Full-year results 2023 presentation transcript

Wednesday 17th May 2023

Hendrik du Toit, Founder and Chief Executive Officer

Good morning, ladies and gentlemen, welcome to the presentation of Ninety One's results for the 2023 financial year.

Thank you to our clients, shareholders, regulators, and the people of Ninety One for your support and commitment over the last year. This was not an easy year.

I will start with a business review, including the summary results, then Kim McFarland, our Finance Director, will present the financial review. I will then cover growth opportunities and provide an outlook for the business before taking questions. You may also submit questions during the presentation, via the chat function on your screen. Please do state your name and organisation when submitting questions.

Here are the key messages. This was a solid financial performance, supported by cost discipline.

Globally, we faced headwinds from interest rates rising at the fastest pace in 40 years compounded by geopolitical upheaval. The result was a risk-off environment. In the UK, we experienced an indiscriminate sell-off of risk assets because of stress in the LDI market. In the final quarter, we saw a range of bank failures in the US.

For Ninety One, this has been a period of extensive client engagement. While risk aversion among asset owners over the reporting period muted demand, the quality of engagement gives me confidence for the future.

Our real long-term value driver is investment performance and we have delivered on this front. Our strategy has remained consistent and aligns with the long-term structural opportunities we see today in the market.

Our people are committed and motivated and our collective ownership continues to increase. We are in the business of long-term value creation through successful investment and enduring client relationships.

As usual I remind you of our long-term track record. Over time, we have shown the ability to invest successfully, meet client demands and needs, gather assets and grow revenues. Ninety One is a resilient business with a relevant product offering for the future.

It is also important to remind you of our business model. Firstly, we are a specialist active investment manager. We are capital-light and cash-generative. We are not capital-centric, but people-centric. Ours is an organic, client-focused and results-driven business. In today's world, we must be technology enabled. Over the last year we felt the need to explicitly include this in our business-model description because tech is evolving faster than ever. The potential for efficiencies is enormous. This does not imply over-ambitious tech budgets. We simply intend, in the most disciplined and coordinated way, to apply the most relevant and available tools.

Ninety One is clearly differentiated from its competitors. Ours is a business that has grown organically from an emerging market into the mainstream of global investment management. We draw confidence from our 32-year history, which is one of resilience, originality and growth, fuelled by an owner culture. We are proud of our emerging market heritage, which represents not only our past, but also the world's future. Finally, we believe we have superior client reach when compared to other mid-sized active specialist managers, due to sustained investment in our regional client groups.

We are a purpose-led organisation. You know that. By being a better firm, investing better and building a better world, we can deliver on our purpose of investing for a better tomorrow.

So, let's get to the numbers. Our assets under management stood at £129.3 billion on 31 March 2023, representing a 10% decline from the prior year. Average assets under management during the financial year was £134.9 billion, representing a 3% decline from the prior year.

Net outflows accelerated in the second half of the financial year, resulting in a full-year number of £10.6 billion. We are disappointed by this outcome. We believe the acceleration in the final quarter was client-specific and driven by risk aversion due to the volatility of the preceding period. This was not caused by client unhappiness with Ninety One, but by market conditions.

Investment performance was better than the year before with an improving trend. 1-year firm-wide outperformance stood at 57% and 3-year firm-wide outperformance stood at 71%.

Adjusted operating profit fell by 10% to £206.9 million. At the same time, by controlling our costs, we managed to post an adjusted operating profit margin of 32.7%.

Basic earnings per share were lower by 19% - a large part of this decline reflects the profit from the sale of Silica and the share scheme net credit in the prior year. Kim will cover the financial results in more detail, but I will just mention the 10% reduction in adjusted earnings per share, which reflects the underlying performance of our business.

The market and business conditions were extremely challenging. The mood was decidedly risk-off over the period, with the flow takers being money markets, developed market fixed income, alternatives and solutions. These are not areas in which we specialise. Putting this result into context, we cannot ignore the dramatic rise in interest rates in response to a sharp rise in the rate of inflation. The causes of the latter are many. The rise in interest rates from historic lows has highlighted vulnerabilities in the system built up in the era of cheap money, which we experienced after the 2008 financial crisis.

The LDI squeeze in the UK had a direct effect on our flows as clients scrambled for liquidity by selling risk assets, often indiscriminately, to meet margin requirements. The sharp rise in long-term interest rates also created new demand for liability matching, thus shrinking the risk pool further. The bank failures in the US which started in the final quarter of the year were the result of business models not being able to cope with the rapidly rising interest rates. Disruptive geopolitics, including Russia's war in Ukraine, have further depressed the risk appetite for emerging markets. The regulatory burden has continued to increase.

It would be reasonable not to expect a simple extrapolation of these factors into the coming year and years. Although still challenging, we will be dealing with the specific impact of higher interest rates on each of our investee companies or issuers. Bottom-up analysis will really matter. This should be a better market for active managers. We continue to believe in the resilience of our business and in the soundness of our business model for the long term.

After a number of years of growing assets under management, we suffered a decline in H1 driven by £3.2 billion of outflows and a market drawdown of £8.4 billion. In the second half, the net outflow number accelerated while asset prices showed a modest recovery, resulting in a year-end AUM number of £129.3 billion. So, the second half of the year drove the bulk of the full-year outflows.

Our client concentration risk is low with no client representing more than about 5% of assets under management or 4% of revenues. Nevertheless, three clients drove more than half of the reported net outflows this year. This was driven by their desire for de-risking or reallocating. It is important to highlight that they still remain clients.

We have also seen substantial currency and market movements. Had we shown this picture in US dollars for the last year, you would have seen assets under management up by more than $20 billion in the second half and closing higher

than at half-year end. Clearly, we don't report in dollars, unlike many of our peers. This is just to highlight the foreign exchange impact on our business.

We are working hard to reverse the accelerating outflow trend recorded here and indeed turning this into inflows. Much of this was driven by equities - part of that was LDI, part was tactical client reallocations and part related to the demand decline for UK equities, which is structural. This overwhelmed the inflows during the year in global quality, sustainable and natural resources equity strategies. Emerging market fixed income was regarded as a risk asset and net outflows were driven largely from sovereign strategies.

As with the prior year, net inflows into our South African platform business were positive.

We maintained positive inflows in South Africa during the first half. However, at the end of the financial year, all our client groups were negative. In summary, AsiaPacific net outflows were driven by a small number of one-offs as a result of client reallocations. It was a similar story for the Europe and Americas Client Groups. These were reductions in risk exposure, but not client terminations.

UK net outflows were largely as a result of the fallout in the LDI-related sell-off of risk assets to meet margin calls and further de-risking of defined benefit plans. In the Africa Client Group, fund platform inflows were offset by larger net outflows in fixed income strategies.

These net outflows I have described, were mostly in the institutional market. Institutional clients made big calls during the year or were tapping into their liquid investments for cash considering their high exposures to less-liquid asset classes such as real estate, private equity and private credit. The advisor market has been far more stable. There, clients tend to hold during periods of volatility.

Performance remains solid and competitive in the long-term. Investment performance improved in the year. This leaves us well positioned for new business when markets turn. During the year we have also strengthened our CIO office and the technology and quantitative resources at the disposal of our investment teams. There was a turnaround in mutual fund investment performance and this trend is worth mentioning.

At Ninety One our mantra in this space is sustainability with substance. We have been advocating for an inclusive and fair transition and at the IMF and World Bank Spring meetings this year in Washington, there was a change in tone. There is now significant momentum behind the concept of transition finance. We are working to develop frameworks to support de-carbonisation. We are supporting heavy emitting companies to transition. We are expanding our range of sustainable strategies in anticipation of structural demand growth.

Ultimately, we also have to implement our own transition plan and focus on how we run our business and our Scope 1, 2 and 3 emissions. We don't just expect portfolio companies to do this - we have to do it ourselves.

Here we remind you of our transition plan targets and our progress. This is a process and not an event and we are making progress:

More of our investee companies are developing science-based transition pathways by 2030. There is a continued reduction in our Scope 1, 2 and 3 emissions. Two new sustainability strategies have been launched in the last 15 months with more in the pipeline. And finally, there is continued engagement with multiple stakeholders on a fair and inclusive transition.

We are on track to meet our targets of 50% of financed emissions with SBTi-aligned transition pathways, a 46% reduction in Scope 1,2 and 3 (category 6 of Scope 3) reported emissions by 2030, while remaining active advocates for better disclosure and more ambitious climate finance solutions.

Most important is the culture and, of course, the mindset of our people. This is a people business. We have committed and motivated staff, who have worked very hard in the last year. We have been disciplined in headcount management. Our clients, however, expect more for the same fee, which maintains upward pressure on headcount numbers. We showed this year that our variable costs are truly variable. Kim will share the numbers later.
We are deliberately building an intergenerational business and continue to support our people through these challenging times.

Finally, we have further increased our staff ownership, which is now 28% and aligns the interests of staff and shareholders.

I will now hand over to Kim, who will take you through the financial review section. I will then cover our growth opportunities and outlook at the end.

Kim McFarland, Finance Director

Thank you Hendrik and good morning to all of you.

After a challenging year I am pleased to present a set of robust financial results for the year ending 31 March 2023.

And the highlights are as follows: Adjusted operating revenue decreased by 5% to £633.0 million. Adjusted operating expenses decreased by 2% to £426.1 million. This resulted in an adjusted operating profit of £206.9 million. A decrease of 10%. I will go into more detail on these figures over the next few slides.

Then considering adjusted net interest income, for the share scheme net expense/credit last year and the one off gain on the disposal of Silica in FY22 Ninety One profit before tax decreased by 20% to £212.6 million.

The effective tax rate for the period was 23.0%, marginally down from the prior year of 23.1%. The above factors result in profit after tax decreasing by 20% to £163.8 million.

Points to bring to your attention: The interest expense on our lease liabilities for our office premises of £3.6 million for FY23, is reported in adjusted operating expenses. The share scheme net credit of the prior year has reversed to a share scheme expense. This is owing to a lower variable remuneration and a resulting decrease in deferred bonuses being awarded as shares in the current year. The adjusted operating profit margin decreased from 34.7% to 32.7% and our adjusted EPS shows a 10% decline, in line with the fall in adjusted operating profit.

This slide provides further details on the adjusted operating revenue which decreased to £633.0 million. Management fees decreased by 4% to £607.7 million. This was predominantly driven by the decrease in average AUM from £138.6 billion to £134.9 billion. A 3% decrease. This average AUM decline resulted in the fall in management fees along with the decline in the average fee rate to 45.0bps from 45.7bps. This rate was 45.2bps at the mid-year reflecting a slower decline rate. Again, this was due to a change in the mix of strategies owned by our clients. However, we do continue to have pressure on fees and with the client mix changing will guide cautiously to this being marginally down in the year ahead.

Performance fees continued to decrease from the higher levels seen in FY21 and FY22, although still a positive contribution at £19.4 million. This was largely due to outperformance in relative benchmark investment strategies in the current period. Again, we do not foresee this materially changing in the year ahead.

Share of profits from associates was up on the prior year and was a small contributor to adjusted operating revenues as was the addition of other income of £4.5 million. This is a mixture of FX gains on earnings recognition and operating interest.

The next slide shows the build-up of the adjusted operating expenses year on year. I will spend a bit of time on this slide. At the half year we were conscious of the pick-up in operating expenses, and this was mentioned in November we reviewed costs to see where reductions could be made.

Starting with remuneration, which fell by £18.9 million or 6% and now is at 65% of our cost base. We show fixed remuneration increasing by £11.2 million of which just under a half is linked to inflation based increases. The balance reflects a continual investment in our teams, including headcount growing on average by 2%.

Importantly variable remuneration fell in line with the decline in operating profit by £30.1 million. We have always been clear both internally and externally and evidenced here that this is variable and will flex along-side the results of the business. Variable remuneration remains over 50% of employee remuneration and this resulted in a compensation ratio decline to 43.5%.

Looking at business expenses. These increased by £11.5m or 8%. This is higher than what we wanted but lower than where we were at the half year where business costs had increased by 13%. All costs increased except for promotional.

We have analysed this and at a high level we have broken down this increase as follows: inflation linked impact of £5.8 million - for those costs that are actually impacted by inflation; FX linked impact of £3.5 million – which is mainly the USD based expenses; one off costs in the year of £3.5 million; travel costs normalising post covid impact of £3.1 million; and then finally showing what we would regard as cost management or reductions of £4.4 million.

The year on year split of these expenses remained relatively unchanged from last year, other than travel, which increased, and promotional, which decreased. And the largest expense remains the client and retail fund administration. Looking ahead we are expecting the business expenses to increase with inflationary pressure. Noting - there is nothing material planned in the year ahead.

This slide is showing the business expenses and total expenses as a % of average AUM in basis points over a 7 year period. So, covering the period both pre and post listing in March 2020. And the single message here is the consistency of total expenses as basis points of AUM as the business has grown and developed. We have attempted to maintain cost discipline and achieve some operating leverage. But this has been challenged as indicated on the previous slide. While flexing the variable remuneration, total expenses have only marginally increased relative to AUM but importantly shown the downward trend from the highs seen in 2017. However, the business expenses as basis points of average AUM have returned to levels last seen around FY2020 as a result of the impact of inflation and FX on the GBP cost base.

So, to summarise here, this is an analysis of the absolute movement in the adjusted operating profit from FY22 to FY23. The adjusted operating profit for FY22 was £230.4 million. Management fees decreased by £25.1 million. Performance fees decreased by £11.7 million. Other income items, such as: the FX gains and operating interest, increased by £5.9 million. Notably employee remuneration decreased by £18.9 million. As discussed earlier business expenses increased by £11.5 million, resulting in adjusted operating profit of £206.9 million for FY23.

My final slide summarises the Ninety One capital position at the end of the financial year. Ninety One's qualifying capital was £314.6 million at the end of the financial year. And in line with our dividend policy, the Board has recommended a final dividend of 6.7p taking the full-year dividend to 13.2p per share. A decline of 10% in line with the fall in adjusted earnings per share.

After this dividend payment there will be an estimated capital surplus of £137.2 million. This will result in a capital coverage of 219%, slightly up on the prior year and in line with conservative view of capital retention while paying out less than 100% of after tax profits. This remains above the 200% coverage we have been targeting but in line with the current market environment. We are comfortable to hold this position. Any intention to extend our dividend pay-out ratio in the future years will be discussed further with the Board.

In line with these proposals and this capital buffer - we remain committed as ever to a capital light model. And furthermore - at this time there is no plan to increase the number of shares in issue nor to encumber the balance sheet with debt.

Thank you - I will now pass back to Hendrik.

Hendrik du Toit

Thank you, Kim.

Before I move onto the growth opportunities and outlook, let me just remind you to submit your questions via the chat function on your screen. Please do state your name and organisation when submitting your questions.

Despite the current climate, we see substantial long-term growth opportunities in global and international equities, emerging market equities, emerging market fixed income, specialist credit and sustainability-related strategies. So taking those, let's see how they can translate to growth.

Emerging market equities have been underperforming for some time now but that will change at some point. Emerging market credit is an under-appreciated but growing asset class. And actually emerging market credit has been an excellent performer, which hasn't been noticed.

Sustainability and impact investing will keep growing. This is structural and will be with us for the long term.

As part of our ongoing assessment of opportunities, we have actually done detailed work on the addressable market. Our real opportunity easily exceeds 15% of the total global market for professionally managed assets, which has been estimated by McKinsey to be approximately $120 trillion. But for the purposes of proof, we have identified specific categories where we are already active to show you, that we have real plans and not just dreams to grow. We conservatively estimate an immediately addressable market of approximately £7 trillion for the investment competencies summarised on the previous slide. These have been developed organically in our business over many years.

We have a varied market share across these, ranging from insignificant to over about just over 2.5%. There is much scope to grow. In all these areas we have credible track records and recognised market positions.

In summary, if we stay focused, articulate our differentiation well and deliver competitive long-term performance, we can create substantial growth. As an example, our Global Franchise strategy has been ranked 3rd in terms of attracting net flows in the global large cap equities universe (that's from eVestment) over the last few years - we've shown that you can grow in certain categories when the opportunity is there. With the right application, track record and time in the market we can develop several scalable global leadership positions in large categories. This can add substantially to shareholder value in years to come.

We have had a single-digit number of strategy launches and closures in recent years, showing a careful balance between innovation and product discipline. Even during this year, our newer strategies again delivered positive net inflows. This proves the case for continued innovation.

To summarise, this has been a tough year. Market conditions have not been supportive. However, we have a relevant skill set for the long term. We are competitive and our investment performance is solid.

We have deep client relationships and superior client reach, given our scale. Our team is motivated and committed. So, our foundations are solid. Our multi-decade track record as well as our culture, team spirit and will to win give us confidence for the future.

Looking ahead, in the current financial year, we have seen a stabilisation of conditions. We have not yet witnessed a decisive change in risk appetite among clients, although, we have seen signs of that among certain asset owners.

Our working assumption is for market conditions to remain challenging. We will focus on execution and avoid distractions. We are confident in our ability to deliver in the long-term and give our shareholders the results they deserve.

Let me end with a quote from Marcus Aurelius: "You have power over your mind – not outside events. Realise this, and you will find strength."

Thank you for listening and now we are open for questions.

Hubert Lam, Bank of America

So, three questions. Firstly, I thought the slide was interesting around the growth opportunities that you said. So it seems like you think you have the capabilities today to still grow in these areas. So how do you compare that to trying to diversify into other areas, especially considering you had outflows over the last 6 months. So how do you think about staying the course and diversification. That's the first question.

Second question is also on flows. How do you see flows over the next 6-12 months? Do you think the worst is over considering you had some one-off impact from LDIs over the last quarter, concentration around 3 clients? Would you say that it's going to get better compared to last quarter?

Third question is for Kim. On the operating margin it was 32.7%. Considering it was a tough market last year, would you consider that to be the floor that we would expect going forward? Thank you.

Hendrik du Toit

Thank you Hubert. I think your first question is *the* question. There's this massive depression on active investment management and risk-on investment management. Why? Because there were no flows or very limited flows and asset owners have been diversifying heavily into illiquid spaces. So liquid assets were the banker, we were the bankers for

the rest of the industry, for the private equity market. That is going to end, because you're going to see some accidents as leverage starts to bite and people realise that you actually have to market to accrue market and people realise, they need liquidity from time to time. So there's going to be a shift and I think that structural shift is starting. It's not going to happen this year because the money is tied up and new flows have to be generated and jobs have to be created. So I think there's going to be a rebalancing in the thinking. Our view as a firm is, we aren't going to chase the markets that took the flows yesterday and the decades before now at great expense. What are we doing? We're staying in the public equities and emerging market debt lane. We're adding sustainability and widening a range in sustainability related products and developing our credit platforms because we've got some very well developed emerging market credit platforms, which will go into private as well as public. And there's an intersection between sustainability, emerging markets and infrastructure financing, which is going to be a sweet spot for a long time in the world economy. We are positioning for that, but in our mainstream categories we believe the bar is getting higher. If you have long track records, you've been around and you perform, you are going to get the flows because the market is going to become more discriminatory and that's what we're going for. So the trade-off for a capital light business: you can't be capital light and non-volatile. We're slightly more volatile, but if we deliver, if we have the human potential and technology to deliver and win, the gains are substantial.

So, I would say, there's a huge amount of option value in our strategy. If we don't execute well enough, we will fail to realise that option value and the bet a shareholder takes is do they think this team with its 30 year track record and its culture and its human component have the ability to capture that.

But we are staying focused in our lane. Actually, we're trying to focus the business more on clear growth opportunities, even though we have other parts in our business which may win money in the near term, such as multi-asset and others. But we're not veering into the solutions business or into the winners of the last decade or two because we just think you're going to be whiplashed if you go there now unless you've got very deep pockets, so that's question one. And I think it's a really important question as it identifies and defines us. I see David McCann looking at me. Let me just say the difference between us and a small single product boutique, now that's another great position to be in, sat there with a single product, is that we have reach to large asset owners, wherever they are and what we're really in the business of is building 100 year relationships with 100 large asset owners and asset platforms and over time making their life easier, not all the time, sometimes having low allocations from them, sometimes high allocations. That's the strategic essence.

On the flow in the coming year, Hubert, you know we never make predictions, but what I can tell you is that I think the one-offs, unless of course the US defaults, I can't guarantee. No one in the room can even imagine what that would do to the world. But unless that happens, and unless there's a nuclear war, I guess we've reached the stage where extreme behaviour and risk adjustment, or the reshaping of risk in portfolios has happened and normal allocations will resume, which will be better for us.

The experience we've had since the beginning of the year was that of a more stable market. Although, very importantly, clients take longer to make decisions, they postpone them. They've also had, because of the impact of last year on their financials, there are also some management changes in our clients and asset owners, which slows down the decision-making process, so I'm not predicting a back to Goldilocks-world in 3 months. Understand that. But I do feel there's a much more stable and sensible allocation process as opposed to a reaction to extreme market events.

You know, interest rates went up 10 times last year in the US, just think about it, it's enormous that impact and it's going to work through but that shock has now been absorbed, so I would say if it's as bad as this year I'm really going to look stupid next year and I may not even show up here. But I really don't know. The indications are that it's a more stable, normal market. Kim you can deal with the last question.

Kim McFarland

Operating margin is a factor of both the top line and the bottom line and Hendrik talked about the top line which is your flows, holding on the fee rates, which as I noted, we've not seen a drop off as we've seen in the past, which has been a full bp.

From the cost perspective, there's a big chunk of those costs that are still fixed. Yes, we've shown that we can fix our variable. We spoke about it last year, we've done it. We've not had any mass exodus walk outs. There hasn't been a knee-jerk reaction in the business as a result of that. We basically processed that internally very early on, both

internally and as we mentioned, externally. So we will still be challenged from an operating margin point of view with a fixed cost base. If you're going to hit the game with inflationary pressure, we've analysed that quite closely, we know what those figures are. Again, with a USD base, we're not seeing anything material, we had some one-offs we had the last of the covid travel costs coming through which hit us. We like to try and keep it somewhere between 30-35%. We're sitting in the middle there at 32.7%, which is something we will come onto.

Hendrik du Toit

May I just add something to this? We want to be on the front foot in this negative market. So, what we are not doing is optimising to margins and earnings targets. There are opportunities in the world right now. There is loose talent in a number of organisations. There are regions which are currently producing lots of money. For us to be overly conservative and not go for that and build growth for the next five years would be wrong. So we will take bets and we will invest in our business and we will actually invest as if we own a hundred percent of the business. I know we only own a third and a lot of people own the rest, but we think like people owning a hundred percent of the business. And that means from time to time you actually don't play to the next quarter's dividend.

I just yesterday had a long conversation with the board about that, explaining to them that this is what they can expect. And so we will be opportunistic but only in the areas we have identified as growth opportunities. You're not going to see us tomorrow starting a life sciences business out of nothing, where we haven't got any credibility, that you won't see. So, we can't guarantee a margin.

Who's next? Let's see, we have these guys, him here and David.

Paul Bryant, Equity Development

Thanks, Hendrik and Kim. Paul Bryant, Equity Development. Two on the sustainable investing opportunity. The transition finance features quite prominently in your opportunity. It seems to be more prominent discussion in South Africa, US, compared to Europe, but I'm curious to see if that translates across your clients. Is there a difference in interest across geographies in that space?

Hendrik du Toit

I think that's a very astute observation. A very good question because I've hinted there without talking too much. Unlike in banking, when you start a new idea that you go to clients that respond quickly, you know, if you're an investment banker, you can get it done. Go to corporate, you do a deal. In the asset management world where we have a heavily intermediated channel, consultants, boards of trustees, advisors, it takes long for new categories to take off.

Now, we know how successful Brookfield and Macquarie have been on the transition equity side. But a lot of that was dealing with existing asset owners who were already in that space, wanting to go. In the more traditional end of the market, there's been a long conversation, which initially started with decarbonise all portfolios and then pretend the world's going to be better. Well, we've all now realized we've actually got to take the businesses we have and make sure they decarbonise. That would need finance, both equity and debt. That is the opportunity we're talking about. That 4 trillion a year of which one has to go to the emerging markets. Those are massive, massive numbers with returns at the end if you do it, or massive destruction if you don't do it.

That space of transition finance is something which you'll hear more about as you go to COP. You'll hear it becoming a normal mainstream discussion point. The banks have already moved, you'll notice they talk about big parts of their balance sheet being part of that, but they don't have enough balance sheet. It's the 120 trillion that I showed you that has to participate.

That is the unquantified growth opportunity that we have been pursuing now for the last, I would say five years, without showing much detail. We hope to start showing you some real results. But the education investment has been massive. The meeting, the potential regulatory and market risks of being associated with green washing, those are massive. You've got to be very careful. So, we've really been digging deep foundations for something I'm quite excited about, but I have no proof points to say it's starting to happen. The sense is transition finance will become a very important part of finance, Ninety One will be a player in that at scale, but you've got to wait. So, I can't make any promises, I can't make short-term promises, but what I do know it's going to happen. Question is who's going to capture it and how.

And I think we are positioning our existing skills where they're relevant to contribute to that and that's as much as I can say now. But I think there'll be more news at interims and at year end stage.

But remember everything we do is organic. So, it takes longer. We start building these foundations, you know, global quality equities that we spoke about, the global franchise strategy, which is now a very substantial flagship strategy. That was zero 15 to 20 years ago. It was kind of a dream. These things take a while, but I'm very excited about that opportunity as an addition to the traditional betas on which we add alpha.

And we don't think those traditional betas are disappearing as I showed you with the £7 trillion which is almost 10 trillion dollars, which I could easily have made 20 if I wanted to impress you, but we were really focused on what is there now and today to capture. In that, 7 trillion there is zero for transition finance.

Okay, Rahim and then David. David, you gave us a bad report card. No, David, go for it.

David McCann, Numis

Morning. David McCann from Numis. Just wanted to touch on the new growth channels that you've articulated, the product. You obviously already answered some questions on this. I just wanted to get a sense of what proportion of your existing business that those four areas really represent. Just so we can get a sense of the bits that might grow, what proportion of your existing book is it and of the balance, which is obviously the more mature or even declining book, just so we can figure about how those counterbalance.

Hendrik du Toit

I wouldn't put the balance as a declining book. Very good question. I would say about just over half, half to 60% is in those spaces. I would say the other half to 40%, but less than half, half would be in low growth space. So, a quarter of the business is in generally lower growth spaces. You don't need a genius to work out which they are. But lower growth, a quarter is a version of, but not in the sweet spot where we think it'll grow that much.

So, one quarter is good beta, that could get positive flow. Take for example in areas such as in our case we have to compete very hard for multi-asset mandates, because we don't do a solutions business. We have a very good multi-asset team, they will win. But winning at the same scale as those growth areas is going to be a challenge for them, but we want them as part of our business because they're strategic part. They inform us about the entire asset spectrum, they understand how our clients think, because they think like our clients and they grow, but they're just not in a growth sweet spot like solutions like the low margin solutions, because we actually take responsibility for the alpha as well.

I think given the dynamics at the moment in the South African economy, we can't expect that pot of money to grow as fast as it used to grow, but it's a good part. Our market shares are growing. We have a great business there and we don't think that business is going to go into decline, but it's not going to grow as fast as the areas I've shown you. And then there's always certain styles or products that you do which become less fashionable even if you don't believe they're less fashionable, clients might believe, which is why I leave a quarter open for, I wouldn't say rundown, but less growth.

What's interesting in this business, some of those older strategies or offerings that may not be in huge demand, I mean value has not been in demand for 10 years, but they may come back. So, you keep them because they're profitable, they don't cost you anything, but they don't necessarily grow at that point.

So, in a focused asset manager, you have a few things extra. What we try to do at Ninety One is not to have too many of these, because then you have a cluttered proposition and then you go and talk to a client and the client doesn't know what you stand for. So, what we're saying very clearly, we stand for a few areas, that's our opening gambit, but that's how clients know us. But if they know us well enough, they may say, well, can you do that for us? And we say yes, but what we don't do the traditional, long-only broad waterfront approach. We don't think that is going to work unless you're a retail or a mutual fund or ETF manager in a large market, which we aren't.

We talk to people who any day of the week can pick amongst 20 or 30 suppliers for anything they need and therefore they deal with the suppliers they trust and the ones who have done well for them in the past and who are very clearly expert at what they do, and that's what Ninety One wants to stand for.

Now, had we started in the US 30 years ago in a scale market, we would've been known for two or three things and we would've bothered with a rest. Having started in a small emerging market where we had to deal with the waterfront, we also had to find out and then come to the UK when actually just at the point when risk taking in institutional market was imploding. Interestingly we arrived here when the market was kind of over. We had a broader base to start from and slowly, slowly you're narrowing it down and slowly, slowly you're becoming known for something and you distinguish yourself with your long track record. That's the process we've been through. I think we are pretty clear now and we have a very clear proposition to large clients, which is why the bulk of our assets are in the growth space. But there are some parts where growth will inevitably be lower, or fashion would dictate, or custom client demand would dictate that there wouldn't be that much. But we run them profitably. We don't run things at a loss unless we think they are growth prospects.

So where do we invest at the moment? Specialists credit, sustainability. We're investing heavily in the technology backing up our investment teams to make sure they can be more efficient, but we are not investing in sort of quixotic new ideas, which may or may not come off.

David McCann, Numis

Thank you for that. Just to follow up on the newer areas: what did the flows look like, let's say over the last year? Perhaps, if you want to exclude any one option you also mentioned and then just also thinking, looking forward, what would good look like? Would this be kind of a torque ratio of five or 10% in those areas in isolation? Is that the kind of numbers we should be thinking about?

Hendrik du Toit

I think the growth areas held up pretty well, except for emerging markets, which is clearly marked as a growth area, they held up pretty well this year. Even in this year, they've been strong except where clients took off largely, they saw a large equity risk, at scale, they just took it off. They didn't want it. Those were not either good or bad, the risk was just taken off.

I would see the sustainability growth, you can go look at Impax's results, there's demand. We've got an equity centric offering, which we are adding debt centric products to the equity centrism, was a little dampened towards the end, but did okay.

The global equity side, I think in, particularly around the quality style, there's a big opportunity for us, particularly out of the US. We've seen in the last quarter of the financial year, where people have been knocked by so many risks and then came the US banking thing. There was a hold on liquidity and a hold in allocations. I think we'll be able to tell you at half year whether those allocations are structural.

And then of course we are also reinventing some of our existing platforms with good track records to make sure they are client facing and client need facing. So, I think at half year I can give you a sense, but the newer areas and the areas I've identified have clearly had the better of the client experience, subject to the fact that there was significant equity risk down-weighting and there was significant caution on emerging market fixed income. And you've seen Ashmore's results as well, that tells you the same story.

Rahim Karim, Investec

Good morning, it's Rahim Karim from Investec. Two questions if I may. Hendrik, you talked about the structural decline in UK equities. I was just wondering if you could perhaps elaborate on that a little bit more on what you might be doing internally to right size that business if that's required or if it was more of a relative comment than an absolute one.

Hendrik du Toit

We've obviously been reducing some costs there, but also focusing and we've got a very exciting UK income and UK alpha and UK sustainable. We just won a prize last night for the best UK sustainable strategy, but we haven't seen flows. So we are focusing the UK equities for the remaining market, but we are making sure we match the opportunity with investment. We think we're going to be one of the survivors, but we don't think that's going to ultimately drive our firm, the full value of the firm. It'll add value and we are probably close to the bottom, and as we have the consolidating in wealth managers, they are also building more international portfolios for their clients.

I think one of the travesties is how UK Inc has actually short sold its own equity market and not kept developing it. And I think we are all in the room more, in a sense, victims of it because you need equity to finance your own developments. You need new businesses. You can't keep active vision here as a prisoner. You need to have lots of new active visions developed by an equity market, which gives the right kind of valuation. There's enough money behind it. So, I think that's a challenge for the policy maker, that's above my pay grade. But I would say there's still a large pool of money here, and for that pool we are going to compete in a measured and in a specific sense. But what we've done, we for example had UK products across some of our equity platforms. Remember we are skills-based platforms. We've narrowed it down to one platform and made the others focus on either global or emerging markets because there was more money flowing there. So, I think we've done that. There's no re-engineering to come. That's done.

Rahim Karim, Investec

On the second question, you talked about the investment in technology. Perhaps give us a sense of how much you've been spending on that and how we should think about the efficiencies coming through. Is that a support to the underlying margin? Is that kind of a forward slight degradation in revenue margins going forward? How should we measure the success of that technology investment?

Hendrik du Toit

Firstly, Kim can talk about the spend. We haven't really gone with the check book. It's more the mindset.

Kim McFarland

I was about to say I think you're measured in performance. It's not a financial impact. The cost that you see, the system spend you're seeing is really where the investment is. We spoke about this last year and there's always a danger when we say technology enabled investment spend. That shouldn't be translated, I think Hendrik mentioned earlier, as an increase in what you're actually seeing currently being projected or in the figures that you see right now. So, I think what we're rather seeing is an internal efficiency and if anything, an improvement of the processes.

Hendrik du Toit

So, I think if you look today, for example, our investment managers, the screens they have, the dashboards they have, does it allow them to operate with fewer analysts than in the past? Yes or no? Does it enhance their visibility of what they do? Because remember a lot of our spend has been to keep up with our clients. Our clients want to know real time what's going on. When you have an insurance company in Germany with 20,000 people or in the US checking you and you've got three people this side of the fence or 30, you've really got to then have the systems to be able to deal with them.

So, one thing we can assure you is we have the systems and the pipes to plug these asset owners in and to meet their demands. That excludes a whole lot of boutique land which cannot even start competing with them. So, we're there and that spend is annual and continues. Of course, there are AI benefits and there's data, but we are very cautious of going into this sort of promise that we are going to reinvent the way we do things. It's a marginal efficiency and it's a keeping up with your client.

And then of course, we've really been focused on the investment front office where we've created, over the last three years, a team internally that develops the systems in a standard way across all our teams. So, we don't have all these packages bought where our data cannot be looked at in a comprehensive and an aggregate way. And of course, RFPs. I mean the AI revolution is going to really help with basic RFP, basic marketing stuff, basic compliance, checking and all that, that's coming. But that's not going to put us at an advantage to anyone else. We'll just be there, with the good people, and we actually have a session after this with our staff about explaining it and what we can do. But it's not a big spend. I mean, Kim, it's a few million extra?

Kim McFarland

Well, it's basically a trade-off. The point I'm trying to make here is there's not a pick-up in expenses when you're doing a modelling going forward. It's an efficiency.

Hendrik du Toit

Two questions. Piers, you guys and then two outside. Go for it.

Piers Brown, HSBC

Piers Brown from HSBC. So, maybe one for Kim and one for you, Hendrik. So, on the question for Kim, just on cost again. Sorry to keep sort of banging on about cost, because I'm sort of on board with you, you can't shrink the glory. But given the market outlook, I mean you mentioned the £44 million of cost management saving last year. I mean is that...

Kim McFarland

£4.4 million

Piers Brown, HSBC

But if you could describe the process there. Is that just an ongoing process of looking for optimisation in the fixed cost space? Is there anything you're looking at specifically in the pipeline for this year, which you might pull the trigger on.

Kim McFarland

It's the ongoing... no, it’s nothing specific that you're looking to pull the trigger on. It's looking through, doing deep dives into where spend is and, importantly, looking to find where you can remove fat out of the business and not try to cut muscle, which is what I think Hendrik was alluding to earlier about, you can't stop spending in the organisation, but it is just the continual... It's just a discipline and a mindset of which we sort of pushed right into the business of looking at every single of every spend and whether it's on a travel or a promotion or anything like that. There's nothing specific that you can then say I've gone and closed an office or made a particular change.

Hendrik du Toit

An example, I had to overrule one of our marketing people yesterday who wanted to put the non-execs in a really bad hotel for the strategy session. I said no, this is enough. So, there's a cost culture here. Unfortunately we are not fat. If we came in fat, it would've been easy. That’s maybe our challenge.

Piers Brown, HSBC

Okay, so if we're looking at our models for this year, we're taking full year 2023 and add in inflation, I mean that would be a reasonable start.

Kim McFarland

Yes, and it's obviously inflation on the entire book, which was a key point I was trying to make. It's not a standard inflation impact across the book.

Hendrik du Toit

Less than inflation.

Kim McFarland

Maybe less than inflation.

Piers Brown, HSBC

And the second question is sort of related to that, but just on the variable comps, I think you're down 6% year over year. I don’t know whether you benchmark that against the competition and where you stand or what you're seeing more broadly in the hiring market.

Hendrik du Toit

We pay well. We were criticized in the past for having a high comp ratio. We actually deliberately wanted that because we want to be known that if people do well, they pay well, but it's results based. And if results aren't good, it's not there. And culturally people understand that they'll come here, they're happy for the variability. What we don't do is when profits shoot to the roof is now short-change the people. And that's the important part of that bargain. But at the moment I don't see we've got a problem. If we obviously go lower, lower, lower, lower, we're going to hit that problem, but it's not at all in our vocabulary at the moment.

Kim McFarland

I think you've also got to bring into account there's a large portion of ownership in the business as well. So, people are aligned to what the results are and unlike what's recently been in the press, we don't have contractual arrangements with staff either. You know, it's an agreement on how the compensation and the variable pool is actually given. And we are very clear and as I said earlier, we do communicate a lot back into the business. So, the expectations were there.

Piers Brown, HSBC

Thank you

Hendrik du Toit

We have one more...

Angeliki Bairaktari, JP Morgan

Good morning. Angeliki Bairaktari from JP Morgan. Just one, I want to hear your thoughts. You referenced the liberalisation of exchange rules in South Africa in the press release and you mentioned that this has not really benefited the domestic players. So, I was just wondering, have you seen any loss of market share in South Africa on the back of this change?

Hendrik du Toit

Angeliki, that's a good question. As the biggest domestic player, although we are also the one domestic player with a bigger international business, we are probably the best positioned in that market to deal with it.

But when your choice widens and suddenly you've got 45% instead of 25 or 30 or whatever the previous number was to dish out, every asset manager in the world shows up. I mean from BlackRock down, they're all there. So, the choice for the client is more. Why would the client use exactly the same manager unless it's compelling and competitive. So, for the international, we only compete in the areas where we win internationally and where we are known to be good. We can't sort of sell them just because we grew up next to them. Therefore there is a natural widening of choice and therefore a market share decline for domestics.

I think our team's done really well at managing that and our clients have also learned you get better service out of the manager who you know and have dealt with for a long time than someone who just flies in speculatively and just disappears in the first cost cut when it happens in America or somewhere else.

So, I think over time, we'll reset. It's just not helpful in the year when you had the worst markets, you still have that on top, so that's the point I'm raising. We are very comfortable competing for that market and continuing to hold our market share, but it is more competitive.

Sorry Eva, who's online?

Facilitator

So just a very quick reminder for those of you on live webcast, if you want to raise any questions, write them into the chat function.

We've got three questions from Siphiwe Ziqubu from ClucasGray Asset Management: Could you please detail the increases in headcount during the year. In first half, 16 were added. In second half, 10 people were added. Which teams and roles were added to? Can you give guidance on increases to headcount for next year? And following up on that,

we haven't seen meaningful change in the compensation ratio. Why is this the case given markets outflows fee compression?

Hendrik du Toit

I'll answer the compensation question. Kim will talk about the head count.

The key point here is our compensation is aligned to revenues and profitability. Therefore, our variable aligns with that. Our fixed is fixed and we didn't increase our salaries except at the bottom end. We didn't increase either ahead or with inflation except where we had promotions or competed for new talent. So, sometimes you see the increase in fixed looks higher than it is, because you had to hire someone in from somewhere else and they were paid more wherever they were or that was their level, or they were a better human capital that you were acquiring. So, I would say variable is very much aligned to our revenue and profitability outcomes and, therefore, it'll fluctuate with that, not with the net flow performance. Of course, over time net flow will impact it. On the headcount itself, I think key point is we start the year always short of headcount that should have been hired the year before.

Kim McFarland

We don't give detail as to where they are, but I would quite comfortably say the increases are across the board. It's in some specific areas in teams, probably less on the client group side. There'll be an uptake in operations, I'm talking about an average increase of 2%. So, there's a few pieces in the operational teams and you've had a few on the investment side as well. We've just really strengthened the teams from an investment side. Looking ahead, our intention is not to grow that headcount number and if anything, try to hold on it.

Facilitator

Final question from Siphiwe. Can you speak to the business momentum in Asia Pacific in the second half? Are you seeing recovery in flows in that region?

Hendrik du Toit

Let me come back to the headcount. There's one other point I wanted to make. We are a people-centric business, so we don't have these corporately announced 10% or 5% cuts creating fear in the organisation. If people don't deliver, they get told and eventually they get asked to go if they haven't delivered or their business area runs out of puff. But it's not a general top down. It's consistently managed and that's why, as Kim says, we are probably going to be a kind of flat headcount here. We should be more efficient with technology and time. But our clients have been demanding more, as I said, for the same fee. And sometimes you just need people to help you there.

What's the last question? Those were a very small number of very large asset owners having taken risk off the table with whom we have good relations. They will come back, they're not yet back. We've actually seen some good activity in that region and there's a decent pipeline from that region that I can confirm.

We're done. Thank you very much, guys. Hopefully next year in September, we´ll have better news, hopefully. Thank you. Bye-bye.