# abrdn plc

## Q3 Trading Statement 2024

Call transcript

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abrdn.com

## Jason Windsor, Chief Executive Officer, abrdn plc

Good morning, everyone, and thank you very much for joining our Q3 call. I'm delighted to speak to you today, as it's my first time as abrdn's CEO. I'm pleased that I'm joined in the room today by our interim CFO, Ian Jenkins. I'm going to give you a quick walk through of the key points and then as usual we'll open up to Q&A.

So, let me start with the key highlights. AUMA is up 2% year-to-date to £507bn, and this principally reflects positive market movements and net inflows in interactive investor. It's worth noting that interactive investor continues to deliver strong organic growth with customer numbers up 6%, year-to-date to 430k.

Trends in Investments remain similar to the half year with outflows in equities and insurance, but we did have a strong quarter in real assets. However, in Adviser we had £1bn of outflows in the quarter, and we are taking action with urgence to address this.

In terms of outlook, today we are confirming we're making good progress in our transformation programme and that we're on track to meet our cost saving commitments.

So, putting this all together, there is clearly more work to be done, but with strong foundations to build upon, we can create a lot more value for this company.

Now just let me take each of the businesses in turn, starting with Investments. Excluding the sale of the Private Equity business, AUM is up 2% year-to-date to £368bn with positive market movements more than offsetting the net outflows of £4.5 bn. This compares to net outflows of £13.5bn in the same period last year.

Now, I'll unpick these results in the quarter, which will be somewhat volatile as institutional businesses are. Institutional & Retail Wealth had net outflows of £2.4bn, primarily driven by equities which reflects the continued challenging *risk-off* sentiment, particularly toward China and emerging markets.

After a strong first half, fixed income had outflows of £0.8bn in the quarter, largely reflecting a significant redemption from one client. Net inflows in fixed income are still positive year to date at £0.4bn. Given our positioning, strong performance and the won-not-funded pipeline, we remain confident in the outlook for our fixed income business.

Other areas of inflow included £0.3bn in liquidity, £0.4bn in quants and pleasingly, £1bn in real assets, where our business remains well positioned. This included the extension of our real estate capabilities in the Japanese market with a new £0.6bn mandate.

Insurance had net outflows in the quarter of £1.1bn with AUM flat since the half year and up 2% year-to-date. Gross inflows in the quarter were £3.3bn, with outflows primarily reflecting the heritage business in run-off.

Turning to Adviser. AUMA at the end of September was £75bn, unchanged since the half year, with positive markets offset by outflows of £1bn. Simply put, we have work to do.

At the half year, I outlined the actions that were needed. A strategic reprice, focus on the timely delivery of the in-flight projects, and consistently providing excellent service, which after all, is our reason to be in this business. So we're redoubling our efforts in this regard with urgency and laser-like focus. We're also adding resource with the aim of delivering a better experience for all of our IFAs and their clients.

I've also mentioned our plan to strengthen Adviser's leadership team significantly. I can now confirm we've made three senior hires, a new Chief Distribution Officer, a new Chief Technology and Product Officer, and a new CFO. I'm very pleased we've been able to attract top talent to the group. The full benefit of these actions will take some time, but our priority remains to return the Adviser business to net inflows as soon as possible.

And finally, back to interactive investor. As I mentioned, it's been another strong quarter with customer numbers up 6% year-to-date to 430k. We attracted £1.2bn of net inflows in the quarter, bringing year-to-date net flows to £4.3bn. To put this in context, that is 48% higher than the whole 12 months of 2023.

In SIPP customers, which is a strategic focus area for us, we're now at just over 76k, up 5% in the quarter and 22% year-to-date. In addition to net inflows, AUMA in ii also benefited from positive market movements and was up 2% in the quarter to £74.5bn, which is 13% higher than the end of 2023.

Building on this very encouraging performance, we have significant growth plans for ii in 2025 and beyond. This includes the launch of *ii Community*, which went live yesterday.

At the Group level, we continue to make good progress with our transformation program. As I've said previously, right-sizing our cost base is essential to moving the Group towards a more acceptable level of profitability.

Transformation is about cost savings to improve profitability, but it also allows us to invest more in our people, technology, processes, and controls in order to deliver better outcomes for our clients. We're on track to deliver approximately £60m of cost saves in the 2024 year of account, and at least £150m of annualised savings by the end of 2025. Given this, we continue to expect Group costs for the year to be below £1,075m.

To conclude, our overall performance this quarter is not where it needs to be and underlines the needs to move quickly to deliver on the priorities that I set out at the half year. While there remains much to do, I'm confident that we have great talent and can make further progress towards profitable and sustainable long-term growth in the business, benefiting shareholders, clients and colleagues.

With that, Ian and I are happy to take your questions.

## Q&A

**Enrico Bolzoni, JP Morgan:** Two questions from me. So, in Adviser, can you give us some colour in terms of what the feedback from the IFAs has been? In other words, what is driving these levels of redemptions? Is it the specific features of the platform that are not up to standard or is it pricing compared to competitors?

My second question is on the interest margin. Can you please give us an update in terms of what we should expect in outer years, so beyond 2024, as rates keep declining?

**Jason Windsor:** In Adviser, there are multiple things to consider. On price, the re-price we announced is really about growth in new clients rather than losing existing ones. Price is important, but it's not the pivotal factor in why people choose platforms. They choose platforms for service and for functionality. And it's on service that we can do better.

It's hard to say it's one specific thing, but what IFAs want is for their orders to be processed within a reasonable timeframe. Little things make a big difference. When orders are not quite filled in every last data field, we need to chase that down faster. We need to get things processed quicker. We need to get the queues knocked over before people go home in the evening, not literally, but you get the point. So, we've added some extra resource to make sure that when the orders come in, and when they're processed, we can execute them faster, and when we have got the people that need to help support the transfers, which is generally transfers or money out, that we can do it faster. And that's a work-in-progress. We've added people, we've added resource, and we are laser-focused on doing a better job.

On interest margins, no major change. We get this one quite often. I think we've given guidance, that predates me, of around 2% in normalised times, which we're pretty comfortable with. It will bounce around obviously depending on rates. We're above that this year. We'll probably remain above that as we go into next year. The split on how much we pay to customers is partly driven by the competitive environment, partly driven by the proposition, and partly driven by how well we're doing at investing the assets on the other side.

**Hubert Lam, Bank of America:** Thanks for taking my questions, I've got three of them. Firstly in equities, any change in sentiment recently for EM and Asian funds after the market stimulus in China? Or is it maybe too early for this?

Second question is on fee margin. Given you had sizable outflows in equities, which are higher margin, in Q3 how should we think about a fee margin in the second half?

Last question on investment performance, can you give us an update in terms of how both equities and fixed income have done so far this quarter on a one and three-year basis? At half year, equities were still pretty much underwater, both one-year and three-year, so just wondering if there's any improvement in that and whether or not fixed income has still remained strong?

**Jason Windsor:** Let me deal with equities and performance, and Ian can come in on margins. So, no fundamental change to sentiment. Clearly some of the macro things that are going on in China and elsewhere do remain important. We're not seeing a major change to sentiment towards China and Asia, but what we are seeing is slightly more interest, in fact considerably more interest, in more narrow offers. So, I would point to products like GEM ex-China, single-country strategies like India or GEM income strategies in fact. These are not as big for us as for the major banner GEM and APAC strategies, but they're not insignificant either.

So, we are changing the shopfront to be more relevant to what people are buying. That's a work-in-progress, but we're seeing sales in those areas, but no major change to sentiment elsewhere, just to be clear on that.

The investment performance in fixed income has got stronger. Actually, the one-year performance is better, and it is sort of consistent, because the three-year track record is pretty good. It's ticked up slightly.

In equities, the one-year performance is better, which is what I'm looking at primarily. So up from 23% to 30% of funds outperforming. It's still not where we'd hope it can get to. But across the board, active fund management is at that sort of level.

So, the team's got my full support in what they're doing through Peter and Devan, and they're taking the right steps. It will take a little bit of time for that to come through, particularly in the three-year numbers. I think as everyone knows, 2022 was a very tough year for us.

**Ian Jenkins (Interim CFO, abrdn):** On fee margins, our guidance remains the same as it was at the half year. For the first half, I think we had 22 basis points and in the second half, we will be below 22 and that's where we stand at the moment.

**David McCann, Deutsche Numis**: Three questions from me. Regarding the Adviser platform, are the problems that you're having still fundamentally linked to the re-platforming that you did last year, or is there something else that's emerged since then that led to this? We have seen most of your peers seeing improving flows here, so it does appear to be something internal.

I appreciate that you're going to give us an update on the DB pension surplus in February with the results, but maybe you could just remind us of what options you are actively considering?

Finally, Jason, you are now full-time CEO as you mentioned at the start of the call. When you were asked about this as interim CEO at the results, you did refer to 'three core businesses' at abrdn. Is it still your view that they are 'core' now you are CEO full-time?

**Jason Windsor**: Absolutely, in terms of strategy, we are totally committed to improving the performance of the three businesses. Namely Adviser, Investments and interactive investor. However, they are at very different stages of their development. I'll come back to Adviser in a moment.

Frankly, the growth in interactive investor is there for the taking, and we are taking it. The cost efficiency and the transformation going through Investments and the change of the product mix is there. We have plans, but there will be sharper, better and more plans to continue to do that.

In Adviser, we remain very supportive. If I sort of segue from the strategy question into the performance question, I think it's hard to say it's one thing. I think the platform upgrade, which was 18 months or so ago, clearly did knock us off course. Getting back on course has been harder than we thought. I don't think you can say that there is any functionality or any software issues, there aren't. But to take people's view of where we are, it just takes some time to shift it back to being that level of service and delivery that we aspire to have. And we've got to get better.

In the last two years since we started that project, frankly the market's moved, the market's got better. abrdn needs to get better and we need to do better. So, the plans that Noel and his team have put in place are to achieve a much better service proposition for Adviser. As I mentioned a few minutes ago, that means getting better on queues, getting better on orders, getting better on delivery to IFAs - these are some of the basics, and we want to do this in a way that delights them. It's not about just meeting an SLA, but actually we want them to think 'that was a good experience'. That's what we're focused on doing. On the DB surplus, well, nothing's off the table. So we could just leave it, we could look at a run-on or potentially some extraction, or we could look at a buyout. Clearly, we'd partner with the trustees, who are the ultimate decision makers. The fund remains very well-funded with a significant surplus. So, there is a block of capital in that that could potentially be released either in the shorter term or over time and we'll take steps that make sure that we make the right decision for members and for the PLC.

What I was trying to say in the release, just to be clear, is that there's no update today. We want to get the work done, but that's a bit out of my hands, because it sits with authorities that frankly don't march to our orders. However, we'll try to give an update as soon as possible. I'd expect that by the year-end results.

**Bruce Hamilton, Morgan Stanley:** You are saying that costs for the year should be below £1,075m, but it also sounded as though you need to re-invest in Adviser. Some of the salaries of the senior hires, I suspect, would be working in the other direction to the cost target?

Secondly, what are the synergies you are currently driving from having the three divisions side-by-side, and what can you do further to improve that? Because it's not entirely obvious from the outside. I can see those three businesses working as silos with their own growth opportunities, but what's the benefit from having the three combined in the group?

**Jason Windsor:** On the cost point we're taking out material amount of costs, £150m; but the sort of numbers we're talking about to get Adviser back up are in the small single digits.

We're not flagging any cost issues, just to be clear, we're reallocating some resource to focus on service. We might take away a little bit from change, but service, service, service, that is the clear message on that. That business will be, and is, very profitable. So it's really about delivery of a better product and a better experience for IFAs.

On the Group, we're all in the investment business, all three. We share content, we share leadership, we share a number of systems. We have one regulator, one capital base, so we do operate as a family of businesses doing similar things. On the revenue side, I'm not going to overstate this, to be clear, but there are some benefits where we have managed products that interactive investor sells. For example, the Managed ISA product that I talked about at the half year, which will be followed by a Managed SIPP product which was designed by abrdn with some abrdn componentry within that. That is a good proof point.

On the Adviser side, again, we do have managed products that we actually offer to IFAs. Frankly, we're well below where I'd like us to be in there. So there's definite upside potential in the MPS world through Adviser. There are also some data assets that we get from interactive investor. This is significant market insight and intelligence as to what customers want and that allows us to tailor our products, obviously on anonymised basis, but we see huge flows. We were number one, and I think we probably are still number one at Q3, in UK D2C. That's a phenomenal position to have and you get real insight into what's going on in the market, and we can use that. So that's where we are. They're the businesses that we've got, and the absolute focus is in improving all three of them.

**Nicholas Herman, Citi:** Two from me, please. Just one follow-up on equities. I've heard you say before that you're seeing a slight pick-up in performance. Just to circle back on this, how much of the weak flows in equities in Q3 was due to Asia and EM just not being flavour of the month versus the impact of relatively weak performance that we've been talking about for the past couple of years?

On real assets, pleasing to see some good inflows there - are you seeing any change in demand for real estate or infrastructure at the margin as you move into this next phase of the cycle? And as part of that, do you have any other funds beyond the European Concession Infrastructure fund coming to market? You've mentioned that you think you are well positioned here generally in real assets. Where, in particular, do you see yourself as well-positioned, I guess apart from Tritax?

**Jason Windsor:** I think given the performance that we've had, the clients that were going to leave because of performance frankly made that decision some time ago. Those that are with us buy into what we do, our process, our style, our team. So, it's largely allocation issues that are affecting it. Clearly, some would like better performance, of course, so would we. As I've said, in performance, we've seen a slight uptick. I'm not going to overstate this, and it's hard to talk about a business with numerous strategies holistically. So we've had really good performance in certain strategies, and I don't want to walk past that. Smaller companies, GEM income, India, just to rattle three off that come immediately to mind. But the challenges tend to be in our bigger products, so hence, we've seen that in the numbers. So that is a work-in-progress. We are on it, and we're focused on that, as you would imagine.

Yes, we were pleased with the real estate growth. Don't pencil in that sort of level of growth every quarter. Having said that, it is going well. We do expect to continue to see that through 2025, as people get used to higher rates and rates have peaked and have probably turned across any number of different markets. I think we'll still see some probable outflow from the more developed UK real estate world but offset by interest across Europe and out of Japan, which is particularly interesting. It's quite exciting for us to be able to see that mandate come in, and I think you could see further growth from that.

On the infrastructure side, we've had a number of wins, but we would like to be bigger. We've got a strong business on the concession side. I think giving more fuel to that business is one of my challenges, and one of the opportunities for us is to try and grow that further. So again, it's a work-in-progress on the upside there. There's certainly more to do, but clearly a pleasing win and some pleasing progress in Q3.

**Gregory Simpson, BNPP Exane:** Three questions. First is, can I ask if there is action taken on the pension scheme surplus, what would be potential intended usage of any capital unlocked? Buybacks, M&A, supporting dividends?

Second question, can you give any colour on client trading activity this quarter in ii? It was strong in H1 with 20,000 trades daily, I think. Has this persisted or is sentiment pulled back with the budget uncertainty?

Thirdly, I think there was an article last month noting that you were cutting China from your emerging markets funds. Can you remind us if China is, in general, an overweight or underweight position across your equity investments business?

**Jason Windsor:** Well, I'll deal with the use of capital question first. Frankly, we don't know yet, so it's a bit hypothetical as to whether there would be a significant release of capital or not from the pension scheme. So, we could have run-ons, we could have buyouts, we could have any number of things. I think what I said at the full year results was that we would use it to repay debt, and I think we probably still would look at that. We've got a lot of cash and quite a lot of debt for an asset management business.

We still have legacy debt from an insurance company. So, I think we've got gross debt of about £800m. We can't use all of that in our regulatory capital, never mind make it a sensible balance sheet. Don't be pencilling in buybacks for sure. M&A is not high on my list of priorities. We might be doing closed-end fund type activity, a bit like Tekla, but there's no real M&A appetite for us at present. So that would be that. But again, it's all a bit hypothetical across the piece.

On EM, I'm not quite sure I know the answer from our weightings of our GEM product. I could find that out and let you know. What we have got is products like GEM ex-China, and we've got single strategies across the piece. So there's a shopfront change to products that people are trying to sell either to Asia directly or into Asian product outside, which is going much better than the more traditional APAC-type China-dominated funds. But that's a slightly different point, I think, around product desire.

But the appetite for China, particularly from the U.S., remains low - that probably won't change. And obviously the election could lead to some change, or it could not. So we'll see how that plays out. On ii trading, I haven't got the exact number to give you, it's a bit quieter. Q3 has July and August, which as you would expect, are two of the quieter months. Trading does remain at a relatively healthy level. We can follow up with you with more precise figures on it through September.

**Steven Haywood, HSBC**: One question on ii and one on Adviser. On ii, I wonder if you could tell us how many new customers you added in the third quarter? Previously you have highlighted the number of customers you have in the books that were acquired and you expect to run off. Would you be able to provide that again as well?

On Adviser, obviously you've got some upcoming impacts on your revenues from the fee changes. Could you quantify the impact on your revenues from the fee changes? I believe you have the SIPP coming from Phoenix as well, and could you quantify this on your expenses going forward?

**Jason Windsor:** Okay. So the fee changes in Adviser will play through, some of it we're seeing already. The expectation on the impact to margin was two-to-three bps, I think, as we earn through all of that, so by the end of 2025, we'd expect to see that played through. So we've repriced new business. The back book implementation will be in Q1, and then we haven't quite pinned it whether it be January or March, but that will be through Q1. It is slightly tiered, but it's in that sort of range.

The SIPP thing from Phoenix is done. I don't think we probably communicated that particularly well 18 months ago, before my time. That was just a change to the way things were going. That is in the numbers, that is not a one-off. That is what we expect to see that through 2024, so the second half of 2023 and all of 2024, that is in cost and revenue, and that's not a big change in it to what we are seeing there.

And then new customers in the quarter were 9k net, but we're not presenting the run-off thing here and partly because a lot of it's happened and it's not a significant a factor as the past. To give you the exact net customer number, it’s 437k, up from 428k, so that's 9k new customers in the quarter.

**Michael Werner, UBS:** Two questions from me. First, as we started to see rate cuts coming through, some other asset managers are indicating greater interest in EM and Asia. Is that something you expect to see in the coming months or quarters?

Second, within interactive investor, can you share whether you’ve seen any unusual flow trends in the quarter or even into October in anticipation of the October budget and the uncertainty that that's creating?

**Jason Windsor:** We're hopeful that the stabilised rate environment and political environment will lead to growth in EM. I'm not forecasting that or ready to go on the record of saying that, but conceptually, why not? It ought to be right both for debt and for equity, frankly, around some of the credit products, but I'm not giving a forecast on that.

On trading flows, some people trade pre-emptively on budget speculation, but not all do this by a long way. And it's clear there are no proposals actually out there, but we have seen a little bit of an uptick in ii.

I would say we've seen a little bit of an uptick in Adviser with people taking out Tax-Free Cash, particularly in the last few weeks. Who knows what the rules will be from next month, but that's probably the one thing I would flag. It's not huge. I would've mentioned it in the prepared remarks if it was, but it is there and it is what's going on in some people's minds.

**Charles Bendit, Redburn Atlantic:** Has ii has evolved its thinking in any way around retained interest since the start of the year? Has there been any communication from the regulator or have they gone quiet? Could you comment in general terms about your approach to deposit repricing as the Bank of England cuts rates this year and next?

**Jason Windsor**: There's no new news from the regulator, and I'm not sure they're planning any new news. They've told everybody the high standards they expect us all to adhere to, and we've committed to that.

We're comfortable with what we do - and I've said this a couple of times on ii - if you look holistically at the overall value proposition to customers, it's extremely strong. I think in the business model and in the way that we're set up is very customer-oriented, in terms of both service and pricing across the piece.

There's been no significant change to the way that we deal with retained interest, and when the base rates move, we pass that through pretty much to customers as it moves. But we have no commitment to maintain a margin or otherwise. We make a commercial decision when these things come to pass.

**ENDS**

***Disclaimer:*** *This transcript is derived from a recording of the event and reflects best efforts to record the details of the call. However, there may be inaccuracies.*