



Jupiter Fund Management plc

Q3 Trading and Business Update

Tuesday, 17 October 2023

Presentation

Matthew Beesley
Chief Executive Officer

Good morning, everyone. Welcome to our Q3 Trading and Business Update. I'm Matthew Beesley, Chief Executive at Jupiter, and I'm joined today by Wayne Mephram, our Chief Financial Officer.

As you'd expect at the end of the third quarter, we want to give you a quick update on the flows over the last three months, which Wayne will cover shortly. But given that I'm one year into my role as Chief Executive, we also wanted to briefly reflect on the real strategic progress we've made over the last 12 months.

Finally, we want to give you a quick update on some of the new initiatives and targeted investments you'll have seen mentioned in the press release, all being made with a keen focus on efficiencies and cost control.

Wayne Mephram
Chief Financial Officer

Thank you, Matt. Gross flows have remained fairly robust throughout this year, including in the third quarter, and stand at just over £10 billion to the end of September.

You can see on the slide the variance there from the second quarter is mainly on the institutional side. Given our early stage of growth in institutional business, gross flows largely equal net flows at this stage. And a lumpy gross flow profile is in line with our expectations.

In terms of the net position, we reported flat flows for the interim results driven by £1.7 billion of institutional fundings. We have now seen year-to-date net outflows of £1 billion all of which came through in the third quarter and was driven by the retail and wholesale side of our business.

As you know, it continues to be a challenging time to gather retail assets, and Jupiter is not alone in experiencing this. Client demand for risk assets has been fairly weak for some time, given the macroeconomic challenges and market uncertainty that we're all very much aware of. In today's world of elevated interest rates, asset managers now also face the new competitor of cash deposits where clients can earn higher lower-risk returns than has been seen for some time.

However, in this quarter there were a number of areas that attracted retail client demand, including Asian and Japanese equities. But these were not enough to offset outflows in areas such as UK and European equities, as well as unconstrained fixed income. The story in these former categories is well known with muted client demand for UK and regional European equities that is impacting that side of the business.

On fixed income, this is more a question of macroeconomic views, with the investment team running the large dynamic and strategic bond funds positioning the portfolios in the expectation of a harder landing than current market consensus.

Focusing on the institutional side, we saw a fifth consecutive quarter of net positive client fundings, albeit only marginally. Perhaps it's not surprising to see a degree of seasonality here with fewer mandates funding through the summer months. But this brings our year-to-date Institutional flows to £1.7 billion and the total AUM from Institutional clients to £9.8 billion or 19% of Group AUM.

Importantly, as momentum continues to build in this channel, it is important to repeat our view that success in this area will not be linear. It will not be straight line growth, and we won't see significant institutional mandates funding every single reporting period.

But our confidence in the business remains resolute and our late-stage pipeline is significant. In July, we said it was around £1.5 billion and that our expectations are for conversion rates of between 40% and 60% over a 12-month period. We have no reason to change that view as we look forward from here. We're confident that we'll see further mandates fund over the coming reporting periods, delivering further scale in this important strategic area.

Earlier in the year, we reported our budgeted sales numbers for 2023 were for a more modest outflow for the year as a whole. Looking to our net flows so far - but of course, with some uncertainty on the timing of Institutional funding - we see no reason to change that broad expectation today.

So overall, I would say a quarter with little 'new news' in terms of flows. Retail demand seems to be aligned with what we observe across the industry, and we have no reason to change off our thesis on future success in Institutional.

Matthew Beesley
Chief Executive Officer

Thank you, Wayne. Almost a year ago I spoke to you all at the first of my presentations to investors as Chief Executive, at the time having been in the role only a matter of days. Now that I'm a year into my tenure, it seems appropriate to reflect a little on the last 12 months to note the significant progress that we have made, but also to start to detail where we need to do more, take the business further, forward, faster. That is, where we need to go from here.

When I took over as CEO a year ago, I noted that many of the Company's previous strategic endeavours were, as I judged it, likely necessary but probably not sufficient to really deliver the growth that we needed.

Accordingly, we reframed our strategic focus and we introduced these four key objectives that would drive our future growth, which were to increase scale, to decrease undue complexity, to broaden our appeal to clients and to deepen relationships with all of our stakeholders. Since then, all the actions that we have taken as a management team have been directly and expressly designed to push us further ahead in at least one of these objectives.

There's more to be done, but we've already made progress in each of these. We're building scale in our institutional and international businesses. We've reduced complexity across the business, deriving some £20 million of cost savings from a review of our operating model. We've also reduced the fund range by some 25%, resulting in a more clearly defined proposition for our clients. We're shortly to launch a range of thematic funds, broadening our appeal to both current and future clients.

We worked hard to deepen relationships with all stakeholders, including our shareholders with our revised capital allocation framework, and very importantly also our own talented people.

One result of these actions, most notably around delivering efficiencies through removing complexity is that they've provided us with the space to grow and to invest back into the business.

Today, I wanted to walk you through some recent changes we have made to position the business for further growth through investing in our clients, in our technology infrastructure and in our people.

So firstly, we have been investing and we will continue to invest in our clients and in our technology infrastructure to support them. Our clients' needs are fundamentally changing, and we are changing the way in which we engage with them. They're increasingly sophisticated with a large array of data and analytics to hand to help them in their decision-making process.

The delineation between what we formally thought of as retail and institutional clients is becoming more and more blurred as the balance of power shifts away from us 'selling' to our clients to one where they are much more thoughtfully 'buying' from us.

More clients now want to see institutional quality investment processes that are clearly defined, consistently applied, and fully scalable team-based approaches. They expect much higher levels of client service, more fulsome reporting, relevant and customised content and bespoke approaches. Taken together, this is both a challenge but also a real opportunity.

And we at Jupiter want to seize that opportunity and be proactive in addressing these changing client needs by both leveraging the breadth of our existing capabilities and the investments we've already made in our high-quality Institutional business, and by going further.

As we look forward, success will not come through pushing products to clients, but having deeper relationships with them, becoming trusted partners and engaging in an ongoing highly technical conversation. That is why we've done away with the concept of a distribution team.

To be at the forefront of these changing client dynamics, we've restructured our client-facing teams to form a new Client Group to focus on client delivery and client experience, broadening our appeal to clients, building deeper relationships, and ensuring we can deliver even more of a bespoke, more personalised, client-led service and content going forward.

Better use of technology will also play a huge role in this, reducing the complexity of manual processes. As a result, we're investing further into our technology and how we better use our data. But any investment is always made in a considered and thoughtful manner with a constant focus on our overall cost base. We'll of course update you more fully on these investments at the full-year results in February.

As I've touched on already, the curation of our product offering has been a key focus over the last year, reducing complexity through the fund rationalisation program and broadening our appeal to clients with the upcoming launch of the thematic range.

Consistent with this approach, we've also been reviewing our pricing structures to ensure that we remain positioned for future growth. We first publicly referenced this in our most recent assessment of value report, which we published early this year. But it is our intention to implement a tiered pricing structure across our UK Unit Trust and OEIC range, effective in early 2024. This will provide better alignment between ourselves and our clients and allow them to benefit from economies of scale as the overall size of the fund grows.

Wayne Mepham
Chief Financial Officer

You can see on the slide how the tiering system works, but simply put, there are various thresholds of a fund's AUM after which point all clients who invest in the fund enjoy a fee discount. The first of these thresholds is £500 million, which is a lower level than some of our competitors. From which point, the overall fee will be reduced by 2 basis points.

Whilst we cannot predict future business mix and flows, at our current level of AUM and with the mix of business today, we'd expect the overall net revenue margin for 2024 to decline by an additional 1.5 to 2 basis points. For some time I've guided that for now, I expected our margins to fall a little more than the 1 to 2 basis points that we've previously guided to.

There are various reasons for this, some of which is business mix including success in the institutional channel. For 2024, we have this specific basis change. So I've guided to 69 basis points for 2023 as a whole and the normal decline plus this adjustment might be the change for next year.

Now there may be upside benefits on this fee rate change too. It is notoriously difficult to ascertain elasticity of demand around pricing. But we do know that some clients screen on price. So it could be that we now appeal to a wider client universe and that broader flows might now be available to us. But first and foremost, this is about deepening our relationship with existing clients and sharing these potential economies of scale.

Matthew Beesley
Chief Executive Officer

Finally for today, and before we hand over to questions on the webcast, we've also been investing in our people. We know we are in a competitive marketplace. We understand how important it is that we have remuneration policies for our key talent that are appropriate and are dependent on high-quality performance, and that ensure that our interests are fully aligned with our people, the wider Group and our clients.

Over the past year, we've implemented changes to our remuneration approach, which are now more focused on active performance criteria and designed to support the growth of the firm in those key strategic areas.

Wayne Mephram
Chief Financial Officer

So if these performance criteria are reached and absent any broader market - material market recovery, this will of course have an impact on our total compensation ratio. This ratio is impacted by a number of factors including the markets and flows impact on average AUM, movement of the net revenue margin, and of course inflationary pressures.

But looking forward to 2024 based on known inflationary pressures and depending on a normal range of market conditions, the total compensation ratio, excluding the impact of performance fees, is likely to be in the range of mid to high 40s. Whilst that range will change in the future as we build scale in the areas we've previously highlighted, that gives you a reasonable basis for your cost assumptions for 2024 for that relatively short outlook.

To be clear, all the business updates we have given today will not have any impact on this year's guidance for they are our current view for 2024, which I will update where necessary in February.

Matthew Beesley
Chief Executive Officer

Thanks, Wayne. So to briefly wrap up before we take questions, we continue to manage the business focusing on the four key strategic objectives that we shared with you at the start of the year. This will not change.

Indeed, it is the management actions that we've already taken in these four areas that have provided us with the room to invest across the business. We're doing that in our clients, in our infrastructure, and in our people.

The macroeconomic environment is undeniably challenging, but we continue to focus on controlling what we can control and building on that positive momentum to grow the business. So with that, I'll hand over to questions which Alex will read out from the webcast. Alex.

Question and Answer Session

Alex James

Head of Investor Relations

Thank you, Matt. The first question is for Wayne and it's on seed capital that Jupiter hedges its seed investments, is, given that most benchmarks rise in value over time, is that a sensible approach and should we consider changing that?

Wayne Mephram

Our position remains the same, which is that we do invest behind our funds, including with seed capital to support new product development. But our view is that it's appropriate to take the alpha risk, so the additional returns that we generate through our active asset management, and to hedge the beta risk. That's consistent with our approach to good capital management as well. So I think that's consistent with the position we've given before.

Alex James

Matt, a few questions on the tiering structure, relatedly, but I'll go through these. How does the new fee tiering change flow outlook for funds with lower AUM, including newly planned launches, given that these will have a higher fee rate versus your flagship funds? Do we expect generally to just get more flows on the back of the fee change?

Matthew Beesley

So maybe start at the end there. Okay, it's very hard to know about the elasticity of demand. What we do know is that many clients screen, even before they engage with us as potential annual managers of their assets, they screen on the basis of fees.

So it's very hard to know what you haven't been engaged on, but we do know that likely if your fees are inconsistent with the broader marketplace, then you are going to be excluded from certain searches. So there would likely be a benefit from making this change, but it's very hard to quantify.

Of course, what's important here is that as funds grow, we want to share those economies of scale with our clients. We've talked a lot on how we're focused, as everyone knows, on making sure we manage our cost base appropriately to really address the non-compensation costs base on an ongoing basis, and we talked about the zero-base budgeting approach towards that cost base. That's going to remain in focus.

It's right that as funds grow, given the scale benefits that we ourselves derive that those get shared with our clients. As funds grow in size, so more benefits will get shared with clients and that's the right thing to do.

Alex James

So to follow up, this is because this is the right thing to do for clients as opposed to being direct regulatory pressure such as through consumer duty?

Matthew Beesley

Correct. As we've gone through this process that I've just talked about, so we've recognised that there are economies of scale that we think we should be and want to share with our clients. Of course, the action itself is consistent with the broader tenet of consumer duty, and of course we're extremely mindful of that.

Alex James

Thank you. There's two more questions currently on the webcast, both of which are for Wayne. The first is on the tier structure, then secondly on costs. On the fee tiering structure question, does the tiering reduction apply on marginal assets beyond £500 million around the total AUM? Will the tier restructures be subject to ongoing annual review based on economies of scale?

Wayne Mepham

Yes, it applies to - once you reach that threshold, it applies to the whole assets under management, so anything within the fund at that stage. Of course, looking forward, we continue to keep our pricing structures under review. So yes, like the rest of our fund range, our fee structure is reviewed on a periodic basis, but our current plan is not to adjust the tiering structure at this stage.

Alex James

Excellent. One further question on costs. Which areas are driving the increase in the compensation ratio aside from lower margins? Additionally, the compensation ratio range appears wider versus previous guidance, which were much more specific. What are the key considerations that go into the wider guidance range?

Wayne Mepham

Yes, I suppose - well, clearly the period that we're looking at is further out than we would normally be commenting on from a guidance perspective. So we are referring to 2024, not 2023 with guidance given on those numbers at the half year. I mean, clearly there are a number of factors as I said in my prepared remarks.

Inflation is clearly having a big impact. The nature of the way in which we account for those staff costs means that we do have our client element of fixed cost base in our staff costs for the time being. I'd expect that to change over time. But it's that fixed element, it's the longer-term view that's creating the range, and it's the need to grow scale that we obviously intend be focused on in the business.

Alex James

Two further questions on costs. A reminder, more questions can be placed via the webcast. Firstly on, again, on variable compensation, can you see a floor on how variable compensation can go in pounds terms?

Wayne Mepham

Yes, clearly there's always a floor, but that floor is not zero. So it's important that we do balance returns to shareholders with making sure we do invest behind our talents, both attracting and retaining the talent we have today. So there is clearly a floor but it - again, I'll repeat is not zero.

Alex James

Currently - finally for now, as another question comes through - is the impact of the tiering fee structure included in your revenue margin erosion guidance?

Wayne Mepham

Yes, it is. As I say, our historic guidance has always been 1 to 2 basis points. I've been guiding in recent years that that's likely to be a higher decline in at least the short-term as we change the business mix. As I've mentioned, this additional tiering structure is an impact for our margin next year. So 1 to 2 basis normal decline, and then we're seeing a 1.5 to 2 basis points for this tiering structure.

Alex James

Given these increases in staff costs we've talked about today, are you still broadly aiming for that 60% to 70% cost income ratio over the medium-term?

Wayne Mepham

Yes, I am, that still remains our target. Clearly with the market levels as they are today and the outlook in the near-term, what I've always said in the last six or 12 months that that's a longer-term target but it remains our focus.

Alex James

Thank you very much. I think that is all. That's currently all the questions that we have on the webcast.

Matthew Beesley

Well, on that basis, I'll say thank you, Alex, for steering us through the Q&A. Thank you to everyone for joining us today. Thank you for your ongoing support, and we'll look forward to engaging with you at the time of our full-year results in February 2024. Okay, thanks.

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