Sixth consecutive year of growth

The resilience and predictability of our business model have driven a strong performance for the year and we are continuing to focus on our strategy to be the best provider of all services to the UK pensions market.

Sixth consecutive year of growth
A year of record revenues, record dividends, a strategic bolt-on acquisition, multiple award wins, a strong culture with excellent employee feedback sustainably delivered including carbon neutrality – shareholders would be forgiven for thinking they are reading last year's Co-CEO Statement. There's even another five-year anniversary to mention. It is true all the above were milestones achieved during the year ended 31 March 2022 but 12 months on and many of those same achievements have been repeated, and in many cases bettered. This is testament to the successful execution of the strategy we have pursued since we listed to deliver our societal purpose.

Record revenues: the year ended 31 March 2023 saw a record 20% increase in year on year revenues to £166.6 million, of which 17% was organic growth.

Record dividends: the Board is proposing a 17% increase in the ful-year payout to 8.4p per share.

Strategic acquisition: this year we acquired Penfida, a leading covenant adviser to UK pension funds. Just as the previous year's acquisition of Michael J Field brought scale to our SIP division, Penfida has done the same for our existing employer covenant practice. Together with our award-winning Administration, Actuarial and Investment Advisory divisions, XPS is now a one-stop shop of scale for all services needed by pension trustees and sponsoring employers.

Multiple awards: we won arguably the three most important awards at the 2022 Professional Pensions' UK Pensions Awards – Third Party Administrator of the Year; Actuarial and Pensions Consultancy of the Year (second consecutive year); and Investment Consultancy of the Year (second consecutive year). This represents the first time all three of these categories have been won outright by one company in the same year – third-party validation of our continued excellence in client service and innovation. Our SIP business also won Best SIP Provider at the Moneyfacts awards.

Carbon neutral: for the second year in a row, our activities have been carbon neutral, just one example of how we strive to do business sustainably. This has been achieved through a combination of a reduction in our direct footprint and the purchase of high-quality carbon offsets. Fostering a strong and caring culture is another, and with this in mind it is encouraging to note that 98% of our people rate XPS a good place to work.

Fifth anniversary: 2023 marks the fifth anniversary of the launch of XPS as a new brand in the market with clear objectives to be the best for people and for clients.

By developing content, investing in people and innovating consistently, our brand has grown stronger each year ever since, so that five years on we are reporting revenues of £166.6 million. Furthermore, this 60% revenue growth has been

Paul Cuff
Co-Chief Executive Officer

Ben Bramhall
Co-Chief Executive Officer

achieved during a period which included the pandemic, heightened macroeconomic uncertainty and decades-high inflation, evidence of our non-cyclical, all-weather end markets – our defined benefit (DB) and defined contribution (DC) pension scheme clients require our advice and services regardless of the prevailing economic environment.

The progress made is also down to our people. Without their commitment and expertise, becoming the first company to win all three key awards at the 2022 Professional Pensions' UK Pensions Awards while reporting a sixth consecutive year of growth would have been impossible.

Record financial performance

Total Group revenues for the year ended 31 March 2023 came in at a record £166.6 million, a 20% increase on FY 2022's £138.6 million. Of this, 17% of the growth was organic.

The record revenues represent a step-change compared to the mid-to-high single-digit revenue growth we have reported for each of the years since our listing. This is partly down to higher inflation being passed through to clients and onboarding of new client wins but is also due to a considerable amount of regulatory and market change – the two chief drivers of activity in our client base. The record revenue performance can also be attributed to the scaling up of our platform into high-growth areas – the product of investment in staff, technology and acquisitions to respond to these market and regulatory changes. Because of this, we are now able to service larger pensions schemes and offer a wider range of value-add services. The increased scale of our capabilities is being reflected in our financial performance, a trend we expect to continue going forward.

In the past, the investments we have made in our business have meant growth in earnings has not outpaced revenues. Last year, we reported a significant narrowing in this historical revenue and earnings gap. We also stated that we expected this metric to improve further in the years ahead as our efficiency drive and investment into higher-growth areas increasingly translated into higher margins. This has proven to be the case with FY 2023 adjusted EBITDA increasing 24% to £42.4 million (FY 2022: £34.1 million); statutory profit before tax rising 13% to £19.1 million (FY 2022: £16.9 million); and adjusted diluted EPS up 24% to 12.6p (FY 2022: 10.2p). The improved profitability and continued confidence in future prospects has enabled us to propose a 17% increase in the full-year dividend, another record.

Divisionally, Advisory (comprising Pensions Actuarial & Consulting and Pension Investment Consultancy) was the top performer with full-year revenues growing 26% to £95.4 million (FY 2022: £75.9 million), while Administration increased revenues 10% to £57.5 million (FY 2022: £52.3 million).

Pension Actuarial & Consulting revenues grew 24% to £77.4 million (FY 2022: £62.2 million) thanks to inflationary fee increases, new client wins such as BT Group plc contributing for a full year and elevated levels of activity centred around regulatory/market-driven dynamics. Risk transfer work was a stand-out performer with revenues rising sharply to £6.4 million compared to £1.5 million the previous year thanks to big new mandate wins. This follows the appointment of a Head of Risk Settlement and further team hires in 2022.

Pension Investment Consulting has also been a beneficiary of new business wins. Increased demand from clients for support in navigating regulatory and financial market upheaval (including the gilts crisis in autumn 2022) has also been a tailwind, as has inflation-aligned fee increases. In all, YoY revenues grew 31% YoY to £18.0 million (FY 2022: £13.7 million).

Pension Administration revenues rose 10% to £57.5 million (FY 2022: £52.3 million) helped by new client wins including Peugeot and BAA and a full year of our outsourced contract with IBM. The wins saw the number of members we have under administration surpass the one million mark for the first time. We see further growth opportunities within Administration and continue to invest in our capability here. For example, this year we successfully developed our own proprietary Administration platform which, as well as giving us greater control, will drive efficiencies and differentiate us as we look to win further mandates.

SIP revenues benefited from a full-year contribution from the acquisition of the Michael J Field SIPP and SSAS books, as well as strong organic growth and the higher bank base rate. Overall, SIP revenues rose 54% to £9.4 million (FY 2022: £6.1 million). We continue to expand the distribution channels for our SIPP offering and we were recently added to the panel of recommended SIPP providers for St James' Place, one of the UK's leading financial advisers. We view our inclusion on the panel as a major endorsement of our SIPP offering.

> It was a year of extraordinary change in financial markets, with rising interest rates and inflation posing significant challenges for our clients. I am very proud of how well we served our clients throughout.
>
> **Paul Cuff**
> Co-Chief Executive Officer

> We have delivered strong growth ahead of expectations, showing the highest operating result since our listing in 2017.
>
> **Ben Bramhall**
> Co-Chief Executive Officer

Record financial performance continued

National Pensions Trust (NPT), our defined contribution (DC) master trust, posted another year of growth in assets under management (AUM) which grew 8% to £1.4 billion (FY 2022: £1.3 billion), while revenues came in flat at £4.3 million (FY 2022: £4.3 million) driven by lower asset prices early in the financial year as well as competitive price pressures. Growth in AUM was driven by an increase in client numbers to 152 during the year but was suppressed a little by reductions in asset prices.

Four core strategic pillars to capture growth in our all-weather markets

Our markets are driven by regulatory and market change rather than by economic cycles – pension schemes require support to navigate the ever-changing regulatory/market landscape, which leads to increased demand for services and in turn market growth. Our markets are therefore all-weather and to capture the regulatory and market-driven growth, we have in place four core strategic pillars:

1. Regulatory change as a driver of activity
2. Growth through expanding services
3. Growing market share
4. Growth through M&A

Every time a regulatory change is made, pension schemes require bespoke advice and guidance on how the change affects them. Examples of this in action include the November 2020 GMP equalisation ruling which stipulated that companies rectify the unequal treatment of men and women who were members of pension schemes in the 1980s and 1990s. The ruling triggered a work stream that did not exist prior to November 2020 and will take years to complete. Further regulatory change is on the horizon. The Single Code of Practice, which is focused on trustees' governance requirements, is expected to come into force later this year or in early 2024.

Compared to regulations, market-driven change has been relatively muted in recent years thanks to the prevalence of low interest rates. Low interest rates have had a largely negative impact on schemes' financial positions, but the stable environment meant strategy/advice did not require frequent resets. All this changed in 2022 with aggressive rate hikes to tackle inflation causing a paradigm shift in interest rates.

> I look forward to the year ahead, knowing that the talent and commitment of our people, and the operational and financial strength of our business, put us in a good place to meet the expectations of our stakeholders.

Paul Cuff
Co-Chief Executive Officer

By reducing pension scheme liabilities, higher interest rates are generally positive for pension schemes – we estimate in aggregate schemes moved from a deficit of around £300 billion at the start of 2022 to a surplus of around £60 billion by the end of the year. This was a positive move for many of our clients, but one that has generated much work for pension schemes. Clients have needed wide-ranging advice on the consequences for them specifically, with many seeking support to lock in improvements through changes in their investment strategy. In some cases employers have sought to reduce their cash commitments towards deficits. This has caused a major uptick in work, as all of our clients have needed to reassess the 'journey plans' they have in place. We expected to remain busy supporting clients for the foreseeable future, particularly against the backdrop of evolving regulations.

Another consequence of the increase in long-term interest rates is that bulk annuities, insurance policies purchased by defined benefit schemes to secure members' benefits, have become more affordable for many schemes. The bulk annuities market has grown in recent years as pension schemes have sought to de-risk and transaction volumes are expected to rise further, from around £30–40 billion a year to £50–60 billion a year in 2024 and beyond. High interest rates are expected to spur this further growth, as financially healthier pension schemes re-evaluate de-risking options. This will generate more work for our Risk Transfer team, which provides all the support required including broking insurance transactions and all of the 'behind the scenes' additional work that is required, which typically includes complex data cleansing projects. We expect tangential growth opportunities to open up too; one such opportunity is working more closely with insurance companies that take on the liabilities of pension schemes in these transactions. Insurers are resource constrained and frequently outsource to meet some of their needs and we therefore see considerable scope to expand our footprint here.

Aside from higher interest rates, the Liability Driven Investment (LDI) crisis was the standout market development of 2022. LDI allows pension schemes to hedge against volatility and financial risk caused by moves in interest rates. If these risks are not hedged the risks can be material – for a typical scheme a 1% fall in interest rates could increase the mark to market value of the scheme's liabilities by 25%, all else being equal, which can put huge pressure on cash funding requirements and company balance sheets. LDI funds have protected schemes from sharply widening deficits as interest rates fell during the last 20 years. What triggered the 2022 crisis was the speed of interest rate moves – bond yields rose 1% in the space of three days causing bond prices to fall 25%. Whilst in terms of funding levels this resulted in an improvement of the financial position of many schemes it put LDI funds under stress, with many facing significant liquidity challenges. Clients needed advice to navigate the crisis. This gave us a real chance to differentiate ourselves and we are very proud of how well we looked after our clients.

Despite the crisis, LDI continues to have an important role to play, particularly in helping to protect the improved financial position many pension schemes find themselves in today. There are learnings to be had though. Schemes need to ensure they invest in sound LDI funds with strong controls and more oversight is required. Post-crisis, we are offering an enhanced LDI reporting and oversight service that is open to schemes, including those that are not clients – a further example of market changes giving rise to growth opportunities and our response to it.

M&A is a route to growing market share, and/or addressing any gaps in our capability. This year we acquired Penfida, a firm that specialises in 'employer covenant' advice – this is advice that pension trustees need about the strength of the sponsoring employer that stands behind the scheme. We had a team in this area of work, but it was small – the addition of Penfida brings scale to our existing offering, in the one remaining area in the pensions business where our presence had been sub-scale. We will continue to look at M&A and partnership opportunities which we believe make strategic sense as well as those that allow us to expand into tangential markets, for example, around support for insurers.

We value our people

Our revenues are not the only area seeing growth. So too is the number of our people. The year under review saw our numbers increase by a further 200 so that today our employee count stands at over 1,600. Regardless of how many we are, we take our responsibility to every one of our people seriously. Our people work hard for the Group and the Group must work hard for our people. This is why we have a growing number of employee committees and networks as part of our inclusion and diversity ('I&D') drive so that all our people feel they are a part of XPS regardless of background, gender or ethnicity. It is why we introduced our flexible working model, My XPS My Choice, last year and why, during the year under review, we awarded an additional mid-year pay rise to all staff (apart from those in senior positions) in response to the cost-of-living crisis.

We are proud of our eNPS of +33%, a very high score for a professional services firm, and that 89% of our people think we are truly committed to I&D. We will continue to work hard for our people, caring for their wellbeing, supporting their many volunteering efforts and providing opportunities for career progression. Not only is this the right thing to do but it also helps attract and retain talented people.

Everyone at XPS plays a part in the continued success of the Group. One individual who has played an invaluable role in XPS's success to date is Tom Cross Brown, who was our Chairman until September 2022. Tom had held the Chair since our listing and has therefore overseen tremendous change at the Company. We thank him wholeheartedly for the substantial contribution he has made over the years and we and the rest of the Board wish him all the best with his retirement.

We value our environment

Environmental and climate considerations shape our strategy and culture. We are proud of the growth we have achieved to date but we are equally proud of our efforts to ensure we grow in a sustainable way. The year under review was the second in which XPS has been a carbon-neutral business. We have reduced our emissions and additionally as with last year, we achieved this by purchasing UN Approved Carbon Credits that cover our own Scope 1 and 2 emissions, as well as Scope 3 emissions produced by our suppliers.

Carbon neutrality is not the sum of our ambitions. Our ultimate aim is to achieve a significant reduction in our direct carbon footprint which we aim to accomplish as part of our science-based net zero objective, which we committed to in 2023. Our pledge includes ambitious targets to halve our operational Scope 1 and 2 emissions by 2030, sourcing 100% renewable energy in all our offices, while promoting a low-carbon culture amongst our staff and suppliers. Ultimately this can support our ambition of reducing all emissions to net zero by 2050.

Outlook

The FY 2023 results demonstrate the non-cyclical, resilient and predictable nature of our business and the opportunities for growth. Our brand has strengthened further in the year with multiple awards, we have won further new mandates and have achieved high levels of client and staff satisfaction. The investments we have made into high-growth, high-margin areas are increasingly being reflected in our earnings.

We expect the demand for our services to remain high as we help our clients navigate the complex and evolving regulatory backdrop as well as economic and financial market developments. We have continued to grow market share, but with this still under 10% there are continued opportunities to grow, supported by both market and regulatory tailwinds. We expect the operational gearing that has come through this year to be a continued feature of our results in the future.

The Group has made a strong start to the new financial year with continued high levels of demand for our services particularly within Advisory and further success in winning new business. We remain confident in delivering against our expectations for the current year.

Paul Cuff
Co-Chief Executive Officer
21 June 2023

Ben Bramhall
Co-Chief Executive Officer
21 June 2023