Operator: Good morning, ladies and gentlemen. Welcome to the Schroders Q3 interim management statement conference call.

At this time, all participants are in a listen only mode. There will be a presentation, followed by a question and answer session, during which if you wish to ask a question, you will need to press star one on your telephone.

Please be advised that this conference is being recorded today, November 3, 2016. I would like now to hand over the conference to your speaker today, Peter Harrison.

Peter Harrison: Morning, everybody, and welcome to our Q3 results call. I'm Peter Harrison, and I'm joined by Richard Keers, our CFO. I'm sure he's known to most of you.

Today I'm going to focus on providing an update of the business, particularly progress we made against some of our strategic objectives that we announced in July. Richard and I will then take any questions you may have.

I'm pleased to report that our business model continues to perform well for both clients and shareholders, despite the market conditions. Assets under management reached a record level, driven both by positive movements in FX and in net new business. We generated GBP2.7 billion of net new business year to date, GBP2 billion of which came in the last quarter.
I'm not going to go through the other numbers in the statement; but I will talk a little bit more now about flows. In the Institutional channel, we saw a further GBP1 billion of net new inflows in the third quarter, driven predominantly by global and EFA equity in North America. And that brings year-to-date net new business to GBP5.4 billion.

In the Intermediary channel we returned to positive net inflows. We generated net new business in the third quarter of GBP1.1 billion, reducing net redemptions year to date to GBP2.2 billion. And we've seen good flows there in both Fixed Income and in Multi-asset products.

In terms of margin, net asset management net operating revenue margin, excluding performance fees, remained unchanged at 47 basis points; whilst in Wealth Management net operating revenue margin declined by 1 basis point to 64 basis points, driven by transaction fees and banking interest remaining steady on a higher AUM base.


In July I gave you guidance that we would expect those to be in the region of GBP40 million for this full year. Whilst it continues to be very hard to accurately predict, it is currently looking like there will be closer to GBP35 million, which is broadly in line with levels we have seen over the last few years.

Peter Harrison: At the half-year results presentation, I highlighted seven areas which we expected to be the key drivers of growth going forward. And I just want to briefly update you on progress we've made against some of these.

From a regional perspective, the area of growth for us is North America. We had a positive quarter via good sales figures, and also two deals closing. Both channels delivered positive sales in Q3.
We've seen the completion of our acquisition of Brookfield ABS business, which we first announced back in June. We took on 11 investment professionals, and GBP3.3 billion of assets into our New York office; and also, obviously, significantly expanded our securitised credit capabilities. We've already seen positive client momentum and sub-advised inflows late in the quarter as a result of that transaction.

In accordance with our growth strategy in North American Intermediary, we announced earlier in the year we were going to enter into a strategic relationship with Hartford Funds, who would become a key distributor of our branded mutual funds in the U.S. We completed this arrangement in late October, and we're confident we'll begin to see momentum build in that, as those funds are now all launched and the sales force are now active.

Another area of focus was Wealth Management, and consistent with this we announced a few weeks ago that we'd reached agreement to acquire the discretionary wealth management business of C. Hoare & Co. at the end of June 2016. Their assets are around GBP2.2 billion across 1,800 clients.

C. Hoare & Co. provide an exceptional cultural fit with us, and works really well with the rest of our wealth management offering, with shared commitment to client focus, and investment excellence. We expect the deal to be completed during the first quarter of next year.

In summary, we've seen a solid performance in the first nine months of the year. We've generated good Institutional inflows, and an improving picture in Intermediary. And we've also made progress against a number of our stated goals.

Looking forward, I can see market volatility remains high, and economic uncertainties all clearly persist. There's likely to be – these things are likely to affect client demand, particularly in the Intermediary channel.
However, we do see our diversified business model as continuing to work, and the long-term focus and strong financial position mean we are well placed to continue to create value for both clients and shareholders.

With that I'd like to just hand over for questions, please.

Operator: We will now begin the question and answer session. If you would like to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. One moment while we compile the question and answer roster please.

Your first question comes from Arnaud Giblat.

Arnaud Giblat: I've got three questions, please. Firstly on dual running costs; I think you announced in the previous quarter that you were going to take on the Aladdin platform. I was wondering if that was now and whether you were seeing dual running costs at the minute. Could you perhaps give us a bit more color or quantify what these might be and when we should be expecting them to step down?

My second question is on M&A. In the past few quarters you've highlighted your openness on doing more deals. Clearly you're about to complete on two here. I'm wondering whether there's more scope for further M&A. I think you mentioned real assets in the past. Is there any more you're looking at doing and whether there is a potential pipeline of deals you might be looking at?

And finally on Wealth Management, I think over the past few quarters you've seen no material flows and some of your U.K. peers have seen flows. I wonder if you could give us a bit more colour in terms of what you're looking at doing in terms of addressing the flows. Thank you.

Peter Harrison: Thanks. I'll just go through Aladdin and technology. I think technology for me is a much broader subject than just the Aladdin platform and I think that what we're looking at doing is creating a really first-rate
technology platform across digital engagement with clients and for investors and the Aladdin piece really just engages investors.

So I won't just focus on that. But the dual running costs is a step-up in our investment spending which will yield long-term benefits. Aladdin will not be fully operational until the beginning of 2018 and a number of the other digital investments will be ongoing during that period. So we see probably the remainder of 2017 being a period of enhanced spending across a range of digital initiatives.

In terms of doing more deals, I don’t – the picture hasn't changed there. We've managed to find some interesting areas of infill. There are plenty more things that can be done, we're finding interesting possibilities all the time, but we won't do them unless there's a good cultural fit and they make good financial sense.

So we say no to more things than we say yes to. We'll continue to look in the real assets area, as I indicated at the half-year stage. We'll continue to look for interesting technologies which will enhance our client proposition and we will continue to look for areas of the market where there are products or services which our clients would find of value. It's not a change from the past but I do see there's plenty of opportunity out there.

Wealth Management flows were a little bit below where I'd hoped them to be during this quarter. We've made a number of steps there during the quarter to step up the organic growth rate and I think it's a really important focus for us going forward. I think there is more that can be done.

I think one of the consequences of a low rate environment is that clients do tend to spend their capital rather than spend their income, so there's inherently more of a headwind than there has been hitherto. But ensuring that we deliver a stronger organic growth rate from Wealth Management is the objectives which we've set for the
management team and we're working through with them how we deliver that.

Arnaud Giblat: OK, thank you.

Operator: Your next question comes from Mike Werner.

Mike Werner: Two questions, actually and one is a bit of a follow-up. With regards to the step-up in costs that we saw in the Asset Management division, (can you) provide a little bit more colour as to whether that is related to FX and if you can just break out a little bit what the investment spend there was?

And then the second question is with regards to the Intermediary flow during the quarter. I was wondering if you could provide a little bit better breakdown from a geographical perspective as to where these flows were coming, whether we’re seeing a rebound, for example, in Asia. Anything there would be helpful. Thank you.

Peter Harrison: Sure. Why don't I kick off on the flow picture and then I'll come back and talk about the costs? Let's just look at the three areas of Intermediary. We've seen all areas other than the U.K. Intermediary flows being positive for the quarter and the U.K. saw a declining outflow.

So the U.K. outflows saw outflows of about GBP400 million but Europe, Asia and the Americas were all positive. In the Institutional space the main area of inflows was actually the Americas and we saw very small outflows in the U.K., a little bit out from Asia. I mentioned Australia at the last results call. There was a little bit more in Australia this time.

The picture year to date, if those numbers would be helpful, obviously the Institutional business continues to be positive. So that's GBP5.4 billion of flows. But now you'll see that the U.K. strongly in inflow at GBP2.7 billion, Europe at GBP1.6 billion and the Americas at GBP1.9
billion of inflows; Asia with an outflow of GBP0.8 billion on the Institutional side.

And on the Intermediary our aggregate outflows of GBP2.2 billion, predominantly driven by [UK] aggregate outflows of GBP2 billion but with inflows in Europe of GBP0.9 billion and a small outflow in net Americas of GBP0.3 billion and Asia of (GBP0.8 billion).

Do you want those numbers again? Alex James will let you have them if you need more.

Just in terms of the cost picture, Richard, do you want to –?

Richard Keers: Your key observation was how were our costs impacted by FX. So perhaps I can answer the question about FX more generally, for the nine months as I don't have the Q3 isolated impact. But if we use year-end December 2015 FX rates, our revenue would have been GBP67 million higher. Our costs would have been GBP39 million lower. So our net impact on PBT is GBP28 million. So you're right. One of the most significant drivers of cost inflation has been FX. But it's a net positive for the Group as a whole.

And just to round things off because I'm sure it's another question, FX on assets under management would have resulted in an increase of nearly GBP39 billion in our asset base. So non-comp is broadly on guidance, ex the FX impact that I've just touched on, compensation at the moment we're accruing to 45 percent. And our revenues are higher. So that's the element (outside) of the cost inflation there.

Mike Werner: Excellent. Thank you for that.

Operator: Your next question comes from Hubert Lam.

Hubert Lam: Three questions if I may. Firstly, on trends so far in Q4, (multiple speakers) the flows. I know your guidance has been a little bit more cautious. I'm just wondering if – but your Q3 retail flows were actually pretty good. So I'm just wondering if we're still seeing the similar
trends in Q3 as in Q4, or if we've seen a slowdown in Q4 so far. That's question number one.

Second question is on fund performance. If you can give us an update in terms of fund performance over one year and three years at the end of the quarter.

And thirdly your investment gains were actually pretty high in the quarter. I'm just wondering, especially in the Group, I'm just wondering where that came from and if that can be sustained going forward. Thanks.

Peter Harrison: Sure. Let's just look at first of all trends in net new business so far this quarter. I think the problem in drawing a picture through one month is that there's a lot of volatility. Particularly on the Institutional side, fundings are always going to be lumpy one way to the other. But I've got no reason to think the outlook is any different from what I've said.

Intermediary, we expect the picture to remain one of plenty of headwinds, but nothing that is unremarkable and out of line with what we've seen to date. And in the Institutional side we're positive that the business model we've got is delivering returns in different areas. And so far in Q4 nothing changes.

And in terms of investment performance, I think we said in the statement 69 percent of funds are beating their client benchmarks over three years. Over one year the number is exactly the same, 69 percent. And the five-year number is better than that. I'll get that number and we'll talk more about it at the end of the year.

The third question, Richard, do you want to take that?

Richard Keers: I missed it.

Peter Harrison: Can you repeat your third question to Richard, please?
Hubert Lam: The question is on investment gains within the Group. They were pretty high in the quarter. I'm just wondering where that came from.

Richard Keers: That was essentially gains on our investment capital in the period. And compared to last year it looks like a significant increase because Q3 last year was looking quite – was basically flat compared to this year. We've got GBP8.4 million of gains.

Hubert Lam: OK.

Peter Harrison: So that's returns on either money which is a low-risk investment that we have for the balance sheet, or seed capital investments in our funds.

Hubert Lam: Got it. Thank you very much.

Operator: Your next question comes from Chris Turner.

Chris Turner: In your opening remarks you highlighted the progress you've made in the U.S. and I guess a key part of that is the partnership that you've established with Hartford Funds. I'm just wondering whether you see a risk to that initiative from the Department of Labor rules that come into effect, I think, in April next year. And then more broadly, do you see a risk from the DoL rules anywhere else in your business? Thank you.

Peter Harrison: I think the Hartford Funds progress hasn't yet really been seen in the figures. We've only launched the funds on October 24. So the progress you saw made in this quarter was much more around the bringing on the securitized credit and the investment we made in the Institutional platform. But looking forward we should see that.

As to whether it's at risk for the DoL, I think it's fair that the whole of the U.S. market is going to go through quite a big change as a result of DoL changes. I suppose the good news from our perspective is that our mutual fund business is so small, that looking forward, our gross flows are going to equal net flows almost by definition because we've not got much to lose.
So, yes, the flows may not have been what they might otherwise have been, but it can only be a positive picture for us in terms of our Intermediary channel in the U.S. Sometimes it's good to have a small business.

Chris Turner: Very clear. Thank you.

Operator: Your next question comes from Anil Sharma.

Anil Sharma: Just two questions, please. I'm just wondering how your private assets and alternatives business is progressing, particularly given some of your peers in the quarter have made some decisions to bulk up and strengthen their private market business.

And then, secondly, just on revenue margins. I know in the past Schroders has given medium-term guidance of around (5 percent) compression, but I just wanted to check what's the latest, given we've obviously seen some of the ETF providers reduce fees quite recently. So I'm just wondering whether that's having an impact on your Institutional and Intermediary fee rates? Thank you.

Peter Harrison: On Private Assets, during this quarter we've got nothing more to say. Obviously, in the last quarter we talked about two things we made progress on. One was a little direct lending business, NEOS, and the second was an insurance business, Safe Harbor, where we're looking at long-term annuity buy-up, which we would obviously use our various Fixed Income capabilities in that both liquid and illiquid.

At the end of last year we obviously did the infrastructure finance deal, where we brought that team on board. So, within the quarter, no, but does it remain on the list of priorities? Absolutely. We see that there's plenty of opportunities with the banks not functioning, particularly in debt markets, and we will continue to look at things and continuing to develop.
I think it's fair to say that this is quite a popular area and one needs to be pretty choosy about the assets that you wish to support, because there's – a rising tide can lift all ships and I think we need to find things where there's long-term advantage and good client outcomes.

Where we are making good progress separately is on our ILS, Insurance-linked Securities business, where we – you remember, two years ago we brought in a team, and that's now fully scaled up. We took majority control of that at the beginning of this year and I think that's a very interesting area and one where you can have good client dialogs because it's a really diversifying asset for a client, which has been helpful.

So, specifically in terms of deals this quarter, nothing. But in terms of the way in which the business is developing, absolutely, quite a lot going on. If that helps, Anil?

Anil Sharma: That's helpful.

Peter Harrison: Richard, do you want to cover the other point?

Richard Keers: In terms of margins, now, I think the most important impact there still continues to be mix change. And as we successfully have embarked on our move away from, I guess five years ago, more of an Equities house to Multi-asset and Fixed Income Institutional flows, that has had a consequential impact on our margins.

But notwithstanding that, we've also flagged that we do anticipate continued attrition on a like-for-like basis. It's difficult to measure precisely, because some of that is also impacted by mix; clients exiting one product and buying into another. But we are seeing slightly less than 1 basis point of attrition and I guess we continue to expect to see that in the medium term as well.

Anil Sharma: That's helpful. Thank you.

Operator: Your next question comes from Gurjit Kambo.
Gurjit Kambo: Just a quick question on Multi-asset. I know some of your competitors' Multi-asset offering is very concentrated, whereas Schroders' is very much more diversified. So if we could just get your perspective on where, within Multi-asset, you've seen more interest.

Peter Harrison: Gurjit, it's a good point because I think this is an area which covers a multitude of different areas. For us this quarter it was our Multi-asset income solutions, actually, which were offering the major thing, Asian asset income. And also, bits and pieces within the LDI area. So it varies a bit from quarter to quarter but our DGF offering continues to be well supported but wasn't the driver in this quarter.

But I think more broadly, the activity within – the activity levels here and within solution markets is picking up quarter on quarter every quarter.

Gurjit Kambo: Great. That's very helpful, thank you.

Peter Harrison: If I just give you our flows by asset class in the third quarter. In aggregate our Multi-asset inflows were GBP0.6 billion, Fixed Income were GBP1.9 billion and Equities was minus GBP0.6 billion. The surprise number, which has been negative for a long while, was our EMD and commodities flows, which have now turned positive at GBP200 million.

Gurjit Kambo: That's very helpful. Thank you very much.

Operator: Once again if you'd like to ask a question, please press star one on your telephone. We have a question from David McCann.

David McCann: I just wondered if you could confirm the GBP347 million of guidance you gave at the half-year for Group cost, for non-staff costs? Thanks.

Richard Keers: That number is going to be negatively impacted by FX, but the underlying cost is basically unchanged in terms of the guidance. I haven't refreshed that number in terms of the FX impact but I think I've
given a pretty good summary of how FX has impacted our income and cost base to date. But it will be negatively impacted in Q4 by sterling's rate at the moment.

David McCann: OK. Could you just give an indication, an approximation if you don't have a precise estimate? At the start of the year it was GBP340 million and that obviously went up by GBP7 million in the first half. Could we expect a similar increment for the movement again or is it more material than that?

Richard Keers: It's going to be slightly more material than that because – I can't predict what FX is going to do for the final quarter. If I could, I could give you a precise number, but it is likely to be of a greater magnitude than that. But obviously, the offset of that is in our income side of the equation where, given we've got a 70/30 split in terms of our cost base, it's a net positive.

David McCann: OK, thank you.

Operator: There are no further questions at this time.

Peter Harrison: Thank you, everybody. And I look forward to speaking to you all at the full year. Thanks very much. If you've got any other questions, please come through to Alex James, Richard or myself. Thanks. Goodbye.

Operator: That does conclude our conference call for today. Thank you for participating. You may now disconnect.

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