

RATHBONES

2023 PRELIMINARY RESULTS

March 2024  
Rathbones Group Plc





# YOUR TEAM TODAY



**PAUL STOCKTON**  
Group Chief Executive Officer



**IAIN HOOLEY**  
Group Chief Financial Officer



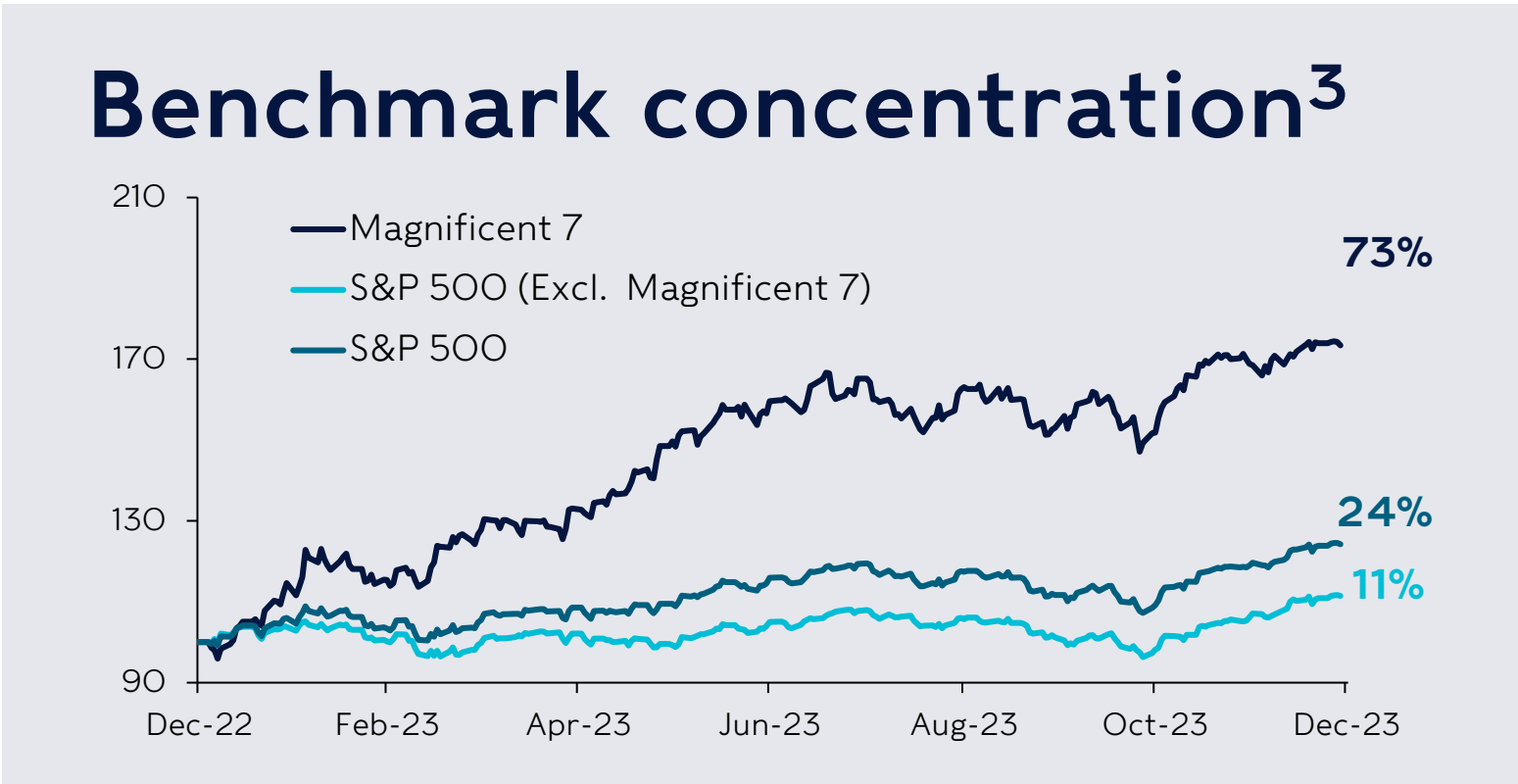
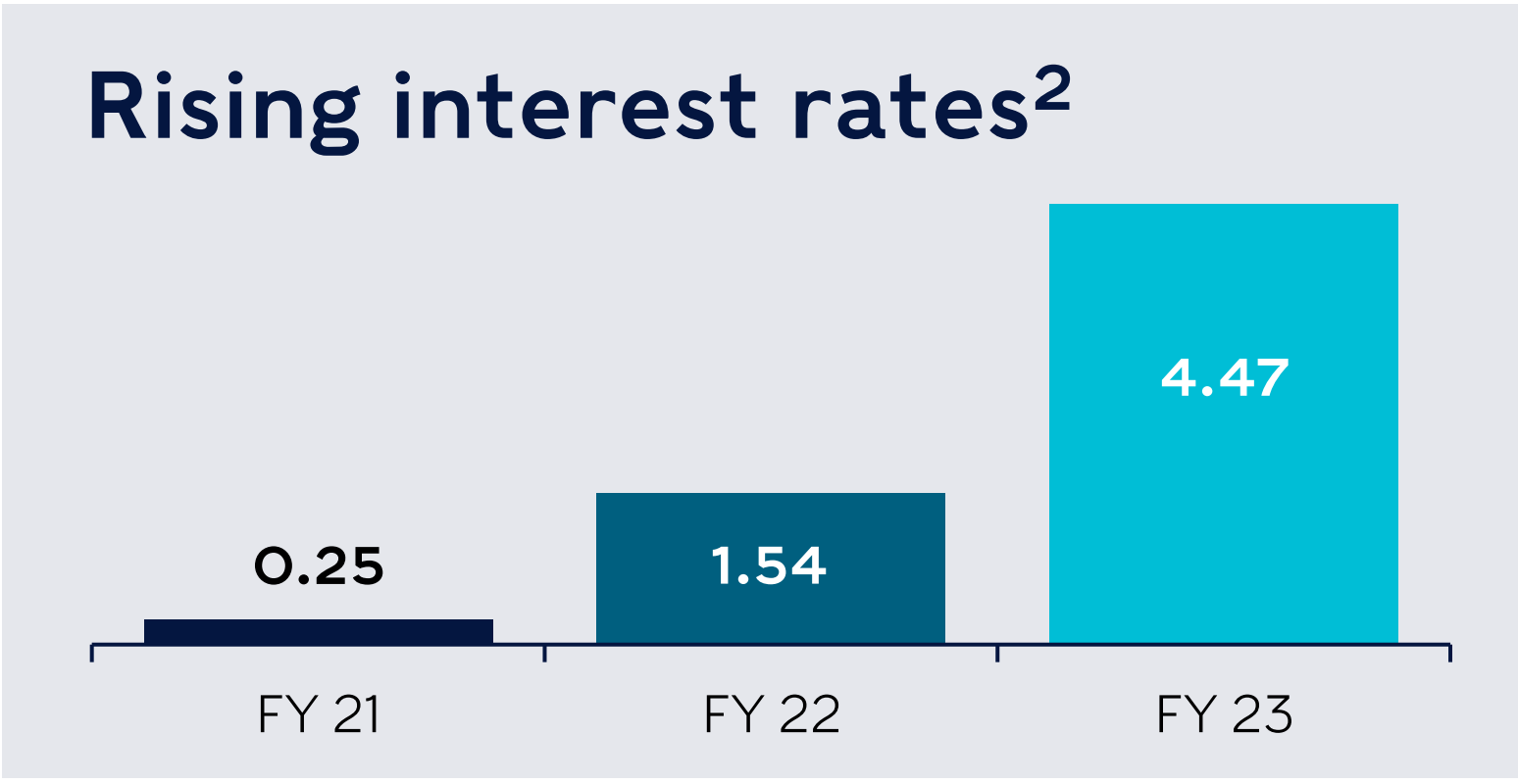
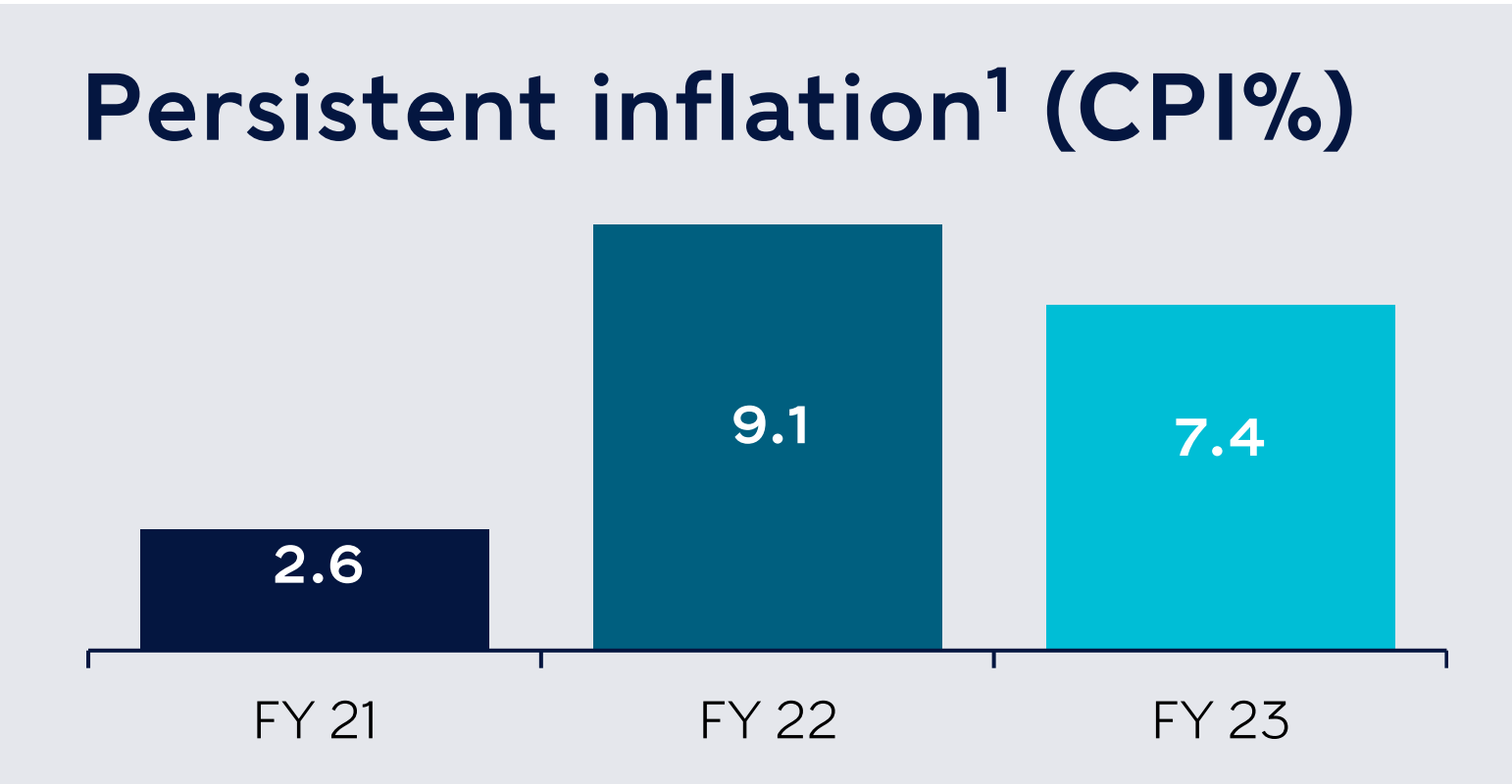
# A TRANSFORMATIONAL YEAR

Paul Stockton  
Group Chief Executive



# A SHORT-TERM CHALLENGING FLOWS ENVIRONMENT FOR THE SECTOR...

## Backdrop



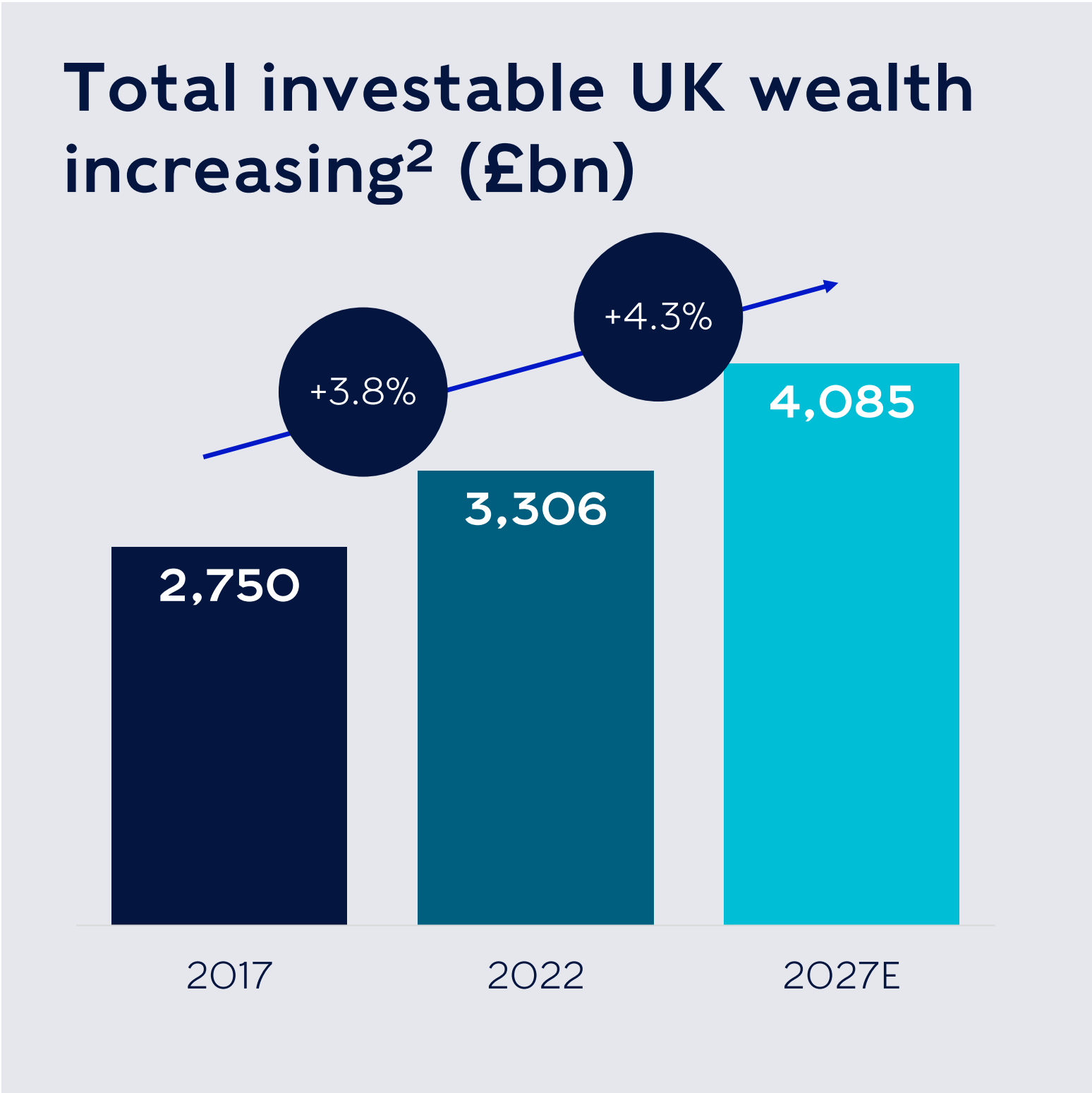
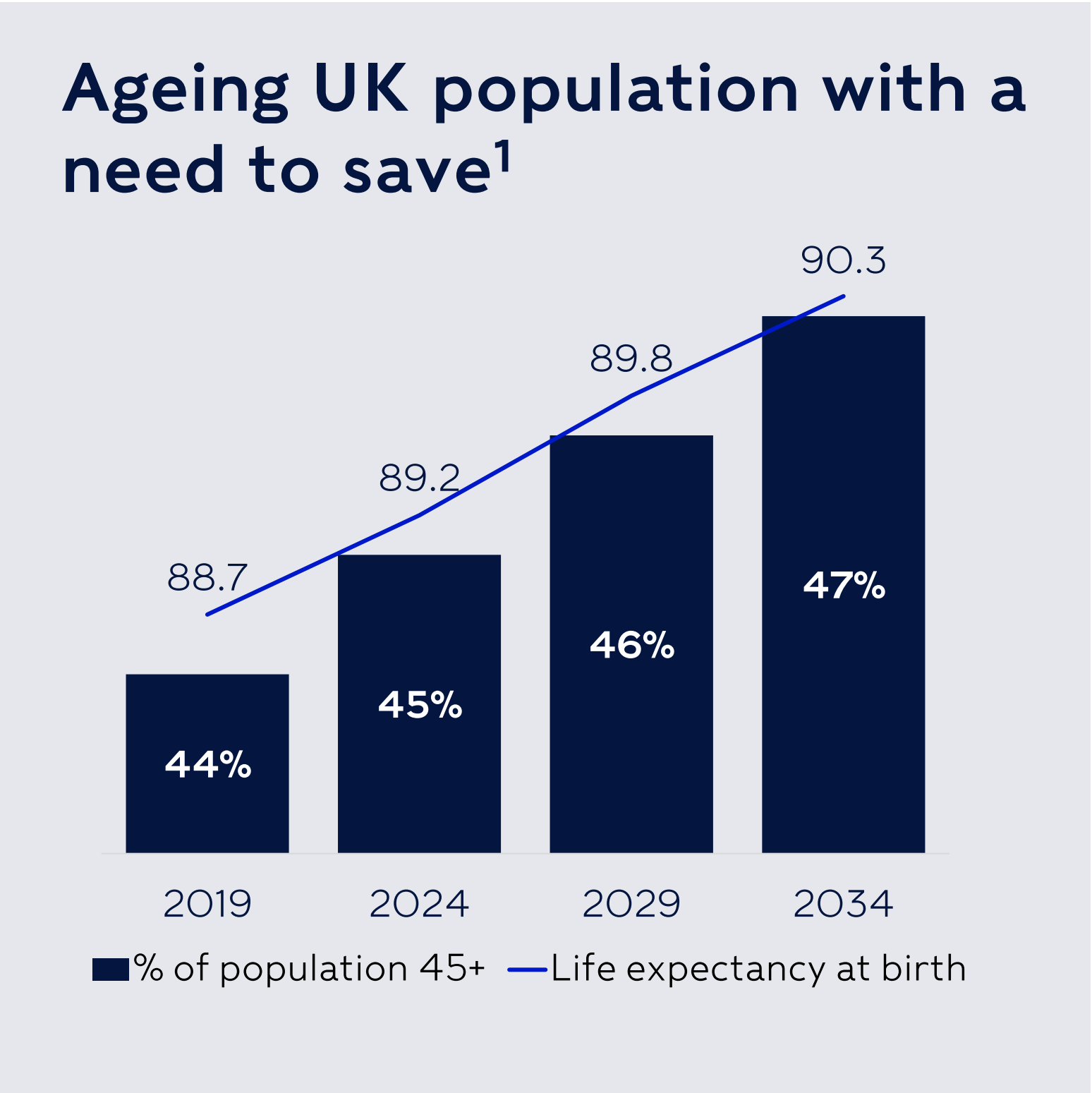
## Business impact

- Cost of living pressures
  - Higher cost of retaining talent
  - Operating expense inflation
- Clients paying off existing debts/mortgages
  - Higher propensity toward high-interest savings products
  - Wealth transfer and property investment
  - Growth in net interest income
- 2023 S&P 500 performance has been skewed by the Magnificent 7
  - Limited client appetite to commit to investment markets
  - Maintaining portfolio diversification

1. Calculated as an average over the year using latest available data. Source: <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7g7/mm23>  
2. Calculated as an average over the year using latest available data. Source: <https://www.bankofengland.co.uk/monetary-policy/the-interest-rate-bank-rate>  
3. FactSet



# ...BUT STRUCTURAL TAILWINDS CONTINUE TO BE SUPPORTIVE OF LONG-TERM UK WEALTH GROWTH



### Backdrop supportive of growth

- Pension freedoms
- DB/DC shift
- Increasing need for advice

1. ONS expectation of life in Great Britain  
2. Investable Wealth considers Cash & Deposits, Bonds, Listed Equities, Investment Funds and Other Smaller Asset Classes; includes unmanaged wealth. Source: BCG Global Wealth Market Sizing 2023; BCG Global Wealth Manager Performance Benchmarking



# OUR COMBINED SERVICE LED BUSINESS MODEL IS RESILIENT

## Rathbones

Client net promoter score

**43%**

(Peer mean: 34%)

Overall client satisfaction score

**8.5/10**

(Peer mean: 8.3)

## IW&I\*

Client net promoter score

**40%**

(Peer mean: 34%)

Overall client satisfaction score

**8.8/10**

(Peer mean: 8.3)

## Together

- A broad range of propositions that offer true choice to clients
- Led by a personal service
  - Discretionary investment management
  - Financial planning
  - Other advice
- Delivered regionally

\* Investec Wealth & Investments



# WE CONTINUE TO BUILD DIVERSE SOURCES OF DISTRIBUTION

Gross discretionary and managed inflows<sup>1</sup> increased 18% year on year to £5.1bn

CLIENT-FACING TEAM NETWORKS	THIRD PARTY IFAS, SOLICITORS, ACCOUNTANTS	STRATEGIC PARTNERSHIPS	DIRECT MARKETING
<ul style="list-style-type: none"><li>— ‘One Rathbones’ and targeted propositions</li><li>— Improved efficiency and support</li><li>— Specialisation</li></ul>	<ul style="list-style-type: none"><li>— Clear pricing and service differentiation</li><li>— Dedicated sales and distribution teams</li></ul>	<ul style="list-style-type: none"><li>— Investec Bank</li><li>— Vision</li><li>— Dedicated sales and service support</li></ul>	<ul style="list-style-type: none"><li>— Expanding digital footprint</li><li>— Refreshing our brand and website</li></ul>

c.800

investment managers /financial planners<sup>2</sup>

33%<sup>1</sup>

Growth in gross financial adviser linked inflows in 2023

27%

Increase in Vision FUM y-o-y

300+

Referrals from Investec Bank

100%+

Increase in value of website referrals y-o-y

1. Rathbones investment management only  
2. Excludes a further 138 advisers in Vision Independent Financial Planning



# WE ARE LEVERAGING OUR BRANDS IN THE MARKET

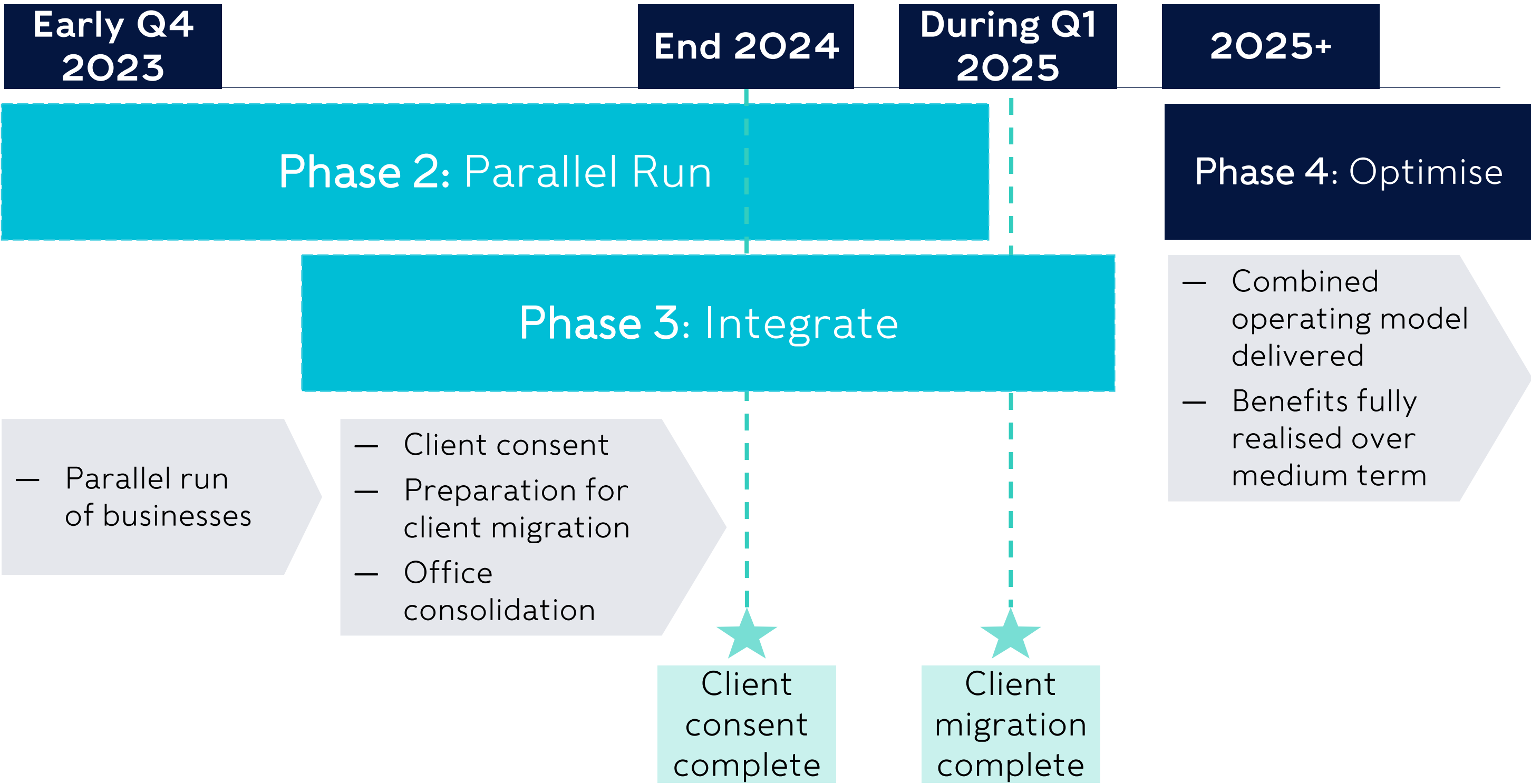




# DELIVERING THE IW&I INTEGRATION

## Complete

- Executive leadership structures in place; investment manager turnover low ✓
- Integration delivery team in place ✓
- Proposition workstreams well advanced ✓
- Investment research and investment risk teams under common leadership ✓
- Tangible progress on office consolidation ✓
- Synergies on track ✓





# SAUNDERSON HOUSE CONTINUES TO OFFER UPSIDE

Our aim at acquisition was to create a much more streamlined business

Migration has impacted 2023 revenues, but future target revenue margins are circa 1%

## AT ACQUISITION

Proposition

Fund of funds with third parties

Service

30% discretionary

Revenue model

Time-based charging

## RATHBONES MODEL

Proposition

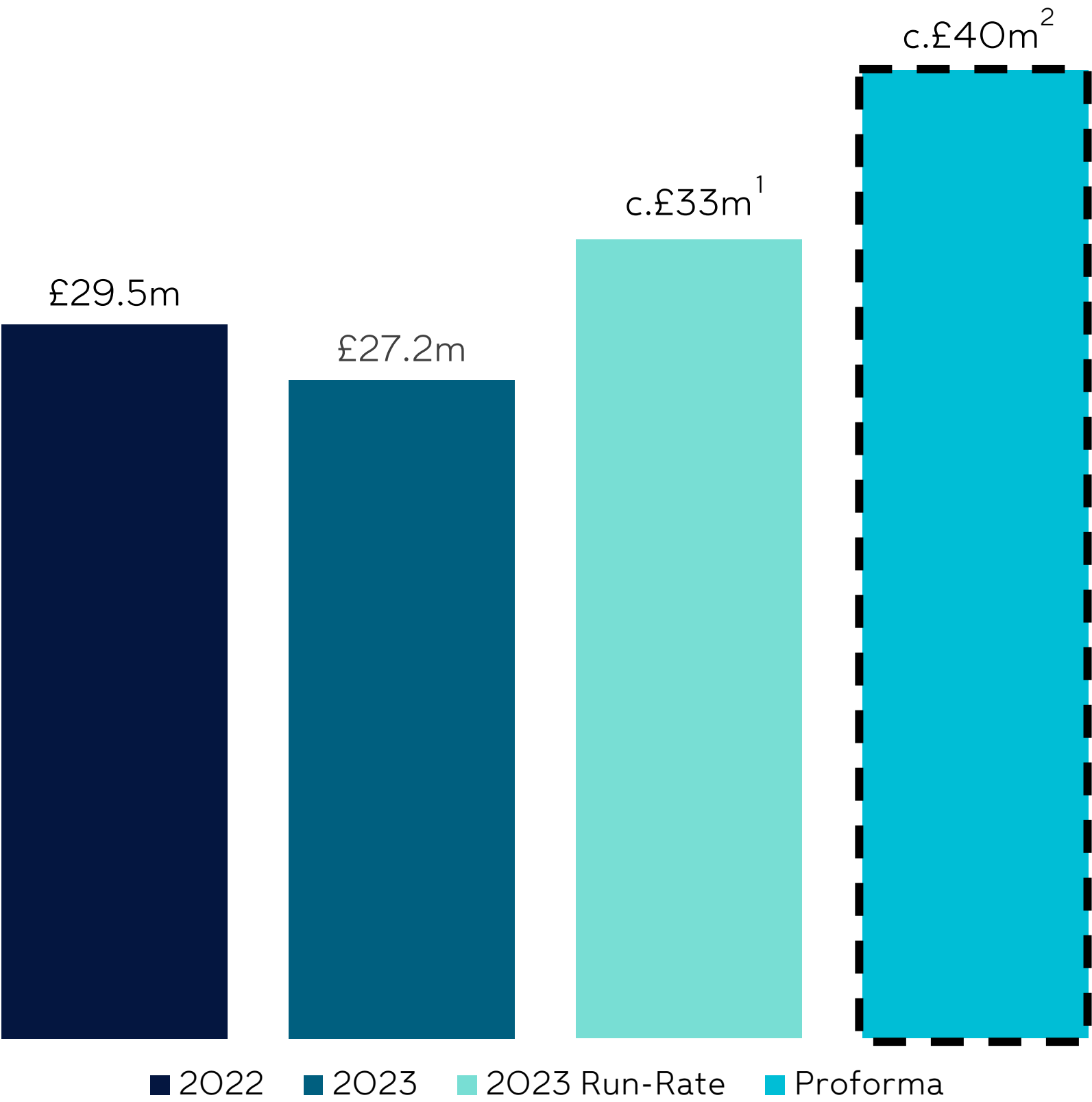
In-house solutions:  
Multi-asset fund services  
Bespoke discretionary  
Specialist services

Service

90% discretionary

Revenue model

Ad valorem charging



1. Based on £2.4bn of migrated SHL assets at 31 December 2023; includes advisory revenues  
2. Based on £4.0bn of migrated SHL assets in a pro-forma period; includes advisory revenues



# A CLEAR TECHNOLOGY ROADMAP

## InvestCloud (Client Lifecycle)

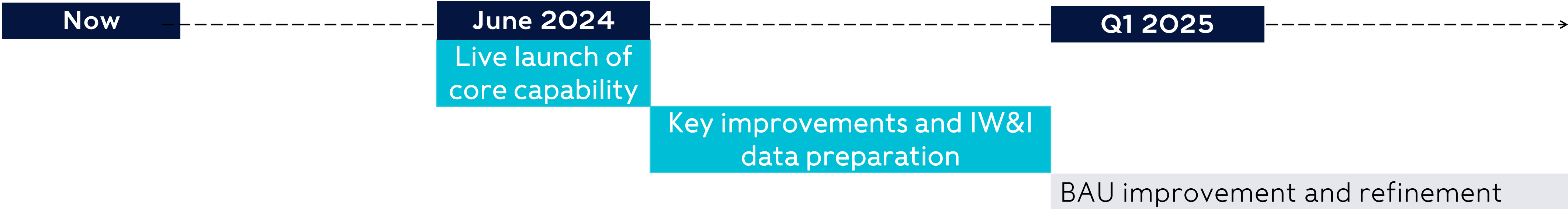
- Launch date of June 2024 allows better alignment of applications with IW&I
- Opportunity to use Salesforce to cover third party distribution
- Benefit of consolidating all in-house financial planning businesses on to Xplan
- Delivery timetable protects IW&I migration

## Charles River (asset management)

- Final phase completed by H1 24
- Functionality added to improve investment process and reporting capability
- Builds more scalability in the business
- System saves on future expenditure

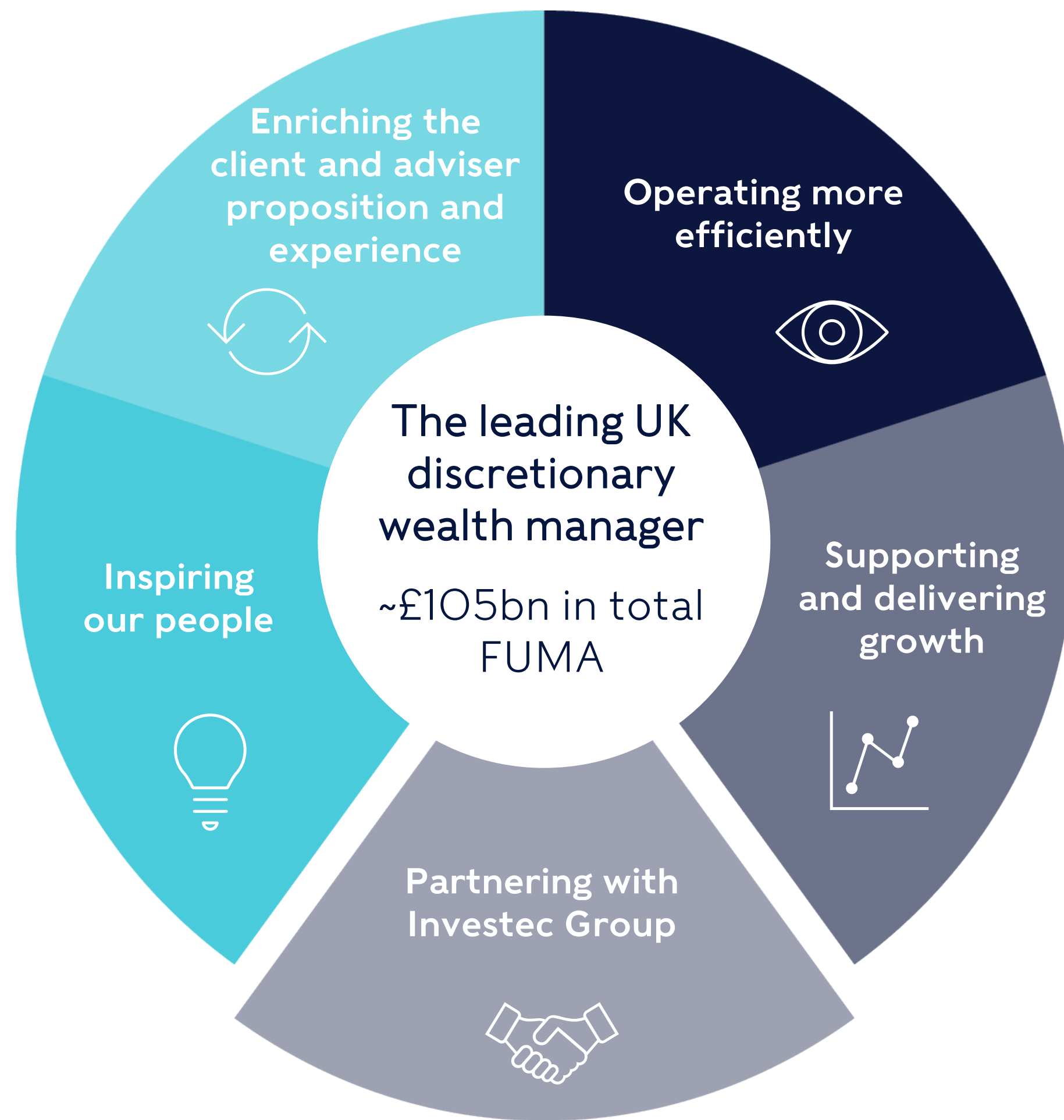
**£30.7m spent to December 2023; total costs of £45m in line with Q3 2023 guidance**

## Future timeline





# RATHBONES IS WELL POSITIONED FOR GROWTH



## Delivery in 2023

- Firmly established a scale presence through transformational IW&I deal
- Created a unique opportunity to deliver synergies
- Built a strong foundation to grow future revenues through Saunderson House
- Leveraged more diverse distribution sources
- Progressed our technology programme

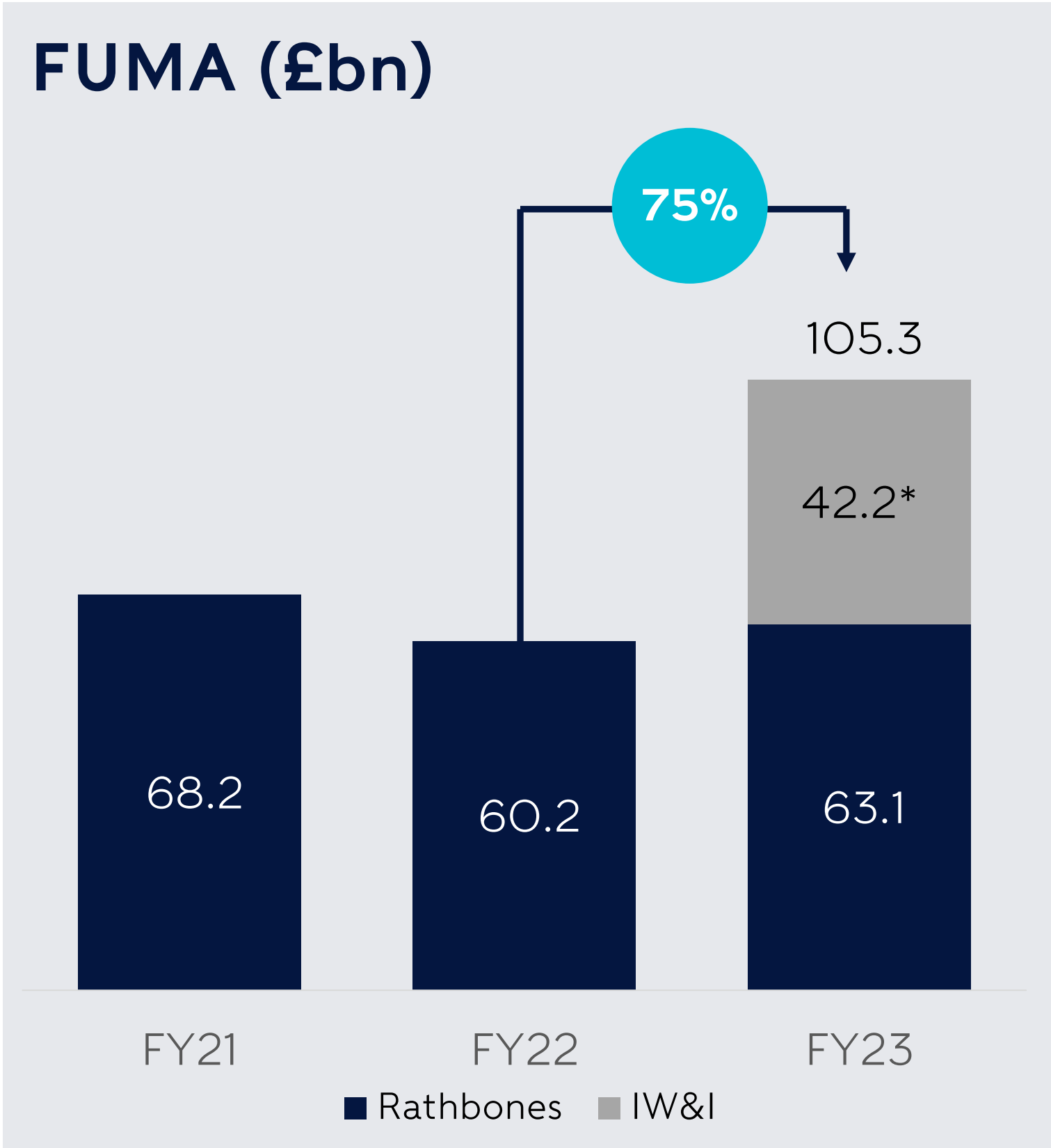


# FINANCIAL UPDATE

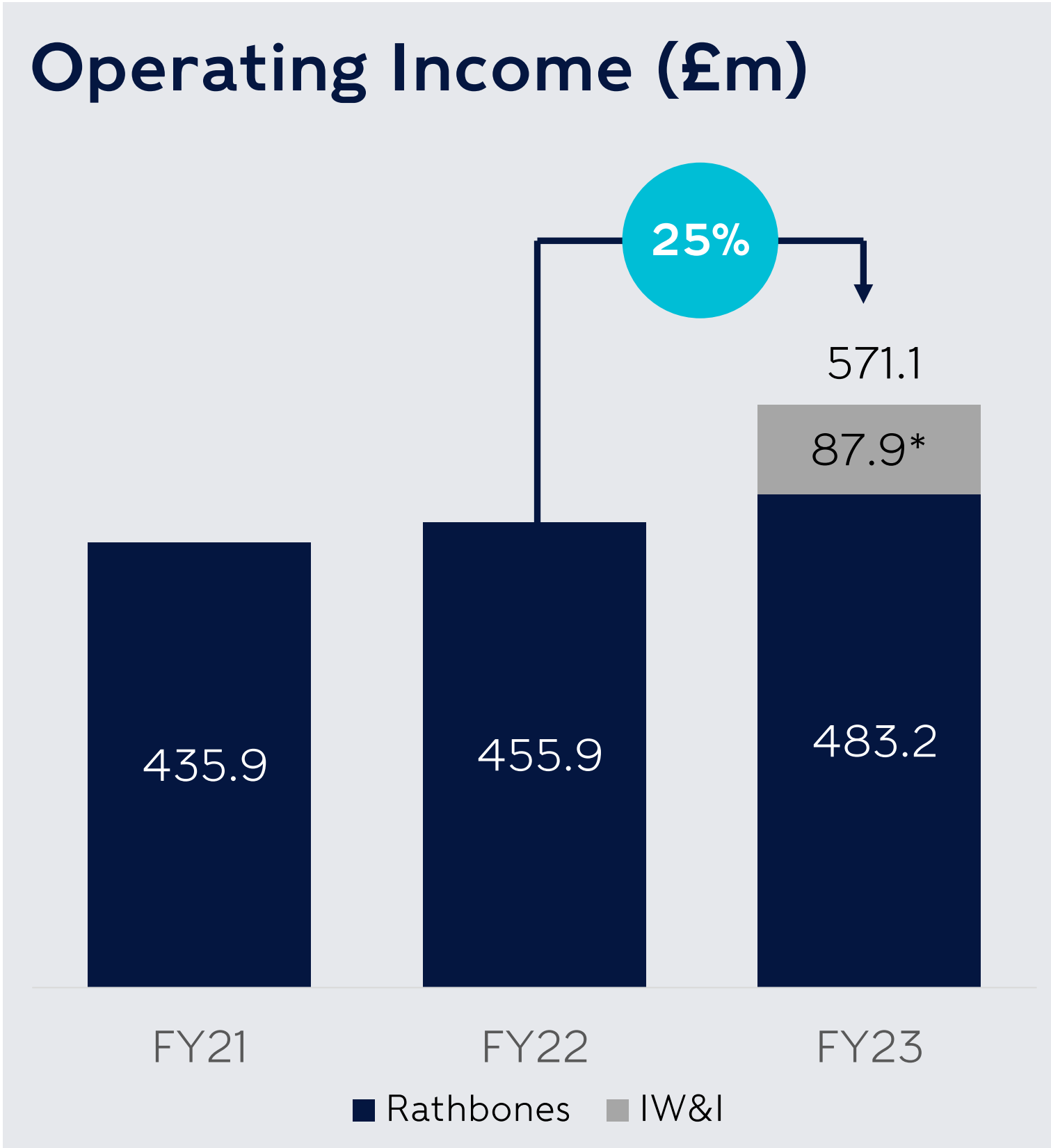
Iain Hooley  
Group Chief Financial Officer



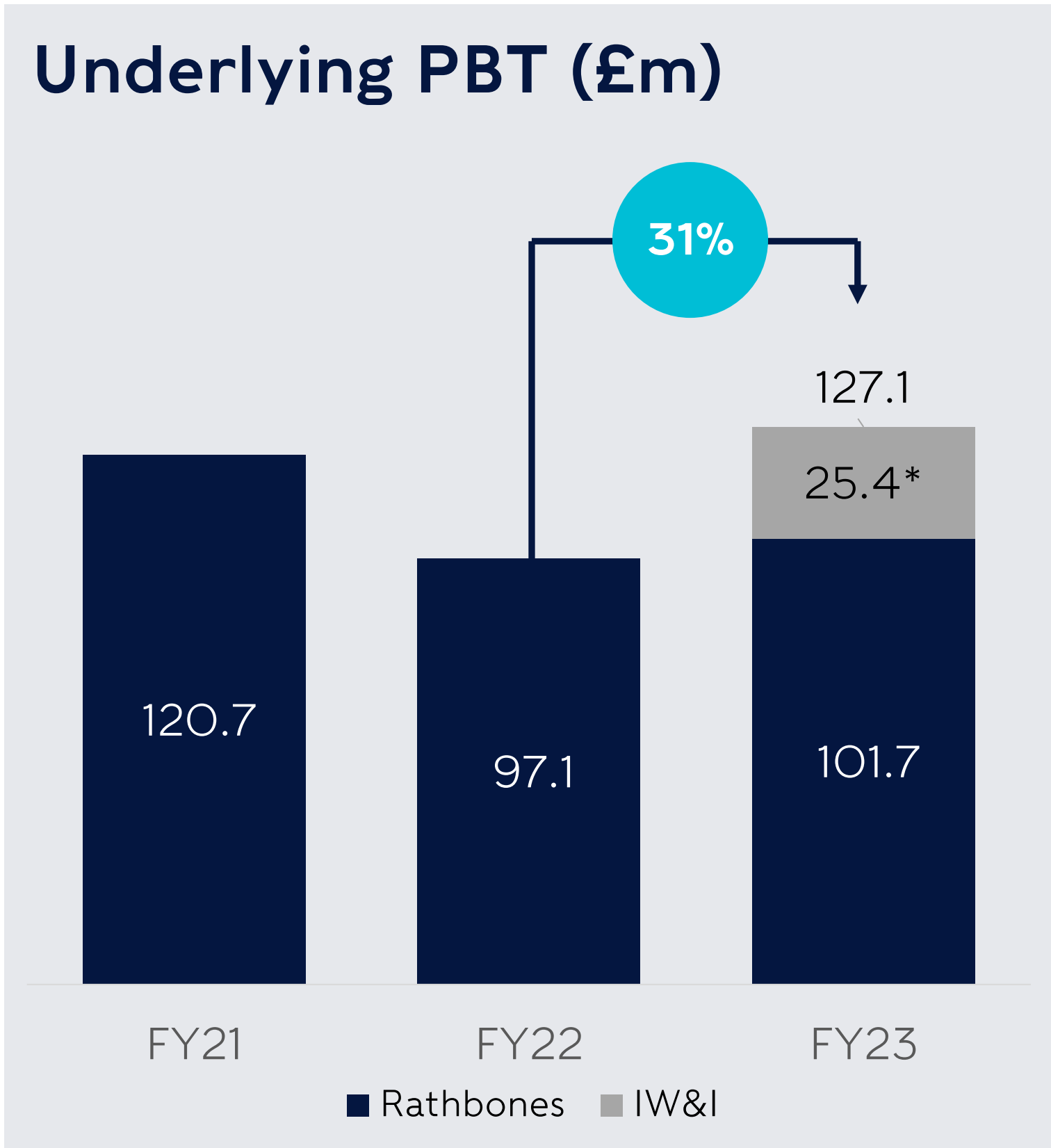
# UNDERLYING PROFIT GROWTH ENHANCED BY IW&I COMBINATION



Increased scale delivered by IW&I combination



Income benefited from higher interest rates and IW&I Q4 income

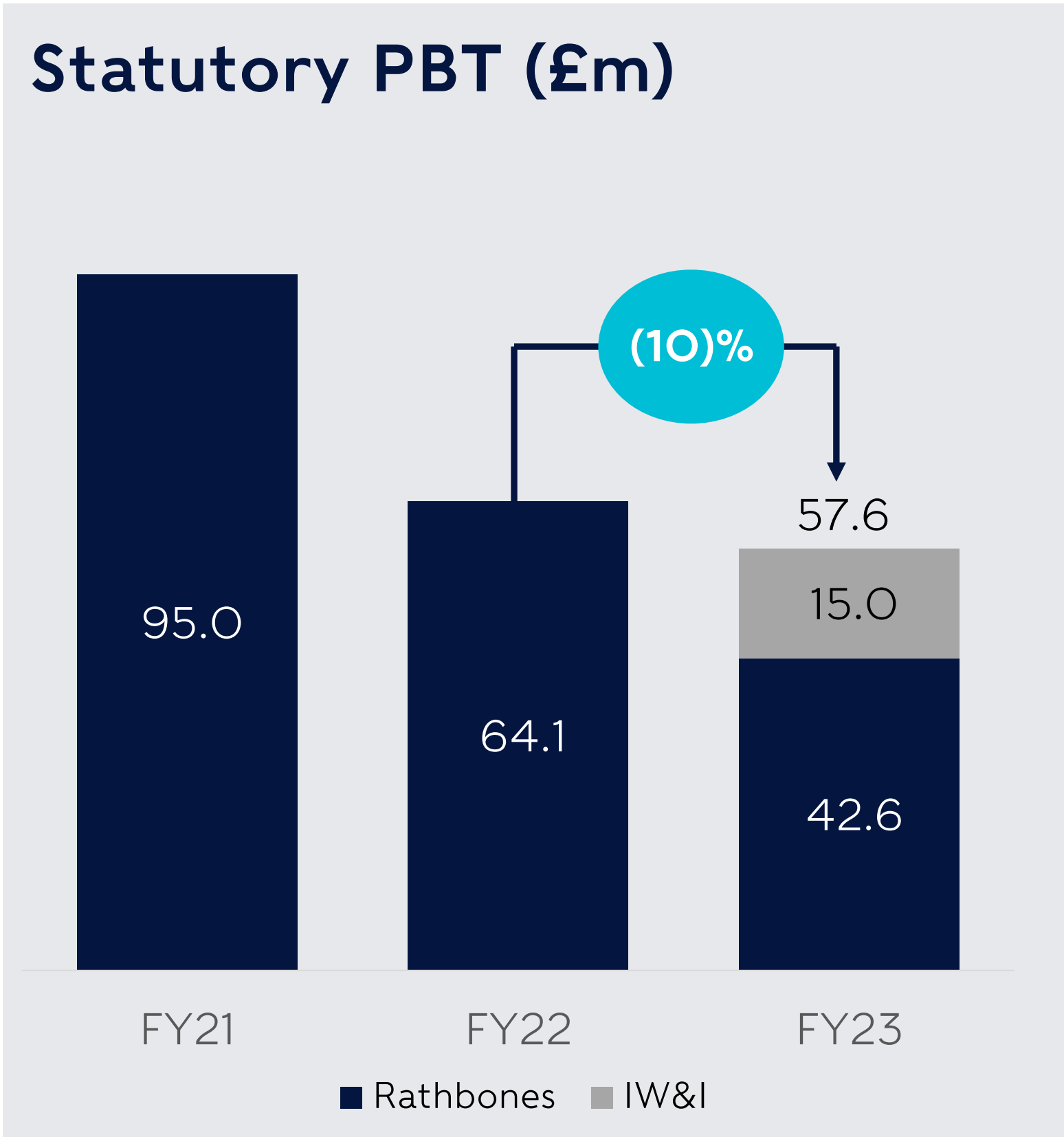


Operating margin of 22.3% after covering our digital investment of £14.4m in the year

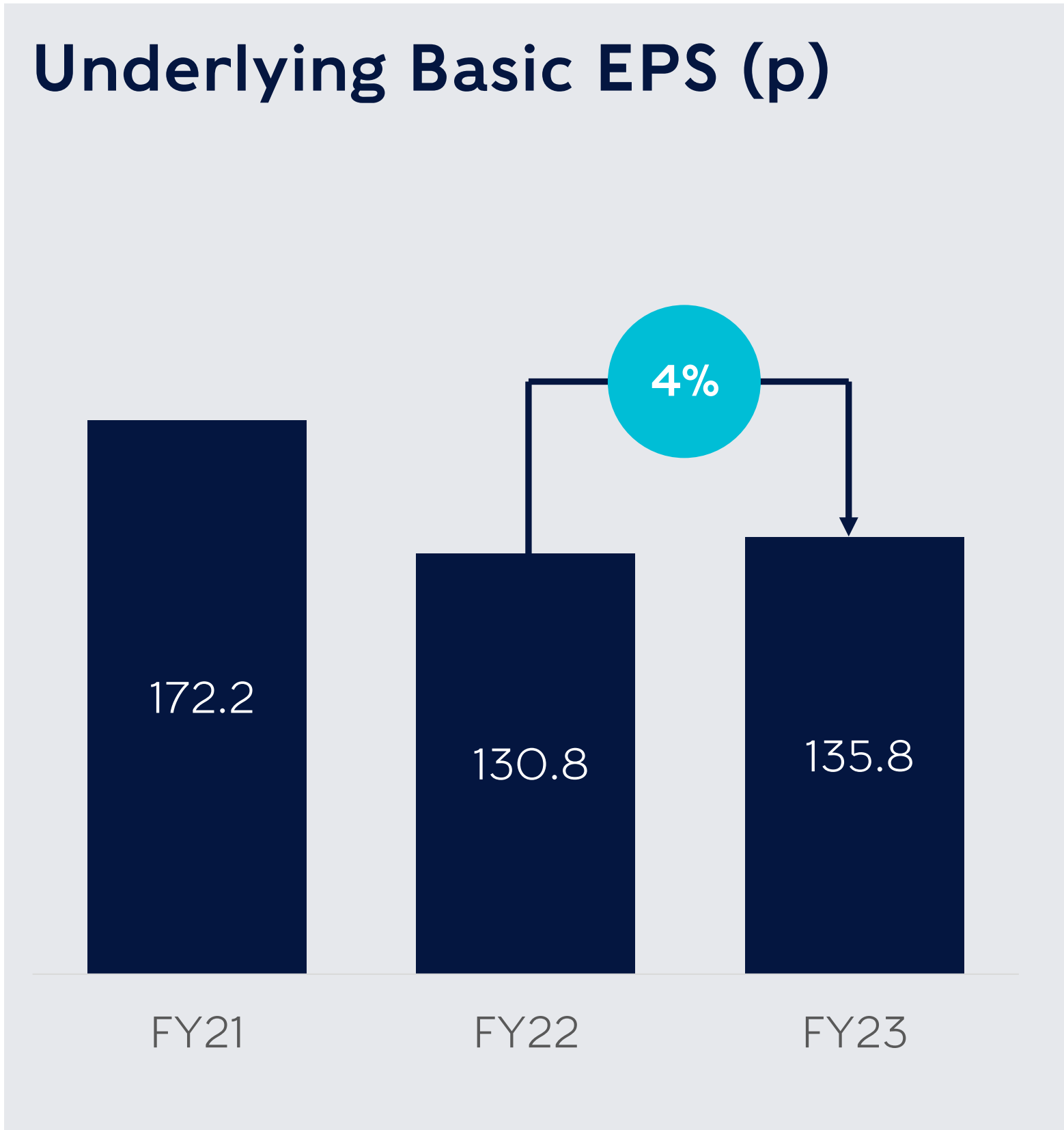
\*IW&I contributed from Q4 2023



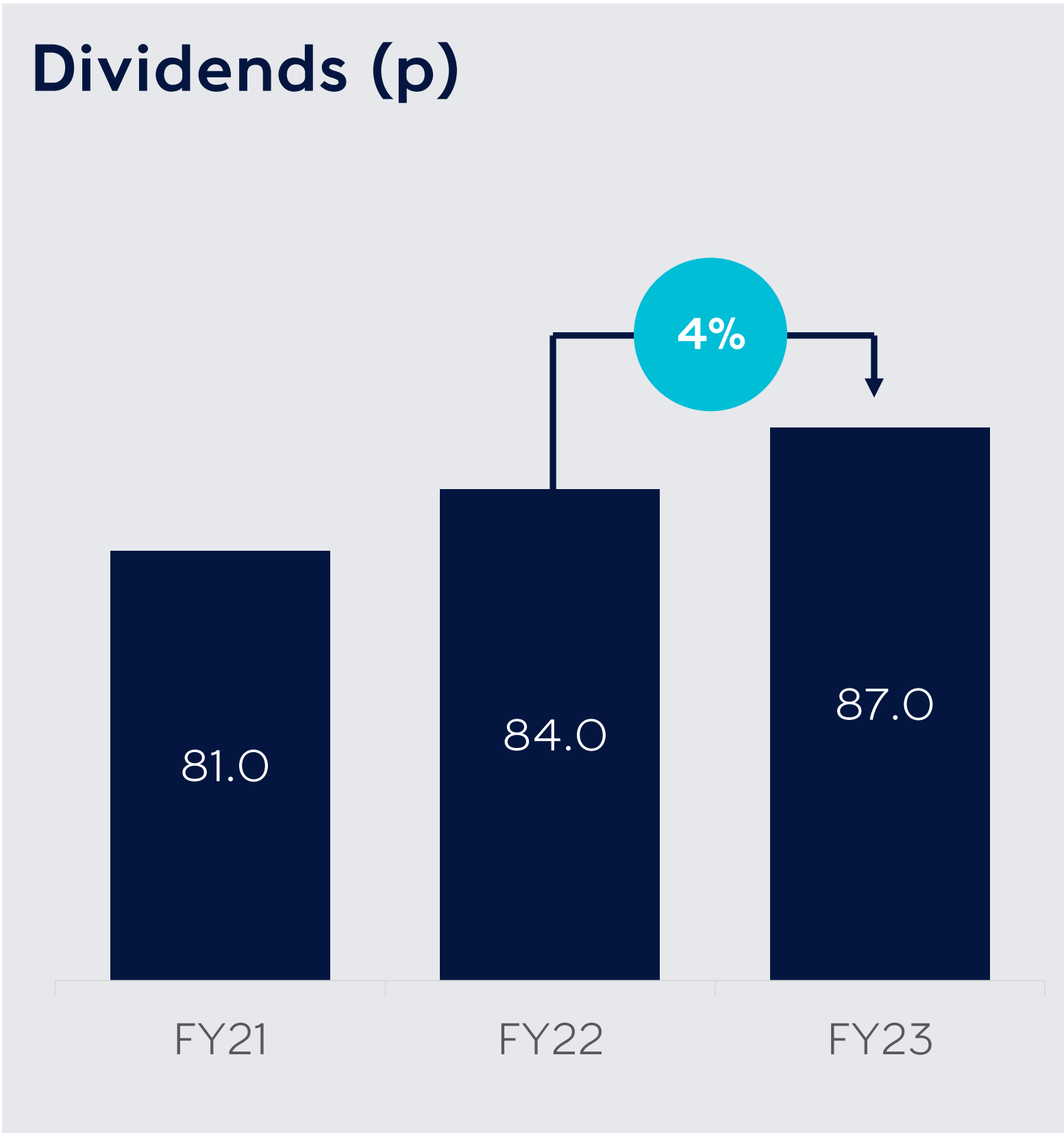
# DIVIDEND POLICY REMAINS PROGRESSIVE DESPITE SHORT TERM INVESTMENT



Statutory PBT impacted by transaction and integration costs and increased amortisation



Including the weighted impact of issuing c.45m shares to fund the IW&I combination

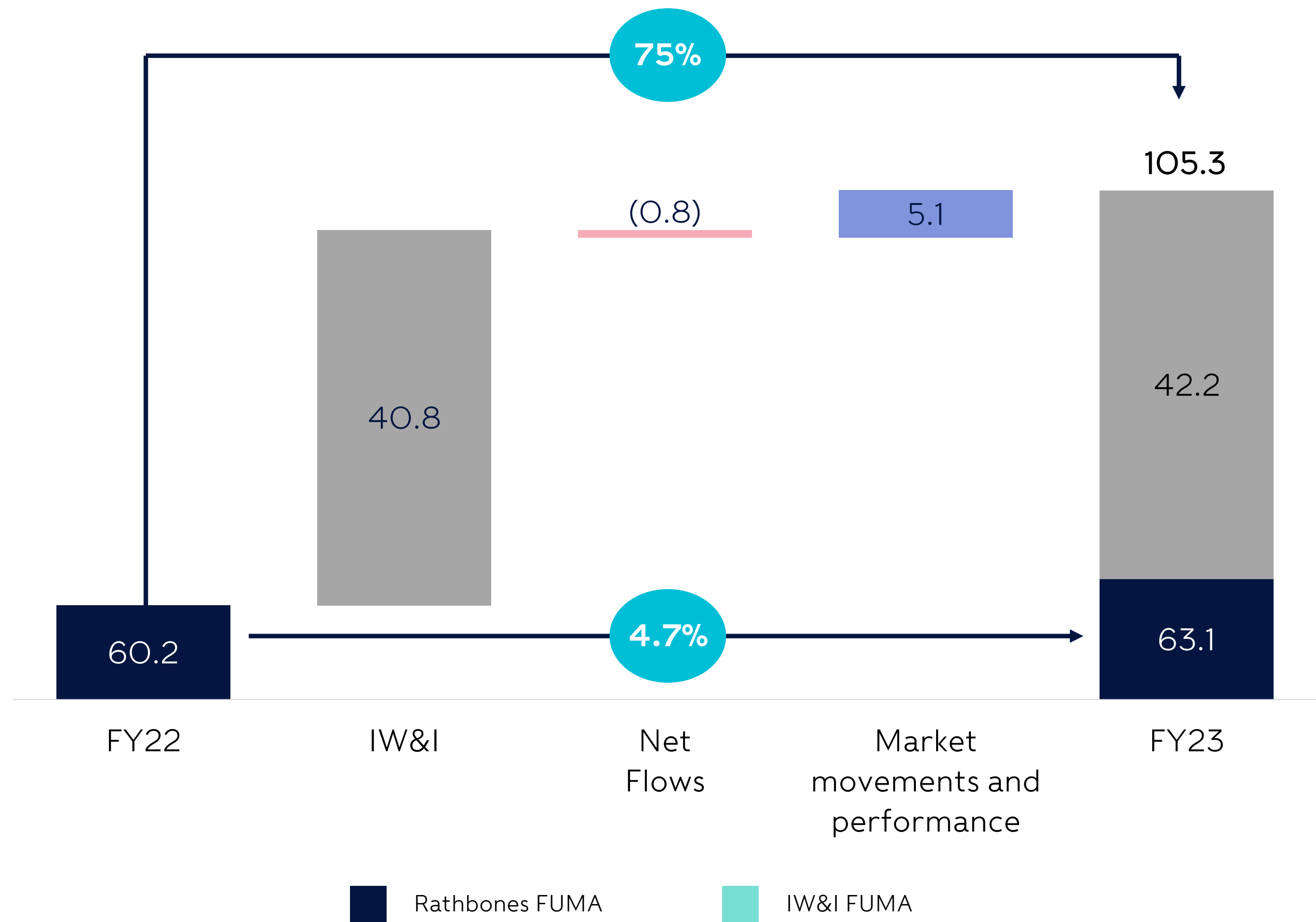


Announcing a final dividend of 24p in addition to interim dividends of 63p already paid



# IW&I COMBINATION DRIVES FUMA INCREASE OF 75%

## FY23 FUMA movement



- Increase in FUMA to £105.3bn driven by IW&I combination
- On a comparable basis excluding IW&I, FUMA has increased by 4.7%
- Net fund inflows in our discretionary and managed propositions, offset by understood outflows from Saunderson House and our single strategy funds

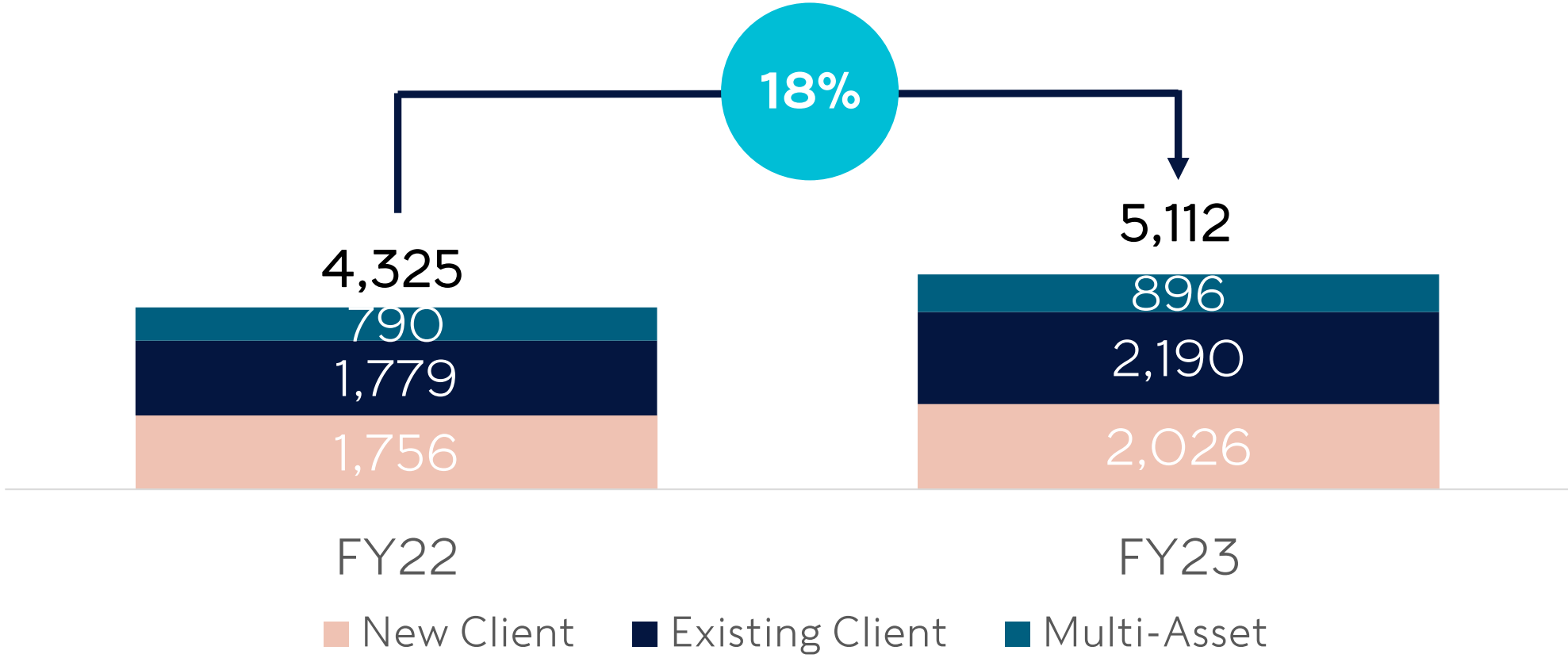


# DISCRETIONARY AND MANAGED GROSS FLOWS UP 18%

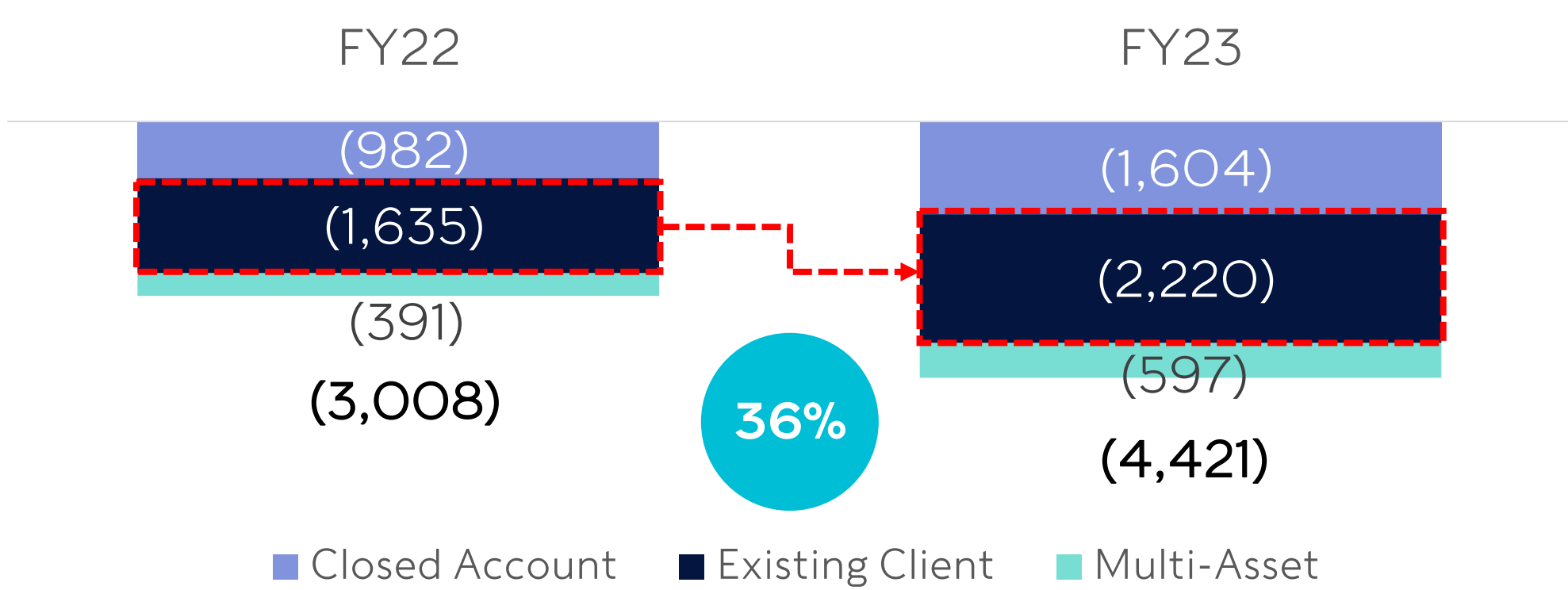
2023 FUMA (£m)	Inflows	Outflows	Net Flows	AGR
Discretionary and Managed	5,112	(4,421)	691	1.5%
Non-discretionary	40	(62)	(22)	(2.9)%
IW&I	796	(1,123)	(327)	(3.2)%
Saunderson House	119	(510)	(391)	(9.5)%
Wealth management	6,067	(6,116)	(49)	(0.1)%
Single strategy funds	1,275	(1,838)	(563)	(8.7)%
Execution only	327	(541)	(214)	(8.7)%
Group	7,669	(8,495)	(826)	(0.8)%

- Inflows represent 11.0% of opening FUMA with proportion from new clients increasing
- Outflows elevated at 9.5% due to existing client partial withdrawals and two large charity outflows as previously communicated
- External net inflows into multi-asset funds remain strong with a 13.8% annual growth rate

Discretionary and managed gross inflows (£m)



Discretionary and managed gross outflows (£m)

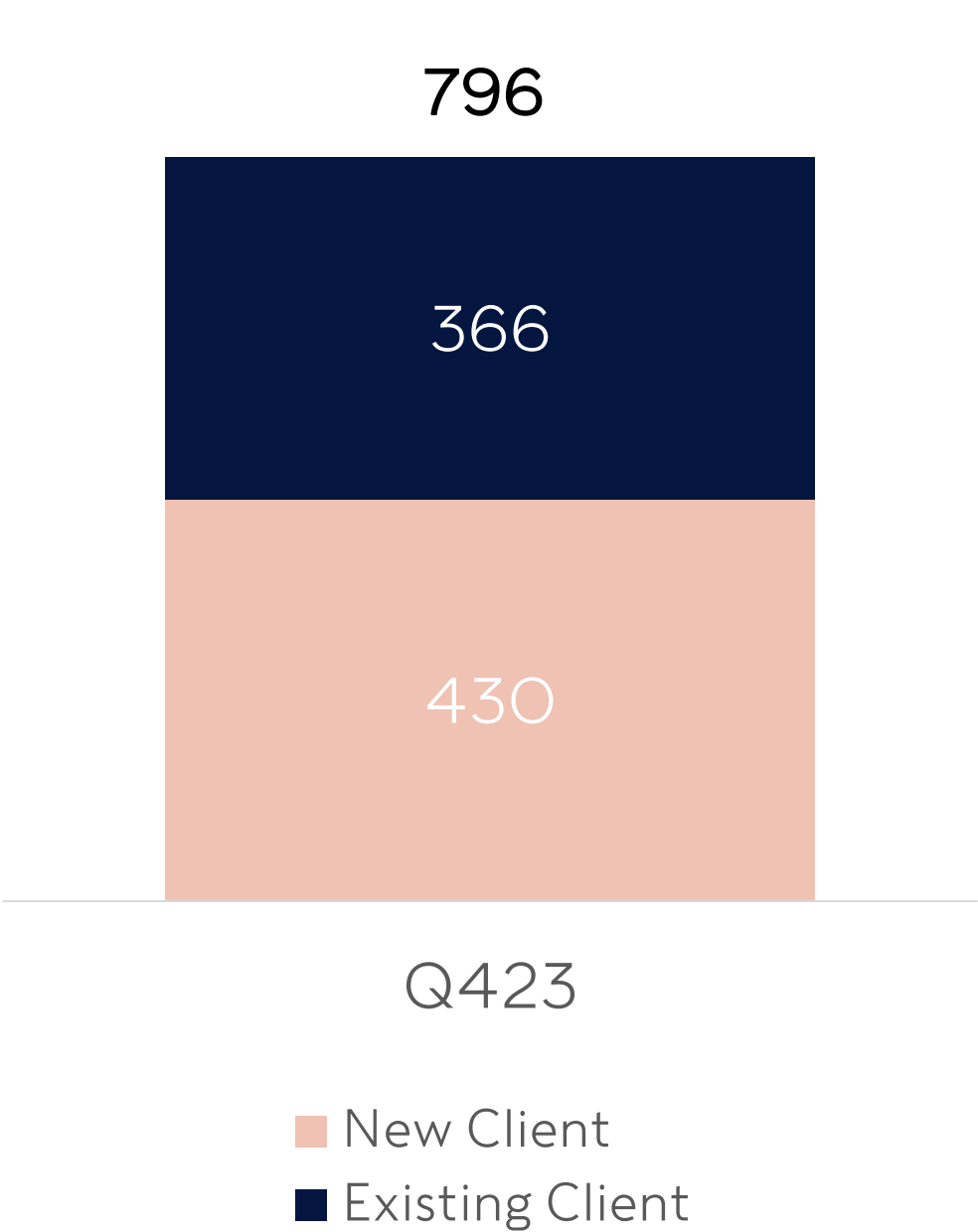




# IW&I OUTFLOWS ELEVATED IN Q4

2023 FUMA (£m)	Inflows	Outflows	Net Flows	AGR
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Gross inflows (£m)



Gross outflows (£m)



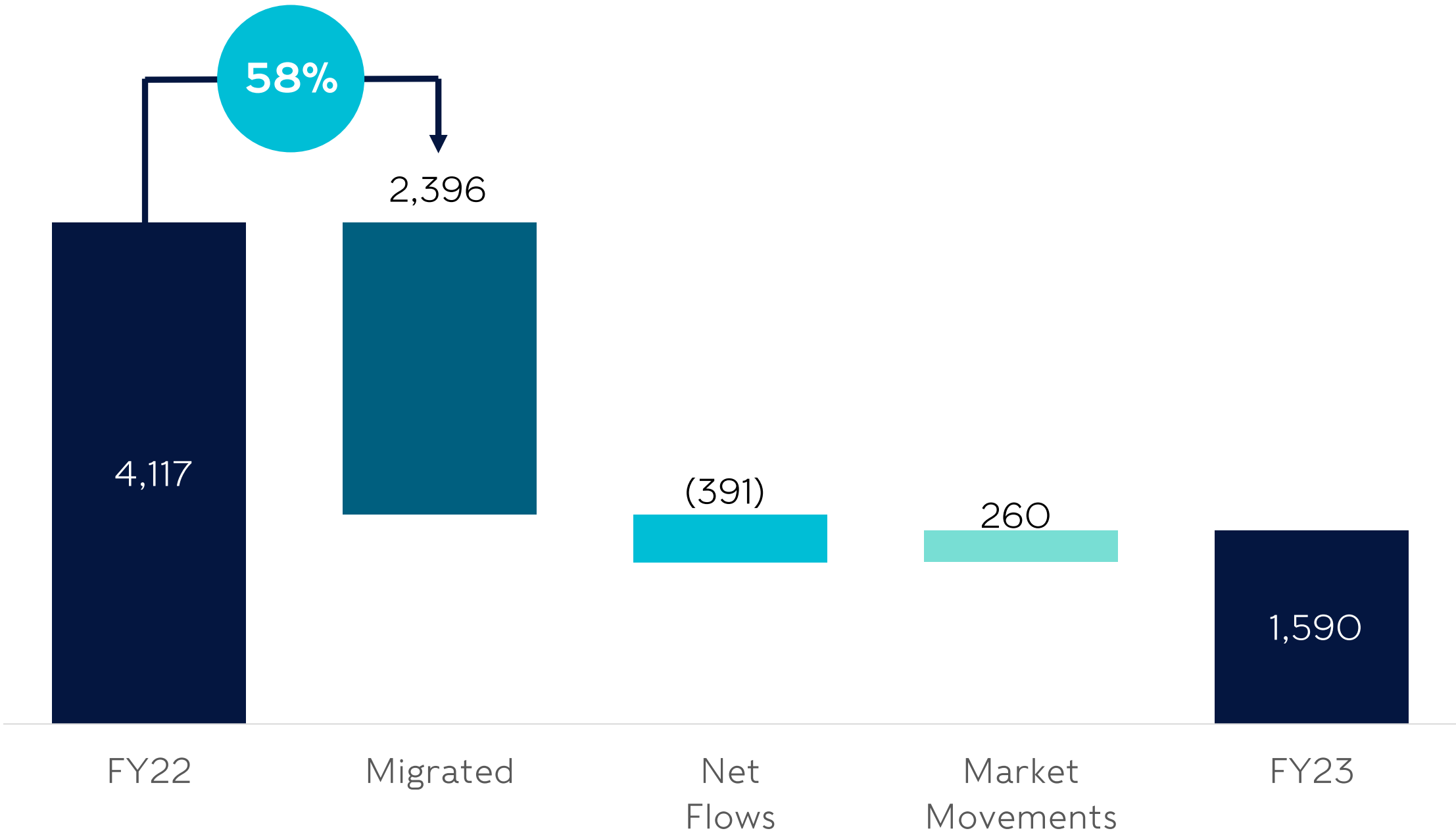
- Annualised gross inflows represent 7.8% of opening FUMA with more than 50% from new clients
- Annualised gross outflows at 11.0% are elevated as a result of IMs who left the business predominantly prior to the announcement of the combination. Outflows are expected to be affected into 2025 - focus remains on defending FUMA and embedding client relationships with new IMs
- Low investment manager departure post announcement



# SAUNDERSON HOUSE - £2.4BN OF FUMA MIGRATED TO RATHBONES INVESTMENT PROPOSITIONS IN 2023

2023 FUMA (£m)	Inflows	Outflows	Net Flows	AGR
Discretionary and Managed	5,112	(4,421)	691	1.5%
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FY23 FUMA movement (£m)



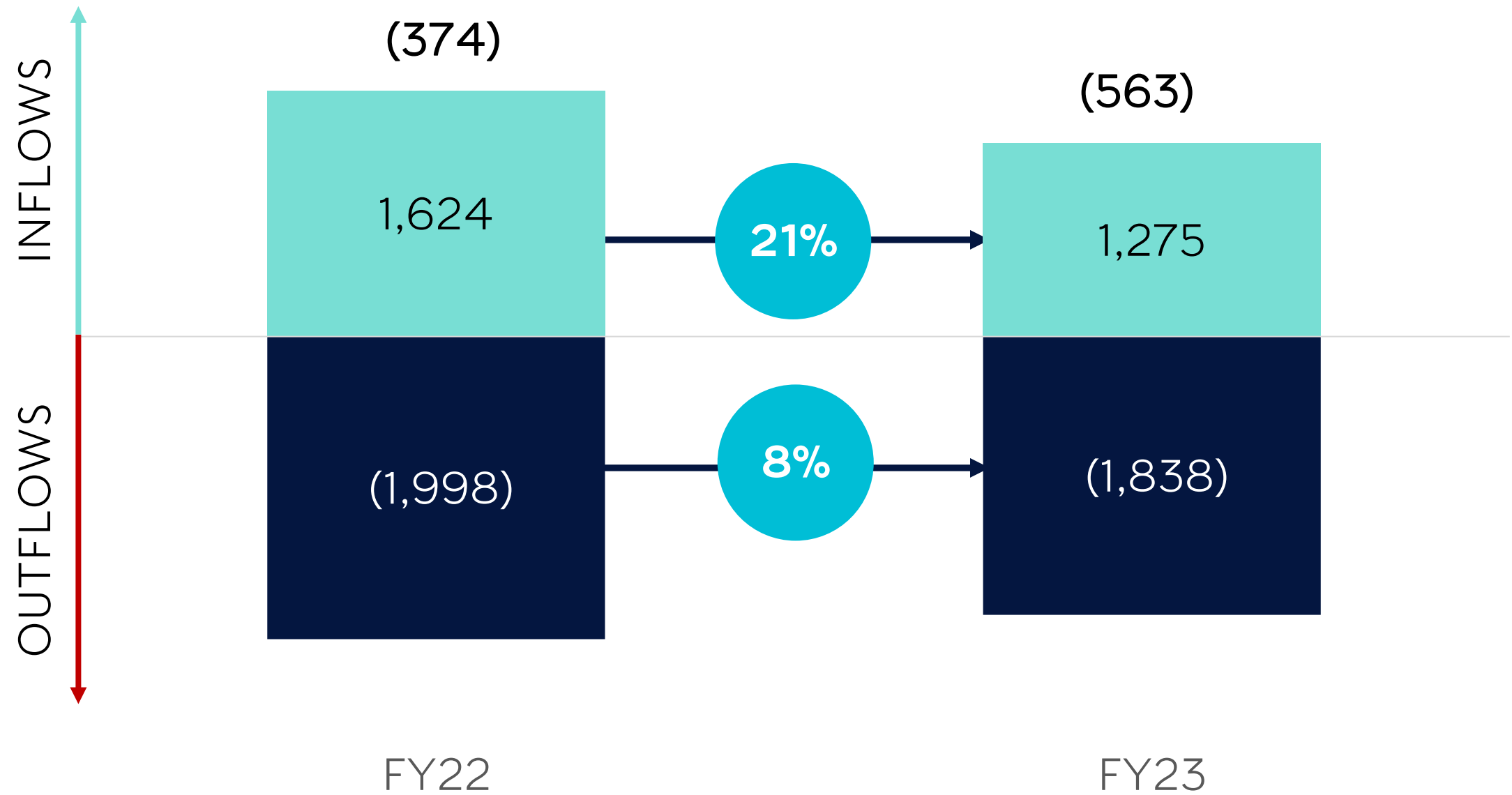
- 58% of FUMA migrated with a high proportion of unmigrated clients having agreed to receive or proceed with advice to migrate to Rathbones’ investment propositions
- As the integration process has taken longer than planned, the synergy benefits in 2024 will be lower than originally expected
- Inflows represent 2.9% of opening FUMA as advisors focus on migrating existing book – expected to return to normal post migration
- Outflows represent 12.4% of opening FUMA only marginally above other propositions



# SINGLE STRATEGY FUNDS SHOW RESILIENCE RELATIVE TO MARKET BACKDROP

2023 FUMA (£m)	Inflows	Outflows	Net Flows	AGR
Discretionary and Managed	5,112	(4,421)	691	1.5%
Non-discretionary	40	(62)	(22)	(2.9)%
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Execution only	327	(541)	(214)	(8.7)%
Group	7,669	(8,495)	(826)	(0.8)%

Gross inflows/gross outflows (£m)



- Lower inflows reflect full year of market conditions and outflows remain elevated - both consistent with industry trends
- Net outflows of 8.7% are resilient relative to external market; net outflows notably lower in Q4
- Investment performance remains strong- Global Opportunities Fund and Ethical Bond Fund in top quartiles relative to peer groups for performance in the year
- UK fund industry suffered record net outflows in 2023; Rathbones 5<sup>th</sup> position for net retail sales (2022: 8<sup>th</sup> position)



# RATHBONES STANDALONE INCOME UP 6%

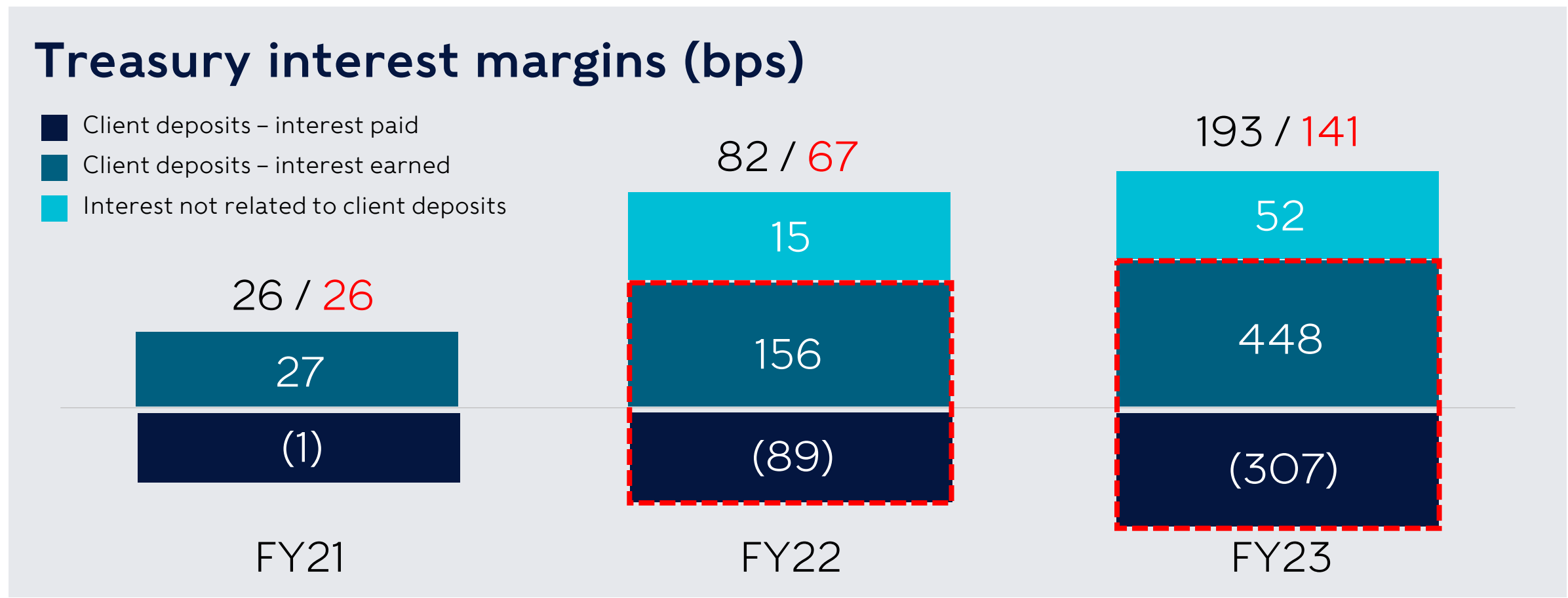
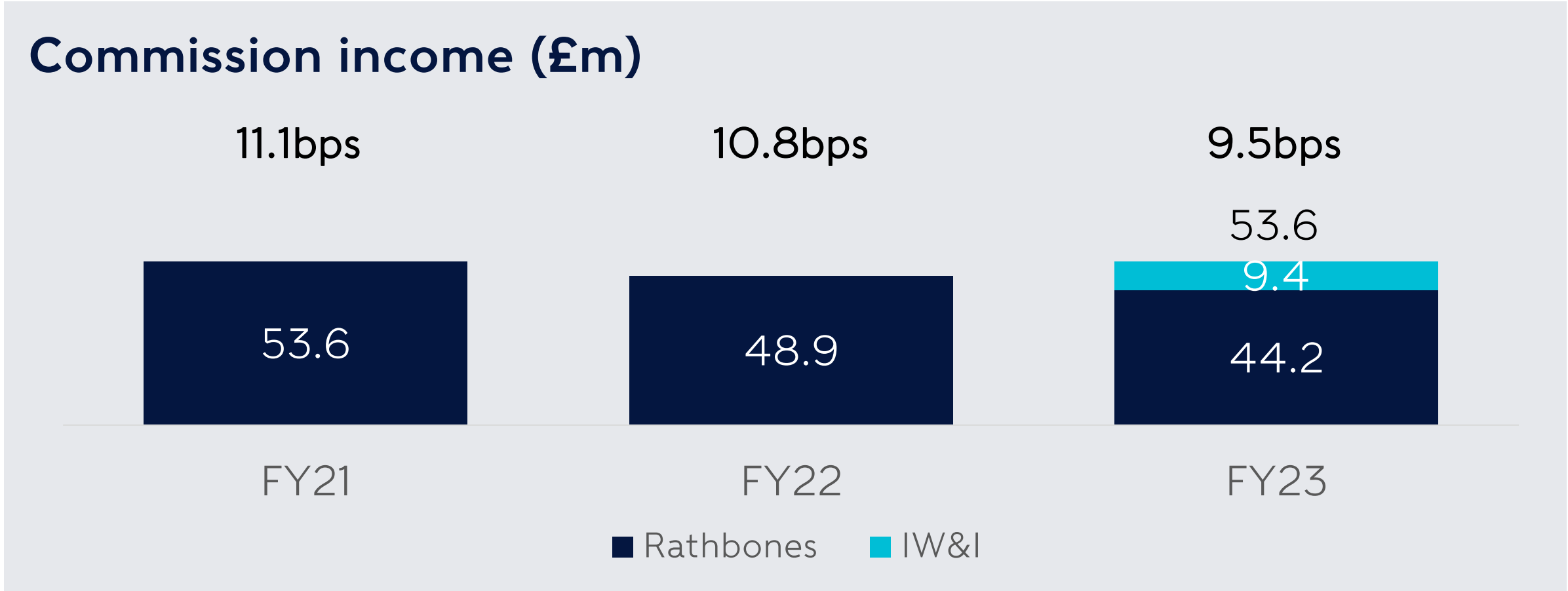
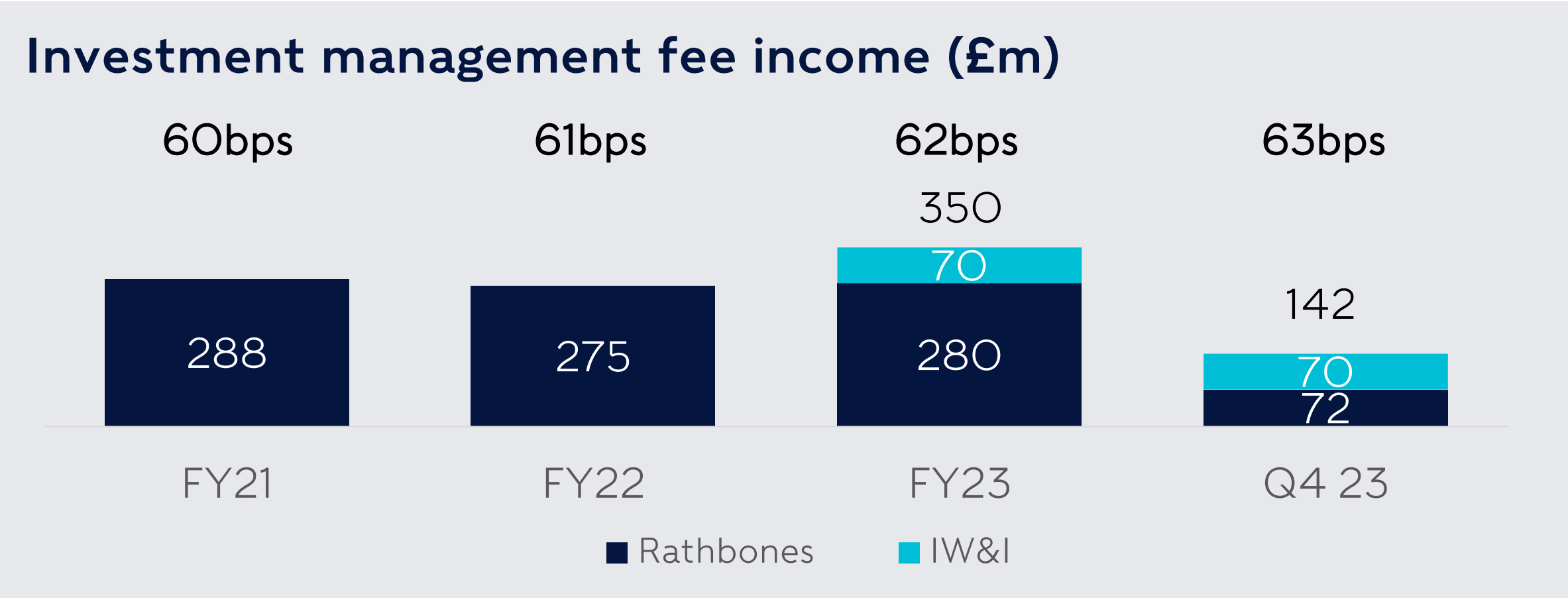
Income (£m)	2022	2023			%
		Rathbones	IW&I*	Group	
Fee income	274.9	280.0	70.1	350.1	1.9%
Funds income	62.1	64.7	-	64.7	4.2%
Commission	48.9	44.2	9.4	53.6	(9.6)%
Interest	18.3	50.3	1.4	51.7	275%
Advice	49.6	40.5	-	40.5	(19.0)%
Other	2.1	3.5	7.0	10.5	(71.4)%
Group	455.9	483.2	87.9	571.1	6.0%

- Fee and funds income reflects higher average FUMA at billing dates, benefitting from higher market indices and migration of Saunderson House assets
- Commission income declined due to continuing movement to clean, fee-only charging structures along with effects of the relative volume and mix of transactions
- Interest income rose due to higher interest rate environment and banking licence benefits
- Dear CEO letter on interest considered to be relevant to execution only mandates with revenue impact of c£0.6m pa
- Saunderson House advice fees reduced during the client migration phase but expect this income to return to normal levels post migration
- Other income includes £9.4m of net interest margin generated from client money deposits

\*IW&I contributed from Q4 2023



# RESILIENT INCOME MARGINS

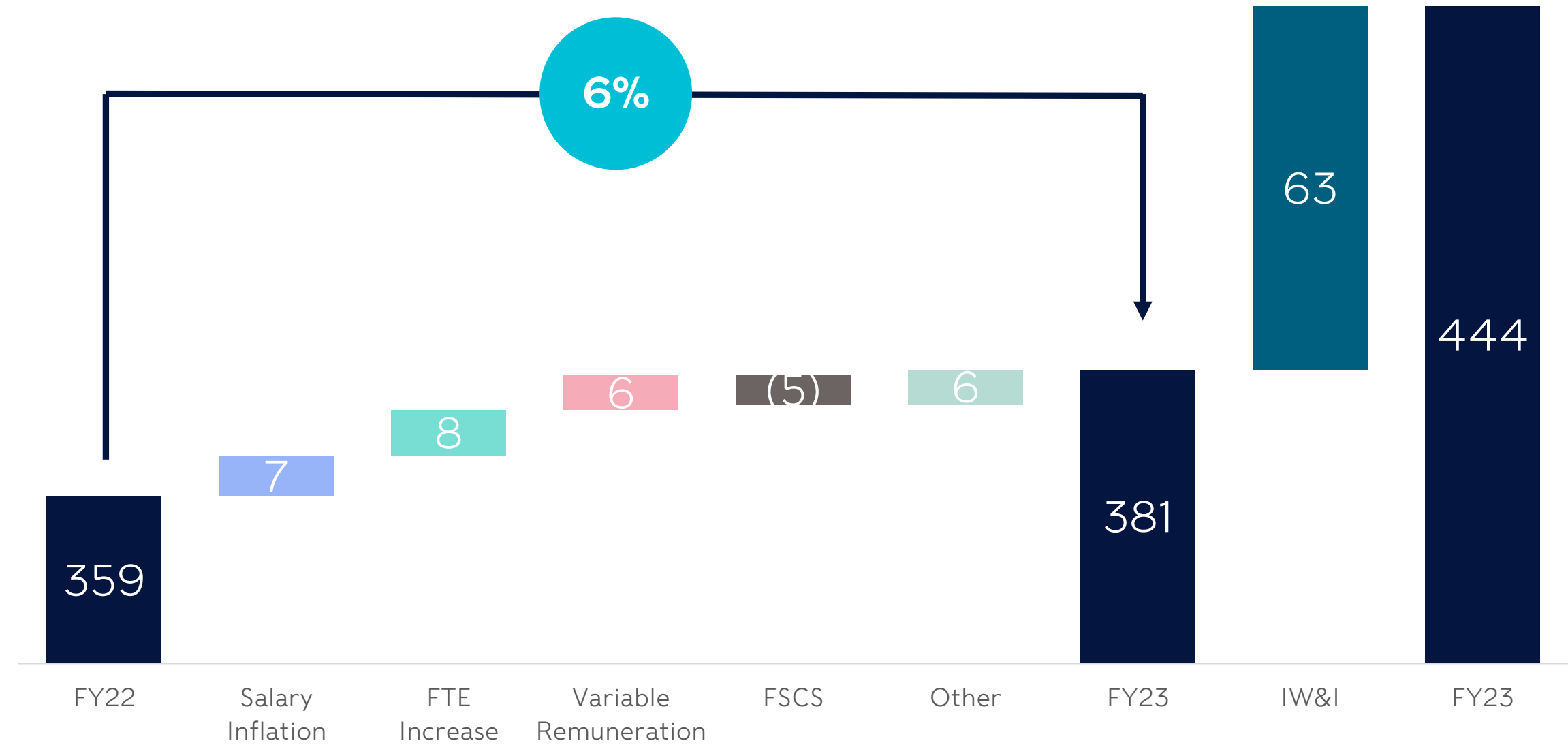




# UNDERLYING EXPENSES

	2022	2023		Change %	
		Rathbones	IW&I	Group	Rathbones
Fixed staff	158.5	176.7	29.4	206.1	11.5
Variable staff	87.1	93.2	14.3	107.5	7.0
Total staff	245.6	269.9	43.7	313.6	9.9
Other operating	113.2	111.6	18.8	130.4	(1.5)
Total	358.8	381.5	62.5	444.0	6.3
CLM (Digital)	16.3	14.4	-	14.4	(11.7)
FTE	2,124	2,232	1,289	3,521	5.1

Underlying expense movement (£m)

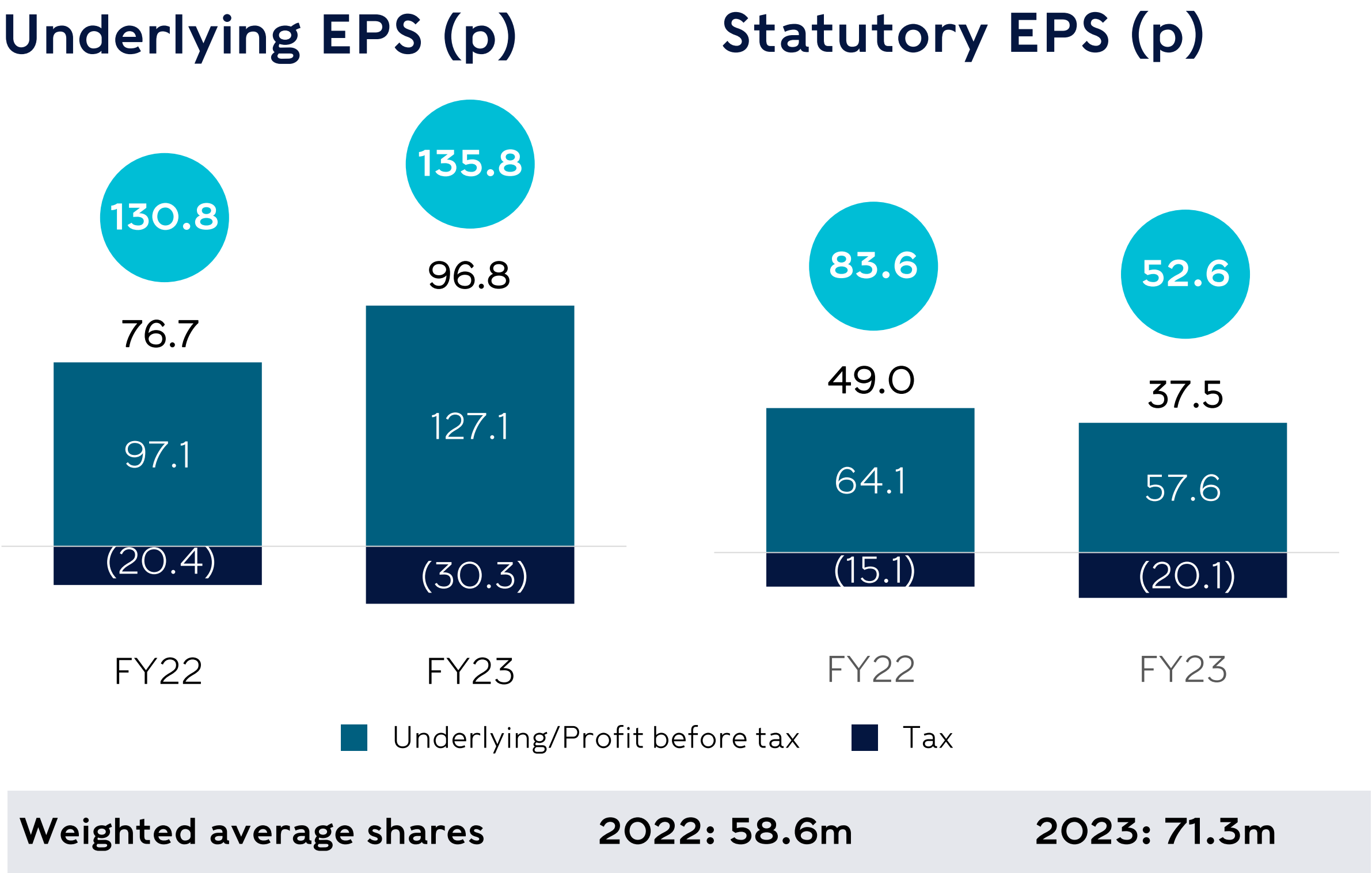


- Salary inflation in line with market trends; FTE increases in 2023 reflect additional client facing roles and related support as well as change resource including CLM, technology and integration preparation
- Other changes include inflation, offset by in-year Saunderson House expense reduction of £3m
- £14.4m in year investment in digital increases total spend to date to c£30m. Total cost of £45m remains within existing guidance but continuation of investment into 2024 will put downward pressure on 2024 operating margin



# ACQUISITIONS DIRECTLY IMPACT PROFITS AFTER TAX AND EPS

Profit after tax (£m)	2022	2023	%
Underlying operating profit	97.1	127.1	31%
Amortisation	(19.5)	(25.2)	29%
Deal execution costs	-	(19.5)	-
IW&I Integration Costs	-	(17.0)	-
SHL/S&J integration costs	(13.5)	(7.8)	(43)%
Profit before tax	64.1	57.6	(10)%
Tax	(15.1)	(20.1)	33%
Profit after tax	49.0	37.5	(23)%
Effective tax rate	23.5%	34.9%	11.4pp

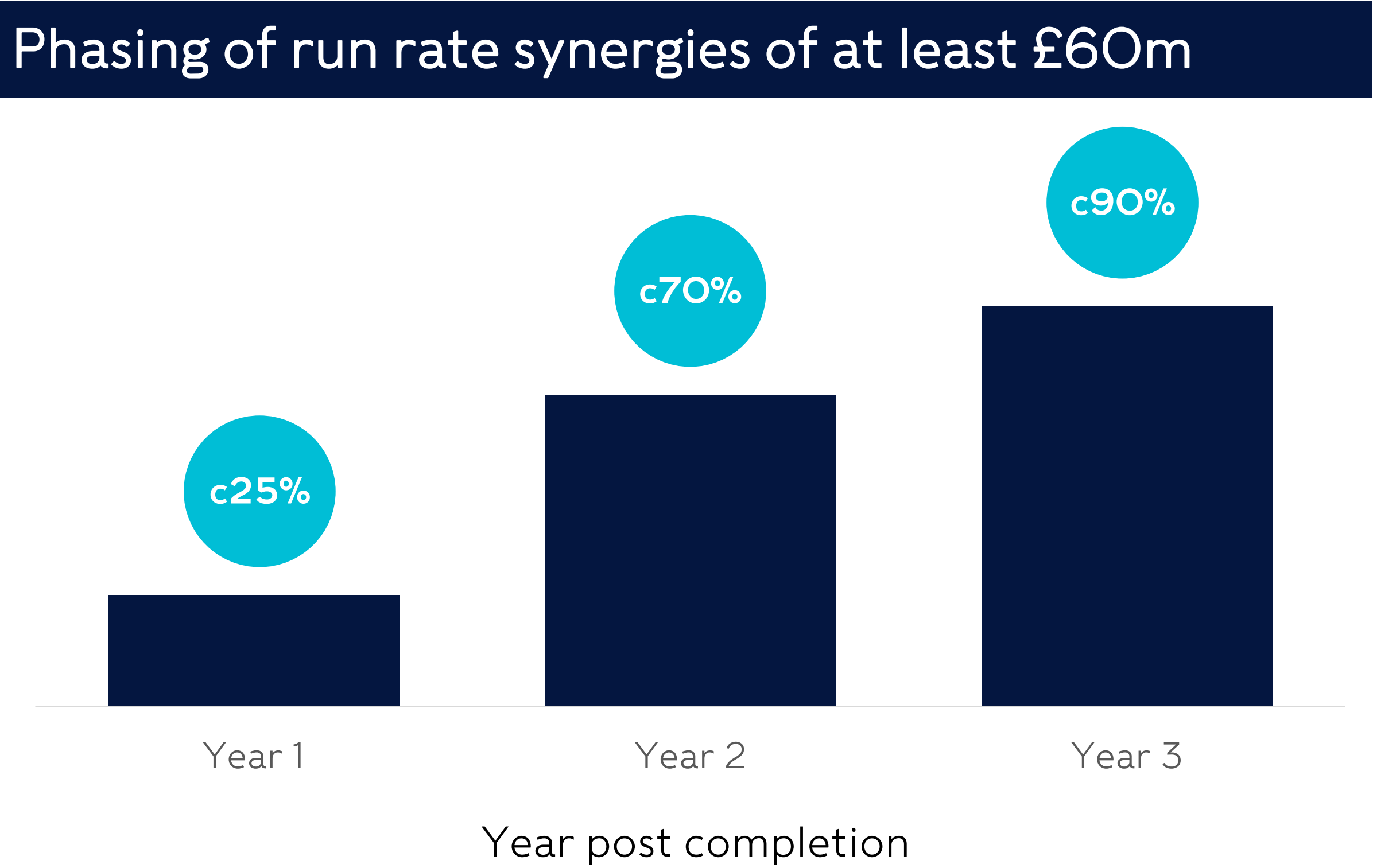


- Underlying EPS growth covers dividend, whilst statutory EPS impacted in short-term by integration costs
- IW&I integration costs largely relate to project resource, property-related costs, employee incentives and technology costs
- Statutory earnings per share impacted by transaction and integration costs, higher amortisation, and increased tax rate
- SHL/S&J integration costs are final amounts payable



# INTEGRATION COSTS WILL CONTINUE TO IMPACT RESULTS

Integration Costs (£m)	Total
Cash costs to achieve	98.0
Employee incentives	65.0
Property	14.0
<b>Total IW&amp;I integration cost</b>	<b>177.0</b>
<i>of which will impact underlying</i>	<i>21.0</i>
Funded By Investec (£m)	
Employee incentives	31.0
Property	14.0
<b>Total funded by Investec</b>	<b>45.0</b>

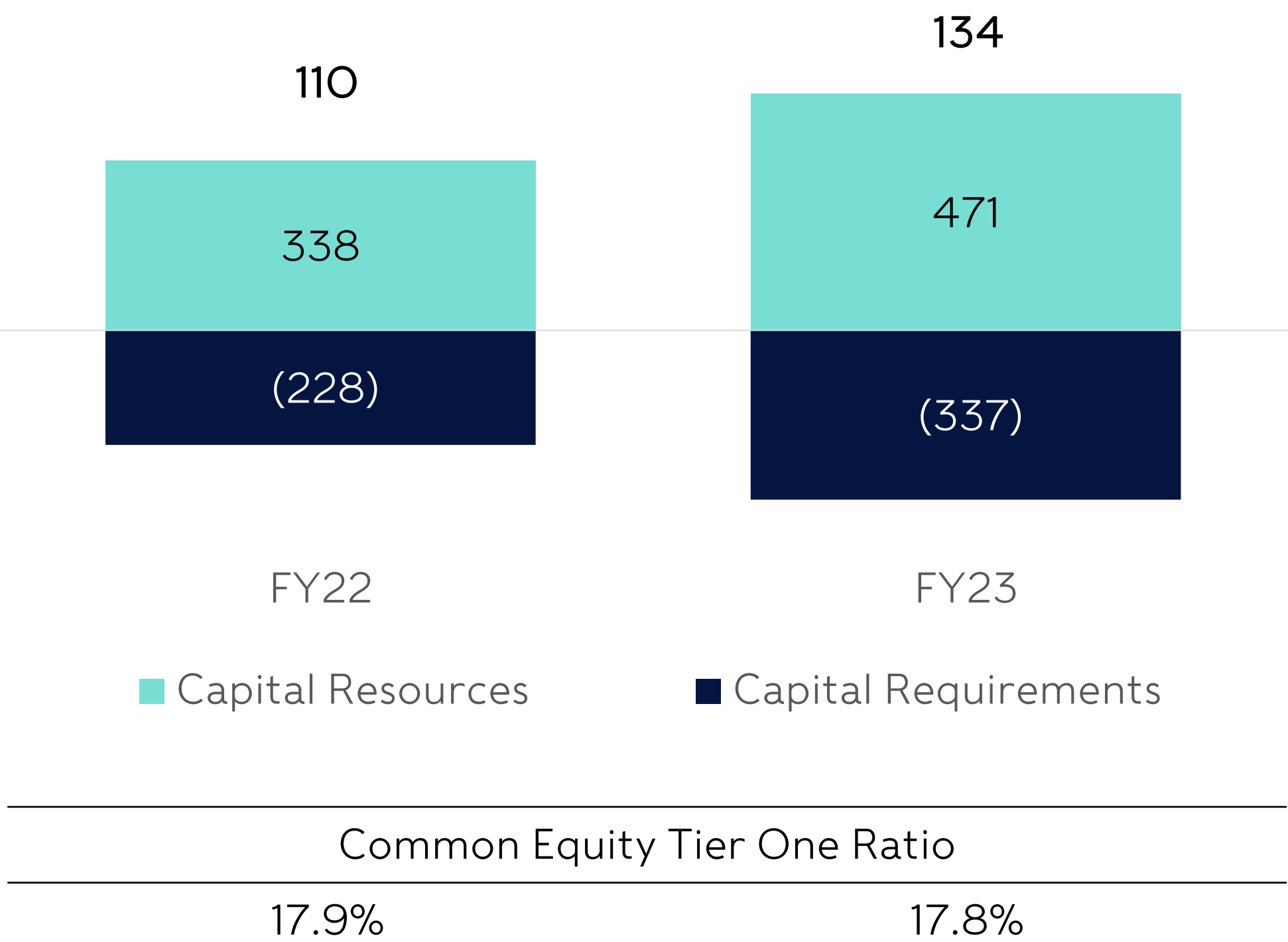


- Total £177m integration cost represents the cost that will be recognised by Rathbones group and will impact the group’s profit after tax
- £17m of total expected integration costs have been incurred in 2023. c80% of remaining integration costs are expected to be incurred across 2024 / 2025
- £8m of run-rate cost synergy delivered already, representing over 50% of stated year 1 delivery; remaining run-rate synergies expected to be delivered in line with original guidance



# ROBUST CAPITAL WITH PROGRESSIVE DIVIDEND POLICY MAINTAINED

## Capital surplus (£m)



- Consistent common equity tier one ratio provides ongoing evidence of robust and resilient capital position
- Increased capital surplus includes the impacts of:
  - IW&I Combination: including the £31m benefit of Investec’s contribution to integration costs, net of corporation tax
  - Capital Requirements: including the impact of the FPC announcement increasing the UK counter cyclical buffer
  - Shareholder Dividends: including the £20.5m cost of our second interim dividend paid pre-combination
  - Profit After Tax: including the impact of higher acquisition costs

n.b. The capital surplus is presented in accordance with the requirements relating to capital resources and capital requirements, as prescribed by the Capital Requirements Regulation as applied in the UK by the Prudential Regulation Authority (PRA), and include verified profits for the year ended 31 December 2023



# 2024 GUIDANCE

REVENUE	Saunderson House benefits – continued synergy delivery & recovery of advice fees
EXPENSES	Market aligned salary inflation at c.4%; FSCS levy return to normal; IW&I synergy benefits; full year of 2023 recruitment
UNDERLYING MARGIN	Expect mid 20s% in 2024 due to continued CLM investment and Saunderson House benefits yet to be fully realised
NON-UNDERLYING EXPENSES	IW&I integration costs in line with guidance; continuation of increased amortisation charges; full increase in statutory corporation tax rate (avg 23.5% in 2023)
DIVIDEND	Progressive dividend policy remains in place

We continue to expect operating margin 30%+ from three years post completion (Sept 2026)



# LOOKING FORWARD

## Priorities for 2024

- CLM completion and benefits
- IW&I client consent and migration preparation
- Combined operating models
- Marketing and distribution focus
- Expense management
- Managing regulatory change





# Q&A



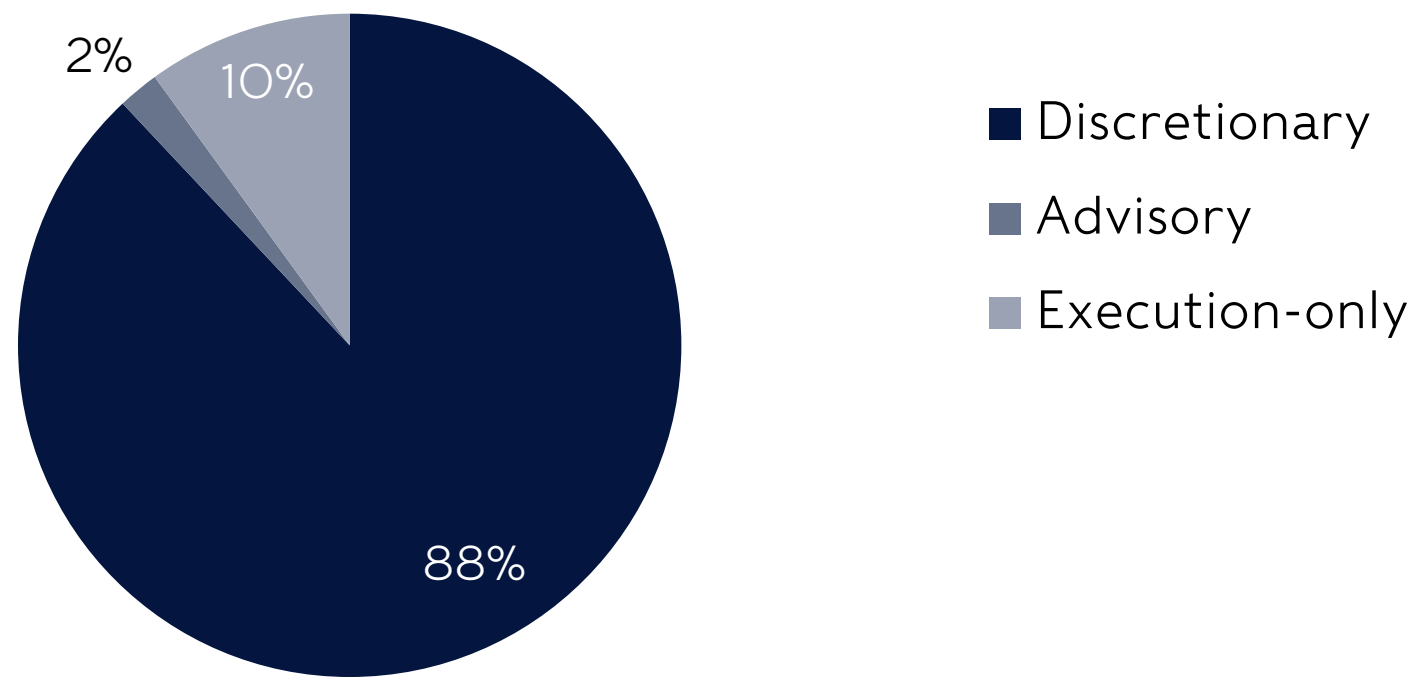
# APPENDIX



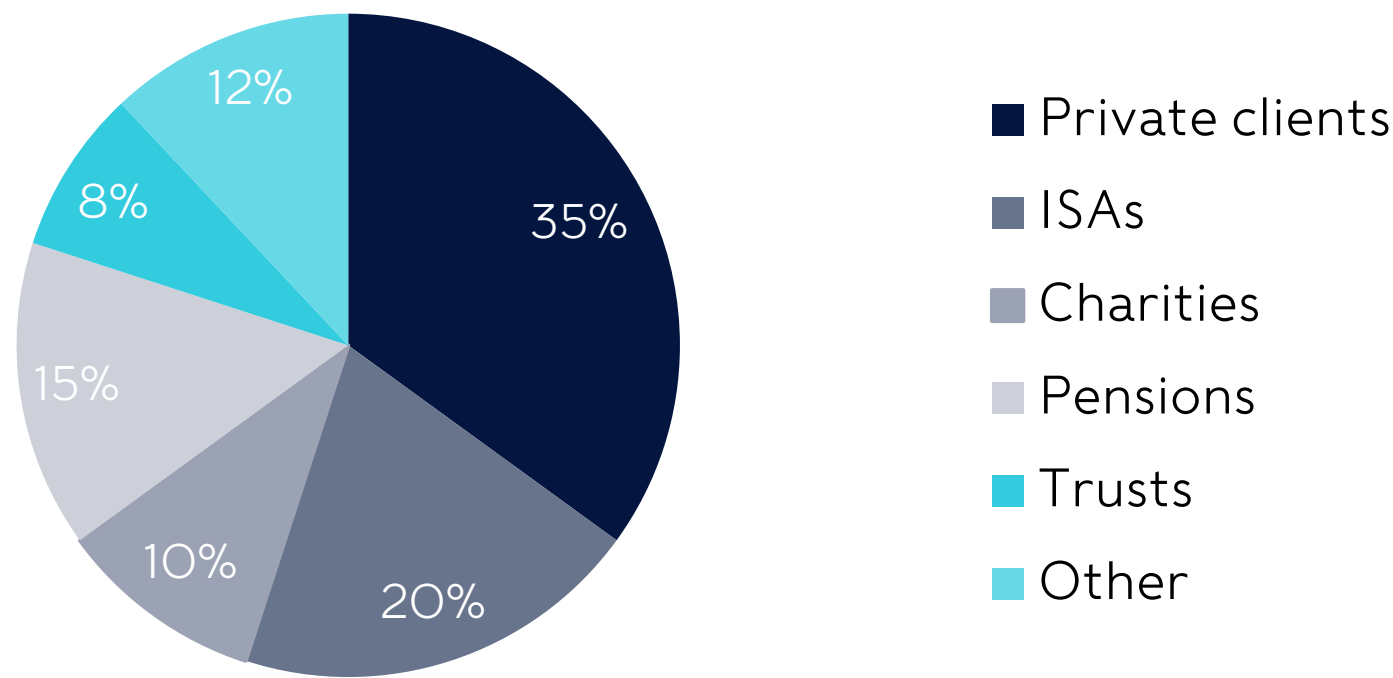
# INVESTMENT MANAGEMENT CLIENT BASE

## Analysis of funds under management<sup>1</sup>

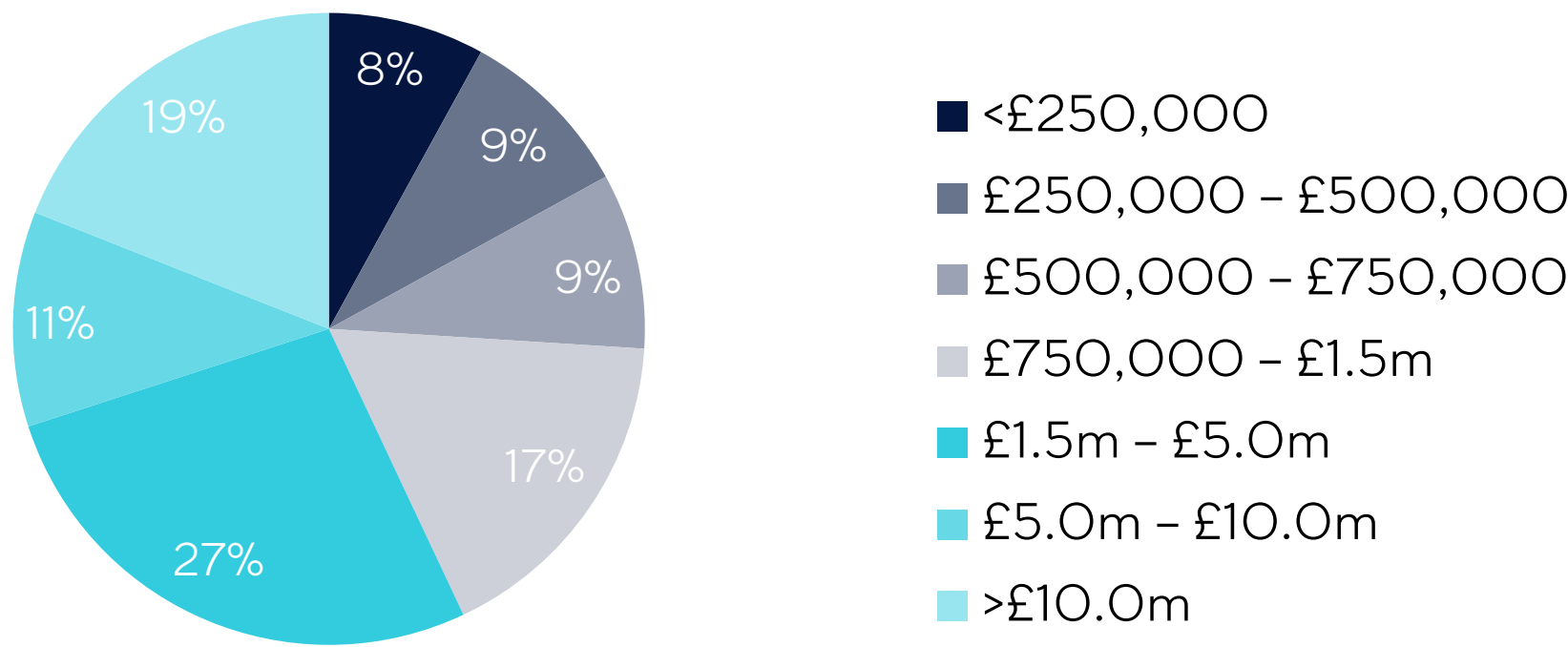
Service level by FUM



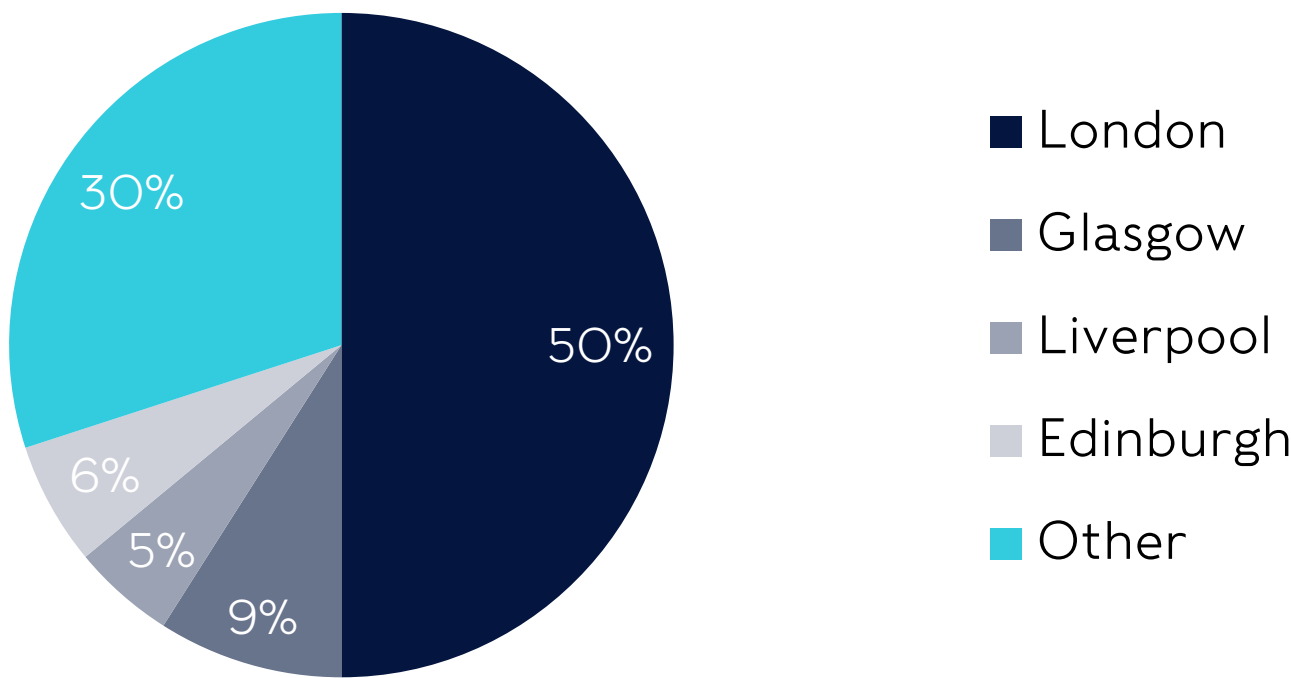
Fund type by FUM



Size of client relationship by FUM



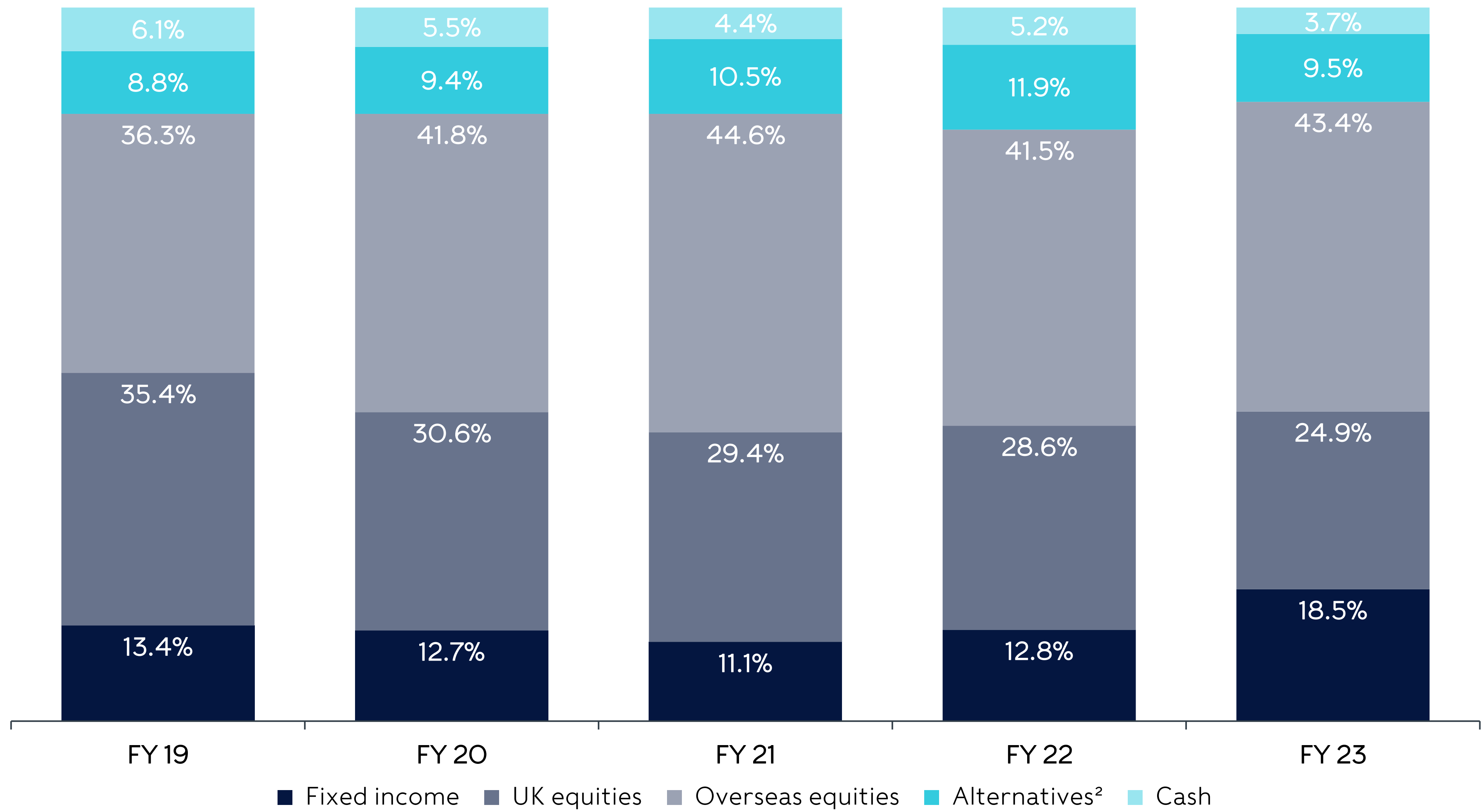
FUM by location



<sup>1</sup> As a percentage of total funds under management at 31 December 2023 (including IW&I)



# WHERE OUR CLIENTS' ASSETS ARE INVESTED<sup>1</sup>

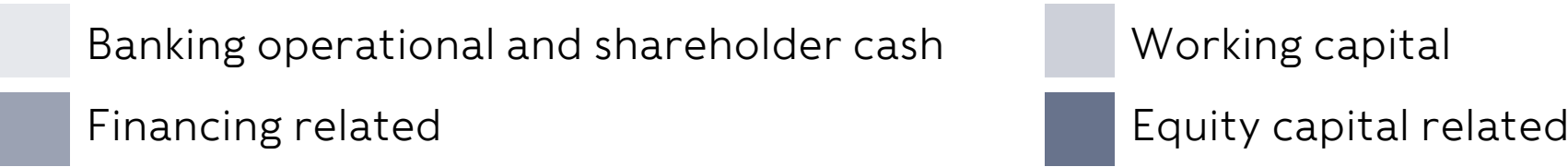


1. Total Rathbones Investment Management at Q4 23 (excluding IW&I)  
2. Including fund of hedge funds and structured products



# ANALYSING THE BALANCE SHEET

Assets	31/12/23 (£m)	31/12/22 (£m)
Cash and balances with central banks	1,038.3	1,412.9
Settlement balances	165.7	65.8
Loans and advances to banks	266.9	194.7
Loans and advances to customers <sup>1</sup>	115.6	169.8
Investment securities – fair value through profit or loss	1.2	11.2
Investment securities – amortised cost	1,294.6	1,045.2
Prepayments, accrued income and other assets	225.3	126.7
Property, plant and equipment	16.1	12.7
Right-of-use assets	64.5	39.1
Current tax asset (UK)	3.9	3.5
Retirement benefit asset	7.0	9.4
Intangible assets	1,025.3	356.2
<b>Total assets</b>	<b>4,224.4</b>	<b>3,447.2</b>



1. Loans and advances to customers largely consist of the investment management loan book, but also include overdrafts, trust and financial planning debtors and other debtors

Liabilities	31/12/23 (£m)	31/12/22 (£m)
Deposits by banks	12.4	1.0
Settlement balances	172.1	70.0
Due to customers	2,253.3	2,516.1
Accruals and other liabilities	209.6	114.3
Provisions	25.5	12.9
Lease liabilities	74.9	50.5
Current tax liabilities (overseas)	0.5	0.2
Net deferred tax liability	86.0	7.5
Subordinated loan notes	39.9	39.9
<b>Total liabilities</b>	<b>2,874.2</b>	<b>2,812.4</b>

Equity	31/12/23 (£'000)	31/12/22 (£'000)
Called up share capital	5.4	3.2
Share premium	312.3	310.0
Merger Reserve	824.4	77.0
Own shares	(55.6)	(52.6)
Retained earnings	263.7	297.2
<b>Total equity</b>	<b>1,350.2</b>	<b>634.8</b>

<b>Total liabilities and equity</b>	<b>4,224.4</b>	<b>3,447.2</b>
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# IMPORTANT INFORMATION

**The value of investments and the income from them may go down as well as up and you may not get back your original investment. Past performance should not be seen as an indication of future performance. Changes in rates of exchange between currencies may cause the value of investments to decrease or increase.**

Information valid at date of presentation.

Tax regimes, bases and reliefs may change in the future.

Rathbones Group Plc is independently owned, is the sole shareholder in each of its subsidiary businesses and is listed on the London Stock Exchange.

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