Interim Results 2021

30 July 2021

Andrew Formica, Chief Executive Officer

Good morning everyone, and welcome to Jupiter's first half 2021 results presentation. I'm Andrew Formica, Chief Executive, and joining me on today's call is Wayne Mepham, our Chief Financial Officer.

I'm sorry we're having to put you through the pain of another webcast. I hope that by the time of our full year results next year we'll be in a position again to meet face to face.

I'd like to start by focusing on some of our key numbers of the period. We've been able to deliver sizeable increases in revenue, profits and assets under management, supported by the acquisition of Merian Global Investors which we completed this time last year.

Taking a closer look at the numbers, net revenues rose 38% to £224m. Underlying profits before tax also jumped 38% to just over £78m. And underlying earnings per share meanwhile increased 15% to 11.5 pence a share. The smaller percentage rise is linked to the issuance of shares related to the Merian acquisition.

In addition, the Board has declared an ordinary dividend of 7.9 pence a share in line with our distribution in the same period last year.

Assets under management boosted by our acquisition of Merian rose 54% to a record of just over £60bn. We continue to deliver the investment performance our clients expect of us with 69% of our assets under management in funds outperforming over three years relative to their peer group, broadly in line with where we were at the end of 2020.

One area where I would have liked to have reported better progress is on our net flow position. In the last six months we saw £2.3bn in net outflows. The headline figure is disappointing, and I'll be talking about this in more detail later on.

Investment performance is the most critical deliverable of our business. We know our clients take a medium to long-term investment horizon and these are the numbers they focus on when judging our success. Whether it's over three or five years, our fund managers continue to deliver for our clients demonstrating why we, at Jupiter, continue to focus on high conviction, active asset management. We are passionate about how we believe truly active management can make material improvements on the financial position of our clients.

In this slide I'd like to focus on some of our larger strategies. These are all of our funds with assets under management over a billion pounds. Firstly, as a result of the Merian acquisition we are now a more diversified business. As you can see there is a consistent pattern of, by and large, very good returns over both three and five years.

Where there is weakness you'll see it's concentrated in our value range, in funds like UK Special Sits and in Jupiter Income Trust. These funds have been delivering very good performance over the last year as value investing has come back in favour leading to good inflows in 2020 which have continued in the first of 2021.

I’d also like to mention the Chrysalis Investment Trust. It’s not included here as it’s not a mutual fund and doesn’t have a formal peer group, but it’s a Trust that’s done incredibly well for our clients. If we compare its performance against all other investment trusts, whatever the sector, Chrysalis’ performance is third percentile since inception. It received a further boost this year with the re-evaluation of Klarna and the successful IPO of and that’s seen that assets under management soared to £1.4bn and just under £800m at the end of last year.

Now turning our attention to our new business. I talked earlier about our net outflows and I’d like now to put that in a bit more context. Gross sales in the first half of the hit a record of £9.6bn. In fact, since the second half of 2018 we’ve recorded consistent sales growth, nearly doubling sales from around £5bn to nearly £10bn today.

So therefore it’s clearly disappointing having seen this growth in gross sales that our redemption picture continues to be challenged. We’ve seen net outflows in both our mutual and segregated businesses this half.

For our segregated business, flows from seg mandate tend to be lumpy by nature and this outflow follows around £700m of net inflows over the previous 12 months. As for our mutual funds, redemptions have been concentrated in a few areas. Let me try and break these down for you in a bit more detail on the next slide.

Starting with Emerging Market Equities, a decision by Omnis to close out a mandate with us was behind most of the outflows. A decision that was widely in the trade press at that time.

For our UK Equities and European Growth franchises strong long-term performance and arguably attractive valuation levels for these markets have not prompted any significant client reallocation to them. Once sentiment changes, and given our strong credentials in this space, we should see a better picture going forward.

Merlin, as you know, is a mature strategy that has seen redemptions for some time. Performance though continues to be strong with Jupiter Merlin Income, Merlin Growth and Merlin Conservative all these are first or second quartile over three years.

Finally, Merian Systematic Equities has seen a revival in its fortune since coming under the Jupiter umbrella with nearly all funds delivering either first or second quartile performance over one year. That has led to positive flows into the GEAR strategy but the Long Only Strategies we’ve seen clients reducing their exposure, notably in North American Equities. We also have one client in the Global Systematic fund redeeming a significant proportion of their public market exposure in an asset allocation shift to private markets.

As you can see these five areas were responsible for more than all of our net outflows. I will also mention that the largest single loss, not mentioned here, was that of the US Smaller Companies Trust following the retirement of our manager earlier this year; an event widely covered in the trade media. Despite that we have continued to see healthy inflows for all these areas with £3.8bn in gross flows over the same period, an increase of £3.6bn of gross flows in the previous six months.

On a more positive note, we continue to see demand and support for our key growth areas. You may recall at our full year presentation in February I spent some time talking about these funds of the future, the funds that are shown here. These were funds which were in areas of client demand, where performance was good and many were approaching a crucial three year track record. I’m pleased to report all of those, bar one, have seen growth in net flows over the period with some seeing a significant increase in their assets under management, notably Global Sustainable Equities, Strategic Absolute Return Bond and NZS.

Particularly pleasing is the return to positive flows for GEAR. While the three year performance continues to look challenging, that will improve markedly at the end of the year when poor performance in 2018 drops off and strong performance over the last 12 months replaces it. In fact, the recovery of GEAR has been so impressive that the strategy is now within single digits of its high watermark for performance fees, and you can see this is page 28 in the Appendix.

Earlier I mentioned the strength of the Chrysalis Investment Trust. The Trust carried out a successful capital raise in the first quarter, performance has been fantastic. Assets under management is up 85% and they have accrued some significant performance feed so far in the year which Wayne will come on to later.

Finally, it's worth noting the continued strong performance of our Fixed Income range and I'll turn to that in a little bit more detail towards the end of the presentation.

I hope you'll agree there's quite a lot to be positive about here. In aggregate these strategies of the future have already delivered £2.7bn in gross inflows and net flows of £1.3bn over the first half of 2021. Given that the same funds saw net inflows of less than £300m in the previous six months, this is rapid progress and we expect that momentum to build as the year progresses.

With that eye on the future, I'll hand over to Wayne for a more detailed look at our financial performance over the last six months. I'll then come back to you for a short update on our strategic priorities, including a focus on some of the key areas of our business.

Over to you, Wayne.

Wayne Mepham, Chief Financial Officer

Thank you, Andrew, and good morning everyone. I'm happy to be able to report this resilient set of financial results to you today, continuing to demonstrate the benefits of the Merian acquisition and the strength of the business.

This will be a relatively short presentation from me today. I'll run through the key movements in our numbers and outlook for the full year and end with a look at our capital.

Andrew has already highlighted most of these numbers so I won't dwell on them in too much detail here. They represent very strong growth in financial performance compared to the first half of 2020 which was before the acquisition of Merian. Underlying profit before tax was up 38% to over £78m, while underlying EPS increased 15% to 11.5 pence. A slightly lower increase due to the issue of shares in July last year but you can see just how accretive the Merian acquisition has been.

In accordance with our capital allocation framework the interim ordinary dividend was held flat at 7.9 pence. A reminder also that our policy states that we'll only be paying an ordinary dividend this year. Any additional returns of capital will take place at the 2022 year-end at the earliest. So let's now look in a little more detail as to what has driven these numbers.

Firstly, the move in profits. Following the Merian acquisition we saw a sharp uptick in our profits in the second half of last year. So I've used this period as the most relevant comparator to explain how the business has moved. However, you will recall that we earned strong performance fees in H2 2020, and our current mandates only give the potential for performance fees in the second half of the year. So we've excluded the profits from these in H2 2020 to get to a better comparison to this half year with the remaining profits reaching £86m for that period.

As you can see both revenues and costs are broadly flat over the period although there are some underlying moving parts in both which I will come on to shortly. You can also see that there is a £10m movement through investment gains and losses compared to the second half of last year. This is driven by two things: mainly the strong investment gains in our seed and hedge portfolio in the second half of 2020 as markets rebounded after the initial impact of COVID. But also there are some small losses on the seed portfolio this year. Some movement from a large gain to a small loss is that £10m. The operating margin remains at 36%, and I'll come back to discuss that in more detail later.

Finally, we have £21m of exceptional costs. That's the intangible asset amortisation and DEO charges relating to the acquisition, and the restructuring cost that I announced in February. Full year exceptional costs are expected to be £34m, so that's just the full year costs for those items.

Moving on to the next slide on revenues. Again here we've used the second half of last year as the most appropriate comparator, but taken out those performance fees from last year's numbers. As you can see, revenues were up slightly over the period by about £2m. Those net outflows that Andrew covered reduced revenues by around £9m, but this is more than offset by positive market movements and other changes, which led to an increase of £11m.

The revenue margin was 76.6 basis points, which is actually 0.6 basis points higher than the run rate at the beginning of this year, and that is simply due to changes in business mix. While flows and markets will continue to impact the revenue margin through the second half, my expectation is that it will be largely unchanged for the year as a whole. So overall, revenues were slightly up on the preceding six months.

Before we move on to look at our costs, I wanted to briefly look at performance fees. This slide is an updated version of one which we showed you at the full year results. It shows all of the funds, and collectively the segregated mandates, that have the potential to earn performance fees. It also shows what we would see if these funds saw 5% outperformance for the second half of the year. There is a version of this in the Appendix which you can look at later which is a lot more detailed around the current performance and high water marks.

But there are a couple of things I'd like to draw out here. Firstly, it's important to know that any performance fees that we may earn in a year will come through in the second half. It's best not to model anything for the first half.

Secondly, you can see that most of the performance fees are currently accrued by the Chrysalis Investment Trust, nearly £50m in its half year accounts to the end of March. Although they must recognise that cost, we can't recognise it as revenue until it crystallises. Of course that number can go up or down from here, but there have been some positive updates since March, which Andrew mentioned earlier. The final number will be calculated at their year-end which is 30 September.

The other mutual funds and segregated mandates have some potential, but are not currently accruing much in the way of performance fees. But it's still early and that could change by year-end.

Finally, and although this figure can vary year-on-year due to tiering and deferrals, across all performance fees we can expect around 55% earned to drop through to the bottom line for this year.

Moving on to operating costs. I've included three separate six month periods on this slide as I think it really demonstrates two things. Firstly, how much the business has changed since the start of 2020. And secondly, how we've remained absolutely focused on cost control throughout despite some headwinds. Our administrative costs increased in the second half of last year as we completed the acquisition. But as we delivered on cost synergies and implemented the restructuring I highlighted in February, this has brought costs back down. The expenses for the first half were £139m, 17% lower than the preceding six month period. That's those cost savings this year as well as performance fee related bonuses in the variable staff costs.

You'll see that our total compensation ratio is 34%, in line with the first half of last year. But it's worth noting that the impact of deferred variable compensation on performance fees has added nearly two percentage points to this figure. That's deferred bonus charges on last year's performance fees which I said would impact our ratio in 2021. Without that impact we'd be looking at a total compensation ratio of closer to 32%.

Our operating margin is at 36%, which is the same as the first half of last year but lower than the second half. Of course the second half had strong performance fees which led to an increase of about four percentage points for that period, but as I just mentioned, deferred bonuses on those performance fees have held back our operating margin this year.

This slide shows the move in operating costs, so our fixed staff and non-compensation costs. Firstly, we've achieved over £5m of synergies through the Merian integration, which is as we expected and as I guided to at the full year results. To reiterate from the full year, Merian was fully integrated at the year-end. We still have to decommission some smaller systems which we will complete this year, and of course we are looking forward to welcoming our colleagues back to the office in September.

As I reported previously, along with integrating Merian we have looked at our own operating model and how we need to be structured for the future. This has led to some changes in how we operate and where we have allocated our resources. As a result, our fixed staff costs have reduced compared to the second half of last year, and that is on top of the reduction from the costs from Merian. A large part of that saving is due to the restructuring programme which I mentioned in February, with other cost reductions from additional support we provided to staff last year, including remote working allowance for all our people.

Importantly, our full year guidance for fixed staff costs remains unchanged at £74m. Again excluding Merian savings, non-compensation costs were slightly higher in the first half of the year, as expected. This was largely driven by admin costs increasing in line with the growth in average AUM, as well as investments we've made in growth areas such as data and research. H1 costs are lower than we expect for the second half, principally as marketing and some of the costs are set to increase, along with some projects that we scheduled towards the year end.

Finally, you can see that we've incurred just under £3m of costs due to the strengthening of sterling and the settlement of historical indirect tax. At the full year I guided to £123m of non-comp costs for 2021. The important take-away here is that, notwithstanding the impact of market movements, I don't see any changes to our underlying costs, but those £3m I just highlighted should be added to that.

I won't spend too long on this, but as you can see our capital position remains strong. Our surplus capital has increased period-on-period from £90m 12 months ago, to £134m today. We'll cover this in more detail at the full year results, but I did want to highlight the expected impact of a new Prudential regime on our regulatory capital position which will take effect from 1 January 2022.

We don't expect this to impact our regulated capital requirement, but it will reduce our admissible capital. I expect that to be around a £44m reduction based on our half year numbers. Of course we've been planning for this for some time, and the resulting capital surplus if the changes were in place to today would be around £90m, which is exactly the same as the surplus this time last year.

One of the prime uses of this strong capital position is to build our seed capital portfolio, nurturing new funds and helping them build their track records until such time as we see client money coming in. The three charts on this slide are great examples of this, how we have initially provided the capital to grow the track record before external client money is invested, it reaches critical mass and we can begin to reduce our holding, recycling that capital into new products. GEM Short Duration and Global Sustainable Equities are ones that Andrew mentioned earlier as potential drivers of future growth. And the third graph, the Pan European Smaller Companies Fund, is an area that we have previously highlighted as seeing rapid growth for our initial placing of seed.

As we have been able to reduce our seed investment, we have in turn recycled that into another fund, the Global Equity Growth Unconstrained Fund, the NZS fund we seeded in April this year and is already seeing strong interest and flows, and again we expect to be able to recycle that investment fairly quickly predominantly into sustainable and SFDR focused strategies.

You will recall that at the Capital Markets Day in December 2019 we talked about a more disciplined approach to product development and the use of seed capital. These are good examples of how we are doing just that. We are thinking clearly about what needs to be launched in the future, and when it’s right to do so, redirecting our existing capital resources into new opportunities when existing seeded funds reach the right level.

So in summary, and before I hand you back to Andrew, these are a good set of financial results with underlying EPS up 15% compared to this time last year. As I said in February, the Merian integration is complete and we are operating as a single team to deliver for our clients. We remain disciplined on cost management, continuing to focus on operating efficiency, which enables us to selectively and strategically invest for growth. All of this is, of course, predicated on strong investment performance as a high conviction active asset manager that is absolutely crucial to our ongoing success, and also gives us the opportunity to earn performance fees, with strong potential again this year. All of this, combined with our strategic focus on product development, means we are well placed to grow the business going forwards.

With that, I will hand you back to Andrew.

Andrew Formica

Thanks, Wayne. Before I update you on some of the key areas of our business I just wanted to spend a few moments talking about our plans for welcoming colleagues back to the office. The London office officially reopens on 6th September with the introduction of our 2-1-2 flexible working arrangement – two fixed days in the office, a further day chosen by the employee and the potential of two days working from home. And in regard to September we’ve been redesigning new workspaces to facilitate this flexible approach and foster collaboration and you can see some of the examples here on the slide.

We’re also planning a range of employee sessions to reinforce our culture which is so critical as people return to the office.

Now turning to our key strategic priorities you may remember I updated you on these at our full year results. I won't go through all of them in detail now but concentrate on a couple of areas where we’ve made further progress over the last six months.

First, we have continued to diversify our business by expanding into new markets. In the US we are now SEC registered allowing us to sell Jupiter products in the country. We have also taken the first step towards establishing an East Coast office to house a new US credit team and we expect that team to be three strong by the end of the summer.

Through the Merian acquisition we are now licensed in Australia to distribute Jupiter funds and we're currently developing plans to enter the market on a fly in/fly out basis.

On the Institutional business, it's a key driver of our overseas efforts. As you recall we also have the strategic ambition for this segment of the market to make up a larger part of our overall assets under management. To this end we've been adding further resource to this area. We've appointed three new institutional heads: one for the US and another for the Asia, both new roles and a new head to the UK to lead our efforts in this space.

As part of our strategic priorities I'd like now to focus on two key areas where we've made significant progress in the first half. The first is around our ongoing commitment to Sustainability. In April we became a signatory to the Net Zero Asset Managers' initiative, committing the firm to supporting a goal of net zero greenhouse gas emissions by 2050, or sooner.

We've been working hard to build ESG factors into our supplier selection process and we plan to make key hires in the coming months to embed ESG into all of our corporate activities and processes. And our efforts in this space are being recognised. We are rated Advanced by Morning Star in our ESG commitment level, one of only five asset managers to earn this accolade. And we earned a ratings upgrade from Sustainalytics to put us among the top four asset managers which have done the most to reduce exposure to material ESG risk.

Finally, in May this year we were publicly recognised by the FT for our efforts in reducing our core greenhouse gas emissions, making it into the papers in all good lists of climate leaders.

At an investment level, our Sustainability strategies together hold more than £1bn in assets under management. And client interest remains strong with net inflows around £100m in just the last six months. We have also restructured and clarified investment stewardship in this area to showcase the breadth of our strategies.

Earlier this year Abbie Llewellyn-Waters was promoted to head of sustainable investing, leading our efforts in this area, with clients able to participate in the transition to a more sustainable world by investing in the Jupiter Global Sustainable Equities Fund. For those looking to invest in companies providing environmental solutions to manmade problems such as waste, water scarcity or pollution, Rhys Petheram, recently appointed head of Environmental Solutions and his team offer a range of products including the Jupiter Ecology fund, the first environmentally-focused fund that was launched in 1988.

Assets under management growth in this area should accelerate further with the proposed launch of a SICAV version of our Global Sustainable Equities fund before the year is out. Other Sustainable products are also under development.

But it isn't just in our dedicated sustainability range that we've focusing on. You'll all be aware of the growing importance of SFDR as a criteria for fund selection on the continent. On this matter our focus has been on authenticity and explaining what we do through clear client dialogue. All of our funds across our Luxembourg and Irish ranges qualify at least as Article 6 funds. This means an assessment of sustainability risk is fully integrated into their investment process.

To support the growth of our sustainable strategies as well to deliver on our commitments to our clients in all of our investment strategies we have made several new investment hires, including a commitment to significantly increase the size of our existing resources in our Governance and Stewardship teams, and adding fresh investment expertise to key portfolios and supporting functions.

We've also offered to all of our employees the opportunity to study for the ESG Investing CFA qualification funded by Jupiter. This has been developed by the CFA in conjunction with industry experts, including both Abbie and Rhys, to cover a broad range of topics under this growing and critical area.

We've also invested in technology and we're proud of our ESG hub, a proprietary tool created in-house and which helps us monitor portfolio emissions, a necessary first step as we move towards setting interim targets around emissions and our commitment to net zero.

And now looking at Jupiter's largest franchise, Fixed Incomes. As you can see it's done incredibly well. Over five years we've nearly doubled assets under management while broadening our product offering. From just two investment strategies in 2016 we now offer 11, and to support that expansion we've grown the team from nine investment professionals to 25. Many of them are home grown talents following in the footsteps of the Head of Strategy and Dynamic Bond Manager, Ariel Bezalel, who began his investment career at Jupiter. And we expect to continue to invest in the team. As I mentioned earlier our new US-based credit team will grow to three over the next month.

Performance continues to remain exceptional with 98% of assets under management outperforming over three years with 67% of them in top quartiles. Over five years the figures are also impressive with more than 70% of assets under management outperforming.

While Dynamic and Strategic Bond remain the juggernauts of the franchise, we have developed a diverse and growing product range over the last five years, which has made a strong contribution to overall assets under management.

We are now well positioned in areas of client demand, including alternative fixed income, emerging market debt and high yield, to name just a few. This is a franchise with a solid and loyal client base which we will continue to support and grow.

So summing up our first half for you we have maintained strong investment performance. We have delivered record gross sales, even though the net outflow picture remains challenging. We have seen strong net inflows into our funds of the future. And we have made significant progress in our strategic priorities, including our renewed product development process delivering better results, our accelerating commitment to ESG through investment in our sustainability strategies and an increased distribution footprint.

We have moved the company forward by investing for future growth while maintaining a strong capital position and cost discipline. With this Jupiter is well placed to deliver up on its strategic ambitions.

Thanks for your time listening to us today, Wayne and I are now happy to take any questions you may have.

Q&A session

Question 1

Gurjit Kambo, JP Morgan

Hi good morning, thank you for the presentation, just a couple of questions from me. So firstly, when we think about the outflows from the five strategies if we look at, I think you said a lot about what's to do is just reallocating to other strategies, has any of that do you think been related to the shorter term performance which obviously has been weaker across some of the funds or is it not really driven by performance? That's the first question.

And how do you feel sitting here now going into the second half, are there any signs that outflows may be moderating in those five strategies? So that's the first one.

Then secondly, to Wayne, just in terms of the guidance around the non-variable costs, which were £97m in H1, can you just give us that number again, I forget the number? And then how do we think about, you know, you've obviously made some redundancies and your headcount is 9% lower at the end of June versus December, is that factored into that guidance? So just those two questions. Thanks.

Andrew Formica

Thanks, Gurjit, I'll pick up the first two and let Wayne pick up the other questions around costs etc.

Dealing with your second on the flows, on a forward looking basis we don't talk about how a month is going or the predictions for the next quarter so I can't give you any guidance on that. But in terms of the flows for those five main strategies that we highlighted in the deck, there were some that were one-off situations on the institutional side. So, for example, we mentioned the Omnis and emerging markets one, that was predominantly performance in the period. Our manager is a small to mid-cap and large cap, it performed extremely well through that. Actually the short-term performance has been very strong but that was probably the decision there.

In the other Institutional side we saw in the UK equities an institutional client move to passive. It's been an ongoing trend in the institutional market including in the local authority market and it is disappointing because active is really delivering for in UK Equities and I think there's strong credentials as to why, but that was a client decision in that regard. And then another institutional client moved a significant proportion of their public money to private money and again it wasn't performance driven.

In the other strategies, UK Equities and European, was their short term performance issues sort of driving that? I really don't think so, I just think it's a lack of ongoing interest in the sort of regional strategies, and a lot of money has gone towards growth strategies, or towards thematic type sustainable strategies. And in some of those cases, for example, the UK Equities performance has been very strong, both short and long term in a number of the strategies that we saw outflows on. So I don't think it's a performance issue, I see it more as an application issue. And particularly things like UK Equities, you know, our small and mid-cap teams are the largest in the space, so we are sort of in some ways, if people are looking to reduce we will be heavily affected, just because of our significant market share. And also say that, if you look at that slide we do highlight that we are still seeing good growth flows in those areas, so clients are still demanding in there but there have also been more people redeeming.

Wayne, did you want to pick up the other one?

Wayne Mepham

Yes, absolutely, and thanks, Gurjit. Just to reiterate my guidance, so the two bits I think you were looking at is the non-variable costs, so two components there. The fixed staff costs. We are highlighting the restructuring programme, the resulting fixed staff costs for this year, exactly the same as I said in February, is currently looking at £74m. And then on the non-compensation cost side there's those two components, so the guidance I gave in February remains the same at £123m, but we did have those indirect taxes and FX points this year, so that's a further £3m for this full year.

Gurjit Kambo

Great, that's very clear, thank you.

Question 2

David McCann, Numis

Good morning, thanks for taking my questions. Three please. The first one probably for Wayne. Just on the slide for IFPR, £44m potential increase. Is there anything you can do kind of internally, you know, restructuring, perhaps the seed capital portfolio or something that might change the impact of that? That's question one.

Secondly, Andrew, you talked about seeing kind of more encouraging gross inflow growth. You gave us some colour in those kind of five particular areas, but maybe you can just talk more broadly across the Group, you know, what areas are you seeing the most encouraging signs of growth in the flow growth? That's question two.

And then finally, referencing slide 13 on the performance fees, and in particular in regard to Chrysalis. I note additionally the AUM of that is currently £1.4bn, which compared to the last update that the fund itself gave was just under £1.2bn, so does that imply there's been another 20% performance growth that you're seeing which hadn't yet been reported since then? I guess if you were to tally that 20% growth onto the slide 13 display does that mean we can see another £40m of performance fees on top of the £49m which obviously as a trust has been reported. That's question three. Thank you.

Andrew Formica

Wayne, do you want to take question one and three and I'll pick up two?

Wayne Mepham

Yes, absolutely. Thanks, David. The IFPR, yes we're obviously still working through that. There is still a conversation going on and discussion with the FCA. I don't think there's a lot we can do in terms of the admissible assets in terms of structuring our business. Of course we will look at it. Most of it comes through in the fact that deferred tax assets are no longer part of your admissible capital, so obviously that depends on where we are with certain aspects of the business, but we will continue to look at it. Unfortunately, I think that is probably the reduction we will see towards the year-end, depending on how that moves.

On the performance fee side. Yes, I mean, you're right, the performance fee in that schedule is showing the position at November… Sorry, I beg your pardon, at March. Yes, there have been market increases since then. The NAV is still to be struck, the next one is for June, it's due to come out next month, so you'll be able to see that in the market place as to how that's moving, obviously gives you a better indication of where it will be for September, but of course there is still another valuation point at the end of September before the performance fees eventually crystalise. That will be out in November, so again you'll be able to see that.

Andrew Formica

And to your other point, David, about any areas that are encouraging growth. I think in some cases, firstly in some of the areas, disappointing areas of outflows, there are some issues that won't be repeated, just by the nature of the fact that those clients have left. But the areas that look attractive, first on the Institutional side, we are seeing greater institutional support than we have for a while in terms of Buy ratings so in terms of, for example Abbie and the Global Sustainable Equities has achieved two Buy ratings from different consultants over the last six months. And we know that that is a precursor obviously to future flows, it can take a little while to come through but the conversations are quite encouraging from that. So institutional conversations tend to be a longer process, but as we know, once they do come in they can be both lumpy in size and they tend to have a higher duration, so I think there's quite encouraging signs in that aspect of it.

NZS continues to do well. You know, as a growth orientated manager they performed really well. In the swing to value they actually held up and had a positive performance through the six months, even in periods of being out of favour for their sort of strategy, their risk functions did well. So I think that's actually helped with some of the conversations with clients, so that continues there.

And then on Fixed Income. There's obviously a big debate out there around the likes of where inflation will be and whilst Ariel has been very clear in his positioning, it is a go anywhere fund so he could change sets of data, supported in July we're obviously seeing a shift back down in ten year treasuries which have boosted the fund's performance. But so not just the main strategy having strong growth potential, the underlying sleeves now having hit crucial three years of performance and very, very strong performance in those areas, are increasingly having conversations around those. So I think that's a critical area as well.

So I'm really encouraged by the fact that at the turn of the year we'd looked at those, what we thought were funds that were small that had potential to grow, and they've really delivered that, you know, both in growth flows and net flows are a significant increase in what we'd seen in just the previous six months. And there's no reason that that can't continue and build, given both the capacity those funds have, the performance and they're much more in the sweet spot of where client demand continues to be. I hope that helps, David.

Question 3

Hubert Lam, Bank of America

Hi guys, good morning. A couple of questions, firstly on flows. Andrew, how optimistic are you for turnaround for demand for UK growth and UK equities? That seems to be holding you back on the flow part. And are you happy with your organic strategy for now to diversify? Would you consider a deal if an opportunity arose? That's the first question.

The second question is on operating margin. You reported 36% operating margin in the first half. It would probably be higher in the second half I think just due to performance fees, but what long term average margin would you like to target? Thank you.

Andrew Formica

Thank you. In terms of UK and Europe, look, it's clear that… Well, I am disappointed that we haven't seen a greater recovery in that area. I felt with Brexit sort of feeling like it's in the distance the valuation support, particularly on things like UK equities and our strong credentials there we would have seen that. So on that basis, sort of being surprised that we haven't seen greater demand. I'd be very hesitant to sit there and say how optimistic or when I'd look to change it. At the end of the day the bottom line is we just deliver the performance to the clients and hope that comes through, and we're seeing some really strong performance so we hope that that will ultimately be recognised. And clearly with the strong interest in things like private equity in the UK market, you know, people are waking up to the fact that areas such as the UK are significantly undervalued on a global basis when you look at certain industries and certain valuations. So you've just got to be patient in this market. I think it'll be rewarded for those clients who see that and are attracted to that.

Yes, I think that said we are looking at also diversifying our own business in areas where a lot of the newer strategies have greater appeal from a global jurisdiction and NZS and Global Sustainable Equities I mentioned are ones that we really see an opportunity for clients to be interested in all regions, not just the UK and Europe where we're quite strong, but in our North America and our Asia developments there. So certain of our new products have that more appeal that's more than just one region.

In terms of our M&A would that be a part? You know, I think I said six months ago that it's really off the radar for the foreseeable future and nothing's changed in this half, nothing we're looking at, it's not sort of on our radar. Our focus really is on the existing footprint that we have and sort of building that out.

In terms of operating margin I'll let Wayne pick that one up.

Wayne Mepham

Yes, thanks Andrew. So I mean, I've spoken through with the presentation some of the one off factors that are coming through this half year, numbers in terms of operating margin. If you stripped all those points out you come to an operating margin that is closer to or round about 40%. That sort of ball park and moving up from there is where I'd be targeting at this stage, getting back to where Jupiter was a very long time ago in terms of very high operating margin I think is not the current target, but of course performance fees do create some volatility in our margins as you've already touched on, Hubert.

Question 4

Gregory Simpson, Exane BNP Paribas

Good morning. Just a few questions from my side. Firstly, is it possible to provide some colour on the client flows by region or country? Are there any differences you're seeing in terms of different markets? I know some of your peers seem to be reporting improving flows in Continental Europe in markets like Germany, for example. So if there's any colour that that would be great.

Secondly on ESG. I may have misheard you but I think you mentioned under SFDR the majority of Jupiter's funds classify as Article 6. Over time will you look to move more into being Article 8 or 9? Is it a disadvantage to not have more funds in the higher Article buckets do you think?

Then just lastly, I think you mentioned you're now US SEC registered and can sell Jupiter products in the country. How advanced are the plans around distribution there? Are you connected to the wire houses, or what's the plan of action in the US retail market?

Andrew Formica

Thanks, Greg. In terms of regional split we have seen encouraging outflows in Continental Europe. Remember that about 70% or so of our client base is UK, and it's probably been a greater percent of that of where we've seen the outflows. Given UK Equities which is a predominantly UK business have seen a large part of our exposure, and some of the things I mentioned around outflows are UK Institutional, the end of the Omnis account, or the investment trust. I'd say that outflows have been concentrated in the UK region where actually we're seeing growth outside of that, particularly in Europe where we've seen that. Asia's been in inflows as well.

Then you asked a question, I'll come onto US and I'll come back to the SFDR. In the US, we've only just got approval in the last few months so it's very limited to what we can do, and our proposition in the US is a wholly institutional proposition so we know that it will take a little while. It's one of the reasons we've just hired the US institutional head to support the team over there. We wanted to make sure we had the sort of support in place, the approvals in place.

So I would expect that the rest of this year will be more about building the basis for what we do. I think it'll be a 2022 story in terms of growth for us out of the US just because its institutional approach of what we're doing now. The Buy ratings we've got in a number of strategies helps us because they are with globally recognised consultants so they immediately are applicable to the US. So there could be a chance that they come in this year, but I suspect it'll be a 2022 for the US for us. And then we'll build from there with further distribution support to that business as the conversations and our business builds there.

In regard to SFDR, we did say at least all of our funds are Article 6. Some are Article 8 and Article 9, but they're a much smaller proportion. The vast majority of our funds are Article 6. I think it's really important as this is an emerging area that we're really clear about being quite authentic about what we're doing. Some of our strategies may actually satisfy the requirements of Article 8, but before we would sit there and say that, we want to be really clear that we are going to be able to demonstrate that quite clearly. I do feel there's been a bit of a rush to label funds Article 8, and I'm not sure there's been as much rigour in understanding it's a process behind that. And for us it's really important about making sure we can deliver on that. So there's a lot we're doing around that.

You will have seen the certification of it has been pushed back by the regulator by at least six months, but I think that's recognising the challenges in some of the proof of this. So we're taking a cautious approach. But you will see us launch more Article 8 funds. We mentioned, obviously, the offshore version of Global Sustainable Equities will be coming this year. There's a number of other strategies, some in the sustainable space, but some of our existing strategies that can meet that criteria we'll launch either later this year or early next year. And definitely you're right, the way the clients are talking over in Europe it is becoming an important area for you, so it is something we're monitoring and alert to. But I don’t think we’re disadvantaged today but it is something that is a space that’s moving quite rapidly so you do have to be quite agile and quite flexible to change plans to suit that. But at the end of the day it’s all about making sure what you deliver is very much authentic and appropriate in terms of the badge or the requirements that clients expect.

Question 5

Haley Tam, Credit Suisse

Morning. Actually, most of my questions have been answered but if I can have two quick follow ups then. Just on the SFDR point that Greg asked about. To confirm then, someone like Schroders has been talking about targeting 75% of their fund range being Articles 8 and 9 later this year. That’s something you might still consider in the future but just not yet? To just understand your position.

And secondly, I think the second annual assessment of value report came out recently. I have to admit I’ve not read the entire thing yet, but obviously last year you had some fee reductions, and I can’t see anything of that sort this time around. Is there any sort of comment you can make there in terms of whether you think fee rates are now at a good sustainable level or whether this is something which might still change in the future? Thank you.

Andrew Formica

Thanks, Haley. In terms of the SFDR point, you know, I think it’s way too early for us to be committed to what percent of our funds and over what time frame would be in certain categories, partly because I’m just not sure anyone really knows enough about how to deliver to the requirements that the regulator and the client expect. So for us we’re taking a more cautious approach, so we’re doing a lot of work on it, I think we can have a very strong conversation with clients about the work we do and the differences in our application of that. But to go with a commitment of 75% as you say by the end of the year, you won’t see me do that, I think for us that would be unrealistic to commit to that without the basis of being able to prove I could do that sufficiently to what I’d expect to deliver to clients under that.

In terms of value assessment, yes you're right that we published ours in the last day or so, our second one. Actually, we got very good marks from things like the Fund Board Council for our first one, notwithstanding obviously the regulator's recent critique of other managers out there. We weren't one of the ones they critiqued but obviously we are looking at what they put out to see areas of improvement.

Also, our first one was struck right at the end of the March valuations for the COVID beginning, the COVID situation, which obviously meant we've seen quite a significant improvement in both performance and asset levels and absolute and relative performance since that sort of point. So actually we've seen an improvement in the overall picture for us as a business. And so I think that's sort of come through and, therefore, we don't feel there's any imminent need for revaluation or fee reductions. As you highlighted, we have moved some of the direct book to a different fee fund, given the regulator allowed us to do that, which previously wasn't open to us, and having done that that sort of addressed some of the concerns that came in the first one. So yes, there's been no change necessarily from a fee position through the second round of value assessment.

Andrew Formica: Concluding comments

Well look everyone, thank you very much for your time today. Hopefully we've tried to give you as full a picture as we can of the business. Obviously the net outflow picture, which were some of the key questions coming through is disappointing for us and it does take a while sometimes for these things to turn. But I would want you to understand there's a lot of work being done that has improved the position, whether it's the product development side of our business; you can see from Wayne's slides that we're getting a much greater discipline and therefore success rate in new product launches. A lot of the areas we've been investing in over the last three or four years are really starting to deliver, and there's been a lot of good work done about building out the business for future growth.

So whilst at a half level it may look quite disappointing, and we ourselves aren't happy with the position that was delivered in particular net flows, there are a lot of encouraging areas for us.

And then finally, on the Merian deal which now is fully integrated, but the benefits of that deal across a number of metrics are really coming through to us, and I think it's really strengthened the business both now and on a forward-looking basis.

So if there's any further follow up questions, please do reach out to Alex in the investor relations department, and if there's anything else we can help with we're happy to answer your questions after this as well. Thanks a lot. Have a great day.