

Jupiter 2022 Interim Results

Presentation

Andrew Formica
Chief Executive Officer

Good morning, everyone. Thank you for joining us for our Interim results presentation. I think this is my 27th set of financial results and my last that I'll be presenting as a Chief Executive. The first time I presented financial results was in the financial crisis in 2009 and today feels like we've gone back to similar conditions as then. One difference though from that first presentation was I tended to have a lot more people in the room then and no one was allowed to dial in, so there have been some changes in that time.

I have to say, it's quite strange standing here thinking of my retirement from an industry that I've championed and I've contributed to for nearly 30 years. I've enjoyed my time working in the industry, and I'm sure I'll miss the time and the people I've worked with. If I look back at my time in asset management, I've seen economic and financial crises come and go, from the Asian financial crisis in '97 through to the dot.com bubble of 2000, and of course the financial crisis of 2008 and 2009.

Each time, through these crises our industry has found a way to respond and to continue to deliver for our clients. Today's feels just like the worst of those periods, but once again we're in the eye of that storm. Jupiter, like other asset managers, has had a difficult course to path, first navigating the global pandemic, then the return of war in Europe, and now the subsequent financial and economic fallout from those events.

Today is a bittersweet moment for me. Whilst a new chapter for me personally beckons, this year's interim results are not where I would like them to be and, judging by our share price, our investors agree. Our overall assets under management and net outflow position is disappointing. We continue to be buffeted by a macro-economic environment of rising inflation, higher rates and slowing growth that's impacting investor sentiment and leading to severe dislocation in the market.

However, I strongly believe that by delivering on the strategic priorities we set out in 2019, Jupiter has strengthened its position to mitigate the negative impact of the challenging environment of the last few years. Diversification, targeted investment and a broader, more modern fund range have created a more resilient business.

As you'll see in the slides that follow, this is starting to be reflected in encouraging growth flows, growing institutional demand for our products and broad client appetite for newly launched funds, including our range of sustainable products. Jupiter also remains on a solid financial footing, leaving it well placed to deliver growth and investment outperformance over the longer term under the leadership of my successor, Matt Beesley.

While there are undoubtedly some positives, I want to kick off the presentation with a short macro overview of the environment in which we've been operating. I don't need to tell you how volatile the markets have been. Volatility is not necessarily a problem. Indeed, it can be helpful for active managers. But today's issue has been the correlation between asset classes. Normally, one sees fixed income and equity markets move in opposing directions at different points during the cycle, but year to date global stocks are down over 20% while bonds have fallen 13%. When these asset classes move down in lockstep - and remember this is to a degree that we haven't seen in nearly 30 years - it really does affect our clients. They have a difficult decision to make over their investment allocations, which leads them to adopt a risk off sentiment across both asset classes.

As for inflation, we know the challenges and the reasons behind the surge over the last year. We could have taken this chart back a lot further. We could have gone back almost 40 years to witness the levels that we're now seeing. So, between all these macro challenges, the appetite for risk has waned to levels I have not seen since the global financial crisis. It

makes for a sobering read, but as we all know ours is a cyclical industry, so with time things will change and improve. But I wanted to provide some context as we present our results.

Let's move on to some of the key numbers from Jupiter from the last six months. Throughout this challenging market backdrop, there are some areas of resilience. Underlying profit before tax came in just shy of £54 million excluding the impact of performance fee changes. Wayne will talk more on profits later in his presentation.

We remain a well capitalised business with a strong balance sheet, and we're therefore comfortable maintaining an unchanged interim dividend. The box on the right-hand side tells much of the story of the last six months. We closed with assets under management just under £49 billion, with falling markets taking more than £8 billion out of our asset base. Much of this came through right at the end of the period with a £3 billion decline in June alone. That's in sharp contrast with the same period last year when we experienced a positive market turn of nearly £4 billion. In addition, we saw a further £3.6 billion in net outflows.

As we've mentioned, the tough macroeconomic background took its toll on investment performance with only 43% of assets in our funds outperformed over three years, a figure we'll take a closer look at in the next slide. Undeniably, these are difficult numbers, but I do want to stress a lot of the pressure we're feeling is external and is also shared by our peers.

Over five years, our funds are holding up with 64% of mutual fund assets under management outperforming over the period. On the drop in our three-year figures, we can point to a couple of reasons. First, there is a bias in our AUM at the moment towards growth focused strategies over value, at a time when the value-style approach has gained favour in the market. Second, the swing in the three-year figure has been driven largely by three funds which had been above median but moved below during the period, namely Dynamic Bond, European Fund and the UK Mid Cap Fund. These three have moved the overall figure in the first half by some 28%. Of these, Jupiter Dynamic Bond, our largest fixed income franchise, had the biggest negative impact as its performance slipped into the third quartile.

Manager Ariel Bezalel and his team hold a view on interest rates that central banks will have to reverse recent rate hikes as global economic growth begins to slow sharply in the second half of the year. Talking to clients, it's becoming clear, following the large drawdown clients are currently contemplating, that they're turning positive on duration and exploring reallocating to this strategy. The fund remains on many buy-lists, and despite outflows, the team has raised nearly £1 billion in gross flows since the start of the year.

Our newly launched Dynamic Bond ESG has also grown to £150 million since its launch in January this year. For UK Mid Cap and European Growth, their tilt towards growth-oriented stocks has been a drag on performance. The nature of active management with high active shares is that these can snap back quite dramatically. Encouragingly, we have seen a tick-up in performance for these funds since the period end. Inter-month figures are always estimates, but for example Dynamic Bond looks to have already moved back to second quartile over three years if we take it as at this week. If that turns out to be the case, that would move the overall outperformance number closer to 60%. It just shows you how volatile markets and short periods of performance can have a significant impact on even longer-term numbers.

But again, I recognise these are not easy figures. However, talking to our clients, they do understand and appreciate, given our style and our active approach, that these periods will happen. Thankfully, history tells us that they are also short-lived.

As I mentioned in my introduction, we've done a lot of work on our product line-up in the last three years, and this has paid off in some of the challenging times. Our funds do continue to attract client interest with nearly £7 billion in gross flows in the first half, which is the same as the second half of last year.

Our largest franchise, our unconstrained fixed income range saw strong gross flows of £1.7 billion. This is particularly encouraging given the difficult rate environment that has prompted many investors to reallocate away from bonds. Our global equity strategies also saw more than £1 billion in gross flows.

However, on the net sales picture it has been a very tough environment, particularly for retail sales. With markets falling and interest rates and inflation rising, it's somewhat of a perfect storm, with a risk off environment in both our equities and fixed income ranges. You won't be surprised at where some of these outflows are coming from. We saw £1.3 billion leave unconstrained fixed income funds. We saw over £2 billion of outflows combined from our growth-focused UK and European equity strategies.

There were in there some positives. Our value-focused funds sold well in the first quarter, led by Asian income and Japan income. Despite being generally growth-focused, our sustainability labelled range also saw positive flows at just under £300 million, and after a period of solid performance GEAR has now returned to positive flows for the first time since 2018. Probably most importantly, the hard work on building out our institutional business is starting to pay off with positive

institutional flows in the first half driven by global equity inflows. The signs are promising that we can build on the first half momentum in institutional with additional mandates won and expected to fund in the second half of the year.

If we take a look now in more detail at the regional view of flows, looking at this chart there are some areas to pull out. If we look at our flows by region, we've talked in the past about how all of our outflows were coming from UK retail, and this has been partially offset by flat-to-slightly-positive inflows from our international business. In this half, the pace of net outflows in UK retail has slowed, again consistent with the trend that we've been seeing in the last few years. Our international offices however have seen that outflows for the first time since 2019, and this was despite positive flows from the US and from Latin America. The outflows were from Europe and Asia and primarily from our Dynamic Bond fund.

As we've seen before, most notably in 2018, some European and Asian retail investors can have a tendency to stay invested for shorter periods and to move in and out of funds quite quickly. If we take a look at this in a bit more detail, given the impact Dynamic Bond has had on our flows for this half, I wanted to take a quick look at what we've seen historically. First, it's worth reiterating that we've seen significant falls across fixed income markets this year, indeed within almost all of the sub-asset classes of fixed income too. As a result, there have been heavy outflows across the industry particularly from retail investors.

I've already talked about the short-term performance for Dynamic Bond, but if you look below at the graph, you can see that the team are very rarely out of the top quartile on a three-year view. As mentioned earlier, month-to-date performance appeared to have moved the fund back to the second quartile over three years. The client base for the SICAV is largely made up of European and Asian retail investors. At the margin, some of these clients can have a shorter longevity compared to the UK and can be more sensitive to short term performance.

You can see on the graph that historically where we've had outflows these tend to rebound quite quickly. We saw outflows in 2018, but that was followed by net inflows for the following three years. The current level of absolute performance is consistent with the fixed income returns that I showed on the first slide.

We also started to see positive signs as we moved through the summer. The market is somewhat catching up to the team's view of the world with performance improving, and we're also starting to see a lot more stronger signs of client interest.

I will come back for a few slides at the end, but for now I want to hand over to Wayne to cover off the financial results.

Wayne Mephram
Chief Financial Officer

Thank you, Andrew and good morning everyone. As usual, I will spend the next few minutes walking you through our financial results for the first half in what has clearly been a very challenging market environment. I will also provide some updated guidance, which includes the steps we're taking to mitigate the impact of these markets on our financial performance, and conclude with an update on our strong capital position.

Of course, revenues of £202 million have been impacted by declining markets and outflows, which led to lower underlying profits, excluding performance fees, of £53.9 million. The accounting charges for deferred awards from prior year performance fees, which I've talked about previously, result in underlying profit before tax and exceptional items of £29.7 million.

As many of you will be aware, a lot of the performance fees' deferred costs have been brought forward into the first half of this year, so the remaining amount in the second half and in the future is now much lower. That's simply the impact of hedge accounting for these types of awards, and is just affecting the timing of the cost.

Statutory profits take into account exceptional items, which are just the expected acquisition related costs of Merian. In February, I guided these would be around £26 million for the full year. We now expect that to be slightly lower for the full year at £24 million. That results in underlying earnings per share, excluding performance fees, of 7.8 pence and including the performance fee result, which is mainly those deferred costs, of 4.2 pence. We've maintained our interim ordinary dividend at 7.9 pence per share, and I'll cover our capital allocation framework later on.

Moving on to the movement in PBT. I will go on to talk about each of these in a bit more detail, but you can see that lower revenues, mainly driven by declining markets, has had the biggest impact on our interim results. This has been partially offset by cost reductions of over £5 million compared with the second half of 2021. That is mostly for non-compensation cost savings but also other careful management of hiring plans in the current economic environment.

I will cover our view on overall costs for the full year in just a moment. We've also incurred losses on our seed capital portfolio that reflects the current challenging market conditions in the first half. Some of those funds have a growth bias, so they have unsurprisingly had a tougher performance period over the last six months. I've already touched on the performance fee impact. This is a brought-forward deferred cost slightly offset by a small performance fee earned in the period.

Let's look at the movement in AUM. As you know, positive market movements in the second half of last year and for the year as a whole were more than offset by significant declines in the first half of this year, which reduced AUM by over £8 billion. Although some of that decline was in the first quarter, we saw that accelerate in June with over £3 billion out from markets in that month alone.

Combined with the net outflows that Andrew has already discussed, we closed the period at £48.8 billion of assets under management. So, AUM is down 19% compared with the year end, but given the timing of the market movements and flows, average AUM is down only 10% compared to the second half of last year to £54.8 billion. This fall in AUM has had a sizeable impact on our revenues and the outlook for the second half of the year.

We saw a £10 million revenue reduction as a result of outflows and a decline in the revenue margin from a change in business mix. However, the impact from market falls and other areas was more than double that of flows, reducing revenues by more than £20 million. That includes the impact of the market declines we have seen this year along with the impact on our business mix which has pulled down the revenue margin.

We had a performance fee of just under £1 million in the first half from an NZS mandate which brought total revenues to £202 million. At our last results presentation, I said we were modelling revenue margins falling by around 2.5 basis points, depending on the growth we saw in the institutional channel. Unsurprisingly, with this decline in equity markets, we've seen that come through already, a little quicker than might have been expected.

Our revenue margin today is just under 74 basis points, down from 76 basis points at the year end. The revenue margin for the second half of the year is of course highly dependent on market levels, but our current expectations, bearing in mind the potential for institutional inflows this year, is that we see this fall by another 0.5 basis point for the year as a whole, which is in line with my previous guidance. At this stage, I'm working on the basis of no significant performance fees for the full year, and your pack shows the current status of any funds with performance fee potential.

Moving on to costs. In this kind of market environment, it is important that we maintain our rigorous focus on our cost base. Our fixed staff costs are just under £38 million, which is broadly unchanged compared to H2 2021. In February, I talked about inflationary pressures, which will come through mainly in the second half, and our plans for targeted investment for growth. Whilst the opportunities for growth remain, given the current market backdrop, we decided to review those plans and reduced our cost growth. So, we have been particularly cautious in the first half, only completing hiring that was essential or those which will have the most impact on the growth of the business. I've previously guided to fixed staff costs of between £80 million and £85 million for 2022 as a whole, and I now expect it to be at the very bottom of that range and no more than £80 million.

The overall figure for variable staff costs is up on last year, driven by those deferred costs for performance fees, and with non-performance-fees-related costs being broadly the same as the second half of last year. However, that variable staff cost combined with the fixed staff cost is based on an expected 38% total compensation ratio, excluding performance fee related amounts. We have increased that ratio by 2 percentage points compared with our previous expectations to reflect the reduction in full-year revenues if AUM levels remain low in the short term. But the charge for the year as a whole is expected to be lower compared with 2021, and we are carefully balancing shareholder returns with the need to ensure appropriate rewards to employees.

Making that change today ensures the costs for the full year are matched to the revenues in both the first and second half if market conditions do not improve. We've looked hard at our planned expenditure, and that 2 percentage point increase in compensation ratio is expected to be fully offset by non-compensation cost reductions.

Turning to non-compensation costs. Our non-compensation costs have reduced. That is mainly driven by admin and other AUM-related costs along with some other net reduction. That is £58 million of costs in the first half, and I expect them to be the same in the second half, despite some ongoing and targeted investment. In the current market conditions, we've delayed some investment until the market environment improves, so we now expect non compensation costs of £117 million for the full year. That's £8 million lower than the guidance in February.

Going forwards, we're again undertaking a thorough review of our costs with the aim of ensuring we are efficient and removing any non-essential spend. I will provide more information on what actions we have taken and how that impacts our outlook when we next update the market. But in the short term, and whilst AUM is at current levels, our operating margin, excluding performance fees, is at 28%. That is lower than where we would like it to be, and our focus will be on how we can improve this back to normal levels in the medium term.

We've maintained a strong capital position, which remains important particularly in the current economic environment, with around £90 million of surplus capital. Our capital allocation framework remains unchanged. Although the market environment and the financial results in the first half have been challenging, the strength of our capital position and the underlying cash earnings of the Group have allowed us to retain the interim dividend at 7.9 pence. The Board will, as usual, consider the final dividend in February. External conditions are likely to continue to have a material bearing on financial performance in the second half of the year, and the Board's evaluation of the appropriate level of the final dividend will be informed by our trading through that period, the outlook for revenue and costs and our excess liquidity and capital.

To wrap up, we're clearly in a particularly challenged external environment. We are not letting that distract us from building on the strong foundations we have established and the opportunities we see for growth over the long term. But the current market challenges are even more significant than they were when we saw you in February. With that backdrop in mind, my focus is on rigorous cost management and only continuing investment in crucial areas as well as removing costs where we can. We also continue to be focused on strong capital management. We have a strong balance sheet, and that allows us to ride out these more choppy waters and maintain our focus on realising our potential.

Thank you very much. I'll now hand you back to Andrew.

Andrew Formica
Chief Executive Officer

Thanks, Wayne. As I prepare to step down, one question I'm asked about is the merits of the acquisition of Merian Global Investors. It has only been two years, so shorter than the usual time one would sum up an acquisition, but I would like to spend a few minutes looking back at the contribution Merian has made to the wider business financially, operationally and strategically.

First, financially. It's clearly been a great acquisition on this front: Merian has contributed very significantly to our profits and put the wider Jupiter company on a much steadier footing. Within the first two years alone, we've recouped almost two-thirds of the enterprise value through earnings. The underlying Jupiter business would have been harder hit in the absence of the Merian range with a lower capital surplus.

Operationally, the integration happened swiftly and efficiently, despite that taking place through COVID. Cost synergies were greater than expected. In December 2020, we referenced a multiple of around 4.4 times. Inevitably given the current market environment that would be a little higher today, but still certainly within mid-single digits, and that represents great value.

As we've stabilised the business since the acquisition we've seen around 3.5% voluntary turnover of former Merian employees. This is quite a lot lower than they were experiencing before the acquisition. Of course, their performance has remained strong. Despite the tough economic backdrop, 62% of assets under management in the Merian funds are outperforming over three years. GEAR in particular has seen a strong recovery in performance and has now moved back to inflows.

Strategically, there have also been benefits right across the business. Merian funds have broadened our product range and brought new investment capabilities. We now have expertise in systematic investing, gold and silver, and a broader range of funds covering UK small and mid-caps. Our fixed income franchise is now much more diversified through the addition of the Merian range. We now have a wider alternative range of almost £3.5 billion, most of which are former Merian products. These include GEAR, Gold and Silver and Strategic Absolute Return Bond fund, which is one of our best-performing funds this year.

Along with other funds like GEM Focus, it's a really exciting growth opportunity for us from their investment capabilities. The distribution benefits have also been considerable. The acquisition brought key new client relationships in areas such as Latin America, South Africa and the Middle East. It has also provided cross-selling opportunities between clients of each firm. Today we have around £500 million of Merian client assets who have invested in legacy Jupiter funds and around £1 billion going the other way.

Whilst not every aspect has taken place exactly as we would have expected back in 2020, there is no doubt in my mind that the combined Group is in a stronger place in terms of profits, investment performance and capital base as a result of the acquisition.

Before I wrap up, I wanted to take a look back at some areas where we've seen real progress over the last three years. I've already talked about the Merian acquisition, so I won't go into that any further here. Yet we've also made excellent progress in other areas which have been strategic priorities since I joined. These successes have been somewhat overshadowed by both the macro environment we've faced but also our inability to stem outflows. Nonetheless, we have made progress that has ultimately strengthened the business.

Growing the institutional channel has been a key priority for me. This hasn't just been a case of going out and finding more clients in the pension funds space, etc. It has more required us to take a huge change in the mindset from the way we talk to these clients, approach these clients, how we respond to their RFPs, the level of client service that we provide to them. It's also meant investing in resource with the hiring of experienced institutional sales staff, and most importantly the biggest area to overcome was changing the view of the gatekeeper to the market that we could be trusted in this arena.

This transformation of our approach to the institutional market has allowed us to make great strides. We now have 15 consultant ratings across nine different strategies. Eighteen months ago it was just two strategies and two ratings, which I'd arguably say those two were quite stale. It takes a while for ratings to translate into flows, but our pipeline is building and it is as strong as it's ever been in Jupiter's history. We don't always get visibility on when these will fund, but we're certainly hopeful some will fund in the coming quarters.

I've talked to you all about sustainability before and how important it was that we made it clear externally how this was part of Jupiter's DNA. If we look back 10 years ago, Jupiter was one of the leaders in this area, but when we look back only three or four years, we'd lost that leadership position. So, we've restructured our product offering into two clear offerings, environmental solutions and sustainability, and we've expanded the teams and the fund range. This has helped us more than double our assets in this area over the last three years, with assets under management now standing at over £1.4 billion, one of our fastest growing areas of the business.

Internationally, we saw a need for a more targeted approach to expansion. We withdrew from three markets, all of which were subscale, in favour of those which had the potential to drive growth. We established a presence in the US, a market that accounts for half the world's investable assets. We expanded our sales efforts in Latin America, and with the contribution of Merian international clients account for close to 30% of our assets under management, and assets under management have grown by 18% over the last three years.

As for our product range, it was clear that we needed to both broaden our investment capability to reflect changing client demand and to rationalise those areas where client appetite for our products was weak. We've launched nine new mutual funds in the last three years, and alongside with new segregated mandates since then we've realised £1.3 billion of net flows over a period into these areas, a great achievement considering most don't yet have a three year track record and much improved success rate as well than what we'd previously seen four or five years ago.

But it's not just about the new fund launches. We've closed, merged or repositioned a further 29 funds, and I know you can expect further rationalisation as Matt continues to review our overall product line-up and make sure it's fit for purpose as we look forward.

Finally, I wanted to look at the strategic partnership we struck with the US firm NZS Capital in 2019. The NZS managers have a very compelling investment story, allowing the strategy to scale up quickly, and assets today sit around £900 million, which is a remarkable achievement given they've only recently passed their second anniversary. The firm continues to see net inflows year to date despite their style being heavily around growth, which we know is out of favour in current market. Over a three-year period, I'm firmly of the view these initiatives have strengthened the business and are providing the building blocks for future growth.

At this stage in the presentation, I would normally spend some time offering a forward looking strategic update, but with Matt taking over in October, it's really important that we leave the way clear for him to set his own course for the Company. Matt and I share the strategic focus and purpose of the Group, namely the focus on high conviction active investment management. Importantly though, Matt will bring a fresh pair of eyes to the execution of this, and working with him these last few months I know he already has his own ideas of how to take the Company forward.

I'm incredibly supportive and excited about the new focus and energy that he's bringing to our business. He will of course update you on his plans later this year, and I can wish him nothing but success in his new role.

As Jupiter's current CEO, I would have preferred to end my time with the Company on a more favourable set of results. The external macro challenges have tested the business, and to some extent mask the incredible progress that we've made positioning the firm and its product set for future growth.

Jupiter is now a more diversified business from a client, product and geographical perspective. The strategic priorities we gave ourselves three years ago are beginning to deliver, institutionally starting to pay off. Clients are showing appetite for our updated product range, and our targeted international expansion is beginning to bear fruit. Arguably, it's the changes we've made over the last three years that have allowed Jupiter to withstand the current external pressures better than it would have done if we'd been where we were just four or five years ago. There is still much to be done. External challenges in large still will always remain, but I've no doubt Matt will face these with enthusiasm, energy and focus as he evolves and adapts our strategy.

As for me, it's been an honour to lead the Company made up of such talented people and for such a clear focus on delivering for our clients. It's been this way at Jupiter for over 35 years, and I've no doubt that you should expect the same for the next 35. I'd like to take the opportunity to thank our Chairman, Nichola Pease, and the Board for their support and guidance throughout my time at the firm. I'd also like to extend my thanks to my executive team, for their contribution and efforts in helping execute my vision for Jupiter. You're a truly talented bunch, and it's been wonderful working with you all. Finally, to all the staff at Jupiter, who've been thoroughly supportive and focused on delivering for our clients.

With that, I'd like to open up to questions. We'll take a question from the floor and then go to those on the line.

Question and Answer Session

David McCann, Numis

One initially from me on the variable comp. You touched on it in the presentation. It hasn't proven to be particularly variable in this period. It's been stable at the level it was last year. Should we think about this as being variable going forward or is it only really variable on the upside or subject to £80 million minimum? How should we think about that?

Wayne Mephram Chief Financial Officer

It's a good question, David. I'm sure you're aware that the accounting makes some of these variable compensation cost movements a little more difficult. As I said in the presentation, the full year cost for variable compensation, excluding performance-related amounts, is expected to come down compared to last year. The challenge we have is accounting for brought forward costs. It takes a little bit of time to bring down to the current level, so you're seeing that. It's also important to reflect on the increase in the National Insurance rate that we also see coming through this year. Those two factors combined are pulling up the cost on a run rate basis.

My estimates have pulled out those adjustments. You actually see very comparable percentages coming through in our numbers this year compared to previous years. There's a bit of accounting adjustments in there that take a while for that number to come down. So, I think you should still see it as a variable cost. It does take a little while for movements like we've seen to come through in the numbers, but still very variable.

David McCann, Numis

A follow-up to that, what risks are there to that 38% given that not even six months ago we were talking about 36%. If markets were to fall meaningfully again, should we see pressure to that rate?

Wayne Mephram Chief Financial Officer

I think you have to remember where we are in the year. We're seven months in now, so the market impacts, if there were to be any further downward shifts, indeed then you get upward shifts, it would have a lesser impact on this year's results. Clearly, I'll look at how that impacts our outlook into future years when we come to the year end.

Andrew Formica
Chief Executive Officer

A question from the floor. If not, we'll go to those on the line.

Alex James
Head of Investor Relations

We've got a few questions from the webcast. We've got a few about capital position and capital returns. Firstly on surplus and on available capital, what have been the drivers of the fall there and what level of surplus capital are you comfortable with? Secondly, on your comments around the dividend and what we can read into that for the second half.

Wayne Mephram
Chief Financial Officer

The capital that we have at the end of the half year is a £90 million surplus. It's on page 16 or so of the presentation pack. The fall in the surplus over the first half is driven to timing of when we hedge our employee based awards. We buy those shares in the first half of the year. We've also clearly had an underlying EPS that's lower than the dividend we paid. That also has an impact, but those two things combined have brought that down.

In terms of the overall surplus where we'd expect to be, we're very comfortable with £90 million. I don't think that is a challenge. We have got a number of aspects in looking at our regulatory capital position. We have had a change in the regulatory rules. We're still in a transitional period, and that's coming through to an end into next year, so that will be taken into account. The final question, sorry, was on the dividend?

Alex James
Head of Investor Relations

Yes, the final question was on the dividend and what we could read into that, the language that you used, and if it was uncovered at the year end, would that still be maintained?

Wayne Mephram
Chief Financial Officer

We've set out the dividend today. I think these things are combined with the capital position. We're very comfortable with our capital position. It's enabled us to make the dividend payment to the half year the same as it was last year, albeit it was uncovered on an after performance fee basis.

Today is not the time to be looking at the full-year dividend. As I mentioned in the presentation, we'll take into account the impacts of trading updates, of our outlook on revenue and costs, and that will play to where we set that dividend when the Board looks at it at the year end.

Alex James
Head of Investor Relations

Two further questions from the webcast, one on the institutional business and one on cost guidance. Firstly, whether we can talk more about the institutional pipeline, the size of that and how that has changed compared to the first half. Secondly, we're talking about reducing cost guidance given revenues. Which areas have we been slowing investment in?

Andrew Formica
Chief Executive Officer

In terms of the institutional side, unfortunately I can't go into more specific details. What I can say is two things have happened over the six months. There have been additions to the pipeline. The pipeline is, as I said earlier, probably the largest we've seen it in terms of engagement with clients, RFPs and discussions we're having. That's not just in the foreseeable past but from what I think I can see from records going back. So, we're very encouraged by that.

The second thing I'd say is those RFPs or late-stage conversations are now moving much more towards final conversations. We're encouraged by both of those, both the quantum being added to the pipeline and the conversations and progressing through that pipeline.

What I would say is the institutional market, in terms of one of the reasons to be cautious in terms of timings, is it's outside of our control. We've seen examples where particularly in more volatile markets the timing of awards or funding of mandates, even when they're won, can sometimes stretch beyond what you would have initially thought. So, we will only talk about them once they're funded.

Wayne Mephram
Chief Financial Officer

On the costs base, clearly we have seen a fall in AUM, so there is an element of this which naturally comes down with administration fees. But what I would say there is that has been partially offset by some changes we have made that bring forward costs. For example, we've slowed down some projects which aren't essential at this stage, and that has the effect of bringing some costs forward into this year.

Where we've taken more active decisions is around areas where we feel at the moment it doesn't need the level of investment that we planned. For example, some of our marketing expenditure, some of our data and research costs have been paused for the moment. We don't think the value at this stage is worth that additional investment for growth, so we'll come back to that.

The other area that I would touch on, which is more of an active point, is some of our recruitment fees have come back as we've retained or reduced our hiring in the first half of this year.

Alex James
Head of Investor Relations

On the non-comp side, a similar question for follow-up. What are the key areas for non comp that you're looking to optimise? Would that lead to less focus on those growth areas that you've touched on?

Wayne Mephram
Chief Financial Officer

Our intention is to make sure we balance appropriately levels of expenditure with investment for growth. Clearly, we'll be looking at all areas of our costs base but having that balance in mind. I think there are areas we can look at, areas of data and research which we could tidy up the efficiency with which we use those amounts, and other parts of the business.

There's a lot more we can look at. It's not appropriate for me at this stage to go into that in any detail, but we'll come back to the market later this year.

Alex James
Head of Investor Relations

One more on costs we've got here - what you're seeing in terms of inflationary pressures, both on comp and non comp.

Wayne Mephram
Chief Financial Officer

I think it's well documented that there are inflationary pressures both on the staff inflation side and other costs. It was factored into our full costs. Those continue to be there. I continue to monitor that and we continue to take action to mitigate those inflationary increases where we can.

Alex James
Head of Investor Relations

Possibly finally on the institutional business. Does becoming a more institutional business over time mean you'd look to raise the size of your seed capital portfolio and your regulatory capital surplus?

Wayne Mephram
Chief Financial Officer

Sorry, I missed the question.

Alex James
Head of Investor Relations

Does becoming a more institutional business over time mean that we would need to raise the level of seed capital and regulatory surplus?

Andrew Formica
Chief Executive Officer

I think no to both of those. Seed capital is not required for the institutional side of the business, and it should have no further - I'm thinking whether any operational increase because of Institutional business.

Wayne Mephram
Chief Financial Officer

No, I can't see anything meaningful in that area.

Alex James
Head of Investor Relations

Thank you. That's it from the webcast for now.

Andrew Formica
Chief Executive Officer

I'd like to thank everyone for their time and attention today, and also all of you for the support you've given me not just at Jupiter but over my career here in the UK. It is appreciated. I did say it was a bittersweet moment. It would have been preferable to be going out on better and different numbers, but as I said earlier, I'm really pleased with Matt Beesley and what he's bringing to the business.

I've worked with Matt now for over six months here at Jupiter, but I've also seen him in various other guises over the last decade. What I have seen in him is someone who absolutely believes in active management and the strength of what Jupiter can bring in terms of being a high-conviction manager, but also his own person.

I look forward to seeing what he does with the Group, because I know he's got a number of ideas and initiatives. From a shareholder perspective, I know he's keen to talk to our shareholders in the coming months to hear their thoughts and views and then to come back and update the market later in the fourth quarter as he's considered and worked through some of those. So, you'll hear more from him in due course. Thank you for your time. Have a good Friday.

End