

24 January 2024

abrdn plc

## **New transformation programme and trading statement**

abrdn plc is today announcing a new transformation programme targeting an annualised cost reduction of at least £150m by the end of 2025. This programme is designed to restore our core Investments business to an acceptable level of profitability and allow for incremental reinvestment into growth areas. This marks another step on abrdn's journey to align its resources and capabilities to meet client needs and reinforce areas of strength across the Group.

abrdn plc is also today providing an update on its year-end 2023 assets under management and administration (AUMA) including second half 2023 net flows, and revenue margin guidance. Going forward, abrdn intends to provide the market with a trading update, including AUMA and net flows, for the first and third quarters of the year.

### **Commenting, Stephen Bird, CEO abrdn plc, said:**

"Market conditions have remained challenging for our mix of business, and this is reflected in our year-end AUMA, flow numbers, and margins. The Board and I are committed to taking these significant cost actions now to restore our core Investments business to a more acceptable level of profitability.

Although our business model benefits from the diversification that comes from operating three businesses, we will not rest until all of them are contributing strongly to group profitability, as Adviser and interactive investor have done in 2023.

The new transformation programme announced today, when completed, will deliver a step change in our cost to income ratio. We exceeded our £75m cost reduction target for 2023 for Investments, but we recognise more needs to be done. After a root and branch review, we are now re-engineering and simplifying our business model to remove at least £150m of costs – mostly from group functions and support services. The programme will largely be implemented in 2024, completing in 2025. These changes will allow us to continue our focus on building a growth business."

### **New transformation programme**

The transformation programme targets an annualised cost reduction of at least £150m compared to 2023, with approximately 80% of the savings benefiting the Investments business. This target excludes any cost reduction from previously announced divestments, including the sale of our European-headquartered private equity business. The programme includes the removal of management layers, increasing spans of control, further efficiency in outsourcing and technology areas, as well as reducing overheads in group functions and support services. The bulk of the savings will be in non-staff costs. The programme is expected to result in the reduction of approximately 500 roles.

The Investments front office will see a modest adjustment: our focus remains on delivering excellent service and strongly competitive investment performance to all our clients, supported by the Group's strong risk management and control environment.

A streamlined operations and management structure will enable the Group to deploy its resources more efficiently and improve management accountability. The increased profitability will enable incremental investment in the capabilities to deliver excellent customer outcomes.

Implementation of the programme is expected to take place primarily in 2024, with c. £60m benefit expected to accrue this year and will be completed by the end of 2025. To achieve the desired simplification and cost savings, total implementation costs are estimated to be around £150m.

## AUMA and flows (unaudited)

	AUMA		Net flows	
	H2 2023 £bn	H1 2023 £bn	H2 2023 £bn	H1 2023 £bn
Institutional/Retail Wealth	211.2	219.0	(11.2)	(6.7)
Insurance Partners	155.5	148.6	(1.3)	0.2
<b>Investments</b>	<b>366.7</b>	<b>367.6</b>	<b>(12.5)</b>	<b>(6.5)</b>
<b>Adviser<sup>1</sup></b>	<b>73.5</b>	<b>71.8</b>	<b>(1.5)</b>	<b>(0.6)</b>
interactive investor	61.7	56.8	1.4	1.9
Personal Wealth	4.3	10.6	(0.3)	(0.1)
<b>Personal</b>	<b>66.0</b>	<b>67.4</b>	<b>1.1</b>	<b>1.8</b>
Eliminations	(11.3)	(11.1)	0.5	0.1
<b>Total</b>	<b>494.9</b>	<b>495.7</b>	<b>(12.4)</b>	<b>(5.2)</b>

1. Includes Platform AUA at 31 December 2023 of £70.9bn (30 June 2023: £69.3bn).

AUMA was £494.9bn as at 31 December 2023. This was impacted by £(6.9)bn of corporate actions which primarily related to:

- disposal of our discretionary fund management £(6.1)bn and US private equity £(4.1)bn businesses.
- acquisition of the healthcare fund management business, Tekla + £2.3bn, and four closed-end funds from Macquarie +£0.7bn.

H2 2023 net outflows of £12.4bn represented 3% of opening AUMA. Net outflows (excluding liquidity) were £9.5bn with outflows in Investments and Adviser partly offset by positive flows in Personal.

All comparisons below relate to movements in H2 unless otherwise stated.

## Investments

- As we anticipated, during H2, Investments has continued to face structural headwinds. High inflation and geopolitical uncertainty continued the trend to cash and de-risking of client portfolios. The industry saw continued net outflows in H2 across global active mutual funds. The changing dynamics and challenges within traditional asset management are well known and we continue to reshape our business to take account of these factors.
- Institutional and Retail Wealth net outflows in H2 2023 were £11.2bn. Net outflows (excluding liquidity) of £8.3bn were driven by equities and fixed income, reflecting the challenging market environment and our exposure to Asia and emerging market solutions.
- Insurance Partners net outflows in H2 2023 were £1.3bn, as strong bulk purchase annuity and workplace pensions were offset by outflows from heritage business, in line with its expected run-off.
- Investments AUM as at 31 December 2023 was £366.7bn, down slightly from 30 June 2023, with positive market movements offset by net outflows and the disposal of the US private equity business in H2.

## Adviser

- H2 2023 net outflows were £1.5bn. Q3 2023 in particular saw the lowest advised platform market net flows on record<sup>1</sup>, reflecting economic uncertainty and the impact of the higher cost of living on disposable incomes.
- AUMA ended the year 2% favourable at £73.5bn compared with 30 June 2023.
- The Adviser Experience Programme technology upgrade is now embedded and operating effectively. The business is expanding its offering for clients through the launch of adviserOS and delivery of the abrdn SIPP.

## Personal (ii)

- Our Personal business, which is now predominately ii, is focused on growing organically into the leading UK personal wealth investment platform.
- Personal AUA at 31 December 2023 was £66.0bn, with positive market movements and net inflows offset by the disposal of our discretionary fund management business £(6.1)bn in H2 2023.
- H2 2023 net flows of £1.1bn reflected continued positive flow momentum in interactive investor. Total 2023 net inflows for ii were £3.3bn; this includes £0.6bn of outflows associated with the closure of the Pension Trading Account business.
- Total customers were 407k at 31 December 2023 (31 December 22: 402k) including 5.8k customers migrated from Investments in December 2023. Total customers, excluding acquired books in run-off, increased by 3.6% year on year to 310k at 31 December 23 (31 December 22: 299k).

## 2023 full year financial performance

Investments AUM as at 31 December 2023 was £366.7bn, marginally below 30 June 2023 (£367.6bn). Average AUM in the second half was £362.7bn, and in the first half the average AUM was £372.5bn. In the second half, Investments revenue margin was lower, impacted by outflows in higher margin asset classes, resulting in Investments revenue margin in H2 of 22.4bps compared to 24.6bps in H1.

Group revenue has been supported by higher interest income including the benefit of changes in the short-term yield curve compared to Bank Base rates. For the group overall, Management expects 2023 adjusted operating profit to be broadly in-line with consensus, and adjusted capital generation to be above consensus, owing to higher interest income on the group's cash balances.

## Changes to segment reporting

To provide a clearer depiction of business structure and performance the following changes will be implemented from the full year 2023:

- Finimize and our digital innovation group will move from Investments to Corporate/strategic. Comparatives have been restated below.
- The Personal business will be renamed interactive investor.
- Corporate/strategic will be renamed Other business operations and corporate costs.

	FY 2022 As reported £m	FY 2022 Restated £m	H1 2023 As reported £m	H1 2023 Restated £m
<b>Investments</b>				
Net operating revenue	1,070	1,060	466	461
Adjusted operating expenses	(956)	(930)	(440)	(427)
<b>Adjusted operating profit</b>	<b>114</b>	<b>130</b>	<b>26</b>	<b>34</b>
<b>Corporate/strategic</b>				
Net operating revenue	-	10	-	5
Adjusted operating expenses	(9)	(35)	(9)	(22)
<b>Adjusted operating profit</b>	<b>(9)</b>	<b>(25)</b>	<b>(9)</b>	<b>(17)</b>

## Notes:

1. Source: Q3 2023 Fundscape Platform Report

abrdn will release its full year results for 2023 on 27 February 2024. Further details of abrdn's performance and the new transformation programme will be provided with the results.

All numbers in this announcement are unaudited, and subject to revision.

**Management will be hosting a call for analysts and investors at 8:30am (GMT) on 24 January 2024. To access a webcast of the conference call, please go to the following link:**

**[https://brrmedia.news/abrdn\\_TUFY23](https://brrmedia.news/abrdn_TUFY23)**

This announcement contains inside information. The person responsible for making this announcement on behalf of abrdn plc is Julian Baddeley, Group Company Secretary.

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## Appendix 1

### Analysis of AUMA

12 months ended 31 December 2023	Opening AUMA at 1 Jan 2023 £bn	Gross inflows £bn	Redemptions £bn	Net flows £bn	Market and other movements £bn	Corporate actions <sup>4</sup> £bn	Closing AUMA at 31 Dec 2023 £bn
Institutional/Retail Wealth	231.2	28.1	(46.0)	(17.9)	(1.0)	(1.1)	211.2
Insurance partners	144.9	22.2	(23.3)	(1.1)	11.7	-	155.5
<b>Investments</b>	<b>376.1</b>	<b>50.3</b>	<b>(69.3)</b>	<b>(19.0)<sup>1</sup></b>	<b>10.7</b>	<b>(1.1)</b>	<b>366.7</b>
<b>Adviser<sup>2</sup></b>	<b>68.5</b>	<b>5.8</b>	<b>(7.9)</b>	<b>(2.1)</b>	<b>4.6</b>	<b>2.5</b>	<b>73.5</b>
interactive investor	54.0	9.5	(6.2)	3.3	3.9	0.5	61.7
Personal Wealth	13.1	0.7	(1.1)	(0.4)	0.2	(8.6)	4.3
<b>Personal</b>	<b>67.1</b>	<b>10.2</b>	<b>(7.3)</b>	<b>2.9</b>	<b>4.1</b>	<b>(8.1)</b>	<b>66.0</b>
Eliminations <sup>3</sup>	(11.7)	(2.2)	2.8	0.6	-	(0.2)	(11.3)
<b>Total AUMA</b>	<b>500.0</b>	<b>64.1</b>	<b>(81.7)</b>	<b>(17.6)</b>	<b>19.4</b>	<b>(6.9)</b>	<b>494.9</b>

1. Investments net outflows (excluding Institutional/Retail Wealth liquidity net flows) were £15.3bn.

2. Includes Platform AUA as at 31 December 2023 of £70.9bn (2022: £68.5bn).

3. Eliminations remove the double count reflected in Investments, Adviser and Personal. The Personal business includes assets that are reflected in both the discretionary investment management and financial planning businesses. This double count is also removed within Eliminations.

4. Corporate actions in 2023 relate to the acquisition of Macquarie closed-end funds in March and July 2023 (£0.5bn and £0.2bn) and Tekla healthcare fund management capabilities (£2.3bn) in October 2023, and the disposals of our discretionary fund management business (£6.1bn) in September 2023 and US private equity business (£4.1bn) in October 2023. Corporate actions also include the transfer of the MPS business from Personal Wealth to Adviser in May 2023 of £2.5bn, and investment share plan and ISA customers who moved on to the ii platform in December 2023 (£0.5bn), and resulting impact on eliminations.

### Quarterly AUMA

15 months ended 31 December 2023	31 Dec 23 £bn	30 Sep 23 £bn	30 Jun 23 £bn	31 Mar 23 £bn	31 Dec 22 £bn
Institutional/Retail Wealth	<b>211.2</b>	214.2	219.0	225.3	231.2
Insurance Partners	<b>155.5</b>	145.9	148.6	146.5	144.9
<b>Investments</b>	<b>366.7</b>	360.1	367.6	371.8	376.1
<b>Adviser</b>	<b>73.5</b>	70.9	71.8	69.7	68.5
interactive investor	<b>61.7</b>	57.7	56.8	56.1	54.0
Personal Wealth	<b>4.3</b>	4.4	10.6	13.2	13.1
<b>Personal</b>	<b>66.0</b>	62.1	67.4	69.3	67.1
Eliminations	<b>(11.3)</b>	(10.8)	(11.1)	(11.8)	(11.7)
<b>Total AUMA</b>	<b>494.9</b>	482.3	495.7	499.0	500.0

### Quarterly net flows

15 months ended 31 December 2023	3 months to 31 Dec 23 £bn	3 months to 30 Sep 23 £bn	3 months to 30 Jun 23 £bn	3 months to 31 Mar 23 £bn	3 months to 31 Dec 22 £bn
Institutional/Retail Wealth	<b>(5.8)</b>	(5.4)	(1.5)	(5.2)	0.2
Insurance Partners	<b>0.3</b>	(1.6)	1.7	(1.5)	(6.3)
<b>Investments</b>	<b>(5.5)</b>	(7.0)	0.2	(6.7)	(6.1)
<b>Adviser</b>	<b>(1.0)</b>	(0.5)	(0.5)	(0.1)	-
interactive investor	<b>0.6</b>	0.8	1.0	0.9	0.6
Personal Wealth	<b>(0.1)</b>	(0.2)	0.1	(0.2)	0.2
<b>Personal</b>	<b>0.5</b>	0.6	1.1	0.7	0.8
Eliminations	<b>0.3</b>	0.2	0.2	(0.1)	(0.1)
<b>Total net flows</b>	<b>(5.7)</b>	(6.7)	1.0	(6.2)	(5.4)

## **Forward-looking statements**

This announcement contains statements that are or may be "forward-looking statements". All statements other than statements of historical facts included in this announcement may be forward-looking statements, including statements that relate to the Group's future prospects, developments and strategies. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as "plans", "expects", "is expected", "believes", "targets", "aims", "anticipates", "projects", "would", "could", "should", "may", "might", "envisages", "estimates", "intends", or the negative of those, or by the use of references to assumptions, budgets, strategies, prospects and schedules.

Although abr dn believes that the expectations reflected in such forward-looking statements are reasonable as at the date of this announcement, it can give no assurance that such expectations will prove to be correct.

By their nature, forward-looking statements involve risk and uncertainty because they are based on information available at the time they are made, including current expectations and assumptions, and relate to future events and/or depend on circumstances which may be or are beyond the abr dn Group's control. Neither abr dn, nor any of its associates or directors, officers or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this announcement will actually occur. You are cautioned not to place any reliance on these forward-looking statements. Except as required by law or regulation, abr dn does not intend to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise. Please see abr dn plc's most recent Annual Report and Accounts for further detail of the risks, uncertainties and other factors relevant to its business and securities.