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New transformation programme and trading statement conference call

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Stephen Bird – CEO, abrdn plc

Overview

Good morning, everybody. Thank you for joining us for our Q4 trading update. And for the first time with you, I'm pleased to say that I'm joined by Jason Windsor, our CFO.

Today we are doing two things; first, announcing a new cost transformation programme, and second, we're updating our AUMA and flows for the second half of 2023 and giving you a preliminary outlook on the full year of 2023.

Starting with the transformation programme, we have said previously that we plan to go further on cost. We have conducted a root and branch review of all our support and operational costs, and today we're announcing a transformational cost reduction programme to save at least £150 million by the end of 2025, as we right-size the corporate center to fit a fully competitive modern investing business. These savings come in addition to the £75 million cost reduction target and investments that we have achieved in 2023.

Our Investments business remains core to our group, and we are committed to taking the steps that are necessary to improve its profitability. Around 80% of the total cost savings will benefit our Investments business, representing a substantial unburdening and providing more opportunity for future investment into the areas viewed by the board and by management as fundamental to improving the performance of the business.

The changing dynamics and challenges within traditional asset management are very well known to you, and we have been reshaping our business to address these factors. We have a clear view on what our clients want and on our areas of core strengths, and we are continuing to align our resources and capabilities accordingly. Market conditions have remained challenging. Institutional clients have been de-risking portfolios, moving into cash primarily in response to the geopolitical uncertainty and high inflation. That has had an impact across the entire industry as you will have seen from our sector peers. The strong rally late last year did not change those fundamental dynamics.

I'll now hand over to Jason to give you more detail on both the cost savings and the AUMA and flows disclosure that we are sharing with you today.

Jason Windsor, Chief Financial Officer, abrdn plc

New transformation programme

Thank you, Stephen, and good morning, everyone. I'm very pleased to have joined abrdn and to be here today to present this new transformation programme and the trading update. As Stephen just mentioned, the business has made considerable progress in recent years and are successfully refocused on three core segments.

Today, we'll concentrate on the group's largest segment, Investments and the steps we need to take to improve profitability and transform the way we operate to be as simple as possible using best-in-class technology wherever possible.

The cost transformation we're announcing today to remove at least £150 million of costs has required us to look more deeply at the group's operating model, particularly in the support areas. Let me give you a little colour on how we're going to achieve this new target. We'll be delayering management structures and increasing spans of control so everybody in the company will be closer to the customer, and whilst we do expect a reduction of around 500 roles across the group, the bulk of the savings will be non-staff costs. So, we're looking at further efficiencies from our outsourcing and technology. There'll only be modest cuts to the front office in Investments. In fact, the programme has been designed to avoid disruption to client service and to ensure we retain absolute focus on delivering investment performance for all of our clients.

The work to achieve these savings is already underway. We expect the bulk of the implementation to be in 2024 and the work to be completed by the end of 2025. We expect around £60 million of benefit to be in the P&L this year and that we will achieve the run rate of £150 million by the end of 2025.

Assets and flows

Turning now to assets and flows. At December 31st, 2023, Group AUMA was £494.9 billion, which is pretty much in line with the end of the first half position. There are a number of corporate actions which move AUM up and down and represent active reallocation by the group. The divestments of the discretionary fund management and US private equity businesses accounted for £10.2 billion of AUM, and this was partially offset by the acquisition of Tekla and closed end funds from Macquarie added £3 billion of AUM. In aggregate, corporate actions led to a net reduction of £6.9 billion.

Looking at flows in the second half, we saw group net outflows of £12.4 billion, which is about 3% of AUMA. In Investments specifically, AUM was £366.7 billion, down slightly from the 30th of June 2023 following positive market movements offset by net outflows and corporate actions. Insurance partners' net outflows was £1.3 billion, benefiting from strong bulk purchase annuity wins. In Institutional and Retail Wealth net outflows were £11.2 billion, excluding liquidity net outflows £8.3 billion, were driven by equities and fixed income reflecting the challenging market environment.

This is a common picture for the sector, but one of the key differentiators for this group is the diversity of our revenue streams we achieved through our Adviser business and interactive investor.

Adviser ended the year with AUMA 2% ahead at £73.5 billion compared with the 30th of June, however there were net outflows of £1.5 billion in the second half. Q3 in particular saw the lowest net flows on record across the advised platform market and Q4 was also soft. It was great that ii delivered net inflows of £1.1 billion in the second half with growth in customer numbers. There are now 407,000 people paying fees to use the ii platform.

I now want to take a moment to walk you through the 2023 margins, which we've set out in our statement, starting with Investments. Average AUM in the second half of the year was approximately £363 billion, which is around two and a half percent lower than the first half average. Outflows were most significant in higher margin asset classes and the second half market recovery was stronger for us in fixed income and in our higher margin equity business, which is as you know, Asia and emerging market focused.

Putting this together, our revenue margin in Investments for the second half was lower at 22.4 basis points compared to 24.6 in the first half. Group revenue was supported by higher interest income in ii and Adviser, which offset the revenue decline in Investments. With lower group operating expenses too, we expect 2023 adjusted group operating profit to be broadly in line with the consensus that we have collected from analysts.

For completeness, we expect adjusted capital generation to be ahead of that consensus, which is a result of the higher interest income on cash balances in group treasury.

Finally, from me, a note on segment reporting where we have decided to make the following changes.

Finimize and our group digital innovation group will move from Investments to Corporate/strategic.

Corporate/strategic will be renamed 'Other business operations and corporate costs'.

And the Personal business will be renamed 'interactive investor,' which is a terrific brand that we should be using consistently.

Thank you and I'll now hand back to Stephen.

Stephen Bird – CEO, abrdn plc

Thank you, Jason. We hope that you appreciate these additional disclosures that we're offering today. We are happy to take questions, but please remember that this is a trading update, and the more detailed, fully audited disclosure will wait until February 27. So, with that, we're happy to open up for questions.

Q&A

Nicholas Herman, Citi: Yes, good morning. Thank you for the call. Just three questions for me on the same theme. You reference the savings as free capacity to reinvest. With expected investments in inflation, how do you see net cost savings evolving over time?

Secondly, given that these are mostly back office related savings, did you get a sense of expected revenue attrition from today's announcement?

And then finally rounding that all up together, are we still looking at approximate 70% cost income ratio for the group over the medium term? I haven't seen any reference to a target cost income ratio. So, I'd be interested to hear how you are thinking about longer-term profitability for the group, please. Thank you.

Stephen Bird: Thank you for those questions. I'm going to hand over to Jason in a moment, but the programme has been designed to protect clients, protect the process of investing and to protect relationship management. So, we have not built into, or expect asset attrition or revenue attrition. As you know, we've completed most of our fund rationalisation that we previously shared with you. This programme has been designed to have minimal impact upon the front office. Let me hand over to Jason for the other two elements of that question.

Jason Windsor: Thanks, Nicholas, for the question. Overall, the programme we've announced is £150 million of cost removal between now and the end of 2025, when we'll hit the run rate. What we say in the statement is a £60 million benefit to P&L in 2024. That's a net figure for the group overall. Beyond 2024, we will expect some growth in expenses in Adviser and Personal, but the £150 million you can see we're saying 80% of it is coming out of the Investments business, so around £120 million. And £30 million primarily, if not exclusively, in the group costs.

That is an absolute removal there, but there will be some growth in the Adviser and Personal business. I think within our envelope, there will be some opportunity to reinvest, but I see that as further down the path, more of a '25, '26 issue as we do prioritise cost reduction in the near term.

We have not established a cost income ratio that we're aiming for. This will move us materially toward industry averages across the piece. We think this is a significant programme and will make the business considerably more profitable.

Nicholas Herman, Citi: Thank you for that. If I could ask one final follow up, Stephen, you've been at abrdn for three and a half years now. I guess the group has always stood out a little bit in terms of having a heavy non-comp cost structure. Why are you only doing this now?

Stephen Bird: Thank you, very good question. So first and foremost, what we did when I joined the group, we first focused on strengthening the relationship with Phoenix, which was our largest client, which we did. And we renewed them until 2031, and we have an excellent relationship with them. In fact, you can see strong BPA flow coming from them.

Secondly, we established the three vector model. And the reason we did that was because we wanted to take the listed stake capital from India primarily and invest in areas of higher growth. So, we acquired interactive investor and that established a leader in UK savings and wealth. The group has benefited enormously from that investment. And in fact, as you can see in these reported numbers, interactive investor continues to grow and take share during 2023 in spite of a tough environment.

We made commitments to rationalise our fund range from over 700 to less than 400. We have completed the bulk of that, and as you know the global investments business is a complex regulated business. We've refocused in areas of strength, which is specialist equities, fixed income, and alternatives.

What we're now doing, we promised £75 million of net cost reduction in 2023, which we fully delivered. This change that we have announced today, which is a step change, is about having a lighter corporate centre such that the three businesses are entirely responsible for product delivery, process, technology, competitive responses. That's the model that we built.

You'll note if you look at the numbers, we have reduced cost sequentially for all three years. The challenge has been that revenues have fallen faster, now the external environment was 1 trillion of outflows in 2022. Across the market there was 500 billion of outflows in 2023. Traditional active asset management has had 30 consecutive months outflows. So, the environment has been tougher than we anticipated, but our design of our group and the rigor within which we have established this operating model continues.

Hubert Lam, Bank of America: I've got three questions too. Firstly, on fee margin, the fee margin dropped significantly in second half by two BPs, half and half. I know Jason mentioned a mix shift out of high margin equities, but is there more than that in terms of repricing, dropping the margin lower in second half?

The second question is on cash margin and consumer duty. The FCA is asking you to get back to them by the end of January in the Dear CEO letter. I was just wondering if you can share with us your thoughts on cash margin in ii, how we should think about it going forward given the pressures the FCA is implementing.

And lastly on fund performance, can you share with us an update on your fund performance at the end of the year? I know at half one, about 58% of your funds were above benchmark, what is that today? And can you also talk about your fund performance and equities and fixed income? Thank you.

Stephen Bird: Thank you for those, there's a lot to unpack there. Jason, I'm going to hand to you to talk about fee margin and fund performance. Let me deal first of all with the CEO letter and cash margin in ii.

So, I've said this before, but we welcomed the consumer duty focus because we believe that transparency and pricing, delivering high value for clients is the right way to serve the UK market. That's why we bought interactive investor, who is well known as being a challenger in that market with very high customer satisfaction and supporting growth rates. ii have been incredibly transparent in the interest rate increases that we give. If you Google them right now, you'll see a table pop up and you'll see the interest rates that we pay and our clients enjoy. We have responded already to the Dear CEO letter in a very detailed manner.

We are confident that the overall value proposition that we provide is high value, is enjoyed by customers, has transparent and explicit pricing, because it's a subscription-based model. And we believe that we will continue to be able to take share in the UK because of the unique value proposition and the way that we deliver in interactive investor. So, I think we're in a strong position there. Let me hand to Jason to address the other two pieces of the question.

Jason Windsor: Morning, Hubert. On the fee margin, it is basically what I said, that we've seen a shift in the AUM from high margin equities and alternatives to slightly lower margin liquidity and fixed income. That's partly market movements, it's partly the gross flows, and there is a small delta between the new business which is coming on with slightly lower margins, some of the old business that's going off, that's going on within that.

So, there are a few moving parts across that piece, we haven't given fund performance updates. The trends are not dissimilar from what was discussed at the half year. We know fixed income continues to perform well and equities, under Peter Branner and Devon's leadership, is very focused on redressing some of the issues that they've had and improving the performance within that.

At the heart of the overall programme, is to make sure that we protect and then we enhance investment performance. There's no ambiguity about that and the way that we've gone about setting up the group for success is to absolutely focus on investment performance.

Stephen Bird: Let me just add a little bit of colour there. As you know, we have a high proportion of assets, about 38% of equities are APAC, 23% are EM, 3% China, 15% UK, 21% world equities. So, we do over index to Asia, and because EM has been somewhat out of favour, that has been a challenge. But we are seeing very strong interest RFP flow into these strategies as people prepare for the next stage of development of the world economy.

So, I think that it has been challenged and you saw the equity outflows that we refer to, but the our focus on improving performance…Peter's been in for almost a year now, Peter and Devon and team have actually implemented a whole series of investment process improvements because we are focused on turning that number around and we're confident that we're going to get there.

Enrico Bolzoni, JP Morgan: Thank you, good morning. Three questions from me please. So, the first one is just a clarification, if I look at the expected cost reduction, is it fair therefore to expect a year-on-year decline, sequential decline on the Investments vector in '24 versus '23, and then in '25 versus '24, while if I look at the other division considering the reinvestment, we might actually not see a sequential decline year-on-year in cost?

My second question is on the Adviser vector, also in light of recent reports from some of your peers, the flows, as you said, they were a bit weak there. Can you just give an update in terms of what do you see from a competitive landscape standpoint? Are things evolving in a way that you didn't expect, there's more competition or anything else we should be aware of?

And my final question I guess would be more generic. In light of this cost savings and reinvestment, shall we expect any change in terms of dividend policy or whether additional buyback in the future would be more likely or less likely? Thank you.

Jason Windsor: So, as I said in my prepared remarks, the £60 million benefit is to group operating expenses in the P&L. The overall programme is targeted at Investments and the group costs, known as other and corporate going forward. We do expect some growth in the Adviser and interactive investor costs, but that's a much smaller percentage of the overall group. So even with that, given the scale of this programme, group operating expenses will be coming down across the piece. Those two segments will continue to grow modestly. They're already efficient, but there'll be some modest growth in the expenses there.

Stephen Bird: And let me talk about the Adviser business. So, we shared with you before that we did a very substantial tech upgrade last year in the spring. That was the first time in 17 years that we were able to really invest in improving the experience for the independent financial advisers that use our platform. We had challenges as we did it. These large complex tech programmes are tough, and we had challenges particularly in the summer, and internally we have a focus on the timeliness of all of our service indicators, all the transaction processing indicators. And we've now got them all back to green, which is very important in terms of having the business set up out there competing.

We're telling you today that net asset value is up 2% benefiting from market movements, but we had net out £1.5 billion in the second half. We mentioned that the environment has been tough, cost of living pressures. We have seen clients de-accumulate faster, that's really what that number is that we've shared with you, as they've coped with the inflation and cost of living pressures. We should expect those to ameliorate over time, but mostly we should expect us to be back competing hard for business and we'll talk more about that at the full year, and we'll have Noel address that topic. Thank you.

Andrew Crean, Autonomous: Good morning all. Could I ask a number of questions? Firstly, to be clear around the base rates. If base rates come down to 3%, do you think your own cash margin will be unaffected? And certainly Hargreaves has given that indication but that was before the Dear CEO letter.

Secondly, you say that you're going to come in line with your consensus. Could you actually give us what the consensus is?

And then thirdly, this is the second round of cost-cutting, £225 million cost cuts, substantial, particularly in the Investments business. If markets don't recover in time, what is your plan B? Is there a further cut which can be made or is it really disposal plan?

Jason Windsor: Consensus of the 12 analysts that we've looked at, for operating profit we've got a mean of £247 million and a median of £239 million. That's not everybody, and the Bloomberg and FactSet is slightly higher than that. They picked up a couple of older discontinued ones. When we say consensus, just to be clear, that's what I'm looking at is those two figures. We'll publish this in due course, but obviously it might change slightly.

And for cap gen, and fewer people provide this, but we see consensus as £266 million[1] and that's the number that we've got from, I think that's about seven or eight numbers.

Base rates, obviously if it moved that much, we would have to think about that and it would affect the cash margin that we are currently moving. I think with more modest reductions, we would expect a similar level of cash margin. I think when you say own cash, I think you're thinking about interactive investor and Adviser, but I'll talk about both.

So, there would be some adjustment given the percentage of that is a material reduction. I couldn't give you a figure on the hoof for that. Obviously for group, we've got around £1.8/£1.9 billion of cash and liquid resources invested, and then we make a yield that is just below bank base rates. Some of that is slightly longer in invested, so there'd be a period where we'd perform higher, but eventually that would catch up to something closer to base rate. I think that's where forecasts are a little bit low at the moment, is on that level of interest income that is coming through the group.

[1] This figure has been corrected.

In terms of the plan that we've set, that does not rely on markets recovering. Obviously, we'd expect flows to recover, but we're not sitting here expecting to make materially higher revenues from a massive correction upwards in equity markets, for example, or any of the other markets. The cost position that we are going to move the company to will be resilient in the face of different market conditions. We will have a higher variable component as we look forward, but clearly we're confident that we can turn around the flow position, which will require a number of things to happen and to set the business up for more profitable growth into the future.

Bruce Hamilton Morgan Stanley: Hi, morning and thanks for taking my questions. Firstly, on the revenue margins in the investments business, obviously those came down quite a bit and you've explained why and that all makes good sense. But I assume given 22.4bps is the average for the second half and you saw flows throughout from higher margin, I'm assuming the exit could be a fair bit lower than that. If you could give any sense on that sort of 21bps or 20bps or whatever, that would be helpful.

And then anything around your confidence on flow recovery? I mean it sounds like obviously your performance is improving but still quite tough.

Then secondly, in terms of the sort of capital return planning and distribution policy, given the £150 million costs to achieve, which I guess is a cash cost, how are you thinking about the strengths of the capital position and any ability to do further buybacks or support the dividend? And where are we with the FCA discussion around perhaps reassessing your capital requirements? Thank you.

Jason Windsor: I'll take the first one if that's okay. So, the revenue margins were under pressure, as we said for the reasons I set out. We're not giving more precise figures than that, but you can imagine there was some movement across the two quarters. The Tekla deal did come in, which is a small but not insignificant benefit to revenue margin that came in sort of mid-October. So, there's a little bit of movement in the other direction as well. I won't give you forecast margins for 2024, I think we did want to make it clear where margins did end in terms of the second half overall for '23.

I think on capital, we remain a very strongly capitalised business. We've got significant excess capital today, on an equity and a total basis. I think what I'm going to do is park this conversation until February 27th. We've got further inputs to come, and I've got further work to do, frankly, just to piece all this together, then I'd rather think about capital allocation, capital return and deal with it comprehensively, and today's about flows, quarterly reporting and cost reduction.

[Stephen] can you say anything on the flow recovery?

Stephen Bird: Hi Bruce. Let me talk a little bit about it. We had some very significant wins last year, which are in the won not funded category. You know that we won the Border to Coast deal, which is two and a half billion, which is won not funded. So, that was one which we expect to fund in 2024.

When we analyse our total, we do two things. We look at our total pipeline, we look at won not funded, but we also look at loss not yet redeemed, and our won not funded exceeds that quite considerably. I'll not give you all the client names, I'm not allowed to, but the largest Border to Coast has been announced. In Asia we have a couple of significant wins as well, which I can't disclose the client names, but I can tell you they're in APAC. So, I think that the deployment there, there's about 3 billion that I'm looking at here that will deploy in '24.

We also have, when we track through the sales pipeline, we look at all the bids and RFPs that we're doing, and we've got about 14% increase in RFPs within equities. So, we're beginning to see some of that rotation of client interest into our equity positions.

We struggled a bit last year because the China recovery had impacts across Asia and there was more of a value tilt to the factors that outperformed, and as you know, to be a long-term quality book. So, we expect that to benefit as the rotation continues.

Gregory Simpson, BNP Paribas Exane: Morning. Three questions maybe. On ii, the release mentions 6,000 migrations from Investments, and so if you exclude this, it doesn't look like client numbers moved that much in the year, or you may be surprised at this given the strong value proposition, and I think you've invested in the marketing. Anything on the outlook around ii client growth going forwards?

Second question was on cash margin. I think in H1 the cash margin was 2.2, 2.3% in Adviser and ii. Has it held up around that level in H2?

And then further, on M&A I just wanted to check if the cost save plans involve any planned sales of businesses like you've done with private equity, or are all the plans organic in nature?

Jason Windsor: Sure. So, in reverse order, no, this is a cost reduction in plan. We say explicitly we're not relying on the announced investment of the private equity business in Europe. So that's the first one. This will be around actually cost removing operating expense from the business.

Yes, cash margin in H2 was similar to H1. I think what we say in the release on growth in interactive investor is the growth excluding the runoff. And we gave that disclosure previously, total customers, excluding acquired books in runoff, increased by 3.6% year on year. But you're right, there is a reinvigorated focus on organic growth, some expense associated with that, and the business is absolutely focused on gaining market share in its traditional business and SIPPs. And we expect to update you on it further as they do that, we're pretty excited about that.

Stephen Bird: Just a little bit more on that. interactive investor had net flows of £3.3 billion in the year. You'll see that there are external market reports already published for the numbers through Q3 and we had the highest net flow in the industry in those published numbers. We actually gained share in our share of trading, we gained share in our share of SIPPs, and as you can see, that's a pretty strong asset number.

So, there's a few ins and outs because you've got to look at what is the core book excluding the divestments, and when you do that, we are pretty comfortable that our competitive position improved through the year.

Steven Haywood, HSBC: Thanks very much. Good morning. A few questions from me please. Firstly, just following on the ii customer numbers, could you explain the migration programme here? Has it been done? Is there more to come from Investments to ii? And then you mentioned the 100,000 customers in runoff at ii. At what rate do you expect that to run off and sort of how much AUA?

Secondly, this might be very difficult to answer, but you gave market flows for 2022 and 2023. Is there any forecasts out there that you know about or your indications for 2024 market flows for active asset managers? That would be obviously very useful for everyone.

And then finally, from me at the full year results, should we expect any strategic update, any new group targets to come? Thank you.

Stephen Bird; So I'll cover a couple of those things. So yes, there is more growth to be accessed in the group for ii. As you can see from the release, there was around 6,000 customers that migrated from Investments in December, that's quite a significant transfer. You can think of them as orphan clients or clients that were sitting without a platform, but a significant number who will be served better in ii. So there is a boost coming from that.

But the team is resolutely focused on winning the external market. We went above the line with TV advertising. In the fourth quarter we've had a pretty robust start. I can't give you numbers. We'll give you more insight at the full year, but we've had a pretty robust start to the year. So we're pretty confident in the way that we're trading in ii.

In terms of the industry expectation, I mentioned the £1.1 trillion out, £500 billion out. The industry expectation is about 2% inflow in 2024. So basically, if you take the '22, '23 as the sharpest rise in rates in over 40 years, and if you then model out what is fairly modest peak rate assumptions and cuts in 2024, that starts to see a rotation back into risk assets. So, the industry's fairly cautious.

I attended a dinner a week past Tuesday with most of the providers and there were a few external sources of market commentary, and the external sources of market commentary were arriving at a consensus of a 2% inflow. So, I think we are not counting on it, the actions we are taking today are about controlling our own destiny, getting our cost structure in the right place, crystallising the final shape of the group of three businesses with a light corporate centre, but the best number I can give you is a 2% inflow.

In terms of ii migrations, there's further from Investments, significant customer migrations coming in this year. We always described it as two pieces.

There was a small piece which would happen before year-end and the larger piece would happen during 2024, and that's completely in train.

Steven Haywood, HSBC; And on the runoff side for ii?

Jason Windsor: I don't know, Stephen, if you've got a number. I don't have a number; I'll probably pick up one up with you afterwards. That's probably better. And we'll provide the disclosure similarly as we did in '22 with the full year results to show the movement in those books that we're referencing today with the total customer numbers. So, you can see the pattern that we referenced

Stephen Bird: And we'll break out at the full year our SIPP growth which has been robust as well.

Oliver Carruthers, Goldman Sachs: Two quick questions please. The first one, is the £150 million cost saved target based on the 2023 P&L OPEX number, or is it the 2023 exit number? And are you able to clarify where you see the 2023 exit OPEX number just so that we can have a base in mind? That's the first question, and the second question, at the half year results in July, Rene talked to a strong flow pipeline into fixed income. Where do we stand today on this and what does it take to convert this pipeline into decent flows? Thank you.

Jason Windsor: Okay, I'll take the cost one. It is based on the 2023 actual number and it's a reduction from that, and as I said, I'm not giving you the actual closing cost figure for '23, but we are slightly lower than consensus where we've hit group operating expenses overall, if that's some help to you.

Oliver Carruthers, Goldman Sachs Presumably the base, so the exit number is lower than the actual as well because of the net save £75 million in the Investments sector in 2023.

Jason Windsor: Marginally. I mean a lot of that was actually pretty well done in the first half and through the year. That was a £75 million programme achieved in the year. So, across the board. So that was not a run rate figure, that was an actually achieved figure. So that is in the number that I've just referenced for the lower operating expenses.

Stephen Bird: Yeah, and in terms of fixed income, I mean, it is fair to say at the half year we were anticipating peak rates and a more aggressive rotation into fixed income. You can think of that, I think probably as a bit of a lag because it's becoming more apparent. We will break that out in detail or a full year on the 27th.

Mandeep Jagpal, RBC: Good morning. Thank you for taking my questions. Just two please. First one is on net flows in Investments. Are you able to provide a split for the FY 23 net flows between institutional and retail wealth separately, and how the trends between these two types of clients differ over the year? And also, you talk about the structural headwinds facing the industry and how do you specifically think of what are the major ones facing abrdn as you head into 2024, and how do you think this will impact your ability to turn around the net flows in the Investments vector?

Stephen Bird: Okay, so we will provide all the detail, the splits and the asset class splits, Institutional and Wholesale on the 27th of February, but this is a trading update unaudited, so we won't be doing it here.

In terms of the structural headwinds, I mentioned £1.1 trillion out, £500 billion out. So negative flows across traditional active. The largest headwind in the short term has been the rise of the risk-free rate, so a massive rotation into cash is which is what we've seen. The longer-term structural headwinds have been the rise of index-based investing, whether it be ETFs or some form of index-based investing, and also the growth of alternatives, private markets, which would be real estate, logistics, infrastructure credit. We have actually a large alternative business. I made reference to the Border to Coast win, which is a real estate win, which we'll fund during 2024.

So, we have focused on growing our alts franchise. We've got a good private credit business, we've got an infrastructure business, we've got a strong real estate business. We acquired Tritax, which is a strong warehousing and logistics franchise. So you would expect us to continue to do that, which we will do. We're sizing this group for being a specialist equities house, so, think emerging markets, think Asia and the growth of India, which is positive. Japan is having a positive run. We have investments significantly in both of those places. So I think the specialist equities franchise is a good one and we have scaled out of, if you think global large cap, you've got to be a specialist equities investor. Our fixed income franchise is incredibly strong. It's our largest single franchise. It comes from our heritage of being a strong pensions investor. We have very robust investment performance across that franchise, something greater than 72% outperformance across one, three, and five in the fixed income franchise.

So, the way we are addressing this market challenge is firstly making sure that we're differentiated within Investments. We've got a programme of improving investment performance, but the shape of the group is specifically designed to play into the trend of increasing democratisation of finance. People taking responsibility for their own pensions, everybody having a pension on their phone. The interactive investor business is in exactly the right spot with the right value proposition in UK savings and wealth.

We've retooled the Adviser business in order to be able to serve intermediaries efficiently and with the right services. And we think the combination of having distinctive investing content delivered through platforms is the right model for a business that is facing disruption. And if you're not doing those things, if you're not addressing those major shifts in buyer behaviour and the use of technology, we think that you're going to miss out.

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Well, thank you very much for joining us for this trading update. This is a serious business, we have sized this transformation programme to get the group to the right shape to allow each of the three businesses to not only survive, but to thrive. And we believe that we're going to restore the profitability to our Investments business to a much more acceptable level, and you will see us do it with pace and vigour. Thank you for joining us and we'll see you on the 27th of February.

ENDS

This transcript reflects best efforts to record the details of the call, there may be some errors.