Chief Executive Officer's review

Steven Levin
Chief Executive Officer

When I took on the role of Chief Executive Officer in late 2022, it was clear that we needed to apply more urgency to our transformation plans. Our net inflows were running at 2% of opening assets, our operating margin was well below peers, and we needed to improve efficiency. As a result of our efforts over the last two years, I am pleased to report that Quilter is in much stronger shape today. We have a well-positioned High Net Worth franchise and the UK's largest, fastest growing, scale adviser platform in our Affluent segment. We are primed for future growth.

2024 performance

In 2024, we delivered:

- revenue growth of 7%, four percentage points higher than cost growth of 3%. That led to a two-percentage point increase in our operating margin to 29%;
- record core net inflows of £5.2 billion, with incrementally higher gross and net inflows achieved in each successive quarter of the year; and
- record adjusted profit of £196 million, an increase of 17% (2023: £167 million).

Across our two segments:

- Our High Net Worth segment increased revenue by 7% to £226 million (2023: £211 million). After maintaining growth investment, we delivered a 17% increase in adjusted profit before tax to £48 million (2023: £41 million).
- Affluent segment revenues increased by 8% to £424 million (2023: £393 million) reflecting higher advice and management fee revenues combined with a higher contribution from interest income on the shareholder capital which supports the segment. This revenue growth combined with strong cost management led to a 19% increase in adjusted profit to £148 million (2023: £124 million).

Group adjusted profit before tax of £196 million represents the Group's IFRS result, adjusted for specific items that management consider to be outside of normal operations or one-off in nature. The Group's IFRS loss after tax was £34 million compared to a profit of £42 million in 2023. Principal differences between adjusted profit and the IFRS result are due to non-cash amortisation of intangible assets, business transformation expenses (which are pre-funded and expensed as incurred), finance costs, the impact of policyholder tax positions on the Group's results and, in 2024, the customer remediation exercise provision in respect of the cost of undertaking additional work, together with the potential cost of client redress.

We expect business transformation expenses to remain elevated in 2025, reflecting remaining spend on our Simplification programme, but to reduce substantially thereafter.

Total Group adjusted diluted earnings per share were 10.6 pence, an increase of 13% (2023: 9.4 pence). On an IFRS basis basic EPS was (2.5) pence per share compared to 3.1 pence per share for 2023, with the decline largely reflecting the provision in respect of the Ongoing Advice Review and costs of undertaking the review.

Shareholder returns and capital

Our increased profit in 2024 supports a higher dividend of 5.9 pence per share for the year (2023: 5.2 pence). This represents a pay-out ratio of 59% (2023: 61%).

We have a strong balance sheet with a Solvency II ratio of 219% after an accrual for payment of the Final Dividend and allowing for the customer remediation exercise provision of £76 million. Given the strength of our balance sheet, once the Ongoing Advice Review is more advanced, the Board expects to undertake a review of our capital needs, foreseeable requirements and expected future cash and capital generation to consider whether the Group has excess capital and whether the current distribution strategy remains appropriate.

Ongoing advice

Delivering advice is central to how we operate, and we have policies in place that underline the need for advisers to meet their ongoing servicing obligations. We believe that a well-delivered ongoing advice service, tailored to the individual needs of the client, should be the foundation of an enduring beneficial and trusted relationship between client and adviser to help people make the most of their money. As such, we welcome the announcement made by the Financial Conduct Authority ("FCA") on 24 February 2025 regarding ongoing advice services.

In June 2024, a Skilled Person was appointed to conduct a review and provide a view to the FCA on whether the delivery of ongoing advice services by Appointed Representative firms in the Quilter Financial Planning ("QFP") network was compliant with applicable regulatory requirements. This work is well advanced, and the final report is expected to be submitted to the FCA in the second quarter of 2025.

As the review has progressed, the analysis of our historical data and practices has supported our view that, except in limited cases, where clients have paid for ongoing service, this has been provided. We also note that the actual number of customer complaints received by Quilter on this issue remains low. Although the Skilled Person Review is yet to complete and will be the subject of further discussions with the FCA, we have concluded that in those limited instances where clients may not have been provided with the expected level of service from their adviser, some form of client remediation is likely to be appropriate. Our best estimate of the cost of undertaking this work, together with potential cost of client remediation (plus interest), amounts to some £76 million and accordingly we have recognised a provision for this amount.

In line with FCA guidance, we would encourage any clients who believe that they have paid for and not received an ongoing advice service from their adviser to contact us directly rather than approaching a Claims Management Company. This will ensure that any amounts that may be due to them are received in full.

We also have the ability to seek appropriate reimbursement from the relevant advisers who have been unable to demonstrate that the ongoing servicing paid for by the client was provided.

As the broader advice regulatory landscape continues to evolve, including through the Advice Guidance Boundary Review, we are fully supportive of the FCA's intention to review the rules on ongoing advice to make sure that they remain fit for the future and help as many people as possible to access high quality support to build brighter financial futures for themselves.

Flows and investment performance

- Our business generated excellent inflows in 2024, reflecting the strategic initiatives put in place over the last few years. Most importantly, our performance accelerated over the course of the year with each quarter incrementally stronger. Total net inflows in our core business were 5% of opening assets, or 4% after non-core net outflows. Both High Net Worth and Affluent performed well relative to their respective market peers.
- Our High Net Worth segment continued to deliver very good levels of new business flows. This performance was achieved despite experiencing higher than historical average outflows predominantly reflecting increased investor activity, including that associated with pre-UK Budget tax planning in the latter part of the year.
- Within our Affluent segment, we were particularly pleased with the improvement in net inflows onto our Platform. We were the leading advised platform for new business flows and remain the largest single discrete UK retail advised platform by assets.

High Net Worth investment performance has been strong. Discretionary client portfolios outperformed the ARC PCI Steady Growth peer group indices over 1, 3 and 5 years; and in the ARC PCI Equity Risk category, they outperformed over 1 and 5 years, with a small 25bps underperformance over 3 years (figures to end December 2024). High Net Worth Core Managed Portfolio Solutions outperformed the respective IA sectors over all time periods. Within Affluent, we continued to deliver good performance from our WealthSelect managed portfolio range. Cirilium Passive and Blend also continued to perform as expected given relative underweight positions in the Magnificent-7 US stocks. Over the last few years, our WealthSelect MPS range has overtaken Cirilium as the preferred solution for advisers and reflects the increasing shift by independent advisers to outsourcing their client investment solutions to managed portfolios on platforms.

Business improvement

Distribution

In our High Net Worth segment, we continue to invest in our advice capability across the UK and internationally in our Dublin and Jersey offices, increasing the size and breadth of the client types we can attract. We plan to grow our client-facing professional headcount (Investment Managers and Restricted Financial Planners) to around 300 over time through developing existing staff and external recruitment.

The Quilter channel across both segments is building distribution on three fronts. We are targeting increased:

- adviser numbers, where the position has broadly stabilised versus the reductions seen in recent years. Total adviser headcount declined in the first half of the year reflecting a combination of natural attrition and retirements but increased modestly in the second half;
- adviser productivity. In 2024, we achieved a 14% increase in annual gross flow per adviser to £3.2 million (2023: £2.8 million). This means that while adviser numbers declined modestly in 2024, during the year the Quilter channel delivered a 46% increase in net inflows to £2.9 billion (2023: £2.0 billion); and
- adviser assets managed within our propositions. During 2024, we undertook back-book transfers, of c.£800 million (2023: c.£750 million).

Proposition

Our Platform and investment solutions are both market-leading propositions. Both are competitively positioned and offer consistent value to our customers. Initiatives to improve our market share of new business flows delivered strong results which, in turn, led to a significant increase in net inflows. IFA gross inflows onto the Platform increased by 68% to £8.8 billion (2023: £5.3 billion). This reflects the quality of our core platform and adviser support staff, and improvements in our sales effectiveness which has led to increased market share. We continue to enhance our proposition through the provision of value-added tools and services, such as family linking pricing, faster payment services and our CashHub cash management offering.

Our dual distribution strategy means that all Quilter products and services are available to both our advisers and independent financial advisers. The strong usage of products and solutions by third parties demonstrates that they are competitive with market alternatives and are both customer focused and competitively priced. Our unbundled pricing is fully aligned with the Consumer Duty principles and puts client choice at the heart of our business.

In September 2024 we acquired NuWealth, a small online Direct to Consumer ("D2C") business. This acquisition accelerates our digital capabilities, enabling us to onboard clients directly. The acquisition will broaden our propositions and add another channel to our distribution capability. It is not our intention to compete directly with the established players in the D2C market. Instead, our goal is that NuWealth will support advisers to nurture early-stage clients who can grow into core advisory relationships over time.

Through NuWealth, we will provide financial education and intuitive tools which are aligned with our advice processes to foster better investing habits and put customers in control of their financial journey. This will allow Quilter to support clients at an earlier stage in their lifetime wealth journey, before their assets have reached a level that would normally require face-to-face advice. As these clients' wealth and financial complexities evolve, they will be able to transition to a more tailored advisory service, thereby creating an additional pipeline for future growth.

Strategic transformation

Our change programmes remain on track and are contributing to improved performance.

1. High Net Worth

Following FCA approval of our application to provide financial advice from the Quilter Cheviot legal entity, we have been focused on getting the necessary administration and IT updates formalised ahead of taking up the permissions. From the second quarter, Quilter Cheviot will operate as a directly authorised, fully integrated business, allowing a more seamless approach to client servicing and providing scope for business efficiencies.

2. Affluent: Quilter Channel

Having declined in the first half, our number of restricted advisers increased modestly in the second half of 2024. Natural attrition and retirements was partially offset by recruitment and graduates from our Academy, with increased adviser productivity supporting an increase in gross new business flows.

We continued to invest in our Quilter Partners hubs, which combine increased investment and Platform alignment with the entrepreneurial drive and focus of owner-operated businesses. By the end of February 2025, nine firms had joined Quilter Partners which is in line with our initial plans.

Our goal of building a more efficient operating model to deliver further improvements in adviser productivity and client experience is progressing to plan, with expected delivery over a two to three-year horizon.

Chief Executive Officer's review *continued*

3. Simplification Phase Two
We remain on track to achieve our second stage Simplification target of £50 million of cost savings by end 2025 on a run-rate basis. The programme covers the simplification of our governance and internal administration processes, together with our Advice Transformation and High Net Worth initiatives. By end-2024, £35 million of these savings were delivered on a run-rate basis. Completion of this programme will support our ambition of operating sustainably above a 30% operating margin over the medium term.

Culture

During 2024, we undertook a strategic refresh of our purpose which is "brighter financial futures for every generation". This was supported by an employee led refresh of our values – do the right thing; always curious; embrace challenge; and stronger together – which our colleagues strive to achieve every day.

Looking forward

As I have outlined, I am very pleased by the progress we have made to position Quilter for the future. The strength and breadth of our businesses means Quilter is uniquely positioned in the UK wealth market:

- In our High Net Worth segment our 14 onshore offices provide nationwide coverage. We offer an integrated advice and investment management proposition to those clients who require this, or each service separately for those clients who do not need both from us. Our approach is relationship led and our business balances meeting complex client needs while retaining the intimacy and client focus of a traditional wealth manager.
- Our Affluent segment is a leading large-scale player in UK Wealth. Our Platform and investment solutions businesses benefit from operating leverage as assets grow and economies of scale are realised. Reflecting this, our strategy is to maximise distribution by supporting advice through both our restricted and independent channels.

When we look across the UK savings and investment landscape, it is clear that too many people have insufficient savings. Quilter believes UK Government policy should be directed at encouraging those individuals to build greater financial self-sufficiency. For those who do save, many do so disproportionately in cash savings with numerous studies concluding that the UK consumer over-saves but under-invests. We are concerned that this may lead to a wealth-gap emerging for future pensioners, with them living on lower incomes than could have been attained through better financial planning.

Studies conducted by Quilter show that consumers who take financial advice tend to have a greater proportion of their wealth in long-term investments and achieve better financial outcomes relative to those who do not. Financial advisers across the market use Quilter as a gateway to access a wide range of fund solutions on an industry-leading platform which supports their clients' investment goals. Instilling a wider long-term investing culture in the UK would increase the likelihood of a well-funded retirement for most individuals. As the UK's second largest advice firm, Quilter will play a leading role in supporting consumers who want to build themselves a brighter financial future.

Over the next decade, we expect a transformation in the way that financial advice is delivered to customers, both through technological change facilitating higher adviser productivity, and regulatory changes such as the expected outputs from the Advice Guidance Boundary Review. We will ensure our business is at the forefront of embracing these changes.

With the business now primed for growth, we are evolving our strategic goals towards a more outward focus:

1. Grow distribution
We achieved our Core net inflow target of 5% of opening balances in 2024. We expect the environment for UK savings to remain constructive. UK households need to invest more, lower interest rates should heighten focus on longer-term investment products, and lower inflation increases the ability to invest. We aim to deliver market leading net new business flows. By gradually improving our share of a growing market, while maintaining persistency levels in line with long-term trends, we expect to continue delivering net flows of around 5% of opening balances, through the cycle.

2. Enhance propositions
Our open, unbundled business model is, by its nature, highly customer-centric. We will continue to innovate and anticipate future client needs. We will create new propositions to support the development of a stronger UK investment culture. Our investment in NuWealth will allow us to accelerate development of digital distribution and propositions. Delivering brighter financial futures for our customers is central to our philosophy.

3. Be future fit
We will complete our current Simplification programme and further improve our operating margin, over time, while investing in our business to deliver our growth objectives. We will continue to evolve our culture and talent to ensure we are regarded as a high-performing organisation.

Outlook

Business performance was excellent in 2024, and we look to 2025 and beyond with confidence. Our customer-centric business model, dual channel distribution, and commitment to operational efficiency, backed by a strong balance sheet, positions us well to support our clients on their wealth-building journey. We have started 2025 well with net inflows running ahead of the corresponding period in 2024. Our current view of the remainder of the year embeds the following assumptions:

- Market levels sustain the solid momentum that has characterised early 2025 and the broader environment remains conducive to improving new business flows.
- In line with Bank of England commentary, we expect UK interest rates to gradually decline from current levels, albeit the pace of easing remains uncertain. Although this will reduce the investment income generated on shareholder cash, it should increase demand for longer-term investment products from clients and be supportive to equity market valuation levels.
- We see a strong opportunity to continue to capture market share and are primed for growth. As a result, we expect cost growth of around 5% in 2025, before the benefit from Simplification, as we increase growth investment spend.
- In addition, we expect a £5 million increase (annualised) in costs arising from the change in Employer's National Insurance rates. We also expect the FSCS levy to double to approximately £8 million from 2024 levels.

As a result of the above, we expect a cost base of around £500 million in 2025. This is expected to lead to a mid to high single digit increase in adjusted profit in 2025, with the pace of cost investment broadly matched to that of revenues and with accelerating profit growth in 2026 and beyond.

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