

## Asset Management

# Continued good momentum in challenging markets

Asset Management continued to achieve strong net inflows, with good demand for our integrated advice and investment management services, while maintaining excellent client service during challenging market conditions.

### Key Performance Indicators

#### Net inflows

Per cent of opening AUM

2020	9
2019	9
2018	12

#### Revenue margin

BPS

2020	94
2019	93
2018	98

#### Operating margin

Per cent

2020	16
2019	18
2018	20

#### Return on opening equity

Per cent

2020	29
2019	32
2018	34

The division delivered £20.4 million (2019: £21.8 million) adjusted operating profit and an operating margin of 16% (2019: 18%), impacted by weaker equity markets in the second half of the year. Statutory operating profit before tax was £19.3 million (2019: £17.9 million).

Total operating income increased 6% to £128.2 million (2019: £120.4 million), driven by higher investment management income from continued growth in managed assets. The reduction in income on advice and other services reflects lower initial fees from new advice business, which were impacted by Covid-19 and the resulting economic downturn, particularly during the traditionally busy tax-year end period. Revenue margin increased to 94 bps (2019: 93 bps) due to the timing of equity market movements and associated average asset levels and income.

## Key Financials

	2020 £ million	2019 £ million	Change %
Investment management	91.4	81.7	12
Advice and other services <sup>1</sup>	35.5	37.2	(4)
Other income <sup>2</sup>	1.3	1.5	(15)
<b>Operating income</b>	<b>128.2</b>	120.4	6
Adjusted operating expenses	(107.7)	(98.5)	9
Impairment losses on financial assets <sup>3</sup>	(0.1)	(0.1)	–
<b>Adjusted operating profit</b>	<b>20.4</b>	21.8	(6)
Revenue margin (bps)	94	93	
Operating margin	16%	18%	
Return on opening equity	28.7%	32.1%	

1 Income from advice and self-directed services, excluding investment management income.

2 Includes net interest income and expense, income on principal investments and other income. Other income includes a £1.1 million and £1.4 million gain on disposal of non-core assets in the 2020 and 2019 financial years, respectively.

3 Impairment losses on financial assets reflects an increase in the expected credit loss provision related to cash balances.

## Movement in Client Assets

	31 July 2020 £ million	31 July 2019 £ million
Opening managed assets	11,673	10,378
Inflows	2,350	2,107
Outflows	(1,257)	(1,213)
<b>Net inflows</b>	<b>1,093</b>	894
Market movements	(172)	401
<b>Total managed assets</b>	<b>12,594</b>	11,673
Advised only assets	1,118	1,651
<b>Total client assets<sup>1</sup></b>	<b>13,712</b>	13,324
<b>Net flows as % of opening managed assets</b>	<b>9%</b>	9%

1 Total client assets include £5.1 billion of assets (31 July 2019: £5.0 billion) that are both advised and managed. Total client assets include a reduction of £0.3 billion in the year, reflecting the disposal of non-core assets.

Adjusted operating expenses increased 9% to £107.7 million (2019: £98.5 million), and the expense/income ratio increased to 84% (2019: 82%). Growth in expenses reflects continued investment in people and new hires, alongside technology to further enhance our operating efficiency as well as an increase in the regulatory FSCS levy. Headcount grew by 3% in the year, reflecting hiring of advisers and portfolio managers, consistent with our growth strategy. The compensation ratio increased slightly to 55% (2019: 54%) primarily reflecting headcount growth.

### Continued Strong Net Inflows

Notwithstanding the challenging market conditions arising from the impact of Covid-19, we achieved strong net inflows of £1,093 million (2019: £894 million), a net inflow rate of 9% (2019: 9%) of opening managed assets. This reflected continued good demand for both our investment management and integrated wealth services, with strong inflows from our recent portfolio manager hires in addition to those from our own and third party advisers, though inflows slowed in the second half due to the impact of Covid-19 on client interaction.

Despite the recent recovery in equity markets, negative market movements for the year as a whole reduced our managed assets by £172 million. The combined impact with positive net inflows resulted in managed assets increasing 8% overall to £12.6 billion (31 July 2019: £11.7 billion).

In July 2019, we agreed the sale of a small portfolio of self-directed clients, whose assets are held either on third party platforms or directly with fund managers. The sale reduced total client assets by £0.3 billion in the 2020 financial year. We continue to provide self-directed services to clients via our own platform. Advised assets under third party management decreased by 32% following the disposal of this self-directed client portfolio and continued transfers of assets into our management.

Total client assets increased 3% overall, to £13.7 billion (31 July 2019: £13.3 billion).

## Fund Performance Over the Year

Our funds and segregated bespoke portfolios are designed to provide attractive risk-adjusted returns for our clients, consistent with their long-term goals and investment objectives. Over the 12-month period to 31 July 2020 and the three-year period to 31 July 2020, eight out of our 14 multi-asset funds outperformed their relevant peer group average. Our bespoke strategy composites continued to perform well against peer averages over the year, and over a three and a five-year period, in line with our strong long-term outperformance track record for these strategies.

## Well Positioned for Future Growth

While recognising the challenges of Covid-19 and its impact on global markets, we have remained focused on providing excellent service to our clients throughout these difficult times. Our continued investment in technology ensures that we are improving our operational leverage, efficiency and resilience. We continue to make significant progress in the implementation of strategic technology enhancements to strengthen our systems, propositions and service to clients.

Sustainable investment strategies remain a key focus area across the investment management industry, and our socially responsible investment proposition continues to be well received, with further sustainable fund launches planned for the coming year.

Our vertically-integrated, multi-channel business model leaves us well positioned to benefit from proven ongoing demand for our integrated advice and investment management services, and the structural growth opportunity presented by the wealth management industry. We continue to see significant long-term growth potential for our business and remain committed to growing our client base both organically and through selective hiring of advisers and investment managers, or through in-fill acquisitions.

Total managed assets

£12.6bn  
2019: £11.7bn