



abrdn plc

Half year results 2023
presentation transcript

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Stephen Bird – CEO, abrdn

Building a stronger abrdn

Good morning, everyone. And welcome to abrdn's 2023 half year results presentation.

I'm delighted to have our Executive Leadership Team with us. We'll be taking you through our strategy and progress. Ian Jenkins, our Interim CFO will take you through the financials, and then we'll open up for questions.

At our full year results in February, I described 2022 as one of the hardest investing years in living memory. Well, 2023 has been a continuation of those challenging markets.

We're facing geopolitical risks, stubborn inflation driving interest rate rises, emerging credit risk, and the evolving industry dynamics in traditional asset management, such as the continuing growth of passive and index investing, the democratisation of technology and finance, and the rapid expansion of alternatives.

Against this backdrop, we are focusing on the things we can control and building a stronger business model. Our first half results for 2023 demonstrate the resilience that we built into the group. We've delivered a 4% increase in revenue and a 10% increase in profits, thanks to the six months contribution from ii.

We're committed to reducing costs as a percentage of revenues by streamlining and refocusing on our areas of strength in the Investments business. We are on track to achieve our net £75 million cost reduction target with £30 million delivered in the first half.

We've made significant progress in simplifying our business; closing or merging 43 funds, bringing the total to 101 out of an upsized target of 143.

In our UK Savings and Wealth businesses, we've implemented two critical platform and technology upgrades to enhance the user experience for clients, a complete redesign of ii's front-end technology and a full platform upgrade within Adviser.

We've also been diligent in managing our capital.

We sold our remaining stakes in HDFC Life and HDFC Asset Management during the first half, generating £535 million in cash and further streamlining our group structure. The discounts on these transactions were kept tight at around 1%.

As promised, we've continued to return excess capital with the initial £150 million buyback nearly complete, and today we're announcing an extension of this program to a total of £300 million.

With the shape of the group now settled through the acquisition of ii, our focus is on the Investments business. We've made strategic moves such as the acquisition of US-based Tekla Capital and the sale of our non-core US Private Equity business.

Changes in our portfolio will seek to capture the most attractive megatrends that will shape the future of the investment industry, with health and biotech being one of them. Tekla Capital is positioned at the forefront of this trend and strengthens our closed-end fund business, where we are already a top three global player with £27 billion of assets once the Tekla deal closes in the second half.

You can expect to see us execute against strategic bolt-on investments like this as we seek to grow and strengthen our Investments business.

Benefits of a stronger business model

As you're aware, we're transforming abrdn from its traditional insurance and asset management heritage to a customer-centric investing business fit for the future.

We have positioned ourselves for growth across the three businesses: Investment, Adviser and Personal. Our diversified model caters to our clients' needs and gives us many more ways to win their trust and help them be better investors.

In another challenging year for investment flows, Personal and Adviser have offset the reduced revenue within Investments. ii has already surpassed the original investment case that we set out, at the time of the deal in 2022, and it has much more growth potential ahead of it.

Together, Personal and Adviser accounted for over 85% of abrdn's adjusted profits of £127 million in the half. Our investment to achieve this diversification has improved our operating margin mix as platforms have a considerably lower cost to serve than asset managers.

Moving at pace to build foundations for change and growth

We've had a busy year so far, making significant operational and strategic progress across the group.

Focusing on our Investments business, we've continued to move swiftly, taking decisive action that was necessary to achieve a more satisfactory level of profitability and to establish a solid foundation upon which we can grow.

Looking at our strategic and operational progress over the last six months, we've built a team of talented and driven leaders as we simplified and embedded our structure, and we continue to attract top talent to the company.

René Buehlmann has been appointed as sole CEO of Investments, and Peter Branner has joined as Chief Investment Officer. Xavier Meyer was appointed as Head of UK and EMEA, as well as Chief Client Officer. And we recently announced that Jason Windsor will join us as Group CFO in October.

The Tekla acquisition exemplifies our commitment to investing in solid businesses with strong track records of growth. The Tekla team has an impressive 20-year record in specialised healthcare and biotech thematic closed-end funds, with \$3.2 billion of

assets and \$32 million of revenues. The Tekla investment team will join us and support the launch of new products into this high growth theme.

Now, I'll hand over to the vector CEOs who will discuss their progress and future positioning beginning with René.

René Buehlmann – CEO, Investments

Defending our position in a challenging environment

Good morning, everyone. As this is my first results presentation since taking on the expanded role as sole CEO of the Investments business, I'm glad to be here in person.

The current environment is challenging for everyone, with the industry seeing well over £200 billion in outflows from cross border mutual funds in the first half year of this year.

I want to begin outlining how I think about this business. Firstly, how are we performing in terms of flows compared to peers? Secondly, are our capabilities and product pipeline competitive to succeed? Thirdly, are we improving our overall profitability and quality over earnings?

Starting with the flows, our sales traction is in line or even outperforming the industry in some areas. The slide shows you our gross sales, redemptions, and net flows over the last two and a half years, excluding the historical Lloyds withdrawals and liquidity flows.

We have maintained consistent gross inflows reaching £22.1 billion in the first half. Our largest gross inflows have been in specialist funds in our key areas of focus.

£750 million gross inflows into our China A specialist equity fund, which has a strong long-term performance and a recent Morningstar silver rating. £300 million gross inflows into our APAC sustainable equity fund and £350 million gross inflows into our Euro Corporate Bond Fund.

Our Phoenix partnerships continues to produce results with £3.2 billion of gross inflows in the first half year from their Bulk Purchase Annuities business, and we expect this to continue.

We are committed to Phoenix as our largest client. The strategic alignment between our firms has never been better. abrdn is the leading beneficiary of Phoenix's Bulk Purchase Annuities and new open business growth, both areas that are strategic priorities for Phoenix and where they continue to make strong progress.

Legacy products, including GARS, contributed to over £500 million of outflows in the first half. As part of our continuing rationalisation, we have announced merging the residual GARS assets into our top quartile Diversified Assets strategy.

Total net outflows from Investments, excluding liquidity, were £5.7 billion in the first half or 1.6% of opening AUM. However, we returned to a net inflow of £200 million in quarter two, evidencing our solid sales teams and client relationships.

In summary, we are selling well and we are defending our position effectively in a highly competitive market.

Focusing on areas of strength

At our full year results, we outlined our strategy to reorganise the Investments business into Public Markets and Alternatives.

We have a robust pipeline across these core strengths, and we are confident in winning new business as we deliver value for our clients and the firm.

In Public Markets, our most significant current growth opportunities lie in Fixed Income where we manage £125 billion in assets, including assets managed for Phoenix. Fixed Income is a core competency rooted in our heritage and, with the recent market shift towards fixed income as interest rates rose, our pipeline is encouraging. This has not been the case, for many years.

Our confidence in our capabilities here is demonstrated by our investment performance with 77% outperforming over three years. In Credit, 99% of our assets are outperforming over three years. Key funds like Emerging Market Debt, Euro High Yield, and our new Climate Transition Bond were top quartile performers in the first half year.

With the current high interest rate environment, we therefore see strong demand in Credit where we have a robust pipeline. We have recent mandate wins in Emerging Market Corporate Debt and Euro Investment Grade bonds that are yet to be funded.

In Specialist Equities, we are focusing on our established strengths: Asia, Emerging markets, Small and Mid-cap, Equity Income and Sustainability. 78% of our Emerging Markets AUM is outperforming over three years. We are also aiming to widen the distribution of our top quartile Global Emerging Markets Income capability. And we believe our strong Sustainability credentials position us particularly well in this area of client demand.

Our £81 billion Alternatives franchise has scale and has recently undergone a repositioning to better serve client needs. In a market with variable performance, our listed real estate funds performed particularly in quarter two.

Even as we restructure, we continue to win notable new business, such as the £4 billion allocation from the Border to Coast Pensions Partnership, which has not yet funded. As a matter of fact, Real Assets make up the majority of our won-not-funded pipeline, including within our Real Estate Multi-Manager business.

As a leading player in the logistics space through Tritax, we manage two of the largest listed logistics funds in the European market.

Our Private Credit strategies, amounting to £8 billion of AUM, have built a very strong demand pipeline, including commercial real estate debt, fund finance, and tailored opportunities with insurers. To help drive this business forward we have recently appointed a new Head of Private Credit.

Our Alternatives Investment Solutions business includes our US commodity ETF range with £5.7 billion of assets, our fund of funds and hedge fund indexes, and our emerging digital asset capabilities. In the first half, we have also reached a milestone in our digital asset strategy with Archax creating tokenised representations of interests in our abrdn Sterling flagship liquidity Fund on their platform, which will actually start trading today.

As part of rationalising to our strengths, we have also reviewed our Private Equity business, which is largely a fund of fund business and, as a result, we have recently announced the sale of our US Private Equity assets.

I hope these examples highlight for you the solid product and performance foundations that we are establishing, which will help us to grow our business going forward.

Building a profitable specialist asset manager

As we pursue the simplification necessary to improve our cost/income ratio, we are refocusing our business on areas of strength through non-core exits and our ambitious fund rationalisation programme, which is on track.

We recognise that there is still significant work to be done to address performance headwinds and subscale parts of our business, and we are taking appropriate actions. Let me illustrate this with two examples.

We have consolidated our developed market equity strategies to focus on delivering in four areas of client demand: Sustainability, Income, Small Cap and Thematics. This realignment helps our teams to concentrate on equity outcomes where clients continue to value an active approach.

We have also reshaped and refocused our multi-asset offerings, an area of historical strength for abrdn. Our goal is to create products that meet today's market needs. As more wealth and saving responsibilities have devolved to private individuals or their advisers, there is a demand for outcome-oriented model portfolios, which we view as a key offering going forward. Our new CIO Peter Branner will play a significant role in this process.

As Stephen mentioned, we are on track to deliver our net £75 million cost saving targets. We have achieved £30 million of savings so far, partially driven by a 9% reduction in front- and middle-office headcounts.

Additional actions in the second half are on track to deliver the full £75 million of savings this year, and we don't intend to stop here and are actively exploring further opportunities to simplify our business and improve efficiency.

I will now hand over to Noel to discuss the Adviser business.

Noel Butwell – CEO, Adviser

Strong earning in challenging conditions

Thanks very much, René. And morning, everybody.

Well, despite a challenging market, given the impact of the cost of living increases on savings and investment, we've achieved P&L growth for the business with revenue up 12% at £103 million, and adjusted operating profit up 29% at £49 million. This success comes from disciplined cost management and increased cash margin for abrdn and our customers. As a consequence, we achieved one of the best platform cost/income ratios in the market, at 52%. In addition to this, we also maintained our A rating for financial strength from AKG; and remain the only platform in the market to have this rating.

Customer activity in the advice market has been significantly impacted by the shift from a low inflation, low interest rate environment to the high inflation, high interest rate environment. And this change has reduced both customers' propensity and ability to save.

In the first half, we saw a 25% decrease in inflows from our large back-book of existing customers. Additionally, we also experienced a 20% increase in outflows from customers in drawdown, as they also adjusted to the increased cost of living. As a result, advisers have been focusing on assisting clients through the current economic challenges, but both of these trends align with the broader market dynamics.

In February of this year, we launched the most significant technology upgrade since the Wrap platform's debut in 2006, initiating the next stage of our Adviser Experience Programme. Now, this development has transformed our service proposition and has laid the foundation for future growth with a modern modular tech stack that enables more frequent upgrades and improvements to get ahead of the market trends.

Moving forward, the next stage of our Adviser Experience Programme will be the introduction of adviserOS later this year. This will be launched alongside our new on-platform pension proposition. What has already been delivered laid the technological groundwork for Adviser OS, allowing us to launch without any substantial new investment.

I'm confident that adviserOS will reinforce our market-leading position in content and experience and act as a real differentiator for us. Replacing Wrap and Elevate, it will offer a single flexible proposition to advisers.

adviserOS extends our existing services, allowing us to go well beyond traditional platform offerings to provide broader solutions for advisers to assist them to grow their businesses. We're also working very closely with our colleagues in Investments to ensure our Model Portfolio Service propositions are tailored to meet the needs of the adviser market. Despite the current market conditions, the midterm market

opportunity remains very attractive with forecast market AUA growth of 11% per annum.

Through leveraging our technology upgrade and with the upcoming launch of our new on-platform pension, we're well positioned to drive new business through our three pillars of growth – existing customers, new customers, and new clients – building on and reinforcing our leading position in this expanding market.

With that, I'll now pass over to Richard to talk us through Personal.

Richard Wilson – CEO, Personal

Scaling up our UK savings and wealth businesses

Thank you, Noel.

As Stephen mentioned, we are moving at pace to build and reinforce foundations for change and growth, all of which is evident in the Personal vector's performance during H1. At our Spotlight on Personal events in Manchester last month, we highlighted the changes we've already implemented and our plans to realise our market potential.

In terms of financials, Personal delivered a net operating revenue of £152 million in H1 '23, up 27% compared to H1 '22 on a six-month pro forma basis, driven by the rapid pace of base rate increases and the interest yield earned on client cash balances.

We delivered an adjusted operating profit for H1 of £61 million, a 79% increase on a six-month proforma basis, resulting in a cost/income ratio of 60%. AUA ended the half at £67 billion, 4% higher than the opening AUA after adjusting for the MPS service transfer to the Adviser business in April.

Our focus this year is on delivering a swift transformation to the desired end-state model. We announced the sale of Discretionary Fund Management business to LGT group in February and are restructuring our Financial Planning service, both expected to be completed in H2. The restructured Financial Planning business will improve its cost performance and allow us to broaden our service proposition by offering financial planning services to the ii customer base.

On July 31st, ii announced updated subscription and commission pricing to broaden our competitive positioning to a wider audience. From being the best value platform for portfolios from £50,000, we are now the best value in the market from £15,000. As discussed during the Spotlight session, we will position our subscription plans and pricing more actively in the market with increased brand investment in the coming months.

We continue to invest in our technology platform deploying new website infrastructure in February and enhancing our mobile app's functionality. A well-defined roadmap of

further developments is planned for later this year and into the next. These will include offering an enhanced research hub, ii community and Portfolio Partner as demoed during the Spotlight session, all designed to improve our customers' experience and access to leading investment solutions.

Since joining abrdn over 12 months ago, ii has begun to leverage abrdn's broader capabilities. For example, the upcoming Portfolio Partner offering benefits from the Investment vector's product engineering capabilities. We've also started migrating abrdn's existing DTC customers onto the ii platform, a process that will be completed over the next 12 months as part of abrdn's broader ongoing business simplification and focus.

Business model delivering quality growth

As Stephen has said, Interactive Investor has exceeded the investment goals abrdn set when acquiring the business in May '22. In the first half of the year, ii contributed £115 million to group revenue and £67 million to adjusted operating profit, achieving a cost/income ratio of 42%.

While market conditions have been challenging impacting new customer numbers and trading levels, our diversified revenue streams and subscription-based pricing model continue to ensure a resilient performance. In H1 net treasury income was £66 million with an average margin of 229 basis points. ii has increased the rates it pays to customers four times since the start of the year.

Although new customer numbers were lower than planned, if we adjust for the expected higher runoff from recent client acquisitions, notably Share Centre AQL in '21, our base has grown by 1% in the first half. Net new flows have remained positive at £1.9 billion representing 3.5% of opening AUA.

Encouragingly, we improved on the number of customers holding their SIPP through ii up 11% in H1 and our market share continues to progress.

Now I'll hand over to Ian.

Ian Jenkins – Interim Chief Financial Officer

Half year results summary

Thank you, Richard. Good morning, everybody.

In, H1 you can see the benefits of a full six-month profit contribution from ii of £67 million compared to only £6 million for the one-month in H1 2022.

Our net operating revenue grew to £721 million at £25 million or 4% increase and excluding ii revenue would be £77 million or 11% lower. Adjusted operating expenses

rose to £594 million, up £30 million or 2%, and excluding ii expenses would've been 5% lower, largely reflecting the cost savings within Investments that René set out.

The headline adjusted operating profit of £127 million is up 10% driven by the increased contribution from ii exceeding the reduction that we've seen in Investments.

The cost/income ratio of 82% improved marginally by one percentage point reflecting the benefits from the efficient Adviser and Personal cost models.

The IFRS loss before tax has improved to a £169 million loss including £181 million reduction in the fair value of our listed investments and restructuring and transaction costs of £113 million.

Adjusted diluted EPS is up 68%, largely reflecting the benefit of both higher interest rates on our liquid assets and the share buybacks that we've undertaken.

Adjusted capital generation has improved to £142 million, which results in a dividend cover of just over one times, and the absolute cost of the interim dividend has reduced 10% due to those buybacks.

And the interim dividend of 7.3p aligns with our dividend policy.

AUMA

Turning to assets under management, during H1, these decreased by less than 1% from £500 billion to £496 billion. This reduction arises from net outflows (excluding liquidity) of £4.4 billion, in the period, which are lower than the H2 of the previous year.

Within the Investments vector, our assets have fallen from £376 billion to £368 billion in the first half and net outflows (excluding liquidity) were £5.7 billion in the period and showed an improvement over H2 of the previous year. The downward market movements of £2.5 billion in the half reflected adverse FX movements and a decrease in real assets, but an improvement in both equity and fixed income markets.

And looking forward, the sales of our US private equity and Discretionary Fund Management businesses are expected to complete in H2 as will the Tekla acquisition.

Revenue

Operating revenue is £721 million, up 4% on last year, benefiting from a full six months of ii and the higher net interest margins in both Adviser and Personal.

Net flows, yield, and market levels, which drove lower average AUM, all had negative impacts on our revenue in H1 2023.

Across our vectors, more than 35% of the revenue now arises from Adviser and Personal.

Operating expenses

Focusing on operating expenses, and excluding ii, we've seen an 8% reduction over a two-year period and we will continue to prioritise efficiency.

Excluding ii, expenses were 5% lower at £546 million compared to H1 2022. Staff costs decreased by 7%, benefiting from 11% lower FTEs, whilst variable compensation aligns with business performance. Non-staff costs have also fallen by 4% as we continue to simplify the organisation. And as Stephen mentioned, we're on track to deliver the net £75 million savings within Investments.

Investments

Moving on, as René has covered within Investments, adjusted operating profit was £26 million with a cost income ratio at 94%.

This reflects the outflows and market performance impacting average AUM whilst operating expenses have reduced by 6%.

Adviser

Within Adviser, adjusted operating profit of £49 million represents a 29% improvement, benefiting from the higher net interest margin, which increased revenue yield by 3.3 basis points. And operating expenses, as Noel has outlined, have remained broadly stable.

Personal

As Richard outlined within Personal, our adjusted operating profit of £61 million is up £54 million compared to H1 2022. However, as we've mentioned, this reflects the inclusion of ii for a full six months as opposed to only one month in H1 '22.

ii revenues continue to benefit from multiple revenue streams with net interest margin contributing £66 million in H1 due to the rising interest rates whilst trading revenue was at 25 million and subscription revenue at £27 million.

The cost income ratio of 60% improved by 28 percentage points reflecting the higher efficiency within ii.

Capital

And finally turning to capital. Our capital position remains strong. The H1 2023 surplus is up approximately £300 million to over £1 billion.

The disposal of our remaining HDFC Life and AMC stakes had a capital impact of £576 million and we have today announced the extension of our share buyback to £300 million.

I'll now hand back to Stephen.

Stephen Bird – CEO, abrdrn

Clear approach to capital generation and allocation

Thank you, Ian. We are disciplined allocators of capital. Our focus is on investing in high-quality businesses that generate long-term sustainable growth while delivering sustainable dividends and returning excess capital to shareholders.

Today, we are announcing an extension of the £150 million buyback program to a total of £300 million pounds.

When we identify value creating bolt-on opportunities such as Tekla, you can expect us to execute against them in a disciplined fashion.

As part of our capital allocation approach, we maintain a £500 million buffer to provide management flexibility, capital strength, and resilience during periods of volatility.

Building a stronger abrdrn

As I said at the beginning, the microenvironment continues to be challenging, but we are focused on what we can control. We delivered a strong profit performance in Adviser and Personal in the period while we continue to focus on transforming the Investments business. These investing businesses complement each other and we're starting to see how they can work together to create further value.

There is more work to do and we're under no illusion about that, but we are confident in the trajectory that we have created and the progress that we are making. With our three investing businesses, we're building a stronger abrdrn with a diversified business model that positions us for success through the cycle.

Now we're happy to take your questions.

Q&A

Mandeep Jagpal, RBC: Thanks for the presentation and taking my questions. Just three from me please.

The first is on capital: adjusted capital generation over the half worth £142 million and this is used as a measure of dividend affordability, but what is the conversion of capital generation to cash generation over the period? So, trying to get a better understanding of the contribution of non-cash items into adjusted capital generation.

Secondly, on net flows, you've helpfully provided a more granular disclosure on the investment vector flows and you reported an improvement in flows in institutional year-on-year and more specifically in Q2. What was the driver there and how sustainable do you see that improvement and what trends are you seeing within the DB space in the UK?

And the final one is just on Phoenix. You mentioned, René, that abrdn was best placed to benefit from Phoenix growth in BPA and workplace. So, if Phoenix is writing around £5 to £6 billion in BPA and at least £2 billion in workplace, what proportion of that flow can you take?

Ian Jenkins: Very briefly on H1 '23, we generated £142 million in terms of capital generation and that compares to £107m for H1 '22. So that's up and that's predominantly up from the margins that we've made on our liquid assets particularly and the performance. That's the main element, and then you've got the stake sales generating into the capital. Those are the two additions over the period into the capital.

Stephen Bird: You're right that we've made more granular disclosure on the Investments business. We felt it was appropriate to do so, particularly given the fact that on a total assets basis we grew in the second quarter. Let me turn to René to give a little bit more texture on what we're seeing there. And perhaps he can cover the Phoenix growth question as well.

René Buehlmann: I'll answer your question with broader information on flows in the first half year, and I think it's important to understand the overall context. You see in Q1 it was still a risk-off environment. If you look at our overall investment book, 62% of our equity holdings are in Emerging Markets and Asia. In the Fixed Income space about 30% is Emerging Market Debt. What you have seen in Q1 is still a risk-off trade. If you look at our £5.7 billion outflows in the first half year, it's deriving in large part from five clients which were asset allocation calls.

And then what you see in the second quarter, to your point, the biggest contributor to net flows was Phoenix. We have seen significant inflows through their BPA activities, and we see actually both trends improve. We have seen now, and we showed you before, that our largest inflows were in China equity. That's a risk-on trade again that you see. And we see these across Emerging Markets and that coming back.

And in the context of Phoenix, we do absolutely foresee that we majority participate on the flows. I cannot give you an exact percentage number, but rest assured we work very closely with Phoenix to also participate on those flows on the upside.

Stephen Bird: On Phoenix, Phoenix is our largest client, and we are committed to their growth and their success. They're driving two things, growing the open book and growing BPA. It's interesting to compare the two years because H1, gross inflows H1 '22 for Phoenix were £8.8 billion and they increased to £11.2 billion in H1 of '23. And that reflected £3.2 billion of BPA wins. And we were in net flow for Phoenix in the half, and that compared to £1.9 billion of outflow in H1 2022. So, there was a £2.1 billion improvement. Now the BPA pipeline is very strong, it's at the highest levels as you will know. We are focused on helping them in both BPA and growing the open business and we're committed to their success where we think they're having considerable success.

Nicholas Herman, Citigroup: Yes, good morning. Three questions. One on costs, one on Investments and one on Personal.

On costs, if I take the first half cost of 594 annualise that, subtract 45 million of outstanding net cost savings implies around 1.14 billion of full year 23 costs, but presumably there will be extra investment spend. So just curious how you think about full year costs, please. As part of that, you are, as you said, well on track to deliver the targeted savings and René mentioned that you are not stopping there either. So how should investors frame potentially upside efficiencies in Investments, please?

On Investments, I guess not unexpected to see a deterioration in absolute performance in real assets, but there was also quite a stark deterioration in relative performance too... just curious where that's come from and any expected impact on flows, please.

And finally, on Personal, on Consumer Duty, the value you're providing to your customers from a subscription based model is not in question, but equally do you see potential for the regulator to argue that the high level of interest margin that the industry is making on cash balances and maybe other ancillary fees like FX fees could be not in consumers' interest and therefore there could be scope for those to come down, please? Thank you.

Stephen Bird: Let's take those in turn. I'm going to start with a broader picture on efficiency. We talked about getting the group to a 70% cost/income ratio, our ambition for the group is to have three cost competitive, margin competitive businesses, that ambition hasn't changed. We've allocated capital to be able to grow revenues and earnings to two very efficient businesses. The new abrdn is a different business from the traditional life and pensions business that we inherited. That's why 85% of our earnings are accruing from Adviser and Personal.

Adviser, 52% cost income ratio and Interactive Investor improved to 42%, and Richard is integrating the balance of the Personal businesses, think financial planning, in order to make the overall division both a better growth business and a more efficient business. So, you've got to think about the PLC because our shareholders own one share. The PLC is focused on having three cost competitive businesses.

Within the Investments business, we made a commitment in the period to £75 million and that's on track. You can work out the run rates and René has confirmed that, but we're not stopping there. This is a continuous improvement journey, the jaws are a combination of driving the right products, the revenue growth and driving the cost down. In an uncertain environment, it would be foolish to give you a timeline, I'm not going to do that, but our ambition is undimmed.

Ian, do you want to comment on the full year cost?

Ian Jenkins: On the full year cost, particularly in Investments, remember the £75 million was a net figure and that was year-on-year. So that was 2022's cost base compared to

2023's cost base. The saves we've banked so far are £30 million and we are absolutely on track to bank the remainder to make it a £75 million net save year-on-year.

Stephen Bird: And of course, we won't be able to give you the number, but what we are really focused on is what is the exit rate of December into 2024, because that's going to set up next year. I'm going to turn to René to talk about investment performance because it is important to understand the texture and the timeline. We've come through a pandemic and there's various factors that influence investment performance there, René.

René Buehlmann: You asked on the real assets, particularly the valuation gap. And what you have seen is an incredible repricing of particularly UK real assets, particularly in the second half of last year. The valuations always have a lag roughly of a quarter in this business. So, we went into it with an overweight around industrial and logistics, which has corrected the most. However, if you look now at the repricing, in the second quarter, it's also that area that recovered the fastest. In our logistics business, Tritax runs the two largest closed end funds in Europe. So, you have seen AUM and revenue drop, but you have not seen an outflow. We expect to participate on the upside again when AUM comes back. We are not worried about that. And if you look at our open-ended funds, they've performed just fine in the line. That's a bit of context.

One add-on to the costs that Stephen mentioned. We have been very decisive in restructuring in Investments. We have told you that we have sharpened our shop window: where we have reduced capabilities, this is important because it has an impact on the back-office costs, the whole operational value chain that you then have in terms of not just fund costs, but operations infrastructure in the back.

We have also highlighted to you our multi-asset simplification that we've just announced, so as of last year and with those changes we are down over 10% in headcounts.

And then lastly, you have seen as announced that we moved our office spaces in Edinburgh. We've closed our office and moved everyone to George Street in Edinburgh, there are quite a few of those examples. But these cost actions, they don't go straight to the bottom line, they take a bit of time to implement. Rest assured that we are fully on this one.

Ian Jenkins: We've reduced our square footage by 121,000 square feet, which is about £8 million on an annualised basis.

Stephen Bird: And it's interesting, we're sitting here in our new offices in London, for those of you who used to go to the old offices, you can see these are far better. Our colleagues really enjoy being here and it's important that we made them attractive to encourage the kind of collaboration that drives growth. We have reduced our estate by 121,000 square feet, we've closed the 6 St Andrew Square office because we had

two offices in Edinburgh and we've relocated everybody to 1 George Street, our original office, a significant saving.

Let me turn to Richard to talk about Consumer Duty.

Richard Wilson: Thank you. Consumer Duty went live at the end of July, so we're now all subject to that new obligation. For us, we see that largely as an opportunity relative to the market. And it's a very useful lens to make sure that through all our processes in terms of customer journeys and outcomes that the consumer is front and centre. Why is that an opportunity for us? Well, fundamentally our business is built on a subscription-based business, which is driven around good outcomes for the customer. That's about value, it's about informed choice and it's about transparency. In terms of value, as I mentioned earlier, we're now the best value platform for anybody with above £15,000 of investible assets, subject to any specific behavioural needs.

We don't have front and back book pricing, we don't charge exit fees, we don't promote special share classes. In terms of choice, it's something which is front and centre in our business model. And if you presume that the regulator will not become a price regulator, in terms of specific questions on interest rates, we pay market-leading rates. We've increased rates four times so far this year. The reality is we have the fastest acceleration of rates in the history of this country, which obviously has some side effects. Notwithstanding that, our business is to promote choices for our customers, we've increased materially, with the help of our colleagues in Investments vector, our fixed income promotion offering, and to make sure that there's the best outcome for the consumer.

And on foreign exchange, we are the only major platform that offers a multi-currency service. We don't require you to do foreign exchange, you can choose to buy and sell investments in currency and make a foreign exchange transaction when you choose to. Everyone else compels you to do that.

So, in terms of where we are, whilst we're continuously evolving, we're in a competitive environment, you'll have seen from our announcement that our commission rates, we've reduced those to £3.99 from £5.99, another 33% reduction, which puts us in a market-leading position in terms of frontline price. We expect to price lead in some areas. We are not interested in being cheap, it's about value. And our job is to take market share and win whilst providing the best outcome for the consumer. And that all sits within the interest of consumer duty.

Hubert Lam, Bank of America: Hi, good morning. I've got three questions. Firstly, a follow-up on the cost question. How should we think about cost into next year, either in terms of absolute cost base or cost/income ratio? I know René's talked about further efficiencies with Investments, but for the other two vectors, I think you're still investing. So, I am just wondering how we should think about next year compared to this year?

Stephen Bird: Thank you Hubert. You're focused on Adviser and Personal?

Hubert Lam: The whole thing.

Stephen Bird: The whole business? We improved by 1% in this half to 82%, and that's not where we want to be. We're focused on selectively growing the businesses and reducing the cost of the Investments business to drive further improvements. We're not going to give you a cost/income number because it's a product of assets, revenues, and costs, we are controlling the part that we can control.

We've made significant tech upgrades in Adviser and Interactive Investor already in the previous half, we don't have to do those conversions again. We expect those changes to accrue benefits going forward in terms of being able to grow more quickly. So really the story is about Investments and the support costs of the group. Within the group we have a program to reduce expenses of everything that supports the three businesses. The abrdn model is one where we want to have the highest level of devolved capability in each business.

Each of these CEOs controls their tech stack, controls their operations, controls their product roster: people, process, technology within their business. And as a group we are focused on remapping all of those services into those businesses and lowering the costs of overhead. We're not there yet. And as we go on this journey during the balance of this year and into 2024, the group will mature such that there is more muscle in each of those businesses. And there is a lower shared infrastructure. Think about one brand, a light governance model, risk management, cyber protection at a group level, but all emotive power within the businesses. That's a journey which will continue over the next few years.

It's one where we've got incredibly detailed work underway, we've talked a little bit about the buildings, but it's buildings, it's boxes, it's geographies, it's strategies, it's funds, it's FTE, it's technology research. It's a rich area for us to be able to extract further value from the group. And it's what you would expect when you go from a single business into three divisions that are serving clients in different ways.

I don't know whether you want to add anything, on Adviser?

Noel Butwell: I said in the presentation that we're approaching best in market in terms of our cost income ratio. We run a highly efficient business and, as I always say, there's two elements to cost/income ratio. There's cost and there's income and we've built the platform now in a position such that we can accelerate our revenue streams and grow the business going forward. We will continue to make efficiency gains as you would expect, but the real impact for my business and where I'm focused is the income element and the growth element. And that's what you can expect to see in the second half and through into next year as well.

Hubert Lam: Two more questions. Firstly, on capital, I think if you look at your surplus capital position, you still have a few hundred million above the surplus. I know you talked about bolt-on M&A. If you can talk about what you're looking for in terms of bolt-on, either whether it's still more Investments or you're going to look more into Adviser as well as Personal... Or even more buybacks, just wondering what do you think about that? On top of the existing one, you just did today.

And one final question for Richard, if you look at the interest income or interest margin, you had this 229 basis points in H1, you're expecting 180, 190 for the full year that assumes... Or 180, 200 in full year, it assumes a big step down in H2, just wondering what's driving that and how should we think about 2024?

Stephen Bird: Thank you. On capital, I think it's important to look at the whole capital picture because we have been incredibly disciplined in the management of capital. And I hope that's now recognised by the marketplace because the divestments we've made, we've done very judiciously at the right times with very tight discounts. I know that historically people had applied very large discounts to those stakes, which always confused me, given the fact that we were able to divest them within 1% of the listed value. And then we've deployed capital and really got terrific returns on it. If you think about the acquisition of Tritax, the acquisition of Interactive Investor, now the acquisition of Tekla, we are very disciplined that where we've invested, we've made the model stronger.

We think that we've earned the right to be able to make those judgements and make the group stronger. Where would we do it? We want to continue to invest in the Investments business because René's said a few words about being a specialist global investor. The Tekla one is a very good example because we weren't big in health and life sciences. And the team that's going to join us in September when we close the deal, become the basis of a global healthcare and life sciences offer, which we think is a mega-trend. We will look to make that type of investment. There are three big trends that we think are important in the investing world.

Number one, the world will continue to move east. And the bearishness in emerging markets is a very oversold trade. It remains an oversold trade until the rotation happens. The world will continue to move east. And it's driven by demographics, it's driven by economic stage of development, it's driven by the urbanisation and the wealth effect within those economies.

Secondly, the energy transition, the energy transition is going to be the largest capital reallocation that we're going to see for the balance of our careers. And it affects every building, every home, every factory, every production line, every form of mobility.

We are already invested in it, but we're intent on making sure that our investors are going to be positioned right for the energy transition.

And the third trend is evidenced by the shape of the group, the democratisation of technology and finance, the increased personal responsibility that comes when governments are overburdened by debt and people are living longer.

I'm giving you real channelled focus on where you can expect to see us deploy capital. It's where we've done it. You can judge us by it, and it's where we'll continue to do it. Why? We're building a long-term investing business here. And it doesn't happen in one half, it happens over a series of years, but you should judge us by each step.

Richard, do you want to talk about cash margin?

Richard Wilson: Thank you, yes. There are two features in cash margin, one is revenue, the other is interest paid. We know we live in, today, the most uncertain environment in terms of rates. With every new data point, is the monetary position under control or out of control? It's not our job to predict that. Our job is to be prudent, prudent in terms of how we administer our customer's assets, including their money, and prudent in terms of how we make projections.

Our projection, as it was made at the time, is the best view that we have. None of us predicted the rates we have today. Our job will be to monitor our liquidity position, our commercial competition with the marketplace, and adjust rates over time. And clearly that will respond to what the Bank of England does, which is obviously highly uncertain today.

Arnaud Giblat, Exane BNP Paribas: Good morning. Thanks for taking my questions. Could I have two, please? If I could follow up on the question of capital. You've got a billion, you want a £500 million surplus, you've ear-marked £150 million for buybacks plus some further deals. You've talked about a few areas where you'd like to position. I'm just wondering if you do have any buffer over and beyond that to continue doing buybacks?

And my second question is on the Adviser business, they've turned negative in Q2, or in H1, sorry. Any sign of them turning around in the near future? Thank you.

Stephen Bird: Thank you, Arnaud. Firstly, on capital, I think that we've been clear in the capital walk, we increased our capital surplus from £718 million at the end of last year to a billion and seventeen at the end of June. And that includes having paid for the first £150 million of the buyback. And it also includes the dividends that we paid in the first half.

We are committed to having a strong balance sheet, and we're committed to continuing to invest in the business, and we're committed to ensuring that we give our shareholders a good return. Our shareholders have enjoyed a very good return over the last year-to-date and throughout the last 12 months, with combination of dividends and buybacks and share price appreciation. We think that the market, these things

that are waves of recognition where people start to recognise that a business model is getting traction, we think we're getting traction.

We think that the business model in this part of the cycle has shown that diversification works. Interest rates go up, did we benefit from that? Yes. Did it mitigate some of the challenges in the risk businesses? Yes. What happens in the next part of the cycle when rates peak? Then risk comes back on, money moves into fixed income, money moves into equities. What we want to be able to show is that the business model of abrdn is built to create a through-cycle return, and I think we can do that.

And we are mindful of making sure that we give capital back that is surplus to requirements in the business. But we're only sitting here in August 2023. We've just announced the share buyback increase to £300 million. Let's digest that and get to the end of the year before we make any further comments.

Noel Butwell: Thanks very much for the question. As we mentioned at the finals back in March, '22 was one of the lowest years on record in terms of flows and that continued into 2023. Q3 '22 was the lowest quarter for a decade. We saw the lowest level of ISA flows in Q1 since the financial crisis. There's a whole host of market dynamics here that we talked about.

As I said in the presentation, with one of the largest and longest standing platforms with a significant amount of customers on, we had an impact in terms of people's ability and propensity to save, a 25% reduction in the flows from existing customers. And in addition to that, obviously we also saw an increase of 20% in the income that drawdown customers were taking. So, you've got inflows and outflows impact there.

And as I said, we did the biggest, most complex technology upgrade in our history. We anticipated a short period of impact of that and we worked through that with our adviser clients. And what that means now therefore then is that we emerged from H1 in a much stronger position with the platform operating absolutely as expected, delivering all the benefits that we actually communicated to advisers, particularly around capacity creation, which then gives me a great deal of confidence in terms of our growth trajectory in a market that remains to be still quite uncertain, particularly when it comes to client investment sentiment. But I think we're very well-positioned to grow from this point.

Haley Tam, Credit Suisse: Good morning. Thank you for taking my questions. If I can have just a quick one on the buyback again and then a couple on Interactive Investor, please.

First of all, on the buyback, just a simple question. And we saw the announcement, can I confirm that that share buyback will start immediately, so tomorrow?

And then the questions on Interactive Investor. Should we expect the positive impact of the September price increase on the subscription fees for the main type of account

from £9.99 to £11.99? Will that feed straight through to the bottom line or perhaps you can guide us to the extent to which that will be used to fund the investments in marketing, et cetera that you flagged.

And then the second question, on that interest margin, perhaps to ask it a different way, the 229 basis points, is that a level you expect to be sustainable as rates go up from here or do you think it's going to expand? Thank you.

Stephen Bird: Okay, two questions that we'll come to Richard on in a moment. Before that, I can confirm that the buyback does begin immediately.

Richard Wilson: Thank you. Yes, first, two or three points on the repricing. Number one, the effect in '23 is revenue neutral. Number two, it has the effect of adjusting revenue towards subscription and away from the more volatile trading commission. And number three, it has the effect of broadening our appeal to a much larger audience and we become compelling not at £50,000 but at £15,000, which is aligned to our increased ambition on brand and penetration in '24.

On interest margin again, our current view is clearly everyone is trying to figure out where the top is and what the shape of the curve is. That's just not our job to speculate on that. We'll continue to deliver what we believe is a compelling market-leading proposition.

Inevitably, if rates accelerate, that's an upside in terms of short-term revenue. And if they don't accelerate in the shape of the curve, which is clearly we've got an 18-month kink in the yield curve out there, then they'll start to revert.

Everyone's now talking about a higher-for-longer environment where rates are not expected to come down. It was lower-for-longer before, now it's higher-for-longer. Clearly with a normalised rates environment, we expect to have a sustained higher return compared to what was historic low over the last 10 years.

Part of the conversations or the questions that we get is, gosh, compared to three years ago, rates have gone up. That's really not the exam question. The exam question is what are you comparing to? Because the rates three years ago are the lowest in history and now they're reverting to what would be a more normalised view.

Andrew Crean, Autonomous: Could I ask a question on revenue margins in the Investments business? Two areas, do you see within the different product categories further contraction in margin?

And secondly, your margin on the Phoenix business, revenue margin has gone up, but you are trailing the fact that it's going to come down quite materially. Can you give us some numerical guidance around that because it's quite confusing?

René Buehlmann: Two things, the margins within the asset classes were pretty stable. The overall margin came down to the change of asset mix. We had in the first half year, the highest outflows in equities, in particular the highlighted Asia and Emerging Markets. That was the higher margin pieces. But other than that, the margins were pretty stable within the asset classes.

Andrew Crean: You think that will continue?

René Buehlmann: Think what we have done in terms of repositioning the business. You have seen within Asia and Emerging Markets; I think that's where the margins stay where they are because it's a specialist skill. In Developed Market Equity, that's what we have done in reshaping the business to really go to specialist capabilities globally, which are really focused around Sustainability outcomes. Income and Small- and Mid-Cap, those are areas where you still see the margins staying higher.

When you look at Phoenix, the margin in that business, you have seen some mix of new flow business. Where the margins are coming down is in the run-off business, and that's where they have moved more to sustainable passive indexing and that's where you have seen a shift in margin.

I would say you win new business at a certain margin but you lose some of the outflows and some of the runoff business that goes and has converted into passive. So, it's a mix of the two, but I would say our margin outlook is pretty stable for the business around for Phoenix, yes.

Rhea Shah, Deutsche Bank: Hi. Two questions for me. The first is Personal Wealth. When do you expect this to turn around and start to breakeven? And then second on Phoenix, you are listing the stake value at around £550 million. Under what circumstances would you look to reduce the stake, and what could the impacts be on the agreement that you have with them?

Stephen Bird: Let me ask Richard to talk about Personal Wealth.

Richard Wilson: Thank you. And when we talk about Personal Wealth, we're talking about the legacy abrdn business, which was made of both discretionary fund management business and financial planning.

As we've talked about previously, the discretionary fund management business, we announced the sale of that, which we expect to complete presently, certainly in Q3. And then the remodeled financial planning business, that remains in-house, and we expect that to make a positive contribution from January 1, '24.

Stephen Bird: And then on Phoenix, I think we've actually said a lot about Phoenix, but at the risk of repeating it, Phoenix is our largest client. We're committed to them as our largest client. They've got two main objectives of growing their open book business

where we've assisted that with Standard Life, and we've helped them grow their BPA business.

We are the leading beneficiary of their success in those two strategies, which is of value to us. We've recorded growth in the first half and the pipeline is strong. So, our view is that there are benefits and returns that come from that investment. They pay a very strong dividend. The benefits and returns of being invested with them and having a board seat with them and helping them achieve their goals as our largest client are of value to us. That's our position with Phoenix.

Stephen Howard, HSBC: Thank you. Just two questions. Obviously, Phoenix is benefiting and you are benefiting from the bulk annuity side of things, but on the institutional investment business, considering the BPA business is pension fund money, do you have a lot of potential higher redemptions to come because of pension funds withdrawing out of the investments institutional business?

And secondly, on the Adviser business, you're talking about obviously elevated drawdown and redemptions, I guess because of higher inflation, cost of living, et cetera, and people having used up all their savings from the pandemic. So, is this sort of higher redemption drawdown the new normal to be expected going forward? Thanks.

Stephen Bird: You're right to point out something, Phoenix are the largest pension business in the UK, and every year there is a substantial deaccumulation. But if you analyse that, you can expect to see something like three to four billion deaccumulation in any given year. But then if you take the open book business and the BPA business, we should be able to see four, five to six billion. So, a net one to three billion growth through the cycle from Phoenix.

And that's been Andy's focus and the team's focus at Phoenix, to be able to grow their open book business and win BPA, and we win when they win in doing that. The net effect of the deaccumulation offset by the growth of those two other factors should result in a consistent pattern of growth. That's their focus and that's our focus. And we showed you that it happened in the first half, and we're pretty confident in the second half.

Stephen Howard: But in the Investments vector as well. Do you have pension fund clients?

Stephen Bird: We do. René, do you want to comment on that?

René Buehlmann: I think same pattern you observe in this. As you may appreciate, given our insurance expertise, one of our big focuses is to leverage those insurance skills not just across the UK but take this global. And you have seen a lot of efforts in our first half year. We have hosted, for example, across Asia Pacific, insurance roundtables where we bring these capabilities globally now. So, to your point, you have absolutely the

same trend, but we would expect on both sides that dynamic to play out as well in the Investment vector business.

Noel Butwell: Just on the outflows question. I think the first thing to say is obviously that's very much a market trend currently, and we're seeing that right across the market and much commented on as well. I wouldn't classify it as a new normal. I think it's a period of adjustment driven obviously largely by inflation, then the consequent impact on interest rates.

Important to note as well, we operate in a high-net-worth element of the market. I think what you'll see is, as that returns back to a normal position, you'll see the increase in inflows as well. The two actually at the moment being impacted, the propensity and ability to save, the drawing down more assets, I think is a period of adjustment and we will return back to a situation where they're much more normalised and stable.

Stephen Bird:

Thank you very much for joining us in the room and thank you very much for joining us online.