Thank you for coming. This is our first investor day in living memory. We have done one before, but it was a very long while ago. I hope today that you're going to leave with a very good sense of our longer-term priorities, our growth priorities, and much better understanding of our European and Asian businesses, our US strategy. You're also going to hear a lot more from the rest of our management team. I know many of you come to our quarterly results. You hear from Richard and I. There's a lot more of our management team coming to talk today. I think that's a really valuable part of it.

Karl Dasher on the far right runs our US business, Lieven runs our Asian business, John runs distribution and is going to talk about our European business. So Richard Keers, who's familiar to many of you, is here and will be available for questions. You can collar him at the exit, but if you've come expecting a trading update, I'm sorry. You've come to the wrong meeting. I won't be offended if you want to leave now. This is about strategy and the long term, so hopefully we can spend the time there today.

We've come I think as an industry a very long way, but I think we're very much at a crossroads. I started off the last quarterly report meeting talking about that crossroads. It's quite clear that many of the firms in our industry are turning left, and we've decided to turn right. There's been a lot of corporate activity. We believe there are very significant opportunities in an organic strategy, and the reason for that I think is threefold.

People are merging for scale. We believe we've got scale. We've got nearly £1 billion of net income. We've got £420 billion of assets under management, but importantly, we've got within that a real diversity, and that diversity gives us a resilience which I think is really important. There are 50 different independent investment teams with their own views. We unashamedly don't have a house view, because we actually think there is a genuine opportunity in that diversity and an ability to bolt things on as we've done, and we'll talk more about those opportunities.

Diversity for us means not just independent investment teams, independence of fund ranges, local fund ranges, which you'll hear more about and local presence in markets in which we operate, and I want people to understand what - when we talk about being global and diversified really means. Because I think you'll hear particularly when we talk about our Asian market, being deep in those local markets and being there for 30, 40 years gives you a very different perception of what the growth opportunities are and the embedded nature of the business.

But I think resilience also comes from financial strength, and we've talked a lot about the need for investment in new products within the industry. That to my mind, and Richard Mountford, who's here today, who runs our Product Group, will talk much more about product innovation, but we've come from a background where the industry worked very well by selling stuff to clients, and our view has been that the nature of that stuff is changing quite quickly, and it's going much more outcome orientated. It's much more solutions orientated, and the types of funds which are going to sell in the next 15 years are very different from the types which we've sold in the last 15 years.
Having that seed capital to innovate is effectively our R&D budget, and that's a critical part of our armoury. Having capital to carry on investing through the next downturn is absolutely critical. We all know we're at an extended point in the cycle, but when the chips turn down, I think having the resilience to stay the course will be mission critical, and that for me is why capital is a very important part of that perception.

And obviously our shareholder structure to my mind adds weight to that, because when we stopped doing quarterly reporting, to my mind, we made a statement that actually strategy was going to be the thing which defines success over the next five years, not just operational execution. So only one more slide from me before I hand over to John, but I wanted to just give you an update on the journey that we've been on as we rethought the direction and our priorities.

At the results six months ago, I talked about the seven areas of growth opportunity, which we believe we had as a Group. In fixed income, in multi-asset, in Asia, in wealth management, in technology, in product innovation and in the US. Sorry Karl, nearly forgot you there. But I think that piece, and we'll talk more about all of those areas as we go through today, but I think all of it needs layering onto a much, much better technology base. And if you think about our industry, there's been a big technology deficit, and there's a reason there's a big technology deficit, is for the last X years, regulations come out and said there's another MiFID, there's another this, there's another that, and so so much of the IT within the industry was spent doing regulatory things.

As a data-processing industry, we take in lots of data about what's going on in the world, we spit out ever more data, and I don't think we'd embraced that technological change for data processing. So we've got a big programme of changing our technology across a number of areas. We'll talk more about it, but in our distribution areas, in our investment areas in particular, in the MI we use, in the personal technology we use, because I actually think that this is the way of producing low-cost, high-quality product in a complex world where we've got multi-channel and highly sophisticated clients. Unless you've got the technology platform, you might as well forget it.

So we'll come back and talk more about that, but you need to understand your growth opportunity. You need the technology platform. The third piece I think is around product and around how do we actually take that to market. For me, 50 investment teams is fabulous insofar as it gives us resilience. It's a nightmare to explain. Imagine, you sort of - what do you want to talk about? We've got one of everything. So we've made a - when I took on this role, I had a decision to make, that we were traditionally an investment firm and a distribution firm. Fund managers made what they wanted to make and sales guys sold what they could.

And fundamentally, there was a piece missing to my mind, which is what does the market want? What’s the products we should be selling in which channel at what price, and how do we make sense of that? What are the solutions that need to exist? So focusing on 10 areas, which we've considered to be our core capabilities, and Richard will talk more about these, but it simplifies down the 50 investment teams. Because to my mind, as an industry, we've always talked about the car in terms of the wiring loom and the speedo and the engine manifold and the chassis and the rest of it, which is not the language our clients talk. They've got a problem with retirement or they've got a problem with income, or they've got a problem with their risk management and their diversity.

That's the language that we need to speak to our clients, so reorganising the firm around our capabilities is critical. Then the final area to my mind is the nature of our engagement with clients. One of the other themes you'll pick up today is I think there are very few firms that can sit alongside a client globally and offer them the full spectrum of capabilities.

We're coming from a world where it's been about product to where it's about partnership and about longevity of relationship, and so when we've - we obsess as an industry, and dare I say it, the sell side obsess rather more than the industry about flows, as if all flows are created equal and AUM is the holy
I don’t think AUM is the holy grail. I say very clearly to our sales guys, AUM is not a target. We’ve taken it off our KPIs in terms of the management things we think are important.

The revenues and the net present value of a client is massively important. The ability to have a long-term partnership with somebody is much more important. If you’re dealing with a global financial institution, whether they buy one fund and sell another fund, but you provide the platform, that’s what gets you the longevity of business. So for me, the nature of this engagement and the way we work with clients has changed quite quickly.

I’m delighted that people want to carry on selling products and chase AUM, because I think actually the battleground’s moving to how do you solve that problem. So there’s a lot going on in terms of a re-tooling. From that crossroads, I think you decide what your growth opportunities are. You need to put the technology in. You need to find a way to get those opportunities to market, and then you need to build real longevity and resilience into the business.

So from 30,000 foot, that's what we're trying to do. In terms of our agenda today, then, the first session is going to be giving you a regional perspective of what all this means. So Europe, Asia, and North America. Then we're going to talk about how we go to market with this in terms of product, and Richard will talk about product innovation, and we're going to give you a couple of examples of these capabilities. And then finally, we're going to talk about some of the technology and data, which we think is leading the way and I think is massively important in terms of producing both alpha and getting it right.

There's a lot of things which aren't on this list, I'm afraid, and when we drew the agenda up, we could have filled it two or three times over. Wealth management isn't on there. Private assets isn't on there. We do commit to come back and talk more about all of those. Happy to answer any questions on them, as well, but just in the interest of time, I wanted to give enough depth on those areas and just you wouldn't stay all day, so I'm afraid you've got a morning's worth.

John, do you want to lead us through?
also a tough year for the industry, especially in the intermediary markets, and I think the performance we managed with positive net new business as a Group was a pretty good performance within the industry context.

In 2017, we have seen growth across the regions of our business. The one distortion to it is that you'll be aware we've had a significant outflow from Prudential of £5.8 billion that has distorted the US numbers, but without that, what you will see in the US is a very good growth in our business from Hartford, the joint venture intermediary and also on the institutional side. I think the other thing to say is that the business mix is very positive at the moment, and we've seen a very strong performance from our intermediary business this year.

If you now turn and look at the global assets and revenues through a product lens, again, here you see the current position as at the end of June, and the revenues are the split for the first half of 2017. I think the two points I'd leave you with from this chart are, firstly, equities remain the largest asset class, but both fixed income and multi-asset have been growing very significantly, and to a lesser extent, private assets have also been growing, but from a low base, and obviously that is an important strategic priority for the business that we will come back to.

The latter point I made about the growth of fixed income and multi-asset perhaps can be seen more clearly if you look at the flows that we've generated over the last five years, broken out by asset class, and that's what this chart shows you. Here, you will see that throughout the period, the flows from multi-asset have been strong, and in the last three years, you'll see that the single largest contributor to our net new business has been fixed income. So I think hopefully that would provide you - I'm going through it reasonably quickly, but I think the aim of this is simply to set the scene for you and to give you the perspective.

The last point that I would make at a global level, and Peter has already touched on this to some extent, today in our world, in our investment world, the nature of the relationship between the distribution and manufacturers is changing, and there is also a strong focus within the industry on the value proposition that asset managers offer. And both of these factors mean that we as a firm need to move closer to the end client, and in that regard, I think we've taken two important steps.

The first one is that we've launched a new global brand, and within that brand, we've shifted the focus onto the outcomes that we deliver for our clients and away from the historic capabilities we'd had, which had been our heritage and innovation. The other thing we've done, and Peter has referred to this, and Richard is going to talk a lot more about it, is we've looked to focus our very broad product range into 10 areas that we think are both relevant to clients but where we also believe that we have exceptional expertise.

These 10 areas are shown on the right-hand side of the page, but they're going to form the focus of how we promote our brand into the marketplace. So those are the comments that I just wanted to make at a global level. If we now turn to the continental European business, this is a very important business for Schroders. It's also been successful.

Today, it accounts for 28% of the firm's revenues. The nature of the business is it's got the highest proportion of intermediary assets of any of our regional businesses. Almost two-thirds of the business is intermediary, and as a result, the business exhibits very strong profitability. Also, as you can see from the chart on the right, the business is very well diversified by country, and so you can see across Europe, we have a good representation in most markets of assets.

If you look at the growth over the past five years of our European business, it's been significant. We've raised £16.5 billion cumulatively of assets, or £3.3 billion a year. It's been the largest generator of net new business of any region over that period. The business is well balanced between equity, bonds and
increasingly alternatives, and I’m going to come back to talk a bit more about that, because alternatives is very important for Europe.

The one area that is less well penetrated is multi-asset, but that we think represents a significant opportunity for the future, because as I’ll come on to say, there is a shift in demand towards multi-asset. We have an excellent multi-asset offering, because we’ve been very successful in other regions, and Europe is a place we have not yet capitalised on that. The margins of the business are above the Group average, and that reflects essentially the high proportion of intermediary assets. In terms of the path of margins, they’ve been relatively stable within institutional but have fallen modestly over the last five years in intermediary, in line with the industry trend.

If you look at the resources and our presence in Europe, it’s very substantial. We’ve got over 450 staff in Europe, and we’ve got 10 offices. Initially, the offices in Europe were focused on distribution and also our very significant fund centre in Luxembourg, but increasingly, we’re growing our investment presence in Europe. With the acquisition of Adveq and Secquaero and the addition of our infrastructure debt team in Paris, we are adding to the investment capability we have on the continent.

You’ll have heard previously about Brexit for us, but as it stands, we are very well placed for Brexit. Our intermediary business is unaffected. We have all the licences to continue to run that business as we sit through Luxembourg. Our institutional business does require us to extend the permissions of our Luxembourg office to permit us to manage segregated institutional mandates. At the moment, those are delegated to London, but our application I think has already gone in, and we don’t expect any issues with that.

Obviously, we’re watching carefully in case other things change, but that is the current situation. So if you now move on and consider the market in Europe, obviously, it’s a very substantial market. There’s over £3 trillion of available assets. It’s actually growing relatively modestly. The growth rate is around 5% for the addressable market for us.

We have a strong market share in intermediary. We believe it’s around 5% of the cross-border market, which is where we primarily play, which puts us in the top five firms there, and we have a lesser market share in institutional, at around 1.2%, but as I’ll come on to discuss, that we feel is one of the opportunities we have within Europe.

Longevity is a very important thing for us. It’s a key strategic focus of the firm. We’re committed to improving the longevity. It’s important because it reflects the quality of our business. It also reflects a higher NPV for any new business that we bring in. In Europe, and this is perhaps the one metric on which Europe does not do well, it has the lowest longevity of any region we have. That is primarily due to firstly the high proportion of intermediary assets, because longevity in intermediary is lower, but also the predominant distribution model and sub-channel mix in Europe within the intermediary business.

Longevity has been increasing in Europe. It’s increased markedly in institutional, as you can see, but it has also increased modestly within intermediary. The strategic goal is obviously to continue to improve this. I think the other thing to say is, and this shows you why longevity is so important, the leverage from improved longevity is very large. So if you look at that line, you would possibly say that a move from 1.4 to 1.7 years of longevity I intermediary is rather modest. But a one-month improvement in longevity in intermediary in continental Europe equates to around £1.2 billion per annum of extra net new business and £8 million per annum of net new revenues, so there’s a tremendous leverage to our growth and our operating results from improvement in longevity.

Now let me move quickly to the trends within the market. You’ll all obviously be very, very familiar with these, and I just want to focus for intermediary on three trends. The first is the changing nature of the distribution model within Europe. A number of things are occurring, and I’d like to just highlight three of them. The first is that there is a shift from advisory to discretionary management, and the second, which
is linked to this, is that distributors are increasingly concentrating the list of managers with which they’re operating. That clearly provides us the challenge of ensuring that we are one of those firms that are preferred partners within the concentrated list of managers.

The breadth of our product offering is obviously a huge benefit to doing that. The other thing that’s happening within the distribution model which is beneficial to us is obviously that retail banks are opening their architecture and again, are looking for partners on the asset management side to work with. But there is a clear shift in the nature of the relationship between manufacturers and distributors and it’s reflected also in the balance of pricing power that we see within the market.

The second thing I’d like to highlight is product demand. Here, it’s also shifting. There’s an increasing focus in two areas. The first is on outcomes for clients, and you see that in the increasing demand for income funds. You see this in the increasing demand for funds that provide either stable capital growth or capital-protected growth, and obviously, that plays to demand for multi-asset product.

I guess the second thing one sees is that within equities, there is a shift taking place. There’s obviously a rise in the proportion of passive investment and the opposite part of that equation is an increase in demand for high-alpha equities and an increase in demand for thematic equities. So those are the key trends we see within product demand.

The final point, which you’ll all be very well aware of, is the impact of regulation. It’s obviously pervasive and results inevitably in some increase in our cost level, but it also has a rather perverse positive impact, but it is a very challenging environment for smaller firms to operate within, and so again, it provides on the one hand a challenge for us. But on the other, we are I believe relatively well placed to meet that challenge.

On the institutional side, I just want to highlight two trends that we feel are the most significant. The first relates to insurance companies.

There’s a very rapid increase in the rate at which insurance companies are outsourcing their assets to asset managers, external asset managers. It’s driven by Solvency II and also the current very low levels of interest rates. But the need for insurance companies to find capital-efficient investments for their assets is causing this increase in the rate of outsourcing, and it’s a major opportunity for us. And we have a very good record of partnering in other regions with major insurance companies in this sort of area.

The second trend that I’d like to highlight on institutional is what’s happening to product demand on the institutional side. Here, we’re seeing increase in interest in three areas, in investments in alternatives, in solutions, which is broadly multi-asset and fiduciary-type arrangements, and an increasing interest in sustainability and ESG.

On the other side, we’re seeing a decline in demand for traditional equities, though it should be said that already the weighting of major institutions in Europe is at a very low level indeed in equities. Indeed, many European pension funds are below 10% in equities. When we look to what we see for the future and how the business can grow, our goal is to grow the European business for the next five years at broadly the same rate we’ve grown it for the past five years, and that equates to around £3.5 billion a year of assets.

Given the trends that we’ve discussed, we see five significant drivers of that growth. The first one is that - and this was the point I made earlier, that we have a relatively low market share in institutional. We see the opportunity to win market share even within a relatively mature market, and indeed, we’re doing that already. If you look within France, if you look at the Netherlands over the last three years, these are markets where we – which are important institutional markets where we have seen rapid and significant improvements in our market share, and we believe we can - we can do quite a lot more in that regard.
The second driver of growth I've already mentioned. It's insurance, but arguably, it's the single largest opportunity we see as a result of the outsourcing. The third opportunity we see is in private assets. It's clearly part of the firm's strategy to shift the balance of our product mix more towards private assets and alternatives, and you can see that we have been doing that very steadily and increasingly over the past years.

This is especially important for continental Europe for three reasons. The first is that there's a strong demand within Europe for these assets. The second is that we see quite a few opportunities to acquire capabilities within Europe, and you can see in the most recent transaction, for example, in the case of Adveq, that it was a Swiss company that we bought to gain private equity expertise. But the last thing, and perhaps this is the least obvious of them, is that when we acquire these new capabilities, often, we present them strategically as to how they fit within our product mix and add and build out our investment capabilities. But they also contribute to the growth of our institutional business within Europe, because on the acquisition of these companies, we are also acquiring a significant client base within specific European countries, and that has accelerated the growth of that business and will accelerate it even further in the future.

The final two drivers of growth - the fourth is that we can't fail to focus on executing effectively within the intermediary business, which is the largest and most important business within Europe. There is a significant focus particularly in being successful in winning in competition to be preferred provider within the changing distribution model. And the final one is we're also looking to new markets within Europe. Today, that's primarily Eastern Europe and Israel. At a later date, it may include Russia and Turkey. So those are the comments that I wanted to make overall. I think in the interest of time now, what I'd like to do if that's all right - I'm not quite sure who to look for - is to open it up to questions.

Q&A session

Haley Tam (Citigroup)

Thank you. Two questions, please, John.

Haley Tam (Citigroup)

It's Haley Tam from Citi. Just two questions. First of all, you've mentioned the changing distribution environment in Europe for intermediary. The two-thirds of assets you have at the moment in intermediary, can you give us some idea what proportion of those you already have a preferred partnership relationship with, so we can get a feeling of the scope there?

John Troiano

We don't actually measure it in that way. What I would say is I'd answer it differently. In the vast majority of cases, where major - and your own firm is a very good example of it, actually. In the vast majority of the cases where firms have moved to a preferred partner model, we have been successful in becoming one of those partners. I think the big firms have generally moved earlier than others, but very substantially, we are one of them.

Haley Tam (Citigroup)

Thank you, and if I look at slide 14, and you've got the different client longevity there, how should we think about this in terms of the net present value of the clients that when you're...
John Troiano

Sorry, which page was that?

Haley Tam (Citigroup)

Slide 14.

John Troiano

That's the longevity slide, isn't it?

Haley Tam (Citigroup)

Yes.

John Troiano

And your question is?

Haley Tam (Citigroup)

So you're obviously very focused on the net present value you're going to be getting from clients in the future. Is there a particular preference right now for institutional over intermediary in Europe, or is there any...

John Troiano

We want to go both our businesses.

Peter Harrison

I think the challenge with this intermediary number is if you're providing to a global financial institution, you'd put your platform in. If they want to switch between growth and value or between Asia and Europe, that shows up as turnover here. But our client relationship and our franchise exposure, if you like, is to the global financial institution. So this is a very simplified measure of that, because that bigger change that John refers to in the background is going on as we become the preferred partner for more and more of those people as they shrink their platforms.

Haley Tam (Citigroup)

If I was to take a very simplistic view of this, then, and look at the intermediary longevity being about two years, then you'd be happy to take on institutional business at, say, 15 basis points if intermediary was 45. Is that how I should think about it?

John Troiano

I don't think it's an either-or. They're two very different marketplaces, and what we have done, if you look at what's happened in the last five years, we have done both. So we've managed to improve the quality of our intermediary book, and part of that is because of what - if you say what is it that you can do to drive improvements in longevity, you can do it through improvements in your sub-channel mix, and we've been successful. This is across the firm, not just within Europe, in building up assets within for example insurance sub-channel in intermediary where the longevity is better, but we've also taken on and been successful in winning very big mandates at lower fees, which you'll be well aware of, which often come with longer longevity.
Peter Harrison

I think it’s also how do you value capacity is the other part of that equation, so where you have scarce investment product, that the cost of churning short-term product is a big wear on fund managers and on organisation, brand and all the rest of it. So as you’re understanding the relative longevity of those two things, it helps you allocate the strategy capacity and makes sure that we’ve got not just diversity across the firm but diversity of client base within strategy.

Haley Tam (Citigroup)

Thank you.

Arnaud Giblat (Exane)

Good morning. It’s Arnaud Giblat from Exane. One question please on MiFID. Could you first give us an idea of the split between the proportion of your retail assets or intermediary assets sold through capital networks and through independent networks and how you’re thinking about MiFID in that context and how are you going to navigate the ban on retrocessions in independent channels?

John Troiano

Well, our largest distribution relationships in Europe are all with the major global financial institutions, so it’s the UBSs, the Credit Suisses. The other area which is significant, of course, is the Italian business, which is within the bank distribution model there. So though if you look at the concentration of that business, that is the preponderance of the intermediary business within Europe.

Arnaud Giblat (Exane)

And ban on retrocessions?

John Troiano

We believe - in markets like Italy, we believe the retrocessions are going to continue. Obviously, there will be some markets we think it will be extended to, but there hasn’t been a meaningful difference in our performance between markets such as Holland, which have implemented - which have banned the retrocessions and ones that have maintained them, so the nature of pricing has not been markedly different between those markets. And our success in dealing with intermediaries has not been markedly different. So I don’t think that that - looking at which markets will retain retrocessions and which ones won't will be really significant in determining whether we'll flourish or not.

Peter Harrison

There is another subtle change, which is driving behind this, which is the need for bank distributors to be able to demonstrate best-in-class product, and we actually think that when John talked about the importance of brand and the work we’re doing both with the rebranding with digital, et cetera, and actually being able to demonstrate that quality is an important part of that MiFID transformation as we go through that and ability to manufacture internal product for those people are gradually going to come under more pressure, we think. This is much longer-term trend. We'll take one more and then we'll move on. There will be opportunities for questions after every session.

Anil Sharma (Morgan Stanley)

Good morning. It’s Anil Sharma from Morgan Stanley. Just two questions. The first one was just with the multi-asset AUM that you were showing there, I'm just curious as to why do you think you've underpenetrated in Europe versus considering the size of the multi-asset business that you have. Then
just secondly, on the market share stats, how has that evolved over the last, say, five years or longer and the direction of travel? What do you think's caused it to either go up or go down over the last few years?

**John Troiano**

Okay, to take the first question, the nature of multi-asset demand, particularly in intermediary in Europe, has been different, and you'll be aware that the products that have been really successful in Europe have been high-performing, quite concentrated funds, so if you look at the firms that have been successful, there's the Carmignacs, it's the Nordeas, it's the Flossbachs. And they have products that are structured rather differently to ours, and I think that's one of our challenges within the product setup to actually make sure that we have multi-asset products that are designed to meet the demands in intermediary market in Europe. So that's the main reason we haven't been as successful there as we have elsewhere. And the second question was?

**Arnaud Giblat (Exane)**

Just on the market share, just interested to see how it's actually trended over the last few years, and if it's gone up, why, and if it's come down, why?

**John Troiano**

The market - first of all, we use FundWatch data for it, and broadly speaking, it has gone down very slightly, but we've consistently been in the top five. The reason I think it's gone down very slightly is other competitors have come into the marketplace and I think it has become more competitive. So we have retained our position within the top five, but there's been a very modest decline, say from 5.5 to five, in terms of market share.

**Arnaud Giblat (Exane)**

Thanks.

**Peter Harrison**

Thank you. Lieven?

**Lieven Debruyne**

**CEO of Asia Pacific**

Right. Let's go a little bit further from home and talk about what we do in Asia Pacific. I thought the best way to do that was to briefly set out how do we look at the region, what's the opportunity set for us, talk about how we are positioned and what have we have achieved over the last years and then really spend most of the time on what our strategic initiative is and what do we do to ensure that we continue to have the growth in the business that we've seen of recent.

And so let me start with the region per se, and I think generally the Asian growth story is quite well known. What's perhaps less well known is the extent to which Asia has already really succeeded, and there are lots of things to look at, but if you just look at just contribution of economic growth as a region, that's now seen as about two-thirds of global economic growth. If you look at household wealth and banking assets, all that together is now about a third of the world economy or a third of global finance.

So Asia has really come a very long way already and has become very, very material. In that growth, what we've seen is a real emergence of the middle class, particularly, and a middle class that's saving a tremendous amount. Many of Asian countries see double-digit saving rates in the middle class. What we
haven't seen by and large is that saving turning into investment. Many of Asians save a lot, but they don't necessarily invest a lot, and one of the results of that is that if you actually look at the asset management industry in Asia, that's now roughly about 15% of global assets, far below its potential.

And one of the things to start thinking about and if we look at the region is, what are some of the catalysts? What is going to happen here in terms of reducing that gap and catching up with what the overall region has shown in terms of growth. And when we analyse the industry, we see the continuation of growth in Asia together with this kind of rebalancing on the asset management side as real drivers for double-digit growth.

That is quite a bit ahead of what we see in the more Western, more mature markets. And we think that is going to be increasingly driven by what we see on the retirement side, particularly. A lot of Asian countries, although they've been growing a lot, they're actually maturing a lot as well, particularly in the North, as well as what's happening with individual savings.

If we do a bottom-up analysis of what we think is available to independent external managers, that double-digit growth in our view would add up to potentially £500 billion over the next three years, so until the end of 2020, so a very substantial amount of money to go after.

Let me switch to our business.

Asia Pacific has been at the core of Schroders as a group for many, many years. We actually opened our first office in Asia in 1965 in Sydney and have subsequently expanded our footprint over the years, now being present in nine specific countries. And we have probably about 850 people in the region, and that gives us a very, very complete footprint, in our eyes, particularly if you take into account that from the Singapore office, for instance, we also service Malaysia and Thailand, and from Hong Kong, we look after assets in the Philippines.

One of the other very unique parts of our business is that we not only have offices where we provide distribution, but we also have investment operational capabilities, and that really sets us apart from almost anybody else in the industry. That's how it's historically grown, but it really puts us now I think in a position to service local clients in the best possible way and increasingly so, and I can touch on that a little bit later.

In terms of the success we've generated as a business, because we've been in the region for so long and made that part of our Group strategy, Asia is a very substantial part of our global assets. At about £100 billion, it's roughly 25% and slightly higher in terms of the percentage of revenue. We've grown about £19 billion over the last five years in net new business and revenue by about 50%, and that was entirely achieved organically.

The other achievement we're very proud of is that if you go back to our business let's say 10 years ago, a lot of it was dependent on equities and particularly equities in local equities or regional, and we've moved that business within equities into more global strategies, as well as success in fixed income and particularly multi-asset. Our multi-asset income fund range for example in the intermediary space has been industry leading. Another proof statement of that success and where we are as a business, if you just look across market share, we've done our analysis to look at what are the available assets to an external international manager like ourselves and how are we positioned, and what this shows is that we have strong market share in almost every market we operate in.

We are a top-five player in every key market. The one that extends on the positive side of course is Indonesia, where we've been for over 30 years. I know it's a relatively small market. It's one where we have a leading position. I think if you take Schroders’ market share and you take subsequently two, three and four, we're still at a higher share, and I think - with a very long-term view, I think this is one of the great assets we have in the firm. And probably the one that stands out as a relatively low share is the
largest market in Asia is Japan, where we feel that we could do much better, and it's something that I'll talk about in a minute when we look at our strategy.

In addition to our wholly owned businesses, we also have three joint ventures in the region. We have one in China, one in India and a strategic partnership in Japan. In China, as of today, to be able to participate in the retail market selling local funds to local investors, you can only do this through a joint venture. A majority-owned business doesn't allow you to do so, and we felt about 11 years ago that that is a really big opportunity in the Chinese market to be part of, and we started a joint venture with Bank of Communications. That's grown now to a business that is about £56 billion in assets.

We're a top-20 player in the industry and really is going from strength to strength. In India it's slightly different. There, we could have gone through a wholly-owned business. However, when we wanted to enter the Indian market about five years ago, given the complexity of the market and the fragmentation of the market, it's predominantly an intermediary market. There's virtually no institutional business to go after. We felt that having a local partner is the best way to achieve that success. We started a joint venture with Axis Bank and in the five years it's now about £7 billion in assets.

More importantly, we were the sixteenth largest asset manager when we started and we've just entered the top 10, so a business that is clearly showing a lot of potential. In Asia's largest market we have a strategic partnership with one of Japan's biggest life companies. We develop many different financial instruments together with them. We feel, given the importance that Japan has in the region, this is a real merit to our overall regional setup.

Let me now switch to our strategic initiatives and how we look at the business going forward. Really, it's very, very simple. We believe there are two opportunities that can be transformational in the growth of our business, if we get them right. That's what we do in China. That's what we do in Japan. In addition to that, we have that very well-established business with a strong market share in a growth region. That, in itself if we continue to adjust our business to some of the challenges that we're facing in Asia as well, as an industry, as a business, some of it John talked about, that, obviously, will contribute to growth as well.

I want to briefly just touch on all three of those. Let's start with China. If I talk about the Asia Pacific, and I think about our business, I always start by saying if we want to get Asia Pacific right in the future we will have to get China right. It's already the second-largest market in the region, after Japan. It’s growing at 25% at the moment in terms of the asset management industry and it's opening up its capital markets and its capital accounts at a very rapid pace. There are lots of different initiatives that China is undertaking, whether its stock connect, bond connect, mutual recognition of funds, increasing of QDII and general quota to invest, general regulatory changes. All of this adds to the potential and the growth that China is offering.

We've made ourselves a key centre part of that industry for a substantial period of time and, in the process, really established ourselves as a leading player in the Chinese market. Last year the first independent consultant research came out about rankings of managers. Z-Ben is the leading consultant in China. They've ranked us number one in out-bounds of flows of Chinese investors investing internationally, and number five in in-bound flows. We want to capitalise on that very strong position we've created in China and we want to do that through five specific initiatives.

First of all, building out a wholly-owned business. This is a lot to do. We have an office in Shanghai, in Beijing, where we invest, where we do research and where we service our clients that are not linked to the local business in the retail market with our joint venture. Regulation allows us to do much more and we have changed this wholly-owned enterprise, called a WFOE, from a consultancy WFOE to an investment WFOE. The next step for us, from beginning of next year, will be to be able to launch products in the private fund management space, which is recently allowed on the change of regulations.
We also want to increase our investment capabilities. Add analysts, add fund managers, to be able to be successful in the private fund management space, but also really capture what's happening on international flows coming into China. Recently MSCI included China in some of its indices and we think these flows, as the capital markets open up, will continue to increase. We want to make sure that we have the capabilities to service our clients globally. A third part of the strategy is around mutual recognition. This is a scheme that's devised in China, with Hong Kong, allowing it to sell Hong Kong funds into China.

There's only eight funds that have been approved so far, of five managers, and we've been the most recent one, two months ago, to win that mutual recognition. Our fund is by far - this is Asia Asset Income fund that we have in the Hong Kong region. It's by far the largest and most suited fund, we think, for the Chinese market and it has true potential to become a next engine of growth. The fourth strategy, or part of the strategy, is to continue to be successful in QDII, so the out-bound flows, where we're number one already. We've done that through the official institutions and we see a real opportunity with insurance companies.

Again, recently, insurance companies have been allowed to invest a higher percentage of their assets internationally and we want to be right there, working with them, in terms of helping them move those flows outside of China. The final part, of course, is to continue the success with our joint venture, which we believe is a core part of our China strategy. So that's China.

The second key initiative that can be transformational is Japan, but for completely different reasons. Japan, of course, is the largest market. It's extremely mature. It's probably growing at only about 5%, but we have a very low market share and we think we can do much better. The time now is there for us to really make that step-change, on the one hand, because what's on the institutional side of Japan with Abenomics, having a lot of institutions move out of JJBs into more riskier assets, starting with Japanese equities into global equities, global bonds, multi-asset, and that's been ongoing for a number of years.

We've seen a tremendous growth in our business, working with institutions in Japan and getting those assets, but we think this has quite a long way to go, and will continue to drive what we do in Japan. But probably the most single important thing is what's happening on the intermediary side, where there's been a fundamental shift on a regulatory perspective into how products are sold to retail investors in Japan, and particularly around the fiduciary responsibilities distributors have, as well as customer-oriented conduct.

If you go back in Japan over the last years, a lot of products were sold with a very short-term horizon, with a very high yield, very high pay out, often out of capital, not necessarily in the interest of the end consumer, which tended to be a Mr Watanabe, at 75 years old, looking for something slightly different. The regulator now has really got onto that and boosted the industry to a fundamental change into much more longer-term saving, products that make sense for the end client. It aligns very much with what our brand stands for and what our product line up is in Japan.

We've never really played that short-term, high-yield game. We think with the capabilities we have and how we expand - and we expand in client servicing, sales staff, general client engagement. This change in Japan will enable us to really grow our intermediary business substantially. As I said, of course, next to these two opportunities that can be transformational, there is the existing business, which is strong in a growth region. We will just continue to do what we do and adjust where we need to. Asia has a lot of the challenges that we see in the industry globally, a lot of the change that we see in the industry globally, but it is different.

One of the key differences - and particularly when you'll hear from Karl later - is that the tremendous growth that we've seen in ETFs in the US and, increasingly, in Europe, hasn't really taken place in the Asia Pacific region. There are very specific reasons for that. We believe, actually, an active managed platform is the right platform to grow in Asia in institutional and in intermediary. In institutional, we need to think
more around what we do, particularly, with insurance companies, as they look for external managers for balance sheet assets as well as they become, more and more, the dominant players in retirement.

In intermediary, we need to change our game, similarly, to some of the changes John talked about in Europe. Thinking more about how we engage with our clients, the effectiveness of that using digital means. Thinking about our product delivery. But by and large, we think that the dynamics will stay largely the same. We do not expect an abolishment of the commission structures you see in Asia and so from that perspective there are changes, but they're probably less extreme and less disruptive as you see, for example, here in Europe.

But you do see change in product demand, continuously looking for more outcome or income products that we've seen in the past. That will continue. Multi-asset will play a big part of what we do around product strategy, but, interestingly, also around private assets. Something that we expanded as a firm and we see a lot, particularly on the institutional side in terms of demand from Asia as well. I will conclude with that and open for questions. I think we're clearly very positive on what Asia has to offer. We think we're in an exceptionally strong position to capture that both of the distribution side and the investment side. We see the joint ventures that we have as a key part of our growth strategy.

**Q&A Session**

**Peter Harrison**

Thanks, Lieven. That's great. Any questions?

**Mike Werner (UBS)**

Thank you for that. It's Mike Werner from UBS. A question on the China growth strategy. In the slide I think you said you had about a headcount of four right now in Beijing. Where would you like to see that go in the next three to four years? Is that something where you're hiring local, or trying to maybe potentially import some talent there from staff here?

Then, with China, how does the - I guess, the economics of the intermediary model work? What type of retrocessions do you have to pay in order to get onto people's platforms, or through bank channels in particular?

**Lieven Debruyne**

The Beijing office has four people and that is literally just to service the large institutional clients we have in Beijing, as well as our relationship with the regulators. The slightly bigger office is Shanghai. But the fact is that we've done a lot of the servicing, historically, from Hong Kong. That's just because, generally, the licence didn't allow you to do much more. It was generally more. We started with a rep office and that subsequently became a wholly-owned enterprise. Now that we are under that licence we're able to do much more. We were looking to staff that up quite a bit.

Actually, some of the staff in Hong Kong know that it's only a matter of time before they'll actually move out to either Shanghai or Beijing. I think if I think about our growth strategy, it will be more onshore rather than servicing from offshore. But it will be a combination of finding people locally, as well as transferring people, perhaps, from other offices, particularly Hong Kong.

**Peter Harrison**
The other valuable thing is the investment team, which sits largely in Hong Kong from an in-bound perspective, because we've built 10-year track records in greater China, China onshore, which is both in equities and bonds, which will see a big part of that growth.

Lieven Debruyne

On the retrocessions, it's not that different from other markets in the region, so the distributors - on the one hand, we work with the global players that are also active in China, so, there, we just deal with either regional or global distribution agreements, so there's no change. The local distributors follow a very similar model. There is no pay to play or anything like that. It's just a fairly straightforward retrocession, but it's not fundamentally different.

Gurjit Kambo (JP Morgan)

Good morning. It's Gurjit Kambo, JP Morgan. Just two questions. Firstly, in terms of the JVs, are you - what restrictions do you have in terms of operating a dual strategy outside of the JVs in the markets you mentioned? That's the first question.

Secondly, I know wealth management isn't part of this day today, but can you perhaps just touch on the opportunities in wealth management in Asia?

Lieven Debruyne

I'll pick the first one. Perhaps you can pick up on wealth management. In terms of the restriction on JV, in China the joint venture is set up entirely for - it's for the purpose of selling public mutual funds into the retail - the local retail market. Anything outside that we can do ourselves, or we can set up other arrangements. It's very, very specific what it's set out for. In India it's slightly different. There, we generally have the agreement that we do everything through the joint venture. We have no direct activities in India ourselves that we don't conduct through the joint venture, and that includes also what we do on research and investment. There is a difference between the two.

Peter Harrison

I should just perhaps add that we don't consolidate those assets under management in our Group total, which - other firms take a different view. Those £56 billion and £7 billion are not part of our Group AUM total. Wealth management is, I think, one of those kernels which is - has opportunity, but, frankly, not - at the moment is of the wrong scale all together. You can see a great growth in the advisory business, and we look at some of bigger wealth managers who are growing their advisory business very strongly. We've built a traditional discretionary business in a similar manner to our discretionary business in Switzerland and in the UK.

The challenge we face is that we feel that, ultimately, those markets will go to a more discretionary grown-up model, rather than it being a trading model. But we're struggling to get traction with those today. We're talking about a couple of people in Hong Kong and a few people in Singapore. However, and there's a very big however, by having a presence there, there are a number of genuinely global families who want to have a global relationship with us, so the ability to transact for them and work with them in the region is important. If we could find the right opportunity, we would scale them, but, thus far, we've not found that opportunity.

We've not found the talent on the wealth planning side to give us confidence that we can grow it in the image that we want to grow it, so we're having to grow our own and wait for the market to come to us. Many of these positions in Asia have been grown over 30, 40 years. I think one of the strengths we have is that we can work with that, and see the market evolve, rather than being too short term about it. But
we shouldn't expect it to be making a contribution in, probably, my lifetime or your lifetime, unless we find something which isn't - we can't see today.

Lieven Debruyne

Well, it's interesting. Actually, your firm, on the private bank, has gone entirely to the discretionary model, focusing on the very high end. But it's incredibly difficult, because the vast majority of the wealth management business in Asia now, with the big private banks, is, indeed, advisory. It's a lot about providing leverage, probably working the balance sheet to generate returns for clients, rather than true wealth management as we see it here. That's, a bit, the conundrum in Asia.

Daniel Garrod (Barclays)

Good morning, Daniel Garrod from Barclays. I had a question on the institutional expansion strategy in Japan. You mention linking up with more DB pension schemes in Japan. Can you shed any more light about the size of DB pension schemes that might deal direct with asset management firms, or use - do the majority use institutional consultants? What kind of concentration there is there on global consultants as opposed to local players in Japan?

Lieven Debruyne

A lot of it is non-intermediated, so it is about building the relationships. If we look -

Daniel Garrod (Barclays)

Is it size threshold there are the smaller ones are more likely, or not?

Lieven Debruyne

There's a size threshold on our side in terms of the business we're willing to engage with, because it tends to be slightly lower-margin business. If you look at the financial institutions, that's full fee business on the institutional side. The pensions tend to be on the slightly lower end, so clearly you want the mandates to count in terms of the size to generate the revenue. It's just a segment where, again, we see the outsourcing expand, where, historically, a lot of them have just held such a high percentage of their assets in JJBs. They just don't have the internal capabilities to invest beyond, particularly Japan.

Clearly, the pension funds are large and the mandates are large, but, again, it's a segment where, historically, we haven't been as active. But now I think the - probably managers like ourselves are becoming a much bigger player.

Peter Harrison

The other interesting dynamic on that is the move direct to multi-asset through DGF type strategies, and not going through the traditional balance route, which has played very much to having a long-term track record for something which is a bit better than JJBs, but isn't the full-on equity experience. I think that's been a useful way of incrementally adding assets.

Lieven Debruyne

To answer your question on the size, it's - if I look at the institutional business, I think we expect that we'll be able to drive about two-thirds of our revenue from the financial institutions and about a one-third of the increased revenue from pension funds. That's where we look where the balance will sit. That's partly pricing and that's partly just the opportunity.
Thank you. It’s Chris Turner from Berenberg. One of the features of Asia has always been the fact that there's lots of different distributors by country, lots of different regulations. It's quite a high-cost place to operate. Yet, if I look at the revenue margins on slide six, the revenue margins in Asia that you're producing are similar’sh to say, the US. I guess, the two questions there is, one, am I right in thinking that at the moment a US flow would be more profitable than an Asia flow?

Then, secondly, as Asia grows, should you get some nice operational leverage coming through because of that phenomenon? Thank you.

Lieven Debruyne

I think it’s right. It's a relatively high-cost region to do business in, for all the reasons you mention, but it's also one where - if you look at our intermediary business, the margins are high. Generally, we've seen some margin pressure, but actually it's not been too bad, not too dissimilar to what we are seeing in Europe. The comparison with the US, Peter, you might want to make, but I think there is an amount of leverage that we can get from the infrastructure we've built, particularly if you then think about some of the big opportunities.

If you look at Japan, I think we really can get tremendous more leverage above what we've already built in Japan versus the business we're doing. There, the incremental revenue, I think, will be very substantial. Yes, clearly, you'll have to continue to invest. You can't - we see it as a region, but, you're right, that the countries, in themselves, are all very, very different and work in different ways.

Peter Harrison

I think that’s a really good point. The reality of - we talk about Asia, but the longevity experience in Taiwan versus a Chinese sovereign wealth fund, or something, is just chalk and cheese. Whilst we aggregate it up, actually, there are some things which are just meaningful at an aggregate level, because the spread is so large.

We're spot on time. Is there one more question before we move on? No, okay. One more presentation before we have a break. Karl Dasher, who's used - is Co-Head of our Fixed Income business, but today he's also Head of our US business, so he's going to talk about that.

Karl Dasher

CEO of North America and co-Head of Fixed Income

Make sure I can work this properly - great. We're going to spend a little more time today on a couple of things. Number one, more on the market landscape, because I think you hear less about the US from us and North America overall, so a little bit about the drivers in the market. Number two, as Lieven alluded to, the US is a destination of choice for global investors looking to invest in capital markets, so we do focus a lot on the dual-lens approach of how are we progressing as a distribution opportunity as well as an investment opportunity. I'll spend a little bit of time, more time than John and Lieven did, on the US as an impact in the investment opportunity side.

Now, one thing. I'm going to invert two and three, so I'm going to focus on size and nature of the opportunity in North America. Then I'm going to talk about a few of the strategic initiatives that we've undertaken. And, knowing that you're analysts and you want to look at some data, I'll give you some interesting data to talk about the progress towards goals.

First of all, the market overall. For Lieven, he's debating is he 14% or 15% of the Indonesia market. We had the same debate. Are we 14 or 15 basis points of the US market? We're pretty far down the chain in terms of market share, but that's the really great growth opportunity for Schroders overall.
We all know the North American market is immense. It's about a $40 trillion, £30 trillion market opportunity set. One of the things I like to point out to people is that, if you aren't careful, the pure size and complexity of the US market can overwhelm you. I think the only way to really succeed, especially for a firm like ours, where today it's about less than 10% of our global workforce - we have great growth ambitions, but it is very much an early-stage opportunity for us. The only way you can successfully navigate that is to get granular and get really focused on the fact that it's a market of markets with very distinct needs, and build your strategy around meeting each of those individual market needs.

When we talk about, for example, the institutional market, we don't just talk about the market monolithically. We talk about the market in terms of things like Taft-Hartley, which is a union pension employer market. When we talk about the state and government pension market, or the defined contribution corporate market, each of those markets have very distinct and individual drivers, which I'll talk about in a couple of minutes. The success in those markets really comes down to being very specifically focused and tailored to each market opportunity set.

What are some of the things that we're seeing in terms of drivers? Well, there's a lot of talk about passive. I would say to you that I think the industry has moved into a bit of a defeatist mode around passive. You see all the net flow data. We see that, basically, Vanguard acquires through net new business a medium-sized asset manager every year, which is quite an interesting phenomenon. What people lose sight of is the fact that every year there's a lot of flows in between active strategies that we can take advantage of. There's about $1 trillion in gross flow activity in the US in any given year that we can take advantage of, and that's just in-between opportunities.

We are seeing some secular growth inactive in certain areas. But if you take a look at it, for example, and break it down in the institutional market, you can see that US equities we're not very active. We are in small cap. But international, global, EM equities there's significant AUM and significant gross flows, over $200 billion in gross flows in that area, and that's a historic strength for Schroders. If you look at something like multi-asset, we see a very similar picture. Private debt, of course, is where you're seeing private debt and equity is where you're seeing a lot of pure net active flows, and that's an area that we're just starting to move into with Adveq and something that we're looking at in the future.

The bottom line is that you shouldn't be defeatist about the US opportunity. Yes, it's a complex market. Yes, passive has taken a lot of share. But we have significant opportunities to grow from that 14 to 15 basis point level, up to a much more meaningful share of the market, as long as we deliver on the value proposition. Now, speaking of the value proposition, I would argue that it's actually moving in our favour. People are starting to reawaken to the need for higher active value in their portfolios. I say that - if you take a look at the data from 2013 to 2016, look at the big change in attitude in terms of what the biggest driver of need is. In 2013 rate of return and funding issues was top of mind, at about a 40% level. Today it's closer to 70%.

The reasons for that is we're in a market environment in which plans are realising that they're not going to meet their hurdle rates taking traditional market approaches, taking a traditional 60/40 approach. They're not going to meet their return hurdle rates using purely passive. You're starting to see a shift in the market and awareness to the fact that they need to incorporate more returns-seeking capabilities. But at the same time, concurrently, we're seeing an increase in concern about funding rate volatility, liability management, so the construct in which people are managing as asset allocators is changing.

They want active management, they want active value add, but they want it done in the context of their strategic risks. That's where our solutions capabilities, integrated with our specialist investment capabilities, are really, really important to take advantage of this market opportunity. I'll give you a breakdown. I talked about it being a market of markets. Let's take something as monolithic as defined benefit. When you think of defined benefit, you think - you might think the needs are very similar across the board, but, actually, if you break down the market between, simply, corporate DB and government DB, you see a very different picture.
In the corporate DB market, the big driver is towards, what I call, basis risk minimisation. They have a very strong drive to minimise the volatility of the pension fund on their mark-to-market cash flows as an operating business. Government pension funds are very different. They kind of don't care about that. What they care about is not having to raise taxes on their constituents, so they're more returns seeking. What you see as a result of that is you see, in corporate DB world, a big increase in the amount of money being allocated to long duration strategies, risk mitigating strategies. Whereas, you look at the government DB world, much more going into private equity, much more going into international equities, returns-seeking active alpha propositions. The good news for us is we have opportunities to grow in both of those segments, but, again, you can't win by approaching it monolithically.

One of the great things I like to look at is stated intentions. We can all look at the past data and talk about what's happened in terms of market share evolution, but there's a lot of data out there. There's just been some Preqin, the institutional investor, where I serve on the Board of the US Institute, does a lot of work on this and there's a couple of other folks that do work, basically saying, looking out 12 months, 36 months, five years, what are your stated intentions in terms of evolution of your portfolio. One of the more pronounced things that we're seeing across the board are stated intentions to move more into, what I'll call, the illiquidity premium, so private assets, private equity, private debt, infrastructure.

These are all areas that we know that the market is heading into and areas that we're making investments as a firm overall, with infrastructure, Adveq, and there's other things that we're evaluating. What's important is they want it to be done within the strategic context of their overall plan, so making sure that we wrap that back into the underlying need in terms of mitigating liabilities, or meeting hurdle rate returns. We think that firms like Schroders will be much better positioned by having those individual specialist capabilities integrated with a solutions overlay.

Getting back to the market of markets, every single market opportunity that we're in, we have a distinct and granular approach to where we think we see near-term opportunities. If you take a look at public plan DB, it'll be more focused on returns-seeking assets, private assets, international EM equities, credit-focused fixed income. Corporate DB, much more driven around what we call liability cognisant investing, investing in long duration strategies but with an active component, or incorporating collaring strategies into equity portfolios. Looking at each market and saying, what really applies to that market in terms of the near-term demand drivers.

The thing I would take away from this is that, overall, Schroders has a great opportunity to build diversified success in the world's largest market. It doesn't have to be a silver bullet approach. I would say when we get into some of the data later, that's probably been the biggest evolution of our business over the last few years, is that we had really good financial success over the years, but the problem was it was highly concentrated in a couple of areas. What we want to build going forward is a highly-durable, highly-strategic business that's really important to a broad swathe of clients. If we can do that, we'll get a great durability premium to the business.

Let's talk about some of the strategic focus. Now, one of the things that you'll hear from us constantly is the need to have a balanced attack. Just because North America is a growth market doesn't mean that we have to be heroic in every area and end up spending a lot of money in futility. One of the more interesting decisions we made in the last couple of years is the decision to partner an intermediary instead of being a lone ranger going after the market. I can tell you we spent about two years doing quite a deep-dive study on what our strategy should be.

If you think about Schroders - and you've heard from Lieven and from John the significant success we've had globally in intermediary. You might say, well, why aren't you just replicating that in the US, because it's a great high-margin business. Well, the reality is that the market dynamic in the US had changed significantly. There had been significant consolidation of the wealth management platforms. Pricing power was moving from wealth platform, to wealth platforms from assets managers, and the last mile of
service was becoming prohibitively expensive. We entered this time period - when I came over in 2013, we entered that time period with 10 wholesalers in a market where you need about 80, wholesalers being the external sales people calling on the 80,000 financial advisors, when you really need about 70 to 100 to really be relevant in the market.

What we did is, we decided, instead of going after the market on a direct basis, as we do in Europe and in Asia, we would do it through a partnership. That comes with consequences. The consequences were, we had to reduce our staff by about 10% in that case. We took out those costs and we got some cost benefits on the back-office consolidation. But we also took a bit of a top line hit on the revenues. The net of it is, it was immediately positively accretive from an earnings perspective. As you'll see in a couple of minutes, we've actually seen a significant acceleration in growth. Running a balanced attack and understanding where you want to invest, versus where you want to cost optimise is very, very important to succeed in a competitive market like North America.

Concurrently with that, we've been making investments in the institutional direct. This is the market where we really think that we can win. Having a direct relationship with CIOs, having more robust relationships with consultants, these are areas where the great institutional strength and global breadth of Schroders can really come to bear. We're investing in that area and that's really where we want to place our bets from a distribution perspective. Then, finally, deepening our US-domiciled capabilities. Our approach there has been to be quite granular and quite focused. We acquired a few years ago a very high-quality boutique, US multi-sector capability, and we acquired a - last year, a boutique in high-quality securitised credit capability.

Both of those have been very successful from us, especially from an investment point a view, and, increasingly, from an asset gathering point of view. Concurrent with that, as you know, we bought Adveq, and we're in the process of integrating the Adveq US operation into ours. Finally, we've done some organic build, such as an EM debt relative team that's been successful for us on a global basis. Let's take Hartford as a case study. As I mentioned earlier, the rationale was straightforward. We entered the market at a time when the industry had changed, and the ability to really ramp up and scale on a fairly linear basis had passed us by.

We needed to do something transformative, and that transformative opportunity was Hartford. Essentially, getting out in the last mile of distribution business and partnering with someone who had about 10 times our firepower. The P&L impact was immediately accretive. To put it in perspective for you, when we did our analysis, it would have required about $15 or $20 billion of net new business over a three to five-year horizon with our existing infrastructure, not even including new people, in order for us to sit back and say, well, it's better for us to go it alone than to go with Hartford. We did that level of analysis and it made a lot of sense.

Very, very importantly it's delivering in terms of asset growth. We're now starting to see relevant market share gains in areas like international equities, EM equities, and I think we'll start to see it in other areas, like fixed income, as well. Already we've seen growth that's exceeded what we had in the past five years cumulatively, just in the first year of the partnership. We think we're in the early stages of this partnership and it's going to be a real value driver for us going forward.

Investing in institutional. I'm not going to give you a lot of metrics on that. I'll just hit on a couple of the high points, areas like Taft-Hartley. Having a specialist sales force that we go into on that is already generating very, very positive returns for us. We're on trajectory to build about a $1 billion business in that after the first 12 months. Evolving into less liquid assets and the nascent market for us is moving into defined contribution, which we're doing some ground level work on that. I won't spend a lot of time on this, but just to hit a few high levels, so we look at it through a dual lens, the investment AUM and the distribution AUM. The positive news is, in both cases, they've doubled or more than doubled in terms of contribution to the firm in assets.
Similar type analogy in terms of revenues. On the number of headcount - and I know you'll be thinking in your head, well, does this require a lot more investment going forward. The delta in headcount is about a third, a third, a third. About one-third of the headcount were job relocations that were net headcount neutral, taking capabilities that we had here and moving them to the States, but on a headcount-neutral basis. About a third was acquired headcount that came with the business. About a third has been organic investment. How are we in this evolution? This is what we look like today in terms of the overall business structure.

Now, the big thing we've had to overcome is the collapse of the commodities market. That was about 10% of our AUM, but it was closer to 25% of our revenues. In the course of this transition we've overcome about a 95% decline in that market. We all know what's gone on in commodities markets. That was a pretty big hurdle to overcome, but I think it underscored why having strategic capabilities in fixed income, strategic capabilities in international equities, very, very important. Much more stable asset drivers for us.

You can see here, again, the diversity that we're seeing in terms of the market segments is also improving. Of course, US institutional is our bread and butter market, and where we would expect to continue to grow, but we're starting to see good growth through the Hartford partnership and branded intermediary, as well as Canada institutional. The only area we've seen a decline in growth in market segment is in sub-advisory, because of the loss of the Prudential mandate. From an asset point of view, we're making a bigger and bigger impact globally. Lieven talked about it. The big driver here has been in corporate credit, which is a purely organic initiative. We've become a destination of choice for key strategic investors in Asia, looking to invest in US corporate credit.

A couple of things to close out on. Very important to us is building our brand. We've had the opportunity now to upgrade our premises. We were coming to the end of our lease, went into the market, and we found a great new headquarters for Schroders in Bryant Park. Now, before you go and issue reports saying sell on egregious selling of capital by Schroders, I just want to make something clear. We got a branded opportunity, in a brand new building on Bryant Park, at less than an organic grade A building lease on Park Avenue, and much less than what you find in the Plaza district over there, where Nine West 57 and those areas are.

This is a very judicious expense in terms of what we were able to accomplish. We've set up a home now that's going to be a good home for the next 15 years, with our own branding on the front and in a good part of the market. This is very, very important for Schroders, building a brand in North America. Not just important for our North American opportunity, but when clients from around the world come to the US and sit down with us, they're in a high-quality environment that speaks highly of our commitment to the market.

Just to close, looking forward, what are the key things? Number one, maintain momentum in the Hartford partnership and further develop our direct to CIO-led high net worth capabilities. Further invest in our institutional opportunity in the market of markets, that is, the institutional market. Continue to deepen our private asset offering, right now, with the primary focus on the Adveq integration within the US operation.

With that, I'll open for questions.
Q&A Session

Peter Harrison

Thanks, Karl. I think you get a very different flavour for that business from our Asian business, but I think the contrast of the two beside each other I think speaks volumes. A couple of questions down the front here.

Charles Bendit (Berenberg)

Hi, it's Charles Bendit from Berenberg. I just wanted to ask about the private markets business. Adveq is, I think, $7 billion, and it seems like a $1.5 trillion investment opportunity. Is that something that you plan to grow purely organically, or is there scope for further acquisitions there?

Peter Harrison

Both. What we inherited was a really strong investment capability and that, to our mind, is the core. Unless you lead with investment quality, you might as well forget the rest of it. But there is an opportunity to do two things. One is, expand what they do and the second is broaden the range of what it is they do, so expand what they do into new markets. If you look at their business today, they have - I think the numbers are something like seven of the top-10 German pension funds, seven or eight of the top Swiss pension funds, insurance companies. They really dominate those markets. They've got a couple of marquee clients in the US and the UK, but really there that's untapped. Taking that geographically, but, more importantly, taking the products that they do and then using their capabilities more broadly. I think we will do both.

But effectively what you've seen over the last 12, 18 months is we've added capabilities in infrastructure debt. We've taken a control of Secquairo in terms of insurance debt securities. We've taken a stake in NEOS in terms of direct lending. We've ramped up investment in our own real estate business. Adveq is another part of it. You should expect that that move, in broadening that capability, we've recently brought all those businesses under a common leadership, so they have - we'll go to the market with one product rather than with five. That's the way we'll go with that. You should expect both.

Tom Mills (Credit Suisse)

Thanks very much. Tom Mills from Credit Suisse. I also had a question on Adveq. How much AUM are you actually running for US clients at the moment and how are you distributing that product in the US?

Peter Harrison

The AUM of Adveq in US?

Tom Mills (Credit Suisse)

Yes.

Karl Dasher

It's about 10%.

Peter Harrison

It's about $700, $800 million, something of that order.

Karl Dasher
There's a lot of growth opportunity there. When you look at Adveq and STW, the two - two of the acquisitions, one of the interesting things we found is it actually put us in a position of having about 25% in terms of market share, in terms of client touchpoints in the largest endowment foundation market. Now, there's a lot of cross-selling opportunity there as you build those relationships. Some of the STW clients, where we have fixed income relationships, can become private equity clients, and vice versa. Our first port of call will be our existing clients, but as we continue to expand in these domains we'll see more and more opportunities to win market share within that, both in terms of client expansion as well as share of wallet.

**Peter Harrison**

The US is a very different build out, because there aren't clients in Europe that have not heard of Schroders and probably don't - most of them will own one or more of our products. In the US it's about acquiring client capabilities in order to scale them out and cross sell, so we're in an interesting opportunity.

**Peter Lenardos (RBC)**

Good morning. It's Peter Lenardos from RBC. I was just curious if you're still targeting 20% of your overall AUM to come from the US. If you are, if there's a timeline for achieving that goal.

**Karl Dasher**

I would say we still are. I would call more revenues than AUM. I think, to Peter's point earlier, it's more about revenue contribution. I look at it both ways, Peter. Are we enabling - through the asset lens, are we enabling more of the global growth as well as are we capturing more of the US opportunity set, or North America, I should say? Yes, I think 20% absolutely is the right target. Look, we would have been a bit more advanced if we hadn't had things like the commodities market decline, and the Prudential mandate went away, but I think that underscores the strength of what we're doing, that we've been able to overcome two of the biggest hits you can imagine and still be advancing on the goal.

In terms of time horizon, it's the old market analogy. You can give a price, you can give a date, but never give both, so I'm not going to do that, because I don't want us to be - and I don't think Peter wants us to be tied into being forced to do things just to hit metrics. What I would say to you is, we're very, very confident that we're in the early stages of this growth trajectory. As long as we continue to deliver on the investment proposition, we should get there in a fairly three to five-year horizon.

**Peter Harrison**

I think the other thing is, we've got a denominator to take into account. You've heard we've got two growth businesses here, both of which are growing pretty quickly, which is raising the bar for him every day.

**Karl Dasher**

They don't stop and wait for me to catch up. I try to convince them to, but they won't listen.

**Hubert Lam (Bank of America Merrill Lynch)**

Hi, it's Hubert Lam from Bank of America Merrill Lynch. A couple of questions. Firstly, the Hartford partnership seems to be quite successful. What's the possibility of potentially doing another type of partnership with another institution?

**Karl Dasher**
Not in that space. Really, for us, that's a very focused area and it wouldn't make sense for us to have multiple partnerships in that domain, or that last mile. For example, to the Merrill advisors in your network, we wouldn't want to have two competing entities going after that. What I would say is there is opportunities to partner in areas like variable annuities with insurance companies. That market has been quite dormant. We've had some decent conversations, but it's been very, very slow. If that market starts to pick up again, I could see partnerships there start driving. Those tend to be fairly chunky wins when you get them. They tend to be $500 million, $1 billion types of allocations. So that's an area where I think we could see more upside opportunity.

**Peter Harrison**

Canada's the other part of that as well, where it's been a very undisrupted market and probably opportunity for a bit of product innovation as well.

**Hubert Lam (Bank of America Merrill Lynch)**

The second question is on, you recently lost the mandate for Prudential which they took inhouse, is this going to be a trend going forward where other of your clients take the investments inhouse?

**Karl Dasher**

Well, you know it's interesting. If I think through the clients, those who could take it inhouse, we really don't have many left who could do that. You have to have that kind of depth...

**Peter Harrison**

That's a US comment by the way [laughs].

**Karl Dasher**

Yes, I'm not talking about anywhere else in the world. But if I think about the firms that have the wherewithal to credibly bring a big mandate inhouse, what I think you will see - and I spend a lot of time scouring the Public Plan IQ database which you can go through. If you don't know it, you should get it. Every public pension fund in the US has Freedom of Information Act disclosures. You can go and search it, so I spend a lot of time reading those. What you'll find is some of those large investors are internalising certain capabilities, things like very structured bond portfolios, et cetera. But none of those are people that I would say we're at risk with. What it does is it just changes the opportunity, you know the market side, the opportunity side. But I don't see any kind of internalisation moves coming from anybody.

**Peter Harrison**

I think at a global level, if you just take that, the market where it's been most pronounced and where it's hurt us probably the most over the last three years has been Australia. Where some of those really big super funds have said, look we're just fed up with paying it out in fund manager fees, we're taking it inhouse. You're starting I think to see the created destruction of that go on. So they've taken it inhouse, they've had a horrible experience. They realise that if you're effectively a local authority, you can't hire the talent you want to hire, you have awful performance and, frankly, the cost of your performance is much worse than the fees you're paying to managers. So it's a bit like life companies over here; years ago they went through the same cycle. People will carry on trying it.

But we - at a global level I think where you've got these very large, relatively low-fee mandates, I think we are at risk from people saying let's look at taking them in. The revenue hit is always much, much less than the AUM hit. The great thing with focusing on AUM for you guys is that you'll think they're much more significant than they are. But I do think it's really important that we accept that as part of the market
dynamic and what goes around comes around. But you're seeing a lot of insurance companies the world over looking at what they do, saying we either need to internalise it all or externalise it all, and we'll be both winners and losers on that one.

**Karl Dasher**

Yes, I would - just to comment on Peter's point. What we look at internally with a mandate like Prudential is we have to make up about $0.40 on the dollar to break even on a revenue perspective. I think more and more in the active management community, and not just at Schroders, we're all going to have think hard about what do we want to accept in terms of pricing and being more stringent in certain areas to manage capacity well. Frankly, we're making active decisions about that and there's some cases where we might decide to fire a client if our goals just don't align. So don't get caught up in the noise of the big picture, as opposed to the bottom line; that's what we want to drive.

**Peter Harrison**

I'll take this one other question, then we'll have a cup of coffee.

**Anil Sharma (Morgan Stanley)**

Thanks, it's Anil from Morgan Stanley again. Just if I take you back to your beginning slide with the prize and the market outlook, I think you're expecting a slowdown in growth for the next four years. So I'm assuming that is partly markets and partly flows. So how much market share gain do you need just to kind of keep things - well, sorry, just to deliver the growth you have been doing so far? Then how much I guess additional market share growth or gains are you looking for?

**Karl Dasher**

The beauty of being 14 basis points over market is it doesn't take a lot. So we don't have a situation where the market flow dynamics are really the driver for us. The primary driver for us is are decisions being made, is there inertia within the system? We're starting to see things break through. So take, for example, the Taft-Hartley market, they're disinvesting for hedge funds and they're moving into multi-asset and we're one of three players who are winning that. As long as their multi-asset proposition continues to hold up in terms of its investment proposition, I expect us to continue to take market share for about a year to two-year window until that exhausts itself and people place their bets.

I think you'll see similar things in international equities where we're picking up market share. I think we're on the verge of seeing a new drive of assets moving into long duration from corporate DBs, and we want to be well positioned for that and we're doing a lot of marketing around that. So the bottom line is, I don't pay attention to those big market numbers. Because right now I'm just in a takeover game and I won't worry about those big market numbers. Because right now I'm just in a takeover game and I won't worry about those big drivers until we become a lot bigger, and we're a long way from that. What I do worry about is paralysis. I will say that probably the most disappointing thing - and it's just part of the game - is that the decision timeframe has elongated with a lot of institutional investors.

So it used to be you bring in a new salesperson and you think it'll take them 12 months to really get up and running. Now it's more like 18 to 24 months. We're starting to see that payback occur, but it's been a bit of an elongated payback in some of these investments, but we're starting to see that. I've talked to others in the industry and I'm hearing the exact same thing.

**Peter Harrison**

They're starting almost from ground zero in many respects with this business. Three years ago we couldn't hold an institutional conference in the States, last year we managed 50 people to come to our conference, this year we've sold it out. And that ramp in client acknowledgement to come and talk to our
capabilities. So the second point I'd make is - Karl alluded to it - the liability cognisant piece. If you think about the size of what's gone on in the UK in terms of the de-risking of UK pension funds, the UK's been a leader at taking risk off the table and moving into growth assets and liability matching assets. US corporates are looking at it, and many of them are pension funds with corporates attached to the side of them.

Figuring out that transition is something that we've got great expertise on. I think it's not there yet, but my god it's being discussed across the US on a daily basis. I think as you see rates tip up and those liabilities come down, people will more and more look to lock them in and start to manage them out. We had one more question and then we'll stop for a break.

Abilash P T (HSBC)

Hi, it's Abilash P T from HSBC, I've just got two quick questions. First, I want to see what the longevity of the client assets in the US in institutional and intermediary were, compared to probably Europe for you, just to have an idea. Secondly, after STW and Brookfield's, do you feel there's any other areas where you could potentially do a sort of infill acquisition for asset capabilities?

Karl Dasher

So on the - I don't have the exact number on the - and sometimes those numbers get skewed by like - you get Prudential going out and it just drives it. What I'll tell you is that the STW client base, for example, when they came over, their average longevity was 14 years. That longevity has maintained very steady with us since it's come over. So as you get into more strategic types of conversations, you get higher longevity. Whereas things like commodities, you do well when the market's doing well, but it tends to be a more temporal relationship unfortunately. So in general, the longevity profile of the business is moving up.

On the intermediary side with Hartford, what we're modelling is a longevity of about 4.5 years. So in current kind of growth projections, we probably had three or four years of growth before we'd have to see another leg, and that's when you get to about $10 billion, before the natural recycling starts to negate and you have to find other ways to drive growth. So that's how we think about it, about a four-year longevity on the intermediary side and a blended average of about eight to nine, but more like 12 to 13, on liability cognisant. On acquisitions, we're looking at things...

John Troiano

Can I just say one thing on longevity? The most striking statistic you might want on longevity for the US is that our largest institutional relationship is Vanguard. We won it in 1982, so it's been there for 35 years and it's had three fund managers over that period.

Karl Dasher

But that's a good point. Vanguard just flows in and out, so how do you define longevity, the relationship or the flow?

So I think that's also - so that's why I try to - it's a more nuanced answer. On acquisitions - and we're not going to - I mean Peter should answer that, but I don't think - I think he's made it clear, don't look for us to do some big, multi-product thing. But to the extent that there's interesting things like we've done with Brookfield or STW that fit culturally, fit strategically and work financially, we'll consider them.
Peter Harrison

I think Brookfield was a really interesting case study of a relatively small acquisition price, a team which came across, brought with them a huge amount of IP on vast numbers of commercial mortgages, etcetera. But since that team came on board, the assets have grown 30% by plugging them into the Schroders' network globally. I think that's the sort of deal where we can really bring something to the table rather than just providing some seats for people to sit, and that is what we look for when we do these deals. There's no point in us buying revenues or buying assets to hit a 20% target. What we want to do is bring something to the party so we're actually making something accretive for shareholders.

On that happy note, we've got 20 minutes for a cup of coffee, make any calls, and then we'll carry on with product innovation. Thanks guys.

Peter Harrison

Group Chief Executive

I'm really pleased, I thought you might not all come back, so thank you for that. So we had three very different businesses at very different stages of evolution and I think that's quite an interesting contrast. But rather than doing it geographically, I want to sort of look rather more thematically across the business. How do we get to market and how do we think about the product proposition? So we've got three quick-fire presentations before we move on to data. Then perhaps if we could do all three very quickly and then we'll come back and Richard will take questions with the other guys at the end of those three presentations. Thanks.

Richard Mountford

Global Head of Product Division

Good morning, ladies and gentlemen. Since I joined Schroders almost 40 years ago - somebody reminded me of that in the audience - the firm has been known throughout that period I think as a company that offers stability, consistency, reliability, staying power; if you like the staying power to last through, to test our clients' outcomes against what we've been delivering for them. Those are all good things, but I think that we've perhaps not got the credit we perhaps deserve for the fact that the firm is incredibly innovative. In all the time I've been here, this is a relentlessly entrepreneurial firm. That's taken different forms at different times. In the '80s and '90s, dots on the map, new sources of places to invest and new sources of clients. In the noughties, new channels to develop the business from a DB business to one which has DC, insurance, sovereign wealth, official institutions, retail brand and mutual funds.

But pretty much since the crisis, the battleground for being entrepreneurial has been the product palette of the firm. This is a business which generally likes to say yes to good ideas and has the capital and the staying power to incubate new ideas and to take them to market and to develop the business that way. So in the next few minutes I'm going to give you a bit of a guide to what our product strategy is, where it's heading. Lift the bonnet a little bit to show the things that we have been developing and how we then try to develop a growth strategy from that and then how we communicate that to all the stakeholders.

The first thing to address, however, and get right to the meat of it, is perhaps the active and passive bit. Our strategy, ultimately, is to offer outcomes to clients, solutions to their savings requirements and needs. Often that's in conjunction with passive providers as well. We're unashamedly an active provider and we think there's lots of growth in areas where clients will want and need to use an active solution.
These come in six or seven different areas, but I’ve grouped them in three blocks here. One of them is about outcomes, things like income, retirement, absolute return. Solutions generation; effectively looking at the problem holistically and finding different ways to solve the problem and work with clients on their risk and governance budgets to deliver an optimal solution to their problems.

One shouldn’t forget that all of our clients have very different outcomes that they need to achieve. Different timeframes, different risk budgets, different governance budgets, they have different reporting requirements, different transparency requirements, they perhaps prefer different wrappers. So we actually have to be in the business of customisation too. Customised solutions; taking the very best that we provide, sometimes adding passive bits to that, gives rise to comprehensive solutions that I think will stand the test of time. Karl made reference to the fact that a 60/40 equity bond solution in the United States for the DB market may not be a very viable idea for the next 40 or 50 years. I’d rather agree with that; asset allocation needs to be much more dynamic. Ultimately, dynamic asset allocation across many different asset classes is something which ultimately is both customised and not really passive.

Turning to the most traditional area where people use active managers, these are typically in the areas of high alpha. Again, Karl made the point that the market is moving to realise that return requirements are beginning to be slightly higher up the list than they have been. Lieven made the point that growth has been typically the goal of choice in Asia. So investing in inefficient markets, investing in significantly higher alpha products is a traditional area for active management and it’s a strength of the firm.

Turning to engagement, a lot of our clients are expecting us to invest in a particular way and to interact with companies that we invest in on their behalf. We actually need to demonstrate our societal good. We allocate capital effectively. We support retirement provision. We are working hard on engagement and sustainability in ESG, which has been a constant feature of our equity processes and fixed income processes for many years. These are areas where clients still want, and will want on a sustained basis, active management to play a role in their portfolios.

When we actually talk about solutions, I think that there is an element of financial engineering and overlays in those capabilities we have in a large solutions team that exists both here and has staff around the world. We add that to some of the many capabilities we have underpinning that to give rise to a more comprehensive solution. When I said that we were pretty innovative in this area, things like income maximisers where there's a financial overlay on an equity product to generate income, we were one of the first movers. So these are areas where we can add bits of the business together and deliver enhanced outcomes through the power of active management.

Putting that together, I’ve put three building blocks here of where the product strategy is heading. Areas which focus on solutions, asset allocation, outcomes, income, absolute total return, inflation, dealing with risk management for balance sheets for banks and insurers, de-risking DB pensions. All of these sort of things are solutions where active management and the strength of the multi-asset capability in the firm comes to the fore.

In alpha generation, it isn't just long equities. There are hedge funds, our hedge fund platform GAIA, emerging markets which you’re going to hear about in a minute, a significant commitment to credit, not just globally but European, also in securitised areas, high yield and so on. The effect of China entering indices; a very inefficient market suddenly being a large representation potentially in global markets. All of those point to quite strong growth opportunities. Lieven mentioned how we intend to go about this in China. But this has been a 10 or 15-year journey and we’re very well placed to address that. All of these areas are part of our growth strategy, but areas we've invested in significantly.

On the right, I've put private assets. It's just one of the areas where passive doesn't do the job. There aren't generally passive alternatives for real estate, for private debt, for infrastructure debt, for insurance-linked securities, for direct lending. But also in the public credit markets, I suspect where the
passive alternative generally doesn't do the job. We, therefore, feel that we have much to add in these areas and will be strong areas of growth for the firm and strong areas of sustained client demand.

I think that when we talk about demand we can look at this through a current lens but, as Karl said, we have to actually have a good idea as to where this is going. We can use a lot of data insights to look at information that's trending. There are many, many sources of information. The various services about future intent for clients are helpful. But we shouldn't forget we have probably over 2000 distribution agreements, we probably have well over 1000 institutional relationships where we can ask these questions directly. We can engage with our clients to get an idea of where they're heading, what their issues are and what they expect to need in the next five or 10 years. That underpins our confidence in some of the areas I've talked about.

This particular chart shows, on the left, how we commit seed capital to incubate new products and ideas. I said at the start it's a firm that likes to say yes. We have, therefore, over £400 million committed to seed capital to develop new strategies, and you've seen that it's risen quite sharply since 2014. There are a number of reasons for this. One, we wish to develop new strategies in private assets, in multi-asset, in absolute return, and quite often the amount of seed that you need for any one of those strategies is greater than seeding just a straight long equity portfolio. In multi-asset the number of asset classes involved, in private assets sometimes you have to co-invest with clients. So inevitably, as we start building our capabilities in these areas, we are incubating more and putting more seed capital to work.

But is it worth it? The chart on the right is an attempt to give you an impression of this. There's no magic number with this chart, there isn't a good number. What this is trying to say is how much of our five-year revenues in each of these periods came from products launched in that five-year period. So the oldest product in each bar is five years old, the youngest is one day old. That's not to say those products are in any way near maturity, but it gives you an idea of what percentage of revenues come from very young products.

In the five years '08 to '12, it was 12%. Now to give you an idea of how rapidly client demand is changing - and this is the point of this slide - it's now been running at 23% for the last three five-year rolling periods. It means almost a quarter of our Group's revenues come from new products. But that's a quarter of a rapidly rising revenue line, as you know, over those five-year periods. The heavy lifting - 75% or 77% - comes from older products, but new products are an increasing percentage of our client needs and it reflects our effort to get new products to market. It isn't that this is a good number of bad number. It just reflects the idea that client demand and where it is located is changing, and reflects our attempt to meet that through new product innovation.

For us to be able to put our strategy into practise, we need to be able to identify areas of demand that give us the chance to deliver a valuable outcome for our clients; value for money, valuable to them, something which helps deliver the whole firm and puts what we do in the context of their total needs. We are looking, as I say, for areas of growing client need. Perhaps the previous chart demonstrated that fairly effectively, that that need is changing and changing rapidly. It is perhaps no surprise that some of that change comes from interest rate levels that might not be sustained, but a lot of the change is fairly permanent. It's hard to imagine UK pension funds in DB starting to re-risk, and I think it's very hard to see us turning the clock back on Solvency II on the insurance balance sheets. All of these sorts of changes are there to stay and create demand and secular growth for the solutions that address those problems properly.

Where we identify demand that meets our current capabilities, that's fine. Sometimes we need to add capabilities and you've seen that through additions in private equity, some organic growth in real estate. Indeed, as we go forward, adding capabilities that meet those client demands are actually the driver for new products and new solutions. Many of these are areas of existing strength and currently quite a large book of business. However, some of them are very aspirational; in private assets I think we're at an early stage of our growth. However, these are the drivers of our product development, these are the drivers of
client need for active management and they're the core of where we're devoting the resources in terms of financial resources and human capital.

One of the presentations earlier talked a little bit about the challenge, when you have such a broad, diverse product range, of delivering the whole firm to clients so that they see you for more than just one of those strategies, but also actually make a statement of what we want to be known for. Yes, we have a broad, diverse capability and we have very solid foundations in our business built up over decades. However, the future is probably encapsulated by these 10 areas that we put on this slide. They range from outcomes such as income, absolute return, retirement, risk management. They talk about some components where we're into inefficient markets and things where passive does a poor job, so credit, private assets, emerging markets. It also focuses on solutions where active asset allocation and active solution customisation is critical, so things like multi-asset solutions. And, finally, engagement where our clients increasingly expect us to demonstrate the societal value that we deliver to them as well.

Those 10 areas are the drivers of our growth going forwards. These are the 10 areas where product strategy and product development is at its peak. 2017 is a year where we have launched and incubated more products than any previous year. It is a reflection of us moving the product range to meet this map. These are the drivers of the growth for the firm. In the next 10 or 15 minutes, you're going to hear about two of these, emerging markets and income. One of them an area of very inefficient markets, and another an outcome. These are two areas of current known strength, significant books of business. So with that, I'd like to introduce you to Alan Ayres who is the product director for the emerging markets group of products. Alan.

**Alan Ayres**

**Emerging Markets Product Director**

Thank you, Richard. So now we're going to talk about emerging markets. Now we all know the importance of emerging markets in the global economy has increased significantly over the last 20 to 30 years, with the developing world now representing around 40% of GDP, driven of course in large part by China. We also know that their capital markets do not reflect this importance. Emerging markets equities and debt are around 20% of global markets. When we look at the most widely used benchmarks, that underrepresentation increases even further.

So we're not here really today though to talk about making a case for investing in emerging markets. Instead I'm going to talk about a few things. First, about our capabilities and how we can help clients navigate this asset class. We'll also take a look at why we think client demand is likely to remain strong in the future. Why gaining access to emerging markets is best done via an active approach. Then we'll finish very briefly with some high-level views on how we've performed and some thoughts on our future plans.

You've heard Richard mention that we've got a strong record of innovation which is often overlooked. I think the same applies to our emerging market capabilities. Some clients in some markets know of our strengths, but we're not as well-known as we should be so I'm going to try and put that right today. The slide that should be up there will show that we've got 118 emerging market investment professionals in 12 investment centres. Just to be clear, those are investment centres; we've got a number of offices in other emerging countries where we have distribution capability.

Now this gives us one of the largest, deepest and most experienced teams in the world. As you've heard on previous presentations, we've been present in those countries for an awfully long time. I mean it goes back decades, but we can go back even further. Just to give you an example, in the nineteenth century we were doing business with clients that were either in these markets or trading with these markets, and
that included Brazil, Russia, India and China. So apologies to anybody from Goldman's but BRIC is not a new concept to us at Schroders.

Of more relevance I guess though is what we're doing today. It's not just that we have people based in these markets. Again, as you'll - a lot of the themes will be echoed through these presentations. You heard earlier again from Lieven, we've built up a lot of local-to-local businesses, particularly in places like Indonesia and our joint ventures. So we can put that to work on behalf of our clients. Now not only do we have extensive resources, but we've also got scale. We have £51 billion under management, it makes us one of the largest emerging market managers in the world. Indeed, we think we're probably in the top five.

But what's important is the breadth of our product range which spans emerging market debt absolute strategies through to quantitative equity. Now this traditional split shows that it's unlike some of our other large competitors, we don't just specialise in one area. Some of these strategies will be well established, others are still in a very strong growth phase. One of the reasons for this is that we've always been conscious of the capacity challenges in this area, so we've been smart about our product development. You may also be aware that we allow our teams to develop their own investment processes which can lead to different views. This won't change. When we talk about our capabilities, it doesn't mean we have a common investment approach or a house view. But what does this all mean for our clients? Well the scale gives us fantastic access, and our local presence and knowledge means we can generate growth insights.

But we can also look at our assets through a different lens. What I've done here is to group the products by their capability by their volatility and their exposures. In this way we can start to think how we can take our existing capabilities and combine them in different ways to meet client needs. I'll illustrate this with an example. I was speaking to a client recently who was looking for a best-ideas strategy regardless of whether those ideas were in debt or equity. They also wanted downside protection and had no interest in traditional benchmarks. So we began to explore the possibility of creating a truly integrated strategy, taking our absolute debt return business and our equity capabilities. So this, again, illustrates the flexibility that we can put to work for our clients.

Moving on very quickly, because I know we're sort of getting a little bit behind on time, first a quick comment on demand. Again, you've heard comments on this before, but emerging markets are a key source of growth for savers. The left-hand chart shows US pension funds, public pension plans, and you can see that they're still targeting quite aggressive growth figures. As the return on risk-free rates has fallen, more of the heavy lifting has to be done via growth assets, and emerging market fits that. So savers in the developed world are going to continue to look to emerging markets. On the right-hand side, again you heard from Lieven, these institutional markets are underdeveloped in the developing world, pension markets are still at a very early stage. So we think there's significant growth for our business selling product and solutions and outcomes to clients in the developing world.

On to why active, again this is pretty straightforward. The left-hand chart shows the case for active in emerging equity is very plain. The bottom line shows that the returns delivered by passive ETFs, that's the median five-year rolling return, underperforms net of fees as one might expect. The top line shows the median active manager outperforming. Now I'd like to do the same, show you the same chart for the emerging market debt, but the data's just not robust enough, there's not enough data out there, there are not that many funds. But what we've done here is to take a look at the two largest EM debt ETFs and both significantly underperform. But what's more important is they don't really represent the asset class. They tend to target just the sovereign debt market, and two-thirds of the opportunity in emerging debt is in corporate and the local bonds, local debt.

So how have we done in performance terms? Well our performance track record across our emerging market product range mirrors the fact that active is the way to go. The vast majority of our assets, which are measured against benchmarks, outperformed their stated benchmark over one, three and five years.
For our range of Luxembourg domiciled mutual funds, which are public peer groups and is our largest fund range, more than 70% are first or second quartile over each period.

So just to conclude, what are the next steps. First, we're going to increase the focus on using the full range of our emerging market capabilities to produce growth outcomes for our clients. That'll inform our product development as we continue to expand the number of building blocks to create additional flexibility. Product innovation is going to be central to capturing the emerging market growth opportunity. Second, a lot of our past growth has come from helping investors in the developed world gain access to emerging markets. But in the future there's plenty of growth to come from both that source and a huge opportunity, as we mentioned earlier, to provide outcomes to savers in the developing world. Given our longstanding presence in many of these countries, it's one we're ideally placed to take advantage of.

Finally, the economies and capital markets of the emerging world will continue to grow in importance, and investors will have to have a view, they will have no choice. Consequently, they're going to need a trusted partner to help them navigate that opportunity and Schroders is that trusted partner.

I'll now hand over to Rupert who's going to talk about our income capabilities.

Rupert Rucker
Income Product Director

Very good, thank you very much, Alan. So I'm going to discuss and investigate something very different, which is really all about income. I'm going to, in terms of the next 10 minutes, look at really three things. So, one, is to look at what the client need is. Now that may seem obvious because income obviously is quite a common word across the industry, but I'm going to look in a little bit more detail about actually what clients want. Then most importantly, have a look at how Schroders can deliver that need and how well positioned we are, especially in terms of product range.

So this is a survey we conducted a couple of years ago, but it remains incredibly relevant today. We went around our clients all around the world, it was a very extensive survey, we actually looked and questioned well over 30,000 of our individual clients around the world and said, why would you buy an investment product? Well 87% of them said, I would buy an investment product for income. So that's a huge percentage and we took that on board. It was interesting when we asked them why that their answers were not just because of low interest rates. That certainly was an answer, but it was other reasons. One of which was, actually investing in a product that provides income I feel much safer, and this was particularly pertinent to clients in Asia. Others said, actually I want to derive income from an investment because I want to reinvest it because I know about the power of compounding, et cetera. So it's not just because of low interest rates, there were other reasons.

Now another question we asked them was, that's fine but how much income do you want? This was very interesting. A majority came back to us and they said - and this was 2016, again it's completely relevant today - actually I want at least 4%. Now we've been in an era of low interest rates for 10 years now, so it's not as though they were saying, well I want that and by the way I can get it. But they're actually saying, for me to take the risk and bother to invest in an investment product, I want you to deliver 4% and that's your job. A big chunk of people were saying, actually I want 6%. And a not insignificant amount of people were saying, I really want very high rates of income, I want at least 8%.

So rather tangentially I'm going to investigate why and then how we can help. So let's have a look at why. Now actually the buyers of investment product around the world are mainly the two most recent generations. So they're the baby boomers and the generation X. The fact is that these generations have
had a very, very good time in financial markets. So we're showing you here historical real returns on the basis of those two generations investing up until now. Now these are real returns. So remember in the past we've had very high inflation, but they have actually achieved very good returns from taking the risk in investment markets. So they're actually quite reasonably and naturally saying, actually I want that to continue in terms of using your services.

Just to demonstrate this, I found this in my father's files the other day. So this is from 1986, this is actually a UK savings certificate. Now remember that's tax free, it's risk free and it's five years, and inflation in those days was actually not that high, it was 3.4%. So the shame is he only put £5000 in you can see right at the top, but probably all he had. But that just shows you the kind of experience that people have had and, as we'll see in a minute, they're not going to get again. Because if we look forward from today - and this is using third-party, but if you would speak to our economist team, Keith Wade and the others, they would resonate with this - where we are in terms of interest rates, actually future returns look very, very modest. So our clients are saying, we want 4%, 7%, 8%. The reality is financial markets are unlikely to produce that. But, still, that is our challenge and if we're going to actually grow and win new clients, delivering that's going to be important.

Now you might say those low returns are an anomaly considering the returns of the past. Well, this is an interesting slide. So these are UK interest rates going all the way back to the 1700s. There's really not many countries that you can do this with, there's the Netherlands and that's about it, and the UK. But actually, if you were to go to the 1800s, the US interest rate market looks quite similar. The point is, the anomaly is not low interest rates, the anomaly historically is high interest rates and they happen to have occurred in our lifetime, especially in the lifetime of the two generations that are buying investment products. So I'm not saying that interest rates are never going up again, of course from this low basis they most likely are. I think it's unlikely they're going to return to those very high levels of the past, and of course that's the experience of those buyers.

Okay, so that sets the scene about what our clients want. The next bit of the presentation is explaining how Schroders can deliver on that request. In terms of the way we're positioned in the market, we've got a number of advantages. The first - and Richard alluded to this - we have been very innovative in this area of income for a number of years now. Not just the maximiser range which really was one of its kind and remains quite a unique product in terms of using derivatives to enhance equity income. But we also have, very early on, manufactured and actually sold significantly multi-asset solutions. And even things like distribution share classes didn't really exist a few years ago and we were one of the first to innovate that. Now, as Richard again said, that entrepreneurial spirit runs deep in this company. It's a big reason why a lot of us have been here for so long and we will expect to innovate in the future significantly.

Another big area where we have a significant advantage - and I'm going to show you the details in a minute - is our range. So when people say they want 4%, 7%, 8%, 6%, it's no good just showing them one solution. Actually if you're going to win in this asset management industry, a number of solutions to actually achieve that aim is going to be beneficial. That's something that we can provide, not uniquely, but certainly not many companies have that many solutions. A lot of experience; so that is relevant. It's not particularly quantitative, it's not tangible, but actually what it actually means is a lot of expertise. It's very difficult to deliver consistent income, because you've got to buy those income assets at good valuations and you've got to ensure that they're delivering that coupon or that dividend on a consistent basis, such that you can do that to your clients. That takes a lot of expertise. It may seem easy to do yourself, but actually reliably delivering that income requires active management and a lot of expertise.

So in terms of the product range - and this is a slide that you'll see fund managers put up time and time again; I'm going to extend this in a minute and make it more interesting - but you can see that in every asset class we have a significant number of solutions. Whether it's equities, multi-asset, fixed income, real estate, and even on the alternative area. So we can meet these high-income targets that our clients are
asking us. They said 4% minimum, our range really looks at between 3% and 7%, so much higher targets. We can meet that solution across all the asset classes.

Now what we’re starting to do with sales colleagues around the world is say, actually instead of selling your clients an asset class and going to them and saying, look here’s our fixed income product, this meets your target, why don’t you just buy it, we’re saying to our sales colleagues and then our clients, well actually if your target is 4%, there are a number of journeys you can go on to achieve that 4% with us at Schroders. For example, you could buy an equity income fund. Now of course your capital is going to be much more volatile, but actually your growth potential is going to be much higher than if you invest in a fixed income fund. If that’s not for you, then we do have a fixed income fund alternative. So this enables us already to have much better conversations with clients about actually meeting their need - which I showed you right at the beginning - which is an income target.

So in terms of the intent of this new initiative, the number one objective we have is to deliver those promises consistently. So if a client is coming to us for income, we’re going to deliver that income to them consistently. This is not about beating benchmarks, this is about delivering on that promise. If they want total return, then there are other products that might suit them. If they’re coming to us for income, we can deliver that consistently. We’re going to fit investors with the right product. Now, that may seem obvious, but actually it’s done very rarely. The benefits of that are enormous, and particularly in terms of longevity. Longevity is crucial - as John, Peter have been saying - in terms of the profitability of this Company. So if we can fit a client with the right product, they’re going to be happy, they’re going to stay with us a lot longer than they would have in the past.

Then finally - and this is not exclusively, we’re going to do lots and lots of more entrepreneurial matters - but in terms of product development this is really our DNA. We’ve been good at it, Richard’s explained that, and we will continue actually evolving many more solutions for clients. So that’s all I’ve got to say and over to questions, yes.

Peter Harrison

Thanks, Rupert. I think it gives a really good example of how we’re trying to harvest diversity of product to actually make sense of it from a client perspective. Richard was my first boss when I joined Schroders, so it’s kind of - it’s sort of - he’s not the only one who’s been here 40 years actually, there’s rather too many of us, not myself.

[Laughter]

Any questions on products, et cetera? A question here.

Q&A Session

Paul McGinnis (Shore Capital)

Morning, Paul McGinnis from Shore Capital. You talked a lot about the importance of high alpha in being able to combat the passives. Given that potentially increases the periods where performance might deviate more materially from benchmarks, does that in some ways conflict with this increase in longevity that you’re seeking from clients, should that be the case? Question one. Then question two would be, does it argue for more variability in terms of the revenue streams, in terms of maybe sort of increased levels of performance fees or fees that vary with performance?

Peter Harrison

Do you want to start, Richard?
Richard Mountford

Well, first, it's only one of the 10 areas which drives the growth. But it's fair to say that high alpha comes with more volatility and I think we all accept that. However, I think it's critical that there's a growing number of clients who have actually worked out what their risk and governance budget is and that they may well allocate certain parts of a portfolio to this and have the time horizons to live with that volatility. It's not for all by any means. I think that with the advent of smart beta and our own capabilities in that area, I've got to say it's not just high alpha, it's idiosyncratic alpha is perhaps more important than even high alpha. I think this is one of the areas where I think you're going to see quite a lot from us, because quite a lot of the work we've done suggests that some of the processes that we have actually are pretty good on downside risk protection in some of these areas in a fairly idiosyncratic way. So this I think is going to be an important area for us, but it is only one of the 10 that I put up.

Peter Harrison

I think it's also important to marry it with the right sort of relationships. I mean Richard's alluded to it. But if you've got clients who want to buy for the long term, they may well be underperforming for more than 50% of the period that they're going to be clients of yours. But so long as they understand the processes and clarity around that and there's an alignment, that's not a problem. That's why I think, thinking about the channels that you put it in and the distribution and what you're trying to achieve with that client is materially more important than just going out and selling something because it's hot. I've quoted in this room before this study by DALBAR which says that the average US mutual fund holder receives a return of half the S&P. So the S&P over 20 years about 9% per annum, they receive 5% less than that. The reason they do that is very simple, they buy high and they sell low.

So the single most important thing we can do is not alpha, it's keeping people in the products when they want to sell them or emotionally they want to sell them. For me that's about the right sort of relationships and the right communications at the right time, and then you get a much, much better experience. That's why we pay our portfolio managers on the pounds of alpha they deliver, not on some time weighted return. Because it's the pounds of alpha that people eat, not the time weighted return.

Haley Tam (Citigroup)

Hi, it's Haley Tam from Citi, can I have two questions, please? Just on slide 51 where you showed us the seed capital, could you help us understand the trajectory there? Perhaps in terms of the recycle lifetime maybe with some of the newer alternative asset classes, or maybe expressing as a proportion of the AUM that you hold, just so I can understand how to think about that.

Richard Mountford

As I said, some of the things in private assets will necessarily be there for longer because of the nature of the assets, and effectively as an illiquid de-premium. But I don't think that applies particularly to multi-asset solutions and things that we're incubating, and inflation, absolute return and so on. So, yes at the margin, the private asset bit of it will be stickier and in that book for longer. But I don't see that the trajectory that you saw will go ever upwards at that gradient, I don't think that. But I think I pointed to a step-change in the level of product innovation development, with the chart on the right of the same slide, and I think we're innovating at a pretty rapid rate. But those products are actually becoming commercial quite rapidly, as the other chart showed, so I think that one shouldn't be particularly nervous about that.

Peter Harrison

I would say, if you put a cap on that at £500 million, that would be a good way of thinking about it. Not - because we've had, as Richard said, a big step. But things like credit income, credit value, £1 billion funds, £200 million, they recycle now much more quickly. But we've had to step up product innovation, but you
do get a payback typically six to 18 months, and so we're starting to be in that cycle. There was another question.

Haley Tam (Citigroup)

Thank you, and there was a second question, if that's okay. The 10 areas that you set out was obviously very impressive, the range of diversity that you've got within the business. When you're having conversations with clients now, are you finding that they're more about, I have this risk budget and this is what I'm trying to achieve? Or are you still talking about asset class? Because it seems to me that a lot of those 10 obviously overlap, right, you can't have an income fund without also being a multi-asset or whatever. So can you give us an idea of how client conversations are changing?

Richard Mountford

In one sense, you've hit the nail on the head. There are a number of products which actually are in several of those groups that you saw. I think that the conversation you have about a particular capability will be different when you're talking about income than when you're talking about - so if you took, for example, buy and maintain credit. It's something where you have a conversation with an insurer about Solvency II and balance sheet risk management, and it's really about the risk management. When you're putting that within an income context, as Rupert did, then you're talking about the return comes first rather than necessarily the credit risk.

It's a different - I mean the fact is it's listening to the clients about what their needs are. They're very different clients and you can't just say, here's buy and maintain credit, one size fits all. It just really isn't like that. This is an attempt to take a very wide, diverse range, and perhaps not so much take the asset class out of it but actually to have a wider conversation about the outcome that people are after and the context and their risk budget. For some it's risk budget, for some it is an income requirement or whatever.

Peter Harrison

We'll be rolling these out over the course of the next six months. So we've gone through, we've done a retraining of the whole sales force, they've been engaged on how we articulate these, going back to square one and what tools the salesmen have got, et cetera, to do that. So over the next six months, I think there'll be a profound change in the nature of the conversations which will be going on with clients.

A couple more questions and then we'll...

Arnaud Giblat (Exane)

Arnaud Giblat here, just one question on the emerging markets. You made the good point earlier that emerging markets were underpenetrated from a financial assets standpoint. Can you tell us what proportion of clients come from emerging markets, how that's grown historically and what you're doing in terms of trying to mobilise capital from emerging market clients?

Alan Ayres

Well, as I said, historically the vast majority of our business has been with clients in the developed world. So we do have quite a lot of clients, and increasingly so, coming out of the emerging markets as well, particularly in Asia and big markets like China where we've got a growing book of business. But don't forget the growth opportunity in the US and North America generally. We've already got quite a lot of large clients there, but that's not going to go away. So I think it's a question of where the speed of the opportunity is going to - we are going to see, I suspect, an increase in the number of local investors
wanting to invest in their local market and we're well placed to capture that. But at the moment I would say our split is skewed towards clients in the developed world.

Richard Mountford

I think there are two answers to your question. The buyers of global emerging market products - equity, debt or multi-asset - are generally from the developed markets. However, as Lieven pointed out, the origins of our business in Asia and in Latin America are actually local-to-local businesses. So if you actually look at the single country emerging markets, so Indonesia was given as an example, that's an entirely domestic market, our business in Brazil is largely domestic and so on. So those businesses have significant numbers of clients. It's when they start looking at global emerging or regional emerging rather than just local, that this begins to become a more balanced thing. But I think we're actually in pretty good shape there. I think these two things are - if they're not equal, they're both significant parts of our book.

Peter Harrison

Time for one more question then we'll move on I'm afraid.

David McCann (Numis)

Morning, it's David McCann from Numis. So obviously in this section today we heard at the very outset that the customer's needs are rapidly changing and we heard some of the solutions Schroders has to that. I just wondered how that might conflict with what we heard at the very start of today's presentation around your ambition to increase client longevity?

Maybe kind of a second part to that question I think was a point that was alluded to at the earlier Q&A session, so maybe you can give us a sense of how much of your gross inflow actually comes from clients recycling between different products within the Schroders platform because maybe those longevity stats are possibly being kind of understated if you like if you actually look on a client view rather than a product view?

Peter Harrison

Thanks. John, do you want to take that because I'm right David, is an incredibly complicated subject but it's massively important to get right.

John Troiano

You're absolutely correct. Thank you. You're absolutely correct that our longevity is understated in the intermediary business. If you - and a good parallel is if you look at St. James's Place when they talk about longevity they talk about client longevity and they're looking at numbers in the region of 14 and 15 years. The point though is that we do still have to generate the gross level of sales even if the clients are changing their product mix. And so although we are focusing arguably on a very hard metric for us, the fact is that you still have to as a salesforce generate that level of gross sales if somebody is trading out of your product. I didn't quite get the point you made regarding the conflict with?

David McCann (Numis)

Yes, maybe it's a question is it becoming harder to deliver that target, that longevity target if clients' needs are evolving more rapidly and therefore they're potentially churning their products.
John Troiano

I think if you look at the way the clients are defining their investment objectives it's actually helping us. If you look at institutional space for example if you have clients who are looking for solutions for DB pensions that including liability driven investing and a growth fund opposite it and you see it in the longevity of our UK business, there's been a steady improvement in the longevity there that's built around the mix.

There was a contrast with the high alpha products. It's true, they have a lower longevity but if you look in aggregate there's been quite a significant shift towards outcome investing. Outcome investing generally, particularly in the institutional space carries with it a higher longevity because of the structural way it's being used in client portfolios.

Peter Harrison

I think the other aspect I give you is that I think the nature of partnerships, so it won't be picked up in fund longevity but if you looked at the SJP metric of client longevity place that because we're much more embedded with those relationships. When you're one of two or three strategic partners globally, it's a much, much - it's a very different dynamic from being one of 80 which is where a lot of these global financial institutions are going.

David McCann (Numis)

So maybe just to finish that off then where would you estimate your client longevity is compared to the simplistic product longevity?

John Troiano

That's a hard question to answer. We've had many clients stay as clients indefinitely with us. So all of our large global financial institutions whether they're UBS, whether they're Citibank, Credit Suisse, these are permanent relationships for us. They're also relationships that have grown. So it's very hard in the intermediary space to say that the client longevity - we could quote a number that would be extraordinarily high because people generally have been clients almost indefinitely.

Peter Harrison

Group Chief Executive

Thank you. We're going to move onto the final section now. I confess that I'm a bit of a geek. I paid my way through university by writing code which 30 years ago was a rather odd thing to do. But for me the technology that we sit on is really, really important and rather than give you a technology presentation today, I thought we'd just try and touch on a couple of ways in which we're using technology in the business. It covers a vast array of different areas.

In investment we've all grown up with a world where you turn on your Bloomberg every morning and you get fed and many of you will have seen the stats that and you ask Bloomberg it would be worth - you should know because they know it about you is how many functions your best people use on Bloomberg. I can tell you that a top fund manager uses 28 of the 100,000 functions on Bloomberg. The question we have is if you start to think about what do you want your analysts to see every day and how do you want to share data.

So we've made a big investment in our Nexus system which feeds external research, internal research all of our data inside its capabilities onto our analysts' desks and ensure there's much greater collaboration.
We're making a big investment in Aladdin to say we've got one platform across the organisation so we can get scalability. We've got 500 technology systems which sat - have been making up our investment IT universe. That number should be coming down to nearer 200 as we simplify that over the next year or so.

In distribution I think the client analytics and understanding the way clients are looking at us, the way they're accessing our information or accessing the fund information makes a massive difference. Measuring how it sells alpha. How a salesman uses his handheld device to make sure people are invited to conferences or takes notes, simple stuff like that. Obviously understanding pricing - if anyone has been to Luxembourg to try to look through prospectuses and try and understand pricing which I suspect many of you do, that is not for the fainthearted. That is for the data scientists.

In infrastructure we're working with robotics to take costs out of the back office in trading to have machine learning algorithms to think which algos do you want to use to track any particular order at any particular moment in time is a much better way of doing it than an old fashion trader who says you want to see they're quite good in this. So across the spectrum there is a lot of uses of technology.

The most difficult one to crack is Data Insights. I thought that's probably where we should spend a bit of time. That for me is how do you understand as an analyst the geography and environment in which the companies you're trying to understand operate? When I first joined it felt that we hadn't really moved on as an industry.

I tell a little example, when I first joined Richard Mountford in his research department, he gave me some research report and accounts and broker notes, access to Lotus 1-2-3 and I was told to build a two-year earnings model for the companies. Actually Lotus 1-2-3 became Excel and not a lot else changed in an industry which is supposed to be about data processing. I wanted that to change. We've now got a meaningful Data Insights team under the leadership of Mark Ainsworth and Ben Wicks. I'll get them to tell you a little bit about the journey we've been on and the sort of things that we're doing.

Ben Wicks

Head of research innovation

Data, data, data he cried impatiently. I cannot make bricks without clay. That's Sherlock Holmes to Dr. Watson in 1892 fully 88 years after Schroders was founded trying to deal with the problem of not having enough information to crack a case. Clearly, this is what our fund managers deal with every day. Do they have enough information to seal off the uncertainty that they're trying to resolve? So I'm Ben Wicks. I joined Schroders as a graduate in 1999. I've been variously an analyst in the basic material space and global energy space, most recently a fund manager of one of our global products and I'm joined up here today by Mark Ainsworth.

Mark Ainsworth

Head of data insights and analysis

Hi everyone. I'm Mark Ainsworth. A common thread of my career which started almost 20 years ago has been analysing data to help people make decisions. Among the places I've done that is British Airways, McLaren the Formula 1 team where I was building tools used on the pit wall for making decisions about pitstop strategy, in Tesco's head office where in particular I was doing things, math-based things, to help people decide where to build new stores.

Shortly before joining here I was Head of Analytics in Telefonica Smart Steps which was Telefonica's big data monetisation initiative to take the 10 billion rows of data generated every day from O2 phones
connecting to cell towers and turn those into products and services that generated value that we could sell to businesses.

**Ben Wicks**

So we’re going to talk to you today about channelling the data deluge and how to create an investment edge out of information. So why are we talking about this? Well as Peter said, the world has changed very dramatically. When I started in 1999 similar to what Peter was saying I remember dealing with a very limited supply of information actually, I had the report and accounts, I had some sell side broker’s notes, I had my Excel spreadsheets and if I was lucky I had some industry data as well and I could visit conferences and so on. But really, I had all the tools I needed to be able to do my work and most of it came down to the judgements I could apply to that data.

Then clearly things have happened since and this has gone exponentially in the last three or four years in particular this wealth of data, this deluge of data that is now confronting the fund managers and analysts. I would submit it would be negligent to ignore these sources of data because there is alpha within them. What's driving it? Put simply, the ever pervasive process of digitisation that is happening not least driven by our mobile phones, the scourge and saviour of our lives at once, which is making sure that almost every transaction, every interaction now including your movements tend to be digitised and trackable thereafter. So that is increasing clearly the supply of data in every realm.

The demand for transparency that the public demands these days especially in western countries but increasingly moving across emerging markets now is creating increased demand for data as well. Here for example information about school performance these days is very visible on the internet. So is US customs data believe it or not is now open source data. The third driver is computing power clearly which is increasing the capacity to deal with this surge of data. The advent of cloud computing distributed processing all this is making those first two rich seams of data that much more productive.

So we now are confronted with a world where there's so much data that fund managers don't know what to do with it. Critically they don't have the tools to do it. It's no longer sufficient to be a jack of all trades and think that you can manage this data because it requires coding skills and data engineering skills even to bring it to heel to be able to analyse it in the first place.

So what we've done here at Schroders is we've created a partnership model to sort of federalise this process and accept that actually the heavy lifting of the data analytics needs to be done by specialists. This is huge insight opportunity because this is going to create and we believe has created already so far an investment edge. It is an asymmetric investment edge. This feels like playing chess when your opponent can't see the whole board, if you do this properly, because you're looking at information that the other market participants are not and we'll give you four examples of this.

What is the mission statement of the Data Insights Unit that we've set up? Well, first of all we believe that evolution is not optional here. This is mandatory to do this. So we've got three core elements of the mission statement. The first is to go beyond what is currently available. That means bring new information to the fund managers. That means discover new sources of information in the first place. So one member of the team is a full-time data scout whose job is to attend conferences and seek out interesting data sets that the market may not yet be aware of. So looking for data that contains new sources of alpha.

Secondly, making sense of that data so our investors can add. The key word there is our investors. This is done for someone. These analytics we're going to look at today is done for our investors so that the insights are served up to those investors for them to apply their judgement to those insights. This is not displacing or replacing investors, this is souping them up, this is providing more work for them. More things to get stuck into.
So we do it in partnership, that's the third key plank of the mission, we do it in partnership with our investment teams because without understanding the questions the investors are seeking to answer we can't in the data insights unit know where to point our tools.

What have we set up? Well there's now 17 people in the team. This was started in October 2014. As you can see from this slide here the background of the team is extremely diverse and in fact we've only got two members of the team, one of whom is me, who has an investment background. The other 15 have all come from outside the industry.

Why is that? That's because a number of reasons, at least three, (1) other industries have been faster to adapt to this new world than finance we would submit and I think part of that is that investors have been spoon fed for too long by the information coming to them already preformed on their terminals and have not learnt how to handle things themselves in the way that for example the pharmaceuticals industry will have had to have done, so that's one.

Secondly, actually we want to bring new ideas into the firm. We want to generate innovative ways of doing things. So we want that fresh blood in. Thirdly, of course with this comes the network effect as well. By bringing people from so many diverse industries we've been able to grow this extremely quickly because people have been able to identify key hires for us.

So between us now we've got 170 years of data analytics experience. The key orthogonal power that these people bring is a combination of statistical prowess and coding ability. Those are the two things that go together with the fund managers technical abilities in terms of their understanding of accounts and markets and their judgement. Those four things put together we think creates a very powerful force.

So Mark is now going to run through an example of data in action.

Mark Ainsworth

So one of the earlier examples of a piece that we did which really epitomises a lot of the features we're doing in this work was the question with Ladbrokes and Coral, these two betting shop chains, they announced they're planning to merge. At the time Schroders actually held a pretty significant part of Ladbrokes and the analyst whose job was to make a judgement about what this meant for the recommendation to the fund manager suddenly became - a key part of that became how many stores they'd have to divest to be allowed to merge. This particular market is a local market.

The question of what is okay or not hinges on an individual parade - if there's an individual street with five betting shop chains and through merger that becomes four chains that's okay. If it's three and it goes on to two that is something that the regulator has a problem with. So you can't simply take the spreadsheet of market share of Company A and market share of Company B and work out the answer to that. But this was the key question and he called up the sell side, brokers who had had some initial views on that and this is the range of estimates he got was between 100 and 1800 stores out of the combined 4000.

That's clearly not quite precise enough to really inform his decisions. This represents a really significant blind spot for him. So what we did is the analysts went and researched exactly what are the rules and the details of those rules that the regulator apply, really important domain knowledge that he was able to hunt out. We worked out the much more technical parts of that, first of all finding a source of data so we found a source for the individual store locations of all the multiple retailers in the country including all the betting shops.

Then we did the actual computation of working out how these rules will play out for each individual store. That involves calculating the distance of every store to every other store - though 70 million permutations is not something that one can do in Excel. So we ran those calculations and in fact back and forth checking that the assumptions were right and making sure that that was correct.
In the course of a working day we were able to work out the answer to that and we came to our prediction which is that they would be required to sell 400 stores. We actually had - these 400 are the ones that would get caught by these rules. The analysts came to then - that informed his decision and he proceeded from there. It was a whole year later that the regulator came out with that initial judgement of what that rule will be. They said they would need to get rid of between 350 and 400 stores.

So that was a great success on our part. It's interesting that we didn't say buy or sell, that is a much more complex judgement about how this tile interlocks with all the other tiles in his mosaic that he was thinking about. But for us that was a key evidence of success that we can solve that complex forward-looking but technical problem.

Ben Wicks

Second example of the four we're going to show you was last year so 23 June last year. I think we all remember the day of the Brexit referendum and I think whichever way we voted on that day and my favourite story about this was overhearing somebody in my local town say on the phone that Sheila last night had voted for Brexit and was now signing the petition to try and stop it the next morning, which tickled me.

Whichever way we voted I think we all felt the butterflies in our stomach the next day because there was that great sense of uncertainty of how would this play out - not just how would it play out in two years' time but what would happen to consumer confidence right now if we were feeling like this. My commute that morning felt like a ghost train, how will this play out. Uncertainty is a great thing for active fund managers because this is where we get to ply our trade. We don't want everything to be knowable and known. So what we did with this situation is we tried to get to the answer.

So we have, one of our datasets we have access to real time consumer spending within the UK from a very large panel of people, a real time, real spending. This is very difficult to work with because this doesn't come all pre-tagged neatly relating to individual tickers and companies, you have to work hard with this to allocate the spending to be investable entities and pick out discretionary spending from the more sort of defensive spending on utility bills et cetera. We did that and what we're just showing here is a pulse of the seasonised spending on discretionary things in 2015 and overlaid 2016 and the referendum took place here.

We were tracking this until this point here where we had sufficient confidence from our statistical analysis and confidence intervals to be able to state that actually spending was holding up. The interesting thing was that the news at this time was extremely unclear and share prices were really suffering as a result, particularly those linked to UK consumer spending.

So we were able to put out a note internally to say that as far as we could tell with a reasonable degree of confidence things were actually holding up and it was a good two weeks after that that the news really hit the market that actually spending was fine. So that was a nice big win for us and we got thanked by the fund managers there for helping answer that question.

The third example, completely different, not even dealing with numbers here, we're dealing with text. Fund managers have a lot to read, I know that. One thing that there's last on the pile would be probably companies' patents because there's hundreds of thousands of these issued in large western countries each year alone. And yet I would submit as an investor that with 5% to 10% of the company's sales being spent on R&D usually it's just quite important to understand what lies ahead for a company.

A problem is cutting through it because this data is extremely messy. So the trick here is to use semantic analysis so what we do is we compare the text in the patents with every other patent and this is only possible with cloud computing now. It's a bit like sorting the pebbles on a beach - we can actually group the pebbles into groups of the same type of material for example in one go. It doesn't take long at all.
As a result we can do things like this. So this is the R&D portfolio of an auto manufacturer. What we've done is we've gone through all the patents that they've launched since 2008 and we've done this clustering to put them into these buckets. So here you've got advanced driver assistance systems, components and steering. Here battery components, fuel cells, image capture. Now that alone tells some story with the huge growth in certain areas but the real power of this and I'm not showing on this slide is when you compare companies across an industry.

Clearly you could imagine putting 12 auto manufacturers side by side here and quite quickly identify who is playing in which space going forward. There's a lot of demand for this kind of work from our fund managers to bring unstructured, very obtuse data to heal for them. Final example.

**Mark Ainsworth**

So from almost the moment I arrived in Schroders three years ago and we started to advertise the service of providing insights from unconventional sources of data, people would start to make the requests for the things that were representing the blind spots in their understanding of our companies. The pieces of their investment thesis that were wobblier.

A very common pattern was around brands, about brand perception and who are the customers of a brand, what are interactions between those brands. So we set about finding a resolution to that. I was very reminded by my time in Tesco, I was for a time in the customer insight unit. One of its key things that it did every year was a thing called the brand review and this is a very in-depth look at quantitative data like with club cards, talking to customers and observing what they said out there in the world.

That was part of the setting of the scene that would then set the direction, the strategic direction for Tesco and its initiatives over the coming years. So if this is what the companies are doing for themselves, then clearly that is something that is useful to also have that understanding.

So here is an example of one of the kind of aspects of the insight we can generate from brands. This is a set of cosmetic brands from one particular European country and we can see the demographic mix in all sorts of ways. Quite often a claim of growth or of competitive strength hinges on an understanding of the actual composition of the customers and how that may be changing over time. This is a capability that we've assembled from a number of pieces that covers the whole globe. We can look at bike companies in Korea or financial services companies in Brazil as to examples that we've done recently.

We have a constantly refreshed daily feed of this information that represents 13 billion rows in our database, something that to be honest none of the systems that existed in Schroders when I arrived would be well suited to handling. So we had to really up our technological abilities to handle this sort of thing as well. So demographic profile but also purchase history and the cost shopping and switching between brands. So that's now a constant blind spot that's being filled and we fulfil requests on dozens of brands.

So to conclude, the six main points to reinforce about this, so first of all obviously this is just a potential investment of Schroders in data science. We are a team of 17 data scientists. I've always been a data scientist. I only started getting called out about six years ago but it is about that blend of coding and statistics and it's got a very valuable place to play in not just people but also in technology, in data and actually in training.

So all the graduates who joined in this cycle and last year as well, part of their induction process is they have coding sort of an online program they can do. They can learn R or Python even though they're not actually joining the data and science unit.

There's a real focus on long-term alpha. I hope you get that from the examples that these are not some sort of two-day trade kind of thing that we're doing. But that's not somehow intrinsic to what we've
done. Schroders has a focus on long-term alpha and we're set up as a service proposition to the analysts and the fund managers within Schroders. It's very clear that the things they value are the things that meet that sort of need. So that's what we've bent our attention to.

That partnership, that deep two-way integration I think is very important. I think there's a number of points of evidence of that the team sits on the same floor at equities. We have members of the team that attend on a regular basis the various regular meetings in the other investment teams in all the different asset classes are listening out for opportunities. Also, we're finding datasets and then initiating conversation with people we know will have a useful contribution to that. We're co-discovering the opportunities to add value here.

There's a real multiply effect from all these different datasets and I'm sure you can imagine if we understand the demographic profile from our brand angle. We've got a geographical understanding of locations, you just need to intersect that with good quality census data which tells you about the mappable view of demographics and then suddenly you can see all these things start multiplying together to be very powerful.

The fundamental insights I guess is that point about the time scale and I guess the key thing there is it's - the value here is it's about having these active managers be even more active. The covering up of those blind spots let people have greater conviction to test their hypotheses in a really empirical way. That's very much kind of aligned with the existing process.

I guess then scale advantage is the final point where to our knowledge kind of much more advanced in our investment in this sort of capability compared to our asset management peers. I think there's something very powerful from having an actual career for somebody who's joined this team. There's a lot of variety and interest that allows us to attract really good people and the fact that we're solving really big problems have a big ambition for this again is part of attracting really good people. Finding one person who can do all of these things is impossible. So that concludes what we've done with Data Insights.

Peter Harrison

Great, thanks Mark. Questions.

Hubert Lam (Bank of America Merrill Lynch)

Hi, it's Hubert Lam from Bank of America Merrill Lynch. A couple of questions. Firstly, how expensive is this big data that you're acquiring? I think that's been one of the pushbacks of how the firms use big data is the expense. Can you give us a sense of the expense around it?

Ben Wicks

Yeah, I'll take that. So obviously I'm not going to get into individual numbers and overriding point everything we've talked about here comes within the KPIs given by the company and its guidance out there. Big data of the type we're talking is not as expensive as you might think. We're not talking about the numbers that are market data experts would recognise.

I think the reason for that is they're actually not that many people who are configured to buy this stuff. So quite often we are literally the first team to contact a potential vendor of data. So we can actually work with them and actually be their primary customer and then work with them to help enhance the value of their dataset as well in return and for that we see some effect in the numbers let's put it that way.

Hubert Lam (Bank of America Merrill Lynch)
Second question, of the examples you gave for using analytical tools to help an investment analyst make better decision, do you plan on investing more in terms of stronger computing power to create AI driven type of investing, machine learning, deep learning type of processes where machines create their own algorithms and do their own trading et cetera? Or do you just see the future with technology with the human being making investment decisions?

Ben Wicks

Well, and I'm sure we'll want to answer this, but we see the human being as critical in this piece because actually we're talking about long-term fundamental insights that the human often is best placed to set the question quite frankly. It's quite hard to imagine a situation - take the Ladbrokes Coral example where a machine will work out that the precise question that needs answering at that point is the one Mark outlined. But what you can do is use the techniques to answer that question. So I think that's a core point.

But yes absolutely we do want to bring as much AI and machine learning as we can in terms of providing sustainable repeatable answers to some of these questions. So again, sticking with that Ladbrokes and Coral example, why not run that algorithm for all stores in a region of a certain type once and for all. Do you see what I mean? And then produce a map of the interconnections and the competitiveness that way. So I think there's a long-term scalable aspect there as well.

I would say as well within the team we haven't talked about it today but we do have a quant capability which his there to analyse fund manager performance and our product performance as well and bring more insight into where that could be enhanced if there's any algorithmic insight there.

Peter Harrison

I think it's very important that last point that, the holy grail of writing the quant program to end all quant programs I think there's an awful lot going on but the reality is the scalability of that, you can't run this scale of assets on it. The performance challenges of some of the really big quant shops I think is testament to that. If you think we do about a million trades a year crudely, looking at the behavioural biases of our portfolio managers and their over-confidence or under-confidence when they put those trades on how you manage that through that system and if you slow them down or speed them up, great application for this sort of thing.

I mentioned machine learning to look at choosing between different algorithmic routes to market and how you place an order. One of their guys is based with the traders changing the way in which we trade based on machine learning. So I think you can look at other components and how we build portfolios much more effectively than trying to boil the ocean in one big go. Mark do you want to add?

Mark Ainsworth

I think machine learning and those sorts of AI techniques, they're just tools in the toolbox. We're not the 'machine learning team' that with that hammer we won't want to just see nails but there's a lot of real depth of expertise in machine learning in the team. As Ben says often that's the route to scaling this stuff up. These stories we've told illustrate the kind of thing we're doing. The real value is then in productising that - turning that into a general self-serve tool or something that's monitoring things and then sending people alerts.

What we take very seriously is to not build the things that we don't have evidence will be valuable. So those answering of questions gives us that evidence and then we know to invest our system building skills to build the right things. I guess if there's obvious demand from the market for a machine learning fund then product colleagues will bring that to bear but that's not what we're currently focused on.
Peter Harrison

One more question. No. Thanks guys.

Hubert Lam (Bank of America Merrill Lynch)

Thanks.

Peter Harrison
Group Chief Executive

Thanks very much. Richard, do you want to come up. So Richard is familiar - Richard Keers is our CFO, familiar face to many of you but what I’d like to try and do is try and draw out a couple of common threads I think we've had and then just throw the floor open for any general questions that people might have. I hope and it may be that I’ve sat down there listening, hearing the things I want to hear but I would draw out a couple of things.

I hope you’ve taken away there's an awful lot of change going on. We believe this is an environment where asset managers need to move their feet and we believe whether it be in terms of changing the route to market in terms of the franchises and aligning ourselves with capabilities to take products to market, we’re doing it differently. I think you've also heard that our clients’ needs are changing. To talk about the level of partnerships, the way in which we're having to make different products for different client segments is definitely changing.

I think you should have also heard that there was a great difference in our growth opportunities. The issues that Lieven is dealing with in exploiting 40 years of investment in Singapore or Hong Kong is quite different from growing Japan or growing the US. Those investments will mature at different rates and have different risk profiles attached to them. That is what we mean by diversity.

I think there's a huge spread of different opportunities both by asset class and region. That's kind of - when we put up this little slide at the beginning of the results presentation and say we're diverse, but actually it means diverse in terms of products, in terms of geographies but also in terms of the temporal nature of the way in which those things will mature.

Finally, I hope you've taken away that we're investing for growth whether it be investing for growth around data, whether it be investing for growth in China, whether it be investing for growth around the US, whether it be investing for growth around the shift we made in brand, the changes we've made in our distribution team, there is a lot of front foot thinking going on. We believe that the death of active management has been much exaggerated.

We actually think fundamentally the world is moving towards solutions. One thing passive doesn't do is provide solutions. That is a fundamentally different dialogue from looking at Vanguard flows and saying the world is over. We’re unashamedly active because we think actually that's what our clients are being very clear about. But that is happening because of brand and because we've got that position to be a partner with many of these people. That brand position is critical. So the spending we're making on re-branding digital presence, thought leadership et cetera has a scalability which has a much longer timeframe to it because partnerships are going to be a big part of the future.

So there's a few different strands but what we mean by diversity, what we mean by global and some of the innovation, I think what we're doing in Data Insights is genuinely ground breaking. I think we're absolutely at the forefront and the fact that we're finding alpha there is fabulous but I think if we had given the same presentation, maybe we should do it next year, on sales alpha, that's equally important
on cutting costs in our operations through robotics that's equally important. This application is - we've got to build the asset manager tomorrow rather than just milking the trends of the past. That I think is what we're trying to get across to you today.

There's always questions for the CFO with this group of people in the room but you may be worn out in which case that's totally fair answer but I just wanted to give everyone the opportunity to ask any last questions if there are any. There you go.

**Michael Werner (UBS)**

Thanks. This is actually more strategic so thank you. Mike Werner from UBS again. Two questions actually and very, very different from each other. First one, one of the things that you talked about today was a lot about product innovation. We've seen a couple of competitors and a couple of other asset managers out there start changing the way they're pricing for example some funds. So I'd just really love to hear your thoughts about that. Whether you think clients would be interested or engaged in that.

Secondly, talking a lot about data technology and also talking a lot about client longevity. How have you been using technology to help improve essentially maintaining your client base and essentially prolonging longevity with the firm.

**Peter Harrison**

Let's take the client longevity piece first. I think that is a really, really important piece. Being able to engage with a client and either put technology on their or put leadership on their desktop because if you're saying we want to provide a solution, you go to them and say what is your problem that is often a - it might be a diversification issue which is about engaging with them about the nature of the assets they own and they're inter-reacting.

That is to my mind probably one of the hardest challenges for them to answer. Is Lieven still in the room? Do you want to say a little bit about some of the interactions we've been having in Asia with clients and sort of putting technology with them in terms of changing the nature of the length of that relationship? There's a microphone just behind you.

**Lieven Debruyne**

I'm happy to. We particularly started some of the initiatives in Australia where we basically asked ourselves the question. So when we think about let's say branching of mandates, do we start with the client we want to win or do we actually start with the client relationship we have? We felt that there was an argument to be made. We basically called the longevity discounts.

So clients who have stayed with us for longer, have been loyal actually give them an incentive to even extend that longevity going forward by saying we'll reward you for that longevity by actually making the pricing in a way more attractive to you. I think that's something that wasn't done before and has been received extremely well by clients. I think has been able to position ourselves very clear in the market about what we stand for. That's just I guess one example of what we've done which as far as we know was entirely new to the industry.

**Peter Harrison**

Perhaps another good example is the acquisition of Benchmark Capital where we've actually been able to give people a handheld device where they can see through to stock level, through all their ownership with an adviser their underlying portfolio through funds et cetera. Then for that being the technology allowing you to do the tax harvesting et cetera and stay in touch with that client, you're moving from a traditional old fashioned adviser work where the adviser was making decisions, to actually a computer
algorithm saying this is what you need to do and the advisor basically being able to spend his time on the golf course with a client knowing that the computer is doing the heavy lifting.

I think the very good point on price on the performance fees, there is a, so far there's been a marked reluctance on the part of investment consultants for people to accept performance fees. We're watching really closely what's happened with Alliance and others and whether they're successful. I think there is a logic - if you've got a high proportion of your funds which are generating alpha, finding ways of aligning interest is really, really the right way to go. We'd be very happy to have a lot higher percentage of our revenues of performance fees if we could get clients to accept it.

The challenge of getting that to market in an appropriate way is out there. We're very comfortable with it. It's not yet clear there's market acceptance. There was an interesting innovation in Australia actually again, Magellan just raised a very big public fund and they're paying out a 6.25% loyalty bonus for those that stay with them. So effectively it's a making a bet on longevity but it's another different take on the same thing. I think we'll see more of that and we're very happy to play our part in it.

Michael Werner (UBS)

Thank you.

Jonathan Richards (KBW)

Thank you very much. It's Jonathan Richards from KBW. A quick question again around pricing just if I can tie that into what's going on with MiFID. How have you guys changed or come to the change of heart around taking research commission on board for Schroders for the clients that are going to be impacted by MiFID?

I guess if we could just tie that into some of the heads of the different regions and what's going on from the head of distributions point of view, how has that impacted the conversations that you guys have had with intermediaries in other regions of the world, i.e. have you had any incoming from Asia, from the North American market around the onboarding of your European operations in terms of the research commission payout?

Peter Harrison

I'll let John pick up the second part of it but just on our view of the market. When the FCA came out originally with this consultation, we in common with most of the rest of the industry said we were very worried about the unintended consequences of this change. We think that actually if research commissions are 1% or 2% - one or two basis points of a client portfolio the shift in spreads and the undermining of volumes in the marketplace may well be a really nasty by-product of making this change. So we were very, very in favour of trying to take a leadership position saying we do not think this is in the right long-term interests of clients because what you say with one hand it will more than cost you that with the other hand.

I think it was very unfortunate that a bunch of fixed income managers and multi-asset managers and passive managers came out and said we're not paying any research commissions and the FT ran a series of fairly narrow articles, shallow articles based around saying look at all this big guys, they're doing research on it. Well they weren't relevant to them anyway. That changed the nature of the debate. But what became very clear was that our hope to retain a market structure which would serve clients really well wasn't going to be possible.

If the market structures were going to change, we were going to be competitive with clients. I think there was no point in us putting our head in the sand because those market structures were going to change and that volume was going to go out of the market whether we liked it or not. So there was an
acceptance on our part that the unintended consequences were coming, we just had to accept it. John, do you want to pick it up on client conversations.

**John Troiano**

In terms of the client reaction, the greatest interest has without a doubt been in the UK and then to a lesser extent in continental Europe. There has been some interest in America primarily from managers who have international portfolios because they're obviously being approached by - first of all all their assets are run in often outside of the US in the MiFID authorised entity. They are subject into the same benefits that clients from Europe have.

To date in Asia, we've had very little direct interest at all in the subject of MiFID. So I think that's what's happening as we speak in terms of client interest. I think it's inevitable that clients in other jurisdictions will take an interest in this and will start considering what they should do. We were quite clear in our statement in terms of how we would deal with MiFID that we would look at the implications in all markets not just in MiFID jurisdictions, not least because it's very important to be able to treat clients fairly in the way we apply this.

**Peter Harrison**

I think there's a really, I mean well known to some people in this room, but there are some really practical problems in doing this and in Donald's Trump America having the EU change a rule and then ask the Americans to change their rules because the EU have come up with something, it doesn't necessarily make it very easy. We need the US to change before we can get that. There are some local markets where this simply doesn't.

Then we've got certain local to local markets and we keep bringing up Indonesia but it's a good example where local practice in that market nothing to do with MiFID is that commissions get paid. We don't want to undermine our competitive advantage in that market simply because we happen to be a global company because those are the silly diseconomies of scale that destroy you. So I think being thoughtful about how we implement this is not a one size fits all but there is an issue about how we treat clients fairly and reconciling those two is really what we've got to do over the next few months.

**Jonathan Richards (KBW)**

Great thank you and then just one quick follow up. Could you give us an idea of what the overall research budget is for the Group and then what percentage of that is MiFID compliant or will be touched by MiFID too? Thanks.

**Peter Harrison**

Yes, we don't disclose our overall research budget and I think the reason for that is we've got a vast embedded internal research department but we've also got portfolio managers doing it, we've got Data Insights people doing it, we've got other groups doing it and finally it's to my mind it's not, it's too commercially sensitive to say that's the number. It's also I think figuring out what the cost and value of research, cost and value being separate things over the course of the next three months.

Price formation has been really, really poor. Not so much in equities because equity guys have been used to dealing with it but in fixed income we have one house where the first quote was $2 million and the current price is $50,000. So if I had have given you an answer three months ago it would have been completely wrong and I think we're going to see as equity shops start to think about the new reality, a whole new firming up of what equity pricings looks like.
So we don't actually know today what our spend is going to look like because we don't know what we can buy with that spend or whether we should invest internally instead. What we do feel very comfortable with is that it's a non-material number and it would be wrapped up in next year's guidance but we feel very comfortable we can live with the answer partly because we've just got a big internal engine and we've got the capability. The investment we made in Nexus of sharing research and really understanding whose reading what where makes a massive difference when it comes to figuring out what you should pay for.

**Jonathan Richards (KBW)**

Perfect, thank you. That's great, thanks.

**Peter Harrison**

Thanks. But I think we deserve a prize for getting to half past 12 without mentioning MiFID [laughs].

**Richard Keers, Chief Financial Officer**

And also Peter's guidance in terms of next year [laughs].

**Peter Harrison**

Sorry, there's a question.

**Anil Sharma (Morgan Stanley)**

Thanks. It's Anil Sharma from Morgan Stanley. Just two questions please. Just on private markets you've clearly outlined your ambitions there and many of your peers, well pretty much every single asset manager in Europe is trying to build a private markets business but I'm just trying to understand your big institutional clients why won't they got directly to a Blackstone or KKR? Why are they going to come to Schroders?

**Peter Harrison**

Well it's a very good question and there's lots of different trends. So if you look at our insurance and securities business that is a leading provider of ILS. You wouldn't go to them but you'd come to us. In real estate again, the same position. You may have seen a headline about a big logistics business which was sold over the weekend. There was a huge transaction but you will notice that our name was mentioned as one of those and we were there with the big global infrastructure players buying it on behalf of a number of clients. So those things all perfectly possible from within us.

I think there are also some really interesting niche opportunities and just a moment on our capabilities that we haven't we mentioned too much given its scale today but the reason that was an interesting capability to my mind is that some of the biggest private equity investors in the world can't do European mid cap PE. It's just too diverse, too complex and so they go to a specialist provider to say actually you can do this because we can't do it. I think it's those areas that we want to target so we're not going to out Blackstone in their own backyard but where we can find things, where we can be differentiated and value-added, we should do.

**Anil Sharma (Morgan Stanley)**

Thanks and just one quick follow up. The UK is obviously the biggest part of your AUM but we haven't heard much today which I guess I'm a little surprised at given some of the biggest regulatory changes here. So just wondered if you could talk a bit about it.
Peter Harrison

Interestingly, I think there's less change. I mean there's probably the most regulatory noise because we're most susceptible to it but actually if you think about it we've had our RDR.

We've had our big structural change in terms of the marketplace and when we thought about it actually there was much less interesting news to talk about in the UK because it's quite stable and it's performing well. We would just think that actually it's quite a - it's a meaningful position for us but actually the bit that's less well known is Europe, Asia and the US. We will certainly cover it at the next thing. We'll cover private assets, we'll cover private wealth as well. It's just it was fundamentally there was a limit to your attention span [laughs]. I didn't want to prevail for too long.

Gurjit Kambo (JP Morgan)

Hi, it's Gurjit Kambo JP Morgan. Just a quick one on the investment consultant market and obviously that's been referred to the competition commission. I'll just get your thoughts on what that means for the asset management industry?

Peter Harrison

Look, I think there's been a rather strange market develop because a lot of small pension funds have taken - have been approached by their consultant to take the money onto their own in-house manager or manager platforms. What the competition authorities are saying we want to have a look at whether that is a competitive market and whether or not these small groups of trustees are actually making a good decision if they haven't got transparency on the whole of market. And that will work through.

I think it's inevitable that if you break the stranglehold of three big providers you're going to throw up more opportunities. It's no coincidence that we launched a fiduciary management business 12 months ago because we think there's a good opportunity here. I'm not going to try and speculate where it might come out because I think there's a long way to travel but they wouldn't have referred it - I mean the consultants were given an opportunity to fix it themselves. The FCA rejected that and it's being referred so to my mind that's good news but where it comes out and how long it takes. Anymore?

Adedapo Oguntade (Morgan Stanley)

Thank you. Adedapo Oguntade from Morgan Stanley. Just a few questions. So just looking at your Data Insights business just a few questions there. In terms of when you look at your product set - I know that this is kind of applicable across your multiple products, but where have you seen the greatest benefit from the application of these insights?

Two, I know this could be pretty much difficult to measure but just in terms of the contributions or outperformance of your funds that you have received from this insight compared to if you didn't use them? Then also, do you have any plans to kind of monetise these insights separately going forward? Like at a point in time, do you intend to sell some of these insights?

Peter Harrison

The answer to the last one is easy – no. But the answer to the first two is much harder. So Ben and Mark, do you want to take those.

Ben Wicks

Thanks. So it was the area of the biggest impact or areas and how one measures that impact. So I think the biggest impact has been in equities but also fixed income would be a close second of those two major
asset classes. I think the reason for that is in both cases you’ve got real fundamental elements to an investment hypothesis that are at play.

In fixed income it tends to be kind of glass half empty and equity glass half full but in both cases you’re monitoring key data points for fundamental insights. We do work with the multi asset team as well and there I would describe us more as a sort of partnership of equal or like minds in terms of we have gatherings where we share the latest advances in data science and algorithms to ensure that no one team is working on something that the other isn’t. So those - I would call out equities and fixed income there.

Emerging Markets though I would stress as well. We've actually - I don't know if my mic is still working - but we’re actually extending the team right now out to Hong Kong and also placing someone in New York as well. So there's an international element that the Emerging Markets team in London has been a real beneficiary of our work. I think that's because there is arguably less efficient market dynamics going on there. So any insight you could bring to bear has a greater impact. Trying to call the US consumer is becoming a more saturated space.

How do you measure the impact is really tough because we are not in the Data Insights Unit claiming to be a unique source of alpha, an exclusive source of alpha. We are offering to answer a question that the fund manager is setting. So our main metric that we measure is engagement. If we are getting asked lots of questions and if the fund managers are liking the answers and asking more, we see that as the first success and frankly we have a lot more demand for the analysts' time in the unit than supply right now which is why we're still growing. So that’s a big success.

There are numerous occasions, I won't go into individual ones right now but there are numerous occasions where we have had a direct impact on a trade and we see research going out into the next system saying DIU - Data Insights Unit have provided this analysis. As a result I would like to increase my position or as a result I would like to reduce my position. So it’s really the level of engagement and impact as a kind of qualitative that we look for at the moment.

**Adedapo Oguntade (Morgan Stanley)**

Thanks for that.

**Peter Harrison**

Thank you all very much. It's 20 to one. I'm really grateful for you staying the course. There is some food outside I believe but we'll all be around for a little while if anybody wants to pick up with us individually. Thank you very much.