

# 2020 Full Year Results Transcript

Friday, 26 February 2021

## Andrew Formica

Thank you. Good morning and welcome to the presentation of our full year results. I'm Andrew Formica, Chief Executive of Jupiter Asset Management. I hope you and your families have been keeping safe and well since our last update in July. I'm sorry we can't be meeting up face to face at present but with the vaccine programme in full swing hopefully next time we'll be able to. Before we start, I hope many of you have noted the new branding and logo we launched last week, a signal of our ambition to the firm in 2021 and beyond.

Despite Covid-19, Jupiter has displayed a remarkable level of adaptability and resourcefulness over the last 12 months. We moved overnight to remote working and our managers continued their excellent returns to maintain a strong performance record for our clients.

At Jupiter we had the added challenge of integrating the newly acquired Merian business into our operations. Despite the difficult conditions, Merian has acted as an accelerator of our strategic growth plans with 2020 an opportunity to move forward and strengthen our foundations.

Along with the Merian purchase and the successful start to our partnership with NZS Capital we also carried out an internal reorganisation to align ourselves around our growth focus. So today I'm proud to see the hard work of the last year starting to pay off with significant progress made towards meeting the strategic objectives we set out in our Capital markets day in December 2019.

Merian is now fully integrated. We are now one company and all Merian funds, with a few exceptions, the deal has exceeded our expectations making a significant contribution to group profits all within just six months of ownership.

So as we talk you through 2020 we do so with cautious optimism for the year ahead, optimism on the outlook for the business, helped by the knowledge that as a society we may finally be turning a corner in the fight against Covid-19.

Before we start on the results let me introduce the members of the senior team who will be speaking to you today. I'll be starting off the session with a brief overview of this year's results. Stephen will talk about fund performance and our new broader investment capabilities; Phil will then focus on net flows in 2020, the opportunities for growth and the outlook in the year ahead; Wayne will provide a more forensic breakdown of our full year results as well as how the Merian acquisition has supported our business and capital strength and then I'll wrap up at the end with a strategy update for the business.

2020 has been about strengthening the foundations of the business. Thanks to the work we've done we've been able to deliver a resilient set of results and made significant progress in our strategic goals. Taking a closer look at the numbers, assets under management climbed to a new high of £58.7bn thanks largely to the contribution from Merian.

Net outflows, whilst reduced from 2019, were still high at £4bn last year. Most outflows came in the first quarter as the pandemic increased demand for liquidity, but I'm pleased to report the last three quarters of the year saw net positive flows for Jupiter-branded products. Phil will provide a further update on flows later on.

Our fund managers meanwhile continue to do a great job with 70% of our assets under management performing above the median over three years and Stephen will expand on this in his section.

Net management fees rose to £384m in 2020 and underlying earnings per share held steady at 28.7p and our ordinary dividend comes in unchanged at 17.1p per share, supported by an additional return of 3p per share through a special dividend.

Those numbers are supported by the work we did to reshape the business in 2020. We've proved that our new brand statement, 'The Value of Active Minds', is no empty slogan as our managers helped deliver a strong investment performance for our clients.

We successfully acquired and integrated Merian on time, despite extremely challenging conditions. We accelerated our investment in ESG, further embedding the principles of ESG and stewardship at a corporate level and across our investment teams. We supported further investment in technology and data science and with Merian on board we broadened our investment proposition moving to areas such as gold and silver and systematic equities, adding scale in emerging market equities and extending our capabilities in the alternative space. We also expanded our capability further with our partnership with NZS to add their global unconstrained growth process to our investment capabilities.

This more diversified investment capability has put us in a better position to service a broader range of clients, both in and outside the UK. We now have, for instance, a good range of funds that would appeal to institutional clients, an area where we want to grow. Internationally we continue to expand our reach with our first office in the US and broader exposure to markets in Latin America, the Middle East and South Africa. These are just some of the key pillars that will support our future growth which in turn will improve client outcomes and ultimately deliver stronger returns to you, our shareholders.

Of course, 2020 was no ordinary year. As a business we wanted to make sure our people, our clients and our community felt supported during the pandemic. For our people, our support focused on their health and wellbeing, giving them the means to work effectively from home and broadening benefits for those with caring responsibilities. The result is a strong level of employee engagement. Our latest employee survey in January revealed an 84% employee engagement score, significantly above the financial services benchmark.

For our clients it was about focusing on the day job, maintaining strong investment performance but also keeping open the lines of communication at a time of heightened market volatility. And in our broader responsibility to society, we increased our charitable support to help those most impacted and gave our employees more opportunities to help out in the wider community with additional voluntary volunteering leave.

I'll hand you now over to Stephen to provide some more detail on our investment performance across our fund range. Stephen.

### **Stephen Pearson, Chief Investment Officer**

Thank you, Andrew, and welcome everyone on this call. As Andrew said it's definitely been a challenging year for our investment teams. Markets have been volatile with a sharp fall in equity markets in the first quarter of the year, followed by a swift recovery and an extraordinary rally to new all-time highs by the end. We've seen record lows in bond yields, the tightest spreads of credit on record, and significant proportions of the fixed income markets trading at negative yields.

All of us in the investment teams have had to deal with the working from home environment alongside this market volatility. And us, at Jupiter, we've had the additional challenge of trying to onboard 40 new investment professionals into our 80 strong investment team at Jupiter prior to the deal.

So, I have to say that I'm proud that, despite all this noise and turbulence and the external distractions, our fund managers have remained focused on the job of delivering investment performance for clients, and producing another strong year of active returns. 70% of our assets in open-ended funds finished the year in the first or second quartiles of their respective peer groups over three years.

On the Jupiter side the flexible fixed income strategies of Dynamic and Strategic Bond have shown their worth. The Merlin team, as they often do in times of crisis, have produced a strong year of relative and absolute performance. And our new European Growth team have taken on a significant book of Jupiter assets and made a very positive first year start.

We've also seen outstanding performance from our financial equity and our emerging market debt strategy in these numbers. On the Merian side Strategic Absolute Return Bond, the gold and silver strategy and the UK small and mid-cap strategies have enjoyed exceptional years.

Yes, we've had challenges, principally around value and income focused strategies in line with market trends and the narrow concentration of performance in large benchmark constituents in the US or tech-related indices, has impacted on some of the relative performance that's been delivered by our teams. But overall to emerge from a year like this with over 70% of our assets under management in this position is something to be proud of and it's something we can build on as we move from completion of the integration into capitalising on the opportunities provided by this new combination of two businesses.

Before leaving this slide, I thought it worthwhile to highlight the impact the merging of the two businesses has on these statistics; it was something we were focusing closely on at the time of the deal. Over three years, it's true, that Jupiter's standalone would have been stronger in terms of relative performance, but the one year numbers have been significantly enhanced by the addition of Merian assets and the combination of the two still leaves us in a positive performance position.

The next slide is one you'll also have seen before but this time with the inclusion of the Merian funds in our list of funds over £1bn of assets under management. There are now 13 of these funds covering a broader range of strategies, including Systematic, Absolute Return and the UK Small and Mid-cap franchise. And there are four further strategies knocking on the door of this list in Asian Income, Japan Income, in Gold and Silver and in UK Alpha.

The top five of our funds now represent 39% of our assets under management; that's down from 46% in 2017. And the top ten represent 53%, down from 63% back in 2017. So greater diversity of investment capability and greater diversity around our leading strategies, one of the key strategic objectives for fund management when I took over as CIO over five years ago.

Finally, from me before passing over to Phil on distribution, I just wanted to focus on that theme of diversification of investment capability which has been such a focus of the CIO team over the past five years and which I believe will be key to Jupiter's growth in the long term.

Traditionally you'll think of Jupiter as a UK and European equity house with a strong fund-to-fund business in Merlin and a more recently developed significant presence in fixed income. Here on this slide, you can see nine new investment capabilities, all at different stages of their development, all targeting significant areas of opportunity for active asset management and which in total today represent less than 10% of our assets under management.

Some of these have been internally developed. Our Japan Equity strategy was an internal succession following the departure of the lead manager. Our Global Sustainable Equity fund launched three years ago alongside our 30-year franchise and ecology investing or our Corporate Bond fund, now managed by two of our former credit analysts.

Some of these have been externally recruited and specifically targeted and launched by us from scratch, such as emerging market debt, multi asset, or our new European team's Smaller Companies fund. And some of them have come to us through the acquisition of Merian, the Long Short UK Specialist fund, the Absolute Return Bond fund, Gold and Silver or the Chrysalis unlisted equity vehicle.

I'd like to be able to tell you when each of these strategies is going to take off and how rapidly they're going to grow but as you know not all of those variables are in my control. Now you've probably seen the recent announcement on Chrysalis about its fund raising, which is obviously exciting for us. But what is encouraging is that the performance numbers of these strategies is really positive and if we can keep that going and keep delivering on that I believe we're putting in place some important foundations for the long term.

With that, I'm going to hand you over to someone who might be able to tell you when it's all going to take off in terms of fund flows, Phil Wagstaff our Head of Distribution. Thank you.

### **Phil Wagstaff, Head of Distribution**

Thanks, Stephen, good morning everyone. I've got a couple of slides in the deck looking back to last year to give you a bit more colour on what's going on behind the flow numbers, and then a couple of slides looking forward to where I see the opportunities for improving flows as we move forward from here.

The chart on the right-hand side of page 11 shows Jupiter flows in orange and Merian flows in blue. As you can see, we had a significant outflow in Q1, most of which came in March as a result of the global pandemic taking hold, creating a significant run on liquid assets from clients. Investor psychology played a large part in this with clients looking to release cash from assets which had not drawn down and therefore they were not crystallising losses. For many others that meant huge outflows from money market funds, but for Jupiter it meant large flows from our flagship bond funds that had performed well. However, as you can see the next three quarters were marked by positive flows for the standalone Jupiter funds.

Following the acquisition of Merian on 1<sup>st</sup> July we saw some substantial redemptions from two main areas and I would stress that both were expected in our acquisition forecasts. The first was losses in Merian fixed income strategies as a direct result of us not taking some of the managers from Merian and them subsequently moving elsewhere, although I would add that in the main these assets were at very low margin and were unprofitable. So large outflow yes, but little impact on revenue.

The second was continued outflows from the long-only systematic equity strategies. Again, it's important to note that based on the performance and flow picture leading up to the completion of the deal we had expected and budgeted for these outflows.

The real message behind this slide is that we've gone a long way over the last two years to stabilise Jupiter flows and we always knew we would have to apply the same skills to stabilising Merian flows post the deal.

On slide 12 you can see gross flows posited against net flow as I think this is an important and leading indicator. You can see from my first bullet that gross flows were strong last year at £16.5bn putting us in the top ten asset managers for gross flows in the UK retail market. A strong performance when many of the names above us have not only active but also passive ranges and captive distribution.

In terms of pockets of outflows, the main outflows were in European equities, where despite the strong start of the new management team under Mark Nicholls and Mark Heslop the large asset pool continued to shrink following the departure of the previous manager, not helped of course by Europe itself being out of favour. We also had some headwinds in the absolute return space with continued under-performance of the main fund resulting in a substantial loss of AUM and the eventual change of manager before year-end.

As Stephen mentioned, fixed income continued to be a strong leading strategy for us with over £650m of net flows across a growing number of funds on the desk. Segregated mandates showed an improvement last year too with a strong start in terms of client acquisition and performance from NZS Capital and a large mandate win in value equities just before the year-end.

Just on this last point we are having more conversations with clients looking at value opportunities where they seek to rebalance against their growth options and if that continues, we should be in a strong position to capitalise.

Equally given our now very strong position in UK equities if we see a post-Brexit valuation driven return to the UK for investors, we should be able to take advantage of this. As a reminder following the acquisition, we have the whole waterfront covered with strong managers in UK Equities, large cap, small and mid-cap, as well as value, growth and blend and a number of vehicles to access these including investment trusts.

On slide 13, and on the theme of looking forward, I mentioned at the Capital Markets Day that we'd be taking a more disciplined approach to product development and management including rationalised funds that we felt were unable to deliver the outcomes our clients were looking for. This resulted in several closures of funds last year as well as manager changes on a number of others.

You may also note, as Andrew mentioned, that last week we completed the brand refresh for the Group. This brings a new look and feel across the whole combined business with refreshed logo, new advertising campaign about to be rolled out, new websites, factsheets and the fund names harmonised, all under the headline The Value of Active Minds, to build on our position as a high conviction active manager. This formally marks the coming together of the combined business under one banner.

In the table on this slide you can see how the strong performance of some of our newer funds will provide us with greater scope for client conversations, particularly as these funds approach their three and four year track records with strong performance across the board. Even the Asian Income fund on this chart is a leading performer in the subset of income funds in its sector.

But whilst we have the new funds performing well and coming on stream, don't forget we have significant opportunity to grow our business from some of the strong performance that Stephen showed you earlier and slide 14 highlights some of those that I believe have had a significant following, strong performance and where I would expect to gain further traction. I will now hand you over to Wayne for the financial update.

## **Wayne Mepham, Chief Financial Officer**

Thanks, Phil, good morning everyone. 2020 was obviously a challenging year due to the impact of Covid-19 and some specific challenges we faced coming into the year. However, we made strong progress towards our strategic goals, including completing the acquisition of Merian and this has had a significant impact on the results we've just announced.

Today I'm going to take you through how those challenges and the benefits of Merian have impacted on our results, set out our capital position and approach going forwards, and run through some specific metrics in respect of Merian.

Before I go through the detail let's run through the headlines. Andrew's already covered the key numbers, which I will pick up in a little more detail in a moment, but the key figures to focus on here are net revenue, which is up 18% at £448m, with a strong contribution from performance fees. And that led to underlying profit, up 10% to £179m, with a significant contribution from Merian.

Let's look at the main drivers of that change. This shows the Jupiter profits coming down in 2020, mainly driven by lower management fees. And that £120m of profits increased by £59m through the acquisition of Merian, resulting in an overall increase for the year. And the operating margin largely held up at 41%, supported by returns from Merian. So, a challenging year for our existing business but a strong start to the acquisition.

Let's touch on AUM movements before we focus on revenue. This time last year I reported that we had a headwind coming into 2020, with lower AUM at the start of the year compared with the average for 2019. As we all know, the headwind became stronger at the end of the first quarter of 2020 when the impact of Covid took hold. Phil's already covered flows and market levels were volatile but ended higher, but the main change was the addition of the Merian assets from July. That drove the increase in both our average and year end AUM, which reached a new high of just under £59bn.

And turning to the impact of this on revenues. The main driver of lower revenue in the Jupiter business was flows. That's principally the outflows in H2 2019 and the first quarter of 2020, which led to lower average AUM. So net revenue of £329m before Merian. And that AUM from Merian generated net revenue of £129m, which included £72m of performance fees. We're reporting £10m of those performance fees within exceptional items, which I will explain later. So net revenue for the Group was up on 2019, due to Merian.

Turning to management fee margins. The average for the Group across the year was just over 79 basis points, and the second half, which is a more relevant figure going forwards, was 77.5 basis points. It's not on the slide, but the run rate margin on that year end AUM was 76. That's one and a half basis points lower than the second half and is mainly due to changes in mix.

Performance fees across the business were very strong, so I'm going to spend a few moments looking at this. So this is where those fees came from. That's the total £73.6m of revenue we earned across the Group. Most were generated through Merian, and the largest came from Chrysalis. That strong investment performance that Stephen mentioned drove performance fees for 2020, and you can see they came through a range of funds and segregated mandates.

At the back of your packs you can see more details of all the funds where we had the potential to earn fees. That information includes indicative fees for each fund if it outperformed by 5%, which you can look at later. Of course, it's very difficult to forecast these, most performance fees are assessed in December, with Chrysalis in September. And so I'll give you an update on performance fees at the half year when we'll have more information. That's it for revenue, let's now look at our cost base.

Total costs for 202 were £265m, that's up on 2019, due to the costs taken on with Merian. And the largest part of that increase relates to bonuses on performance fees. Focusing on compensation costs, the ratio was 35%. That's one percentage point higher than last year but is in line with my expectations. And I've already covered the operating margin, which held up well due to Merian. So, let's see how that breaks down.

This slide shows the progression of our total compensation costs and the increase from Merian. There are a few points to cover here. We had some cost increases in our existing business, as we supported our people through changes to annual leave. And we also invested in areas of growth in the front office and that was offset by lower variable compensation as profits were lower from the standalone business. So overall, these costs were down on 2019, and costs taken on with Merian were £18m, excluding performance fees, which is a little better than the guidance at the half year, but those strong performance fees led to bonus awards which increased our costs for 2020.

Some of that bonus is in deferred awards, and so more costs will be charged in 2021. That's no different to other deferred awards, but given its size there are more details in the back of your packs, which will help you think about our compensation costs and the impact of any performance fees going forwards.



Let's bring this together and look at the Group and where I expect compensation costs to go from here. So, this shows the breakdown between fixed and variable compensation costs for 2020, and our employee numbers broken down between Jupiter employees and the Merian employees that joined us and remained with us at the year end.

Around 160 people came from Merian in July and around 80 will remain after the transition phase. At the half year I reported that along with carefully integrating Merian we were also reviewing our existing business. That review led to reductions in our headcount and, along with the Merian additions, brought us to a total of 615 by year end. Our overall aim is to position the Group for where we expect to see growth in the future. We also need to be agile, removing unnecessary complexity and be strict on our prioritisation. And that's exactly what we are doing. Unfortunately, it has meant we are making further redundancies, and that process is underway right now.

When we complete this process later this year, we expect to operate with a total of around 540 employees. It's not on the slide, but if you took a full year of Merian fixed staff costs that would take you to around £85m for the Group on a run rate basis. But the changes we are making in our own business, combined with the synergy savings from Merian mean that our fixed staff costs are expected to be around £74m for 2021. That's lower than 2020 and with a full year of Merian. And to complete this picture on the outlook for these costs, we estimate our total compensation ratio will be around 34%, of which nearly two percentage points are those deferred costs on performance fees from 2020.

Let's now look at how our non-compensation costs have developed. These are £103m and the main changes to focus on are savings related to Covid, lower corporate travel and marketing spend, as we adapt to the way in which we connect with clients, and targeted expenditure on data and research, which is important to support our fund managers in generating alpha.

So we managed our costs carefully during 2020, with limited increases in the standalone business. We also took on just over £12m of cost from Merian, which was mainly AUM related, as well as some infrastructure costs, where we expect to see savings in 2021. Looking forward, I would expect our 2021 non compensation costs to be around £123m. That is a full year of Merian costs, increases due to higher AUM levels, and a marketing budget seeing a return to more normal levels. This is partially offset by lower infrastructure costs due to synergy savings.

I've also put some more details in your pack for you to look at later with details on non-compensation costs split between those linked to AUM, infrastructure costs and other costs, which tend to be more variable and include discretionary spend.

To wrap up on costs, let's focus on exceptional items which mainly relate to the acquisition. Exceptional costs for 2020 were £46m, net of that allocation of performance fees I mentioned earlier. Most of this comes through the acquisition, and the main part was transaction and integration costs. These were £39m, and that's better than the £40m to £45m that we guided to, as we managed the process efficiently. The main elements of the integration are complete. We still have some work to do, including decommissioning systems, but that completes our integration costs, and any remaining work will be covered by our existing resources.

We also have a charge for intangible assets, which will continue for four years, and there is the net deferred earn out, which is charged as compensation cost due to the contractual terms and will come through each year for the next two years and then start to reduce. Part of these costs were due to be covered by an underwriting agreement with the seller, but as we have earned significant performance fees this is not expected to be due, and so we have allocated £10m of performance fees to exceptional items to reflect this. So, acquisition related costs in 2021 are expected to be £26m and mainly that intangible asset amortisation.

And finally, we have some redundancy costs of £4m, relating to that review I just mentioned, and we expect more costs this year as we complete the programme, maybe another £7m for 2021.

That's the end of our review of the Group's profits for the year. Let's look at our capital framework.

This slide shows the normal analysis of our capital and a regulatory capital surplus, which is £112m at year end after deducting the dividends we announced today. It also includes subordinated debt which we issued to ensure we retained a robust surplus over our regulatory requirements.

Our ordinary dividend policy remains unchanged. We will target a 50% pay-out ratio, but with a previous high watermark, so we won't look to cut the dividend in years when earnings are down. So in line with that policy we have proposed a final ordinary dividend of 9.2 pence, taking us to total ordinary dividends of 17.1 pence. And as a result of this strong financial performance due to those performance fees, we have also announced a special dividend of three pence. That brings total dividends for the year to 20.1 pence, which is a 70% pay-out ratio.

We will continue making additional returns of capital to shareholders, but they will be paid on a less frequent basis, and we do not expect to make any additional returns before the 2022 year end, at the earliest. We anticipate those payments will target cumulative total returns of at least 70% of underlying EPS since the last payment, with ordinary dividends continuing to be paid each year. And as always, those additional returns will depend on the capital needs of the business at the time.

We are also considering how those returns should be made in the future, and we will consult with shareholders during 2021 to understand their preferred approach. We continue to manage our capital carefully and maintain our capital allocation framework of investing for growth, maintaining our ordinary dividend policy and making additional returns to shareholders when it's appropriate to do so.

I said I would run through a few items in respect to the Merian acquisition. We completed the transition to our operating platform in September and the rebrand last week. We've worked hard during a difficult working environment to welcome our new colleagues and we're now operating as a single firm. So going forwards it's not going to be possible to present some of this data, but while we can let's look at some of the key figures.

When we announced the acquisition in February last year we highlighted a number of client, strategic and financial benefits. We knew that there were challenges in the business which was experiencing outflows in some areas, but even taking a cautious approach to the outlook we believe the value creation opportunity was attractive. Of course, last February was before the impact of Covid-19 on financial markets became clear, so we made some revisions to our guidance, but still expected strong returns. And we committed to integrating the business quickly and with transaction and integration costs expected in the £40m to £45m range. And as I mentioned earlier, that came in below that level at £39m. Along with the immediate financial benefits, Merian has provided us with further growth opportunities, and Andrew will cover this as part of our strategic priorities in a moment.

This slide summarises the financial impacts of Merian on underlying profits that I've already taken you through. That's the £59m increase or just under 50% growth in underlying profits. We've delivered an operating margin in the first six months of 52%, and that's before we have achieved all the synergies. Taking into account the issue of shares, we delivered EPS accretion of 35% for 2020, and 9% excluding performance fees. Remember, that is just the first six months of profits, and the run rate for a full year is much higher, at the upper end of the range we expected after all synergies.

I won't go through this slide in detail, but it shows the operating profits of the Merian business in 2019, and the contribution to our business, both on an annualised basis for 2020 and the run rate for 2021. It shows that the run rate operating profit at the beginning of 2021 is largely unchanged from 2019, despite the lower AUM and revenues, and that has been achieved through cost synergies. This financial performance excludes performance fees and this could be significant again in the future. So the focus here is the £63m of run rate operating profit. Now we've seen the operating profit potential let's look at the purchase price multiples at different points last year.



This slide shows that throughout the year, as AUM levels changed, our forecasts, which were struck on a cautious basis, showed us that this was a very attractive deal on the price we paid. The first column takes the AUM at 31 December, and operating margins we expected on a fully synergised basis, and shows you the multiple based on the announced price in February, the net debt we acquired and the deferred earn out we agreed, which are part of the purchase price.

Of course, we were cautious on the flow outlook and expected some outflows, but based on 2019 AUM that was a 5.2 times multiple. Rolling forwards to April when we issued the share circular, AUM had fallen by more than we had forecast due to market levels and you can see the multiple increased but still at an attractive level. That's using the same approach but based on lower AUM and a lower operating margin and with our share price at the time. Using that run rate we just covered but taking into account further synergies that are expected by the end of this year the multiple based on the actual purchase price is 4.4 times, better than when we announced the deal.

Some of you think about this including transaction integration costs in the purchase price, and we've provided that calculation in your packs, a higher multiple but still a very good price. With the acquisition and integration complete we won't be able to go into this detail again, but you can now see what attracted us to this business from a financial perspective.

So, this is my second annual result as CFO for Jupiter. I joined in September 2019 and there's been a few events since then which we weren't expecting. I'm pleased that at the end of this last year I've been able to report a resilient set of results, despite the challenges we faced. We delivered the Merian acquisition which has driven growth in profits and has added to our growth opportunities. We continue to deliver strong investment performance for clients across a broader range of products. That's important for our business overall, and through Merian has given us the potential to earn performance fees.

I'm confident we're managing our costs well. We have made some changes in how we operate and that positions us for further growth. Throughout this period, we have maintained a strong capital position. That's important to support us as we look to grow further. As a result of the financial performance and strong capital position, as well as the ordinary dividend we've been able to declare a special dividend in line with our capital allocation framework as we look to balance the returns to shareholders alongside investment in the business. There are more challenges ahead, but the business is now in a much stronger position and has the resources to deliver further growth. So, with that I will hand you over to Andrew who will cover our strategic priorities.

## **Andrew Formica**

Thanks, Wayne. I want to spend this last part of the session focusing on where we are now in relation to the strategic priorities we set ourselves at the end of 2019. Of those eight priorities, four have already been addressed in the presentation so far, so I'd like to turn my attention now to those four remaining areas, starting with our reinvestment in UK retail.

At our capital markets day we talked about the need to strengthen our retail distribution presence in the UK after several years spent developing our international operations. Thanks to the acquisition of Merian we were able to accelerate that process, consolidating our position as one of the UK's leading independent active asset managers. As Phil pointed out, in 2020 we were in the top ten of gross sales for UK retail.

The acquisition has also helped us achieve the scale to compete effectively across the market cap and investment style range in UK equities. Our clients now have access to a broader range of market leading funds, managed by both established and emerging talent. Joining the Jupiter stable from Merian we were pleased to welcome highly regarded managers such as Richard Buxton in the UK all cap space, and Dan Nichols and Richard Watt, who head up our very successful UK small and mid-cap team.

The integration of Merian has gone well because the two firms shared a similar culture and investment philosophy. Our managers know we value independence of thought as a tool that ultimately delivers a better outcome for clients.

Outside of our core UK equity franchise we have also added complementary investment expertise to the business, expertise that would have taken much longer to build had we not bought Merian or partnered with NZS. To highlight just one area we have, for instance, seen material expansion in our alternatives offering. Our range now includes gold and silver, an expanded UK equity long short offering, access to unquoted companies through the Chrysalis investment trust, our first fixed income alternative product with the Strategic Absolute Return Bond fund, and of course the Jupiter Merian Global Equity Absolute Return Fund which has had a great start to the year and seen positive client inflows year to date.

Internationally we've also consolidated our position to markets where we've achieved scale and focused our expansion on those jurisdictions where we see the most potential for growth. In the US, the world's largest market, we opened our first office there, overseeing the distribution of Jupiter products in the onshore US institutional market and spearheading the distribution efforts for NZS Capital. NZS has had a terrific first year, their global growth strategies have secured three important institutional mandates and I'm pleased to see that by the end of this month their assets under management will be over \$800m, a fantastic start for a business that started less than one year ago.

We are currently in the process of launching a SICAV that will broaden their availability to our clients. Thanks to the Merian deal, Jupiter has also expanded its footprint in the Asia Pacific region. We have re-established a presence in Taiwan, taking over Merian's existing arrangements.

Importantly, we are looking to extend Merian's relationship with Ping An. They already manage the China Equity Fund, our offshore product. We are working with Ping An on new opportunities within Jupiter.

Elsewhere, we've been putting time and resources into broadening our exposure to Latin America, the Middle East and South Africa, where the Merian deal has helped us gain greater scale. I have put international markets side-by-side with our institutional business on this slide, because overseas institutional clients will be vital in helping us achieve our ambitions in this area.

I'm on record as saying I want Jupiter's institutional business to grow to at least 20% of our assets under management. I've already mentioned our ambition for the onshore US institutional market. Closer to home, we've raised the profile of our institutional business, both internally and externally, to underline our long-term commitment in this area of the business. And our efforts are paying off. Our Global Sustainable Equities fund is now attracting consultant ratings, and we recently won a mandate with one of the UK's largest DC platforms. We're now at a stage where we have a suite of products with institutional appeal, funds like Global Sustainable Equities, Global Value and Global Unconstrained Growth, as well as our Gold and Silver offering, Strategic Absolute Return Bond, and Emerging Market Debt.

We were also acutely aware that any successful push to institutional business, would have to be accompanied by greater clarity on the work we've been doing to embed environmental, social and government principles into the business. So, let me talk a bit more about that on the next slide.

If we look first at our investment proposition. It's important to remember Jupiter has a long history of sustainable investing. The firm was the first to offer a dedicated environmental fund with the launch of the Jupiter Ecology Unit Trust over 30 years ago. Since then, with the help of our experienced governance and research team, we have been embedding the principles of ESG in stewardship across all of our investment teams.

In 2020 we have made further progress by building on those strong foundations. We've added to the range of environmental and sustainable products on offer to our clients and built expertise in areas such as green bonds.

Earlier this year we reorganised our offering to provide greater clarity for our clients. We now have one team focused on sustainable investing, while the second, environmental solutions, invest in companies looking to find solutions to specific environmental problems.

We've also increased our focus on Jupiter's corporate responsibility. With our focus on our responsibility to support the wider community in 2020, our charitable efforts focused on helping those most affected by Covid-19. Earlier this week we announced our commitment to achieving net zero emissions by 2050 across our full range of investments and operations, as well as support for the UN Global Compact and the Good Work Coalition. We've also taken a further step toward becoming a net zero emissions firm, partnering with Forest Carbon. We are committing to setting operational emission targets consistent with our net zero objective as we look to mitigate our activities on the changing climate.

And finally, to make sure that this important area is fully integrated across the business, the Board will be asking shareholders at the AGM to approve the inclusion of ESG and diversity and inclusion objectives in the performance appraisals of all Executive Directors, and in turn the Executive Committee and senior managers.

As a company we've been investing in our own systems and processes over the last three years to make our operations more robust and efficient. Significant investment in platforms like Aladdin and Salesforce, have delivered material benefits for our operations and helped us better serve our clients. We've also been investing in our own technology network which now operates largely in the cloud and is reliable and secure. As a result, overnight we were able to transition seamlessly to remote working when we went into our first national lockdown. Since then, we've offered all our people a home working allowance so they can upgrade their home office environment.

In a data driven world, we realised early on we had to give our managers and the wider business the tools to exploit the explosion of data now available to us. In 2019 we launched our data science team, which provides fund managers with analysis and insights from non-traditional datasets. You can see on the slide a sample of the work they do.

The data science team, now seven strong, has also created the Jupiter ESG Hub, a proprietary tool that allows us to access ESG risk factors across funds, strategies and the Group. Several of our clients have commented on how impressive a tool it is for them to see clearly how their portfolio is exposed across these important metrics. Data science is becoming a key differentiator in our business, and you can expect further investment from us in this area in 2021.

To finish up, I would just like to highlight the significant progress we made last year. Monday will mark my second anniversary as CEO of Jupiter. I inherited a well-regarded business, but one that needed a reset to achieve its full potential. Talking to people around the business, I found an openness to change that was both refreshing, and an acknowledgement that we had to move forward. Firstly, and most importantly, this was a business that had a clear focus on active management, and a track record to back it up.

Last year we continued that excellent result. With that strong base, over the last two years we have focused on reshaping and strengthening the business to ensure its future prosperity. We set about building a culture centred around our clients and focused on agility and collaboration. The acquisition of Merian was an unexpected opportunity to accelerate that process of change and bring us closer to achieving our strategic goals and is already adding significantly to the Group.

Now, with so many fantastic new investment capabilities and products, in 2021 we are in a position to pivot from the internal activities that have been so vital to rebuilding the business, and now focus our energies on the growth areas that will deliver consistent net inflows and generate the revenues and profits from which we can invest and share with our shareholders. Successfully making this pivot this year will be an important marker in Jupiter's growth trajectory over the longer-term.

Thank you for taking the time to listen to us. Now we would be happy to answer your questions. We'll be going to the phone lines first, before moving to the webcast questions.

## Q&A session

### Question 1

**Haley Tam, Credit Suisse**

Morning gentlemen. Congratulations on your results today. A few questions from me please. First of all, could I ask about Chrysalis and the authority to issue up to 600 million new shares that was announced last week. Could you give us an idea of how we should think about this from a Jupiter standpoint in terms of how quickly that might happen, and I guess therefore the positive uplift we might expect to see from the £1bn of investment opportunity pipeline they've identified there for your management fees.

Second question, also about AUM and the fundamentals and I'm sure you'll laugh that I'm asking a question that's unanswerable. On slide 13 you obviously lay out the top quartile ranked funds that are relatively small in size at the moment and were launched almost three years ago; I just wondered, is the three-year threshold the trigger point that you'd encourage us to think about, or should we be allowing maybe some further delay whilst funds then get onto recommended lists etc? Any way to think about that would be appreciated.

And the final question, back to more normal topics. The management fee margin 76 basis points run rate, I just wondered is there going to be another, or when is the next assessment of value exercise going to take place for the combined Group? And given the number of relatively large funds you have now, whether there'll be any thoughts then on sharing economies of scale with investors?

**Andrew Formica**

Thanks, Haley. I might get Phil, if he's taken all those down, to answer those three given he's probably closest to the Chrysalis fund raise at the moment, and the three-year track record conversation, obviously he can give the client aspect. As he is the Chairman of our regulated entity, he is also the one who oversees the value assessment, so he's probably well placed to answer all three of those questions.

**Phil Wagstaff**

Picking up on your first point on Chrysalis, obviously Chrysalis have an independent Board. They've announced that they would like to do an additional fund raise, because the managers who obviously work for us have seen lots of opportunities in the market they'd like to take advantage from. That process has begun. There are two independent brokers working on that fund raise in conjunction with our own sales team. It's very early days in that, and obviously all of this is subject to market conditions as this fund raise goes on. So there's no guarantee it will get to the full amount, there's no guarantee it will go ahead, and it will all depend on market conditions. So it's probably a little bit too early to say, other than we're having some very positive conversations with clients about the opportunities in that fund.

The other one is an interesting one. Three-year track record. Everybody thinks that you get to three years and then the green lights go on and you're off to the races. The situation is that clients start to look very closely at funds as they get close to their three-year track record. The performance is very strong, and as I said it is a leading indicator. I wouldn't say that's when flows start. I think that's when conversations really get starting, due diligence starts, access to platforms and gatekeepers begins. The other thing obviously that goes with that is funds often need to be a certain size. And as a result of that, if they're too small it's difficult to grow. But we're making good progress. We have to find smaller clients to build those sizes up often to over 100 million, and a

number of those are over that now, which is great news, or getting very close to it. So, I'd be very optimistic that as those three and four-year track records come on stream they are real opportunities for us to grow with their strong performance.

Could you just remind me of your value assessment question in particular, the point that you were looking for?

**Hayley Tam**

Sure. So, that question specifically I just wondered when these were going to take place. I know they took place at different times of year for the Jupiter and Merian branded funds historically. And I think in the last Merian assessment value they talked about how they would consider this year the benefits of scale that some of the larger funds had and whether they should share that with the investors.

**Phil Wagstaff**

A couple of points. The reference date, which is the day we analyse our fund performance and we take all the data, is 31<sup>st</sup> March. The report has to be issued by the end of July, so within four months of that. And we have a received permission from the FCA in order to harmonise the Merian and Jupiter value assessment, so it will be one report this year for all the funds, so those dates will be harmonised.

As for the questions of economies of scale, it often comes up. What we will look at the data at the time, and this doesn't necessarily apply fund by fund but can apply at the enterprise level as well, and we combine those two sets of data to decide whether there are economies of scale. And that would involve us in changing any prices.

So, it's too early to say that yet. The one thing I would say is that you'll be aware that we made some substantial changes to some of our pricing last year, reduction in some of the other expenses on some funds, and a benefit to direct investors that had no intermediary there was a substantial reduction in their management fees. So, we have already made some changes; it's too early to judge what will happen this year. But it will all be analysed just following the data on 31<sup>st</sup> March.

**Hayley Tam**

Thank you. Can I just quickly, just one point of clarification on Chrysalis, just to understand it? I understand market conditions etc. but if it does go ahead is it something that would be sensible to put in our first half forecast for this year?

**Phil Wagstaff**

If it goes ahead it would be in the first half of this year, I would have thought, based on what I know at the moment. But as I said it's subject to all those things.

## **Question 2**

**Hubert Lam, Bank of America**

Good morning, I've got three questions on my side. Firstly, on flows, Phil mentioned that the outflows in the second half mainly came from the variances in systematic funds and fixed income strategies due to the PM changes. Is that now mostly complete or how many assets do you still at risk here if it isn't complete? That's the first question.

The second question is on the Dynamic Bond fund. I know previously it was positioned towards lower for longer rates, I was just wondering if that positioning has changed at all. And also, just given the pressure we're seeing in

fixed income markets today, do you still see strong demand for the flows in the Dynamic Bond fund going forward?

And lastly a question for Andrew on M&A. Now that the Merian deal is largely complete, integration is well on track, do you expect to do more deals in the near term? And if so which areas would you like to fill? Would you rather prefer to add scale to your existing capabilities? Thanks.

**Andrew Formica**

Thanks, Hubert. I'll pick up one and three and I'll hand over to Stephen to talk on Dynamic Bond.

In terms of flows, as Phil pointed out, it was predominantly in the systemic range and the fixed income range where we had manager changes.

On the fixed income funds we'd say those manager changes have now happened, new managers are on those funds and actually doing a very good job in terms of performance wise. And the clients who wish to stay with the old managers who had moved on have done so. So, we'd by and large say that the fixed income changes associated with that are done.

There was a separate fund, again relatively small, the Global Dynamic Allocation Strategy which we sold on to another manager because it didn't fit with us. And because of the way that the accounts were there were some outflows associated with that which would have been straddling December and January. But again that's now done.

On the systematic side, performance has definitely improved. Obviously it's the same underlying process as GEAR. And we've seen GEAR had a strong start to the year, as have those funds.

We had anticipated, given the competitive nature of the markets they are in, given that performance, that those outflows will need to see that performance bed down for a period. We are seeing improved performance that will help. We've definitely seen an improvement already in GEAR. I mentioned earlier in my comments that GEAR is actually in positive inflows year-to-date. The systematic range I think will probably just take a little while to catch up to that, but with continued performance that will be helpful.

So, hopefully that answers the questions there on that flow picture.

Your question on M&A, obviously it is important for us to show the highlights of what we've done with the Merian deal, and I think Wayne's presentation really gave you some great insights into how financially attractive that has been. And then hopefully my slides also showed the real strength it's given to increase investment talent and capabilities.

We are largely done in that. There's still a lot of work to be done at sort of the back end in terms of decommissioning systems and the crossover in some of the third-party providers. But from a broadly Merian point of view with the rebranding just last week we're now done.

That doesn't mean therefore we'd be looking to do any further M&A. When you look at what Merian's brought in investment capabilities, when you look at what NZS has brought us, and then the additional areas that Stephen mentioned that we've been nurturing for the last sort of three years, we have a real wealth of opportunity to grow those existing capabilities. And that's really our focus.

So, for this year, for 2022 you should not expect us doing anything on the M&A front. We've got so many attractive opportunities already within our house that that should be our focus rather than looking to add more to it.



Stephen, do you want to just pick up the question on Dynamic Bond positioning?

**Stephen Pearson**

Absolutely. And you're completely correct: lower for longer has been the structural positioning of Strategic and Dynamic Bond strategies and that's one of the key reasons they've performed so well through 2020. Fundamentally that's still the positioning of the investment team.

But it's an active strategy, and we've taken opportunities within the markets last year where we saw quite a big rotation in the underlying portfolio to balance the portfolio. So, it's more of a barbell approach now between the sovereign and the longer duration and merging and high-yield credits. So, Ariel would describe it as more of a barbell approach that we're running now.

Average duration is still over six years, so that would be longer than a peer group average. Credit rating on average is BBB, so again probably versus the peer group a little higher on that basis.

### Question 3

**Gurjit Kambo, JP Morgan**

Hi, good morning everybody and well done on a good set of numbers. Just a few questions.

Firstly, on the fund performance could you perhaps just give some colour on what's driven the shift in Merian one-year numbers significantly improving and I guess some of the deterioration in the Jupiter numbers on a one and three-year basis? Just if there are any particular funds that are skewing that performance up and down?

Then the second one is just on the Dynamic and Strategic Bond funds, obviously these funds are getting quite large now. How do you think about the scope for these funds to keep growing and the opportunities for them to keep investing at good returns?

And then just a quick one for Wayne on the deferred comp. The £7.4m I think you mentioned in 2021 did you say that would also be a similar amount in 2022 just on the deferred comp number? Just those three questions, thank you.

**Andrew Formica**

Stephen, do you want to pick up the performance numbers and what's driving those and then also the capacity in Dynamic Bond, and then hand over to Wayne?

**Stephen Pearson**

Sure, very happy to do that.

On the performance variance there, what you saw through the second half of the year on the Merian book of business was a really strong recovery in the aggregate performance, driven largely by the UK Equity book and both the UK Alpha and the UK Smaller Midcap range. Those funds produced very strong performance, having had a challenging period through that initial volatility. And that's reflected in those performance fees because the performance fees are being generated on those assets. So, that's the big swing that occurred on their book.

On the Jupiter book it's marginal the deterioration. So, the changes that you see in the fourth quarter in the markets, that mass of rotation, affected the rankings of our fixed income, and also our Merlin and our European

Growth strategies. And that's persisted into 2021. That's a quality growth lower for longer investment bias that's responsible for that.

On the capacity issue it's one we talk a lot about, but less so now around fixed income. Certainly, when we were smaller and growing fast, we wanted that because we were referencing the size of equity funds for the size of our fixed income funds. Dynamic Bond looks big relative to the equity funds, but it looks pretty small relative to the large fixed income funds and to the scale of the fixed income markets.

The critical thing for us to have done as we've built out fixed income and Strategic and Dynamic Bond strategies has been to make sure that we have the resources, the analytical resources to cover all the various asset classes and sectors that we need exposure to and want exposure to in a flexible fixed income strategy. And that's why it's important that we have a ten-strong analytical team supporting Ariel covering different credit sectors. And we've recently also started to expand our coverage of US credit in particular, which again is an enormous opportunity for doing three-star allocations over time.

So, we see ourselves as expanding our capability in fixed income into the very enormous scale of opportunities in fixed income markets, rather than being perhaps more narrowly constrained as you would be on a classic equity fund.

**Wayne Mephram**

And Gurjit I think your question is on deferred compensation, I've included more information in the pack actually; it's on page 46 and you can have a little look at later.

The way that deferred has always happened is to take some of the charge in the current year and then the remainder gets spread over broadly three years. So, we expect to see £8m of charges on this year's performance fee bonus on that coming through in 2021, further charges in future years, but they'll start to reduce after this year.

## Webcast Questions

**Alex James**

We have some questions from David McCann. It comes in five parts:

We open with two questions on costs. Firstly, how does the cost guidance for 2021 split between the first and second half, whether we've got any seasonality there?

Secondly, does this new cost guidance now include all the possible synergies or could there potentially be anything further coming in 2022?

The third question is on regulatory capital and whether the capital position that we've quoted includes the full impact of Merian from a regulatory requirement perspective.

The fourth is on the dividend. We mentioned a target dividend pay-out ratio of 70%. Within this can we restate please what the ordinary pay-out ratio target is?

And finally, question five on performance fees. What do you think are reasonable expectation for what performance fees should be in a typical year?

## Wayne Mepham

A number of questions there so forgive me if I forget them. Maybe you'll remind me if I've forgotten any.

First of all in terms of costs, yes there is a degree of seasonality; I don't think it's a major shift. Clearly, we are going through a restructuring programme at the moment, so you will see some of the reduction in our fixed staff costs coming more weighted towards the second half. But other than that I think not significant changes.

Clearly, there are impacts in there in increased expenditure on marketing and travel, and clearly that may have a weighting more towards the back end of the year as we're still in lockdown. I'm not entirely clear when we're going to come completely through that.

In terms of synergies, as I said most of them have come through. We are still working through some changes this year, so I'd expect to see more coming out in 2022. Given in the discussion on Merian itself and the multiples you would pick up that I said further cost synergies coming through, so they will come through in 2022. It's probably too early for me to say exactly what they are today but you should expect more later this year.

Was the next question on regulatory requirements, Alex?

## Alex James

It was and whether we've seen the full impact of Merian yet on those regulatory capital requirements.

## Wayne Mepham

The full impact, let's put it the other way that we have got a full impact and I would expect the regulatory capital requirement to come back.

As I'm sure you know, there are two components for looking at our regulatory capital requirements. One is a very formulaic basis which takes into account costs, so clearly as the synergies come through that will come down. And then there's a top-down approach where we look at our own assessment of capital.

I think as part of that assessment we're required to think about the transition phase as we already, and I think Andrew picked up on as well, we are a long way through that transition. There are still things to do but the major parts are done, but you do have a bit of a lag in being able to release that capital requirement. So, whilst the transition is complete there's a lag in releasing that capital requirement. I would expect that to come off over the course of the next year or so. Of course, we'll have offsets with hopefully growth in the business that will push up the regulatory requirements and offset some of that.

In terms of dividend targets yes, I said that the additional returns are targeted to be at least 70%. There is no change to our ordinary dividend policy at 50% pay-out ratio. It's a progressive policy so whilst earnings are below the previous high watermark, we will pay out above that 50% ratio for the ordinary and then we'll consider the additional returns which will take us to, as I say, at least 70% in aggregate.

And then the final piece on performance fees I think, as I said, it's quite difficult to estimate these at any point in the year, but certainly at just under a couple of months into the year. You've got quite a lot of detail in the pack so it can help you think about it.

We have also, as I said, have included an indication if each of those funds outperform by 5%, you'll also see there's high watermarks in that, a couple of funds which have each outperformed their high watermark as well. So, that information I think should help you think about it. I'm not going to give you an estimate for this year, but clearly the important point is there is potential for fees in the future.

Alex James

There are no more questions on the webcast at the moment.

### **Andrew Formica: concluding comments**

Great. I know there's been a lot that we've covered today. I think there's a lot in the business that has been going on that we wanted to share with you, so we know we've gone over that hour. Thank you for the questions that we've had, and obviously if there are any follow-ups please do come to Alex and the team to answer them.

The only thing for me to finish up, hopefully you'll see in the results that whilst 2020 was very challenging with Covid and we also had the integration of Merian, we did sit there and get through a hell of a lot last year, and the foundations of Jupiter have really been reset and established. And this year is about pivoting back towards that growth agenda, driven by the strong products that Stephen and Phil covered in their presentation, and based on a very strong financial and capital position that Wayne was able to highlight.

There's definitely cautious optimism coming from us as a business based on where we ended the year, notwithstanding the fact that we still have several months before the vaccine programme shifts and changes the outlook in terms of the society impact of Covid, and obviously markets continue to have a volatility to them that is challenging but also an opportunity for active managers.

Thank you for listening and I look forward to catching up with many of you in the weeks and months ahead.