



## Full-year results 2021 presentation transcript

Wednesday 19<sup>th</sup> May 2021

### **Hendrik du Toit, Founder and Chief Executive Officer**

Ladies and gentlemen. It is with a mixture of humility and gratitude that I can report Ninety One's full year results for the 2021 financial year. In spite of the ravages of the pandemic, we have reported record assets under management, revenues and profits. It's not only our first full year as a listed company, but our thirtieth since inception in 1991. At 30, Ninety One is a vigorous, competitive and ambitious business; the future is full of promise.

I will start the presentation with an overview of the business and the past year, then Kim McFarland, our Finance Director, will present the financial review. I will then conclude the presentation with a brief outlook for the business before we open the floor for questions. You can submit your questions during the presentation via the link on the right-hand side of your screen.

Let me start with a familiar slide, which tells our story. After 30 years, we are still patiently and organically building a business to serve our clients in this highly competitive but attractive industry. Over this period, assets under management have grown at an annual compound rate of 31% per annum. With change accelerating through the pandemic and the unstoppable forces of innovation reshaping our world, we at Ninety One continue to embrace change, as we've done throughout our history.

This requires flexibility, agility, resilience, common sense and open-mindedness, which are deeply embedded in our organisational DNA. I will revisit this point at the end of the presentation.

Moving onto the key messages of the last financial year. We have delivered strong investment and financial performance in a challenging year. In spite of intense client engagement, we experienced a tough flow environment. However, we have seen improving momentum towards the end of the reporting period.

Ninety One is a resilient, well-diversified business with committed people and a strong culture. We smoothly navigated our rebranding and listing. Our strategy remains unchanged, with our focus firmly on execution. And finally, our commitment to sustainability has been stronger, it has been stronger than ever over the past year. I will discuss these points in more detail as we go through the presentation.

Ninety One has always been a purposeful firm. The shift from shareholder to stakeholder capitalism, accelerated by the pandemic and its consequences, is one for which we're well prepared. Our purpose of investing for a better tomorrow by building a better firm, investing better and contributing to a better world remains as relevant as ever.

Ninety One performed strongly under challenging, but improving conditions over the past year. Although assets under management increased by 27%, the key revenue driver, average assets under management, only grew by 1%. I'm disappointed to report a net outflow of £197 million. But note that momentum improved during the second half of the reporting period into the new year. On the positive side, I'm delighted to report a substantial turnaround in investment performance from last year - with one- and three-year outperformance benchmarks exceeding 80%.

Kim will cover the financial results in more detail, but I will highlight the 9% growth in adjusted operating profit and the proposed dividend of 12.6 pence per share for the full year.

In line with our stated intention, staff ownership has increased to 23% at year end. This differentiates us from many of our listed peers and establishes clear alignment between staff and shareholders while entrenching a long-term mindset.

Market conditions were extremely challenging at the outset of the reporting period but have improved as the year progressed. As narrow markets gave way to rotations and increased breadth, opportunities opened up for active managers to add value.

As an industry, we need to acknowledge the support that central bankers have provided to markets. The huge liquidity injections have led to pockets of speculative exuberance, while markets have remained largely rational and sensible.

Our revenues have clearly benefited from the substantially higher values of financial assets towards the end of the year. Fee pressure remains a feature of our business. Even when headline fees do not fall, clients are expecting more for the same fee. The good news is that asset owners are actively allocating in pursuit of their investment strategies, creating business opportunities for active managers.

Over the past five years we have grown assets under management at an annual compound rate of 12%. After three stellar flow years with torque ratios above 5%, the 2021 financial year delivered a marginal net outflow of £197 million.

The closing net flow picture was made up of net outflows in the first half and net inflows in the second half, albeit not large enough to counter the earlier net outflows. The underlying net outflow figure was actually closer to £40 million because we included the exit from Africa Private Equity in the outflow numbers.

The strong market recovery, and currency movement at the end of the reporting period, supported assets under management, which increased by 27% over the year.

The diversified nature of our business is reflected in the flow picture, which remained mixed over the year. Generally, our gross sales were in line with the previous year, but gross redemptions were higher than usual. We cannot point to an overarching structural reason, besides point-to-point performance and specific client risk appetite, why this would become a persistent challenge. Looking forward, our pipeline of opportunities across our business is promising.

Fixed income generated growing net inflows from the previous year at £3.6 billion, while equities and multi-asset, specifically our diversified growth strategies, suffered outflows.

The equities net picture masks strong inflows in certain global and sustainability strategies, which were however countered by net outflows from other global and specifically Asian equity strategies.

Our three equity capabilities are in good health and performing to specification. Our fixed income team is on the front foot, our multi-asset platform has been strengthened significantly and is delivering good investment performance, whilst our focus around alternative credit has been clarified and we are investing to grow this area.

Our regional Client Groups are well resourced with Africa, South Africa in particular, delivering a stellar net flow performance. This is due to a combination of strong leadership on the ground, client focus and excellent investment performance.

In spite of us not yet having executed our China plans, the Asia Pac Client Group has delivered positive net inflows in a year in which we started off on the back foot as far as performance was concerned.

The UK results were disappointing. We are taking action on this front, including the recent injection of new and enthusiastic leadership. We have big ambitions for the UK and believe we can up the game substantially in this market.

The net outflows from the Americas were client- and strategy-specific, including some Latin American clients, which we mentioned at interim.

Having achieved positive flows in this Client Group in the second half, we are confident that the opportunities in this market remain large and attractive. The momentum in the North American institutional market is particularly encouraging.

We see Europe as a set of niche opportunities and look forward to positive flows over time. We are pleased to report continued net inflows from our advisor channel and are working hard at reversing the flow position in our institutional channel, which is due to the reasons mentioned above and the continued de-risking in markets such as the UK.

This has been a period of excellent investment performance relative to our benchmarks, which supports the case for active management in general.

As you can see, there has been a substantial turnaround in our firm-wide investment performance from last year with one-year and three-year outperformance exceeding 80% versus 39% and 55% respectively at the end of the previous financial year.

We are delighted that we delivered to this extent on the outcomes required by our clients. I want to credit our investment teams on their composure and effort in challenging and fast-moving markets. These numbers provide us with a strong

platform from which to engage the market with confidence.

We show you a mutual fund peer-relative performance as a matter of record. Over the long run, the peer-relative cost performance matters, but in the short term it is less important as an indicator of future net flows or actual performance of the house. Our quartile position in the mutual funds looks worse than the performance generated given the style categories in which we compete in this space.

One of our strongest equity platforms, Quality, has performed well against its investment objectives but over the past year, as in relative terms, delivered muted performance against value- or momentum-style strategies. As a result, Quality funds are currently in the lower quartiles of peer-relative performance and have a large part to play in these numbers.

We do not see this as a cause for concern and consider a longer-term period of performance as more meaningful.

Our strategy remains unchanged from when we last reported. Our focus is on execution. We believe that our offering will be relevant to our client base over the long term. We continue to invest to support long-term growth and competitiveness.

Our owner culture, talent- friendly and people-centric approach are fundamental to our value proposition, and we continue to pursue a simple, capital-light model. I will now cover each of these points in more detail.

We are a recognized and effective competitor in three deep pools of long-term investor demand: Global active equities, emerging markets active equities and emerging markets fixed income. We have a strong set of competitive, well-established strategies, diversified by style to meet client demand.

In our domestic markets, South Africa and the UK, we offer a broader range of strategies, tailored to the needs of domestic investors. Looking ahead, we are expanding our thematic investment platform to cater for growing client demand, and we are continuing to offer competitive income solutions built around credit and income investing skills.

The low interest rate world will be with us for many years to come. One of the highlights of the past year was the growth of our thematic offerings, our Global Environment strategy, which has become our fastest ever strategy to exceed £1 billion, since launch, grew significantly. We continue to see meaningful growth opportunities around our business.

We consistently invest in our business directly to the cost line. Most of our investment goes to the core but we are currently expanding our thematic investment capabilities, leading with sustainability and building our alternative credit platform to support our ability to offer income solutions. We are well-resourced on the client-facing side but continue to expand in the Americas.

We remain committed to the China opportunity and will share detailed strategy with you in due course. We are already substantial investors in China with approximately \$20 billion deployed in that market and we are investing in our China-facing staff complement.

Our growth model is predicated on patient, organic development and quality execution. Let me share two examples with you, Australia and Germany, where both founding leadership teams are still leading the charge. They started with a single strategy and over time, actively diversified their offering. They are now seeing the benefit of their hard work and the breadth of our offering.

These two cases follow the same model which we have used in other regions and have both shown exciting growth based on deep partnerships with clients and excellent service delivery. The Australian business has shown an AUM annual compound growth rate of 25% over the last five years. And our German business delivered a corresponding assets under management annual compound growth rate of 57%. I look forward to sharing other examples with you in due course, but this hopefully gives you a sense of how we build businesses over time.

Our people form an essential part of our value proposition built around owner culture. Their commitment, motivation, competence, experience and diversity form the bedrock of our resilience in the past year. That is why we focus on talent density and the intergenerational nature of our business. Significant employee participation is fundamental to this model, and the increased employee ownership over the year speaks to long term commitment and alignment with our stakeholders.

Capital discipline is key in a business which emphasises employee participation. Growth often brings added complexity. We make a concerted effort to keep our business simple and clear as we grow. This also enhances the focus, employee experience and growth energy.

During the past year, we have exited from Africa Private Equity to focus on our alternatives on credit. We have also sold our South African fund administration platform, Silica, to FNZ, a strong partner with which they can continue to pursue growth in future. We wish them well and will remain a client of Silica. We are intent on keeping our business simple and focused.

We have committed to put sustainability at the core of our business. Society is increasingly concerned about sustainability, and that is spurring revolutionary change in the investment management industry. This will bring opportunities for those who have prepared and can engage on the subject. Credible impact and sustainable strategies are already in high demand. Firms with a rigorous appreciation for sustainability risks and issues will be in a strong position to generate better returns, serve the growing cohort of interested clients and engage companies in a thoughtful way.

The risk of this trend is that our industry follows the path of least resistance and simply excludes challenging investments, which overrates its contribution towards sustainability, commonly known as greenwashing. This could lead to a major backlash from society.

At Ninety One, we believe in sustainability with substance. In terms of carbon, this means we care about actual carbon reduction, not just a reduction in reported carbon. Our sustainability framework has three dimensions: Invest, Advocate and Inhabit. We have made good progress in the last year, including enhancing our risk processes to incorporate ESG factors, providing extensive training and education to our people, including commencing a formal programme with Imperial College in 2021.

Our efforts included the evaluation and incorporation of climate related risks into our investment processes, mapping our strategies to the EU sustainable finance regulations, becoming signatories on the Say On Climate Initiative and publishing our first TCFD report. But we have more to do. We will continue to work to understand climate risk and transition opportunities to the best of our abilities, argue for a realistic and inclusive transition to a world of net zero, be an active and energetic driver of our own internal transition.

The world's challenge is to curtail harmful climate change. This means it is also our challenge. We are committed to supporting investing that is aligned with a goal of net zero emissions by 2050 or sooner and we intend to become signatories of the Net Zero Asset Managers Initiative. At the same time, and in a way that is perfectly complementary with this initiative, we have also resolved to advocate for what we call a fair transition to net zero. This is because the world needs a transition that works for all of its people and places.

The carbon intensive economies, particularly in emerging markets, need time, encouragement and resources to adjust. An approach that reduces so-called portfolio carbon or reported carbon intensity by creating portfolios that exclude high emitting countries and companies won't bring about net zero. A partial net zero is no net zero at all.

What we are advocating is an approach that actively encourages the high emitters to create their own transition plans and commit to their implementation. We want them on the journey by being inclusive rather than exclusive. We believe there is a far greater probability of ensuring a permanent transition for all. Ninety One is well positioned to play a differentiated and constructive role in this debate, given our strong emerging market roots and experience in investing in these markets.

In summary, we are grateful to have reported record assets under management and profits after 30 years in business. Our simple capital-light, people-centric, organic model has proven itself again under very challenging circumstances. We have strategic clarity and we are focusing on execution. We have delivered strong investment performance. We are not happy with a net flow result, but we are encouraged by the improved momentum in recent months. Finally, we have made good progress in our commitment to sustainability, focusing on what really matters.

Now I will hand over to Kim, our Finance Director, to take you through the Financial Review section before concluding with brief comments on the outlook.

### **Kim McFarland, Finance Director**

Thank you, Hendrik, and good morning.

This brings us to the end of a very challenging first year as a listed company. I'm pleased to present strong financial results for Ninety One, which are as follows.

Adjusted operating revenue increased by 3% to £603.5 million. Adjusted operating expenses were largely flat year on year at £397.3 million. This results in adjusted operating profit of £206.2 million, an increase of 9%. The adjusted operating profit margin increased from 32.3% to 34.2%. I'll go into more detail on these figures over the next few slides.

Taking into account adjusted net interest income and Silica profit, Ninety One profit before tax and exceptional items increased by 7% to £210.1 million. As per the prior results presentations, I have reported adjusted operating profit by removing the impact of Silica third party revenue and expenses, as well as the contra-impact to the revaluation of the deferred Employee Benefits scheme. This is the last time we will be reporting Silica results, as we have completed on the sale of the business to FNZ in April 2021. This disposal resulted in a one-off after-tax profit of £11.1 million, which is not considered to be material.

To note, we have recognised the interest expense on our lease liabilities for office premises of £3.7 million for FY 2021 under IFRS 16 in adjusted operating expenses.

Continuing from there, exceptional items of £6 million largely relate to the completion of the rebranding of our firm as Ninety One. In the prior year, exceptional items related to the demerger expenses from Investec, listing on the stock exchanges and the rebranding to Ninety One. There was also the credit impact of the writing back of personnel expenses as a result of the implementation of the Ninety One Share Scheme. All costs relating to the various employee related schemes are now expense in adjusted operating expenses. We do not expect there to be further rebranding related exceptional expenses in

the 2022 financial year.

The effect of tax rate increased to 24.3% from 21.4%. This was largely due to a higher proportion of profits being made in South Africa, where the headline rate is 28%, against the UK corporate tax rate of 19%. The above factors result in profit after tax decreasing by 1%, to £154.6 million.

This slide provides further details on the adjusted operating revenues. Management fees were marginally down by 1% to £561 million, predominantly driven by the decline in the average fee rate, which fell from 47.8 bps to 46.8 bps. The fee rate reduction reflects a change in AUM mix, with a higher weighting to lower fee rate portfolios. At the half year, this was 47.2 bps. This is a trend we are very aware of and manage a centralised process and discipline around pricing decisions.

The average age AUM was largely unchanged, up by 1% from the prior year at £119.9 billion. Closing AUM, as noted earlier, was £130.9 billion, which bodes well for the coming year. A material change from where we were at March 2020.

As noted on the prior slide and at the half year, there was a significant increase in performance fees to £45.4 million for the year. This was driven by a relative investment outperformance in a selection of strategies and in particular, asset equities. As previously stated, I caution on this being taken as guidance going forward.

The foreign exchange loss of £6.3 million was mainly due to the translation of US Dollar assets with the strengthening of the Pound Sterling in the year from 1.23 to 1.38 as at the end of March 2021. Other income of £3.4 million primarily arose from mark-to-market revaluations of seed capital and some receipt of R&D credits.

My next slide shows the main items impacting the adjusted operating expenses year on year. The increase in staff expenses of £12.5 million was largely offset by COVID related savings of £11.5 million, as well as a small reduction in accommodation and other general expenses. Sixty eight percent of our total costs for FY21 relate to personnel costs, and as in the past, over 50% of this is variable. Our headcount grew by only 1% by the end of the year to 1174, but we continue to invest in the quality and depth of our teams. So although we showed cost discipline in the year and we'll do so going forward, we have no intention of cutting costs to meet an operating margin target and will continue to invest for growth.

As reflected in the pie graph, non-staff expenses decreased by 10% from £139.3 million to £126.0 million, which was largely a result of pandemic imposed restrictions around travel and the reduction in promotional expenses, travel costs being negligible in the period and, to note, that the additional rebranding expenses have been categorised as exceptional, and not promotional, for the past two years. Ninety One also benefitted from the weaker Rand on SA-based administration costs.

Accommodation costs were relatively flat following the completion of the move to the new office building in London, bringing to an end the duplicate rental expenses, but offset by moves to a new and more expensive offices in New York and Hong Kong. The accommodation costs are normalised looking forward. Otherwise, as seen by these graphs, the non-staff costs were managed and in line with the prior years with no material movements anticipated looking ahead.

So to summarise here, this is a graphical representation of the absolute movements and our profit before tax from FY20 to FY21. Our profit before tax for FY20 was £196.3 million. Management fees decreased by £4.7 million. Performance fees increased by £23.9 million. Staff related expenses increased by £12.5 million, and this was offset by non-staff expenses decreasing by £13.3 million. Then adjusting for the increase of other items such as FX losses, Silica profit, adjusted net interest income of £6.2 million, the profit before tax before exceptional items was £210.1 million. Deducting the exceptional items of £6.0 million results in FY21 profit before tax of £204.1 million, as reflected in the earlier slide.

My final slide summarises the Ninety One balance sheet and capital position at the year end. Ninety One qualifying capital increased to £240 million. As you'll recall, we paid a completion dividend to Investec prior to the FY20 year end and therefore, the FY20 qualifying capital of £138.4 million is an understated comparator. In line with our dividend policy, the board has recommended a final dividend of 6.7p, taking the full year dividend to 12.6p per share. This is equivalent to 133 cents using the Rand to Pound Sterling average spot rate, as determined at 11:00am South Africa time yesterday.

After dividends, there'll be an estimated capital surplus of £73.9 million, which is a buffer of 70% of Ninety One estimated regulatory requirement. In line with these proposals and this growing capital buffer, we do remain committed to a capital-light model. And furthermore, at this time, there are no plans to increase the number of shares in issue nor to encumber the group balance sheet, the debt. Thank you. I'll pass you back to Hendrik.

**Hendrik du Toit**

Thank you Kim.

We are well positioned for long-term growth and are firmly focused on execution. We are grateful for and humbled by the success of the past 30 years, and we look to the future with confidence. We have a clear and simple business model, a strong owner culture with motivated, committed and experienced people, competitive track records, client-relevant offerings and a willingness to embrace change. We remain committed to organic growth. We are a risk-on business and therefore vulnerable to market conditions. We nevertheless have confidence for the future because Ninety One has successfully dealt

with volatility and change over the past three decades.

Coping with volatility and change is in our DNA. Ours is a world where 'This time it is different' is usually not true, yet one in which change is everywhere. That is the tightrope we have to walk as an investment manager. We have substantial opportunities ahead of us, and our pipeline is promising. We continue to invest, not just for our clients, but in ourselves and our business, always thinking of the long-term. We invest for a better tomorrow, but we also understand that we live in a world of change. We will shortly move on to questions and answers, so please keep submitting your questions via the button on the right-hand side of your screen. But just before that, please allow me to share a short video with you from our recent advertising campaign in South Africa, which sets out our approach to investing in a world of change.

## VIDEO PLAYS

Change is all around us. Sometimes change is big. Other times, change is small. But it's always there, changing, right before our eyes, and if you partner with someone who understands change, knows how to respond to it, keep pace with it, you can get ahead of it. Change changes. To opportunity. Partner with an investment manager who finds opportunity in change.

### Hendrik du Toit

I hope you enjoyed that. Thank you for your patience. We are now ready to take any questions.

## Questions & Answers

### Facilitator

Thank you. Our first set of questions are from Gurjit Kambo at J.P. Morgan. I'm going to ask these in two sets. The first two questions are: In terms of the fee rate decline, can you break down how this was split between the mix effect, for instance, lower equity versus the underlying pressure, and any outlook for fees? And then the second question is: Can you give any details on where the pipeline of flows is coming from?

### Hendrik du Toit

Thank you, Gurjit. Thank you for your questions. You always ask more than one question. So let me start with where flows are coming from. What's very interesting is whereas the market was quite one dimensional in the first half of the year – huge interest in, kind of, technology and things that were interesting – the broadening of the market and what I would call the renewed clarity of strategy among asset owners has actually allowed a pretty wide, and facilitated a pretty wide, set of requests of interest into our strategies. So right now, it's not clear. I cannot give you one geography where there's more action than others, and I cannot give you – you know, of course there are a few of our key strategies which are attracting more attention, but it's not one dimensional.

The area which is interesting, which has performed really well in the beginning of the financial year when markets were weak, our quality equities, which has then subsequently lagged the beta of, say, value and more momentum-driven equities, is sitting in a very sweet spot in terms of buyer interest because they're simply looking ahead and not just looking at past performance and because it did what it said on the tin. On the other hand, on the income side, where we've done very, very well, particularly in, call it, multi-asset income and the kind of income solutions for the advisor market, the appetite waned a bit as people shifted, or as investors shifted, towards beta, searching beta, searching aggressive investments. We think that will normalise going forward.

And then, of course, one area where there was significant interest building up, and still is but slightly muted by the inflation fears that is sort of in the economic debate at the moment, is emerging market fixed income because it still pays a significant yield. It did very well in dollar terms, whether blended or local currency. However, we've seen pipeline build there, so it's a broad pipeline, supporting our fairly diversified risk-on offering. And interesting, where we did really well – I mean, it's sort of, I guess, that's life in markets where we did really well in terms of actual performance. On the value side, there's limited interest because of the high drawdown that you saw earlier in the year and also very established incumbent. So we don't expect to win huge money there, even though our clients have done more than 100% over the last year.

So that gives you a sort of feel of where it is. And then regionally, as I say, we haven't seen the turnaround in the UK yet that we're talking about. We obviously want to see that. We have seen a slowdown in, sort of, outflow or pressure or redemptions, but we haven't seen the turnaround. South Africa remains very strong. North America is picking up momentum, and Asia Pac is interesting, and as I said, Europe's a niche opportunity. So, Gurjit, a long answer, giving you a tour of our business, essentially better than a year ago, engaging with clients, we still look forward to more physical engagement, but quite well diversified.

Then on the fee, or on the fee pressure, I think Kim can – if she wants to add – can speak. But I would just tell you that my sense is, and it's not perfectly measured, it's roughly equal because we have had some fee renegotiations and pressure from

clients or new clients coming in, but essentially the risk side has held well. And because there was an inflow towards the lower fee areas that had some pressure, I would describe it to roughly half-half, but I don't have the exact number for you.

**Kim McFarland**

I think that's probably correct. It is a waiting to lower fee rate portfolios, as I mentioned, but that's not to say there is continual fee pressure, and I think that's being seen across the industry, as well. And then that's sort of reflected in the inflows that we've had. From the mixed point of view, the inflows that we've had on the fixed income side, which do weight in at the lower fees comparable to equities.

**Hendrik du Toit**

I just want to add something. We have walked away from one very substantial mandate, a few, but one very substantial one. We could have made the year look a lot better. We will walk away from fees when they aren't reasonable, and we are not intending to build a 15- or 20-basis-point business here. We are building an active business, which produces alpha of the kind we've produced if you look at our performance chart, and we think it's fair to charge for that.

**Facilitator**

So the next set of questions from Gurjit are: The future growth in thematic and income solutions, have we already made progress in those areas, and would you consider M&A to accelerate growth? And the second question is: Do you expect the share of staff ownership to increase, and is there a limit on this?

**Hendrik du Toit**

As usual, I'll answer the second of Gurjit's questions first. Yes, we intend to increase. As we earn more money and have more money to invest, we will. The limit is obvious. We can't afford to buy the whole business. So when we get to 29%, we'll have to make a bid for the whole business. I don't think we as staff can do that, definitely not alone, so that should give you an indication – slow build-up of staff equity, but related, strongly related, to the strength of the business because we buy our shares; we don't get our shares. This is what staff have acquired with what they've earned at the firm or their own money.

So that's the answer on that. But I think we would like to be the largest and the anchor-shareholder of our business over time. I think that's quite clear. Just remind me of Gurjit's first question.

**Facilitator**

Second question is: Thematic and income solutions, what is our progress on that, and would we consider M&A?

**Hendrik du Toit**

Got it. We looked around when we invested in our current. We've added some alternative credit people, very, very good people, over the last year and started building that team, which we're really growing from scratch. We've got some very good credit propositions already, but we added more, particularly in the illiquid side. We looked around at boutiques. The boutiques were all very highly priced. Lots of people want to buy them, and at the risk of people exiting rather than joining us is always big when you talk. So we have gone the long-term way. We prefer to build organically along with what we do. Obviously, we won't preclude the option of engaging in any area where we grow with small boutique-like firms which fit our culture, want to be with us, and made in the same way we've sold Silica, we don't preclude acquiring something, but we are not partial to that. The hurdle is very high, and it'll have to be very good because culture fit is what drives our business building. And I'm very excited about the people we brought in, and hopefully, over the next sort of two to five years, you'll see good results in that area.

Broad income solutions, particularly in the mutual fund market, I mean, we already have a good suite. We just saw interest waning, particularly from private banks, as they were focussed completely on the beta opportunities and correctly so. We think they're going to come back, but if you are able to understand and engage in the credit markets across the spectrum, from deeply illiquid to, ultimately, bonds, you have a far better understanding of managing your risk and building portfolios that may be more liquid in nature, but may have a blend between liquid and illiquid. But you have to do the illiquid, and the point we were signalling now, or last year already, is that we've decided to build that illiquid capability in-house to understand the markets properly for what we think will be a very good long-term play over the next decade, and many of our peers are doing it. They may be doing it differently by buying boutiques, but they're doing the same.

**Facilitator**

Thank you. The next set of questions are from David McCann at Numis. The first question is around the tax rate. Could you provide an update on the anticipated tax rate going forward, and given it came in higher than previous expectations and the assumption here that it was mainly driven by the SA performance fees? The second question is: In the medium- to long-term, how could we get the business back to a 5% torque ratio on a sustainable basis? What would need to happen to achieve that?

## **Kim McFarland**

I can answer the first one. I mean, yeah, that's fine. I mean, the effective tax rate did increase quite a bit from the 21.4% to the 24.3%, as I mentioned when you've got a headline SA tax rate of 28%, and I noted that a large portion of the performance fees we earned with South Africa, so there was a greater weighting into the South African earnings. You know, looking ahead, the effective tax rate is not going to come back down to the 21.4%. I think it'll come, you know, really dependent on the performance fees that we're going to earn in South Africa and the weighting there.

I suspect it'll come down somewhat from the 24.3%, but not materially. We've also got to look ahead at, not next year, but obviously looking ahead at increases in corporate tax rates, specifically in the UK, and how that will start to drive the numbers up as well.

## **Hendrik du Toit**

David, thank you very much. Kim and I think, the other point we should just make clear, the tax, any tax man near you, is going to visit soon. Tax rates are probably good drifting up worldwide. We should be prepared. Ninety One doesn't do any aggressive tax planning. We pay what we have to pay. So, you know, we'll see how that develops over time. But we don't see lower tax rates. We actually see in general higher tax rates across most of the world.

Coming to your question about a five percent torque ratio. Well, David, we've just done the long term numbers of our industry and most of our peers and, a 5% torque rate is really good. Let's put it that way. You're pretty good if you are 2.5 – 3% per annum. But a firm of our size, which is not that big, can quite easily get back to the 5%, if we get into a sweet spot, or the beta's with us and the alpha's with us at the same time, and we reach the client demand. So I don't... I wouldn't, you know, project that or promise that, but it could easily be achieved within our current business. Last year we had a few backdoor bad lucks, I would call them.

I mean, the fact that we lost some of our Value mandates at the bottom of the market and then performed brilliantly, because we unfortunately had a retirement at the same stage, that added the fact that the both Australia and Chile opened their pension systems for liquidity requirements from clients in the middle of Covid, that led to a back door, which we didn't anticipate. And then there's always something where you point-to-point performance isn't OK. From this platform onwards, if our performance is whole, I see a big opportunity for us to, you know, we fish in large pools, to maintain a positive torque ratio. How high, I don't know. And I think if you go and look at some of our peers, you just look at... if your area of expertise works, that's when asset managers get a +5% torque. Look at the recent Pictet results and look at the Baillie Gifford sweet spot at the moment. That's when you do the big harvesting. I can't predict anything. I don't see anything like that in the near term for us. It might come, it might not come. But we are very excited about the eventual North American diversification into international assets. That could be a very significant position.

And then if we eventually get our act together in China and Asia, you know, the intra-Asian flows are pretty important. I think there's another opportunity. And then in our case, if we get our UK business where we should, we shouldn't be in number twenty five. We should be much higher up the list in the UK. Then there's an opportunity. So it's a diversified, hard effort back to maybe above 2/3% torque ratio that one is working for.

And if you're lucky and if you're good at the same time, you can take it up. But if you look at the last 10 years, we had two years of negative flows. And the others' reasonably positive. And we didn't struggle to achieve the 5% when we were firing on all cylinders. So I think it's doable, but it's not promise. We don't have the kind of big technology funding small firm effect or bigs. I mean, if we just got our sustainability offerings, if we were ready a year and a half earlier with that, it could have been very large. I think over time it's going to grow larger. But, you know, we must be realistic about life and not just aspirational when we put these targets on.

## **Facilitator**

Thank you. The next question is from Hubert Lam at BAML. With respect to the dividend, should we expect to maintain the same payout ratio, or would we think of a more progressive dividend?

## **Hendrik du Toit**

You just got one, now you want more, Hubert. Kim, answer it. You are never satisfied.

## **Kim McFarland**

Not a progressive dividend. Definitely we'll stick with our dividend policy. I think the view is to expect the same sort of payout ratio. As I mentioned, we've been building up our capital buffer, it's not yet at the level we'd like it to be. You recall we had a very low capital buffer as we exited from Investec. We had to pay everything, we had to pay fully all our capital, surplus capital, up to Investec as our dividend. So we are building it up and hence the consistency in the current payout ratio.

## **Facilitator**

Thank you. The next set of questions are from Rahim Karim at Investec. First one, with respect to the changes in the UK team,

can you be a bit more specific about the broad objectives? And I'll ask the second one next.

**Hendrik du Toit**

Yes, Nigel Smith, who headed up our Global Marketing, moved into the managing director role in the UK, we needed some sort of young, fresh legs there on the pitch. And we also needed to set the statement of ambition. I mean, Rahim before you started analysing this business, it was quite clear from our side, you know, 10 years ago or so, that the UK was an important market, but not a priority. Why? Because it was so competitive in the UK and they were easier pickings around the world. And we were deliberately building this mid-sized firm with global client reach. That is still what makes us different from most of our competitors and peers.

We then said we'll come back and fight for our UK piece when we're ready. Now, what we didn't expect is a year of quite substantial outflows that we had last year, but we expected to come from a position of strong track records, which we do have, a position of appropriate product and strategies we offer that market, and a position of being known. Now, our people are well-known around the UK. We've got experienced client facing people, we've got experienced portfolio managers in the UK, and we have now widened our UK or the strategies set we sell that market. 10 years ago, we were a value shop built around Alastair Mundy and that was it then. And that was fine, because we weren't really driving into that market with the intent that we have now.

We've now made a statement of intent. You can hold us to account. I don't promise much this year, you know, this is a year of building and stepping up, because moving from, you know, that 20, 25 position to close to the top ten is a big jump. And that will take a number of years. But we've stated the intention, we've stated internally to all our staff. We actually had a call with all our staff a week or so ago, where we've made it very clear that it is a key objective for the business. So my suggestion, Hubert, let's wait and see. The UK is a tough old market, but I think we've earned our time in that market and we have what it takes to do better.

**Facilitator**

Thank you. Rahim's second question. Was around...

**Hendrik du Toit**

I'm sorry, I called him Hubert.

**Facilitator**

Was around fee rate and discipline, which you partially discussed? But if you want to add anything more, his specific question was, have you seen any impact of that fee discipline, especially in the institutional segment?

**Hendrik du Toit**

I think Kim can talk about the process. She's one of the tough voices on our pricing forum. Rahim sorry, I didn't mean to call you Hubert. I was, Hubert was the previous question.

Fee discipline's key at Ninety One. We are not a firm that, you know, some of the smaller boutiques can get away with saying outrageous fee and we just not going to cut and our friends are our clients, and that's it.

We're too large a firm not to be subject to market impact on fees, but we are the disciplined one and we are not the fee cutter in the room. And we are very willing to walk away from mandates which make no sense. And for us, if we put our scarce alpha generating resources on something, we need to make sure it's something worthwhile and that we are all motivated to generate the outcome for the client that the client is going to pay for. And that's why fee is an important discussion for us. But it's not just fee level versus size of mandate. It's also persistency.

You get some very high quality clients who stay with you for the long term, will stay with you through performance downturns because they understand you. Those clients deserve a lower fee, than those who rent your capacity and buy you for the season. So we think carefully about the client before we price. We don't just make a simple price. And actually the number that Kim reports, is a kind of outcome of that process. But Kim can talk a little about our fee, our pricing process and how it works.

**Kim McFarland**

Well, I think the key point to make is that it is centralised, it involves all the key heads of the Client Groups and our two CIOs in making the decision. So it's neither the Client Group driving the decision on a regional basis. It's centralised. And neither is that the investment teams making the decision either.

So it's a healthy debate that happens every Friday around pricing decisions. And as Hendrik said, it's not, you know, you don't just look at the figure and the fee, you look at the holistic as well. And that's the value you get about having all the Client Groups at the table discussing it. And unfortunately, it often involves the Australian guys very late on a Friday night from their side and the guys in the New York office very early in the morning coming together because it's midday.

But you then get the collective input and what they're seeing and obviously the cross relationships that we actually have with clients as well coming to the table. So it is a long, detailed debate on every single decision we have.

### **Facilitator**

Thank you. The next question is from Keamo Konopi at SBG Securities. The questions are around flows, so generally about flow momentum, how they differed by region and asset class, and also our intention to stem outflows in the Asian equity space.

### **Hendrik du Toit**

Keamo, I think to an extent, what you can do about flows is you normally only have long-term responses to flow pressures, because it's either performance you have to get right, or it is repositioning your offering, or your client teams have to find a new market or new buyers who are interested in that particular one. So that's the first thing. We don't have a sort of a short term panic reaction to that. We observe it and then we reposition.

A lot of that has to do with positioning. But as you've seen, our Asia Pac team, actually Asia Pac region, it's actually positive and, you know, on the back of stronger oil prices and that, because it includes the Middle East, we can also, you know, be more comfortable about the position. But coming back to our Asia strategy. We have two important Asia strategies, one fast growing one that had some performance pressure, but has recovered substantially now and is much stronger. So, you know, when you have that massive, if you look at that massive drawdown we had in, and then, of course, the reason that Asia, because reason for Asia outflows was the Latin Americans who reallocated and opened their system. So it wasn't actually a strategy-specific reason. But if you want the best strategy in class and they had to pay out and you had two other funds doing better, they would rather keep them and redeem us. If you look at our performances now, it's been strong recovery, you know, and... but that period between when you had that sharp two week drawdown late March, you then get into the second quarter before summer, when many institutions make decisions; you are not in a position on short term numbers that are vulnerable to win mandates. You are often the one on the chopping block when they reallocate or look at new things. And of course, we had a period where we were virtual. We couldn't reach clients and people close by had better access. I think that sort of washed out now, we're back to normal.

I would see that as a problem of the past. And we have a very, very exciting new Asia Quality strategy that's coming off and gaining net flows as we speak. So but I think we look at these in the long-term context rather than in how do we react to the next quarter. We just can't. We create the conditions for two, three years from now actually to win rather than anything in this year. What we're doing this year is probably not going to change the output, the outcome that's already baked into our business.

### **Facilitator**

Thank you. The next couple of questions are from Piers Morgan at, sorry, Piers Brown at HSBC, sorry. Is the 30% still the right level to think about for future operating margin? And then, you mentioned we've exited Africa private equity, is that simply because our focus is on private credit rather than PE.

### **Hendrik du Toit**

Piers, I'm glad you're not Piers Morgan, because that would have been a much tougher question. I think going to the private equity side, I think, Kim, if you take the other question, we've been trying Africa private equity now for, you know, well over a decade. We almost got it right. But in the end, the African markets post financial crisis and with a commodity drawdown, really suffered. And the investments were subscale. The size that you could get. It was just too much work for what we thought we could build.

We actually had quite a good team. We like them. There was no problem with it. But it was taking a massive amount of management bandwidth and it wasn't commensurate with the economic impact or benefit to our firm. We found a number of ... We looked outside and found a firm who we could entrust with that, without being, you know, without dropping our clients or our LPs, who of many of them are invested in our credit funds with us. And we thought Ethos Private Equity fit that bill. Our people have gone across, they're executing, harvesting the funds and actually doing quite well there.

But it's just something which was defocusing us and that's why we exited. I really enjoyed, for example, that business. But it's just very unscalable, very small, very competitive for assets. And there are better things we can do with our clients' money and the available bandwidth and capacity we have. So that's the reason why we exited. No, nothing sinister. Kim?

### **Kim McFarland**

I'll pick up on the operating margin. I mean, we are not a slave to a particular operating margin, so it's sort of key, couple of key factors on this. Secondly, as I mentioned, 68% of our cost base is in personnel and over 50% of that is variable. So I've always said we have quite a lot of flex as far as that number is concerned. I also mentioned our higher operating margin is driven by the higher than expected performance fees and some COVID related savings. Some of this will go through to this year.

30%, we would aim for something slightly higher than that. But at the same time, we are not going to hold ourselves to a number, because we will invest for growth. So, I would say 30% was probably on the low side. But on the flip side, you know, that doesn't mean we're going to sort of hold back the business anyway just to meet an operating target. Operating margin, I mean.

#### **Facilitator**

Thank you. The next question is from Siphelele Mdudu at Excelsia Capital. I think this has been largely covered, but it's around flows and the improving momentum towards the end of the year, is there anything else you can add or you'd like to add on that?

#### **Hendrik du Toit**

I just want to say, maybe one point to Siphelele. Even for us, you're either in a very bad position as an asset manager with terrible performance and you're on the back foot, your market is shrinking. I mean, one of the big issues is that the market where we grow in South Africa, fantastic, you know. Luckily, we're big in the mutual fund business. If you were just in the institutional business where the asset pools are actually under pressure because of job destruction, you can do nothing about it.

And our peer group... Coronation has also at their results has spoken about it. It's well publicised that it's not a growing market until the economy works. Those things put structural pressure. Ninety One, because of our wide global reach has no structural pressure. Neither do we have one single product, which is a must buy and therefore will just, you know, drive the firm.

That could happen from time to time. It has happened in the past and that's a very nice place to be until the flows stop. What we are seeing is something more than scrapping our small flow. We're seeing good enough performance to win reasonably well across a wide front and therefore generate a reasonably decent torque ratio relative to the industry.

What we're not going to do is take this position and then go and engage in disruptive M&A that puts us on the sell lists of everyone and puts us in a net outflow position. You know, that's not what we're going to do. So at the moment, what we can control is we keep our people happy, we keep performing. We think there's reasonable demand in the various markets, but there's no specific market and there's no structural problem anywhere that we know of. If we know of that, we'll tell you.

#### **Facilitator**

Thank you. The next question is from Jacques Haasbroek, from Centaur Asset Management. This is just a clarification around the £6 million exceptional costs, related to rebranding, is that expected to recur going forward?

#### **Kim McFarland**

No, I think I picked up... I mentioned earlier that, you know, the rebranding has been done, we've had two years of quite substantial rebranding exceptional costs. We don't anticipate, we're not budgeting for any such costs going forward. There'll be no exceptional and nothing material in our operating expenses.

#### **Facilitator**

Thank you. The next question is from David Wahi at KBC. His question on private assets has been discussed, but there is also just a question around plans to support net zero commitments. And do you see that asset class, in respect to private assets, supporting that commitment?

#### **Hendrik du Toit**

Firstly, thank you for a question, that's an important one. The net zero commitment is a 2050 commitment and the reason why we didn't sign... first round, when everyone, when the founders came with it, because it looked... It's easy to sign commitments. When Ninety One sign something, we intend to deliver on it. And we weren't quite clear how our industry would be, could be net zero, given the fact that our scope three is all dependent really on the mandates we win from our clients.

And therefore, we're just a derivative of what the asset owners and our clients do. However, talking to some of our peers in the industry and some of the people who led on this agenda, this is a general statement of intention that is quite well qualified. But we all agreed we had to do it to move the world. That's why we want to be there. So net zero is net zero in 2050. It's not net zero next year.

Ninety One has a particular position, and I spoke about it in my formal presentation, has a particular position that we are not going to just green our portfolios by excluding because we think the impact of that on particularly the high-emitting companies, which are the... which is where we find the easiest wins or easiest win on carbon reduction.

I mean, much better than... Building a wind farm costs a lot of carbon and leaving a coal, cleaning a coal or an energy plant or improving the efficiency of delivery or having a plan, it's going to do well. So for us, it's important to be inclusive with emerging markets and emitters and make sure that we take the entire world. Because what we don't want is a green developed market where they've just simply exported their carbon production to the developing world and all virtue signalling

to themselves. And we are very worried about the virtue signalling that's going on in our industry. And the fact that everyone rates everything now as a sustainable offering, which is just simply not true. And then we're going to get blamed for green-washing. And then society is going to come after us and regulators are going to come after us.

So what we are arguing for is an honest engagement. And so coming back to your question of private markets, of course, we will not finance projects which create new carbon capacity, but we will own shares and bonds in companies which are currently emitters, have clear... have transition plans and may or may not develop new lower-cost areas and in the same time close other high-cost areas and over time reduce their carbon or have a clear transition.

One of the transitions you could have is simply saying I am not going to change, so I'm not going to become a green company. I'm today an emitter and I'm going to run this business for cash flow and I would give the cash to the investors and eventually close by 2050 and be zero or as Exxon is doing, invest in carbon capture technology. So each of these are highly nuanced.

Our portfolio managers are expected to understand that, price the risk and make a decision. But what we won't do is engage with people or support people who don't even think about it, deny it and just go on the old way, because that is wrong. And that is going to create trouble for all of us. And we're all in this together. And that's why the Net Zero initiative is a very important effort by both asset owners and asset managers to put a stake in the ground.

### **Facilitator**

Thank you. The next question is from Nick Krige at Signal Asset Management. This question is about our dual listed structure and that it's potentially confusing and whether we plan to retain that structure.

### **Hendrik du Toit**

Nick, we are where we are. I mean, no one in their right mind would dream up a dual listed structure and say this is what they want. This is the ideal structure for good pricing and for ease, just your accountants... and Kim is smiling. She will... it is much easier reporting single structure than dual. But we are where we are. We have a shareholder base. And at this point in time it is not and there's no change afoot. You know, things might change in future. I don't have anything to add to that, Kim, would you like to add something? Except to say your life is more difficult without it?

### **Kim McFarland**

It is from a... to a degree from a regulatory reporting point of view. But I think the point to stress is it doesn't change the underlying fundamental business. It doesn't change the way we operate. It just makes it a bit more complicated because you have the two balance sheets, but then we're capital light, so that becomes less of an issue for us. So, yes, it complicates some of the reporting requirements and you're dealing with two stock exchanges. And obviously from the audit point of view, in two different sets of rules as far as that's concerned. So fundamentally internally, I think for 99% of the business, it doesn't actually make a difference.

### **Hendrik du Toit**

Actually, that's a very good point. If you asked our people, our thousand people, it's the four of us on this call plus the finance team plus the legal team, which will... care, which will care about the fact that it's dual listed. We do all the work on that. Our clients won't know the difference and our operators won't know the difference because we are not structured along country lines as a business. Very, very good point you made there, Kim.

### **Facilitator**

Thank you. We've got a follow-up question from David McCann at Numis. This is in response to the answers given about torque questions before, he asks if a two to three percent torque ratio is a reasonable assumption and if coupled with one basis point fee compression, that equates to about a two percent revenue reduction, does this not imply that essentially earnings growth in the future will primarily be driven by market moves and operational gearing only?

### **Hendrik du Toit**

I think, David, we don't intend to... and now you're getting me into predictions, but if we only do enough to live off the beta, we need to go and look at our structure. We think we have to do a little more. And we've done work, if you look at the last 10 years, half our growth came from flows, half came from beta. I don't have the 20-year number at hand, but the 10-year number is half/half.

And if you can keep it there and then find new things, we're at a size where we could strike a new vein of growth that then fundamentally changes that equation. And that's what we try to do as management. But our basic operating model is one which at least has to wash its face with a slightly positive flow and beta, because we shouldn't be going back. But our fee pressure, one percent, is also not into perpetuity because we think most of the fee pressure, you know, once passive is priced cheaply enough, it's not cheap enough yet. Once passive is cheap enough, the budgets for active allocators to pay fees will actually be larger.

And you'll see there's quite a lot of fee pressure now on private markets. Once that fee pressure comes in, again, the budget increases of the asset owner to pay for Alpha, which is actually very valuable over time and necessary because they have to outperform certain targets. So I think that fee pressure will at some point, I can't say, I can't tell you when, will... the rate of that pressure will reduce. And so, if I tweak your model slightly, I'm a little more comfortable. But you are asking a hard question that our Board asks us every quarter and that we ask ourselves.

Actually, we spent most of December when we were hopeful to have an offsite together as a leadership team and then eventually half of them were in one part of the world. We had a beer together, two groups and three groups, actually, but we couldn't all be in the same place due to COVID restrictions.

But what we did do then, we convinced ourselves that in the pools, if we execute well enough, there's enough growth to not have to answer that question of yours on an ongoing basis. But we may face that, so keep asking that. You'll keep us honest.

#### **Facilitator**

Thank you. And the final question is from David Liddell from IpsosFacto Investor, who asks, Should we be considered as an emerging market player with a bit of global or as a real global player?

#### **Hendrik du Toit**

Is that the David who was our finance director? Long time ago at Guinness Flight. Just ask David if it's him. David, if it's you, it's very nice to hear your voice, okay. Varuni hasn't got contact with you, but if it's yours, very nice to hear from you. I think what we want to define ourselves as a firm that first and foremost is and we've worked very hard, and that explains why we didn't go so big for example, the UK as a second domestic market, we didn't want to be defined by two or one or two domestic markets. We wanted to be a global investor, moving capital across borders with a particular strength in emerging markets, which then differentiates us from many of the other long-standing, successful global investors.

And, I, quite frankly, believe in 10, 20 years' time, the concept of emerging markets would be rather passé. People already talking about EM ex China and seeing China now as a new separate pool, a bit like the US. I think we're going to see that, Asia is probably going to create its own dynamic and it's going to most likely be a far more exciting place to invest than, in example, Europe or some of the developed markets.

So it's a dynamic thing. But what we want to be is an inclusive global investor with an understanding of rapidly transforming markets, which currently are called emerging markets. And I do believe there is a big opportunity for a rebalancing of portfolios after the US has done so well relative to the world. You know, how much higher multiple can you pay for Tesla?

So at some point that capital is going to be reallocated to the place where 8 billion of the 10 billion people live and that's what they call the emerging market. So we're very, very happy to be seen and to be linked to that part of the world. So the long answer to say - global with a very strong emerging flavour.

#### **Facilitator**

Thank you, Hendrik and Kim, this concludes today's results and Q&A session. Thank you, everybody, for joining us. Goodbye.