



Full-year results 2022 presentation transcript

Wednesday 18th May 2022

Hendrik du Toit, Founder and Chief Executive Officer

Good morning, ladies and gentlemen. Welcome to the presentation of Ninety One's full-year results for the 2022 financial year. Thank you very much to our clients, shareholders, regulators, and the people of Ninety One for the support and the hard work that contributed to these results.

I will start the presentation with a business overview, including the summary results. Then Kim McFarland, the finance director, will present the financial review. I will then conclude with a brief outlook for the business before taking questions. You can also submit your questions during the presentation, via the link on the right-hand side of your screen.

This is a reminder of what Ninety One stands for. Our purpose guides our actions and reflects what really matters to us. At Ninety One, we are investing for a better tomorrow by building a better firm, investing better and contributing to a better world.

Ninety One has been built organically and sustainably over more than three decades. Ours is a resilient and well-diversified business with an excellent long-term track record. In 2020, we became an independently listed business. The period since then has been eventful to say the least. The cocktail of COVID, quantitative easing, Crypto, China-US tensions, the war in the Ukraine and the re-emergence of inflation affected the entire world, including our business. Competitive pressures in our industry remained relentless throughout. At Ninety One, we never stopped concentrating on what we do best – serving our clients and continuing to deliver results for our stakeholders, while at the same time contributing to a better world.

We reported record earnings and assets under management, despite worsening market conditions towards the latter part of the reporting period and maintained positive business momentum throughout. We achieved net inflows across all asset classes, regions, and channels. This demonstrates the strength of our simple, yet diversified business model. Despite the challenging fourth quarter, our investment performance remains competitive. We have made meaningful progress on the sustainability front, in line with our stated strategy.

Finally, the staff shareholding of Ninety One increased further, which reflects our long-term commitment to the business and alignment with our shareholders. Our culture remains in good health. We worked hard to connect with and energise our people, as we returned to the offices.

Total assets under management increased by 10% to £143.9 billion pounds. This reflects portfolio growth and net inflows of £5 billion. Average assets under management, the key revenue driver, increased 16%, reflecting the higher asset levels over the period. As far as investment performance is concerned, aggregate asset-weighted performance measures were excellent throughout the year and looked particularly good as we entered the final quarter of our financial year. However, with a market dislocation during the final quarter, a number of our largest strategies dropped below their benchmarks as at the end of March. Significant market volatility of the kind we've experienced recently, make short-term performance numbers highly dependent on the exact date used in these calculations. Our focus is performance over time and through that, delivering the outcomes that our clients require over the long-term.

Kim will cover the financial results in more detail, but I will highlight the 13% growth in adjusted

earnings per share, and the proposed dividend growth of 16% for the full year. In line with our stated intention, staff ownership increased to 25.4% at year end. For the first part of the past financial year, market conditions were supportive. We experienced positive client sentiment and an uptick in client activity from the previous reporting period. However, the Russian invasion in Ukraine in February shook global markets and investor confidence. In addition, the rising interest rates and inflationary concerns continued to influence investor behaviour. This happened against the background of already accelerating change in our industry. The sustainability imperative and evolving asset owner preferences driven by societal demands and technology are driving structural change in our industry. At Ninety One, we talk about “investing for a world of change”. It's not easy, but it can be rewarding, in spite of the inevitable ups and downs associated with change. We know that somewhere in the discomfort of change lies opportunity, we're a battle-hardened and resilient business with a good record of navigating change.

In addition to reporting record assets under management, I'm delighted to confirm that we have achieved net inflows in all asset classes, all regions, and both our client channels. Over the last five and 10 years, our assets under management grew at an annual compound rate of 9%. Since listing, assets under management grew at double that rate. We achieved net inflows in four of the past five years and eight of the last 10 years. At Ninety One, we don't change our approach because of short-term market events. We focus on the long-term to deliver good outcomes for our clients. This approach has served us well over many years. In the 2020 financial year, net inflows and positive markets contributed to a 10% increase in assets under management. Our assets under management remained well-diversified across asset class, region and client type.

Moving into a more detailed flow analysis, we are pleased to report net inflows across all asset classes. This is in contrast to the prior year when we saw equity outflows. In fixed income, we saw £2.4 billion of net inflows, largely in the emerging market strategies. Equity strategies saw £1.6 billion of net inflows, principally from global and thematic strategies. In multi-asset, we saw strong inflows in South Africa, while alternatives' inflows were driven by the growing interest in specialist credit. We also continued to perform well in our South African platform business.

I'm pleased to report that all regions also delivered positive net inflows in the financial year. The Africa Client Group continued to perform very well with inflows of £1.8 billion. This was driven by multi-asset and global equity strategies as well as inflows from our South African fund platform. Over the calendar year 2021, we were the number one in net inflows in the South African market.

The Americas Client Group was a close second, with £1.6 billion of net inflows, in contrast with outflows of £0.7 billion in the prior year. The inflows were largely driven by institutional clients into fixed income, local currency and global equity strategies. Our European Client Group generated solid net inflows, principally driven by fixed income. A large part of this was driven by our German clients.

The Asia Pacific Client Group generated net inflows from Australia, institutional clients, largely into global and emerging market equity strategies, as well as fixed income. The UK Client Group achieved net inflows driven by global, including thematic equities. In spite of the structural headwinds in UK equities, we continue to see good growth potential in this region. You would also have seen a range of new appointments announced in this client group to further enhance our competitiveness in the UK market.

Finally, I'm pleased to report net inflows from both institutional and advisor channels across the world. The advisor channel saw healthy net inflows from Africa and UK Client Groups into global and thematic equities. Flows in the institutional channel were driven by Europe, Americas and Asia Pacific Client Groups, mainly into fixed income strategies.

Moving on to investment performance. Market conditions were supportive for the first three quarters with our three-year firm-wide outperformance at 31 December 2021 at 89%. This is a really good number. Then, in the final quarter, market volatility increased substantially, as I said earlier, and impacted our performance. Our three-year firm-wide outperformance remains competitive at 68% of our strategies outperforming their benchmarks on an asset-weighted basis. Over the long-term, the firm-wide outperformance remained at 80%, at 86% over five and 10 years, respectively.

Our long-term mutual fund investment performance remained competitive, though our shorter performance has deteriorated due to the factors mentioned earlier. At Ninety One, we run our different strategies in line with clearly defined processes. These tend to work over the course of a cycle and, like 2020, need some time to adjust after a market shock. This time is no different. Since we do not chop and change in periods of market volatility or in periods of underperformance, I'm confident that our shorter term performance numbers will recover. As ever, our focus remains on delivering competitive long-term investment performance for our clients. There is no formula to create short-term performance. What we can do, is to provide our teams with the right resources and create the conditions for sustained high-performance over time. This is what we really manage on a daily basis. We create the conditions where good investors can thrive over time. We also encourage innovation and creativity. At Ninety One, “freedom to create” is one of the key tenets of our culture. We need to remain relevant to the requirements of our clients and society at large.

We borrowed the format of this chart from a respected industry peer. We do read their results presentations as well. It shows what our long-term strategies, launched over the last five years, have gathered in terms of net inflows, in terms of assets

under management, but new strategies. So on average, we launched between two and three strategies per year. Over the last five years. This added £2.7 billion to net inflows in the final year and it added approximately £5 billion of assets to our book over the last five years. As mentioned earlier, this was driven by thematic equity and credit strategies.

Now, code for thematic equity, the biggest part is sustainable equity strategies, which obviously were quite popular. We've made good progress over the last year and sticking to our strategy of organic growth, within very clear strategic parameters. We continue to invest to support long-term growth and competitiveness, bolstering our investment, client and operational platforms where necessary.

We made progress in the Americas and the UK, demonstrated by the net inflows in both regions. Our South African business continued to perform well from already elevated levels against a very difficult economic and market background. Our ongoing commitment to this market has paid off.

Ninety One has a solid platform for future growth. The brand has momentum. What I mean by this is that over the years, it has become progressively easier to do business anywhere in the world where we choose to do. We have long, credible, organic track records. And we are a known entity in most of our major markets. Across the board, our market positions have improved over time, facilitating new business. This is because of the brand equity that we've built over many years. I'm not referring to the name Ninety One, but to the positions we have carved out in our various markets through being there over the long-term. This is not easy to replicate. This takes time and effort and consistent presence and good results.

Our competitive position in our chosen channels is much better than five or ten years ago. It is difficult to measure that, but it's easy to experience. We are continuing to scale up some of our strategies, and now we have 35 strategies larger than £1 billion, compared to 21 strategies in 2017. But there's a lot more we can do on this front. The strategies larger than £1 billion now represents 76% of assets under management, as opposed to 66% in 2017.

Scaling already successful strategies, while remaining mindful of alpha generation is the best way to improve the economics of our kind of firm. Finally, I can confirm with you that our access to talent continues to improve. Ninety One is an attractive place to work for successful people in our industry.

We see good growth opportunities in the North American institutional market. We are well-invested here, but we have much work to do to achieve our full potential. This is where the big prize is. In the UK, we have invested heavily in the business over the past few years, and we are starting to see results, but this is just the beginning. In the long-term, we remain committed to developing our business in Asia, including China. In addition to these regional growth vectors, we are optimistic about our prospects in thematic equities, especially on the sustainability front and the longer term opportunities in the specialist credit business.

Strategy is important, but execution really matters in this industry. I don't think back in January, any one of us in this room, or on the call, would have predicted that there would be a war, a real war in Europe, with a crisis that would impact so many countries and so many people.

While the direct impact of the Russian invasion on Ninety One has been minimal, the indirect impact has been substantial. No one knows how long this war will continue, or to what extent it will influence investors' perceptions of emerging markets in the near term. Given our diversified offering, we believe we can continue to serve our clients and generate flows in the long-term.

It is early days, but the substantial relaxation of exchange controls in South Africa could have a profound impact on the local institutional market over the coming years. And as a global fund manager, with a leading market share in South Africa, we are ready to compete for the expected flows towards international investment. This change will nevertheless be challenging for domestic industry participants, and we are a leader in the domestic industry. We continue to explore opportunities in China. Just after the year end, we've been awarded a substantial mandate from one of the most respected asset owners over there. But our strategy will take time to unfold, especially given the limitations, due to the travel restrictions relating to COVID.

Our commitment to put sustainability at the core of our business progressed over the past year, across our entire business. Remember, we organise our sustainability effort along three pillars: invest, advocate and inhabit. Last year, we have introduced a clear framework called sustainability 3.0, which focuses on real world impact of what we do. At Ninety One, we consider climate as the immediate priority. We advocate real-world decarbonisation in line with our net zero objective. We focus on inclusive transition, especially from an emerging markets perspective, not on portfolio decarbonisation. We work constructively with clients and portfolio companies around the world. We continue to engage our shareholders on this important topic, and we appreciate their support and interest. This is why we will ask our shareholders to vote again on our Say on Climate resolution at the upcoming AGM.

Finally, we have appointed a chief sustainability officer, Nazmeera Moola, who is responsible for the delivery of our sustainability strategy and has been instrumental in the preparation of our own transition plans.

This slide provides a summary of our approach to net zero and our interim SBTi-aligned targets. In June 2021, we joined the Net Zero Asset Management initiative. Our approach to net zero is based on the pursuit of real-world decarbonisation, of

real-world results, as opposed to portfolio decarbonisation and the need for a fair transition, which includes the people of emerging markets. We have also produced a transition plan with clear quantitative targets for the investments we manage on behalf of our clients, as well as our own operations. Details of our transition plan will be published in our sustainability report in June.

Now, let me talk to you about the most important part of our business, our people. We were pleased to see our people return to our offices, following the period of social restrictions. We felt we needed to reconnect, reinforce our culture, especially for the benefit of the newer members of the Ninety One team.

In this regard, we have completed 37 in person workshops over the year with 900 of our staff. I've personally attended more than half of them, and the feedback has been positive, and we can feel the buzz around our offices and in Ninety One again. Our people form an essential part of our value proposition, which is why we continue to focus on talent density, building a well-diversified and intergenerational business. Significant employee participation is fundamental to our business model. The people who work at Ninety One now form the largest shareholder block, which demonstrates long-term commitment and alignment.

In summary, we are pleased to have reported record earnings and assets under management and net inflows in all our channels, regions and asset classes. Our investment performance remains competitive. We have made solid progress in our commitments to sustainability, publishing our transition plan, and we are committed to investing for a better world and making a real difference. Finally, we increased our shareholding in Ninety One and continue to focus on our culture and people. Our consistent strategy continues to deliver results in volatile markets.

Now I'll hand over to Kim McFarland, our Finance Director, to take you through the financial review before concluding with brief comments on the outlook. Kim, thank you.

Kim McFarland, Finance Director

Thank you, Hendrik, and good morning to you all.

Once again, I'm pleased to present another set of strong financial results for the year ended March 2022. The highlights are as follows: adjusted operating revenue increased by 10% to £663.9 million. Adjusted operating expenses increased by 9% to £433.5 million. This resulted in an adjusted operating profit of £230.4 million, an increase of 12%. I will go into more detail on these figures over the next few slides. And taking into account adjusted net interest income, the share scheme net credit for this year and Silica profit for the prior year only, Ninety One's profit before tax and exceptional items increased by 20% to £252.2 million.

Consistently, I've reported adjusted operating profit by removing the impact of Silica third-party revenue and expenses in the prior year, as well as the contra-impact of the revaluation of the deferred employee benefit scheme. As I mentioned at the interim results, we completed on the sale of Silica to FNZ in April 2021.

The interest expense on our lease liabilities for our office premises of £3.8 million for FY 2022, is reported in adjusted operating expenses. All remuneration expenses, including the share scheme allocation, have been included in adjusted operating expenses. The share scheme net credit has arisen as a result of the accounting requirement to amortize the share scheme expense over the vesting period. The reason for the increase in this number is a significant equity participation in the share scheme by our staff. It was immaterial last year. The adjusted operating profit margin increased from 34.2% to 34.7% and our adjusted EPS shows a 13% growth, reflecting a set of strong financial results for the year. Saying that, I will just caution here for a more challenging year ahead. We are confident that the adjusted results as referred to here, reflect the true operating position of the business.

Continuing from there, the exceptional items are £14.9 million reflects the pre-tax profit received on the sale of Silica in April 2021. And financial year 2021 expenses reflected the spend relating to the completion of the rebranding of Ninety One. And the effective tax rate for the period was 23.1%, down from 24.3% in 2021. The above factors result in profit after tax increasing by 33% to £205.3 million.

This slide provides further details on the adjusted operating revenue, which increased to £663.9 million. Management fees increased by 13% to £632.8 million. And this was predominantly driven by the increase in average AUM from £119.9 billion to £138.6 billion – a 16% increase. This AUM growth drove the increase in management fees, but it was offset by a decline in the average fee rate to 45.7 bps from 46.8 bps. In the main, this was due to change in the mix of strategies owned by our clients.

The fee rate was unchanged in the second half of the year, as we maintained our price discipline. However, we do continue to have pressure on fees and with the client mix changing, we'll guide cautiously to this being marginally down in the year ahead.

Performance fees continue to decrease from the higher levels seen in 2021, although there's still a positive contribution of £31.1 million. And this was driven by fairly equal mix of relative and absolute investment outperformance and the selection of

South African strategies. Again, we don't foresee this increasing in the year ahead.

The foreign exchange gain of £1.2 million is mainly due to the translation of us dollar assets with the weakness of the pound sterling in the year from 1.38 to 1.34 as at the end of March 2022. The rand also strengthened the last month against the pound to 19.03, which had a positive impact on our closing AUM. Other losses of £1.2 million arose primarily from mark-to-market evaluations of seed capital.

The next slide shows a build-up of the adjusted operating expenses year-on-year. All areas showing an increase from the prior year with the total adjusted operating expenses increasing by 9% to £433.5 million. A key driver was once again, employee remuneration, which remains at 68% of our cost base, increasing by 9% to £294.4 million. And this was principally driven by variable remuneration, which is over 50% of employee remuneration and which grew in line with the increase in adjusted operating profit.

Overall, this resulted in a compensation ratio, 44%, down 1% from the prior year and average head count grew by 1%. I've split the business expenses into post Covid related spend, which is travel and promotional, and then all the other expenses. As expected, there was an uptick in the post Covid expenses, as restrictions were eased. And this was coming off a very low base.

Importantly, other expenses only increased by 6%, in line with business activity and inflation. The largest cost being client and retail fund administration. The year-on-year split of these expenses largely remains unchanged. Looking ahead, we're expecting the fixed costs to increase with inflationary pressure and continued business momentum. Noting there's nothing material planned in the financial year ahead.

This slide is showing the business expenses and total expenses as a percentage of average AUM and bps over a six year period. So, covering the period pre and post the listing in March 2020. A single message here is a consistency of business expenses as the business has grown and developed and scale is being achieved on a moderate level. And if anything, this chart demonstrates our cost control and discipline, as the bps have declined slightly over the period, while our assets under management have increased.

So, to summarise here, this is a graphical representation of the absolute movement and our profit before tax from FY21 to FY22. Our profit before tax and exceptionals for FY21 was £210.1 million. Management fees increased by £71.8 million. Performance fees decreased by £14.3 million and employee remuneration increased by £23.1 million. Business expense has also increased by £13.1 million.

Then, adjusting for the increase in other items, such as the share scheme net credit, FX gains and losses and adjusted net interest income of £20.8 million, the profit before tax and exceptional items is £252.2 million. Adding the exceptional item, of £14.9 million from the sale of Silica, resulted in FY22 profit before tax of £267.1 million, as reflected in the earlier slide.

So, my final slide summarises the Ninety One balance sheet and capital position at the end of the financial year. Ninety One qualifying capital increased to £314 million. And as we move into the new regulatory capital regime in the UK, you can note here the minimal impact to our qualifying capital, with a decrease largely driven by adjustments for deferred tax.

Estimated regulatory requirements increased in line with the growth of underlying expenses. And in line with our dividend policy, the board has recommended a final dividend of 7.7p, taking the full dividend to 14.6p per share. After this payment, there will be an estimated capital surplus of £128.8 million. This will result in a capital coverage of 213%. This is above the 200% coverage we've been targeting and up from the 172% in the prior year. In line with these proposals and this capital buffer, we 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 encumber the group balance sheet with debt

Thank you. And I'll pass back to Hendrik.

Hendrik du Toit

Thank you, Kim. You can just stay up because they'll want to ask questions. So before I move to the outlook, let me remind you to submit your questions via the button on the right-hand side of your screen.

We're grateful to have reported good results, but there are challenges ahead. We focused on serving our clients and sticking to our strategy. Our track record experience and stability give us confidence for the future. Sustainability is central to our future. We are positioning Ninety One on the right side of history. We have substantial growth opportunities within our strategic parameters. Our focus is on the execution of our strategy in spite of near term challenges, we face the future with confidence.

Thank you very much. We are now ready for questions.

Questions and answers

Hendrik du Toit

Hubert. You are always first. Go for it.

Hubert Lam from Bank of America

Good morning. It's Hubert Lam from Bank America. Three questions.

Hendrik du Toit

I should've said Bank of America. I forgot to plug there.

Hubert Lam, Bank of America

Three questions. Firstly, on the operating margin. You had 35% for this year, you probably expect you could come under pressure just because of markets and then on revenues. But at the same time you do have a high degree of cost variability as well. So how should we think about operating margin for this year? What are you targeting?

Second question is on products. Obviously traditional asset classes are under pressure, both fixed income, as well as equities. Just wondering what clients are looking at now, what do you see are the main products you can sell this year, just given the macro context. And the last question is on China. You said you reiterated that this is a key market for you? Some of your peers have gone into the market by having joint ventures with other banks. And some of them also created own fund management company. Just wondering what your approach is in penetrating the Chinese market.

Hendrik du Toit

May I ask us to answer in reverse? And just remind me, your second question, you were talking about. The first one is margin, the second one?

Hubert Lam, Bank of America

Yeah. The operating margins. Second one's on products. How do you see the product mix going forward?

Hendrik du Toit

Yeah. And so let's start with a kind of commercial discussion - China, products - and then get to the outcome, which is margin, which frames the operating margin point for us as an outcome rather than a short-term objective, because we don't run the business to near term targets, because of the high beta on the volatility. Of course we care about bans, but on the China point, if you were, I mean, just taking a step back. If you came from Mars and you looked for growing investment management markets in the world, the one that will scream at you is China, particularly the domestic market. There's not that much happening cross border. There's some happening, but the domestic market is expanding. We don't believe, number one, that China's, un-investable. Number two, we've seen our peers, very respected peers, who've been in that market for years. And that's one of the reasons why they could evolve their businesses fast because they were actually in there. They didn't go there. They had a zoom call from London or New York and actually the guys on the ground were developing the business.

So we said we should be cautious in this period because we don't, you know, we're kind of old-fashioned, we don't do online dating. We actually want to see people, talk to people, understand, but we are committed to the exploring, the opportunity that the Chinese market is offering, noting that we're a very experienced investor in China. We have very substantial amounts of money deployed there. We know the place and we have some very good client relationships. So that's the reason why we keep flagging it, because other firms have said, "I'm not interested on dealing with Western Europe or US". So really a key point, even if the emerging market universe evolves to something where China becomes an entity by itself, and maybe not even treated as part of the emerging market universe, it's an area of interest and it's an area where we're going to spend strategic time. However, we didn't feel comfortable that given the restrictions, particularly initially in the West and likely imposed on China, it made sense to go and rush it. So that's the first point.

In order of priority, as I said in the presentation, the north American prize is a closer one. If I talk of regions outside of what I would call our domestic regions. Okay? On the product front, or what we intend to do long run, we feel that if we do well, what we do well, as we've shown with growth in the thematic equities over the last few years, there are significant opportunities within our strategic parameters for those who do well. It is more volatile. Yes, it's great to get a... you get a higher rating if you compete in a private market, but it takes a long time and we've decided to focus on the credit end, as opposed to the equity end. And we've decided to add a thematic flavour to our mainstream business. But we believe in the mainstream active business, if you do your job well, you generate your alphas over time, there will be demand. And particularly for managers at our scale. Our answer may not be the same if we were standing here as a \$2 trillion manager. So understand

the difference and go and look at, for example, T Rowe Price's numbers. I mean, fantastic. If you look at what they've achieved over time, they are significantly larger. They're very focused on, and, from a fee rate point of view, we are not really interested in going into areas where we would do business at very low fees, just to generate flow. So that's our philosophical point. So we would like to migrate towards the higher value part of the industry, but we recognise how hard it is. And, very importantly, staying focused, staying in our lane, doing it really well might just have a prize on the other side, while many others are defocusing their operations into other areas. So that's the philosophical framework within which we develop our business. Kim, on the operating margin, I think you can talk about that.

Kim McFarland

I think, yeah. I think the point is that it's not a target, but you're right. It's a number that we do look at all the time. And I think we're going to see some downward pressure this year. I mean, you'll notice the inflation comments this morning. So, I mean, we know there's inflation coming in, but as you quite rightly said, we do have the ability to flex some of our cost base, especially on the variable side, but it was high. You're also going to have less, you know, I've cautioned on the performance fees, which has always been something that just drops through and to help the operating margins at the same time. So really looking at it next year, we had a high operating margin, being above 35%, I'm going to see that coming down, but not materially in the year ahead – just by the normal market pressures that we're actually seeing.

Hendrik du Toit

We will never go to boutique operating margins. If we go there, we will be investing. Remember a big part of our expense is just investing in future. You know, you could sort of milk this business. And I see Neil nodding there from the finance team. We could, we could squeeze this margin up to 40%, but that'll be three years. And maybe if we were short-termists and we were thinking in terms of, you know, call it, short term horizons, we could do fancy things with the numbers and then leave a shell behind. This is not how we operate.

I think another very important point about this business and the financial side is I got asked the question this morning by a journalist. What about inflation? Well, let me just be very clear. We don't employ workers on the bread line. All our people can pay their electricity, can do things. We all flex together when times are tough. This firm is not guaranteeing government style increases to people when there is no outcome for shareholders. So, and that will be the case because no one's going to go hungry. You saw the not large number of the 44% compensation ratio. So this is not a business where we, like an industrial business, or a mining business, sitting with thousands of people on the margins who are really feeling pain and therefore our inflation. And we expect our suppliers to behave similarly, you know, we are not going to tolerate excessive cost increases just because the oil price goes up. We don't have trucks parked outside this business.

Kim McFarland

But I think a point to note is if you, if we cover the inflation points, I think that's something that people are going to raise here. 68% of our cost base is people. So you've got to look at the balance of what's there. And at least half of – the other largest cost is our client and retail admin, which doesn't have an inflation linked to it either. The other big chunk is going to be accommodation. There's not an inflation link. So you kind of break it down to almost looking at the numbers, about half of what's left over is going to have an inflation hit, which is naturally going to come through for whatever reasons. So it's the fact you've got such a big chunk of people. Unfortunately, we're a March year end, so we gave increases to staff in March.

Hendrik du Toit

And also, we don't do unguided technology investment. Kim, when she was the Chief Operating Officer, was very good at that. Sometimes the point of, I guess we got strained ourselves, but we know how much money is being blown in this industry on vanity projects. This is not what we do.

Okay, David, David McCann from Numis, I'll give you a plug.

David McCann, Numis

Thanks Hendrik. There are three questions from me as well. First one, actually just following on from the point you mentioned in response to one of Hubert's questions about wanting to position the firm kind of into higher alpha or thematic type strategies in the future, where would you say on balance the business is today between, I guess what you would call more traditional geographic focus, traditional strategies versus those kind of higher alpha or thematic strategies? Where are we today and where would you like to get to? I guess that's question one.

Question two, kind of a dividend question. I don't believe that, you actually have a progressive policy officially stated. You know, you've obviously paid around 75% since listing. On the likelihood that when we look today, the profit may well be down, adjusted profit may well be down this time next year on, on this year's numbers. How should we think about the dividend? Would you defend it given the strong capital surplus you reported, or should we expect it just to flex with this roughly 75%

effective pay out?

And the third one, just a technical one on that surplus. With the new capital regime, both the non-qualifying capital deduction has gone up, as well as the regulatory requirement. Could you just talk through the drivers behind those? Thank you.

Hendrik du Toit

I think Kim can do the last two and then I'll do the first one last, how's that Kim?

Kim McFarland

Okay, that's fine. I mean the first one is, we don't have a progressive dividend policy, you're quite right. So, should our dividend pay out, we'll be looking at what our adjusted profits are next year, again after tax. So we'll look to see what they are. And we're sort of looking around the 70%, 80% in that we did 70% for the interim, we've done 80% now at the final, sort of averaging out at around 75%, working through the board, it's going to be similar. So no, we won't sit trying to defend the dividend off the back of that. Again, looking at if there are any other capital commitments we have within the business. So no we don't have a progressive dividend, so I think it answers that point there.

The second one is, so yes, it would flex with what our profit after tax actually is and second one, on the capital you saw there wasn't a large change in the actual capital numbers. I said that the main adjustment was just on the deferred tax, just how we will, which was on the regulatory capital piece. And that's what one of the changes were there and the risks. I mean, our capital moves largely based on expense requirements in the various countries. It's largely a percentage of your expense basis. I mean, we have a few other tweaks in South Africa, but our regulatory capital requirement is largely moving off the back of our expense requirements.

David McCann, Numis

Just to clarify, it was mainly the deferred tax that was the reason for the non-qualifying capital, the reg requirement has just changed with the expenses.

Kim McFarland

Yes.

Hendrik du Toit

And David, coming back to our product mix or what we offer clients. I think we're living in one of the most exciting, fast changing times in human history. I mean, even the tech story that started with the dot com crash basically is only playing out. You know, there are enormous opportunities. We sense that in the thematic space, there will be newer long-term opportunities. Right now, we're very focused on the sustainability and we've recently expanded our sustainability offering across the board for investors who want to be in both, in the illiquid and the liquid spaces and in the debt and the equity spaces. This movie has only started.

It doesn't mean you are oblivious of the fact that there is right now a commodity boom, and that markets are different, but institutional asset owners also have targets to meet around changing of their portfolios or evolving and they need help. And we think firms like us, who are well-grounded in general investment disciplines can add. So, and there will be more themes rolling out. I mean, I can mention a whole lot to you, but many of those are really early stage, and I wouldn't want to mention that in the public market that we will add to our mainstream strategies, but the big money will take years and years or very long to move from mainstream and we don't think the entire world is going to be parked in private assets. We just don't think so. We think it's a great growth opportunity and, you know, I would have loved to be Blackstone today and present my results to you. You know, something, in that position or in the markets they are, but we think public markets are going to remain a very important part of the mix and a part where once... and I keep saying that I'm really not there yet. Once our industry is fully repriced to passive, as cheap as it should be, the fee budgets and a significant amount of fee budgets are going to very expensive illiquid strategies.

Actually, we think the fee pressure in the middle, for really good offerings, will be less. And we've reached a point where we can operate in the kind of 45, 40 to 50 basis point world. And we don't think is going to go to 20 or 25 basis point and therefore adding the necessary scale to strategies, becoming a haven for talent, where often, that talent in firms pivoting away, feel underappreciated, is a sensible strategy for us. So, we quite can't... you know, I could go around the world, there are not many 30% plus operating margin industries in the world. So we're not so depressed about ourselves. Actually, operating with a very light balance sheet at very big operating margins in a market, which is very, very large, if you take the combined revenue of our, in the revenue pools of our industry. So we find that attractive. And we think if we stay focused on it and not get confused by sort of near-term narrative or fatigue of the narrative. As one of the big things is that if the fatigue of the narrative gets you, and then you want to go and do something crazy. And then you're going to pay a multiple of 45 for

a small boutique to change your business. And then you find out the cultures don't work and things like that, you know, so we are very cautious about those risks. But what we must do, and I think that's the qualifier, we must be very close to where our clients, the asset owners and the ultimate owners of the real money and risk, where they want to evolve to, and what they are thinking. And quite clearly, they are telling us, if you want to be in the active game, you've got to be good. If you're mediocre, as you guys predicted or worse than mediocre, and you charge a high fee, you're going to be out of business. We accept that, given the calculations or given the return opportunities in our industry. And that's, I think why our position looks as if it is a pure defence of the traditional. It isn't. It's an upping of the game in a business, which is naturally maturing, but with very substantial opportunities, given our scale in particular. But that doesn't mean we're not going to get a hiding if we do badly for three or four years in a row. That doesn't mean that. We're happy to take that risk because that's our business.

Rahim, I want to give you a plug... oh no, sorry its Gurjit from JP Morgan.

Gurjit Kambo, JP Morgan

Thank you, Hendrik. Just a few questions. In terms of the US, you've made some good progress there in terms of flows, you know, what differentiates Ninety One, so why does a client in the US come to Ninety One versus all the peers out there globally? First question. Secondly, just, what are the sort of key hires you've made this year? If you could maybe highlight a few of the areas where you've been investing for growth, and then finally, just on the mutual fund investment performance, if I look at the sort of one and three-year numbers, they look sort of average, there's around 50% on three years this year, and also last year.

Hendrik du Toit

One year.

Gurjit Kambo, JP Morgan

One. So even though I think the three years was also 50%, I think it's 49%, and that's been sort of stable versus 2021. So it hasn't really changed much. So what's going on there on the mutual funds, are any particular funds suffering?

Hendrik du Toit

Next year, if I get this question, the chief investment officers who are sitting here will answer, but I'll answer this year. And the point is, and I said it in the presentation. Actually, last year, when we hit the year end, things were quite average in one part, but the numbers were actually excellent over three years from the year before, you know, we had a massive improvement. That improvement continued into December and January. Then the world changed. Now, if you have systematic processes, you tend to take a bit of time to adjust and the correlations go to one, in spite of the diversity investment strategies you have, if you were, not enough. Thank God we were not a growth investor, then we would have looked a lot worse, but we need to get our way back. You know, we need to crawl our way back.

Interestingly, our three-year performances haven't really been that much affected over the period. In the mutual fund case, you must also look, we look at quartiles and in those quartile boxes, you'll have very different strategies in one box. So I would rather look at the institutional benchmark related one, as a true performance indicator. Because for example, one of our bestselling strategies, quality, has been relatively modest, doing modestly against indices but because it's solid and secure, and it's the kind of stuff people can sleep on, the clients are very comfortable that it's doing what it's supposed to do, and they keep buying it. So there's another level of sophistication, which can take us a long time, but in time, if those aggregate numbers don't look good and competitive, you will be affected. So I would rather look at it over a three to five-year period. And so how many excuses have you come with here? Rather than looking at one particular, very volatile moment, which I think will wash out, you know, towards the end of the year. How quickly, I don't know.

And that is why it's really key to make sure your teams retain their confidence and do what they do. And so we're not going in there disrupting, telling them what to do, et cetera. We were very happy with our processes when they were working. We now need to apply them properly, and we need to learn from our mistakes. So I would say I'm actually not that concerned, but if it persists and if your, and it's really important in this industry, if the clients, and it's not so much shareholders, if the clients get a sense that, okay, the house is not performing in general, it does have a general impact on your ability to produce business. I don't think we're there yet. What we were doing is highlighting that we're very alert to that challenge and that we can give it our best shot to make sure our numbers get to where they are. But I'm not uncomfortable given the diversity.

That's the first question. Your other question was on hires. I think where we put some investment in was in our sustainable equity team in particular, we've built it out to offer an emerging market version, to offer a global version and to have a positive inclusion strategy which has actually attracted good flows. Our global environment strategy, we've invested substantially in our skills around, not many people, but in being very close to the wind in the sustainability world. Not just Nazmeera, but around her, we've strengthened the team to be close to it, to the asset owner. So in efforts like the Sustainable Markets

Initiative, or GFANZ, there is a huge amount of work going on between managers, owners, et cetera. We are very close to that, and we understand what's happening and we are thinking solutions oriented with them. And that's the solutions business we want to bring. We're not bringing the classic solutions business of taking a consulting firm and giving a client the whole solution, which is what some of our peers are doing very credibly. I mean, you know, some of them doing extremely well there. We've decided that's not our fight. Our fight is to provide active solutions in the repositioning towards more sustainable portfolios for the long term. And we think there is a very substantial potential. It's... but we need to be much more concrete before we can talk details to you. So that's where we've largely invested, but generally what we do is we don't create one big new... and of course in our specialist credit, which I've signalled. Now, it'll take a number of years. One of my peers the other day said, I spoke to him about all these private markets stuff. He says, this is great, but it's going to be for two generations of management after me benefiting from it. And these things are slow burns. So there's some of that investment happening in that cost base that Kim has shown.

Gurjit Kambo, JP Morgan

And just on the US market.

Hendrik du Toit

Ah, the US market? What differentiates us? Now we don't have the JP Morgan label. That would have been nice, but ours is one of a focused specialist, also hiring high quality client-facing people, who probably like to work in smaller, more entrepreneurial environments, but want to have the substance of a strong investment platform and a diversified investment platform behind them.

Often, you find really great client facing people, but they don't want to just call the client once a year on one strategy. They want to do more. So we, we try to provide that mix, but also a place where they can really feel they built it. And then from an investment point of view, what do we do well? Global and international investing, including EM. Now, as the US, or as the North America starts thinking about rebalancing. I remember last year, everyone was in five stocks. You didn't have to do anything else except buy five stocks. Actually, the world's going to change, and it's changing right in front of our eyes. So people are looking wider. They have complex questions to ask about international investment. That is where we come in as an authentic emerging market rooted and global investor, having both the sort of London face and the emerging market face to them. And therefore we have a conversation.

So I think in this industry, you're only marginally differentiated. No one is completely differentiated unless you're dominant in a class. Clearly that if we achieve that we'll telegraph it, and you will give us a multiple of 25 or 30, but that's not yet.

Rahim Karim, Investec

Thank you. I'll stick with the tradition of three questions.

Hendrik du Toit

You guys! Can we have some buy-side guys up here, at least one.

Rahim Karim, Investec

So the first is, you gave some useful stats in terms of scale of the business. I was wondering if you could perhaps talk about capacity and how you think about that.

The second was around talent. Again, you, you mentioned that a lot. If you could perhaps talk about the competitive landscape, what you're seeing and, you know, pressures in terms of cost and in pricing there.

And then finally, I think it's probably an impossible question to answer, but I'll ask it anyway, around performance fees. This time last year you gave clear guidance that it should be down and you've obviously talked about the importance of operational leverage. So if you have any inkling of where we should be putting our number in that, that that would be helpful.

Hendrik du Toit

Okay. Performance fee number, we can't really guide more than we've said.

Kim McFarland

It will be down.

Hendrik du Toit

But understand that we've got a mix of absolute and relative strategies. Okay? And so when you have downward absolute,

the absolute ones drop out. Inflation plus, you know, inflation is so high now. That's why Kim guided downwards. Then, help me with your question. Sorry, three I've just got on the first one. I've not listened properly, Rahim.

Rahim Karim, Investec

The first was on scale.

Hendrik du Toit

Let me do the scale. What's interesting, we also close, or when things don't work, we start really small because we don't seed, Kim always makes the point. We don't have a big seed capital book. We've got to find a friendly client, which is really hard. By the time you've got the friendly client, you've probably got a proposition that's good enough to go to market. So we don't start too many things. It's really hard to start something here, when you get it going. But if it either disappoints or doesn't deliver, in order to retain the relationship with that client, you sit down with the client. You say like, this is not going to deliver what you expect. Cut it.

So we are quite disciplined in terms of the number of strategies that we start and back and firstly, how we let it through. And even if it's in the immature phase and it looks as if it's not going to achieve, even if it is okay, we would probably go to the client or the backer and say that this is just not it. And unless they insist to stay in it, we will then deploy resources elsewhere. So we're quite disciplined about the strategies.

Going on to capacity, if I can have my life over, okay, again, very few regrets. And the CIOs are smiling there at the back. We would not plan anything which has a near term capacity limit, because the problem of that is if you're in the West End, in the hedge fund world and you charge two and twenty and you close your fund and you go on retirement, it's all fine. In our case, if you switch off the large assets owners at some point when they wanted to deploy assets to you, and they've done work on your teams and they've thought about you and you say, no, they don't come back that easily.

You know, we've got a few strategies here, where we didn't think through the capacity implications earlier, and we actually had more capacity and we closed too early because we were just concerned. Then other people replace you. So we focus on designing scalable strategies, obviously not scalable to BlackRock size, but scalable strategies that could be substantial in our business and we stick to them and when it is what I would call a niche strategy, we are very clear about the purpose and about not taking it into our whole network. So I think we've, by and large, after three decades, kind of grown away from creating our own capacity problems. What we are sensitive though, is if our portfolio managers tell us "I have no liquidity in this market, I need more, I struggled to work. I can't cope with flows". Then we will go and have a word with our clients and switch it off, even if it is a commercially expensive decision, because the result for the client comes first.

Right now, I don't know. I don't think we have any strategies where we're so overwhelmed by clients that we have to close. And I think we will hold up price line well, when it is a truly capacity constraint strategy. I don't believe that pure liquidity is this. If you have genuine long-term investors, they can be in fairly illiquid strategies, but they understand the implications. The problem is in mutual funds. When you put exotic strategies in your mutual funds, and you get liquidity problems when everyone is now disappointed about the latest fad not having worked. And that's what we definitely, we don't even go near that. I don't think there's one of our mutual funds that has anything of that kind in it. So conservative strategies, scalable, but very honest about alpha and therefore willingness to close. And we do not use capacity as a way to artificially price up either, because that is not, that doesn't work for good long-term client relations. I don't know whether any of our colleagues want to add something here.

Kim McFarland

I think he also asked you the question about operational capacity or are you talking about investment capacity?

Rahim Karim, Investec

More on investment capacity.

Kim McFarland

I'm happy how Hendrik answered the question.

Kim McFarland

Operational capacity is one of these, you have an infrastructure platform, so I can answer it. I mean, one has the platform, you have the infrastructure. As almost a point earlier, you could basically just squeeze that and not invest. Where you struggle in this industry always to get the operational scale on the back of it is that you're continuing investing. Its Hendrik's point earlier, we could just squeeze the business and improve our operating margin if we wanted to. But then where would we be in three years' time? So it's almost, the scale you're achieving off the platform you're using to reinvest into other opportunities.

Hendrik du Toit

If we were in an undynamic, uncompetitive market, scale would be brilliant in this industry. The problem is the guys across the road here, they are consistently improving the offering to clients. They are consistently putting better people. You know, have you noticed, every asset manager now has an Institute? That's a whole army of research people producing intelligent things of no revenue. Okay? But that's a service for clients. The quality of technology, the experience. I hope at some point we're going to have the reverse, i.e., positive technology leverage, but haven't seen that now. And I think, Gurjit, if I look at the JP Morgan numbers and I look how much you guys spend, I also haven't seen the leverage in many places. So it's something that's coming down the line, but for us, we are in an increasingly competitive industry, and you've got to run hard, and that is probably the key message. To retain those kind of numbers and metrics, you've got to be better. You can't stay the same. Okay?

Any other questions?

Rahim Karim, Investec

Can I just ask for an answer on the question?

Hendrik du Toit

Investec has shares so you can ask another question, I know you are not conflicted.

Rahim Karim, Investec

The second question in terms of talent and the pressures.

Hendrik du Toit

Okay. The talent market, it's the same point we made around brand, and it's not, as I say, the Ninety One brand, it's the brand of our people in the market. I've not seen, except for the very difficult and hot market in the north American market. It's really hard to get them. Many of our peers, European peers say exactly the same thing. It's just so hot and so competitive. Although we think we've got good people because they want to be with us, and we want to provide a culture fit. But in most of the markets we operate, we're seeing really top level people, either talking to us of own volition, or being open, to talk to us where we discuss and think about new opportunities or improving. And, you know, we typically hire in the... just north of the marzipan layer, so that the talented number twos and threes, the market is really open. Our question is always, can we deliver for these people as well as they're getting either at their existing organization or where they can go? But it's been a lot easier. It's progressively becoming easier, which then puts us in a better position to accelerate growth. We've got to show you the results still, but I must say the talent conversation is one of the easier conversations we have in this firm, because our proposition is so clear, which means people we previously would have tried to recruit will deselect themselves automatically because they know this is not where they want to work. Sorry.

Piers Brown, HSBC

Yeah. Thanks. Yeah. I've just got two questions, which is probably a relief to you. But just specifically outlook questions, at the risk of asking you to sort of fill our models in for us, but on torque ratio. So you've done 3.8% last year. We've talked about more difficult markets, some of the performance numbers that recur into the beginning of this year. So, I mean, do you think positive torque is still a realistic prospect for this year?

Hendrik du Toit

Well, we don't give forward guidance. What we're telling you is, we think we've got enough irons in the fire, and we're definitely going to give it a go. Torque ratios of, you know, when you have near-term numbers to restore, torque ratios of north of where we were last year will be kind of demanding, because your assets are also, you know, your assets haven't fallen that much, and I hope it's not going to fall that much more, because the more it falls, the better the torque ratio, as you know. So I would say, just noting industry long-term figures.

Chris's last eight years, the one and a half percent is kind of our peer group, if we exclude the lions of the world, which had these extraordinary growth rates. If you look at the sort of mainstream, 2% to 4% is damned acceptable, above 4% is really good. So, we tend to sort of look at that. We came into the year with a lot of optimism. I think where we're sitting in May, a little more guarded, but you know, we're going to give it a hell of a go. The risk is you get these surprising reallocations from

large asset owners.

Now, we're not exposed to one single client in any way, but we have some fairly substantial asset owners or networks we're exposed to. So, take the example of a change in management in a large banking group, which is not unusual, by the way. Now, it means a whole new team comes in. They have a different strategy. You may fit in, it might not even have anything to do with your performance. And I think that this is the kind of year we go in when organizations are a bit more fluid when they look for new leadership and then bold new strategies come, and you can either be a winner or a loser. We don't know the outcome. Obviously, we're doing our best. And given our diversity, we are quite confident that we will find some money, but I wouldn't be promising you high torque ratios in this year, unless I could signal something in half year, that is very exciting.

Piers Brown, HSBC

Hmm. Okay. That's great. That's very clear. Maybe the same question on the fee rate. So you're at 45.7 and I think you've talked in the past, about a base point a year being the normal attrition rate, it looks like the flows are a bit more skewed to the fixed income side in the second half and I guess the environment probably suggests that may continue. Do you think one basis point a year is still the right sort of attrition number?

Hendrik du Toit

We had a 1.1 reduction, we had a flat second half actually, all the pressure was in the first half. So I think that's still a fair guide.

Kim McFarland

It's fairly conservative guide, to work on that sort of number.

Hendrik du Toit

And if the equity book livens up, you know, you could get the other way. It depends whether it livens up with new client relationships or existing ones where you hit the scale, you know, remember you contract these fees for some clients who contract up to 10 billion. Okay, so you get the first billion. We're all happy at the nice fee. And as it grows, the client calls you up and say, but in my contract, remember? The second five. And by the way, I've been a loyal client, I've been around for a long time. So there's some of that, that is kind of working out. So I would stick to the current one. I wouldn't see it going into a 300 basis point or for that matter a sharp rise. Your model is now filled out. I can't give you the talk. If I had it, the board asked me yesterday, I told them, I don't know.

Anything else?

Facilitator

We've got one question from Jan Meintjes at Denker Capital. Given that you have reached your stated excess capital level, why would you not pay out a hundred percent of your profits?

Hendrik du Toit:

Jan wants a dividend there. Anyway, Kim, you answer Jan.

Kim McFarland

Why would we not pay it? Because I think we will caution on it. And we will also look to see if there's any capital commitments that we may want to look at in the future. But it's one of these things that we will, you know, consider. We don't think we will pay out a hundred percent, but we'll look to consider what our dividend ratio will be, our pay-out ratio will be at the interim and at the final next year, but you know, really in consideration with the board at the same time. I think it's important at this stage to hold a decent buffer on the balance sheet and also to consider any other commitments we may have.

Hendrik du Toit

Kim, I think in addition, Jan knows our shareholder very well, who is now distributing the stock. You know, we're out there in a big, rough, old world. We don't know what can happen. The last thing we want to go and do is an emergency equity issue. Okay? You need a little bit of extra capital just to make sure you navigate, and you can pursue growth opportunities when they come. Growth opportunities, not M&A as Kim said, but it's, you know, some of the less liquid strategies require some seeding, which we don't traditionally do. So, we just want to keep our powder dry, and Jan we are shareholders like you, so we would love the dividend flow. You know, it's a good thing. So we know we're on your side, but it's just a question of margin of safety.

Kim McFarland

Conservatism.

Hendrik du Toit

We are done, no more questions? Thank you very much, ladies and gentlemen. May the year be less volatile than the last quarter.

Kim McFarland

Thank you.