

Asset Management

Maximising long-term growth potential



Key Performance Indicators

Net Inflows

Per cent of opening AUM

2021	7
2020	9
2019	9

Operating margin

Per cent

2021	17
2020	16
2019	18

Return on opening equity

Per cent

2021	32
2020	29
2019	32

Revenue margin

bps

2021	91
2020	94
2019	93

Asset Management achieved good net inflows despite reduced face-to-face interaction with clients and continued to invest to support long-term growth.

Continued Focus on Maximising Long-Term Growth Potential

The Asset Management division provides 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 own advisers and investment managers, and through third party financial advisers.

Equity markets have gained significantly over the year, following the lows of the early Covid-19 impact, as the actions of central banks and vaccine rollout programmes have improved confidence. Despite the improving market conditions, lower new client flows have been seen across the industry, as the ongoing impact of Covid-19 and reduced face-to-face interaction impacted client sentiment and inflows. Nevertheless, we performed well in the year, generating good net inflows of 7% and growing managed assets 24% to £15.6 billion.

Adjusted operating profit increased 16% to £23.7 million (2020: £20.4 million), as the growth in operating income more than offset the cost of continued investment in supporting the long-term growth potential of the business. The operating margin increased marginally to 17% (2020: 16%). Statutory operating profit before tax was £22.4 million (2020: £19.3 million).

Total operating income increased 9% to £139.4 million (2020: £128.2 million) as higher management and advice fees were generated from the growth in assets under management. The revenue margin decreased to 91bps (2020: 94bps) primarily driven by a higher level of flows into our lower margin products and lower initial advice and dealing fees.

Adjusted operating expenses increased 8% to £115.9 million (2020: £107.7 million) primarily driven by new hires, in line with our growth strategy, and an increase in performance-related compensation, as well as investment in our technology and systems.

Total managed assets

£15.6bn

2020: £12.6bn

As a result, the compensation ratio increased slightly to 56% (2020: 55%) and the expense/income ratio decreased to 83% (2020: 84%).

As we continue to invest in the business to deliver growth and scale, the cost trajectory will depend on the rate of hiring, with investment in technology projects expected to continue.

Good Net Inflows

Although equity markets have improved over the year, the ongoing impact of Covid-19 has influenced sentiment and inflows across the industry. Despite this, we achieved good net inflows of £917 million and a net inflow rate of 7% of opening managed assets. This reflected continued demand for both our investment management and integrated wealth services as well as good momentum from our recent portfolio manager hires, aided by improved conditions and confidence in the market.

Stronger equity markets meant positive market movements contributed £2.1 billion to managed assets in the year. The combined impact with positive net inflows resulted in managed assets increasing 24% overall to £15.6 billion (31 July 2020: £12.6 billion). Total client assets increased 24% overall to £17.0 billion (31 July 2020: £13.7 billion).

In July, we completed the acquisition of PMN Financial Management LLP ("PMN"), an IFA business with approximately £300 million of client assets. PMN's partners, advisers and support team joined CBAM as part of the acquisition, as we continue to deliver on our growth strategy of making selective infill acquisitions. The acquisition is reflected in CBAM's advised only assets, but has had no impact on managed assets in the 2021 financial year, although we would expect migration to our investment management services over time.

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 has been mixed over the last year, reflecting volatile equity markets. Over the three-year period to 31 July 2021, eight of our 14 multi-asset funds outperformed the relevant peer group average, with nine of the 14 funds outperforming over the five-year period to 31 July 2021. Our bespoke strategy composites continued to perform well, largely outperforming their respective peer groups over a one, three and five-year period, demonstrating a strong track record.

Key Financials¹

	2021 £ million	2020 £ million	Change %
Investment management	102.9	91.4	13
Advice and other services ²	36.4	35.5	3
Other income ³	0.1	1.3	(92)
Operating income	139.4	128.2	9
Adjusted operating expenses	(115.9)	(107.7)	8
Impairment (losses)/gains on financial assets	0.2	(0.1)	(300)
Adjusted operating profit	23.7	20.4	16
Revenue margin (bps)	91	94	
Operating margin	17%	16%	
Return on opening equity	31.7%	28.7%	

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 net interest income and expense, income on principal investments and other income. Other income includes a £1.1 million gain on disposal of non-core assets in the 2020 financial year.

Movement in Client Assets

	31 July 2021 £ million	31 July 2020 £ million
Opening managed assets	12,594	11,673
Inflows	2,284	2,350
Outflows	(1,367)	(1,257)
Net inflows	917	1,093
Market movements	2,077	(172)
Total managed assets	15,588	12,594
Advised only assets	1,435	1,118
Total client assets¹	17,023	13,712
Net flows as % of opening managed assets	7%	9%

1 Total client assets include £6.0 billion of assets (31 July 2020: £5.1 billion) that are both advised and managed.

Our Approach to ESG and Sustainability

Sustainable investment strategies remain a key focus area across the industry and our Socially Responsible Investment proposition continues to be well received. We have also launched two new sustainable funds this year (Close Sustainable Balanced Portfolio Fund and Close Sustainable Bond Portfolio Fund) which are gaining good traction.

Earlier this year we became signatories to the UN-supported Principles for Responsible Investment, further demonstrating our commitment to improving the way we measure, report and manage ESG issues throughout our investment activities. We have established a dedicated sustainability committee with oversight of the division's strategy, governance, reporting and operating model with regard to sustainability, and are developing a sustainable proposition for our bespoke investment managers to further embed ESG considerations into our offerings.

Well Positioned for Future Growth

We have remained committed to providing excellent service to our clients, and in spite of the challenges presented by Covid-19 and reduced face-to-face interactions, we have maintained high levels of contact with clients via email, telephone, video, our online portal and our mobile app.

We continue to invest in new hires and technology to support the long-term growth potential of the business and, during the year, have made significant progress in upgrading and consolidating our technology platform, which should further enhance our operating efficiency and improve its capacity, scalability and resilience, as well as providing client experience benefits.

Our vertically integrated multi-channel business model leaves us well positioned to benefit from proven, continued demand for our services and the structural growth opportunity presented by the wealth management industry. Given the attractive opportunities we see in the market, we will continue to invest to support the long-term growth potential of the business and to drive growth both organically and through the continued selective hiring of advisers and investment managers, and through infill acquisitions.