

# Schroders plc

## Full-Year 2015 Results

**Michael Dobson**  
**Chief Executive**

Good morning and welcome to Schroders. You've seen our announcements this morning on the results and on the Board and senior management changes. I'm going to run through the highlights and then Richard Keers will run through some of the numbers in more detail and then we will take questions at the end.

So in what was quite a challenging year, particularly in the second half, Schroders had a very strong 2015, record revenues, record profits and a record high in year-end assets under management. And I think all this stems from the highly diversified business we've been building over the last 10 or 15 years, which has stood us in such good stead.

Revenues were up 7%, at nearly GBP1.7bn. Profit before tax and exceptional items was up 8%, at GBP609.7m. Profit before tax after exceptionals was up 14%, at GBP589m. The Board is recommending an increased final dividend which would result in a 12% increase in the dividend for the year as a whole to 87p per share. We did net new business of GBP13bn in the year. And our AUM ended 2015 at GBP313.5bn.

We also announced this morning some important Board and Senior Management changes. Peter Harrison will succeed me as Chief Executive at the beginning of April. I will succeed Andrew Beeson as Chairman at the same time. And Massimo Tosato we've announced will be leaving the firm at the end of this year. I'm delighted that Max will stay on for the balance of 2016 to work with Peter on the transition of his responsibilities.

So looking at the asset management business in a bit more detail, GBP32bn of new mandates in our institutional business in 2015. That's the highest ever level, if you exclude the exceptional year before with the Friends Life mandate this is the highest level of new mandates we've ever won in our institutional business. Net inflows of GBP8.8bn. A particularly strong performance in Asia and in the UK in terms of new business.

A year of transition in the United States. We had about GBP500m of net outflows in the US. This is on the back of commodities in particular. We've talked about that here before, an asset class under particular pressure. And we've seen some continuing commodities outflows. We think they're coming close to an end, but we've seen a bit of that in 2015.

Some outflows in global equities as well and, again, we've talked about that. This is the residual of some performance challenges going back four or five

years. We've changed -- we've made some important changes to the leadership of that team. We now have much better performance and I believe a business that will be a major engine of growth in the future for the firm. But in the 2015 we saw some, a few minor outflows in that business, which we also think has pretty much come to an end.

We've said to you before, we think the United States, which, together with Latin America, accounts for 12% of our total business, we see this growing to 20% over the next few years. We believe that the US is positioned extremely well. And the small outflows in the last year or two, a number of one-off reasons for that, which we think we're pretty much through. And we are very pleased with the positioning of that business for growth going forward, so I wouldn't for one second back off what I said to you in the past, namely I do believe the US will get to about 20% of our total business in the next few years.

We had very significant business in fixed income, GBP7bn of net new business in institutional with fixed income last year. And in multi-asset again, GBP4.4bn.

Looking at the intermediary business, GBP4.3bn of net inflows for the year as a whole. That was GBP4.8bn in the first half and GBP500m of outflows in the second half of [2015] as we encountered more difficult markets and reducing investor demand, particularly in terms of redemptions. Our gross sales actually held up pretty well, but we saw a high level of redemptions in the second half of the year.

Very significant flows in Asia Pacific, all concentrated in the first half. The third quarter in Asia was particularly tough in intermediary, with the dislocation in the Chinese equity market, which spilled over, particularly into Hong Kong and Taiwan. And we suffered a bit from that.

And then Continental Europe was also strong for us, and we actually generated net inflows in Continental Europe in the second half. So a strong first half in Continental Europe, but unlike Asia, no turnaround into modest outflows. But continuing net inflows in Europe in the second half of the year.

The flows were well diversified across Fixed Income, Multi-asset and Equities, GBP2.1bn of net inflows in Fixed Income, GBP1.7bn in Multi-asset and GBP1.4bn in Equities.

And we continue to actively manage our product range. This is an ongoing part of our process here. We manage the product range very actively year by year. We had 47 fund launches during the year, 18 in Equities, 11 in Fixed Income, 9 in Multi-asset. And we've closed 40 funds in 2015 because they became too small or just lack of demand going forward.

Looking at the equities business, assets under management now, just under GBP130bn. We had GBP1.7bn of net inflows in what I would call our core fundamental equities business. Particularly strong flows in Japanese Equities, at GBP2.4bn net, and in European Equities at GBP2.1bn.

Despite the dislocation in emerging markets, we had small net inflows in our emerging markets business, which continues to do very well.

Outflows in UK Equities was the biggest one, about GBP1.4bn. And then some small outflows in global and Asian equities, but we're talking just low hundreds of millions in each case.

So GBP1.7bn of net inflows in our fundamental equities business, but offset by GBP2.5bn of outflows in quant equities. This is a business that we've grown very successfully to in excess of GBP20bn, very rapid growth three, four years ago.

Recently we've had these outflows for two reasons. First of all, one of the biggest strategies in this category is value, which has obviously suffered in the market generally. We're actually seeing a bounce in value now in 2016, so there's been some -- some of it has been related to that.

But more importantly, we won some very big mandates three or four years ago from single clients, multi-billion pound mandates. And we knew that this was going to be a transition stage before they appointed other managers alongside us and that they would then pull some of that money, and that's been happening. The relationship continues. It was simply they were parking some of these funds with us while they assessed their other manager line-up before making some other moves.

Our quant business I think is in great shape and I do believe it'll return to a growth tack pretty soon. So we don't see any challenges or problems with this, but that did account for the overall result, which was a small net negative in equities overall in 2015.

GBP6.2bn of net new business in Multi-asset, which is now up to GBP78bn of assets under management. Very diversified in Institutional and Intermediary, so good net sales in both channels. And diversified across four outcomes, broadly; risk mitigation, which is essentially LDI; risk controlled growth, our diversified growth funds, which have continued to be very successful; income, which has been a big thing for us; and inflation protection.

We are looking at a number of new initiatives in what I would call liquid alternatives. Our GAIA platform, which is our UCITS hedge fund platform, where we have external managers and Schroders' managers on that platform, is now over USD4bn. And we had some interesting new fund launches last year and we have some others in the pipeline for 2016.

A very strong year in Fixed Income. I've talked to you in the past about the effort we're putting behind our Fixed Income business, investing behind, strengthening the talent base, improving processes, diversifying strategies. This has been a big thing for us in recent years and it's very good to see it paying off so well.

2014 was a very good year for us and 2015 has been even better, GBP9.1bn of net new business, diversified across a number of different strategies, in particular US and European bond beta. This is buy-and-hold, long-term, quite significant bond mandates. Global multi-sector. UK and European credit, where we have an outstanding track record and I think great traction. EMD relative return, this is separate to our absolute return business. This is a

business we started in New York three or four years ago and we've seen good flows in the asset class in 2015. And also Asian bonds.

We have a number of new fund launches coming up, in particular a European credit absolute return fund, which we're very enthusiastic about building on our capability in European credit, which we think will do well.

Last year we started an infrastructure debt capability for the first time in this firm in France, and we've won our first clients. And this is an interesting I think diversification for our fixed income business. And we're looking for other opportunities in this regard in ABS, MBS, asset-backed securities and potentially in loans, which we are quite likely to do we think in the next few quarters.

Turning to Wealth Management, net revenues were GBP207.1m, but you should remember that there was GBP9m of one-off performance fees and loan loss provision write-backs in the 2014 number. So underlying, net revenue's up about 2% on the year.

Profit before tax and exceptionals, again headline flat at GBP61.3m. But most of that GBP9m of one-off revenues will have fallen to the bottom line, so the underlying increase in profit is around 15% or so. Richard Keers will talk more about that in a second.

So the financial trend I think is coming through well. The cost control has been very good, Cazenove synergies have been delivered, and we're pleased with where we are from a financial point of view.

And we've hit our 70% cost/income ratio target, which I've talked to you about in the past. We are now there. And that is a blend of something like 65% in our UK business and a higher number in our small, in some cases, ex-Switzerland, very small international wealth management businesses, which are more in the startup or growth phase. So we're pleased to hit that cost/income ratio target.

We had net inflows in the UK of GBP200m. A slowdown in the second half I think around markets, around volatility, around private clients being slower to make decisions.

And we also, as always, suffer from the fact that in our charities business, which is part of wealth management, and particularly in our ultra-high-net-worth family-type clients, we're seeing a consistent drawdown of income or other funds to fund outgoings. So we reckon that at the beginning of each year we probably have 1% to 2% of assets under management which will be drawn down during the year. This is not losing a client relationship. This is charities spending money, private clients maybe giving money away or spending it. And so we have that headwind every year in our business.

I don't know that all other managers report these numbers in this way, but we include this in our fund flows. So if someone's drawing down income we include that as a net outflow. So you should bear in mind that -- I don't think it's necessarily consistent across the industry -- we're starting with a 1% to 2% negative drawdown just to fund expenditure. Nothing to do with a lost client relationship.

The first half was good for us in the UK. We did GBP400m of net new business. The second half, we saw net withdrawals, for the two reasons I've mentioned. But first half we were absolutely on our long-term growth target for that business.

In Switzerland we had GBP300m of net outflows. And this I think is pretty much the end of our restructuring phase in Switzerland. As you know, the offshore private banking market is basically gone. We've been restructuring our business. We've been managing out some clients, so some of these flows, our choice, moving away from clients that did not fit our business going forward. And I would hope that that process is now pretty much at an end, and we may look to flat flows in Switzerland this year before resuming the growth tack thereafter.

Overall for our Wealth Management business, we see good growth opportunities in the UK. We have an excellent position here, built on the strengths of Cazenove and Schroders. We're going to be more I think ambitious in terms of getting our message out to the market. I think we need to be more active. The process of integration has been very well managed, virtually no client losses, no talent losses. We haven't missed a beat. People have seen the logic of that combination and now we need to take that message in an ambitious way to the marketplace because I think we have an exceptional client offering when I look at alternatives out there.

So we have -- long term. This is not going to result short term in a significant pickup in organic growth, but I think long term we remain very positive about the growth potential for that business.

And in our overseas businesses, Switzerland being reshaped. The small business in Italy, Hong Kong and Singapore, potentially growth potential there. So we see Wealth Management as having delivered very satisfactory financial returns. And then longer term now, we're looking for higher levels of organic growth.

I'm going to hand -- no, I'm not. I'm going to go over one other thing, not unimportant.

We've talked this time really in more detail than usual about some of our associates, joint ventures and partnerships. This has been quite an important part of our strategy for the last 10 years, which is to say we see significant growth opportunities in our own core business. But we also wanted to partner with other firms to enter new markets, to complement an existing presence, to extend our investment capabilities or just as a financial investment.

And I've given you some examples here under each of those categories, starting with our joint venture, which serves principally retail clients in China, Bank of Communications Schroders. Assets under management in that entity are now in excess of GBP45bn. We do not include that number in our reported assets under management. And our share of after-tax profit on our 30% shareholding, our share is GBP11.1m. So it's been a highly successful venture over the last 10 years, significant growth. And we see, with a very strong partner, a very interesting ongoing opportunity in what is a massive market.

We've pursued a very similar strategy in India, this time with the third largest private sector bank, Axis. We own 25% of their asset management business. And since we bought it, which was only about two or three years ago, assets under management have moved from GBP1.2bn to GBP3.6bn. We're just about now top 10. And we think that Indian mutual fund market, long term, is going to be a very interesting opportunity.

We have a close partnership with Nippon Life. We have joint ventures in Singapore and London and a very good relationship in Tokyo. And this really complements our own existing business in Japan, which is a very significant and very rapidly growing capability.

We've done some partnerships recently in terms of extending our investment capabilities, first of all in insurance-linked securities with a Swiss company called Secquaero, where we took a minority stake. We've just increased that now to 50.1%. And in the two years since we've owned that we've taken assets under management from GBP200m to GBP1.3bn, leveraging our much strong distribution capability.

We did something similar in Switzerland in convertibles three or four years ago. We then brought that capability in-house and we now have our own convertibles capability.

And as I said earlier, we're looking at something very small, but I think potentially interesting in the loan space, which will be complementary to our existing fixed-income capabilities.

And then as investment opportunities, we took, as you know, a stake in Nutmeg, 11% stake a few years ago. That is growing nicely since we took that shareholding.

And we took a 45% stake in RWC, where assets under management were GBP1.5bn when we took that shareholding and are now GBP7.9bn, they having done GBP4bn of net new business in the last three years, GBP4bn, which is an excellent performance. And you've seen in the statement that our profit in 2015 from that shareholding was well up on the previous year.

I'll now hand over to Richard to take you through the numbers in a bit more detail.

**Richard Keers**  
**Chief Financial Officer**

Well, good morning. 2015 has been another successful year for us. Let me start with some of the highlights. Net revenue was up 7% to just under GBP1.7bn. We generated strong levels of new business in 2015, plus the full-year impact of the high inflows at the end of last year. Pre-exceptional profit before tax was up 8% to GBP610m. That's above the growth in net revenues and is due to good cost control. Post-exceptional profits were up 14% to

GBP589m, as exceptional items have reduced year on year. Basic EPS was up 6% to 176.9p before exceptional items.

You'll remember we told you we were moving towards a 50% dividend payout ratio. We've moved from 47% in 2014 to a payout ratio of 49% this year. That means a final dividend of 58p, which brings the total dividend for the year to 87p. That's an increase of 12%.

So clearly a good set of results and ahead of consensus.

Now let me take you through the increase in our revenues and explain the presentation changes we've made this year. What you need to know is that net revenue now includes the contribution from associates and joint ventures as well as all of the Group's income from financial instruments. This new way of presenting our numbers reflects how we look at revenues internally and provides a more relevant measure of performance. Please bear in mind it is a presentational change only and there are further details in your pack.

The key impact is on our revenue margins. In calculating these, we're now using net revenue, net operating revenue that's similar to net revenue under the old definition but excludes some income relating to financial instruments and also transactional FX. The change reduces our 2014 asset management margin by 1 basis point.

This new approach strips out some of the noise and provides a more stable measure of performance. It gives a cleaner view of revenues generated through our clients and results in a small decrease in our reported margins.

So as I mentioned earlier, net revenue was up 7% to just under GBP1.7bn. Net new business accounted for GBP68m, and a further GBP38m came from growth in our assets under management. This is a strong performance given the market uncertainty that characterised the second half of the year.

The diversity of our business model means we are not reliant on the performance of any single market, product or strategy. Instead, our diverse product offering and our geographical reach mean we are well placed across the cycle. Our associates and joint ventures further add to this diversity and together contributed profit after tax of GBP21.5m. That's an increase of GBP11m from last year.

I haven't split out performance fees in this chart. They were similar to last year, at GBP36m, but they represent less than 2% of our revenues and are not a material part of our business. Performance fees are difficult to predict, particularly in periods of market volatility, but we're again budgeting fees of GBP40m.

Now looking at operating revenues from each of our channels, starting with institutional, net operating revenues were GBP629m. That's up 10%. As we've highlighted at the half year and Mike has already discussed, we've seen good levels in new business, particularly in Asia, along with good flows towards the end of last year, which also contributed to that revenue growth.

Before performance fees, Institutional revenue margin was 34 basis points, down from 36 last year. That decrease is in line with the guidance I gave at

the half year. It reflects that success we've had with strong sales and fixed income and LDI and the impact of a large mandate that funded late last year.

As you know, change in business mix is the key driver of movements in revenue margins. We're continuing to focus on building scale in Fixed Income and Multi-asset. And in line with this strategy, we expect the current trend in margins to continue. Consequently, the Institutional revenue margin could fall a further basis point in 2016.

Turning to Intermediary, net operating revenues were up GBP48m to GBP765m. The growth reflects the GBP4.3bn of net inflows, driven by strong demand from clients in both Europe and Asia, as you've heard from Mike.

Before performance fees, revenue margins were 74 basis points, down from 76 basis points in 2014. That decrease was mainly driven by changes in business mix, although, as we've flagged before, we are seeing some external pressure on fees. We are budgeting for a further decrease of 1 basis point.

Moving to Wealth Management, you are aware we've been focusing on improving our profitability and we are now at that 70% cost/income ratio that Mike has referred to. As a result, profits before exceptionals of GBP61.3m was ahead of consensus and is a 16% increase after excluding last year's one-offs, being the release of a loan-loss provision and the high levels of performance fees in 2014. Net revenues were down slightly, at GBP207m, due to the same one-offs.

As you've heard from Mike, underlying operating revenues were up slightly, driven by higher average AUM across the year. Net banking interest was up 7%, to GBP15.5m. This is because we've enhanced our treasury activities to offset the impact of negative interest rates in Europe.

As I've just explained, the main factor affecting our revenue margins in our asset management business is the mix of business. And the same is true in Wealth Management. Within Wealth Management it is also complicated as we have a diversity of clients as well as a greater range of revenue streams. We manage charities, ultra-high-net-worth and high-net-worth clients. We also have different revenue streams, such as interest and transactional income as well as custody and management fees. The impact of regulation, such as RDR, also has an impact.

The mix of clients, revenue streams and regulation led to a decrease in margins from 67 basis points in 2014 to 65 basis points in 2015. We're budgeting for a further decline to 64 basis points next year. This is because we transferred the remaining GBP900m of our charities business into wealth management from institutional.

Right. I now move on to operating expenses. Compensation costs make up 70% of our cost base. 50% is fixed and the remainder is made up of discretionary bonuses linked to the Group's performance. Average headcount was up 6%, reflecting the growth in the business together with our continued desire to invest in new opportunities. This has driven the increase in our comp cost.

Based on our new measure, compensation to net revenue was 44%. We're budgeting at 45% in 2016, which reflects two things. Firstly, the continued investments we're making. And secondly, the weakening of sterling. As always, we will revisit this ratio later in the year.

Non-comp costs, excluding exceptional items, were GBP315m, right in line with the guidance I gave at the start of the year. It includes the impact of investment in IT systems as well as some significant increases in market data cost.

Cost discipline is something we take seriously. As a management team, we have taken a decision to make a strategic investment in our front office IT systems over the next two years. This investment is an important enabler for realising future operational efficiencies. It would allow us to manage greater volumes or complex mandates which will drive future profitability.

As you're aware, the weakening of sterling also hurts our cost base. At current rates it would result in a GBP10m increase in non-comp costs, although it has a positive impact on revenues and profit. Putting this together, we expect non-comp costs to be around GBP340m this year.

Our total cost before exceptional items were 63% of net revenue. That's 2% better than our long-term target. Finally, with exceptional items of GBP19m, that's down significantly following the completion of the Cazenove and STW integrations last year. The reduction also reflects the partial release of a provision that was not fully required. Looking forward to 2016, we expect exceptional items to be around GBP20m.

Let me now pull it all together for you. Net revenue was up GBP109m. This was only partially offset by increased operating expenses. Comp costs were up GBP46m and non-comp costs up GBP18m. Profit before tax and exceptional items was therefore GBP609.7m. We have a tax rate before exceptional items of 20.7%. This means a tax charge of GBP126m and gives a profit after tax but before exceptional items of GBP483m. We expect the tax rate to be about the same next year. After exceptional items, profit after tax was GBP467m.

Now a word on our capital position. Regulatory capital decreased slightly to GBP653m as the PRA reduced our capital requirement. Other operating capital also reduced by GBP31m to GBP253m. Investment capital was GBP942m, up from GBP725m as a result of the Group's profit after tax. Seed capital was up GBP66m to GBP229m as we continued to invest in new products and strategies.

This strong capital position we see as a valuable competitive advantage. It means we're not going to be knocked off our course of doing the right thing in a tough market. Good examples include investing in our people and our front office IT systems, which I referred to earlier.

So, in summary, I hope you have a good feel for how we have progressed in the past 12 months. And thanks to our strong capital position and our strong management team, we feel confident as we look to our future.

Thank you. I now hand you back to Mike.

## **Michael Dobson**

### **Chief Executive**

So quite a choppy start to the year, obviously in markets. We've had a good start in Institutional, good levels of net new business and we have a pipeline of business we've won but which has not yet been funded. This has been partially offset by outflows in our intermediary retail business, as you would expect and as the industry has seen generally, with clearly, in this market environment, retail investor demand being quite weak. Net at the end of February, we're about a positive GBP1bn in terms of net new business.

We see a lot of long-term growth opportunities for the firm, in our core business, I would say in all channels in institutional, in retail, in high net worth, in all asset classes across Equities, fundamental and quant. Fixed Income, Multi-asset and Alternatives. And frankly in all regions we see good long-term growth opportunities right across the business, irrespective of any short-term challenges around markets.

We're also seeing a higher level of new opportunities coming to us in terms of hirings of teams, hiring people, starting new partnerships. I've seen in the last year or so more opportunities than I have for a long time and I think that this is also quite interesting. So we see a lot of interesting long-term growth potential.

The succession plans we announced this morning have, as their objective, continuity and stability. And I think that we've spoken to our major shareholders we've spoken to a lot of clients and I think everybody understands the logic behind this. There's some people who, governance will be a challenge for them. But I think everybody understands the sense of it. And I think most, certainly most of our clients of all the clients I've spoken to embrace this and see it as a very positive step for the firm.

So thank you for your attention, and now I throw it open to questions. Can you just say who, your name and your company? Thanks.

## **Questions and Answers**

### **Anil Sharma – Morgan Stanley**

Morning. Just three questions, please. Firstly, I was just wondering about the product changes that you mentioned, the closures and the opening. Is that linked in any way to the FCA review that's going on, and if you could perhaps give us your thoughts as to what you think they might particularly be focusing on.

**Michael Dobson**

Do you mean the FCA review?

**Anil Sharma**

Yes. If you think they've managed to narrow down their scope at all since the start of the year.

Secondly, in terms of the global equity book, could you just again tell us where we are in terms of how much residual risk you see there in AUM, potential outflows?

And then finally, Richard, this time last year you mentioned you were going to walk up towards 50% payout ratio, and I think you highlighted at the time that was more of a longer-term target. It seems like we've got there quite quickly. So I'm just wondering, given the capital build in the Company, how should we be thinking about dividends and dividend payout?

**Michael Dobson**

Okay. So Max, maybe I can ask you to talk about products in a second. Let me deal with your other points. As far as the FCA review is concerned, we haven't seen much change. We are engaging, like everybody, with them actively, in a very constructive way. And the shape of it I don't think has changed very much. So we're in the middle of the process. We're feeding a lot of information as requested and we have a very constructive relationship with the FCA on that basis.

The global equity book, I don't want to tempt providence but I see very little risk in the global equity book. We may see a little bit more in terms outflows from our quant business, for the two reasons I discussed earlier. But long term we're very positive about that business. I think in terms of the active, global and EAFE equities business, we're delighted with the progress that's been made, with the existing team complemented by the arrival of Alex Tedder to head that team.

It's exactly where we wanted it to be. Good performance. And we're now beginning to see new business opportunities. So I really think that I would not see much, if any, risk in that book at all; I see it as a growth opportunity.

On the payout ratio, we said 45% to 50%. But I said here, and so has Richard, that our target is basically around the higher end of that level, 50%. We're at 49% in relation to 2015. And I think you can assume that that is our target over a cycle, 50%.

Sorry, on products and the product range, fund closures and fund openings, Massimo.

**Massimo Tosato – Executive Vice Chairman and Global Head of Distribution**

This is a quite normal activity we've been performing for over 10 years now. Our objective is to constantly innovate and have a fresh, in-demand, all-weather product range. There are multiple reasons for fund closure. They

might be just shelf space. They might be changing patterns in customer demand. They might be performance track record. They might be some local taxation or regulatory aspect. It's a constant process that has been happening every year.

On the other side, we constantly try to move our product range towards what we believe are going to be the strong long-term trend of customer demand. And so you have seen a lot more in solution and a lot more in total return and a lot more in absolute return. It's just a normal process. We have only explicated the number this year.

And to this scope, in 2015 we built within marketing a new team called marketing intelligence unit -- market intelligence unit, which is working on data, data scientist. But constantly try to monitor the competitiveness of our product range, the trends inflows and alert us about changes to have a tactical strategic that we have to apply to our range.

### **Michael Dobson**

Yes?

### **Hubert Lam – Bank of America Merrill Lynch**

Good morning. Two questions. Firstly, can you just give us some colour in terms of Institutional inflows this year? What kind of products? Is it going to be Fixed Income, Multi-asset, etc.?

A second question on Friends Life mandate. Just wondering, is there any risk on that where Aviva may take it back in house or not? Any update on that? Thank you.

### **Michael Dobson**

When you say Institutional flows this year, do you mean in 2016?

### **Hubert Lam**

2016.

### **Michael Dobson**

Massimo, I don't know whether you have those -- that information on Institutional flows. But let me talk about Friends Life first. We've had the mandate for 15 months. Obviously when we took it on it was a different partner. We know that Aviva has a different strategy building their asset management business and building their multi-asset business. So I can't give you an answer on that other than I think we're doing the job we were hired for. We have a good relationship with the client, and we still have the mandate.

Max, on Institutional flows this year, do you have any?

### **Massimo Tosato**

Sure. Geographically the main driver of new flows has been in Japan, a major success and turnaround, Japan Institutional. And in there we have interest in

multiple areas. But one of the strongest ones has been in the buy and maintain credit sector. The second strongest area net have been in the UK, and that has been in the LDI sector as the defined benefit industry continued to de-risk. Those are the two main geographic focus.

And in terms of the product range, we've also seen interest in European equity as well in Japanese equity.

### **Chris Turner – Goldman Sachs**

Good morning. One question and one clarification, if I may. The question is in terms of the US business, you said, I think I caught you saying you want 20% of your AUM ultimately to come from the US. Can you give us a feeling for the roadmap there? Is it just with this new management team in place, with the performance turning round, is that sufficient or is there more you need to do to get there?

And then on the clarification, you've given some very useful colour in terms of flows year to date. I just wanted to check I caught you correctly. So I think you said you've had GBP1bn net flows year to date. But you also mentioned you had some mandates yet to fund. Is that included in the GBP1bn or is that potentially on top?

### **Michael Dobson**

That's on top. That's on top. So this is net funded positive GBP1bn.

On the United States, the purpose of setting a target is internally and externally to say we are intent on growing this business and we think it's a big opportunity. As I've said before, you can reach a target two ways. Everyone else can do very badly and you just stay still and you get to 20%. That's obviously not the way we want to do it.

I said before, I think every part of this firm has growth potential. I think by implication I'm saying I think the United States has more growth potential relative than the rest of the firm, because our market share is very small and it's a colossal market. And we have taken some very significant steps to strengthen our business in the US.

In United States itself, building out our distribution team, which is much stronger than it was; acquiring STW on the US fixed income side of the business; building out further asset classes which are managed on the ground in New York; and then strengthening capabilities here in London, particularly in global and [EAFE], which is a big product for the US market.

Our emerging markets business, as said, we had small positive net inflows despite the challenges in emerging market equities last year. That's a big player in the US market as well. So I think that we've taken some very significant steps to strengthen further vis-a-vis the opportunity in the United States.

On the retail side of the business, it's a relatively new business for us. We've only had it about eight or 10 years. It's done quite well. But we want to accelerate growth there as well, and we think we can.

So I do believe that over the next five years we're going to see the US grow probably faster than the rest of our business. I think we're well positioned now. I said the last two years for me were a bit of a hiatus. I don't think it's a reversal of the strategy or our capability at all. And I'm really very positive about what we're going to do in the US going forward.

And that's organic. And there may be inorganic opportunities to complement that. We're not factoring that into our thinking. We're not looking at anything currently. There are no obvious gaps, but it's not impossible that we might find another STW-type opportunity.

### **Chris Turner**

Very clear. Thank you.

### **Haley Tam – Citigroup**

Thank you. Two questions, please. Firstly just on the Intermediary outflows you've seen year to date, just a similar question to the institutional one really, any colour you can give on products or geographies in terms of trends there.

And a second question, it's tempting to look at the increased prominence you've given to the associates and joint ventures this time around as perhaps a signal of intent to do more activity in that area, especially given the build up of capital in your balance sheet. Just any thoughts on that statement, please. Thank you.

### **Michael Dobson**

So if I deal with the last, and can you deal with Intermediary flows? I think we've highlighted it because it is quite a significant part of our strategy, and actually it's becoming quite a significant part of our results. And I think it's a very significant part of the growth opportunity. So when I look at China, if you just take China as an example, we have our own business in China out of Shanghai and Beijing, where we address the sovereign wealth funds, insurance companies, institutional mandates. So through our joint venture we address the retail marketplace. So we have a twin-track approach to this colossal market.

And I think that it's obviously done extremely well. We invested a very small amount of money upfront in that business and it's given us terrific returns. And I think it has great growth potential. And we're getting brand awareness there, because our brand is being used jointly with bank of communications. So I think it's -- and I could say the same about India and other places.

In terms of does it presage more activity? Possibly, because our experience here has been very good. And where we can find great partners who share our long-term vision of building a business, who has strengths that complement our own, then yes, we're very open to doing things like that. And I think it's quite possible that we may be doing more of this kind of thing in the future.

Massimo on retail flows this year. Do you want to comment?

**Massimo Tosato**

We have seen some outflows across asset classes, possibly with much more intensity in equities. Each country and each channel has its own characteristic depending on which product was more dominant in that sector. But it's quite widespread, especially in January up to mid February. The situation has been coming down since then. And this was in the context of a global industry where mutual funds has suffered USD60bn net losses just in January, USD60bn. So it's just part of the trend of the flows of industry and there isn't any specific product problem.

**Mike Werner – UBS**

Hi. Two questions. First one, can you let us know what the cash balances were at the end of the year that were available for corporate use?

And then second, if you can elaborate a little bit about the statements you made in your press release about taking advantages of a period of dislocation. Are there specific opportunities out there that you see right now with regards to potential investment in terms of where markets are? Thank you.

**Michael Dobson**

Sure. So I'll deal with the second question. Richard, if you pick up the first question in a second.

We have, through periods of market dislocation, focused more on growing the business and investing than we have on cutting cost. Some of our competitors have said we're going to cut GBP50m out of our cost base. We've never said anything like that. So if I take the financial crisis of 2008, we actually saw this as an opportunity to differentiate Schroders from some competitors by saying, well, invest. That means potentially hiring talent, investing in new products, putting seed capital behind new product launches, building new distribution relationships. And that's served us well and we've done about GBP100bn of net new business since then.

And that will be our philosophy going forward. So if we are in a much tougher period, potentially, in relative terms, this benefits Schroders because I think our financial strength, the diversity of our business means we have good, strong defensive characteristics at a time like this. And we will be using our balance sheet, our financial strength to invest in the business.

It comes back to what I was saying about the number of new opportunities we're seeing. People are coming to us to say Schroders is a great platform, some great capabilities, great brand, great distribution. It's global. We would love to work with you to leverage that. And I think that we'll see more of that going forward.

Richard?

**Richard Keers**

In terms of cash available for corporate use, the way I look at it, it's in my -- it was in my capital slide, the investment capital of GBP942m is basically all

relatively liquid and available to spend. On top of that, we have other operating capital in our businesses globally, which is largely represented by cash of GBP253m. So ultimately that is capable of being spent, but it is more difficult to extract on a short-term basis. But it's there. But investment capital is certainly available for corporate use.

**Michael Dobson**

Yes?

**Peter Lenardos – RBC**

Hi. Good morning. I had two points of clarification, please. First of all, on the GBP1bn net inflows year to date, is that across the business or just Institutional?

And the second point would be on the 50% payout. Since you're already at 49%, you're investing for growth, the revenue yield's coming down and expenses are going up, are you prepared to pay over 50% to maintain the dividend in 2016 if earnings do indeed decline?

**Michael Dobson**

So the GBP1bn is net -- is the net number. Inflows in Institutional partially offset by outflows in Intermediary, net positive GBP1bn.

I don't think Schroders will, in the foreseeable future, consider cutting its dividend.

**Peter Lenardos**

Thank you.

**Daniel Garrod – Barclays**

Good morning. Couple of questions on costs again. Given your comments about taking advantage of dislocation opportunities, you increased headcount by 6% in 2015. Could you see a faster rate of increase of headcount in the current year 2016?

And then second question, the GBP25m increase, Richard, that you highlight in non-comp costs, could I just clarify you're saying GBP10m of that is FX-related? Is the bulk of the rest the IT spend? And what are the benefits on the IT spend side in terms of capabilities or revenue generation? Thank you.

**Michael Dobson**

So on headcount, we have budgeted a headcount increase. Part of that will be linked to IT. So we're probably going to be doing some quite significant IT projects, which will include headcount increases. Obviously in a tougher environment we review some of those plans. But I think you can expect absolutely to see a headcount increase at Schroders this year.

Richard?

**Richard Keers**

So the GBP340m of non-comp costs, that was inclusive of the GBP10m of FX. So GBP315m plus GBP15m real like-for-like cost increase, plus GBP10m FX. The GBP15m is -- there's a significant IT component there, which I referred to, but also market data costs continued to go up. But otherwise it was across the board. But as I say, we're very focused on cost discipline. But we see 2016 is a year to do the right thing, build for the future.

In terms of what we're building in front office IT systems, it's difficult to be precise in terms of quantifying the benefit. But what it would enable us to do is run significantly greater volumes of assets on our platform for lower future cost. And we do have a desire to be a much larger manager in the future. So we're not content with running GBP313b. If we want to run GBP500bn of assets, we need to make this investment now for -- so it's a future benefit.

**Daniel Garrod**

Thank you.

**Dave McCann – Numis**

Morning. Just one further point of clarification. Just on the 45% comp ratio guidance you gave for this year, just to clarify whether that's on the new operational net revenues or the total net revenues number. Thank you.

**Michael Dobson**

It's on the new basis. It's on the new basis.

**Dave McCann**

Thank you.

**Michael Dobson**

Anything else? Yes, Rae?

**Rae Maile – Cenkos**

Not a question, per se, but a thank you, Michael, for your time as Chief Exec. I was thinking back to 2001, when you joined, and exactly how different the business was. And with the wonders of technology, because my memory's fading, I did find a Wall Street Journal article which relates to your early tenure.

The Company said pre-tax profits before adjustments were as much as 10% below recent market estimates of GBP70m, so things have changed, because of client losses and because of tricky markets. Well things have obviously moved a long way from there. But at this long distance, can I apologise because I was your corporate broker at the time and clearly my forecasts were too high. Subsequently I did manage to get it right, so that's better.

But thank you on behalf of your shareholders and from the analysts as well for your help and guidance in helping us understand Schroders over these many years. And can we wish you the very best in retirement?

**Michael Dobson**

Thank you very much. Really appreciate it. And thank you very much [to you all]. Thank you.

Thank you very much, and I've enjoyed these 28 sessions I've had with you. And I'd like to pay tribute to Massimo Tosato, because he's been my partner in this journey. He's been here 21 years, longer than me, but we've worked very closely for 14 and a half. And he has built an exceptional distribution capability, and I think you know that and I think you widely recognise that. And it's one of the drivers of Schroders' success and I think it's a major competitive advantage. And he's been a phenomenal colleague and done a great job.

I'm delighted he's, as I said before, staying through the end of the year. But I want to pay tribute to Max too because he's done a great job. Thanks a lot.

[End]