abrdn plc

Spotlight on Personal
Presentation transcript

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Stephen Bird – CEO, abrdn

Good afternoon and welcome to abrdn. For everyone who is in the room here with us, thank you very much for travelling up to Manchester, or even down to Manchester for those who've came from Edinburgh. For everyone joining online, thank you very much for joining us and hopefully you can hear us all very clearly. Today we are doing a Spotlight on Personal and very excited to be doing it from the offices of ii here in Manchester. When we did the Adviser Spotlight back in November, many of you said that you would like us to do a deep Spotlight on Personal - and today is the day.

Agenda

I'm Stephen Bird and I'm going to talk to you about the strategy of abrdn first and where Personal fits within the company and then you're going to hear from Richard Wilson, who runs the Personal division. You're going to hear from John Tumilty, who is the COO of the business and also from Deborah Byard, our CFO for Personal.

Our strategy

Now the company today, abrdn, is a very different company from the one we inherited just three years ago. We have three businesses that are all set up now and in a much better position to be able to grow and we have a group that has diversified its revenues, its customer reach, and its ability to earn. The ii business transformed the Personal business and is indeed the heart and soul of the Personal direct investing business. It sits alongside the Adviser business, which is the number one adviser platform in the UK for IFAs by assets and we have a global investing business that has three distinct areas of investing prowess: fixed income, specialist equities, and alternatives.

Our mission as a group is to enable better investment and when you look at the shape of the group today, we have investment content through our global investing business and we have a platforms and wealth business which allows us to have direct distribution for that content, but to do so on an open architecture basis, which means that we sit on the same side of the table as our clients.

Building a leading position in high-growth UK personal wealth market

A little bit about ii, when we acquired ii last year, we talked about the things that were so distinctive about it and today you're going to get a deep dive into those features. It is a very distinctive value proposition being the leading subscriber business in the UK. We know when we study behaviour that that is the customers favorite way of investing. What do we mean by the behaviour and by the data? ii has higher balances than our competitors in this space because we operate a flat fee model and when we look at the capabilities, of which you will see today, the technology and the talent within the business who have been busy at work adding the advice model, you're going to see the journey of direct self-service and then assisted through advice and you will see that we are building out a capability that will be capable of being the leading wealth provider in the UK

Compelling market dynamics

I talked at the very beginning about the idea of our group being a group that would be client-led and tech-driven and the combination of ii with abrdn allows that high-tech high-touch capability to come to fruition. The UK market, in spite of the current challenge in the market, remains a very attractive market to build a leading wealth provider. The UK, the sixth largest economy in the world with the market size of about £4.6tn, the direct to consumer market being almost £300bn, of which ii, at the end of last year, had £54bn and by the end of Q1 had grown already to £56bn. We have a large addressable market with a long runway of growth and a favorable regulatory environment that will expand that addressable market through time.

The UK has got attractive demographics for a wealth business. It is an aging society. Some of the statistics around that: in between now and 2050, 25%of the UK population will be over 65 and in the next 25 years, the over 85 population will double. What that means is that we are going to witness the largest wealth transfer in the history of the UK. That's a very attractive market to be building the leading wealth platform. The D2C market also has got many supportive characteristics that will drive its growth. The pension reforms, pension freedoms act, the greater permission of guidance tools, all of which are necessary in order to reduce the advice gap and make people aware that they are under provisioned for their future. Indeed, on average, UK citizens are going to have to find an additional £10,000 each and every year until retirement in order to close that gap.

Great businesses see a market need and then configure every single part of their business to fulfill that need. Enabling better investment in the sixth largest economy in the world with an under-provisioned pension pot is a compelling place to deploy financial services capital. We are very happy that we invested in ii. In fact, if you take the 2022 last seven months that we reported, the £1.49bn that we paid for ii was 16 times trailing earnings and as you'll hear today, we have a long runway of growth.

So, let's get into that story and hear from Richard.

[VIDEO]

Richard Wilson – CEO, Personal

Hi. Hello. I'm Richard Wilson. Delighted for those of you who could join us here today and for those of you on the phones, welcome. What I'm hoping to be able to do in the next hour and three quarters, hour and a half, I think we've got a hard to stop at 3:45, is take you through the story so far and part of that will be - I'll do 20 minutes of basic narrative and then John will describe both our technology and our delivery capability and we'll have a lens on the financial picture from Deb. Also delighted to be joined in the room by some of the firm's leadership with whom we've built this firm to date over the last few years, and with whom we're structuring the future of the business.

Our ambition

In terms of the story so far, as Stephen has said, we were acquired in May 22 and the journey to that point had been heavily skewed towards M&A driven growth and as John, I think, will describe it later on, during that period we focused very heavily on creating the technology footprint, which we could build from, as well as making sure we had safe passage to provide a reliable, trusted service to our customers. Since then, what's been happening is that on the one hand we've started our rotation in terms of capability and intent from an organic perspective, and you'll see more of that in a little while.

And secondly, we have been bringing the direct-to-consumer components of abrdn together. I think at the end of August, we unified the leadership of the Personal vector, and since then we've been going through a fairly targeted process of restructuring Personal to create a business which is both focused and simple to build from in the future. The main date points you will have seen, the announcement of the sale of the discretionary business, which we expect to complete at the end of August, and we've been going through a very complex process of restructuring what was multiple regulated businesses and legal entities, into one single frame which we expect to complete by the end of this year. And again, we can talk about that a little bit later on. So, this is all about creating a scalable business which serves our customers well using contemporary technology to provide a personalised outcome which fits whatever your version of simple is.

Crowded and competitive UK market

As you would expect in the space that we're in, it's attracting some interest from various incumbents and new players. We can see that we have competition from the usual suspects. Our listed friends as well as the life companies and a more aggressive position being taken by some of the US institutions, Vanguard being quite successful more recently, and Chase obviously had its acquisition of Nutmeg. So, this has become a busier space and the tension is between what we see as the long-term market size, which is substantial, but in the short run, the available consumers on an annual basis is somewhere around 300,000. So that creates the significant tension in terms of acquisition/retention because you're fighting over this pool. Where we have come from is from a mass affluence position with a price point which was quite specifically geared that way, and more recently the players have been increasing their marketing spend and as we rotate through our organic position, we will then be starting to step up our investment in marketing and brand, which we'll see more of at the tail end of Q3 and Q4. This is a game which we expect will have very few survivors in the end. Back to Stephen's point in terms of 'winner takes most', this marketplace is no different to any other. We're already seeing a few players fall away and we expect to have our feet square in the fight as this story progresses.

Who we are

So, in terms of who we are, I mean it's a very simple story where we've anchored our identity around a subscription service. It provides clarity. It means the wealth belongs to the consumer and we look for recognition that we're providing a service that's valued. We provide a service which, by developing and deploying what we think is the right culture and the right service focus, that we can be recommended and valued by our consumers. We have today more five star Trust Pilot scores than the rest of the industry put together. You don't get that on a Sunday, you get that through years and years and years of focus and moments of truth and delivery and learning. But that doesn't buy you any credits for tomorrow, but in terms of the intent and recognising that ultimately you exist to support your customers, they will support you if you keep doing that, so far so good.

The other thing that you have to have clearly in our space is relative scale. You need to be able to develop operating leverage so that you can invest in what will be an endless race for technology experience as we go through the different thresholds of market change. And that's something which is very hard in the financial arena if you don't keep things brutally simple. Part of our development is, I think, over the last five, six years, we've made six acquisitions, including two banking groups; something like 20-something disposals in the period end to end of about four or five years in order to end up with a single proposition, single platform, single team, single structure. So, you can execute at scale and protect that operating leverage. We will continue to make sure we stay focused so that we can continue to invest in better services at better price points.

What we do

What we do for a living is pretty simple. It's just we do quite a lot of it. I think you'll see later on that we're doing something like 25%of all UK share trades now and some of the metrics are quite compelling, albeit our market size is not huge compared to the US, but we do very simple things. We execute and custody standard investments for target market UK retail investors, we support the basic wrappers GIA, SIPP, and ISA and then we provide various services around in terms of content and experience to make sure that its easier, faster, and more reliable than the other folks. We have some things we do that others don't, so there are very few that support direct market access around the world which means, in practice, we offer something like five times more instruments than the other main platforms and of course we support multiple currencies. You can hold dollars in your SIPP or in your cash account and you earn interest on that and the very simple thing is you either do it or you don't. And if you don't do it, building it is extraordinarily hard. So, we've had that under the covers for a very long time. Everything else is around staying up to market and up to speed in terms of experience, which is through our various devices, which John will talk about in a little while, and then having content which supports decision-making and journeys which help consumers make those choices as simple as possible to get the right outcome.

Subscription fee and 'bundle' pricing model

The pricing structure. This is obviously the key differentiator between us and the rest of the market. All those folks that charge %ages roughly did so because they could, not because it makes any sense. We charge to deliver a service and that provides us with the ability to optimise different service proposals for different types of demographic and then add incremental services to help up-sell or premium-ise those who want more. We've got a small number of customers who are very active and we support that with some of our premium services and we've got some customers who are very passive and through providing regular investing, which is free monthly, you can build long term wealth with no incremental cost. So, if you're spending your £10 once a month, that's all you spend forever. Similarly, in our very low cost, simple SIPP for your £12.99 you have a digital experience which can be yours for the rest of your life and that's all you spend. So, in terms of certainty, clarity, and making sure that more of the wealth belongs to you, that price point differentiation is substantial and more and more it's catching on in the marketplace and the media is also becoming much more aware of it as a differentiator in service, particularly in a world now where with the cost-of-living crisis and inflationary pressures people are becoming much more cost conscious and that's becoming a key part of the decision-making.

Levers for growth

So, in terms of our levers for growth, given we're a subscription business, the core is around customer accounts and revenue per customer. It's not complicated. So, our various levers are how do you get more customers? I mean, under the cover currently we are now somewhere around 3% organic growth, if you ignore the Share Centre and EQi tail which will run off at some point this year. Our job is to expand that to mid-single [digit] figures in the near term. We do that through a combination of price shift, brand and marketing investment, and continuous UX investments. So those are in place as well as repositioning your talent base to be commercially driven and I'm delighted that, along with Alain Courbebaisse who joined us at the beginning of the year, we have what I think is developing into what will be the best commercial team in Europe and that has the ability to keep testing and learning and delivering at pace will be something that's very important.

Secondly, and we've referred to this before, the ability to cross-sell products and deepen penetration is obviously very important. One of the headlines for us on that has been our SIPP penetration and today, if I am allowed to use the data at Q1, we're 13% penetrated end of Q1 and that's tracking very positive. I think you'll see that with something like 16% organic growth in SIPP, which, in terms of penetration, does two things - number one, the revenue per customer goes up and number two, the lifetime value is impacted substantially because the retention rates are very high. So that rotation of the book continues and our job is to move that as fast as we can.

New services. I'm not going to front run John's presentation later on but hopefully, what you'll see is the road map on delivery in terms of our organic focus is yielding significant progress.

And last but not least, I'm delighted with the progress we've made around the collaboration with other parts of abrdn. We have within the family significant engineering capabilities, which we'll see hitting the street fairly soon as well as a number of other parts of the business which have facets of direct-to-consumer assets which were looking very hard at. And so, we can simplify the overall model and we might position some of those within the within the D2C vertical. So, it's a very simple set of levers. We're acting on all of them simultaneously and notwithstanding the fact that the marketplace is somewhat mute today we are making progress relative to market across most fronts.

Strategic vision - Why we will win

So in terms of the why we will win, I think we've referred to some of this already. You need to have all these elements in place. Our pricing structure is a strategic advantage. It's no secret that we're under indexed on brand, so part of our job is going to address that as we'll increase our investment in brand and marketing over the coming years so that we can put that where it needs to be. Our platform, and I'll defer to John on that for later, but we, and no firm in the world, is tech debt-free but we have no cliff edge in our world and you only get that through continuous wise management of technology and a culture which is continuously investing in the business. That was referring to you, John, obviously.

So, the hard thing is keeping things simple and focused and consumer dominated and I'm very proud of the culture that we have collectively formed over the last few years. It's a purposeful business - people join this business because they believe what we're doing is positive for society and they work hard to get there. Our job to stay focused on that mission and not be distracted by other things is part of what's got us where we are and we will stay focused on delivering that going forward.

Customer growth is organic plus M&A

On the organic story, we know that a significant part of our history has been M&A. That shouldn't undermine the fact that our organic engine functions OK. You'll see on the orange banner the %age of our overall book which is organically acquired as opposed to through acquisition and the organic growth has been and is currently running around, I think 15% , Deb? and our job is obviously to try and move that up. So, part of as we rotate through the business and structure and the rotation of the portfolio moves to be more organic dominated, that obviously changes the dynamic of the cross-sell and the penetration around other products and clearly, they're also more digitally enabled.

You'll see from our business today that this month about 45% of organically acquired customers trade on mobile versus like 30%of those who were through acquired businesses. You have also rotation in terms of digital adoption which progresses at a reasonable pace.

AUA & net flows

A few metrics just in terms of the structure of the pricing model and how that affects behavior. What you see here is the evolution of our net new assets, which is probably the most interesting metric, which clearly has a has some level of volatility as we've gone through market peaks and troughs, but it's roughly, today, ranging between the 5-10% NNA %age level on a continuing basis. In Q1 this year, I think the net new assets in Q1 were £0.9bn, which is in the range and I can't give you any guidance on anything since then. So, I'll bite my lip.

KPIs & market shares

Again, really most of you guys will have seen this stuff before. It's a meat and potatoes. What's a bit more interesting in terms of Q1 and the track back and track forward is, not withstanding somewhat quieter market conditions, on the right-hand side of the chart you see this is the Q1 progression in terms of competitive market metrics and on the left-hand side, kind of a state of play in terms of our structure. Soa couple of distinct attributes of ii which is driven largely by the pricing structure is our average assets per customer is roughly 2.5 times the industry average and that's driven by the fact that the more assets you have frankly the greater value we are and that obviously has read through in terms of behaviors and vulnerability to things like cost of living where we're relatively or comparatively less exposed than some.

We also, because of the subscription price, there's no free seats in ii. You pay your subscription, which means that on balance, they're more engaged and they do more. We don't have an endless tail of customers who don't pay anything. Usually you have some self-regulation, so you'll see that as a as an audience, it's a higher quality audience and roughly speaking one of the metrics is that they trade roughly twice as much as some of our leading peers. I mentioned earlier the [SIPP] penetration level in the industry, the average penetration is somewhere between 2530%. We're kind of sitting at just around 13% and it's tracking. I think you'll see we took 20% of all new SIPPs in the market in Q1 and that obviously then leads to a tick up in terms of the total market share. There is clear structural opportunity there and given that in the UK we've got 10 million SIPPs or thereabouts, we have something like 60,000 and you've got a chunk in the DC space, a large chunk in the insurance space, we expect to go after that assertively over the next few years.

And in terms of technology adoption and UX, one of the stats that's interesting and of course it doesn't necessarily lead to any future prediction but in terms of our mobile trading, in Q1, 27% of all mobile trades in the UK were done through ii on the ii mobile app and that's a substantial shift compared to the previous period. And we're seeing in the last year in terms of the balance between who trades on desktop versus mobile in the last year, that's shifted by 8 %age points towards mobile. So, in terms of the user experience and expectation and the consumer norm, the UK was well behind the US and Asia in terms of the adoption, it's moving, and you get to different tipping points and the expectations about who's going to win versus lose will be more driven by centering experience around the app.

Well, that's the boring bit over. I'm now going to hand you over to John who's going to show you something about our actual technology and what we're delivering. John, over to you.

John Tumilty, COO interactive investor

Our technology and data capabilities

Thank you, Richard. Yeah, this is the interesting bit. So, you have to pay attention. Pay attention now. So, my name is John Tumilty. I'm the CEO of interactive investor. I've been at the company nearly seven years. Most of that time I was a CTO. I'm still responsible for the technology side, but most of the time was the CTO. I've been working in IT for over 35 years, almost at the dawn of computing, I was ten years at Goldman Sachs, working in their equity technology area and seven years at UBS as the CTO of the Investment Bank.

Fully invested and scalable digital operating platform

The last, you know, the period of time, six, seven years that we've been working, we've had lots and lots of merger and acquisitions. We do lots of book moves. We have a very good kind of machine to do that. And so, a lot of our focus was on moving all the customers to the same platform, shutting down all the extraneous systems and then getting the kind of scale in the business. So that was our main focus. But in the background, we've also been building our kind of operating platform to be able to achieve two things, first of all, to have a kind of ability to power up, to be able to have a robust and scalable platform. So, we have one platform that had more than one platform. Everything's on the same platform. And then the second goal is to have a flexible system so we can add new services. We can link into new data feeds to provide those to customers. That was the goal that we were kind of trying to execute in the background. So, we think we're kind of there, you know, not quite there, but we think we've achieved most of those things. So how do we do that? So, we did that by choosing the best technical partners or very, very accomplished technical partners to provide most of the services for us.

So, in the infrastructure space We don't own any of our machines anymore, so we used to have two data centers. That's not true anymore. We use data AWS and CSI to provide our infrastructure and they can do things like, if we want more power on the I series we can phone the up and we can just rent more CPUs. So, we have scalability that way. In our middle office we use Salesforce as our CRM. We use Snowflake as our data engineering and storage capacity and we use Morningstar for almost all of our market data feeds, and then for our processing platform we use Figaro which is now an FNZ product which used to be owned by a company called JC. It provides the trading and custody back end for us. We have a long standing relationship with FNZ and we feel that that platform gives us the scale that we need. So we feel that if you look up here, security, the automation, scalability, minimal hardware footprint. We think this dotted box has given us that. So, we've been in good shape.

So, for customer growth and transaction growth, we think we're in a good place to support the business for the next five to ten years. So, all well and good. The other stuff is differentiating where it counts, so having the ability to provide good experience for customers through the different channels. So, we've moved on to using the latest technologies on the front end for the mobile and the website and focused on building a kind of microservice API which allows us to link easily into new data feeds and new services and provide those to the different channels to customers. So, all of that has also been going on in the background for the last six or seven years, not particularly easy to do, mainly because of the focus that the company needs to allow you to achieve that. So, most companies, most tech areas will try and do this, but the company loses focus as opposed to the tech. So, we think we're getting close to having a kind of state-of-the-art digital operating platform. So, we've got the robustness and we've got the scalability. So, in terms of new services we've just started to deliver those now this year. So, we've just come into that point.

So, 2023, first part of the year, we delivered a new website. So that's got kind of modern 2020 plus look and feel UX that's much more accessible with search and all the things that are necessary for a modern website now, that was delivered in January. That's proven out our front end technology and our middle tier technology. Next, we delivered was Investor Essentials, with Investor Essentials and Pension Builder at the same time. These are new pricing bundles. So, first pricing bundles, new ones that we've introduced for several years, kind of just proving our pricing tech and ability to process across different service offerings. It's going to allow us to bundle services together and kind of get value added services added to as packages as we go. So that's to attract our customers with lower AUA, so a lower end offering to kind of, it's almost like a starter pack for people as they build up their investments.

And then the third thing, ii Community. I've got a little video so I don't have to talk too much for these two little videos, but its an introduction to ii Community and I'll tell you where that stands.

[VIDEO]

So that's a kind of engagement tool that's just come out of pilot and we're going to make available to all ii customers for free. So a few of us have been on the pilot, very, very engaging tool people spend a significant amount of time on. So that was about 15 minutes a day on the app. We think it's a key engagement tool and we're really pleased that we partnered with the firm called Stock Republic to enable us to do that. So that's coming out of pilot.

Next thing is financial planning leads. So, part of working with abrdn group we're just starting to make the connection I think, so as a big D2Ckind of do-it-yourself platform we do get a number of inquiries every year about do you do financial planning. So, the answer was always no, we don't do this, go somewhere else, but we've just started a little process initiative to pass those financial planning leads to our Financial Planning business in the Personal vector. So just the first kind of link up and integration with the other parts of the Personal vector.

Mobile features. So, we introduced a new mobile last year. We own all of the technology now and as Richard said, it's become very popular. New mobile features are dropping all the time, but the most significant recent one was FX trading. So the ability to trade FX and hold FX and see it in your mobile app that dropped, and we've seen the pick up, you know, the pick up in usage of that to be quite significant. So, you know, seems to be there's more people interested in FX trading, if it's on the mobile, which is probably something we expect that's been proven. So, lots more features planned for the mobile.

So those are all of the things so far that we've delivered in 23. So, there's a couple more things that come, so a sort of Research Hub is again another engagement tool and there's another little video to explain.

[VIDEO]

Again, that's another engagement tool for customers. They're providing them good service and a place for them to come and investigate and not just look at how much money they've lost or gained, but not often gained at the moment. Well then, just look at their portfolios, a place for them to look at things about the market. And so that's due probably in about end of this month, early August. And the next thing I think is Portfolio Partner, which is probably the most exciting one that we've got on because it's a cooperation between ourselves and Personal vector and the Investment vector to provide a kind of new added value service for our customers. I promise you this is the last video, so we could just play that, that'd be great.

[VIDEO]

Okay, so that's Portfolio Partners. So that's probably going to be trialed in a couple of months, but probably not live for customers until later in the year, early next year. So, lots of other interesting secret stuff that you're not allowed to know about is also going to happen in the rest of the year. You've got to watch this space and get ii accounts and you can see it first and early. And I think we just go back to our point, we wanted to have a robust and scalable platform which we think has achieved its support growth and we think now we can add services easily and flexibly to improve the customer experience. So, we think we're pretty well positioned. That's the fun bit of the presentation over, so I have to hand you over to finance. Apologize about that. But you can ask any interesting questions at the end if you'd like to. I'm going to hand over to Deborah. Thank you, Deborah.

Deborah Byard, CFO Personal

Our scalable, efficient financial model

Good afternoon, everybody. I'm Deborah Byard. I've been CFO of interactive investor since February of this year, but I've been with ii and before that TD Direct Investing for just over 15 years. So today I'm here to tell you about our financial model and it's a relatively simple one with just a handful of key variables and drivers. And we'll explain these a little more over the next few slides.

Simple, resilient and scalable financial model

Within the abrdn annual report and accounts, you will find our revenues categorised into three categories. We have subscription fees which is, as you would expect, customers times average fees. And we have trading transaction revenue and that's split down into two components. We have commissions, trade volume multiplied by average commission, and FX revenue, which is FX transactions by average margin. We also have treasury income and that's simply cash value multiplied by net yield. So, as you can see, a relatively simple revenue model. On the cost half of the income statement, recent years of both M&A activity and organic growth have given ii the scale to develop an efficient operating platform and cost base. This has supported ii's adjusted operating margin in 2022 of 53%.

Diversified revenue model

You've heard Richard talk about our subscription fee pricing model. This gives us a material degree of predictability and means our revenues are diversified. Subscription fees make up a third of our revenue. And that's the way it takes us away from the variability of market conditions and the economic environment. Let me put this in context. In 2022, subscription fees alone, covered 68%of our operating costs. This chart shows you the diversification of our revenues in recent years and you can see the growth of our core base of subscription fees, plus then the more cyclical nature of our trading and treasury income.

Resilient revenue model

This chart shows you the resilience of our revenue model on a revenue per customer basis. The red dotted line shows us the steady growth in our average revenue per customer over the last few years underpinned by a consistent subscription fee. You can also see that when average trading revenues go up and down with the ebb and flow of the market, treasury income tends to move the other way and this supports the resiliency of our model. Here the dark dotted line you can see shows us the average daily trade per customer. It shows the ups and downs of the market. However, the overall trade trend line, shown in yellow, shows us after smoothing out all these peaks and troughs, over time volumes remain relatively constant. Now let's look at each revenue line in turn and what will drive them in the near future.

Subscription fees revenue – drivers and dynamics

Subscription fees as we've seen – are simply a factor of customers times average fees. Acquisitions and strong organic growth have increased our customer base to just over 400,000 at the end of '22 and our focus now is on organic growth. Organic customer growth continues to be strong and that's expected to continue. That is, those customers that we've directly acquired rather than through M&A transactions. Our new essentials price points will attract new to market customers both starting out with lower value portfolios and our attrition levels from migrated client books tend to run higher for a couple of years post migration and the last client migration we had was in 2021 when we migrated clients from the Share Centre and EQI. Across 2023, we expect overall the customer lapse rate of these client segments to reduce and we expect them to reduce back to the sort of more normal levels expected in the wider market of about 5-7%. All that said, the subdued market in 2023 will impact our new customer levels. Overall, we expect mid-single digit CAGR in total customer numbers over the next five years.

Average fees have remained relatively flat over recent years. But we've continued growth in our SIPP accounts, as Richard mentioned earlier, and we expect to see this increase our average fees over time.

Trading transaction revenue – drivers and dynamics

Trading transaction revenue is mainly a factor of transaction volume and average commissions or margin. We saw trading volumes peak at record highs in 2021 during the COVID period and since then we have seen a fall back from those highs. But there are many reasons for us to be confident about future transactional volumes. Our organically acquired customers, as previously mentioned, continue to grow as a proportion of our customer base and organic customers tend to trade 50% more than those we have acquired through M&A. In 2022, our FX transactions made up about 20-25% of our daily trading levels and with new functionality recently introduced to our mobile app, we expect this to grow and therefore increase our overall average transactional revenue per trade. Despite the subdued market conditions, our trading market share continues to grow and we ended 22 with a 24% market share.

Treasury income – drivers and dynamics

After a quiet few years, our treasury income line has come back to life after recent Treasury base rate increases is now at 5% and we expect more rate rises to continue.

Client cash levels ended 2022 at £6bn which was 11%% of total AUA of £54bn. Since year end and as interest rate has risen, we have seen a small drop off in our cash holdings and we would prudently expect our cash levels to be around 9-10% of AUA in the near future for modelling purposes. We now expect our at net interest margin to be in the region of 180-200 basis points for 2023 as a whole. Our client cash is placed out on deposits across various terms and various counterparties in accordance with our CASS rules. There is therefore a lag between the base rate changes and us seeing the full impact come through our net treasury income line.

Highly efficient operating platform driving margin expansion

On costs, a combination of M&A and organic growth has brought scale and strong operating leverage. New business can be onboarded at a very low marginal cost. As a %age of AUA our costs will be reduced from 24 basis points in 2019 to 15 basis points in 2022 which is lower than our closest peers, who have reported 18-25 basis points. Our competitors are now making up for a lag in IT investment over recent years whereas we have consistently invested with regular incremental updates. On a per customer basis, the right-hand chart here shows the widening jaws of our revenue and cost trend line and therefore the growth in our adjusted operating profits.

Structure and evolution of cost base

On the next slide we can see how our cost base has grown with the scale of our business over recent years. We have been successful in delivering several M&A transactions and integrations as we mentioned earlier and we've done that in a very cost efficient way. Staff costs make up around 47% of our cost base. And as mentioned, we have a constant rolling program of IT and proposition development. This keeps us up to date or ahead of our peers on tech with no large build up, over time of tech debt. In 2023, we're increasing investment in our brand and advertising as Richard referred to earlier. And like all businesses, we face inflationary pressures this year which will bring some incremental costs this year. So the finances our business show that is resilient, carefully managed, and has significant growth potential as a result of wider trends in the market, increased product penetration and continued launch of new service lines.

Transformed Personal vector positioned for growth

Earlier, Richard spoke about the transformation of the Personal vector and the work ongoing to restructure the Financial Planning business. The combination of ii's robust financial model and the restructured Financial Planning business presents a strengthened opportunity for the Personal vector to deliver organic growth in an efficient way. Going forward, we expect a combined cost income ratio for the vector sub 60%. Thank you for listening and I'll hand you back over to Richard.

Richard Wilson, CEO Personal

Accelerating growth by being part of abrdn

Right. It's two minutes to 3:00 o'clock so, we're just about on schedule. So, by way of wrap up, to put things very simply, we have the opportunity, the ambition, the culture, and capability to be as excited today as we were five, six, seven years ago in terms of where we're going. What you've seen, I think, is some data points which demonstrate delivery across some of our metrics but excitingly, moving to our next wave of organic development, which not just brings together the power of talent technology, but also capabilities across abrdn as we move to the next stage of development of the firm. So, I hope that's gives you some sense of what we're doing and where we are, and how we work. For those of you who spent some time in Manchester, I hope that gives some sense of the reality of our workplace and how we spend our time together.

At this juncture, we're going to switch straight into Q&A if that's all right because chariots or whatever, private jets, or whatever you guys do, are at 3:45pm and I think the protocol is going to be that in the room, we're going to weave our way in sort of snakes or ladders, whichever the vernacular is with a single mic, so if you haven't thought a question earlier, you're kind of in trouble because the mic is like pass the parcel and then I'll either respond or ask one of my colleagues to step in front of the fast coming train.

So, if we can begin if any questions, then that would be amazing.

Andrew Crean, Autonomous

Hello, it's Andrew Crean here at Autonomous, two questions I wanted to explore. Firstly, obviously cash margin is going up but at some point in time base rates will peak and could possibly settle down around 3%. Can you give us a sense of the journey if we go up to say 6- 6.5%-- what will you keep and where is the cracking point as you go down I don't think your margin expanded enormously north of 3.5% base rates. If you could give us some sense as to how resilient that is. And then the second thing is I just wanted to explore little bit about this below 60% cost/income ratio as the cost/income ratio is a lot lower than that now. You're talking about the increased spend on advertising, marketing, and inflation. How much are those going to be?

Richard Wilson

So, on the on the first point, which is the incalculable world of interest rates, having gone through the most aggressive period of quantitative easing in the history of the world with rates at a level not seen since before we started Babylonian accounting and to a period of the most aggressive rate rises in history. Picking a normal point today is a curious affair.

As Deb said, we've taken what we think is a reasonably prudent view of guidance for this year, noting that we're in an unpredictable phase of tightening and the market expects it to tighten further. And as well as that it is clearly a competitive landscape, which is what it is. I mean, we've increased the rates that we pay six times in the last year, the most recently announced last week, where we pay up to 3.5 % interest rates. So, you would expect at some point in the future, the net margin to stabilize at a lower level, that future has got a lot further away than people expected even a few weeks ago and the notion of embedded inflation is very hard to unpick today. So, the best we've got today is the guidance that we provided. It's not our business to try and undershoot the numbers. But at some point, in the future, that will stabilize, but for us, that will be as much a question of the competitive position as anything else. And I think as Deb pointed out, there is a certain relation between net interest margin and trading behavior. So, its quite hard to look at one component in isolation without looking at the rest of the model. That was a very unhelpful answer, but it's true.

The second question is around cost/income. I think when you're looking at cost/income, and you said it's a lot lower, you're looking at ii. So, you've got here, ii on its own, it has got a cost/income position which is running sub-50. And you've got the rest of the Personal vector, which we're going through significant structural change, the net outturn of which will be a cost/income ratio in the 50s. That's the next staging post for us as we go through the end of this year. And of course, as we go through into 2024 and beyond, we'll be engineering and that to bits.

Andrew Crean

So just following, up, how much do you intend to spend on marketing as you ramp up the marketing and what's the impact of inflation on that?

Richard Wilson

So, that was two very different questions. So, on the question of marketing, looking at our overall cost/income, we expect to stay in the guide rails in the 50s. So, you can take a signal on marketing appetite at that level. What's important to note is in the first quarter this year, I think our spend, according to the market metrics that we monitor, our spend on marketing was between a third and a quarter of the direct competition. We'll expect to close that gap, I think is the best that I can say. Clearly, what we'll be doing is monitoring that closer to the time and make decisions discreetly when we get there, both in terms of brand investment and spend by channel, but we can expect that to be material but not a absurd number. Again, within the guide rails respect us to stay in the 50s in terms of composite cost/income.

Michael Sanderson, Barclays

Can I go back to, you mentioned you thought incremental customers per year in the market was about 300,000. I'd love to know how that comes about, how you build that up? And I suppose the add-on to that is clearly customer numbers is going to be central to your revenue growth. And so, those customers you've off boarded, or via all your various acquisitions, then moved on, are those customers that you will go back to that you think now you've reset your platform, you can go and target them again, or are they sort of almost dead to you, and you have to look to the new cohort every year?

Richard Wilson

So, that's a great question. There is a few factors here. Number one is we've gone through a period in 21 and in 22 where we had a very inflated levels of market activity, lots of new entrants to investing, following whether you call it a bubble or not, but basically the overhang of consumer tech and other types of investments where lots of folks enter the market. It's going through the correction in Q1 22. Those new entrants have either exited or retrenched. So, the total level of market, new to market and switches has come down. So, that will oscillate over the cycle. Part of our response to that is we're progressively moving our price point to increase the available audience size, which we can't talk about what we're going to do there. But if you've got an ii account later on this year, you might see something on that, which makes the point at which the consumer's price rational much broader. So, we'll have a much larger target audience to go after.

And thirdly, part of the ambition is to drill holes in the adjacent market spaces with kind of proposition and product as we go after more aggressively again, the life companies and adjacent services, and we've got another few parts of our roadmap which are again for later this year, which we can't really talk about which are reasonably newsworthy. So, part of it, say, a larger target audience, which has got a price position, and part of it is new propositions to attack adjacent markets.

Michael Sanderson

And given all that, does your target feel quite conservative what you're talking to as your net new customer growth?

Richard Wilson

Obviously, we would aspire to push through that level. But in terms of making promises, I think with the guidance we've given today is sensible. And there's a lot of tests in line. The UK market is catching up with other markets in the world. Some products that are vanilla things in the US and Canada, aren't providing in the UK because consumers are not ready for it, some behaviors which are kind of the everyday behaviors in other markets the consumer doesn't want here yet. The UK is catching up in terms of behavior and will -- part of that for us to then test and learn where you expect things to happen. But until that actually you can prove it's best not to make promises about it. But suffice to say we're reasonably ambitious and optimistic.

Hubert Lam, Bank of America

I'll keep it to two. Richard, can you talk about your technology spend and how you think about spending on technology? You've seen examples where other peers have cost overruns. What are you doing to make sure that you don't fall into that trap in terms of what you need to do and when? Is it a luxury or what can be delayed?

Richard Wilson

Yeah, so I'm going to drag John into this conversation. He and I have spent the most time together in this business building it over the last few years. Part of the simple answer to that is prudence, is saying no to things. And it's about execution. Everything that we have done has been around the ability to execute -- to deliver what you promise. And it's not by accident that some of the most senior folks in the organization are ex global CTOs of large organizations whose ability to survive in those environments is the ability to execute. So, there's no risk-free world that we operate in. And so, that's become zero that out, what we can do is be robust and stay focused on the business part of -- John if I can ask you to comment -- part of the process has been being -- I don’t want to use the word brutal, but clinically focused on what matters and making the hard choices that implies. John?

John Tumilty

There's two parts, there’s running the business, so the person who says no the most in this organization is me, so you never want to let anyone comes up with a new idea, I would say, no, we're not doing that. Because it's got a technology implication and we don't want to kind of veer off that. So, we stick rigidly, you know, very rigidly to a known proposition that we know that we can build out effectively, and we don't start verging into adjacent propositions or products. And so, we really know we can make money from it and it’s not going to bend everything else we do so we do that really well.

Secondly, when you re-engineer as we’ve done a fair amount of and other funds are doing as well. You know, the way you don't -- going a little bit off track is okay. Because that's expected. What you don't want to do is turn around and say, okay, I've just spent £50m, and I've got to restart it, that's a real problem. And the way that we avoid that is we do it incrementally. So, we understand what the migration path is, and then we build and build and build. We have hiccups, some things aren't as quick as we want. Some things don't quite work. But we don't veer off madly on the wrong path and then turn around and say okay now we've got to reengineer everything. So, I mean, that's all well known, kind of, you know, technology management techniques, we just apply them sensibly. Firms have problems with their technology because of the management of the funds, you know what I mean, not because of the technology. So, as I said, the thing I always say is, you get the technology you deserve. So, if you've got a good platform, and it works really well, that's because you deserve it. If it doesn’t work, then that’s because you deserve that. So, if you stick to the plan, and you're careful, and then you can engineer things smoothly, and you get a good result. And we execute largely on that. And once I've made mistakes, and once I got a split projects, that we get probably, you know, 80-90% of things right, which is very simple.

Richard Wilson

Well, our history has been to treat your investors as if it was your own money. And that in terms of focus and choices, changes your whole perspective on what makes sense. And that obviously drives you to managing your risk more sensibly making incremental change, but also where you need to be having the discipline to do the hard stuff, and not compromise on that, whilst you're trying to deliver commercial ambition. Some of the stuff that we did on even the unique customer identity is really painful. It requires annoying lots of customers over an extended period as you change all of your IDs. And it's thankless. But once you've done that, your ability to be able to provide accelerated services, family networks, enhanced security, that gives you, kind of, the platform to win in the future, and efficiency. But the choice to make that happen is hard and requires a lot of discipline because there's lots of pressure of you to do other stuff. So, that I think back to the culture of the firm, and the ability to be sensible and occasionally stop saying – stop letting John saying no to everything, which is tough, but occasionally it happens.

Hubert Lam

Its Hubert Lam from Bank of America. One question, one last question, on the SIPPs. It seems like this is a big part of your strategy going forward, you're targeting almost double your market share in SIPPs, just wondering, what do you think about timing around that? And how you're going to do it. And who you're going to take share from.

Richard Wilson

So, our SIPP growth has been running at 15-20% consistently over the last two, three, four years. I mean, our challenge is how to accelerate that. Because you're faced with significant inertia on the consumer side, a large bed of customers who have their pension or their SIPPs with life companies, very little price transparency, and a very difficult marketing challenge about how you can spend wisely to acquire -- our appetite to spend on marketing is much higher than the channel is deep. So, part of the reason for expanding our competitive ability is to be able to attack that harder. Given we're under-indexed, I mean our penetration increases by about 2ppts a year, almost like clockwork, we have a very good set of propositions, a very good, digitized service. And we'll be making further moves in terms of proposition of price later this year to make that even more compelling. That's not the challenge. The challenge is to crack open the inertia side, which is how do you open the taps wider on the consumers to move on from where they are? So, we're very confident about that being a significant runway. The question is how fast you can fly there, fly the jet to abuse that metaphor, slightly.

Haley Tam, Credit Suisse

Hi, Its Hayley Tam from Credit Suisse. I'll take two questions as well please. The first one just to follow up on that SIPP point. We talked about the counter cyclicality of the Treasury and trading revenue. And we talked about how the SIPP margin will be positive for the subscription fee per customer. So, is there any reason why I shouldn't interpret your mid-single digit customer growth guidance as a higher revenue growth target?

Richard Wilson

Gosh, that's good math. We've given the guidance we think is sensible. I'm going to sidestep this question, I think. SIPP is less cyclical than other parts of the business. Cash levels are higher in SIPPs than they are in other parts, in other wrappers, the asset level of the SIPP is much higher than in other products, it is usually -- for most people - their largest single financial asset. And the level of engagement of someone who has a SIPP is roughly twice that of those who don't. And for those who have a SIPP of £500,000 versus £100,000, they tend to trade twice as much as each other. The lifetime value of a SIPP is somewhere over £10,000, which is roughly five times the other wrappers. And the retention rate on SIPPs is something like 98-99%. So, all those things would lead you to some levels of conclusions. The question is the clock speed, over what time that actually takes place? Because whilst we're taking for example, 20% of all new SIPPs to the market in Q1, in absolute numbers that doesn't move the dial. So, it's a slow burn, part of our challenges to move to the dial faster.

Haley Tam

Thank you. And then probably another question to sidestep. But if I think about the mid-single digit growth in customer numbers, do you have any preference or targets over how much of that comes from, say, the Essentials products? How much comes from new financial planning clients? How should we think about the mix of those new clients?

Richard Wilson

So, we would expect the core of that come into our core proposition. We're sort of agnostic. Because we currently have the mix, which is that central core isn't by far the largest part of the audience. Our premium package has, like 10,000 consumers in it, our SIPP Essentials is somewhere around 10,000. And we've got something like 300,000 or a bit more in that core. So, that will be the expectation. And we've only just -- to John's point earlier, we really just got into the phase of the optimizing and putting pressure on the bundling structure to be able to premiumise and start to optimize which packages make most sense; that engineering is a recent completion we saw that went live with the pension builder and SIPP essentials at the beginning of this year. So, we're expecting that to pay dividends metaphorically over the next few years as we take full advantage of the engine that gives us, I can give you a service proposal to optimize it for you, as opposed to for any other use case.

Gregory Simpson, Exane BNP Paribas

Hi, it's Greg Simpson from BNP Paribas Exane two questions maybe. The first is can you talk about what behavioral changes you're seeing or might expect to see at base rates settle it's like structurally higher level than they were in the past? You know what gives you confidence that cash stays at 9-10% in your target and people that use more money market funds will shift money into gilts? Or do annuities come back? Just a bit of color there would be interesting.

Richard Wilson

Part of that obviously is imponderable and clearly we're seeing significant rotation now into fixed income, money market and more recently, gilts. Anyone who's here who's not bought a gilt you should go and do one -- although the prices might keep moving. So, I mean what we have is -- back to our wrappers - we have three wrappers SIPP, ISA, and GIA, we're clearly in very unusual times, but historically, the cash levels in those ISAs I think, as Deb mentioned, it oscillates between 9-11 % in aggregate over the cycle. But it's quite different within the different wrappers. So, the SIPP has a much higher cash balance, and then you've got the ISA, and then you've got the GIA, which is lower. And of course a lot of people will hold the cash in the SIPP for very sensible reasons, whether it be for liquidity, or otherwise. So, we'll expect some level of swapping into fixed income and money market because we promote that it's all about consumer outcomes, but at the same time with consistent SIPP growth, when our average SIPP inbound account is £200,000, I think it is the average inbound value with cash balances around 50% of the SIPP, if you're tracking in terms of growth, those -- that -- those balances build over time. And part of our advantage is that we're -- because we're under index, that SIPP journeys have gone quite a wide runway. Within a cycle that you'd expect to have cash balances coming down towards a lower level. And as you go through the cycle, they average that. And then beyond that, everything else becomes speculation.

Gregory Simpson

And then, in terms of the subscription model, more generally, I mean, other subscription models like a Netflix do put up pricing, sometimes targeting. It seems like you're adding quite a lot of functionality into the community features, the research is -- could the £9.99 become £10.99? Is that like a levy, you've been putting in the medium term?

Richard Wilson

That's a really good question. And it would be wrong for me to comment, specifically. But obviously, periodically, you would expect the price position to be reviewed. We haven't moved the core subscription price since 2019. We went to £9.99. April 2019. So, periodically, you'd expect to have a look at that balance. And clearly, given where we are in our journey, you'd expect the balance to continually optimize towards subscription and away progressively from commission. And as you go through the evolution of both optimising for discrete consumer groups, you would then look to optimise subscription. So, the answer is the obvious one.

Oliver Carruthers, Goldman Sachs

Thanks. It's Oliver Carruthers from Goldman Sachs. Maybe just to push on that question a little bit on the monthly subscription pricing. How elastic do you think your customers are? And maybe, you know, what have you learned since launching the investor essentials £4.99 package in January this year about that elasticity? And then a second question on public pricing model. You know, are you seeing -- given your investor -- your clients are trading less, are you seeing any switching from the more expensive low trading package -- or high trading package to the cheaper headline, but, you know, more expensive to trade package?

Richard Wilson

So, there's several parts to that, that answer. One, obviously, there is a there's a longitudinal part of that, which is we're only a few months into that experience. And we -- to the basic questions as to elasticity, the answer is there isn't much. But the question is in terms of retention versus acquisition, which is a different question. So, in terms of tolerance for price shift, our experience historically as experienced by other platforms is the consumer is less -- is not insensitive, but relatively insensitive. Occasionally, someone will screw it up. I think Netflix had its own version of that story about 10 years ago when they took a bath. So, there are clearly limits to that model, but relatively inelastic is the question. We haven't touched the boundaries on that. So, the answer would change if we did.

And so that's answer one and answer two is we're going through the process of now optimizing introducing different bundle points, which we'll see coming out at the end of this year. And it's at that point that we'll expect to have completed what our price structure is because we've got a couple of components that are missing currently, which we'll talk about when we announce later on, but those will, hopefully inform some of those choices. The key differentiator today is between lower asset levels and higher asset levels. So, we've got a £4.99 level for GIA and ISA, that attracts -- is intended to attract a certain type of audience. You can -- for them, there's go to access to all the free regular investing solutions and so forth, but it's an AUA cap. So, it's not a choice. And if you exceed the cap, you'll get bumped up. For those who are in higher levels, some irregularly trade down if they fall through the cap, the only real choice you've got is between the premium package and the lower package. And that today, it oscillates over them with a very small range. So, I think our opportunity is to upsell more rather than the other way around. So, we haven't been as good as we should have been.

Enrico Bolzoni, JPMorgan

Hi, thank you. Enrico Bolzoni with JP Morgan. First question, again, going back to conversation about NII and margins. Can you remind us of your 60 % – below 60 % cost/income target is based upon what assumption in terms of rate level margins and cash? And over what period of time? Maybe I stop here for the first.

Richard Wilson

And there were two parts to that. So, as you go over longer part of the cycle again, you can't take the revenue components in isolation, that doesn't make any sense. But if you increase your subscription as part of the revenue and you oscillate between trading commission and interest rates, forgive me, it's a mug's game to take interest rates separately and then drill that to pieces. The reality is that the world of zero interest rates has gone and we're going back to a world where rates exist, and you can project that that will be forever. And our modeling was based upon 160-170bps. And what we've seen is the actual as the thing as the revised guidance has given, we've nudged up the net margin percentage and nudge down currently the cash level, which gives you the same result. So, I think, originally we're at 160-170bps and now we're 180-200bps at 5.5%.

Enrico Bolzoni

I mean, what I was keen to understand is, I appreciate you as the mid-single digit customer growth number now, you have maybe some assumption on trading activities. So, I presume that these are baked into the 60%. But then I was wondering whether if I look at two years down the line, whether you are still assuming rates above 2 % to keep the 60 % or actually it's not?

Richard Wilson

I think I've been over the cycle I think to have some level of regression on the rates curve, but I can't. It's just given where the world's come from going to I mean, you guys can just as qualified to make predictions on the market. Everyone got those numbers massively wrong. Every single digit around the inflation level, the rates level, all the economists were well over their skis on that, so I can't. I mean, I'm not going to do a better job than they do.

Enrico Bolzoni

Okay, thank you. My second question is on the attrition level, after acquisition they say usually a big high for quite some time. Continue, they do have a very good proposition is very cheap as well. Why are they leaving? Can you give some colour on who are the people that are leaving, why they're doing so? Are you losing them to competitors, or anything else? And related to that, can you tell us at this point in time, roughly, how many clients have you identified at the risk of attrition over the next 12 months?

Richard Wilson

So, in terms of the reasons why customers leave, you'll have the generic reasons of price rationality versus leaving the market versus not providing a service. So, if I become wealthy and retired, and we don't provide a discretionary or advice service, they will call and say do you do advice, we say no, and they go. So, that's kind of the generic reason. Specifically, on the acquired business side, we buy the entire business, whether it's price rational for the consumer or not. And when we model those transactions for some of those consumers, it's not price rational that they stay. If you've just got low value equity custody, there's a couple of folks out there that are much cheaper than we are, we provide everyone with a price guarantee. We've tried to try to engage them but when we test the behavior afterwards about who's leaving, they're leaving because it's price rational for them not to stay with us which means they're generally speaking much lower value customers who are doing single stock custody. That's kind of the generalization, that was the answer to that question. I think I've answered all the questions by taking this too, didn't I?

Enrico Bolzoni

Was keen to know, if possible, if you have an idea or if many clients are currently in -- potentially in a position to leave the platform because of attrition?

Richard Wilson

Well, I'm giving you, I mean, our overall return - our attrition rate is somewhere hovering around 6%. So, that's where we are. As you penetrate further on SIPP, which has 98-99 % retention rate that tightens the jaws on that number, you're always going to have those. If you have a pension and you die, you're leaving. And if you leave them on for other reasons you're leaving, so you're always going to have some level of turnover, it just - it drifts up. My target number is 95% retention beyond which it becomes exponentially complicated. So, it is what it is. So, we've got we've got questions on the phone.

Ben Williams, Shore Capital

Good afternoon, all. I had just couple of small ones, that mid-single digit CAGR and customer numbers, what sort of market share do you think that gets you to in, say, five years' time? So, that was question number one. And then I think sort of a bigger one is you know, with the new product, which sort of -- which prompts investment and prompts thinking about, you know, asset classmates, etc, how far towards advice do you think you can go? And what do you think that will mean, in terms of the share of your existing customers as well that end up on the platform?

Richard Wilson

Hi Ben, they're great questions. So, on the first point, which was -- remind me again start the sentence?

Ben Williams

Just thinking about what that mid-single digit customer number growth means in terms of market share, because you've obviously thought about it in that perspective?

Richard Wilson

Yeah, so what -- I mean, what we expect to see in terms of market share, and it depends on the kind of cycle, but we'll be increasing market share on an annual basis between 0.5-2%, depending. Now, there will be that organically from time to time. And the challenge today is there are no good targets, from time to time there'll be inorganic activity, because that's the nature of the beast, in which case those numbers would move by more.

Richard Wilson

And Ben, the second point. Sorry, because I'm getting jaded.

Ben Williams

It’s in -- yeah. No, I’m not surprised. I mean, if you’re lucky didn't do an IPO would have been even worse.

But look, I was thinking that you did have a lot of popularity after your hard work. And no, I was just thinking about, you know, how your if you'd like the provision of your platform is -- yeah, has effectively an advice component coming, and that works for the investor. And obviously investors, you know, in many cases, you have part of their wealth on your platform, and they're paying your subscription a certain level. But actually, over time, you might have a bigger relationship. How do you think that plays out?

R**ichard Wilson**

So, I mean, that's another good question, part of which we'll be trialing over time. The current facts are we have a financial planning business that provides advice, we have a significant population in ii who want advice, which we'll use as lead generation into that business. In terms of the assets on platform, partly viable, by virtue largely to our pricing structure, we've got a higher percentage of assets, which are wholly on platform that other platforms do. So, if you look at the investment trends research, we're somewhere approaching 70%, in aggregate 70% of customers’ assets are all with us. But of course, the higher the value of the customer, the more likelier they have assets elsewhere, we're always assumed in the past that was like 50/50 in fact our - to our discovery was that the balance is high with us. How that evolves over time with the planning, we'll have to work through because certainly there'll be planning advice that we will give where we don’t then service some of those assets, I think that will also always be the case. So, you're not trying to capture the whole arena. Over time, but you'd expect at the margin that centers to increase, but we're already at the high watermark in that area.

Bruce Hamilton, Morgan Stanley

It’s Bruce Hamilton with Morgan Stanley. First on competition, Vanguard, obviously going after SIPP balances aggressively this year as well. So, how do you think about your sort of offering versus theirs? I mean, maybe both -- you can both grow, because it's coming off insurance. But how do you think about that? And if RobinhHood comes to the UK at the end of the year, which they are saying they're going to do, although they reversed that last time around, how much of the competitive threat is that or is it not really worrying for you? And then the second question, just on sort of AI use cases. I mean, can that significantly help efficiency? Is there any sort of opportunity around to revenue enhancement or is that sort of overstated hype in your view?

Richard Wilson

And so, on the first question, if you look at the and the stats from Q4 to Q1 in terms of net assets flows, I think the Vanguard and ii took 30 % of the market each. And then the rest of the pie was either the either net negative or flat, AJ Bell was up. So, in terms of who's fighting over that space, it’s quite clear who we’re looking to and who they're looking at to be the protagonist. I think Vanguard’s net assets, 40 % was SIPP driven.

We're already cheaper than Vanguard for Vanguard's own product above 100,000 quid. So, there's a price point component on that, which we'll be looking at again fairly soon.

The other thing about Vanguard compared to us is that they're closed architecture, their entire content is Vanguard only and we're open architecture whole of market. Where they've sold a march, quite clearly, and there's full congrats to them in terms of banner marketing, they've done a good job. Their proposition is nice and simple. So, there's a couple of lessons on that we'll be responding to, as aggressively or, certainly as we know how, in the months ahead.

In terms of the Robinhood, and the same thing applied to the free trade argument, Robinhood, as you know, their revenue stream was largely PFOF driven and stock loan. PFOF is a bust in the UK, that doesn't work, stop loans got very low appetite on the UK consumer. We've got all the pipes and capability to do that we've chosen not to because it's just not there. So, their financial model doesn't work. Even if it did, with -- I mean the Robinhood journey is no different to me, than the free trades of the world. There is no free trade. And the question for us is the deepening of a proposition where you're providing a long term investment capability, which happens to be that our platform is very fast and reliable, you can hit markets around the world, but it's -- that's because it can do F1 if you need to, its core purpose is to serve the needs of a large range of investors. That's not the same proposition as those guys. And I've always had every year there's been whatever board, what are you going to do about the latest thing or free trade. Some platforms have responded to that by creating a new proposition to try and compete directly, not sure that's very wise, the job is to stay absolutely brutally focused on what you do and win through content service and picking the value points that serve the consumer.

AI. I might stitch John on to this. But we've been - until recently, AI has been of some value, but there hasn't really been a place to move the dial. So, we use machine learning and clustering to construct our consumer segments, we use machine learning, have used neural networks in terms of creating predictive models around performance marketing spend versus market volatility, we've used predictable prescriptive modeling to drive some experience to the website, so it knows what your profile is and adjusts your experience according to how you use it. That's created some level of incremental advantage which is being driven by lots of test and learn hasn't really been a game changer. What you see with LLM, and the large language models is potentially a very substantial shift. And we see that both on the cost side efficiency and service side and on the proposition side. John, Alan, and the teams are working to some test and learn are in that space currently. And the opportunities are material and those who don't exploit those will lose and it's the first real shift I think we've seen recently whereas an aggressor capability that technology is a dial mover. John, do you want to comment?

John Tumilty

We’re to start to look at it properly. You know, we have a very good data engineering team data science team. AI is a little bit different from that, so we just started like looking at a lot that a lot of their kind of industrial applications are available just yet because of you know -- because of the licensing, etc. We are going to do a couple of learns for it. One of the most important things obviously is only AI if you're getting data classification, right, so doesn't just go off and do what you think it's going to do you actually have to classify your data. And yes, you have to train it on your data. So, we have started looking at how we classify our own internal data. So, we believe there's two or three ways that we could -- AI could impact us. Personally, I think we can use it to service the customers better. So, you know, kind of much more intelligent chatbots in then you get available yet, I would expect most companies but so the bigger ones to come up with much more intelligent customer service because of an AI application. So, we're looking at some of that. So, that's revenue saving and improving customer services.

The second thing would be a bit scarier is to let it run on your own staff and just say, tell us about our business. So, you know, if you -- she could do that it could I'm not sure, you know, people's understanding is different. But certainly, you could set it more generic questions, you know, that then are perhaps available now and see what it comes up with. And the third thing, which of course, you will possibly want to do, you could write analysts’ reports and that sort of stuff, but we don't want to go anywhere near that do we nobody will mention that.

But I think the first opportunity is really, on the customer services side, that's where I would see our first application for it. And we would target that. And that wouldn't be revenue enhancement, it would be service improvement, and cost savings.

Richard Wilson

And conscious of -- thanks, John. We've got four minutes left before this Chinook arrives. Could we just -- we’ve got four minutes left, in terms of questions now is the time.

David McCann, Numis

Yes, David McCann from Numis. So, I did have a couple of them, we could go through them quickly then. I mean, you talked a lot about wanting to grow more in SIPPs. But I mean, you know, SIPPs have been mainstream products since at least 2006. So, maybe just help us understand why your kind of under indexed in SIPPs to date, what has it been the sort of stuff you're getting there so far? That's question one.

You know, question two, the scalability of the platform. So, what kind of growth and new customers take on customer numbers, assets under administration, you know, did the tech you already have in place? I believe it can do with the 5 % of new customer growth. But you know, thinking more optimistically, what can it do from what you've already got?

And finally, just on the portfolio partner product. If there's going to be something you're going to charge extra for potentially, I assume this is an optional service. So, customers who like it the way they've already got it, won't have to adopt this, but it's potentially something they can do. So, I guess to that end, you know, are you targeting growth that comes from new to group customers? Or do you expect to penetrate the existing ones as well?

Richard Wilson

So, thank you. So, on the first question, I mean, we're taking today about 20 % of all new SIPPs in the market. So, it's from an acquisition standpoint, tracking the challenges is how do you do more? The question why are we under-indexed, which is the start of the journey, that's largely a function of the history of the firm where all the firms that we acquired, only one really had an embedded SIPP business, which was ATS. The others were outsourced models of facilitation, they didn't really have the capability. So, you -- the starting point, you started a long way further back. TIDI had a service, was outsourced to AJ Bell] at the time. So, as a white label. EQI is getting run around through third party administrators, it's a share center ran through caches banks, and had all this done. So, you're starting with the nature of the cohorts of customers that we acquired back then, that's provided us with, obviously, an opportunity which is cross selling to that consumer base. And we've got a reasonable share of our SIPP growth comes from cross selling to that legacy base, the largest base comes from organically acquired customers and cross selling to them in the first 18 months of their life for the firm. So, that's where the history came from. I love it when there's like 40 questions. The second question was what again?

David McCann

On the scalability.

Richard Wilson

Scalability, I'm going to go with John on this. The high ball answer is, as John said, we think our platform is good structurally for the next 5, 10 years, the things that we can do because it's all virtualized, you can dial up. Whether that in practical terms that's 4x or 10x tomorrow, the reality is that you can only scale your job to be fit for purpose for a visible horizon, no one would -- I think number of us have been through large scale businesses before, business transformation and we went from 130,000 to 2 million a day. You can't tell at what point of that process some things will creek, the job is to be responsive to that and to deal with them. So, relative to the known knowns, we scale substantially. If we go 10x in the next three years, you'd expect some stuff to be a problem. And where's the problem is usually quite specific. So, on market open, when everyone connects simultaneously to the trade, there's a point in terms of kind of the stress on the platform that you'd expect to have a weak link, as opposed to processing overnight, which is kind of not the same. So, John, I don't know if you want to add more to that?

John Tumilty

Yeah that's about right, I think that we -- that the old sort of tech rule of thumb is twice your previous peak, would be your - where you need to be at any given point in time. So, that's what we got. So, our previous peak was sort of 45,000 trades throughout the day. So, we think on this scale now we could recover, like, 90,000, 100,000. So, that would be you know, currently, we're on 20 or 16.

So, we think we've got plenty of capacity to, you know -- I can say the number because that's exactly what we're saying, but we've got plenty of capacity for growth as planned for the next five years. The things that are breaker, the things that you don't think of actually it sounds obvious, but they that we think it's well designed, and componentized. So, we can react quickly to stressors in the system. So, for instance, we cope with it, but the -- one of the market papers was international trading was the thing that causes the most problems to the US open, which we had never experienced before. We had to react to that pretty quickly because it was a major kind of fork in the platform for a day or so until we managed to get more resources online. But we think we're componentize and we think we can cope twice previous peak is where we're going and we're currently okay with that.

Richard Wilson

And on the last question, if I can introduce Alan Courbebaisse.

David McCann

Around the portfolio partner, so presumably, this is optional, it's going to be something you're going to charge for, and are you targeting penetration, which comes from I guess, new client groups or what the existing clients?

Alan Courbebaisse, Chief Commercial Officer

Yes. So, our approach to understand well is to be more than a subscription business. So, we actually on here we have been preparing a certain vendor which will make available certain features for the price on the flat fee manner. So, we don't expect to have it as an added fee for any kind of vendor, but you may have to subscribe to a certain vendor for it. And to complement your question about why it's so important for us, the Portfolio Partner, is that it's happening to us. The world of older people that want help to do something that wants us to do it for them, while some people that want to do it themselves. So, it's a huge opportunity for us and we'll work on the pricing and the vendor structure that will provide value as we always did for our customers.

Richard Wilson

I think in terms of the how we view this ourselves, as we view this as a product as a category of category killing products, at a price point which goes with it. So, we'll talk about more than later in the year, but it will be, as a proposition it will be a dial mover in terms of content and price.

John Tumilty

Interesting, We've looked at doing something like this for several years, but we've always stopped short of it because we didn't have not the technical expertise but the kind of business knowledge and -- to do it. So, at any point utilizing Aberdeen's experience in this we managed to execute it, technically we could have the night before. We didn't do it because you didn't have the business expertise or portfolio management portfolios to do it. So, that's been a key thing. In terms of that, one of the first things we got moving was this because we always knew that was a good proposition.

Alan Courbebaisse

The value of each portfolio is picking the best in this category to this so far so we think it will be of very good value for our customers.

Richard Wilson

Thanks, Alan. And it's 3:50, so I think we're going to have to drop the curtain. Thank you very much for coming to Manchester. Thank you so much for all the great questions. I hope that's been useful. You get a sense of what we're about, what we're doing and who we are. Thank you very much. Safe journeys.