

Asset Management

Key Financials¹

	2022 £ million	2021 £ million	Change %
Investment management	110.4	102.9	7
Advice and other services ²	36.1	36.4	(1)
Other income ³	1.5	0.1	n/a
Operating income	148.0	139.4	6
Adjusted operating expenses	(126.3)	(115.9)	9
Impairment gains on financial assets	–	0.2	n/a
Adjusted operating profit	21.7	23.7	(8)
Revenue margin (bps)	87	91	
Operating margin	15%	17%	
Return on opening equity	28.6%	31.7%	

- 1 Adjusted measures are presented on a basis consistent with prior periods and exclude amortisation of intangible assets on acquisition, to present the performance of the group's acquired businesses consistent with its other businesses; and any exceptional and other adjusting items which do not reflect underlying trading performance. Further detail on the reconciliation between operating and adjusted measures can be found in note 3.
- 2 Income from advice and self-directed services, excluding investment management income.
- 3 Other income includes £1.4 million gain on disposal of an advised client book.

Movement in Client Assets

	31 July 2022 £ million	31 July 2021 £ million
Opening managed assets	15,588	12,594
Inflows	2,330	2,284
Outflows	(1,486)	(1,367)
Net inflows	844	917
Market movements	(1,130)	2,077
Total managed assets	15,302	15,588
Advised only assets	1,272	1,435
Total client assets¹	16,574	17,023
Net flows as % of opening managed assets	5%	7%

- 1 Total client assets include £5.9 billion of assets (31 July 2021: £6.0 billion) that are both advised and managed.

Continuing to Build on a Long Track Record of Growth

Close Brothers Asset Management provides personal financial advice and investment management services to private clients in the UK, including full bespoke management, managed portfolios and funds, distributed both directly via our advisers and investment managers, and through third party financial advisers.

Adjusted operating profit in CBAM decreased 8% to £21.7 million (2021: £23.7 million), driven by negative market movements which adversely impacted revenue in the second half of the year and higher staff costs. The operating margin reduced to 15% (2021: 17%). Statutory operating profit before tax was £19.8 million (2021: £22.4 million).

Total operating income grew 6% to £148.0 million (2021: £139.4 million), reflecting positive net inflows and market movements in the first half of the year, despite falling markets and their impact on wider client sentiment in the second half of the year. The revenue margin reduced to 87bps (2021: 91bps) reflecting lower investment management margins as flows have included a higher proportion of lower margin products.

Adjusted operating expenses increased 9% to £126.3 million (2021: £115.9 million), driven by higher staff costs, primarily reflecting the current inflationary environment and new hires, as we continue to invest to grow the business. As a result, expense/income ratio grew to 85% (2021: 83%) with the compensation ratio remaining in line with the prior year at 56% (2021: 56%).

We have been investing in technology in the business and recently completed a major re-platforming project to rationalise legacy systems and increase efficiency, while adding a digital portal to improve functionality and customer experience. Our technology projects have been focused on increasing efficiency and operational resilience, improving client experience by using best-of-breed applications, digital technology and selective in-house development.

Continued Positive Net Inflows, Despite Volatile Market Conditions

Equity markets have experienced a mixed performance during the financial year. In the second half of the year, a global equity market sell-off led to largely unfavourable conditions, with some major indices suffering near-unprecedented declines. Although concerns over continued inflation and geopolitical uncertainty continue to weigh on markets and adversely impact investor sentiment, we saw net inflows of £844 million for the year, delivering a net inflow rate of 5% (2021: 7%).

Total managed assets decreased 2% to £15.3 billion (2021: £15.6 billion), as negative market movements of £1.1 billion more than offset net inflows. Total client assets, which includes advised and managed assets, reduced by 3% overall to £16.6 billion (2021: £17.0 billion).

Fund Performance

Our funds and segregated bespoke portfolios are designed to provide attractive risk-adjusted returns for our clients, consistent with their long-term goals and investment objectives. Fund performance over the 12 months since 31 July 2021 has been mixed, reflecting volatile markets across asset classes since the start of 2022. As a result, all our funds have delivered negative absolute returns over this period. In relative terms, eight of our 15 funds have outperformed their relevant peer group averages. Our bespoke strategy composites have outperformed their respective peer groups in a falling market environment, except for the Equity Risk strategy, which was the most impacted by the 2022 market falls.

Our Approach to ESG and Sustainability

ESG integration in our investment research and stewardship remains a key area of focus and we continue to expand our Responsible Investment team.

Our sustainable funds (Close Sustainable Balanced Portfolio Fund and Close Sustainable Bond Portfolio Fund), launched in 2020 to complement the existing SRI discretionary service, are gaining traction and we continue to develop our sustainable proposition as more of our clients look to how they can make a difference with their investments.

We have mobilised a Sustainability Programme with dedicated initiatives to embed the Principles for Responsible Investment (“PRI”) and stewardship across all facets of our business, and as part of this, have recently become a signatory to the UK Stewardship Code.

CBAM will be making a commitment to actively contribute towards the UK government’s net zero climate goals, through the Net Zero Asset Managers initiative. In line with our regulatory reporting obligations and desire to be transparent in fulfilling our commitments, we are also working towards aligning our disclosures with the TCFD recommendations by 2024.

Well Positioned for Future Growth

We remain confident that our vertically integrated, multi-channel business model positions us well for ongoing demand for our services and the structural growth opportunity presented by the wealth management industry.

Our focus remains on providing excellent service to our clients whilst investing in new hires to support the long-term growth potential of our business. While CBAM is sensitive to financial market conditions, we remain committed to driving growth both organically and through the continued selective hiring of advisers and investment managers, and through in-fill acquisitions.

As previously announced, Eddy Reynolds took over the leadership of the Asset Management division from Martin Andrew in March 2022. Eddy has over 30 years’ experience in the fund and wealth management industries and has brought with him outstanding experience and knowledge to lead our talented team at CBAM.

CONTINUING TO BUILD ON A LONG TRACK RECORD OF GROWTH