Jupiter Fund Management plc

Interim Results 2024

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Presentation

Matthew Beesley
Chief Executive Officer

Good morning. Thanks, all, for joining us today for our first half results. I'm Matt Beesley. I'm the Chief Executive here at Jupiter. As always, I'm joined by Wayne Mepham, our Chief Financial and Operating Officer. Wayne and I will walk you through our results for the first half of the year, and then we'll open it up to questions, which you can ask via the webcast.

So overall, we have a solid set of results to present to you today. We manage this business very carefully and are strategic in our planning, so I hope that nothing in these results comes as a surprise to you. I'll discuss flows in more detail shortly, but while we saw net outflows in the first half of the year, these were in line with our expectations and were driven by the changes to the Value team and our decision to extricate ourselves from the management of the Chrysalis Investment Trust.

There are encouraging trends in the underlying business, and we saw only very marginal underlying net outflows in the period. Thoughtful and disciplined allocation of capital is a key focus for both Wayne and I. Operating costs are a little lower than expected, and this discipline has continued to give us space to invest for growth. We've made progress against each of our objectives, including removing complexities and seeing underlying growth in our home market of the UK. While I would not like to call the bottom in terms of retail investor sentiment, there does seem to be early signs of improvement, so there are reasons for cautious optimism.

Wayne Mepham
Chief Financial and Operating Officer

Thank you, Matt. Good morning, everyone. In H1 2024, we have delivered underlying profit before tax of £47.9 million, which is a 3% increase on the same period last year. Our AUM is largely unchanged compared with June 2023 at £51.3 billion, despite the outflows we've experienced, which were £3.4 billion for this first half. Combined with lower average fee margins from the changing business mix and the tiered pricing structure we announced previously, our net revenue reduced to £174 million.

Strong cost management continues to be a focus, and our total operating costs were slightly lower than the same period last year. Along with good returns from seed capital investments and liquidity management, this results in an underlying EPS of 6.6p. Our dividend policy, which we implemented in 2022, should be very familiar to you now, which means our interim dividend of 3.2p is half the underlying EPS earned in the period, excluding performance fees, which were 6.4p.

I'll report on our strong capital position and how you should think about that at the year-end a little later. Our investment performance over three years was a little higher than at this point last year at 55%, and Matt will give some colour to this in a moment. But first, let's briefly look at the financial performance compared with the second half last year.

So, this is the bridge of underlying profit before tax, excluding performance fees, compared with the second half of 2023, which is down £2 million. Net revenue is the main driver of this. We saw net revenue margins down by just under five basis points, in line with my expectations. This is partly offset by lower costs, mainly driven by timing of non-compensation costs. While we continue to focus on cost control, there is some seasonality here, and we expect higher costs in the second half, which I'll come on to talk about shortly.

But these costs and the timings are as planned, and my expectation now is that we will deliver modestly better than my February guidance, which I will explain later. We have again seen strong alpha gains on our seed portfolio, combined with the ongoing benefit of higher interest income on our liquidity positions. This is £6 million higher than for the first half of last year and broadly the same as the second. So that results in £47 million of underlying PBT with a further £1 million of performance fee profits, taking us to a total of a little under £48 million of combined underlying PBT.

Exceptional items are exactly in line with guidance and of course are all in the first half. That's the end of this type of amortisation of intangible assets, as we have passed the four-year anniversary of the acquisition, so no exceptional items are expected in the second half, at a statutory profit of £38.7 million. I'll go through some of this in a bit more detail, but first, over to Matt to talk about investment performance and a little bit more detail on that flow picture.

Matthew Beesley
Chief Executive Officer

The first thing to acknowledge on this slide is that these numbers are not where we want them to be. Delivering active investment performance to our clients is paramount. We know there were areas where we can improve, and we're taking active steps to do so. For example, we've been using data-driven insights to help our investment managers recognise behavioural biases in their portfolio management, some of which may impact performance. We've also been developing new and improved analytics for use internally to further support our managers in their day-to-day activities.

As a truly active manager, we know we will at times have periods of underperformance. However, our focus is to add value to our clients over the long term, and we are always looking for ways to do better. As relates the first half of this year, the decline in the key three-year number has been driven by a few of our larger funds who have been below their median over the period, including European growth, Japanese equity, and around £1 billion of the Merlin portfolios.

But if we look more broadly across our larger funds, nine of the 13 funds that are above £1 billion in AUM are outperforming over three years. If you look at where we're performing well, in many cases, we are performing exceptionally well and in areas of strong client demand. All of our funds are top quartile - obviously, all of our funds are top quartile. Over half are also in the top decile, including the Strategic Absolute Return Bond Fund, the Indian equity strategies, Global High Yield, and Asian Income, all of which are in that sweet spot of client demand and exceptional performance.

These might not be our largest funds, but they are key to growth, and it's reassuring to see that these faster-growing funds are performing so well.

Moving on to flows, we can see here that gross flows have improved in the first half. There was a real weakness in the market last year, with retail sentiment declining throughout the year, which is evident in our gross numbers in 2023. But I'm glad to report that we have seen £7.5 billion of gross flows in the first half of 2024, returning to what we would consider to be a more normalised level, and that's really been driven by improvement in retail.

Looking at the headline figures for net flows, it's clearly been a challenging half, as we expected it to be. Of these net outflows, over £800 million was due to the change in management structure for Chrysalis, which of course we instigated, and there's a further £2.4 billion from strategies associated with the Value desk. We've made it very clear at the full year results that we would expect to see outflows from Value strategies, and while we could not know the quantum or exact timing, what we have seen so far is within our reasonable expectations.

We also said in February that we would be absolutely transparent with you, and we remain committed to that. The desk currently has £6.3 billion of assets under management, £3.4 billion of this is in segregated mandates. It is within our reasonable expectations that all or nearly all of these mandates could leave by the end of the year. We will of course keep you updated, but that is what we expect today.

Back in February, we also said that we thought underlying flows would be around flat for the year. The £0.2 billion of underlying outflows in the first half is entirely consistent with that, albeit of course we'd prefer to be reporting on marginally positive flows rather than marginally negative flows. However, we did generate net positive underlying retail flows, which is really encouraging.

Our Indian equity strategies and wider Asian Income products have seen strong flows, resulting in demand evident for GEAR, or the Global Equity Absolute Return fund, and SARB. Institutional flows were a little more muted in the first half in both gross and net terms, with £0.3 billion of net outflows. This was largely due to the expected redemption of one lower-margin mandate.

Despite these net negative flows, we actually saw positive - a net positive revenue contribution on an underlying basis during the period. From a regional perspective, the UK was actually slightly net positive in the first half on an underlying basis, which I'll go on to talk about in detail shortly.

Finally, there was on-going demand for well performing Asian equity products, both in local markets and in Europe, although these were not enough to offset unconstrained fixed income outflows in the latter region.

I won't spend too long on this slide, but while we are looking at our flows and the shape of our business, I wanted to introduce to you a new and slightly different view of the Group.

I talked to you previously about the way in which we interact with clients and how that's fundamentally changing. The relationship is no longer one of product push or just selling funds, but of a deeper understanding, and offering solutions or components of solutions to meet their needs. As a result, we think of our business not as a collection of individual funds but rather in terms of our capabilities, as we set out on this slide. As you can see, Jupiter today is a well-diversified business, but still appropriately focussed across seven key capabilities, where we can deliver both an active and a differentiated approach.

Importantly, each have a significant amount of AUM. I've already covered the flow picture, but you can see that there was growing demand for systemic equities, as well as what we define here as Asian and Emerging Market equities.

Wayne Mepham
Chief Financial and Operating Officer

Okay. If I define the flows Matt has just spoken about with a picture across the last two half year periods, including markets, you can see that the impact of outflows has been partly offset by investment returns. We end the period only slightly down on June last year, but after strong market returns in both H2 23 and this last six months. So average AUM is up over 2% on the previous six-month period at £52.1 billion.

Let's look at how that is impacting revenue. In H2 23, we delivered £175 million of net revenue, and that has fallen to £170 million for the first half of this year. We've experienced net outflows over the past 12 months. This fall in revenue has been partly offset by the impact of strong markets across the two six-months periods. There is also that tiered pricing adjustment, which we implemented this year for the benefitting of clients in more highly scaled products, along with other seasonal variations that resulted in the reduction in revenue.

For the half year, this is equivalent to an average fee margin of a little over 65 basis points. That's lower than the full year guidance but simply reflects the timing of some expected flows, which I anticipate will drive up margins in the second half. So, I think my guidance of 66 basis points for the year as a whole continues to be a good estimate.

We also generated performance fees of nearly £4 million. As usual, details on the performance of those funds, which have the potential to deliver performance fees, can be found in the back of the presentation. Looking at the levels we already generated, I think there is some real possibility that the full year figure could be at the top end of the £5 million to £10 million range I spoke about in February.

So, let's move on to costs. Before we review the cost base in the first half, I'd like to make some comments on how we think about disciplined cost management. This is not new, but all our actual and potential costs are always looked at from these three perspectives. Does it deliver growth opportunities which support and grow our revenues, and ultimately, our bottom line? Will it help us build, maintain, and improve our scalable platform, which we have demonstrated before, delivering both efficiency and operational leverage? Or does it deliver value for money from mandatory spend, where we focus on working with our strategic partners to establish and maintain the most effective cost model?

That focus will be evident as you look at how the shape of our cost base will continue to evolve. So that's our cost ethos. Our cost discipline is strongly embedded in our ways of working. We spend money where we believe we should, we control the total spend where we think we can, and we constantly think about how we can improve our cost ratios.

Turning to our costs for the half year and following my comments on our cost ethos, it should come as no surprise that these are exactly where we expect them to be, and in some cases, a little better. Overall, there is some seasonality here, with a greater weighting towards the second half. The fixed staff costs I guided to £79 million for the full year, and that guidance still holds. I also guided to a total compensation ratio, excluding performance fees, of 47%. Accounting requirements have had an impact on timing, and you can see a lower ratio at just under 45.5% for the first half. It's a little too early to be concluding on variable pay. It is quite possible we can do better than my February guidance of 47%, maybe by around one percentage point.

Non-compensation costs also include a degree of seasonality, and I would expect them to be higher in the second half than the first. We still maintained our rigorous focus on cost discipline, and so far this year have identified around £2 million of specific savings. This means that before any other changes, I now expect our full year non-compensation costs to be £109 million. Focusing in on some specific investment we are making on discrete operational areas, those are largely the technology-led initiatives Matt spoke about in February. This has and will increase our headcount in the short term. The resources deployed here are temporary. When the work is done, which will be next year, our headcount will be back to levels which we have not seen since 2016, despite AUM now being over 30% higher, and regulatory demands being significantly greater today, requiring at least 20 additional mandatory heads.

Referencing back to that same year for our non-compensation costs, the biggest driver in the increase has clearly been inflation, with the relevant index up 33% over the period, in line with the increase in our AUM. Aside from regulatory demands, the remaining increase is entirely related to areas where we were underinvested historically, such as core technology systems, which we have already addressed. So that means all the operational efficiency investments we are making right now are being funded by cost-saving initiatives we have implemented previously, particularly through those achieved when we tightened costs in 2022.

All of this is a good demonstration of not only rigorous resource management but also the scalable platform that we have invested in and which we can leverage further. But that does not mean we are satisfied or that we have done all we can. I've already covered our approach here, and I'll come back to our focus on removing undue complexity in a little while, but now, let's move on to the balance sheet, where there is a few things on capital I'd like to draw out.

Firstly, that strong capital position that I've spoken about before continues to be in place. Our surplus capital has now grown to £199 million after the dividend we declared today. That's around 3.75 times covered, with a subordinated debt, and 3.5 times if the debt were repaid today. As you know, the subordinated debt is able to be redeemed from April next year, although we should make clear that the Board has not taken any decisions on this to date, and should they do so, there are still certain regulatory hurdles to address.

Secondly, we have declared a 3.2p interim dividend, which is in line with our ordinary dividend policy of 50% of pre-performance fee earnings. Finally, our capital allocation policy continues to ensure that we prioritise the capital needs of the business, including the capital required for seed and catalyst funding. Our approach here is proving successful. We have started to build some real momentum. Matt referenced our Global High Yield Bond fund earlier, which is one of the places we put catalyst funding earlier this year. As a result, larger clients can more comfortably invest, with fewer concerns over concentration limits. That fund is now close to £300 million of AUM from just £50 million a year ago, so of course, relatively small numbers, but a fantastic growth trajectory.

That covers the results and the guidance updates for the full year 2024. We're now going to focus in on our strategic objectives. Matt?

Matthew Beesley
Chief Executive Officer

Yes, as usual, before we open to questions, we want to provide a quick update on the progress we've made against our strategic objectives. You'll know this slide very well by now, but given that we have this in mind when we make all of our management decisions, it's absolutely right that we keep coming back to it. We won't go into a lot of detail on all four of these objectives today, but I wanted to focus mostly on the objective about increasing scale. Wayne will run through some progress as related to decreasing undue complexity.

I said to many of you before many times that, of our four key strategic objectives, increasing scale is the most important. We will always have a focus on driving efficiency, but top-line growth is always the ultimate aim. We talk recently about how two aspects of this are increasing our scale with institutional clients and also through our international business. Notwithstanding the short-term specific challenges we've already covered, momentum continues to grow in each of these. Our institutional pipeline remains robust, and although we saw net outflows in the half, revenue impact was positive on an underlying basis.

Regionally, we saw positive flows from clients based in Asia, and over £200 million of net inflows from Latin America, reaching over $2 billion in AUM for the region for the first time. So, we have built a globally diversified business, and the reason we built a globally diversified business is because clients in different parts of the world have different demands and different appetites for risk throughout the cycle. This therefore helps smooth the results profile of our business.

The graph here shows industry data for sales of active equity products from clients based in different regions over the last 10 years, and it tells an interesting story. Over the last decade, UK-based investors have shown very little demand for equity products at all. At the same time, clients in Europe and in Asia have been much less risk averse and have been buying into equities. Now, maybe that the UK might be beginning to move up the risk curve, demand seems to be tapering off elsewhere. So, we think diversification and the benefits of diversification are clear.

But while that diversification is important and a key part of our business model, our home market has always been and will continue to be the UK. It represents over 60% of our AUM, and even more from a revenue perspective. It's a mature and highly profitable business for us. We've spent a lot of time in these presentations over the last few years talking about our institutional and international growth opportunities, and perhaps we haven't spent enough time talking about the heritage that we have in the UK wholesale market, and the actions we're taking here, because leveraging the strengths of our core heritage is a key focus for us.

The UK is a mature market, but we are one of the market leaders, with an exceptionally strong brand. In the latest Pridham Report, we were the seventh for gross sales and second of the focussed pure active asset managers without captive assets. Given the scaled starting point, while we may not see the same level of relative growth as some of our more nascent regions and channels, we'll continue to evolve the business from this position as a market leader.

We are refocussing our core operating model to best leverage key partnerships, consistent with the shift within the client group away from a product push approach and towards deeper or holistic relationships with our clients. We're investing in our core capabilities of UK equities and new hires, alongside our existing investment talent, will lead us with one of the broadest and I believe the strongest line-up of UK equity capabilities that we have ever had, and possibly of all of our peers.

Now, this might seem like a counter-cyclical investment after a long period where UK equities have been out of favour, but we think there is a real opportunity here. We've talked publicly about the malaise in UK capital markets and said that we needed government to be bold and imaginative in turning this around. At the very least, with what we hope and expect to be a period of political stability and falling interest rates, there are real reasons to be cautiously optimistic around a potential turnaround in sentiment of both the UK investor and towards UK stocks.

But the flows we have seen are not just based are UK equities. We've seen strong flows this year from Asian and EM equities, Systematic equities, and parts of Fixed Income. The flow picture is improving. We saw over £4 billion of net outflows from UK wholesale clients in 2020, but the picture steadily improved since then. Although our headline figures for the first half show £1.7 billion out, more than all of that was down to Chrysalis and outflows for the Value team. Consistent with what you've heard from some of our peers, underlying flows in UK retail were actually slightly positive in the first half.

So, there are clear reasons to be optimistic about our future progress in leveraging our heritage in the UK. While we will continue to focus on our core objective of increasing scale, and with that, in our institutional and international channels, we will not do this at the expense of our heritage in the UK retail marketplace.

Wayne Mepham
Chief Financial and Operating Officer

Our second objective is decreasing undue complexity, and this is an area that links well to our disciplined approach to cost management. I covered our cost ethos earlier, referencing those three categories of spend that was investing in areas where we see strong revenue and profit growth potential. There was maximising value for money from mandatory spend.

But more relevant to this objective is the portion of our cost base focussed on improving operational efficiency, as driving scalability and taking friction out of our business, and removing undue complexity is at the heart of this. We've done a lot here already, but we know there is more we can do.

We've previously talked about the fund rationalisation process, which has reduced the overall fund range by around 25%. Whilst that discrete programme is largely complete, the curation of the product range is an on-going endeavour, and we expect to finish this year with around 10 fewer funds than when we started. That's through mergers and closures, and after some targeted launches, too.

Last year, Matt highlighted the investments we have been making into technology and data, particularly through client engagement. That's building around the core scalable model of removing further unnecessary complexity from our operations. With my particular focus on both finance and operations, I'm glad to report that these programs are all progressing well, and crucially, to budget. These changes will enable us to do even more than is possible today, whether that is through automating manual processes or using data to understand our clients better.

Of course, we cannot complete a presentation these days without mentioning AI. Our approach here is aligned to the disciplined approach we take to all investment. AI presents potential opportunities across the whole of the value chain, and we are exploring all potential uses, wherever we see value being added to our clients. So, we see the opportunity, but we're measured in how we approach it.

A large part of that opportunity may well be in finding ways that help us understand and meet our clients' need even better, improving their experience with Jupiter and broadening our appeal to clients. There are opportunities to support the delivery of a more bespoke, more personalised client experience to support areas of client reporting or client service, or potentially to deliver more customised solutions for clients, such as the long:short systemic equity capability we designed with and for one specific key client in the first half.

Our technology focus and specifically the potential for more automation can help us deliver more of this type of bespoke solution and all the connected aspects of client engagement, just like this, without adding undue complexity.

Matthew Beesley
Chief Executive Officer

While we continue to focus on deepening our relationships with all stakeholders, I've already talked at length about our clients and about our shareholders. I do, however, want to very briefly talk about our people, who are of course another key stakeholder group. I was pleased to see that in our most recently pulse survey of our employees, we received an engagement score of 76%, once again above the industry benchmark. Our people at Jupiter remain enthused about the changes we are making to better position ourselves for future opportunities that we know are ahead. I want to thank them all for their continued hard work and endeavours.

So, to wrap up before we take questions, I believe we have produced a solid set of financial results today, ones which are entirely within our plans and our expectations. We know that there are challenges both to the industry and to Jupiter specifically, but I'm encouraged by how well our underlying business is performing. Our focus on cost discipline remains resolute, and we've again delivered cost savings, but maintaining the ability to thoughtfully invest in areas that will drive both growth and further efficiencies.

It's early days, but there does seem to be signs of potential improvement in client sentiment. If that is maintained, then Jupiter is very well placed to capitalise, and with that, I'll hand over to Alex James, who will lead us through questions.

Question and Answer Session

Alex James

Thank you, Matt. We've got a few questions come in for both of you. We'll start with a couple of questions for Wayne on margins and costs. Firstly, wanted to understand the run rate fee margins at June end. It's actually Systematic equities that are driving the bulk of those flows, which is presumably at lower margins. Any comments on that?

Wayne Mepham

Yes, look, I reported that our fee margin for the first half was just over 65 basis points, and again, just remind you that that is a little lower than I guided in February, but it will come back through my projections to be 66 basis points for the full year. Look, there's a number of factors that have been affecting our margins. One of them is clearly the tiered pricing that we put in place early this year, and there's also changing mix, which I think is for us into the second half of the year will be the biggest element, so that is reductions in lower margin business and gains where we expect to see some higher margin business coming in.

Some of that's already here. Some of it I expect to see, so you should see a higher margin in the second half versus the half, but overall, 66 basis points.

Alex James

Thank you, and on the cost side, how much - cost discipline was clearly strong in the first half. How much flex do you think there remains in both fixed and variable staff costs?

Wayne Mepham

Fixed and variable staff costs, well, I think there is clearly a little over 50% of our costs in fixed staff at the moment, including I've talked about the fact that we have got some temporary resources on our books that are helping us to do some very specific projects which will bring value to us. In the future, that resource will go when that work is complete. So that will address the fixed staff cost. Clearly, there's inflation to address as well, so that is a headwind that we all face.

I think from a variable perspective, it is variable over the long term, but clearly there are some accounting requirements that make it less flexible in the short term. But look, I've given the guidance of probably around 46% for this full year. We'll continue to look at it through the year end.

Alex James

Moving on to non-compensation costs, our slide in the appendix shows that a lot of this lower non-compensation cost is due to the 'other costs'. Do we have any detail on what comprises those 'other costs'?

Wayne Mepham

As you can see from that slide, about 50% of our non-compensation costs are actually AUM related, so they're quite nicely linked to moving to our AUM. They're not wholly correlated, but they are correlated in some way. That changed - that particular line item that you're referring to there is where we have got both some seasonality but also where we've been able to find some cost savings. So that is not a run rate number in there, but that will move back up in the second half, as we see those costs come back in.

Alex James

Thank you, Wayne. Matt, some questions have come in on flows and some outlook around the Value team, as well. Firstly, can you provide some more colour on your outlook for the remaining Value team AUM? Perhaps a sense of whether we are halfway through these outflows or closer to the end by now, and relatedly, how retail clients specifically are reacting, less in terms of numbers but given there may be a potential lag to redeem that, to see redemptions versus that of institutions.

Matthew Beesley

Yes, I think we were very clear, but just to reiterate, of the Value desks, separate account mandates through the £3.4 billion that we referred to, it's our expectation that all or nearly all of that will leave by the end of the year. That remains consistent with our expectations at the start of the year. What we said all along, and we're reiterating today, is we don't quite know the timing of that.

In terms of the retail clients, fortunately, we have Adrian Gosden and Chris Morrison running the income fund, who are in situ, and they spend lots of time engaging with clients, and we're very optimistic about our ability to grow that investment capability over the medium term. The replacement team for the UK Special Situations Fund, led by Alex Savvides, will be fully in situ in just a couple of months' time. Some of Alex's team have already joined us at Jupiter. As expectations again, as we go into next year, we will again be growing that investment capability as we move through 2025.

In the short term, though, of course there is risk of further assets to leave, but I think sentiment towards UK equities will be crucial in determining exactly how that plays out through the balance of the year.

Alex James

Maybe a comment also on the institutional pipeline in general?

Matthew Beesley

The institutional pipeline remains very robust, very much consistent with our expectations. We've always said that institutional business is lumpy. It's non-linear. We've given some guidance previously about how typically historical experience has been in terms of pipeline conversion, and how long that pipeline does tend to convert. This is based off typical experience, and again, there's nothing that we see today that would suggest a deviation from that typical outcome, albeit with some variability and unpredictability.

What's most encouraging about our institutional business, and forgive me for reiterating this point once again, is the breadth of investment capabilities that it covers, diversity of geographies that it covers and also the different types of channels that it covers, as well. Indeed, some of this is direct. Some of this is consultant advised. We have a broad and deep institutional pipeline and client base that gives us great comfort that we're building a sustainable business within institutional channel.

Alex James

Thank you, Matt. A couple more questions, one question on costs before we move on to some questions on capital, as well. Wayne, notwithstanding that we haven't given any specific guidance, a question on how we might look at 2025 costs, how much the targeted increase in headcount could be offset with additional cost-saving measures, and then any guidance or directional views around the trajectory of the cost to income ratio and for 2025?

Wayne Mepham

Okay, so I think the headcount savings are - just to be absolutely clear, those reductions are a temporary resource, so they are working on specific activities that we are undertaking which is driving the growth in our revenues in the long term or delivering operational efficiency, so there is no production process that we're going through here. Clearly, you've got - it's typical to estimate this cost at this particular moment in the year. Clearly, we've got inflation increases on staff costs, and we also go through a planning process through the second half of the year in terms of any other initiatives we'd like to make. So, I'm not going to comment on what the ratios will look like, but clearly, there's a focus, and I suppose the main comment I would make always around this is we maintain a balance, an appropriate balance, of investing in our business but also looking to shareholders returns as a careful consideration for us.

In terms of the second question, it was on…

Alex James

You've answered both pieces of it. Moving on to questions on capital, do you have any update - two-part question on return on capital. Do you have any update on the share buyback program that was approved at this year's AGM, whether that will be enacted? Then, relatedly, on return, will the Board decide on whether to refinance the subordinated debt or not before a decision is taken on additional returns to shareholders?

Wayne Mepham

On both points, clearly, I'm not going to pre-announce an announcement, so we'll come back to deal with that later in the year. We have now got a modest ability to buy back shares at 3%, so that gives us ability to think about when the time is right how we might return capital to shareholders, either through share buyback or a special dividend, which we've obviously done both in the past. Typically, we look at those at the year end. It's not every year end that we consider making those additional returns on capital, so we'll obviously be looking at it later on in the year, with the Board.

On the same point, on the subordinated debt, again, this is a consideration for the Board. We'll be thinking about that quite carefully, obviously thinking about our capital needs as a business overall. That's something we'll look at towards the end of this year, thinking about that early redemption date in April next year.

Alex James

Relatedly, perhaps you could provide some details on the seed capital, the levels of that, where we might expect that to go to. Then, a question I think you've answered to an extent, but is there an excess capital level at which we'd allow for additional shareholder returns?

Wayne Mepham

Yes. On the seed capital, just to remind you, we have a Board set limit of £200 million, and that's based on the cost of the investment we've made, so our cost of seed capital today is a little over £130 million, so we have broadly £70 million of capacity left. We've proven, I spoke about earlier, the benefits of particularly catalyst funding for us at the moment. That's really seeing that very strong growth in one particular fund.

I think we need to think about whether there's more of that that we can do to support some of our smaller funds and get the scale that we know we can achieve. So, I think that's the first thing, and so we'll obviously be thinking about that quite carefully as we go through the second half of the year. From an overall capital position, I don't think I've ever said what I think our right level is, but what I've always said is what I typically see in the marketplace from an asset management business, and typically, I'm seeing that around two times covered.

Now, that is two times covered of the capital requirement, but also, we've got to clearly think about seed capital requirements. We've also got to think about liquidity requirements, and where we've got a £200 million seed capital opportunity, and that could mean we go a little higher than that for us, which will be obviously £140 million of capital on a two times basis. So, all those things, again, we take into consideration as we look through the rest of this year, and we'll make any decisions come February.

Alex James

Thank you. Matt, two further questions at the moment. The first is, you've talked publicly about the opportunity for government to be bold and imaginative in terms of the UK markets. On the flipside of that, if there is a potential rise in capital gains tax, do you have a view in terms of what that would mean in terms of flow and how client sentiment would be impacted?

Matthew Beesley

I don't have a view on how that would be impacted, no. Look, investment typically is for the long term. We typically - we're in the business of helping individual savers and institutions invest for the longer term. It would be reasonable to expect there might be some negative impact of that, but it's not something that we have done a detailed analysis on at its stage.

Alex James

One final question to finish unless another one comes in during. On flows, some more details, perhaps, on what's driving the improved momentum in underlying retail flows? Is that mainly due to better distribution or relative performance? Are you seeing a sustained pickup in investor sentiment?

Matthew Beesley

Yeah, so look, I think it's all of the above. So, if you look at where we have seen benefits so far, I think it definitely reflects a subtle shift towards contemplation of risk assets, or should I say, riskier assets? You've had gradual move away from either cash deposits or government bonds, recognising that we're likely to either soon in or soon to be in an environment where rates are coming down. So that's the tenor of the conversations that we have with most of our clients, regardless of geography or channel is one of marginally looking to seek more risk.

Understandably, of course, clients are looking at places where they see therefore a balance of risk and opportunity but also some downside protection, and a good, strong investment performance, you need to go with that. So, there's no surprise that areas like Indian equities, Asia-Pacific income, we referenced both our Global Equity Absolute Return fund and our Strategic Absolute Return Bond fund are all benefitting from that gentle shift in sentiment, but also that sweet spot of having strong investment performance. That's a key part of where we find ourselves today. While our headline performance number, the - [unclear] three-year KPI number is not where we want it to be. We have many large funds that are in that sweet spot of client demand, the right amount of size and strong investment performance. I think that's going to be crucial as we look into the second half of 2024.

Alex James

There's no further questions.

Matthew Beesley

So that's - let me just say thank you all for your time today. I know it's been a busy day today. Thank you for your on-going interest, and we look forward to updating you in due course.

End