Q - David L. McCann {BIO 15885639 <GO>}

Good morning. Dave McCann from Numis. Just in terms of the change in net flows Q2 on Q1 almost slowdown perhaps you talked around (00:38:50) in the context I think of the Wealth Solutions business, the DB to DC slowing. But it looks like across the business Quilter Investors, Quilter Cheviot also saw similar trend and that looks to be both, the gross inflows slowing down, but also implicitly the gross outflow is ticking (00:39:05) up. So, maybe if you could provide a bit more color by division on what's caused people to put money – less money and take a bit more out? Thanks.

A - Paul W. Feeney {BIO 17570862 <GO>}

I think we're just – I think markets do ebb and flow a bit. I mean, we have seen across the industry. If you look closely, our industry competitors who've announced, that Q2 has been a bit softer. We've seen as I say a couple of things for us it's been three specific things. One has been DB to DC, which has been a bit slower for the reasons I mentioned.

Secondly has been Quilter International, where we've seen a much slower start to this half and that's continued in from Q1 to Q2. And then the other one we've seen a slightly slower Q2 in Quilter Cheviot. So, last year, in the first half, Quilter Cheviot did £600 million net flow. This half year, it did £500 million net flow, £300 million in the first quarter, £200 million in the second quarter. Quilter Investors had (00:40:06) very strong start to the year, even in Q2, but it was a bit lower than the first. So, I think we're just seeing that across the industry at the moment.

So, all we can do, and as I said before, my job is to grow the business and beat the competition. And markets will ebb and flow, and sentiment will ebb and flow. We don't manage the business specifically on a quarterly basis. Clearly, we look at things on a daily - weekly basis. But we manage it over - for a long term sustainable growth business. So, quarters will ebb and flow. Quarters won't always - the market won't always go up like that in terms of flows and sentiment. We'll compete in the market that we find ourselves.

A - Timothy James William Tookey

I think if you look at progress over the last year as well, Quilter Investors' assets were up 30% on 12 months ago. Quilter Wealth Solutions, UK Platform assets are up 14% on a year ago. Quilter Cheviot are up 7%, hitting a record high of assets. So, don't cane us for transparency without recognizing the strong progress made with everything else going on the business the time of separation and a listing. We're being very transparent and very balanced in our comments, so.

A - Paul W. Feeney {BIO 17570862 <GO>}

Please, again.

Okay. Yes. (00:41:27) color there. Maybe just a follow-up on that. I mean, did you see a kind of weakening over the quarter and also - I guess, have things changed, I guess, since period end? Have you seen any signs of improvement since the period end in terms of the, I guess, client sentiment flow picture?

I mean, Q3 starts with July, August. So, we've seen summer months and we've seen somewhat. But quite frankly, we've seen what we kind of would expect in July and August, which is a somewhat slower period than we would expect in other parts of the year. So, mainly as July we've seen that, but nothing that we wouldn't really expect. Please, Arnaud.

Q - Arnaud Giblat {BIO 15145619 <GO>}

Hi. It's Arnaud Giblat from Exane. Two questions, please. First on the cash flow conversion, I think it's in the low 80%. Could you help us - give a bit more color there in terms of providing a bridge as to how you go from 100% earnings to 80-odd-percent cash flow conversion for this half? And my second question is on the integrated flows. So, close to 100% of flows are integrated. What is the fee margin on the new business coming in?

A - Timothy James William Tookey

So, if I kick off.

A - Paul W. Feeney {BIO 17570862 <GO>}

Yeah.

A - Timothy James William Tookey

So, on the cash conversion. Cash conversion for the first half was 83%. That's consistent with the conversion last year. The biggest delta between the two is the capital, the net capital movements around the difference between businesses running off and the new business that we're writing. So, that's absolutely consistent with what we saw during last year. So, I'm quite comfortable with that.

I will be probably talking more about cash conversion on an annual basis. It's not something that I'd necessarily focus on – at interim periods. That's why this time I've given more information on the cash at the holding company level, which is clearly an important factor of the strength of the balance sheet and shows a key part of the composition of the strength of the solvency ratio as well.

As far as NCCF is concerned, remember that integrated NCCF is the aggregate of the flows at each time that we can earn a fee or take a margin on those flows. So, if I have the same pound that flows through the business and touches the smaller ones, I will add them together into integrated flows. So, it wouldn't be uncommon for integrated flows to be greater than the whole events this year (00:44:11), because obviously that's before we eliminate the double count. You'll see a line called eliminations on that table, which is there for a reason, but it does give you an idea of the importance.

But don't let that let you think that flows that aren't integrated, where we only actually earned one element that they aren't important to us as well, because they are and they are significant parts of the business as well and make a very valuable contribution to the return that we get.

The overall revenue margin, obviously, is a blend of what we're getting on flows and what we're getting on the stock. I don't have that split. It's not really how I tend to focus on it. There are some areas where I am seeing flows of higher margin products out. Classic example of that is the Heritage book. Okay.

So, that's the legacy product tended to be at higher margin, where we are seeing flows out. You may count on me, Arnaud, by saying, yes, but the Heritage margin is higher; and I will say yes, that's because of the institutional life book that's been running off, which is at very low single-digit basis points revenue margin, and that's information we gave in Showcase in November last year.

So, bizarrely, as that runs off, it makes diddly-doo (00:45:18) impact on income. But in a margin sense, you sort of see Heritage go up, and you think why. And that's, so there's a huge plain mix (00:45:28), very pleased with Quilter Cheviot, flat margin half-on-half. That's the first time we've seen mix actually benefit margin stability in there.

With the new flows into Quilter Investors, now there we've seen clients with their advisors select higher revenue income for us funds (00:45:47), but also ones that are given superior investment performance.

If you look at the chart that Paul had, look at that 10-, look at the 5-year investment performance of the multi-asset funds, and Cirilium is a large part of that, then that's a very important part of us delivering to customers. We're enjoying a high revenue margin on that. The customers are enjoying a superior investment return. That's a win-win. The shareholders win, customers win. So that's where actually revenue flows in the half have actually benefited us on the revenue margin side and income. Does that give you enough color?

Q - Arnaud Giblat {BIO 15145619 <GO>}

Sure. Thanks.

A - Timothy James William Tookey

Thank you. Sorry. That's probably your answer (00:46:25).

A - Paul W. Feeney {BIO 17570862 <GO>}

That's okay (00:46:25). Any more questions? Okay. We have some from the webcast, I think.

A - Timothy James William Tookey

There's two questions from the webcast. Michael Christelis at UBS is asking about the Heritage costs, where he estimates them being down 14% year-on-year and asking about the sustainability of that in the long-term for the business. And then, secondly, a question from Ed Houghton at Bernstein asking about Quilter Investors' one year performance and whether that's impacting the flows into the business.

A - Paul W. Feeney {BIO 17570862 <GO>}

Okay. Heritage cost down 14% year-on-year. So quickly (00:47:08) . But basically, I think Steve Levin who runs the UK Platform for us and the Heritage business has done a great job of being able to ensure we manage cost between the Heritage business and the UK Platform, which has enabled us, therefore, as our UK Platform is going like a train, enabled us to service that business with the support we need, human support we need whilst also taking cost out of Heritage book. But do you want to...

A - Timothy James William Tookey

Yeah. I'd agree. I mean, clearly, that's something we've done very well in the past. It's something we're very focused on for the future, because as the Heritage book does decline, we need to have a look very, very carefully at that cost base and we'll redeploy it where we can and try and minimize the impact that we have on the business from it.

A - Paul W. Feeney {BIO 17570862 <GO>}

Yeah. One-year performance, yeah, and we're focused on it. We've seen the number of our – a few of our portfolio, particularly in Q1 more than Q2 miss a beat a little bit overly cautious and – but quite frankly, they're multi-asset business. It doesn't take an awful lot – it's not like a Single Strat business, where the difference between Q1 or Q4 can be 20 percentage points. Here, it can be a matter of basis points that can take you above or below our peer group benchmark line. So, we've seen a little bit of softening there. We're completely focused on it. We managed the business for long-term performance.

Also, this is really important, about how we run our multi-asset solutions business, it's a solutions business. We're trying to hit actual custom outcomes from what customers are looking for from our investment solutions and we've done all of that. All of our investment solutions, multi-asset solutions, are all meeting their customer outcomes. Yes, a little bit softer mainly in Q1 in this respect, completely focused on it, and we'll address it. Is it affecting – is that affecting flows? No. That is not affecting flows.

Okay. Great. Well, thank you very much for joining us in our maiden set of results. We're very pleased with them. We hope that you will be. And see you in – see you at the full year in March...

A - Timothy James William Tookey

...if not before.

A - Paul W. Feeney {BIO 17570862 <GO>}

We'll be on the road a bit before then obviously. So, we'll see you and your clients before then. Thanks very much, everybody.