Jupiter 2021 Full Year Results

Presentation

Andrew Formica
Chief Executive Officer

I think we're right on time, so we'll get started. Wayne's just pointed out to me that as we're standing here face-to-face, two years ago when we did this, markets were exactly at the same level, with the Covid concerns in there. So, it's been quite an interesting few years.

Anyway, good morning, and welcome to the presentation of our full year results . I'm Andrew Formica, Chief Executive of Jupiter. I'm really delighted to once again be able to welcome you in person, after two years of virtual presentations. I'm sure you're all sick of not actually having to do this via Zoom. Putting a tie on, and suits, so thank you for those who did get appropriately attired to come into the office today.

I know, of course, there are many on the webcast, as well, so morning to them. You're no less welcome.

As we enter 2022, it does feel like that at one point there's a turning point in the pandemic, and I'm looking forward to the opportunity of engaging with everyone face-to-face, as life starts to at least normalise, and business activity picks up.

Unfortunately, the events over the last few days highlight the continual risks that we must contend with in markets and in our industry.

Turning back to 2021, it was a challenging year for Jupiter, despite some significant progress on our strategic objectives over the last 12 months. Understandably, there's been a focus on our net flow position, which continues to impact investor sentiment and weigh on our share price. I'll take some time to try and explain what's behind the redemptions we've been experiencing, and what we're doing to address it, but I'd also like to touch on the future growth drivers of the business.

I'm talking here about our commitment to broadening our ESG offering, our ambitions in the institutional space, and our targeted expansion overseas. Investment in these areas started to yield results in 2021, and they remain key to reversing our net outflow position.

Following this broad overview from me, I'll hand over to Wayne, for a more forensic breakdown of the results. I'll then come back to you with some final thoughts on how our investment for growth has placed the business on a solid footing, for 2022 and beyond.

There'll, of course, be an opportunity to ask questions at the end of the session, both for those in the room and for those on the webcast.

Let's begin with a look at some of the key numbers in our results today. Overall, it's been another year of growth across a number of key areas. Net revenue is up 27% to more than £568 million. Underlying profit before tax rose 21% to just under £217 million, and underlying earnings per share climbed 10% to 31.7p, from 28.7p in 2020.

Assets under management were up 3% to over £60 billion, helped by positive market movements, which is a record year end position for us.

We faced a more challenging year on investment performance and flows, and I'll follow up with more detail in the next slides, but in brief, the investment outperformance of our mutual funds over three years fell to 58%. On flows, we did see a modest deceleration in the pace of net outflows, to £3.8 billion, but this remains a challenge to overcome.

Despite this mixed picture, Jupiter remains financially resilient. You'll see throughout the presentation that we're continuing to invest through the income statement for future growth in the business, while continuing to build up excess capital, which we remain committed to returning to shareholders.

The starting point is through our ordinary dividend policy, and the ordinary dividend to shareholders remained unchanged this year, at 17.1p. Wayne will cover our capital allocation framework later on, and how our thinking about additional returns of capital have evolved.

Taking a closer look at our investment performance, I mentioned the dip in outperformance over three years, and that's largely due to two of our larger funds slipping into third quartile just as the year ended. There's more detail on this in the appendix, where you can see the usual slide that shows the performance of our largest funds.

The one year picture, however, looks a lot brighter, and bodes well for the future, with 80% of Jupiter mutual funds outperforming peers, up from 63% in 2020, and as you can see, over five years, outperformance also continues to hold up very well.

This next slide demonstrates how our product range resonates with our clients. 2021 was another year of record gross sales, and overall sales up nearly 40% from 2018. This is not only a fantastic testament to the hard work of our sales teams, but also underscores the positive impact of the acquisition of Merian on our product range and our client support and conviction in our investment capabilities.

However, we're still seeing an elevated level of outflows. Putting these numbers in context, the pace of outflows from our mutual funds slowed in 2021, while segregated mandate outflows, due to one-off client redemption in the first half of the year, reversed from what we'd seen in the previous year. These segregated outflows are unlikely to be repeated. Indeed, we have generated net positive sales so far this year in segregated mandates.

As a firm, we pride ourselves on being responsive to our clients' needs, and it's very encouraging to report net inflows into our newly launched funds, which I'll cover in a few slides on.

I just want to drill down here on where we've seen improvement and where the challenges remain.

Looking across from left to right, our UK equity franchise suffered from overall subdued overall demand, though encouragingly gross sales continue to be high, with over £3 billion of gross inflows into those strategies.

European growth continued to recover from the departure of the lead manager in 2019, seeing a year-on-year decline in outflows, helped by the strong performance of the new team in place.

Our Merlin multi-manager range operates in a segment of the market that is seeing little growth, even if overall assets held up well in 2021.

Matt Beesley, Jupiter's new Chief Investment Officer, is working with the team to identify new areas where we could position this very well-regarded strong franchise.

Our Systematic long-only strategy has seen a steady recovery in its performance, helping to shrink outflows, while GEAR, the long-short version of the systematic strategies, saw outflows slow to a trickle in 2021, on the back of their best ever 12-month return, comfortably putting them top of the first quartile. Our unconstrained fixed income range continues to see inflows. You can see here how recovery of outflows of historically, can really turn around quite quickly. We saw that from 2018 to present.

These six strategies alone pulled in £12.5 billion in gross sales this year, a figure that allows us to put some perspective on the net outflow picture.

Supporting an improving picture on flows has been the success of strategies we've launched over the last four years. Thanks to Jupiter's disciplined approach to product strategy, these newly launched funds have attracted significant client interest, delivering £2.2 billion in cumulative net inflows since 2018. This has come from a range of funds and mandates, including Chrysalis, Global Sustainable Equities, and NZS Capital.

As momentum builds, and more of these products reach their three-year track record, we'd expect growth to accelerate and for these new funds to represent a greater proportion of overall assets under management.

I'd like to now hand you over to Wayne, who'll provide a more detailed breakdown of the results, and then I'll come back to briefly touch on the overview of the priorities for us in 2022.

Thanks, Wayne.

Wayne Mepham
Chief Financial Officer

Thank you, Andrew. Good morning, everyone.

Before I start, I just want to echo Andrew's comments on how great it is to be doing this in person again. Also, it's good to see so many of you in the room today.

As usual, I'm going to take you through the results in a little bit of detail, so let's kick off with a few headlines, which Andrew's already touched on.

Net revenue is up 27% to £569 million. With disciplined cost management and with some targeted investment, underlying profits were up 21% to £217 million. After those exceptional items I guided to, that's a 39% increase in statutory profits, resulting in an underlying EPS of 31.7p.

Today we've announced a final dividend of 9.2p, taking the full year dividends to 17.1p, which represents a pay-out ratio of 54%. I'm going to run through our capital allocation framework and how we're thinking about capital returns in just a moment.

Let's start by looking at how that 21% in underlying PBT has been achieved.

There's a few complexities in our results this year, which I'll try to make clear and help you think about the future. The first is the impact of Merian, which only contributed half a year in 2020, as we completed the acquisition in July. To annualise this, we simply doubled the Merian H2 contribution before performance fees, to get a more relevant comparison.

As I've said before, Merian is fully integrated into our business, so we can't separate out the profits anymore, but what we do know is that the AUM that we acquired has increased in line with the Group as a whole. There are additional cost savings, which continue to demonstrate the value of the acquisition. We had strong performance fees, again, which added £16 million to the increase in profits, and I'll cover the details on the movements in revenue and costs in just a moment.

Last year we reported gains on financial instruments. That's primarily the seed capital portfolio net of hedging. This year we're reporting losses for the period, reducing some of those earlier gains. That has reduced the growth in profits year-on-year, by just under £8 million.

Finally, there's a full year of interest costs on our debt.

All of this results in an increase in underlying profits of 21%, to £217 million.

High performance fees this year and last, make it a little more difficult to follow the underlying trends, so I'm presenting the performance fee profits separately, both in the announcement and on the slide here.

Performance fee profits contributed £52 million, and other profits were £165 million. I'll come back to operating margins, and how you should think about performance fee profits in just a moment, but before we do that, let's look at the main driver of our business, the movement in AUM.

This slide shows the AUM progression over the last two years. Firstly, the Merian acquisition added £17 billion on 1 July 2020, but of course, only half of that was in the average AUM for that year. Andrew's covered this year's flows picture, but those were more than offset by investment returns, which added £5.6 billion to our AUM.

So, with only half a year of Merian, and strong investment performance, our average AUM has increased by 25% to £59.7 billion. This picture leads us to the movement in revenues, including those performance fees.

We reported £448 million of net revenues for 2020. If we exclude performance fees, and add a full year of Merian, we reach an adjusted revenue of £441 million. As we saw on the previous slide, there's been a negative impact from flows, more than offset by a positive impact of investment returns over the past two years. That has driven the change in revenues.

Revenues, excluding performance fees, have increased by 19%. I know you're all interested in our net fee margin, and where that is going from here. Last year I reported a run rate of 76 basis points for 2021, at the start of the year, which had declined as a result of business mix. That's not really changed much, through the year, with strong investment performance in higher margin areas offsetting outflows.

Historically, and excluding the Merian-related rebalancing, we've been tracking at a one to two basis point decline per annum, for some years. We're investing for growth in a number of key areas. In some cases, those command a lower average fee margin, such as building our presence in the institutional channel.

Success in these areas would lead to a decline in the average fee margin, as a consequence, but I'm more focused on the increase in revenue earned, through growing our AUM, rather than simply the average margin.

So, although the fee margin was flat this year, I think the decline over the next few years could be at the upper end of our range, or maybe a little higher than we've seen historically. So, we may see a two-basis point decline this year, if we are successful in achieving growth in those key areas, along with maybe another half basis point for other factors, such as underlying fee pressures.

Finally, we have £133 million of performance fees this year. That's up from £64 million last year. As you all know, most of this year's performance fees came from Chrysalis, with some contribution from other mandates. As we've done before, your pack includes each of the funds with performance fee capabilities, and we currently have in total 16 funds and mandates that could deliver performance fees in the future.

When you look at these later, I will particular draw your attention to GEAR, which paid a small fee on one of its share classes this year, and demonstrates that its performance has really come back over the past year or so.

Of course, predicting performance fees in the future is very difficult, and I will not expect fees of this year's level to repeat in 2022. I'll update you at the half year, but I would be thinking about £10 million to £20 million for your models this year.

All in, that takes us to a 27% increase in revenues for 2021 to £569 million.

Moving on to costs. This slide has a lot of data, but there's a few areas I want to focus on.

Firstly, I've included three years of information, as there has been a lot of change over this time. That's the Merian acquisition, the impact of Covid, restructuring, ongoing cost headwinds, and some investment in growth areas.

Secondly, I've pulled out performance fee related costs, and you can see more on overall profits from performance fees in our announcement today.

You know that accounting for bonus awards, where large parts are deferred, is a little complicated, with costs charged in the future relating to this year's and previous years' awards. Like last year, we've included a schedule in the appendix that sets out future deferred bonus costs, for awards we've already made.

That deferred bonus accounting is particularly important to understand when we have revenues that can vary significantly year-on-year, like performance fees. With high performance fees again this year, you can use this data to update your models for those costs.

Next, and before I get to the ratios and margins, the picture on the right shows how our compensation mix has changed over time. That's excluding performance fees, but shows that in 2020, because of the transition and integration of Merian, we had a greater weighting towards fixed staff costs. This year, we've moved back to a more balanced weighting towards variable compensation.

Given the volatility of the performance fees, I've included the underlying compensation ratio as 33% this year, and is down by two percentage points. That's the net impact of the synergies and restructuring that I highlighted this time last year, partially offset by investment for growth and the need to ensure our total reward packages are competitive, to both attract and retain talent, in a market that's seeing a fair degree of inflationary pressures.

Looking forward, we can probably expect this underlying compensation ratio to be around 36%, excluding any performance fee impact. That reflects some investments we are making to drive growth. I would then expect that ratio to come down, as growth begins to build.

Turning to operating margins, I've shown this including and excluding performance fees. Excluding performance fees, the margin has reduced from 39% to 38%. That decline is due to movements on the seed portfolio, as well as some one-off costs this year, but has benefited from the lower compensation ratio. But including performance fees, the operating margin is at 39%.

Let's look at the cost progression in a bit more detail, starting with staff costs and the fixed costs component.

That Merian annualisation annualisation again takes us to adjusted costs for 2020 of £85 million. I've talked to you before about our focus on cost discipline. I think you can really see that here. Between the synergies derived from the acquisition and the savings we've made elsewhere, we've reduced fixed staff costs by £12 million. If I bring in variable compensation, you can see that split of fixed to variable being weighted towards the variable elements.

That trend continues to be our focus, but obviously depends on the performance of the business. I've already touched on investment for growth, which continues to come through in 2020, and Andrew will go through the key elements in more detail in just a moment.

Most of this investment comes through as compensation costs, as we add resource to the key areas of sustainability, institutional and our international businesses. Given the investment we've been making, and the industry-wide inflationary pressures, we would expect that fixed staff costs for 2022 to be at least £80 million, but lower than the 2020 adjusted total of £85 million.

Turning to non-compensation costs. Once again, you can see the Merian annualisation here, which takes us to an adjusted non-comp cost base of around £116 million for 2020. We've delivered almost £5 million of synergy savings, and we continue to look for opportunities to reduce costs where we can across the combined business.

The other cost movements on this slide are also in line with our expectations, and the guidance we gave you at the last two presentations. Firstly, admin fees. These moved generally in line with average AUM, as a lot of the charge is driven by that. Other AUM-related costs are principally data and research, including targeted investments for our data science team, to support our fund managers in delivering alpha.

The other increase is largely due to that planned spend on marketing, as we come out of the pandemic.

Finally, you'll recall the one-off costs I highlighted at the half year for FX and historical indirect tax, and of course, that hasn’t changed. So, total non-compensation costs are £126 million.

Looking ahead, I mentioned earlier that most of our investment for growth is coming through our compensation costs, as we add some resources in key areas. There are inflationary pressures in our non-comp costs, but our focus on being disciplined, along with the benefit of our operating platform, mean that we expect our non-comp costs to be marginally lower than 2021. There will also be exceptional costs of £26 million for 2022, which is just the acquisition-related items that I've mentioned before.

So, although we have guided to increase fixed staff costs, driven by inflationary pressures, and some investments, our non-comp costs will actually be lower this coming year. Combined, the total of these costs is in line with market expectations for 2022.

Turning to capital. You can see from this slide that we continue to maintain a strong capital position. At the half year results I talked about the impact of IFPR. That's the new prudential regime which came into place in January 2022. That has had the impact of reducing our capital surplus by around £50 million, which is broadly as we expected back in July.

Looking across our capital allocation framework, there's a clear order in the way in which we think about capital. Of course, our regulatory requirements, and applying a prudent buffer, are the first steps in this.

Next, we consider the use of seed capital, to build track records in new strategies.

We currently have a seed capital portfolio of just over £140 million, and the Board has approved this can be increased up to £200 million. The key aspect here is that we continue to be very disciplined around our product strategy. The products on this slide are some of those which we have recently invested seed capital, all of which are in strategically important areas of growth. And crucially, we are very efficient in taking money out at the right time, and recycling it in some new growth areas, which is testament to the much improved, much more efficient approach to product strategy and development.

In recent months, we have taken seed money out of products which have built a track record and attracting client investment, and recycled that into key new products, including the strategically important Global Ecology Bond Fund.

Moving back to the framework, next in our capital allocation framework is organic and inorganic investments. We've been very clear that we do not have any current plans for M&A. We're confident in our strategy, and that we have the right products, performance and people in place, which will drive growth, so there's no requirement for additional capital from an inorganic perspective.

We've discussed some investment for growth, which is largely directed towards additional people in key areas, and comes through our income statement, rather than the capital base, and which we expect will drive growth and gross flows in those areas in the future.

We will continue with our ordinary dividend policy, after which we still maintain a strong capital position, which enables us to make additional returns to shareholders.

We review our capital position regularly, and as I've said before, we've made a commitment that every two to three years, we'll return excess capital to shareholders. That will come up next at the end of 2022. Historically, we've done this through special dividends, but our expectation is the next, and any foreseeable future returns, will come in the form of share buybacks.

As we work towards the next additional return of capital, we'll continuously monitor a number of factors, including external market volatility, through geopolitical events, and internal capital requirements, as we transition from the ICAAP to the ICARA.

To wrap up, and before I hand you back to Andrew, the financial results were strong this year, 10% increase in EPS, 21% increase in underlying profits.

We have a robust capital base, and we are on track to look at additional returns of capital again for the 2022 year end, which we expect will be through a share buyback programme.

Our focused cost discipline in the past means we're able to target investments in key growth areas.

With that, I'll hand you back to Andrew, and will be happy to take questions at the end.

Andrew Formica
Chief Executive Officer

Thanks, Wayne.

Wayne has highlighted the investment for growth that we've been making, which is largely focused in three key strategic areas. Before we move on to questions, I wanted to spend a little more time focusing on these key areas, and why they're attractive to us as a business.

Those areas you can see here on the slide, firstly, our commitment to sustainability, from both an investment and a corporate perspective. The second one there, the work we're doing to build out our institutional channel, to diversify our client base, and thirdly, our targeted international expansion, to offer our products to a broader range of clients.

Turning to this slide, I'm conscious this won't be the first time - nor the last - you'll hear an asset manager talking about the value they place on sustainability. It's at the top of many clients' deliberations, and as it should be. Incredibly, £1 in every £3 went into ESG equity funds last year, and £1 in £10 into sustainable bonds.

Jupiter has a proud heritage as an active participant in helping find solutions to era-defining challenges. It's worth remembering we were the first asset manager, in 1988, to offer a unit trust dedicated to finding solutions to the world's environmental problems, the Jupiter Ecology Fund.

Today, Jupiter looks at sustainability in terms of both investment and corporate lenses. This slide looks at the first of these, the integration of ESG principles across our strategies, investment processes and the broadening of our sustainable offering to clients.

I won't talk you through every point here, you'll be pleased, but as you can see, we are driven in this area by our commitment to providing our clients with a genuine, sustainable offering, where there is clear accountability.

You can only achieve that by investing in your capability, and that's why we now have 20 investment professionals dedicated to sustainability. It's also why we have built up one of the best data science teams in the industry, supported by people right across the business, in areas such as technology, in change and corporate sustainability, to help underpin the quality of our offering.

Clients are recognising our expertise in this area. In 2021, we saw over £200 million of net inflows into our sustainability-themed products, and just this week, Brunel announced that they have added the Global Sustainable Equities strategy as one of only six underlying managers in their sustainable equities portfolio.

This bodes well for our expectation of an acceleration of flows, and it's supported by recent launches, including the Global Ecology Bond Fund, the SICAV for our Global Sustainable Equities strategy, and an ESG version of our very popular Dynamic Bond strategy.

The final lens through which we view sustainability is our corporate commitment. I don't believe you can be seen as a leader on the investment side, without strong credentials at the corporate level. So, as a Company, we want to be fully engaged on the environmental, social and governance issues that matter to all our stakeholders - to our clients, to our shareholders, our employees, and to wider society.

It's about making a commitment as a Firm that we hold ourselves to no less high a standard than we would expect from the companies in which we're investing. As you can see on this slide, we have signed up to a number of ESG initiatives, because, as a firm, we want to be held to account for our actions.

To ensure that we continue to make progress in this area, we appointed, this month, Sandra Carlisle, as our new head of sustainability, who will assume leadership of a new corporate sustainability team. She'll be responsible for further developing and implementing an integrated and cohesive sustainability strategy for Jupiter, across both dual corporate and investment footprints.

It's pleasing to note our efforts in this space are increasingly being recognised externally. Morningstar was the latest firm to award us an Advanced rating for our corporate level ESG commitment. We were one of only five managers to receive this accolade. We were also awarded an A+ rating for strategy and governance by UN PRI.

Our second area of focus for the business is our institutional channel. Institutional clients currently only account for 8% of the Group's assets under management, but our strategic objective is to bring this closer to 20% over the medium term.

Developing an institutional business is not just a case of targeting new clients. It requires investment in our talent, our products and our platform, and in 2021, we invested across all three.

Consultants are the gatekeepers to this market, and we've been working hard to build stronger relationships with them and showcase our expertise and commitment. That hard work, in 2021, has begun to pay off. We now have 15 buy ratings across nine strategies, from nine different consultants. Seven of those strategies are newly rated in last year.

These ratings also reflect a product range at Jupiter that is ideally suited to the institutional market. This includes our global sustainable equities capability, US partner NZS Capital's global growth strategies, our unconstrained global fixed income strategies, and emerging market capabilities, to name just a few.

We've also put people in the field to support our efforts. We've appointed senior regional heads in the UK and Asia, to drive growth, and we've expanded our team in the US. We're currently looking to recruit a new head of institutional for continental Europe, and we have ambitious plans for Australia, which I'll talk on more in the next slide.

These new hires, combined with an ongoing focus on delivering the best possible experience to our clients, are key to our future success. Institutional level client service is increasingly becoming the norm across the industry, regardless if it's just institutional clients, but also for our traditional wholesale and retail client base. So, it's important that we continue to rise to that challenge.

When I first joined Jupiter, I mentioned that reinforcing our market-leading position in UK retail had to be a priority, after several years of focusing on expanding our international presence. The successful acquisition and integration of Merian has fulfilled this objective, allowing us to widen our perspective and take a fresh look at our global footprint.

Clients from outside the UK accounted for almost 30%, or £17.5 billion of our assets under management in 2021. That's up nearly 70% since 2018. They represented nearly 50% of our gross flows last year and have contributed nearly £200 million in net inflows over each of the last two years.

So there is real momentum in our international business, and we've set out to capitalise on that by investing for growth in key new markets. Last year we expanded our distribution team in the US, as well as opening an investment office in New York.

With the acquisition of Merian, we inherited a strong relationship with Chinese asset manager, Ping An. We represent them internationally for the distribution of their highly regarded Chinese Equity strategies, and we're currently exploring how we can work with them in the Chinese market.

I've already mentioned Australia as an untapped opportunity for our institutional channel. We've received regulatory approval to operate in this country late last year, and we're now in the process of adding on the ground resource.

Going forward, our efforts will now focus on consolidating our presence in the international markets that we now operate in, having achieved the rebalancing we outlined in our capital markets day in 2019.

As a firm, we've always been passionate in our belief that high conviction asset management helps our client achieve their long-term objectives, and right now, with the high levels of volatility we're seeing over the last few days, it is even more important that active managers help their clients to navigate these challenging conditions.

In addition, our clients are also telling us that their objectives are best served by investments which make a positive impact with their money. Jupiter, with its strong commitment to ESG, at both a corporate and an investment level, is well positioned to fulfil our clients' requirements, and is another support for the active management industry.

We've also been able to deliver another year of robust financial results, as Wayne has highlighted, and we continue to tailor our product offering to meet client needs, leading to a second year of record gross flows. Continued inflows into newer products offer cautious optimism for the future.

We remain committed to investing in those areas of the business that will drive future growth, and to deliver the benefit of that investment to all of our stakeholders.

With that, I'd like to thank you for your time today, and I'll open the floor to questions, and then we'll go over to those on the lines.

Question and Answer Session

Hubert Lam, Bank of America Merrill Lynch

Thank you. It's Hubert Lam from Bank of America. I've got a few questions. Firstly, can you talk about the institutional pipeline? I think, Andrew, you hinted that you already had some institutional wins this year. If you can quantify that, and the pipeline, it'd be great.

A second question is on flows, again. There's been a lot of focus on European and UK stocks, just because of their value, gearing, higher interest rates, inflation, and there's speculation about more rotation into these type of assets. This makes you well positioned. Just wondering why, if you expect to be benefiting from this, why it hasn’t happened? Is it due to performance or distribution, or do you think just flows goes to the passive first, before going to active funds? Just thoughts about that?

Another question on costs, for Wayne. You give guidance on both the comp, as well as the non-comp costs. How fixed are those in, let's say the markets continue to be weak, would you have any flexibility around those investments?

The final question is on the excess capital distribution, the special dividend. Can you remind us what the formula is? Or if that's changed? I know you're switching to more buybacks now, but does that formula change? Thank you.

Andrew Formica

You normally do three, Hubert - you’ve gone up to four. You’ve been busy the last few years.

I'll pick up the first two, and Wayne will pick up the second two.

In terms of the institutional pipeline, I don't want to quantify the pipeline. We are definitely seeing an elevated level of RFPs and conversations in that area. The institutional channel is quite hard to turn on, in a sense. It's something we've been working on for a number of years. It's fair to say that Jupiter was not seen in probably the best eyes for the institutional channel, given its strong retail focus when I joined.

It was a concerted effort for me, and others in the organisation, to change that. So, what's really pleasing is that consultant support that we highlighted has really changed its shift, and has seen a sea change in the appreciation and the understanding of how much Jupiter is able to - both willingness and also able to deliver the client in that space. So just a doubling of the buy ratings that we achieved, in just 12 months.

Now, buy ratings alone don't generate inflows, but you need them to get to that point. So, how we sit there and capitalise from a buy rating into inflows - it could take up to two years, in some cases. You will see evidence of that this year. We're already seeing some of that. As we mentioned, we've seen positive flows in our segregated mandates already. I also mentioned the Brunel win that is in the public domain this week.

So, whilst we don't - we can't quantify that pipeline, we do have confidence, given the work we've done, and given the conversations that over the next - over 2022, 2023, we will see inflows of that.

That's also at the heart of some of the points that Wayne made around the margin impact. It is fair to say that the institutional channel will be at lower margins, generally, but they will have much, much longer duration. So, the present value of a successful win in institutional channel will be more stable, more long-term asset to the business, so we think that is beneficial to the business and to our shareholders.

I can't give you any more than that, but our confidence is clearly increased, given the progress we've made and the hard work put in last year.

That's why we're also increasing the distribution headcount. There's no point having distribution salespeople representing you, if you don't have the capabilities, the ratings, the support to do that. We feel confident that that's been addressed, and therefore, we're adding those resources, in the US, in Europe, in Australia.

In terms of where flows are in some of our product set, you're right. There's a number of areas that have been out of favour and then rotation in markets, and some of that is style buys, for example, value strategies, where I'd say that the value team we have here is certainly one of the pre-eminent in the team - in the marketplace, if not the best in the marketplace.

Then, also, markets that have been out of favour - UK, Europe, for example, because of some of their biases, could come back into favour.

I think to sit there and see - are you seeing any evidence of that? With what's going on at the moment, it's just a risk of market. Quite frankly, and understandably, and if I was a client, I'd be doing the same thing, I'm just sitting on my hands, and trying to work out, what does this all mean?

I do think, however, it bodes well, as we see a shift in that, and even in these sort of conditions - remember, we've also got a number of well performing absent return strategies. GEAR, for example, had an over 18% return last year, its best ever year, and it continues to be positive through January and February. It's up year to date. It's doing exactly what it should be in that area - 18% return last year was great for the strategy - in some ways was overshadowed by what markets did. When you now look at it in the context of this, it really, really stands out, so that could help that.

Our strategic absolute return bond fund, as well, has also sat there and delivered a strong performance through these volatile market conditions.

So, I think we do have areas where, if clients are concerned about further declines, either in fixed income or equity markets, we've got a number of capabilities that have got good, long term track records to support that as well.

I think the institutional side looks positive. I think that on the mutual fund, or the retail book, it's really around at the moment, it's just about working with clients, seeing where - helping them through the navigation of wherever they are, just on sentiment, and then see, once we come out of that, hopefully, to be able to build upon those relationships, and take that forward.

Wayne Mepham

Okay, and I'll pick up your next two questions. The first one was on costs, and just, if I break that down into how much variability there is in our cost base now, and I think your second element was in terms of where we're investing for growth.

If you look at our cost base as it stands today, the staff costs I've set out, look, they're broadly 50-50, and that's where we're targeting for the future.

Now, from a non-comp costs perspective, actually about 50% of those costs are linked to AUM, so they move in line with our average AUM, that includes data research. There's an element of judgement there for us, in terms of how much we want to allocate to those costs, and the remaining 50% again, half of that is variable, and to a certain degree fixed.

In terms of going forwards, I haven't given you precise numbers on the guidance for 2022, and that's because we are looking at how those costs are going to come through. I've given you a minimum number for the fixed staff cost. That is where most of our investment is coming through, but clearly, there's an element of judgement there about how quickly we move to that investment for growth.

On the second question, you asked about the formula for the pay-out ratio. Just to remind you, the last time we paid an additional return of capital was last year. At that time, we announced that what we would do from then is look for a two- to three-year cycle, and we said that we would look at the cumulative underlying EPS and target a minimum return of 70%, and that includes the ordinary dividend. So, 70% is the ordinary, plus any additional returns of capital, over a two- to three-year cycle.

Andrew Formica

I think we said it would be capped at 90% if there wasn't other need for it.

Wayne Mepham

Yes, we did.

Andrew Formica

We've mentioned the seed capital. We've also mentioned that M&A is just not something we're currently considering, so, the minimum is 70%, but could be up toward 90%.

Is there a microphone? Oh, sorry, you've got it.

David McCann, Numis

Yes, David McCann, from Numis. Two from me, please. Firstly, on performance, please, Wayne. You gave us some tentative guidance of £10 million to £20 million for this year, I just wanted to dig into that a bit. What gives you the confidence in making that prediction range, obviously with the caveat you gave, given that if you look at page 70 of the deck, if I'm reading this correctly, the vast majority of these strategies look quite well below high water mark at the year end, and I suspect some, if not all of them, have maybe suffered a bit this year.

I know Chrysalis isn't on that page, but that's obviously not done quite so well since it's last highwater mark. So, why do you - how do you get to £10 million to £20 million with that backdrop? That's the first question.

The second question, more strategically, obviously, a number of the big, more mature bits of your business have some well noted headwinds. I think we all know that. You've articulated some of the strategies that you're putting in place, and will hope to alleviate some of those stresses. How quickly do you think those new strategies are really going to start to bear fruit? Is there anything you can do to accelerate some of that, given those headwinds don't appear to be going away in the more mature bits of the business? Thanks.

Wayne Mepham

On the performance fee side, I think, hopefully, you took from my words that I am cautious about it, so there is - I've gone for a relatively low number there. I think what we've disclosed in the pack there is the funds with performance fee capability. There's also greater mandates, which, clearly, we can't set out those in the pack.

So, I think, if you look across the whole range of 16 arrangements we have, within both the segregated mandates and some of the performance we're seeing in some of those funds, then that gives me some confidence towards the £10 million to £20 million range.

Andrew Formica

In terms of anything we can do to accelerate the success in some of the newer areas, one of the things that Wayne mentioned was the Board increasing the upper limit on seed capital, up to now £200 million. The reason for that is one inhibitor for new strategies is the size of the funds. So, when a fund has achieved track record, but the critical mass is holding client interest, because they just needed certain fund sizes, it gives us the flexibility for a short period of time, to get them over that critical line, in terms of investments, say a £100 million in the fund, and then we can reduce that seed relatively quickly.

So, rather than seed to launch new capabilities, it's actually more used, we would call, say, a catalyst, to do that, so, it's exactly for that sort of reason.

Obviously, we can identify and see how our whole marketing campaign supports these initiatives, client engagement.

The thing about success in any new area is it's a multiple year conversation before you see that success. The good thing is, those conversations have been going on for a number of years, now. The performance continues to hold up. They continue to be in areas of demand, so we continue to be able to engage strongly on that.

A good example of that is NZS Capital. They've reached their two-year track record. They're still within one year of hitting three years. They're over next week, and we've got a very, very full diary, and every one of the people who are seeing them have at least met the team at least once, and in a couple of cases, multiple opportunities, and the first time, given travel restrictions, have been able to meet them in person. So that's the sort of opportunity. That is literally four days back-to-back meetings, pretty much every hour for them over that four-day period.

They're the sort of things where we've built the understandings for a number of years, and now, as they hit certain critical points, we're able to sit there and really, hopefully, accelerate and drive that forward.

Hello, Mike.

Michael Werner, UBS

Thank you. Mike Werner from UBS. Two questions, please.

First, on page, I think it's 73 here, you have a very helpful chart on your seeding portfolio, in terms of the duration and the percent of funds held. Just thinking about this, and how this progresses, going forward. We should assume that as these funds achieve three- and five-year targets, that ultimately, the seeding numbers should decline?

Or, again, I see a bunch of funds there around the three-year level, and you do have a large proportion of the total funds through your seed capital. So, just thinking how that progresses, going forward.

Then, second, going back to the institutional side, we saw the gross flows that you have seen over, say, the past 12 or 15 months. Are there particular strategies that are resonating with institutional clients? Are there particular institutional clients that you're resonating with, in terms of the type of client that they are?

Thank you.

Wayne Mepham

Let's start with the seed portfolio. What I was trying to make clear on in the presentation, that we recycle that money, so I don't see this as a seed portfolio that comes down over time. I see it as us looking at new opportunities.

In terms of the timing of that, it can be very quick. If you think back to the Pan European Smaller Companies Fund in 2020 that we seeded, I think, for less than six months, client interest was there. We started to see client investment coming into the portfolio, so there was no need for the seed portfolio to continue to be invested there.

Other funds, it takes a little longer. So, I would typically expect that for a start-up seed capital to be somewhere between 18 months and three years, and sometimes a little longer than that. But where we're putting money, as Andrew touched on, to accelerate growth, and that could be a very short timeframe, such as we had the Pan European Fund.

Andrew Formica

In terms of institutional clients, what I think is happening in institutional market, which is - it's sort of dovetailing with our commitment of that is, the institutional market is, I don't want to pay for beta, so they're go - they've had the continued drive towards passive, and where they are looking for alpha, they're looking for much higher conviction and higher active share in that regard. Which plays really well into the strength of Jupiter.

Historically, we would have been seen as having too high risk, too highly concentrated portfolios, and smaller investment teams. Actually, the institutional market is recognising that sometimes the larger the investment team, sometimes you dilute the investment ideas, and they're looking for - if they're going to pay for something, they'll pay for higher conviction.

So, actually, the trend of us becoming much more able to demonstrate our ability to service that market, and commit to that market. At the same time, they themselves are coming towards us, as well. So, I think that suits.

That's not all institutions are doing in that area. It resonates much more with some of the more - both the more sophisticated institutional clients, who are really separating the way they look at their portfolios, but then also some of the smaller ones, like endowments, family offices, and the like, who are really quite focused on high conviction asset management.

So, we're not going to be - we would look at it and say, there's probably 10% to 20% of the market, institutional market, that would really appreciate what we do. That may look like it's a small part of the overall market, but it's a huge market, and for Jupiter and its size, that's quite a big market, addressable market, to where we're in.

So, we don't need to attack the entire institutional market. We just need to be ready in those. That's where, from the consultant side, we've also been targeting some of the - in the US for example, some of the mid-tier consultants, who are looking for that manager that others haven't seen, or that clients haven't seen before, and bringing that into it.

Bjorn Zietsman, KBW

Thanks, guys. Bjorn Zietsman from KBW. Two questions from my side, please.

Firstly, could you give us an update on current trading? Obviously, there has been a very rocky start to the year and fund managers are seeing - having different experiences in terms of net flows. Have you seen a net flow - acceleration in net outflows for the first month or two of the year?

The second question is around sustainability flows. FY21 saw a significant wave of inflows into sustainability and ESG-type strategies. Are you seeing a slowdown going into this year? Thank you.

Andrew Formica

Thanks for that. In terms of current trading, I don't really want to comment too much, particularly in short-term trading, we don't tend to do that. I think you can track our - do a pretty good job of tracking our mutual fund flows, so, basically, you'll have a fairly good handle of how that's looked.

Then, on the segregated side, as we mentioned, we've actually seen inflows in that, so, that sort of offset some of that.

Around sustainability flows, whilst we saw positive flows in that ourselves, it was coming from a very small base, and starting to build. So, where others may have seen quite strong flows, in that, are they seeing - the question for them, are they continuing to see that level of flows, or is it reduced?

Our position is actually we're seeing a continued increase in sustainability flows, but that's really recognising the effort we put in, and starting from a much more smaller base, so I wouldn't say that what we're seeing is necessarily representative at an industry level. I think it's more representative of the size and efforts we put in. But we are more hopeful that we'd see an acceleration in sustainability flows for our strategies and where we are. I'm not sure at the industry level, whether there's a shift yet. It's just too early to say.

I could understand why there could be a bit of a shift, just given the very strong shift away from growth to value, which may limit some people in that, but that's not in evidence we're seeing.

Gurjit Kambo, JP Morgan

Hi, good morning. Hi, it's Gurjit from JP Morgan. A couple of questions from myself.

Firstly, in terms of the growth in the overseas markets, is that linked to institutional? Are you focusing more on the institutional markets in the US, Australia, etc. That's the first question.

On ESG and sustainability, when we look at SFDR, obviously that's developed in Europe, and there's obviously standards out there already. UK's not quite there yet. How are you thinking about that? If you were to do an overlay, in terms of your existing funds, are you there? Do you have Article 8, Article 9 type funds?

Then, finally, on the equity flows within the UK, that feels like you're aware, I guess you're suffering the most, in terms of performance in third quartile, and also the outflows. Is there any changes you can make there, or is it just waiting for the market to be back in favour with the strategies you have?

Andrew Formica

Yes. Thanks, Gurjit. Firstly, taking your first question around the overseas markets, certainly the newer markets, we see that as a wholly institutional focus. So, the US, Australia, for example, we see ourselves as entering that market at an institutional level only. We're not looking to put in place a retail proposition, a mutual fund range, a '40 Act or anything.

That's a combination, both of our confidence in our capabilities, those consultant ratings now, which often have a universal or a more global appeal in a number of those consultants, but that's the way we're going with that.

Interestingly, it's actually easier to start in a new market with that clear focus. So, a challenge in the UK would be, but aren't you retail? How do we believe you're institutional? While in the US, Australia, it's very easy to say, no, this is - you're who we're after, this is how we service you. They've got no preconceived perceptions you've got to overcome. So, that's definitely how we're seeing those overseas expansions there.

In terms of the - the second question was around the - what was it?

Gurjit Kambo, JP Morgan

ESG.

Andrew Formica

Oh, the ESG fund range, yes, the ESG elements there.

What we've done, we've done a very comprehensive review of all of our portfolios. It is important - the first thing I would say is that every portfolio does embed the principles of ESG principles into it, but to what degree do they do that, and how do they look at it?

When you look at the definitions Article 9, Article 8, for example, if you use the European taxonomy, what I would say there is, one of the things we've been very, very cautious of is making sure that we're quite strict around how we would classify that and how we would prove that to external validation. We talked earlier in the slides about accountability in that sense. That's really, really important, because you see a lot of people talking about it - butis there greenwashing going on? Is this going to be the next big scandal that fund managers have just jumped into there?

I don't know if others have gone through the same rigour we have, but I can assure you, it's been a very, very rigorous process. What that means is some of our strategies do satisfy the high hurdle we would set to be classified, say, as Article 8. Obviously, something like Global Sustainable Equities is already there, but our European Growth Strategy, for example, can pass the high hurdle we would set around accountability, around audit, around proof for that.

Our Dynamic Bond strategy, however, to get to that level would require it to divest from certain investments or markets that it sees as critical, both to its historical performance and potential future returns.

So, rather than sit there and limit its investment universe, we've created a very separate capability - which we believe, in the long term, won't be materially different on price. It's clearly getting the exposure to the same management team and the same investment process, but it has a very clear accountability around those areas.

We've also hired a dedicated ESG investment director, Anna Karim, to support that strategy, to really make sure that the team is challenged at every investment against that criteria.

So, we've been very cautious in how we've done that. That's why you've seen us launch new funds.

I think for us, it's fair to say that we would have a much lower proportion of assets in sustainable strategies, if you looked very clearly around that, but we've now got a product set that absolutely covers all aspects in both fixed income, equities and balance, that we see could really benefit with track records and supporting evidence for that. So, we feel we've got the right funds in that.

On the UK range, some of our small and mid-cap funds have definitely a growth bias to them. I think that's the right way, in small cap strategies. What you're looking for is the next future large cap, and so that is about looking for companies that grow.

Obviously, at the moment, that's having a tricky time in the more immediate time, but the long-term track record is really, really strong in that regard. They're very well regarded. I think it is a matter of just people recognising and coming back to that.

Are there any other questions from the floor?

In which case, we'll go to those on the lines. I think you're feeding your questions in through the Q&A section, and Alex is going to read them out to us.

Alex James

Thanks, Andrew. We've got one question in three parts from Samarth at Citi.

The first one is around geographical revenue split, noting that a lot of the revenue growth came from the UK, and revenues outside the UK actually declined slightly last year. A comment on what the drivers were for that?

The second part being on fee margin guidance, and whether you can provide any details around what level of success of the strategy you're talking about are built into that? To what extent you can give details on that?

Thirdly, just clarification on the share buyback, whether that is to be considered after the full year '22 results, or before?

Andrew Formica

I'll throw these all to Wayne.

Wayne Mepham

Geographical revenue is just about mix. We're seeing some growth in institutional business, so great mandates there, and also the mix of products that have done well in that region, so I wouldn't read anything into that, other than that.

From a fee margin perspective, it is, obviously, very difficult to predict what fee margins are going to look like in the future. The guidance I've given today is expecting that to come down over time, at a higher rate than we've historically seen at one to two basis points, but that is really dependent on making sure we deliver on those growth in the institutional business.

Andrew Formica

The question was whether - do we - are we giving any guidance as to what level of flows…

Wayne Mepham

Oh? What level of flows we're going to give. Sorry, I missed the question.

We're not giving guidance on that at the moment. We're obviously looking at modest flows in the short term, but expect that to grow over time, so I'm not going to give any particular numbers at this stage.

The final question was about the buyback. Our intention would be, I think, to - our expectation at this stage would be to be announcing with the results at this time next year.

Alex James

Thank you. That's it from the webcast.

Andrew Formica

Okay. Well, I think we've covered all the questions we've had. Thank you for your time today, particularly for those who've come into the office. It is really appreciated and great to see you people face-to-face.

Obviously, in terms of results, there's a number of key points there, and obviously, we've hopefully tried to give you some confidence around the areas of work and focus we're doing on that. We know the flow picture has not been where we'd like it to be, and where you'd like to see, but I would say there's been a lot of foundational work in the business that has happened over the last couple of years.

Notwithstanding Covid has made some of those changes slower and harder than we would have liked, we really are quite pleased with the progress we've made across so many areas. We're just - the final piece of the puzzle will be seeing that turn into a net flow position, which, not surprisingly, is a key focus for us, as I know it is for you and your clients.

We'll keep you updated and abreast of that as we work through this year, and if you have any further follow-up questions, please do reach out to Alex and the investor relations team, and we'll address those, as well.

Thank you.

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