abrdn plc

Q1 2024 AUMA and flows trading update

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Stephen Bird – CEO, abrdn plc

Good morning, everybody. Thank you for joining our Q1 trading update call.

I'm joined by Jason Windsor, our CFO, who will walk you through the numbers, and then we'll be taking your questions.

First, I would like to go through some key highlights.

We saw AUMA grow by 3% to £508 billion, reflecting positive markets across our three businesses and net group inflows.

We are pleased with the continued organic growth in interactive investor, with customer numbers up to 414k and net inflows of £1.2 billion.

There was strong liquidity inflows within our Investments business, fixed income returned to net inflow, but this was offset by further outflows in equities.

In Adviser, we saw net outflows driven by higher redemptions from the platform.

Clearly, there is more work for us to do, and we have the actions underway to improve the performance and drive growth across all three businesses.

Implementation of our cost transformation programme is on track. We are taking action to sustainably restore our business to a more acceptable level of profitability and focus on delivering investment performance for all our clients, which is as ever the most important thing for our business.

Overall, our first quarter performance, once again, showed the benefits of a diversified business model as we build a modern investment company. Jason, over to you.

Jason Windsor, Chief Financial Officer, abrdn plc

Thank you, Stephen, and good morning everybody. Let me now take you through the numbers.

Overall, assets at the end of the quarter are £508 billion compared with £495 billion at the year-end - that's a 3% increase - which was mainly the result of positive market performance and net inflows for the group of £0.8 billion, which includes £2.6 billion of net flows into liquidity. This compares to £6.2 billion of net outflow in Q1 2023, which included £1.8 billion of net outflow from liquidity.

So, first to look at Investments. Assets increased by 2% to £374 billion compared with the full year. This was mainly a result of positive market movements across most asset classes during the quarter.

Overall, the active asset management industry had continued net outflows in Q1 across global mutual funds, particularly within equities and multi-asset. However, the pace of outflows showed signs of slowing, primarily driven by growing demand for fixed income, which we expect to continue.

Institutional & Retail Wealth net inflows in Q1 were £0.7 billion, including strong flows of £2.6 billion into liquidity - primarily from corporate clients with high cash balances. There were also net inflows of £0.9 billion into quants, and £0.4 billion into fixed income.

It was a challenging quarter for equities with net outflows reflecting the continued trend across the industry of asset allocation away from Asia and emerging markets in particular.

Insurance Partners net outflow in Q1 was £0.5 billion. This reflected outflows from heritage business in runoff, largely offset by inflows from the growing workplace pension business.

Turning to Adviser. Assets increased by 2% to £75 billion as a result of positive market movements. However, net outflows persisted at £0.9 billion in a quarter, continuing to reflect economic uncertainty faced by our customers.

Gross inflows were broadly in line with Q1 last year. However, as we saw in Q4, redemptions were elevated due to the impact of higher cost of living on disposable incomes, completion of our service upgrade and continued IFA consolidation.

And finally, in interactive investor, we saw continued organic growth in customer numbers to 414k, which was up 3% in the last year, and 2% in the quarter.

We saw particular strength in SIPP customer numbers, which grew to 68.5k. This is up 25% in the last year and 10% in the quarter. ii assets were up 5% to £70 billion, benefiting from positive market movements and net inflows of £1.2 billion, which is up 71% on Q1 last year. Within that figure there was £0.2 billion of outflow from our closed Pension Trading Accounts and £0.1 billion of outflow from our Financial Planning business.

Taken together, this was a very encouraging quarter for ii with significant further growth anticipated.

So, at a group level overall, there's clearly some way to go to further improved flows as we progress through 2024. Everyone here is very clear that our top priorities are better investment performance, strong client service, and driving growth across the group.

And I'm pleased that we're making good progress with the implementation of our transformation programme. As we said previously, this is essential to lower costs, move the group toward an acceptable level of profitability and focus all of our resources in serving our clients.

And with that, Stephen and I are happy to take your questions.

Q&A

Nicholas Herman, Citi: Yes, thank you for doing this, it's actually very helpful for investors and has been well received. A couple of questions from me, please.

Just in terms of flow trends, particularly in the Investment segment vector, we've recently seen outflows continue across similar asset classes. Given the relatively weak performance in equities, has that had a knock-on effect in terms of demand for other asset classes with clients taking money, not only out of perhaps your EM or APAC equities franchise, but also taking money out from other asset classes as well, or is it generally pretty isolated?

And then, secondly, on pipeline, it's good to see the flow starting to come through in fixed income in particular. Can I ask how the pipeline has evolved over the course of this year?

And then, finally, a third one, in terms of margin, given outflows in equities, especially EM and APAC equities as well as EM fixed income real assets, this does seem to suggest further margin pressure. Consensus seems to model 25 basis points for group margin yield into FY24, which would be flat-ish versus 2H23. Does that seem reasonable to you? Thank you.

Stephen Bird: Let me take that first and then I'll turn to Jason. So, first of all, if you look at the actual numbers, your question is about negative outflows in equities. As you know, we're a large emerging markets Asia investor and the overall market, if you look at the Morningstar data, equities have remained in outflow. The whole industry was in outflow to the tune of £100 billion in Q1, and we've had 14 consecutive months of outflows in active equities. So, we are not alone there, and we've been focused on improving our performance. And in fact, our 5/6-month performance is pretty strongly green, up to 62% now. Peter Branner and team are having the right impact on equities.

But your question is, would performance in equities have a bleed across into other asset classes? Well, the answer is no, because we are an incredibly strong fixed income investor. Institutional investors review their goals, their objectives, and their mandates by asset class, specifically based on achieving their outcomes. We achieved growth in fixed income, as we've just recorded, in the quarter. We grew also our quant business, where we had been at £17 billion in assets, and we grew liquidity strongly.

Liquidity, by the way, is not a passive thing. We've taken very strong action. Over the last year our team has done great work in providing the right liquidity solutions, being in front of clients and making sure that we are attracting that flow, which is profitable.

So, the challenge, I would say, in equities, is partly market overall performance, partly our own performance, and we are focused on controlling what we can control and fixing that. And then, if you look at the other big asset classes for us, real estate, of course, has been impacted by interest rates and a bit of a derating of the sector. Though, within real assets, we got almost to flat in the quarter as well. On £38 billion of assets, we got within £300 million of flat net flows. So, the answer is there's not a bleed across.

In terms of pipeline, what I look at every day is RFPs, I look at deals that we're involved in. In Q1 we currently have a pipeline of about 75 RFPs, so that's 300 in a year. That's back to the volumes that we were seeing in about 2021.

Jason Windsor: On the revenue margin, things do move around quite a bit. You're right that prima facie we lost higher margin assets in terms of flows. However, we did add Tekla into equities, which is high margin. I think it's approximately 1% on that, which is comparatively helpful and also a little bit additive to the margin of the quarter.

So, what I said at the full year - and without wanting to disappoint everybody, we're not going to give margin or revenue updates on this call - but what I said at the full year is I expect revenue margin to be just below 22bps, certainly for the first half, and I think I'm pretty comfortable with that. With the positive equity movements and the reason that I just said, we didn't see significant margin contraction in the quarter, and I think that's probably stabilising just under 22bps. The guidance I gave before, I remain comfortable with.

Hubert Lam, Bank of America: Hi, good morning. Thank you for taking my questions. I've got three of them as well.

Can you talk a bit about the Adviser business? You mentioned good inflows, year-on-year redemptions continuing, so how long should we expect these higher redemptions to persist? How many more quarters, do you think, before you see a turnaround? And what part of that is driven by the technology change?

Second question is on the ii and customer growth, which was solid in the quarter. Is there any seasonality in that in Q1 and how should we think about the trajectory for customer growth for the rest of the year?

And lastly, on cash margin in ii, just wondering if any change to the guidance that Richard gave at the Full Year Results about the 236 basis points for this year, do you still expect that to be held? Thank you.

Stephen Bird: Terrific, thank you for those. So, the Adviser platform, I think about it in three areas. First of all, there was what we did. So, we did a very big tech conversion as you know, it was the right thing to do. And if you're going to do it, actually doing it in a relatively flatter market is not a bad time to do it. But we did it because it was necessary, after 17 years, to really create a better platform that buys time for the IFAs. Makes them more productive, let's them grow the businesses. So that's why we did it.

But there's some friction when you do that, and we saw some of that friction. We saw it in some of our service queues, but we've got all of those service queues back to green. We track this meticulously. So that piece, that chapter, I'm hoping is behind us, and certainly the indicators seem to be.

But then there's three other things going on. There's cost of living challenges, so when you've got redemptions where folks are in de-accumulation, there are higher redemptions where they are funding their lives. So that's a piece of it.

Then there is the move, we've seen some move to cash, and that's where folks redeem and put the money into cash off-platform. Now, in that case, you can act on that. You can provide a better and more compelling cash option on platform, and that's what we've done. We've actually brought up, we launched in the quarter the Money Market MPS solution that's now on platform, and then we've actually got another capability coming in Q2, which is new deposit accounts, which makes it easier. You don't need to move to a deposit in the bank, you can have it there.

So, I think the cost-of-living challenges lead to redemption. Cash can lead to alternative places to put your money, and then you've got the ongoing consolidation that's going on within the industry.

Our goal, and we've said this before, is we want to be the number one platform for the adviser. We want to be the preferred platform for the adviser. You can only do that by being better, by being simpler, faster, better, cheaper. So that's the action that the team is taking. New tech platform, simpler, better services, we've come through a bit of pain.

So, the question is how do we feel about the rest of the year? Well, if you talk to Noel, you can ask him how he feels, because we are on him every single day, in terms of when does it turn green? It's hard to call. I mean I think that the intensity and vigour of the team is there. They're doing the right things, but it's hard to call what it would be in the rest of the year.

Jason Windsor: To move us on, ii growth, we would see small expectations of some seasonality. I just worked out last year we saw 27% of ii flows in Q1, to give you a guide. We will see how it develops, but we do anticipate strong continued flows and growth within interactive investor during the course of this year, and no change to the cash margin guidance that we gave. Obviously gilt rates have bumped around a bit. The speculation has changed a bit, but we continue to earn margin broadly in line with the guidance that we gave at the full year.

Stephen Bird: I would just add one thing on ii. If you look at the transfer requests queue, we received 25,000 transfer requests in Q1. These transfers can take 9, 10, 11 weeks to do. That's the industry norm. So that feeds through into Q2, so we're very confident in the Q2 numbers and we're confident in the array of actions that we're taking to drive further growth in that business.

Bruce Hamilton, Morgan Stanley: Morning guys, and thanks for taking my questions. Clearly improving performance, as you flagged, is critical, and so good to see lots of focus on that. I missed the number, Stephen, you quoted earlier, but I think at year-end when you showed the performance of specialist equities, there's only 17% outperforming benchmark over three years. Can you give some indication on how that's moved, or the shorter timeframe improvement? I think you said six months, you're now at 60% above benchmark, I just wanted to check that.

And then secondly, if you could remind me of any sort of deconsolidation impacts or disposal impacts through the remainder of the year and the timeframe for that. I think there's some private equity assets coming out, but I just wanted to make sure I had that all accurate in the model. Thank you.

Stephen Bird: Thank you Bruce. Improving performance can be a challenging, slow thing to turn around. Just to give you the numbers I was calling out there, I said short-term overall performance of our book in total, so if you go from year-end to now, is 62% ahead of benchmark. And that's where you've got, we've actually got 92% of fixed income ahead of benchmark in Q1, 33% ahead in equities, 62% in multi-asset, 68% alternatives, 26% in quant and 100% obviously in liquidity, to 62% is across the whole book.

Equities performance, it takes longer to feed through because, of course, you've got periods falling off and periods coming on, so it takes longer. So, equities, as I say, short-term performance is 33%. Across the one, three and five, five is 36% in Q1, but it's 13% at three years and 18% at one year, partly reflecting the composition of the book. So, I think Peter's taking the right action, we actually reviewed it yesterday, but it takes some time to feed through.

Jason Windsor: On the PE assets, yes, about £7 billion. I think we expect that transaction to close imminently. So that'll be £7 billion off the Investments AUM, as I flagged at the year-end. And there's a small acquisition - I think we'll close in Q2 - First Trust, which is around £0.6 billion as well, just to complete the point.

Arnaud Giblat, BNP Paribas Exane: Good morning. Thank you for the increased disclosure. I've got three questions, please.

Firstly, on the Adviser business, if I can come back, your flows are worse in Q1 when your listed peers saw an improvement in Q1. I'm just wondering if there are any one-offs to be aware of, and specifically, are you still seeing some disruption from the upgrades in tech?

My second question is on the real estate business. There were no outflows there, given the challenging market, that's a bit surprising. I'm wondering if some of your funds are gated and if so, when do you expect those gates to be lifted?

And my final question is on interactive investor. Could you tell us about the level of cash, I think at year-end you had 9% of assets. Are you still at those levels? Thank you.

Stephen Bird: On the platform, I think I've said everything on it. We're back to green in terms of our overall service proposition and there are no one-offs, so we're focused on making the numbers better. In real estate we don't have any of the funds gated.

Jason Windsor: Cash cover on the platform, no massive change across the year. I mean it's probably ticking up something closer to £6 billion, so it's gone up. We do expect slightly more as we grow SIPPs - SIPPs have a slightly higher allocation to cash - so it's trended up during the quarter to that level.

Enrico Bolzoni, JP Morgan: Hi, good morning. Thank you for taking my questions, one on ii, please. Actually, two. In terms of the increased penetration when it comes to SIPP, how shall we think about the economics there? Is it already possible for us to model the additional revenues coming from more SIPP accounts coming through? If you could give some guidance there, that would be helpful.

Second, more as clarification, I just wanted to be sure that the addition in customers over the quarter in ii was not coming from some internal transfer, the quarterly results you mentioned that you had some clients that moved from the personal vector outside of ii to ii. So, I just wanted to make sure that the 7,000 customers that you added is from outside of the platform.

And then finally again also on ii, I was wondering if the uptick in customer acquisition can be explained maybe with word-of-mouth effect or any other specific variable. You had the marketing campaign out for quite some time now, so I just wanted to get your thoughts on what could be the driver of the acceleration there. Thank you.

Stephen Bird: Let me talk a little bit about SIPP. It's incredibly important to our business, our overall business model. SIPPs are higher average balance, higher retention, higher cash component. They're the highest lifetime value account that you can attract into ii. So, you mentioned penetration, we grew penetration 3% in the year to 16.9%. The good news there is that that's relatively low penetration but growing fast, I think it has got a significantly long runway. You probably think that you could continue to grow at that rate for four or five years, something like that. The SIPP business is highly profitable.

Jason Windsor: I think the one feature for modelling purposes, we do see slightly higher trading in FX, therefore within SIPP. So as that AUM tracks up, changes in slightly different market conditions, but particularly where you've seen pretty attractive markets, certainly in the first quarter, that's beneficial to our revenue. Of course we are a subscription model, so the customer numbers do underpin.

On your other questions, we did talk about internal transfers. We've not proceeded with that any further. So, it is strong underlying growth within that business. And why? Well, just a continued focus by the business on organic marketing. We talked about that. We've given them every opportunity to spend on marketing, and obviously Richard and his team, a whole heap of work working on the ii brand. You have seen some of that activity. That will take time. As we build the brand across '24, it's a key priority for us to continue with strong growth. We've got a great price point, we've got a great service proposition, we've got further capability that we're planning to launch during Q2. So, as I said in my script, we do expect significant growth to continue in ii through the year.

Andrew Crean, Autonomous: Good morning everyone, a couple of things. Firstly, could you talk a little bit about ii trading, the share trading volumes in the quarter and how that's playing through?

Secondly, is there any update or any news on accessing capital from the DB scheme in the quarter?

And then thirdly, you have talked about it, but do you have a sense as to the long-term or medium-term customer growth in ii that you're targeting? What sort of level would you be targeting year on year?

Stephen Bird: Terrific, thank you Andrew, and good morning. So, we had record stand-alone trading and FX trading in the quarter. We're not giving these numbers. It was a strong quarter. In terms of the new customers, we're targeting being able to grow at a 5% rate. Pretty confident we can get that to that level. Jason, you want to do the DB?

Jason Windsor: I mean no specific update. I think I set myself a relatively undemanding objective of deciding to do something this year which I will stick to. We have been following with interest this DWP consultation, which closed on Friday, from a sponsor perspective but also from our own customer perspective. It's a very interesting development for us as to what happens within the UK DB scheme, so we're really interested in it from a client perspective as well to see how that develops, also from the bulk purchase annuity market. So, there's a number of angles for us on that, but the real focus for us is getting the right solution for the scheme, for the trustees, and for ourselves. Yes, that is absolutely a focus for us for this year.

Mike Werner, UBS: Most of my questions have been asked, but on the equity space - given that this is a core part from a management fee perspective - can you just give us a little bit of colour of what you're seeing? And if there's any difference in underlying demand between your retail client base or your regulated funds versus your segregated mandates, your institutional clients? And ultimately any indication of what the mix there is within the equity franchise between retail and institutional? Thank you.

Stephen Bird: Got it, thank you. I'm going to give you a little bit of colour. Large institutional clients typically are choosing to access equity beta through passives and ETFs - and they're looking for lower cost ways of accessing particularly large developed market equities. So, we've seen some of that in our book - and that's not a new trend - but that's been playing out. As you know, we've highlighted that for some time.

We've had wins in the quarter from some institutional clients in our small cap franchise. As you know, we've got quite a strong small cap franchise in UK, Europe, US. We've also had some wins in European sustainable equity. Some of those are won but not yet funded. So, I think what it shows is that what we've been trying to do is reposition away from some large developed market equities.

Looking at the split between institutional and wholesale. So, our SICAV range - across £350 billion of our total assets in the Investments business, £50 billion is SICAV range. So that's mutual funds, which is wholesale. Some institutional clients also access those. And then the balance is institutional.

So, what we're trying to do is become more differentiated and more specialist. I think about the emerging markets franchise, Asia, which is less available than developed market and less analysed and researched than developed markets. We had some alpha there. Same with small cap, same for sustainable.

And then the acquisitions that we've made, Jason mentioned Tekla. So, what we've been trying to do… we're the third largest investment trust and closed end investor globally. We're now at £30 billion or so. We're third behind Nuveen and BlackRock. And what we're trying to do with that business is buy capabilities that have got a real edge. Like Tekla - Tekla's a healthcare investor. Boston is pretty much the global capital for healthcare investing, that's where we found that team. We acquired that business and you get higher margin there. So, you drive margin by offering something that's got real alpha insight. That's what we're trying to do.

Charles Bendit, Redburn Atlantic: Thanks for taking my questions. So, the first one, just wondering if you could give us any more colour around how flow dynamics within institutional wealth differ by channel and client region. Anything you'd point out that's more granular than high-level institutional versus retail split.

The second is around ii, +7k clients in the quarter. Just wondering if you could split that out between organic new clients and other factors.

And then third around advisers, just wondering if you could explain how continued IFA consolidation would negatively impact flows. Just curious why abrdn wouldn't be a net beneficiary of consolidation? Thanks.

Stephen Bird: Okay, so, on the first one, this is a trade update call. I'm not going to provide any further detail on this. I've given expansive descriptions as to the texture we're seeing within the business. I don't think I can add much to that. Second question was on ii…

Jason Windsor: I think there's nothing to point out around one-offs or changes. There were some redemptions due to the closed Pension Trading Accounts, which is in there as a small reduction in customer numbers, but the 7%, the growth figure, is a core number, annualised figure, across the whole piece. So, no there's nothing I would point to that would be a one-off in the quarter.

Stephen Bird: Of course, what you're referring to is the business that we closed. We announced the closure last year and that had £200 million runoffs. So, the £1.2 billion was net of that. If you chose to exclude the runoff, i.e., the one-off business, our net growth in ii was actually £1.4 billion.

Jason Windsor: And then the consolidation point is really around vertical integration of platforms. There are two players - I won't name them – but their strategy has been to roll up firms and move those customers over time to their own platform. So, that's what we don't do, that's what we don't have. That is a feature of the market. Therefore, the addressable market for ourselves has shrunk somewhat and they've been able to grow within that. Clearly, we don't just take that lying down. We've got a series of strong relationships with independent IFAs. We've got, we do believe, the best platform in the market to serve them. And our absolute focus is getting the service level back up to where it ought to be to continue to win in that marketplace.

Charles Bendit: Thanks. That's really helpful. If I could just quickly follow up on the interactive investor point. So, I think you added 7,000 clients in the quarter. Often you disclose an organic new clients figure and then there's a negative number, which reflects I think underlying churn from some of the platforms you've acquired historically. So, it's annually a number sometimes in the region of 40K plus new clients and then minus 30K churn. Just wondering how that would look for the quarter.

Jason Windsor: Yeah. I think we've got 15,000 new customers and 8,000 lapsed. I haven't got that broken down between things that we acquired. But the additional new is 15,000.

David McCann, Numis: Good morning. Most of my questions have already been answered, but just a couple on the small financial planning business you have there, the £4 billion one. Broadly, what is the future for this? I know it's integrated with ii now, but obviously it's small and from what we could last see it's losing a fair bit of money. So, what is the strategy for that? Because clearly at the scale it's at it seems unlikely to be making meaningful contributions to the group. So, what is the broader strategy there? And then more specifically, shorter term on that, are you having to review the ongoing advice charges there like some of your peers have talked about? Thank you.

Jason Windsor: Richard obviously has taken ownership and we have that within the ii segment. It is a standalone proposition. It does need, and it has gone through a number of steps, to rationalise its offering - and that is ongoing. We do want to retain the business. And there is a connectivity for providing those customers who do require advice, and seek advice, that we can deliver that, if they choose, in-house. So that's the capability that we have.

I think it's pretty clear we're not making the most of it. We've got further work to do better with the integration of that, within the new strategy, and the growth. So, expect to hear a little bit more as we make further steps on that.

We're not part of the FCA's top 20 firms, but obviously all Consumer Duty rules apply to everybody. So, we haven't been pulled into the formal review, but as you'd imagine, we make sure that what we do for our clients is the best possible outcome in line with their expectations - and to make sure that we do look around the market and see what others are doing.

Stephen Bird: Terrific. Well, thank you all for joining us this morning. This is our first quarterly update call. I hope the additional colour was of value to you.

We are building a modern investment company. That's the mission of everybody here, that's what abrdn is. I think the benefits of a diversified business model are very apparent in the profitability that we've been able to generate and in the overall growth.

The fact that we were able to grow our assets to £508 billion, with growth of 3% in the quarter, was something we feel pretty good about.

We've got a lot of work to do for the balance of the year, because we've made commitments to restore profitability within our Investments business. That entire team, which we're very proud of, is working hard to improve investment performance, drive flows and operate more efficiently, because our goal is to get all three businesses to make an appropriate level of profit contribution to abrdn.

So, thanks very much for joining us folks. Have a good week.

ENDS

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