



Jupiter Fund Management plc

2023 Full Year Results

Thursday, 22 February 2024, 9.00am

Presentation

Matthew Beesley
Chief Executive Officer

Okay, good morning to those in the room, and good morning to those on the webcast. Welcome to our 2023 full year results presentation. So it's the usual format this morning. I'll provide a brief update on our results and comment on our flows, before handing over to Wayne to talk about the financials in more detail and also to discuss guidance for this coming year. I'll then come back to update you on our strategic priorities and progress before taking questions from those in the room, and then from those on the webcast.

We believe these are a robust set of figures, given the challenging macroeconomic backdrop and its impact on both investment performance and the ability to gather assets. Client sentiment, particularly on the retail side, was fragile throughout the year, and indeed worsened into the autumn. But in spite of this industry trend, Jupiter fared relatively well, and there are reasons to be optimistic looking forward.

We continue to invest in future growth and to build scale. We remain relentless in our pursuit of efficiencies, even after having already made significant progress in lowering non-compensation costs. I'll provide more detail later on, but over the last year, we have made progress against each of our four key strategic objectives. That's of increasing scale, decreasing undue complexity, broadening our appeal to clients and deepening relationships with all of our stakeholders.

So overall, it's been a year of real progress. Now, not all of that progress will be immediately visible in our financial results, but nonetheless, we published a robust set of numbers against a challenging backdrop, due to the proactive management actions we've taken. Revenues are down year over year, primarily as a result of lower average AUM, but also because of the success that we've had in building scale in our institutional business, which typically comes with lower margins. But as a result of our direct management actions and our focus on efficiency, our cost base is down, too, and down more than revenues by some 12%.

This has all led to underlying profits of just over £105 million and EPS of just under 15p, both more than a 30% increase on the year before. Year end AUM is up some 4%, although average AUM was actually down over the year. Outflows were a little greater than we expected at the half year point, but still good within an industry context. I'll come on to cover this in some more detail in a short while.

Consistent with our capital allocation framework, we're returning some 50% of pre-performance fee earnings to our shareholders in the form of an ordinary dividend payment. We will discuss this more fully later, but this leaves us in a very strong, very well capitalised position. Importantly, investment performance has also improved. As a high conviction, truly active asset manager, delivering investment performance for our clients is of course absolutely key to our on-going success.

I'm pleased to report that we delivered an improvement in the percentage of our mutual fund AUM that is ahead of the median across all of one, three and five years. Our key measure, the three-year figure, has risen 8 percentage points to 59% outperforming. Of our mutual funds, 41% are top quartile, and almost 30% of these funds are top decline relative to their peers. This is not just good investment performance, but in many cases, really outstanding investment performance. The biggest change - the biggest driver of this change is the European Growth Fund moving above its median, along with the UK Income Trust. The largest move here is also over one year, where we saw a 16 percentage point shift in 65% of fund AUM now outperforming. This is driven by our three largest funds moving above their median, so Dynamic Bond and Strategic Bond, which have moved from fourth to second quartile, while the European Unit Trust is now first quartile.

The performance of our largest funds remains very strong, too. We have 12 funds that are each over £1 billion in AUM. Nine of these funds are above the median over three years, and the three that are not are now outperforming over one year. Four of these 12 funds are all top quartile over all time periods. Now, short-term performance does not of course guarantee flows, and the overall number is still not where we want it to be. Nonetheless, performance is often seen as a leading indicator for flows, and it's greatly encouraging to see this key metric improve across all time periods.

So to move on now to look at our overall flow picture, we generated gross flows in the year of a little over £13 billion. Gross flows to institutional clients were again strong, at over £3 billion, which is pretty much the same as we saw last year. Retail inflows in the first half of the year were trending at a run rate comparable to 2022, but in line with much of the rest of the industry, we saw a drop-off in the second half. This fall in demand was also reflected in the net view.

Now, we released these figures back in January, so you'll all be aware that we saw £2.2 billion worth of net outflows this last year. Again, this is not where we want to be, but you can see that outflows are moderating, and we're seeing a steady year-on-year improvement from the £4 billion of outflows in 2020. These outflows are a little greater than we had expected and certainly more so than we reported - when we reported slightly positive net flows at the half year stage.

However, at 4% of opening AUM, this is probably a comparably good position relative to some of our peers. Overall retail demand for any sort of risk asset was weak throughout last year, given the degree of macro uncertainty and the attractive yields on risk-free government bonds, or the high returns available simply from having money on deposit. But this already weak demand really fell off in the second half, and most notably in the fourth quarter.

On top of this, fewer institutional mandates funded in the second half than we might have expected. However, our pipeline remains strong. In terms of what drove these flows, the trends we've seen are the ones that you know well. Unconstrained fixed income saw outflows, despite improving performance. UK and European equities continue to be out of demand. More positively, however, value and income strategy saw good net flows, particularly those focused on investing in Asia, specifically Asian Income, Japan Income and our India Equity funds all saw inflows.

Global Equity Absolute Return, or GEAR, as we know it, also had another positive year, both in terms of investment performance and also client asset flows. Now, I'll cover the institutional side in more detail later on, but it was another good year, and momentum continues to build. The first half was very strong, and we saw £1.8 billion of net flows over the year.

Pleasingly, flows were well diversified by region and by investment desk, and gross flows were split roughly in half between new clients and additional fundings from existing clients. The second half was broadly flat, but I've always said that flows will be lumpy, and we won't simply see continual straight-line growth. A six-month period of flat flow in no way changes our view as relates to the exciting growth opportunity ahead in this channel.

So overall, net flows continue to moderate year on year. At the half year, we suggested we would see only modest outflows for the year, and indeed, we were on track for that result until the fourth quarter. This year, however, has so far seen a marked change in tone by clients. At the end of last week, flows year to date were marginally positive. However, overall AUM has been boosted by the transfer of the UK Equity Income fund from GAM, which will be reflected when we report our Q1 numbers.

This shift in sentiment could quickly reverse, but with natural momentum and some of our growth drivers continuing to assert themselves, and with the overall improvement in investment performance I detailed earlier, we are budgeting for broadly flat underlying flows for the year ahead. Now, when I say underlying, I mean excluding the impact of the change of the Chrysalis management structure and outflows from the value desk, which we may see as a result of the manager changes we announced in January's trading update.

The value book is about £10 billion of AUM in total, of which around £8 billion is externally managed money, if we exclude the £2 billion or so which is part of the Merlin fund of fund portfolios. Of the remainder, about £4.5 billion is across various segregated mandates, both institutional and wholesale. Now, of course, it is always difficult to make predictions on client flows, and it is certainly too early to be anything close to definitive in this case. We would certainly expect to know more about client intentions here by the time we publish our interim results, and we'll of course update you then.

But while we don't know what decisions our clients will make around their allocations, I do see some cause for optimism. We've made excellent hires in Alex Savvides, who will join later this year, and Adrian Gosden who, along with Chris Morrison, joined at the start of the year. These individuals each have fantastic track records, both in terms of investment performance, but also in gathering assets. Their joining really demonstrates our ability to attract top-class talent to Jupiter.

We've seen limited outflows from the value team's retail funds to date and have certainly not seen any material spike in redemptions. This may yet come but has not been our experience yet. On the institutional side, clearly, these flows will be lumpier, and there may be some that decide this is an opportunity for them to change their manager. But I do hope and expect that we'd at least have the opportunity to try and retain some of these institutional mandates, and this is something that I've been very focussed on, along with the senior management in our client group.

So clearly, some big unknowns here, but to reiterate, on an underlying basis, our current expectation is for broadly flat flows in 2024. So I'll now hand over to Wayne, who will run through some of the financials.

Wayne Mephram
Chief Financial Officer

Thank you, Matt. Good morning, everyone. Following our trading update in January, I'm sure you'll already have a good feel for the driver of some of our results which we have delivered today, but there are a few parts which will be new, and others that I want to explain a little further. So we'll cover the normal presentation on profits, guidance and capital, and I will also explore the opportunity we see if we can deliver disciplined growth in scalable areas.

So let's start with some key headlines. Net revenue is £369 million, which includes £13 million of performance fees. With lower costs and higher other income, underlying profits were £105 million. Exceptional items were in line with guidance with the addition of the goodwill impairment we referenced in January, and I'll cover this further in just a moment.

This results in statutory profits of over £9 million. Exceptional items are outside of our standard measure of performance, underlying EPS, which was £0.148, or £0.138, excluding performance fee profits. In line with our capital allocation framework, the Board has proposed a final dividend of 3.4p, which brings total ordinary dividends for 2023 to 6.9p

So let's start by looking at how that profit progression has emerged. Underlying profits for 2022, excluding performance fees, were £101 million. Management fee revenue reduced by £31 million, as a result of lower average AUM and lower revenue margins from changes in business mix.

Costs were down £9 million, primarily driven by non-compensation cost reductions and overall are better than market expectations. We delivered strong performance in our seed portfolio, as well as higher interest income, which we are now earning on our liquid assets. Combined, and with seed losses in 2022, that explains £90 million of the movement year on year.

That resulted in underlying profit before tax, before performance fees, of £98 million and £105 million, including the net impact of performance fee associated revenues and costs. Exceptional items for 2023 were £96 million and were mainly the non-cash impairment of goodwill that we highlighted as being expected in January, along with the amortisation of intangible assets.

Goodwill impairment has arisen from the lower asset valuations, the muted demand from retail clients we are experiencing at the moment and our assessment of short-term flows. Of course, we are all aware of the persistently high interest rates that has led us to increase our pretax discount rate to 17%. That higher discount rate reduces the present value of any future returns, leading us to an impairment of £76 million. That is not linked to a particular part of our business, but simply that some of our larger scaled areas are currently contributing lower amounts.

But importantly, the impairment has no impact on either regulatory capital or distributable profits, and therefore does not affect our ability to make distributions to shareholders. Accounting standards require us to test goodwill regularly, at least every year, so I will update you if necessary.

So that takes us to statutory profits of £9.4 million after those non-cash items. Looking forward, at this stage, I'm only expecting exceptional items of £9 million for 2024, which is the amortisation of intangible assets and which ends in June.

Let's now move on to how AUM has developed. As we know, 2022 was a challenging year for the industry, and this has continued into 2023. Retail investor sentiment did not improve materially and was particularly weak in the final quarter. Nevertheless, after steep market declines, particularly in the first half of 2022, we saw some recovery in '23 at the end of the year. We generated positive net flows in the 12 months to June '23, but net outflows for the calendar year. There was weaker retail demand throughout the period. That was offset in the first half by institutional mandates funding. This slowed down in the second half, but the pipeline remains strong and is simply a matter of timing.

Strong investment performance resulted in closing AUM being up 4% on 2022, but the timing of market movements and flows meant that our average AUM was down 3%.

Our net revenue margin was a little higher than guidance at 70 basis points. As a result, net revenue before performance fees was £356 million, driven down mainly by net outflows, along with a change in mix towards lower margin institutional business.

New for this year end, I've included in your packs the net revenue margins for 2023 between the institutional and retail channels. That's around 29 basis points for institutional and 78 basis points for the other business areas. Although institutional business demands lower average fee margins compared with retail business, our analysis continues to show that lifetime earnings and profitability from institutional clients are at least as good as from the retail business. I'll continue to update you on this client channel split going forward.

Finally, we have generated £13 million of performance fees. That's a little higher than guidance, as we indicated in January. This results in total net revenues for 2023 of £369 million. At the year end, we have run rate revenue margins of just under 68 basis points. That's the year end mix impact compared with the average of 70 basis points for the year as a whole, and looking forward from here, the average revenue margin is reducing due to that tier pricing we announced in October.

With my estimates of changes in the business mix overall throughout 2024, I think a reasonable expectation is for average fee margins of a little over 66 basis points for the year. On performance fees, as I always say, they are really difficult to predict, so I'm simply going to repeat my guidance from last year of maybe £5 million to £10 million for 2024. So we have guided to a few known changes, and there are some unknowns, too, but that gives you a sense of where we see total revenues moving in the short term.

That's it for revenue. Let's look at cost and my guidance here. You all know that Matt and I have been focused on optimising our cost base. That means getting the best value from necessary expenditure, ensuring high-quality service and investing appropriately. We have previously demonstrated our successes here, and 2023 continues to follow that trend.

Starting with a few key ratios before I explain where we are and where we expect to be in 2024. Our total compensation ratio, excluding performance fee costs, is a little higher this year. We carefully considered the balance of short-term profits versus the need to continue to attract and retain the very best talents for the long term. Back in 2022, we took decisive action to resize our teams against a backdrop of difficult industry-wide challenges. So we're ahead of this compared to many of our peers, and although our ratio is up this year and is expected to go further next year, we are still below many asset managers, despite the compensation arrangements we offer to our teams. So a compensation ratio of 42% is a little higher than I guided, but that is more than offset by lower non-compensation costs, which were down over £7 million compared to both guidance and prior year.

Focusing on our fixed staff cost progression, we saw net savings in 2023 from the restructuring programme we announced the year before. So our normal costs were around £78 million, despite the well-known inflationary pressures, and that includes some £16 million of on-going costs in what we've defined as investing for growth, building scale in areas of strategic importance.

Looking to 2024, I expect our fixed staff cost to be a little higher - sorry, a little under at £79 million. That's the combined impact of inflation, some targeted investment and delivering on our ongoing drive to reduce undue complexity. Our balance of fixed to variable cost continues to be skewed towards fixed costs. That trend is likely to continue in the short term but will be reversed to a more equal split as we achieve greater scale in more parts of our business. Matt has already spoken about some uncertainties for us this year in terms of flows, and we also continue to have volatile market conditions, so both of these may play a part. However, my best estimate at this stage in the year is that the ratio will be around 47%, and that is within the range I gave in October. Finally, performance fee related costs are just over £6 million and are broadly at normalised rates now.

I'm pleased to report that in 2023, we have delivered a 6% reduction to non-compensation costs. Some of this reduction is through that lower average AUM, some through business mix, and there were a number of smaller one-offs, but a large part of that reduction was also through direct management actions of driving value from suppliers, finding efficiencies and lower discretionary spend. So £107 million of non-compensation costs for 2023 - that's lower than last year and lower than guidance, but is a higher ratio to revenue than I believe we should be able to achieve for a fully scaled business.

Looking ahead to 2024, early in the year and at these AUM levels, I expect our total non-compensation costs to be around £111 million. That includes some targeted investment in discretionary areas, including the operational change agenda Matt mentioned in October, and he'll cover this further later on. The total cost guidance will be lower than most of your models and is a clear indication that we've been balanced on strong cost control while still being able to invest appropriately.

Last year, my cost analysis focused on the proportion of our cost base that was assigned to investment for growth. That proportion is largely unchanged through this year, so today, I want to focus on the growth potential of those investments and the operational leverage they could deliver. So this chart shows the allocation of net revenues between the principal stakeholders, based on the results we have reported today.

We know that we are highly scaled in some areas, such as in our core UK retail market, but there are others where we have not yet achieved that, and our cost margins are therefore higher in those areas. Of course, we have a highly scalable platform, which means that growth will only require marginal incremental costs when it is delivered. But without that scale in more areas of our business, our cost ratios are higher than I believe we can achieve in the future.

But let's think for a moment about cutting those costs and removing that growth potential. As those areas are already contributing, even if they are subscale, it would result in a worse position on profits, very little difference in the allocation of returns and the need to sacrifice clear growth opportunities. In our view, a better way to look at this is what the growth potential could deliver. This chart is just an illustrative example of what the business could look like if we added 50% onto our AUM with the same client channel split that we have today.

Now, this shows two things. Firstly, it clearly demonstrates the operational leverage opportunity within the business. With two times our 2023 operating profits, that's double the assumed increase in AUM, and secondly, this would deliver a more balanced return of broadly a third to each of our principal stakeholders, with improved relative and absolute returns to shareholders. This is an illustrative example only, and I've included additional examples at 10% and 25% AUM growth in your packs, but it really shows the opportunity from our platform as we focus on subscale areas, but also the necessity to maintain that investment.

That's it for this year's analysis of the income statement. Let's take a brief look at our very strong capital position. Our regulatory capital surplus is £177 million and results in 3.5 times cover for our regulatory requirement, or 3.2 times, excluding subordinated debt. We have today proposed a final dividend of 3.4p, taking ordinary dividends for 2023 to 6.9p. That's in line with our capital allocation policy. As a reminder, in September, we paid a special dividend of 2.9p, which was the return of capital we announced for 2022. Our capital allocation policy states that we will make additional returns of capital on a periodic basis, and that is not expected to happen every year. We will continue to assess our options for the benefit of long-term shareholder returns and consider any additional return for 2024.

Looking at the use of retained capital, at year end, our seed portfolio was £79 million, and we have accumulated £9 million of net gains. That portfolio now includes funding of a new thematic range in Q4. Since then, we have continued to put our capital to work, providing catalyst funding of around £52 million into specific opportunities where we expect our funding to quickly support client interest, as we have built sufficient scale. We will carefully consider further options to invest where we see strong opportunities to drive future growth.

So in summary, we have delivered good underlying profit performance despite the market conditions. We are resolutely focussed on cost discipline, removing undue complexity. We have a scalable platform and a clear opportunity to deliver growth through our focus on key areas of strategic importance. Our capital position is very strong, providing us with stability and flexibility to consider our options.

I'll pass back to Matt to expand on our progress in delivering on that strategy.

Matthew Beesley
Chief Executive Officer

Thank you, Wayne. Before we hand over to questions, I wanted to give you all an update on our strategy and the progress we've made this year and where we are focusing in 2024 and beyond. Now, this is a slide that you'll all be very familiar with by now, which I first presented this time last year, showing our four key objectives. Given that all decisions we make as a management team are made through the lens of these strategic objectives, I wanted to quickly run through each in turn, starting with increasing scale.

Of our four objectives, I've mentioned in the past that increasing scale is the most important. Finding efficiencies and running a lean business are of course crucial, but the only way we're going to drive real, sustainable long-term success, and as Wayne has demonstrated, the only way we're going to unlock that operational leverage in the business is through top line growth.

The two main areas of focus that we have had have been on clients and institutional channel and in our international business. I've touched upon this already, but we continue to see success with institutional clients, and the pipeline remains at a level that is consistent with that previously disclosed. We had £1.8 billion of net inflows this year, which is £3.8 billion over the last two years. We now manage £10 billion of assets on behalf of institutional clients, which is now 19% of Group AUM. What I find particularly pleasing is that our institutional book is not dominated by any one strategy or any one client.

As our presence and our reputation in the channel grows, we're also working with larger and more sophisticated clients. Our average mandate win this last year was around £500 million compared to £100 million a couple of years ago, for example. We're also seeing good momentum in what we would classify as our international business, so that which is outside of the UK.

Despite challenges with retail investors in Europe, particularly those invested in Dynamic Bond, we generated net positive inflows of over £1 billion from clients based overseas in 2023. Assets under management from our international offices are now 34% of the Group, having been rising steadily from 25% in 2018.

To build on the success, we've been carefully adding incremental resources to key markets where we see the most significant opportunities. I've highlighted Germany and Italy before, but these are not the only markets we're focusing on, but we have added additional client-facing headcount to these two geographies, as well as ensuring we are prioritising and focusing central resources appropriately.

So looking forward, and obviously notwithstanding any of the unknowns I've already mentioned, we continue to be excited about the growth opportunities here. The late-stage pipeline remains strong, and crucially, it remains well diversified. There are meaningful opportunities across multiple investment desks from clients based in nine different countries and, pleasingly, it is a roughly equal split between opportunities from new clients and ones from clients from whom already we manage a portion of their assets.

Wayne has touched upon some of this already around our cost base, but our focus on efficiency and, where possible and appropriate, lowering cost, has been relentless, and it will continue to be so as part of our focus on decreasing undue complexity. We have delivered on cost savings. Despite the challenging inflationary environment, our non-compensation costs are down 6% in 2023 compared to 2022, and down 15% since 2021. The fund rationalisation programme that I've talked to you about before is now largely complete, resulting in a clearer, more defined client proposition with around 25% fewer funds.

At Q3, I talked to you about our investments in technology and how we've been taking a close look at all the many manual processes across the Group, seeing what role automation can play. As one example, we've successfully automated over 100 institutional client reports. Now, there's a lot more we can do here, but it's a positive start and reflects the cultural shift in our business as we seek out efficiencies everywhere.

Crucially, our purpose for this objective is not simply cost cutting for the sake of lowering costs, but rather, to make space for growth. We have sufficient scale to allow us to invest in new growth areas, but at the same time, this is also reinforcing our ability to be nimble and agile and to move the business to quickly respond to increasingly bespoke client needs. You'll hear more from us on this throughout the year as we work through our data projects, our technology platform and rationalising our corporate structures. All of this is part of our relentless pursuit of efficiency.

We continue to also concentrate on broadening our appeal to clients. In our Q3 presentation last year, we discussed how the needs and the expectations of our clients are undergoing a fundamental shift. They're becoming more technical and more sophisticated than ever before. They're much more technology driven, making use of a much wider array of data and analytical tools in their own decision making and due diligence processes. Once clients are onboarded, their expectations are for more bespoke, timely content and reporting are growing, too.

For Jupiter to continue to be leading in the way we are delivering exemplary client service, it was crucial that we change the whole mindset of how we interact with clients, how we engage with them and the nature of our relationships. That's why we created the Client Group towards the end of last year, replacing what used to be called the Distribution Function. Our endeavours here should ultimately lead to deeper and stickier client relationships and higher AUM persistence. But as a non-negotiable imperative, we do of course need to ensure that the investment expertise we offer our clients is relevant and differentiated, and the fund rationalisation process allows us this space to grow and to broaden our appeal.

This last year, we've launched new strategies in existing teams, such as the Thematics range within our highly successful Systematic Equity team, and the lower cost Merlin Select range of funds. Each of these launches comes with very little incremental cost from a P&L perspective. We've also launched new vehicles for existing strategies, such as an offshore version of the Asian Income Fund, bringing this excellent track record to European and Asian clients.

As Wayne has discussed, we've also used some of our surplus capital to provide catalyst funding to some subscale products that have been performing well, like Global High Yield, that just need to get to critical mass to allow clients to invest. Looking forward, we will continue to look for ways to broaden our appeal to clients, whether through new product opportunities, bringing in new investment talent or actively exploring new methods of delivery. You've heard for Wayne about our strong capital position, and we're actively looking at ways we can deploy that capital.

Lastly, our final objective, deepen relationships with all stakeholders. Our people are clearly a key stakeholder group, and I'm passionate about building a strong, diverse culture, one based around inclusivity and one where there is constant two-way communication between our management team and all our employees. We regularly conduct pulse surveys, which give us the chance to understand what our people are thinking, and we made great strides this last year in deepening the relationship with our people.

In our most recent survey, we achieved a 78% engagement score, which is up seven percentage points from last year and above the financial services benchmark. So when you consider the challenges the business and industry have been facing, that's a real testament to the strength of our culture and how it has developed.

Our clients are, of course, at the heart of everything we do. As well as delivering improved investment performance, we've also introduced tiered pricing on our UK fund ranges, allowing us to share economies of scale as each asset's - as each fund's assets grow. Of course, our shareholders. Our capital allocation framework is clear, and it has resulted in our returning £53 million to shareholders, while also giving us optionality to explore other uses of capital.

So to briefly wrap up before we move to questions, we know that the industry faces challenges, and there are some unknowns, most notably around client flows, which will become clearer as we move through the year. But when I look at our underlying business, I'm really encouraged by what I see. I see real momentum in the institutional channel and amongst our international businesses.

I see investment teams who are delivering for our clients. I see an on-going range of transformational change projects that we will drive forward throughout 2024 and beyond, making real progress against each of our strategic objectives. We don't know what markets will bring in 2024, and we don't know what decisions our clients will take, but we are in a much stronger place to take advantage of the opportunity ahead and to drive growth going forward over the medium term. So with that, Wayne and I will be happy to take any questions. We'll start with those in the room, and then we'll go onto the webcast. Thank you.

Question and Answer Session

Mike Werner, UBS

Thank you for the presentation, and congrats on the results. It's Mike Werner from UBS. I've got two questions, please. First, in terms of your guidance, in terms of flattish underlying flows for 2024, what gives you confidence in that, and is it possible to break that down between retail and institutional? Then second, you've done a great job of rebuilding that capital base over the past 12 to 18 months. At what level are you comfortable with the excess capital position? Is it one or two times the capital required by the regulators, or how should we think about that? Thank you.

Matthew Beesley

Well, thanks, Mike. Maybe I'll start the first question, and then Wayne can deal with the second one. Look, we talk about flat underlying flows for the year ahead. We clearly have more visibility into our institutional pipeline with the nature of the long lead time with those conversations. I made the comment in my prepared remarks about the pipeline being broadly similar in size to the last time that we detailed that pipeline.

The retail side is clearly harder to see. I would say, however, that the last two or so months have seen a marked shift in sentiment from that retail client base. As we possibly near the end of a rate rising cycle, so we see a peak in the rate cycle, so clients are naturally starting to think less about cash or cash-like instruments and more about risk assets. So the tone of sentiment of those conversations has changed markedly, but of course, it can change again, and it's really hard to know how that's going to play out over for the year ahead.

I'd also observe, as well, that I think we're moving into a much more fertile environment for active management more broadly. As I look at the decreasing correlation amongst various asset classes, increasing dispersion of returns and higher inter-sector volatility, these are all typically very helpful for active asset managers. Then lastly, I look at some of the strategies that we are managing and the improved investment performance that we have.

Investment performance, it's not always, but often it can be a lead indicator of flows, and so I put these three things together, albeit with the caveat that, of course, it's very early in the year and much can change. We feel relatively optimistic about the year ahead, certainly relative to last year, hence the guidance that we've given today of flat underlying flows as best we see it as we look to 2024.

Wayne Mephram

On capital coverage, you're right. Look, for many industries, there's clearly ratios that people target, banking, tier 1 ratios, et cetera. Typically, all I see in the asset management space is the coverage is normally around 1.5 to 2 times, and I think that's a sensible range to be within, clearly across the cycle. Importantly, though, I should note, as I mentioned today, our allocation policy is to do that periodically, so not every year, so we look to the use of that capital where there's opportunity to invest for further growth. If we feel it's better to return capital, then I target around that one and a half to two times coverage.

Alex James, Head of Investor Relations

Okay, if no more in the room, we'll start. We've got a number of questions from the webcast, which I will attempt to group. It starts with a couple on flows. I think you've answered some of these, Matt. Firstly, we've got a question of whether we could clarify what you meant by underlying flows, and then secondly, a question of what's your view around the investment trust business over the next three to five years, especially given the Chrysalis changes.

Matthew Beesley

Yes, so in terms of underlying, we use that phrase underlying because we want to exclude the change to the Chrysalis Investment Trust, but also to recognise that the value book of assets that we manage, there's clearly some uncertainty about how that's going to progress over the year. So obviously, I detailed our thought process around that. We will update you all as we go through this year, but underlying is to exclude those two different parts of our business.

In terms of the investment trust business, it's still a business that's very important to us. We have two other investment trusts with inside the Jupiter umbrella, and we'd be keen to manage more. We recognise the value of investment trust as a vehicle structure. It clearly works very well for a number of retail clients, and it's a part of our asset mix that we're committed to.

Alex James

Appreciating that it is still very early days, is there anything you can share around initial client conversations, not just for the departure - the upcoming value departure - but also the hiring of Alex, Adrian and Chris?

Matthew Beesley

In terms of the - a bit more colour, the hires that we've made have been extremely well received by the clients that we've engaged with. What's really important to emphasise is that both Alex Savvides, who will join us later this year, and Adrian Gosden, who with Chris Morrison, joined us at the start of this year - each of the individuals have really strong investment track records. But more than that, they've also got really strong, proven records of raising client assets, as well, and we'd expect a number of clients that have been invested with those individuals previously to contemplate and likely invest with them going forward here at Jupiter.

But these conversations, of course, take time to materialise. The nature of the very smooth succession process that we put in place is affording clients to be careful and considered in terms of how they make those decisions. That's of course why, as we sit here in February, it's really hard to know how those conversations are going to manifest themselves in terms of fund flow throughout the year.

I think it's fair to say that we expect to lose assets as a result of the change in some of these fund management funds. Particularly over the medium term, we think we'll likely grow assets, given the strength of those individuals' track records and their proven money-raising capabilities.

Alex James

A question more for Wayne, around performance fees. You've reiterated your guidance at £5 million to £10 million for 2024. If you could give a little bit more colour around what's driving that, and relatedly, do you have a comment on how the business performed through 2023 on an excluding performance fee basis?

Wayne Mepham

Yes, so for guidance - I think I said it in my remarks. It's really difficult to predict, particularly at this stage in the year. It's difficult to predict at any point between - before the crystallisation date. We have a range of funds that have performance fee opportunity, and importantly, as we're growing our institutional business, that also generally comes with performance fee capabilities. So I am obviously cautious at this stage. It's a long way from the crystallisation date. We generated £13 million of performance fees this last year, 2023. At this stage, I think that same guidance I gave last year of £5 million to £10 million is valid.

In terms of the underlying performance, so that's excluding performance fees for 2023. I've set that out in the presentation. It is slightly down on 2022. That's driven principally by those revenue declines that we've seen through the average impact on AUM and also some changing business mix. Clearly, we've offset that to some degree by careful management of costs.

Alex James

Thank you. Let's move on to costs. We've got a number of questions around costs. Firstly, and I'll group some of these together, how much of the non-comp side is due to direct management actions, then how much towards lower AUM? Then what type of costs are linked to that lower AUM? So relatedly, what's the sensitivity to the levels for inflation and AUM levels, and do we have an expected seasonality going forward?

Wayne Mepham

Yes, okay, a few points on that. There was a roughly £7 million reduction in costs, non-compensation costs, through 2023. The whole of that reduction was - could be attributed to discretionary areas, areas we chose to manage costs carefully during this environment. Now, clearly, there were other savings as well, but of course, offsetting that we have some targeted investment and we have some inflationary pressures. So that is the change.

The AUM impact for the year was about £2 million of - linked to the average AUM. Those are things like administration fees, custody fees, that sort of aspect that is usually charged on a basis points or a large part of it on basis points of AUM.

Alex James

You've given cost guidance for 2024, but on a more qualitative basis, do you have a view towards cost savings going forward through '24 and '25?

Wayne Mepham

So we obviously - the costs are - the guidance was to go up for 2024, £107 million going up to £111 million. Some of the - we'll see two factors. One, I think, some targeted investment. We've identified areas that we are looking to invest behind. Those are about driving future growth or reducing undue complexities, clear targets for us. But we are also having some inflationary pressures coming through, and offsetting against that, clearly there will be some savings that we identify through the year.

So clearly, at this stage, £111 million is the right guidance. Matt and I will continue to focus on making sure we manage that judiciously. That includes taking cost reductions where we can, but also making sure we do invest appropriately.

Alex James

Finally, on the cost side, clearly, they are moving in the right direction, there's a question around staff costs and how any of that was achieved through lower numbers of staff and what were staff levels this year compared to last?

Wayne Mepham

Yes, we announced in 2022 that we were taking decisive action on our headcount, and we continue to monitor our headcount needs very, very carefully. So look, the reduction in compensation cost was partly driven by that. I pulled out the fixed staff cost. You can see that in the slides, the presentation slides today, and going forwards, we obviously manage that headcount level very carefully. We consider every hire that we make in the organisation. We'll of course make appropriate hires where those are necessary for the business, but that's managed carefully.

Sorry, the second part of the question was?

Alex James

The second part of the question was around numbers of...

Wayne Mepham

Numbers, yes, sorry. Our headcount at the end of the year was just over 510, I think 512 heads. That's down quite considerably compared to the beginning of 2022. It was obviously before we took those decisive actions. There is a degree of timing differences there. There will be additional heads from time to time, where we are putting investment behind growth areas, removing undue complexity. We've got a programme that we're focussed on here, so that will be changing on a periodic basis, but I think that sort of level is appropriate for our business at this stage.

Alex James

Thank you. Matt, a couple of questions around more product distribution point of view. Firstly, how do you currently see active ETF as a product and whether it's a viable option for Jupiter in the short term? Secondly, a question around the comment on the nature of the relationship with NZS Capital going forward.

Matthew Beesley

Sure, so we've previously flagged that we are looking at whether active ETFs are a potentially interesting structure to share our investment expertise with our clients [via]. It's something that we continue to look at. We continue to see the trends around the active ETF market across Europe, and it's something that we will work through and continue to evaluate as we go through 2024, noting that we have some investment capability that might be better suited to that structure than others.

In terms of the relationship with NZS, it's a business that we own a minority stake in. They're a US-based global growth manager. We distribute and face off to clients on their behalf across a range of geographies globally. It's been quite challenging for them from an investment performance perspective, given the very nature of their particular asset class, but it's a business that's grown really strongly over the last few years and one that we continue to be excited about, given their very differentiated investment proposition that they have.

Alex James

Thank you, a couple more areas. I'll just double-check we've got any more from the floor before we finish. I think not. Okay, so we've got a couple of questions on capital and then some on the other gains lines. I think both of these for Wayne. Firstly, on capital, two questions here, and given the strong capital position, would we consider doing more buybacks. Then secondly, relatedly on the goodwill, what was the Merian component of the total impairment figure?

Wayne Mepham

Yes, from a capital perspective, buybacks. We spoke about earlier last year about the buyback position, so we're not in a position today to make any further buybacks. That could only change through a shareholder vote with the annual general meeting later on this year, so at the moment, our focus will be making any additional returns of capital through special dividends. Clearly not looking to make any additional returns before the AGM, so once that vote is through, we'll consider whether buybacks could be part of the future.

In terms of goodwill, look, goodwill is assessed. It's required by accounting standards to be assessed on what we call cash generating units, and for Jupiter, we have one single cash generating unit. So that's all of our business, all the returns of that business. So I can't attribute it to either Knightsbridge, which was the largest part of the goodwill, actually, and came in 2007 through the management buyout, or Merian, which as we know was the acquisition in 2020. But what I can tell you is that both of those businesses generated strong - contributed strong profits to this business over the period since we - the goodwill was created. So some of that goodwill has effectively been realised.

What I can also tell you is that the Merian acquisition did bring considerable scale to our business. Of course, our platform is a scalable platform, so both those things I think are important, but it's not attributed to either acquisition.

Alex James

Thank you. On the other line, a question of can we expand on the 3.2 of seed capital gains, what drove that, and then also if you can expand a little bit more on the cash, the interest rates.

Wayne Mepham

Of course. Seed gains, as you probably know, we do hedge our seed portfolio, but for beta and not for alpha, so the gains we see in there are a combination of dividends and the alpha gains we made over the period. From a cash perspective and the interest rate, clearly, interest rates are in the press regularly at the moment, and we're of course putting our cash to work as well. I've mentioned the £52 million of catalyst funding that we made post year end.

So look, my best estimate at this stage in the year is to assume that our finance - net finance position - is nil, so interest changes principally on our subordinated debt will be largely offset by interest returns we're making on managing our cash carefully.

Alex James

Thank you. One last follow up on the active ETF question, Matt. When you talk about concept more suited, is there any particular strategy you're thinking of and were you thinking on the systemic strategies, particularly?

Matthew Beesley

Look, it's just too early to comment there. When I made that comment, obviously, I was thinking more about equity strategies, typically, are more suited and have been more in demand from clients that find active ETFs appropriate and useful relative to fixed income strategies. But look, it's just still too early. We're still working through and understanding both incremental client demand, as well as where there may be cannibalised related client demand and whether that trade-off is appropriate, and obviously operationally how we would do this as well, given all the things that we're focussed on strategically.

So we recognise this is an opportunity. But it's something we want to think through and be careful before we commit.

Alex James

Thank you very much. That's all the questions from the webcast.

Matthew Beesley

Well, just really for me just to say thank you all very much for being here today, both on the webcast and in the room, and for all your on-going support. We'll of course look forward to updating you on our progress later on in the year. Thank you.

End