Interim Results 2023 presentation transcript

Tuesday 15th November 2022

Hendrik du Toit, Founder and Chief Executive Officer

Good morning ladies and gentlemen and welcome to the presentation of Ninety One's interim results for the six months ended 30 September 2022.

Thank you for joining us, whether here in person or virtually.

I will start with an update on the business, then Kim McFarland, our Finance Director, will present the financial review. I will then cover the outlook, before we move to questions.

Those of you participating through the webcast can submit questions during the presentation, via the chat function at the bottom of your screen.

Before I move onto the first-half performance, let me remind you of the key characteristics of our business model.

At Ninety One, clients always come first, in good times and in bad times. We have, and we continue to, build long-standing relationships with our professionally intermediated clients whom we serve locally or through our various offices across the world.

Ninety One's origins are in the emerging markets, from which we have grown into a global investment manager.

Stability and owner culture are key foundations for Ninety One and we have no intention of undermining these foundations because of temporary market headwinds.

Ninety One has a people-centric, capital-light, technology-enabled business model which is highly cash generative. Since inception we have paid out around £1.6 billion in dividends to shareholders.

We are building an intergenerational business, that can generate competitive returns for our clients, through the cycle. It's our belief that when we serve our clients well, our shareholders will also be well served.

And all of this is underpinned by our purpose of investing for a better tomorrow. We do this by building a better firm, committing to better investing and contributing to a better world.

This familiar slide demonstrates the resilience of our business through many cycles. Ninety One has been organically built and sustainably built over more than three decades, with a track record of successfully navigating a range of market conditions. This chart tells many stories and highlights the phases we have been through as a business.

The latest one started when we became independently listed in March 2020, and in this short period we have encountered two fully fledged bear markets. But unlike the recovery we saw post covid, we expect the current challenging conditions to persist for the foreseeable future.

Let me move onto the key messages. In May, when we presented record full-year results, we signalled caution. Ninety One is a risk-on business currently operating in a risk-off environment. Ours is a predominantly long-only business, inherently exposed to the price volatility of financial assets in which we invest our client capital.

Our clients are more cautious and taking more time to make investment decisions, or de-risking their portfolios, irrespective of investment performance.

Against this backdrop, we delivered broadly flat revenues, with moderate cost growth.

We saw net outflows in the period, due to lower volumes of new business, while outflows remained broadly stable.

Our peer-relative investment performance remains competitive and we continued to focus on improving our short-term performance.

In spite of these adverse market conditions our strategy remains consistent. We will continue to apply our well-tested investment processes diligently, focusing on our clients and their requirements, and ensuring that our people are well supported for the task ahead.

The substantial staff shareholding in Ninety One aligns the interests of our people with those of our stakeholders and demonstrates our long-term orientation.

Here are the key figures for the first half. Kim will cover the financials in more detail later.

Assets under management decreased by 8% in the six months to £132 billion, driven by net outflows of £3.2 billion and lower markets. Average assets under management increased by 1% versus the same period last year.

Our investment performance remains competitive, with three-year firm-wide outperformance at 66%. Our adjusted operating profit declined by 7%. The interim dividend of 6.5 pence per share represents a payout of 71%, in line with the prior period and our stated dividend policy.

The last six months have seen some very challenging markets. We have seen interest rates rising faster than anticipated, from historically low levels. Central bank tightening and increasing geopolitical uncertainty have provided further headwinds for both equities and fixed income. The heightened volatility and increased cross asset correlations contributed to a difficult operating environment for active managers.

We have seen clients de-risking their portfolios and positioning their investment decisions, postponing their investment decisions, thus limiting our sales opportunities.

We initiated intensive client engagement, making sure we remain close to our clients and ready to act when opportunities arise.

In 1931, 1941 and 1969, treasuries and equities were also highly correlated on the downside. There was not much place to hide for a long-only investment manager. As I have said many times before, we don't change our approach because of short-term market events.

Let me remind you, that we have seen net outflows in 25% of the half-yearly periods since 2002. Yet, we have delivered significant growth over the last 20 years, of which just under half has been due to net inflows and the other half due to markets.

We focus on delivering good outcomes for our clients in the long term, and we will continue to do that. Our assets under management remain well diversified across asset class, client region and client type.

Let us look at the flows by asset class. We achieved net inflows in our South African fund platform and marginal net inflows in Alternatives, which is predominantly credit.

Unfortunately, those were offset by the remaining asset classes, mainly from Equities and Multi-asset.

The net outflows in Equities were largely driven by some of our global equity strategies. The bulk of these outflows related to two clients de-risking their portfolios unrelated to investment performance. As I have mentioned in the past, our clients include very large sophisticated institutional investors, and therefore, our flows can be lumpy, as we have seen in this period.

Only the Africa Client Group saw net inflows in the last six months, largely into fixed income strategies and our fund platform business. The Asia Pacific Client Group saw the biggest net outflows in the period, driven by global equity strategies.

The net inflows in the advisor channels were more than offset by the outflows in the institutional channel. The advisor channel experienced net inflows from the Africa and UK Client Groups. A combination of de-risking and LDI-related liquidation towards the end of the period drove institutional outflows.

Moving onto investment performance. Our firm-wide aggregate, asset-weighted performance remains competitive, with 66% of our strategies outperforming benchmarks over the three-year period. Over five and ten years, our outperformance as at the end of September stood at 75 and 83% respectively, leaving us well positioned to compete.

We are aware that our short-term performance, while slightly better compared to six months ago, still needs improvement.

Our mutual fund investment performance improved significantly since year end. This is a good, albeit imperfect proxy for peer-relative performance. We are now in a better place, but we are not complacent.

As ever, our focus remains on delivering competitive long-term investment performance for our clients.

Over the last two years, we have focused our sustainability efforts on climate change. This will remain our priority for some time to come, given the urgency of the issue. We have spent significant time considering how we can contribute to the thinking of our clients while achieving real world change. Decarbonising portfolios does not guarantee real-world decarbonisation.

In our sustainability mandates we have been encouraging asset owners to invest in the climate solution providers and to support the transition of currently heavy emitting companies and countries.

Working largely within the Sustainable Markets Initiative and the Glasgow Financial Alliance for Net Zero, Ninety One has actively contributed to the now-established framework for transition finance. These will be crucial in the years to come. We have advocated loudly in our industry for measurements that support allocations into these areas and which do not leave emerging markets behind.

Our targets, submitted to the Net Zero Asset Managers Initiative were accepted by the Institutional Investors Group on Climate Change in July. This gives credibility to our transition plan, something we expect companies in which we invest in to deliver themselves.

Without substantial investment in the required transition the world will not improve. Ninety One is committed to aligning its business with this imperative.

Our range of sustainable strategies have achieved positive net inflows and we launched one additional strategy in this reporting period.

In these testing times, we gain confidence from strong, deeply ingrained owner culture at Ninety One and our stable and experienced staff complement provide us with confidence. Talent density and diversity are key objectives for us. We are direct and honest with our people about the challenges we face and about the high expectations we have of them.

The staff ownership in Ninety One now exceeds 28%, which is in line with our intention to build an intergenerational business.

I will now hand over to Kim, who will take you through the financial review.

Kim McFarland, Finance Director

Thank you Hendrik and good morning to all of you.

I am presenting a set of interim results which reflect the current environment, that Hendrik has already summarised.

The highlights are as follows:

Adjusted operating revenue increased by 1% to £330.9 million. Adjusted operating expenses increased by 5% to £223 million. This resulted in an adjusted operating profit of £107.9 million. A decline of 7%. Adding the increase in adjusted net interest income and the gain on disposal of Silica in the prior year, profit before tax decreased by 16% to £110.6 million. The effective tax rate for the period was 23.4%, which is pretty much in line with the prior period.

The above factors result in profit after tax decreasing by 16% to £84.7 million and the adjusted EPS declining by 7% to 9p in line with the fall in adjusted operating profit as shown above.

Consistently, I have reported adjusted operating profit by adjusting for lease interest, subletting income as well as removing the contra impact of the revaluation of the deferred employee benefit schemes. The adjusted operating profit margin decreased from 35.2% to 32.6% and this was due to an increase in fixed expenses being higher than the increase in revenues.

As I cautioned back in May, it has been a more challenging period. We are confident that the adjusted results as referred to here, reflect the true operating position of the business for the past six months.

So, this slide provides further details on the adjusted operating revenue which increased to £330.9 million.

Management fees decreased by 1% to £312.8 million from £314.8 million in the first half of 2022. This compares to a decline of 2% from £318 million in the second half of 2022. However, the average AUM increased by 1% in the comparable 6 month period to £138.2 billion.

The average fee rate however declined from 45.7bp to 45.2bps. In the main this was once again due to an increase in AUM on below average fee rate clients and a change in the mix of strategies held by clients – and this was predominantly in our offshore fund range. With the current market conditions, we will continue to guide cautiously to downward pressure over the period ahead.

As previously guided, performance fees decreased from the prior period by 19% but were still £11 million. These fees arose as a result of relative investment outperformance in a selection of strategies.

Other income primarily comprises a material foreign exchange gain of £7.4 million which was predominantly due to the

translation of the US dollar assets with the weakening of the pound sterling over the 6 month period, from 1.31 to 1.11 as at end of September 2022.

The next slide shows the build-up of the adjusted operating expenses between H1 22 and H1 23.

All areas showed an increase over the prior period. The total adjusted operating expenses increased by 5% to £223 million.

A key expense was once again employee remuneration, which reduced to 66% of the total expense base (in the comparative period this was 69%). The total remuneration expense increased marginally by £1.5 million or 1%, to £147.3 million.

This was driven by an increase in fixed remuneration due to annual inflation and market related adjustments, which was largely offset by a lower accrual for variable remuneration, in line with lower adjusted operating profit. Let me remind you that over 50% of employee remuneration is variable. And overall, this resulted in a compensation ratio of 44.5%.

Now turning to business expenses - these increased by 13% to £75.7 million. Let me take you through each of the business expense categories.

The largest expense is client and retail fund administration and this has increased by 8% or £1.6 million, driven mainly by the weak sterling on the USD based expenses here. The same can be said about information expenses - which is actually included in Other.

Fortunately, only around 20% of our cost base is USD while the balance being predominantly in GBP and ZAR. And as noted earlier we did benefit from a high proportion of dollar based revenues.

Travel expenses in absolute terms have increased significantly from the prior period following the easing of COVID 19 related restrictions but do remain lower than the pre Covid period. System expenses increased due to ongoing investment in underlying platforms. There is nothing notable to highlight here.

Overheads, also included in Other, increased largely with inflation plus a few one-off charges, which we are not expecting to repeat in the second half. The comparable period split of these expenses remains largely unchanged.

Looking ahead we anticipate that the business expenses will increase with a mixture of inflation and FX pressure. But at the same time there is strong cost discipline in the business and as a result we guide for a lower increase rate in the second half.

We expect and guide that total remuneration expenses to be marginally flat as we flex the variable element there.

This slide simply shows the total and business expenses as a % of average AUM in bps over a 6.5 year period. So this covers the period both pre and post listing in March 2020. And the key message here is the consistency of business expenses as the business has grown and developed.

As stated earlier, the slight uptick here can be attributed largely to FX and inflationary pressures, albeit marginal. Both are out of our control but - where we can - we will continue to tightly manage the total cost base going forward.

So, to summarise here, this is a graphical representation of the absolute movement in our adjusted operating profit before tax from H1 22 to H1 23.

Our adjusted operating profit for H1 22 was £115.6 million. Management fees decreased by £2 million. Performance fees decreased by £2.6 million. Employee remuneration increased by £1.5 million. Business expenses also increased by a further £8.7 million. Foreign exchange losses in the prior period were reversed to gains with the resulting impact of £7.7 million. Then adjusting for the small decrease in other income items of £0.6 million. The adjusted operating profit for H1 23 was £107.9 million as reflected earlier.

So, my final slide summarises the Ninety One balance sheet and the capital position at the end of September 2022.

Ninety One's qualifying capital decreased to £307.9 million. Estimated regulatory requirements also decreased to £111.3 million. And in line with our dividend policy, the Board has declared an interim dividend of 6.5p. This is a decline of 6% from the 2021 interim dividend and is in line with the 7% fall in adjusted EPS to 9p and translates into a pay-out ratio of just over 70%. Ninety One remains committed to its stated dividend policy. After this dividend payment there will be an estimated capital surplus of £136.7 million. This will result in a capital coverage of 223%, which the board deems prudent.

Furthermore, at this time there continues to be no plan to increase the number of shares in issue nor encumber the group balance sheet with debt.

Thank you - I will now pass back to Hendrik.

Hendrik du Toit

Thank you, Kim.

These are challenging times and we remain cautious about the foreseeable future. That said, Ninety One is a resilient business with a diversified offering and a long track record of operating in bull-and bear markets.

We see ample long-term growth opportunities ahead in spite of current market conditions. We will maintain cost discipline, but we will not sacrifice long-term growth and organisational stability just to meet near-term targets.

We intend to navigate the turbulence with confidence. This is not a time for distractions. More than ever, we will focus on the investment task at hand and do our best to meet the needs of our clients, by staying engaged with them and doing what they expect of us. Our focus is firmly on execution. To execute well, we need a motivated, highly skilled staff complement. The people of Ninety One are up for the challenge.

Thank you very much for your support.

Before Q&A I just want to pay our respects to a colleague who sadly passed yesterday. André Roux, who was one of our senior fixed income portfolio managers and a previous Head of fixed income, passed away in London yesterday after 23 years of service with us. Cause is not clear but he just got ill over the weekend, so I think that just a second or a few moments of silence would do.

Thank you very much.

Questions. Hubert, you are always first out of the block. You always take a day longer than the other analysts and then you write more but your questions first.

Hubert Lam, Bank of America

Thanks Hendrik. Three questions. Firstly, on the operating margin. It was 33% in the first half, I think Kim you mentioned some headwinds in the second half around cost, inflations, FX. I'm just wondering how we should, any guidance around the operating margins in the second half? That would be helpful, thanks.

Hendrik, a couple for you. First thing, Asia. There seems to be pretty big outflows in the first half. Could be due to the one-off, I think, mandate losses potentially. I'm just wondering if you can just talk about the dynamics there and also if that's a set back to your goal in terms of improving institutional growth in Asia.

And lastly, I know your comments are quite cautious on the outlook. Is it both on the institutional side as well as the advisor side? I notice that the advisory flows were actually quite resilient. I'm just wondering if you are also downbeat on that in the second half. Thanks.

Hendrik du Toit

I'll leave the operating margin point to Kim but just to say that operating margin for us is an outcome and not an objective. So maybe Kim you can just say what you expect there.

Kim McFarland

Absolutely. I think that, as you said, we've guarded the fact that the costs are going to be there. We've got inflation and obviously we see the impact of FX cost, which hit us quite hard in the first half of the year. But we will guard on it being, it's not going to go up, it will be slightly down in the second half. But we are not anticipating that it will be anything material. Again, because we are not expecting any material costs to come through.

Hendrik du Toit

What we are going to try and do is really contain cost growth rather than destroy capacity because we see in a number of our markets structural growth opportunities that we don't want to step away from. We are just fully invested in our North America platform. We're not going to step away. We can be ten times larger there than what we are so if we are going to tinker now... So that's the balance that we are trying to maintain and therefore not willing to commit to a particular target.

I think as far as Asia's concerned, these were very specific accounts and it was related to them, so I think we are as committed to the regions we are in and essentially large asset owners and asset platforms in those regions. They behave similarly whether they're in California or whether they're in China, they actually have the same decision making processes. And so, where the pots of money are, we are actually quite optimistic about both the Australian opportunity and of course the Middle East, where you know money is coming out. You know, these economies are growing so we are not negative on that. Clearly some of you may ask the question which you asked at year-end: what about China? I was very clear until we have free travel and covid restrictions are off, there is no point in going except serving your existing client base and at the moment they do business remotely but not in large volumes and fundings are slow so that situation is going to be in place for the next reporting period.

I think as far as the outlook is concerned, we haven't seen, and remember we deal with the upper end of the retail market or advisor market, so our clients are wealth managers, sophisticated financial advisors, not directly with a man in the street and definitely not with the sort of small accounts that are quite heavily exposed to Crypto right now. That's not our market. They have not panicked. They've behaved very similar to institutional investors. We are not sure, when an economy goes into recession, that people will not need their money and call on their savings, even if it is to look after family members. So we haven't seen that. Neither have we seen fear. With abrupt or with big movements in markets that may still come, so we haven't had the negative from that. We actually had a fairly disciplined experience from our clients. It was more institutions repositioning and I gave you the reasons.

I think from an investment performance point of view, we've been good enough to keep the clients, but I think it's important if you really want to open the front door, you've got to have exceptional performance in your relevant strategies. That's what will determine a big year or not, and we have to wait and see how it unfolds during the next few months. But if you deliver that and you're in the top end and you're one of the firms they looked at… I mean we've won a few landmark mandates which have funded much slower than we would have expected, exactly because asset owners have been slow on the cash. You know, when we pitched they were very big mandates, money starting to dribble in, or they say: "look, we'll take our time thank you. You've been selected." Okay. We have to wait, that's just the game. So that's the outlook.

So we haven't suffered from panic selling by anyone and one could either say, well actually we've got a great client base, or you could say, well there could be a risk further in the flow picture, depending on how you feel in the morning.

Thank you. David.

David McCann, Numis

Good morning, David McCann from Numis. First one: you mentioned LDI being a factor that drove some of the outflows, but obviously when you break it down geographically it looks like Asia Pacific was actually the main region, which isn't really where LDI is, we're talking about the UK there. So maybe you can just give a bit more colour on what it was you were seeing and I presume this is not directly LDI related because you don't do LDI, but more because LDI, pension funds were selling other assets, so maybe just a bit more colour there would be useful?

Second question: just given the obviously cautious outlook, you say the 'foreseeable future'. How long is the foreseeable future?

You don't seem like the kind of operator that's just going to sit on your hands and do nothing. If the environment does stay difficult for a longer time, what do you do differently? Do you double down on particular bits of the business? Are there still things which are looking better than other parts? It would be interesting to know.

Hendrik du Toit

David, you've listened carefully. You've listened carefully to the words. 'Foreseeable future' was carefully chosen. I didn't want to give an exact timeframe because I don't know when the FED will finish. I don't know when the politics will improve. I don't know how many countries are going to blow up between now and then. I don't know how big the Crypto scam is going to be. So those are things, I don't know how, when the illiquid guys are starting to revalue the assets lower, I don't know what the level of selling is going to be. So those are all, variables which will have an impact on this.

What we will do in this business is, we are preparing the business and have been doing so, I wrote a staff note in June, July to people saying, you know guys, sort yourselves out, let's get the costs under control, otherwise, you know, we'll have to help you. So we work, we're a firm of volunteers, our people are sensible. They will look at easily controllable costs so that's not the problem. And I think we've got variable flexible schemes as explained to you. We'll use it to the extent we have to.

The more challenging thing if this goes on longer, what is the next response? The next response is to really focus on the areas where one can make a difference to the business and start de-emphasizing. And there's not many of that in this business. It's very easy to take a badly managed business and run it through a down cycle, because you could just cut out a lot of excess costs. We don't have a lot but what we can do is focus our efforts and be more clear. And therefore reduce the diversification down the line and say we'll do fewer things better with more focus and then come out with a better recoil after this. That is under discussion. I'm not going to go into detail. At year-end you'll see a more clear articulation of that if the situation persists, but there is a very active conversation here. But I go back to what I said - first and foremost we have a client base of £132 billion to look after. They pay fees, they pay decent fees, our obligation to them is first. So what we won't do is just cut for the sake of meeting a near-term target. But we must consider organisational viability because otherwise you won't attract and keep talent. I think there's actually a big opportunity here to both tightening areas and actually expand the aggression in some growth opportunities and make sure that we capture that while others are inward looking. So that's probably what's going to happen in the beginning, throughout 2023.

And the real answer then, David, you can then write either a positive or a negative report in 2024 saying, these guys did it, they are in really good shape or actually they were just too passive and missed a few tricks. But the typical risk in these downturns, and we've seen that many times, is that you pull in your horns too much and then you don't capture the opportunity others leave on the table and actually there are quite a few others around us who are busy and I had a line in there if you listened carefully, about distractions. This is no time for distractions, so investment bankers are not going to make huge amount of fees out of us, doing all sorts of deals. Particularly chasing the marginal growth opportunities that may look compelling but will not move the dial, but will eat up our capital, eat up our bandwidth and eat up our valuable ability - tie our resources which should be serving clients.

I quoted something to the Board the other day. They were asking me, what about, you know, all the things you do? I said, well actually you know what? It'll be, it's quite, if you're one of The Last of the Mohicans, to quote Sir Evelyn de Rothschild, who actually maintained a very good investment banking business in spite of lots of corporate activity, you can do pretty well and I think that's roughly our strategy.

And on the LDI. Firstly, it's in the latter period of the six months, LDI really became an issue, in the last sort of month and a half of the reporting period. You started feeling the stress. I can't remember when, that mini budget was not that long ago, it feels like a world ago, but quite clearly, we saw some panic selling and there will be more panic selling or more de-risking happening. Initially it was panic to meet derivative requirements. Now if you work the 3.2 minus the Asia number there is still a reasonable number in there. We don't have a huge UK institutional business, but we saw some flows, which quite frankly were driven by motivations other than asset allocation.

There is still as far as I know and some of you will know more, I see some big banks in the room here, will know more, there are still some big books out there that need to rebalance. They've met their temporary liquidity requirements, but they may not be in the shape they want to be. And I also couldn't resist, but putting it in because when it started, we were very clear, we don't go into a ten basis point business where their reputational risk is the value of our entire business. We do not implement other people strategies, that's for banks to do. We are active asset managers, and I think we feel a lot better on the risk management side, rather than being involved in things like that. So that's maybe the other hint why I raised the LDI thing. We have no interest in that market. We'll serve clients with LDI, but they will deal with the existing providers and I expect many court cases and many disputes to come out of the experience we saw in September. And we will not be part of it.

Rahim Karim, Investec

Morning, it's Rahim Karim from Investec. Three questions if I may. One to just get some guidance on performance fees, because I think they held up relatively well in the half.

And then a question on the Africa business. I mean, flows as you highlighted were particularly robust. Could you give us a sense of what was driving that and obviously there's some exchange kind of regulatory changes that are going on. Can you just help us understand how that plays out and whether there was an impact on the period?

Hendrik du Toit

The JSE changes?

Rahim Karim, Investec

Yes, exactly. And then third was just to get a sense of whether competitors are acting in an irrational way to try and protect flows from a pricing perspective and what you're perhaps seeing in that regard?

Hendrik du Toit

Let me start with, Kim will answer the performance fee question, we don't really know, but we can answer.

Kim McFarland

I think that the key point on the performance fees. I think it was higher than, I think a lot of the consensus we actually saw there, I think back in May, we did say that we would only see performance fees coming from relative and not absolute performance - because there wasn't any. It is slightly higher. There was a one-off performance fee in those particular numbers. So we're guiding to being, don't take the figure multiply by two and assume that is what the performance fee is going to be for the year. There will be performance fees second half of the year but it will be down relative to what you saw in the first half.

Hendrik du Toit

I think it's important to note that at a point when a fee crystallises, sometimes your alpha looks great in a month or two, later the alpha backward doesn't look as great. This one was like a positive surprise, but I do want to make you aware that absolute, we may get, even if we are in a flat market, we may get some of the absolute or cash plus benchmarks start to deliver again. Remember they were all off the table. That's one of the reasons why Kim cautioned. But we are still low, but the part that hasn't fired is the absolute ones and you know that at some point they're going to come back. But performance fees are not big in our life.

So that's the first one, then the Africa business. The reason why it's done well or South Africa in particular is because the central bank there was ahead of the curve and they have been used to the kind of inflation that we're panicking about in the UK, they've been used to it for years. So there wasn't this panic in the world. They're used to real interest rates. They had it all along. Assets were priced accordingly and therefore there wasn't in the savings market, the kind of panic, I wouldn't call it panic, but the kind of shock that we saw in the developed world. Neither was it a frontier market where you had major issues on the balance of payments or on the capital account. So it was just commodities. We are doing quite well. I mean if you look at the contrast of the South African budget to the UK budget, you'll see the difference, in spite of other issues in that society that may blind you, so the financial eco system is robust, healthy and stable. And that's why and we are a leader there and therefore, but it's not a bull market by any means. It's a marginal positive flow.

The JSE has gone through busy, major changes and particularly as far as listed companies are pertaining, our discussions with them is still too, we hope we could synchronise with the rest of the world and not add small differentiations to what for example one of the big requests we have is that we just all go to the ISSB and we don't complicate our sustainability reporting. At the moment exchanges regulators they're all thinking, you know, they're thinking originally maybe we should start thinking together. Maybe it's a G20 thing. But right now one of the cost areas in our industry is that the world is becoming multipolar. It's not just Brexit, it's all over the world where regional regulators are doing their own thing. I mean even in the US you've got to understand the state in which you operate now, not just the federal system, to know exactly what to do. So there is a burden on cross-border businesses like ourselves which is probably underestimated and I think that was probably, Rahim, what was behind your question. But we have a very good relationship with the Johannesburg Stock Exchange and we have a good engagement. We're a large player in that market, we are pretty comfortable with how things are unfolding. What we don't see is a booming growth in the savings market relative to the rest of the world. In fact, we probably see, we probably look for growth into the Americas or Asia.

That was all your questions, right?

Rahim Karim, Investec

Just on competitive pricing.

Hendrik du Toit

Oh, pricing. Kim you sit on the pricing forum.

Kim McFarland

Sorry, what was your question?

Rahim Karim, Investec

Just to see if there'd been any kind of irrational competitor behaviour.

Hendrik du Toit

There are irrational guys out there. There are people, it's pricing to get business. We've seen that, we walk away. What we do though is we adjust for persistency. So in other words really high quality relationships that stay the course and don't rent your capacity for three years, deserve a better price than those who just rent your capacity for a limited time. So it's not just price. It's quality of price. But we have seen people really willing to really work at extremely low fees. What we do is we walk away and typically the kind of clients we work with, and I've repeated that point, I've said it in the past, given that there's been such a big shift to passive, they actually have bigger, not smaller fee budgets. And most of them just come out of the room having dealt with private market operators who are multiples above us. So they're not that shocked by our price. It's really moved on. They look at the quality. They want to understand what you are going to do for that price and there is no doubt that everyone in the investment management business is doing more for the same fee. That's probably the bigger erosion rather than the fee level. You have to do more, have to be better.

Kim McFarland

Yes, which then hits your cost base.

Hendrik du Toit

And that's why our costs are less elastic or less flexible to the downside, excluding variable remuneration than you think. because the technology requirements that our clients have, the immediacy of looking into our portfolios, much higher than in years gone by.

Anymore, disagreements?

Kim McFarland

Any questions from externals? There are none.

Hendrik du Toit

They are going to five us hard questions in one-on-one meetings

Facilitator

If anyone wants to ask questions, those on the webcast please type it into the chat function.

Hendrik du Toit

Or phone us on our mobile if the chat function doesn't work. We've got that here.

I think just one last point to the sell side guys here in London, so a lot of our leading sell side people. I think it's really important you understand this bet we have in our business. We think at our scale, the long-only business is a large market for us and to an extent related and ancillary Alternatives business, which in our case is credit. We want to build a proper positioning in credit in a world where duration is not necessarily going to be your friend.

We think at our scale of a 150 billion dollars or 130 billion pounds, we have ample opportunities if we're good enough. Without deploying capital, taking a little more volatility on the revenue stream or the earning stream and sticking to it and gaining scale, as Kim showed you on her cost basis point, cost chart, over time is a rational and sensible thing to do and becoming a haven for talent. I mean I didn't mention to you but you'll know if you're in London, we hired two very significant and well known investors, across to us, because they wanted to be here, not because we went out there with mad recruitment ideas. And I think that if we build that base carefully, solidly, and we get back into the good times, this business will do as well as it has ever done. And so we are not part of this very negative narrative on the industry. It's always been an industry where the losers get taken out. It's always been an industry where the winners won. You just got to try it, but the optionality or the odds are so stacked in favour to try, that we think it's worth trying and not becoming capital heavy by buying all sorts of businesses in ancillary areas in order to hope that we can manage them better than other people. I think that's the key part of this model and why are we comfortable about that? Because we've built the underlying diversity into our revenue streams that we can live through regional hiccups as we've just seen in the UK or in some regions your mandates might not compete into. So that's the message I just want to leave with you at half year stage. Let's talk detail at the full year and I'm sure you're going to send in lots of questions to us. Please do.

Thank you very much.