Schroders

2020 Half Year Results

Schroders PLC

Presentation

Peter Harrison, Chief Executive

Good morning everyone. Welcome to our results for the first half of 2020. I am joined today by Richard Keers, our Chief Financial Officer. Unfortunately and for obvious reasons we can't follow our usual routine of welcoming you to our offices at London Wall. But we will follow the same format as usual. I will give you a quick overview of the results and the flows and strategic progress. Then I'll hand over to Richard to walk through the financials in more detail before coming back to a quick look at the outlook and then Q&A.

If you're not logged on for the webcast you won't be able to view the slides that we're showing but these are downloadable from the website. But hopefully you are logged on for the webcast.

You will all have seen the results that we released this morning. We consider these to be particularly resilient given the extraordinary circumstances we've all lived through throughout this year. Our diversified business model has again performed very well and generated pretty exceptional profits before tax of just over £306 million.

We continue to see good levels of net new business. Our clients entrusted us with a further £38 billion driven by two of the three strategic business areas – Solutions and Wealth Management. We again recorded a new high in assets under management finishing the period at £525 billion. Our strong capital base meant that we were in a position to declare an unchanged dividend at 35 pence per share.

Now clearly we've all experienced an enormous amount of upheaval through the first half as we transition to a new way of working. At our peak over 99% of our people were working remotely. I have to say I was really pleased by how well everyone has adapted. Through their efforts and thanks to the investment we've made in technology over recent years productivity has remained high and the business really hasn't missed a beat.

These are extraordinary times. I do believe we've got a responsibility not just to clients and shareholders but to wider society and the communities in which we are operating. As an active manager we've been very engaged with companies in which we invest, supporting them through either capital raises, corporate bond issuance and through general governance activities.

You may have also seen that we are launching an investment trust in the UK focused on Covid response. Within BlueOrchard, our impact investing group, we've launched a product to support Covid-affected developing economies aimed at maintaining jobs, building out health care systems. Assuming we reach our fundraising target of US$350 million this fund will look to protect 150 million jobs. So there is plenty for us to do.

So overall, robust performance at the headline numbers but let's look at them in more detail.

At our full year 2019 results in March we reported our business in a new way that split assets over five business areas that you'll be aware of – Wealth Management, Private Assets & Alternatives, Solutions, Mutual Funds and Institutional.

Turning to the first chart you will recognise this from that presentation. But I wanted to provide you with an updated version today. I've talked in the past about the three strategic objectives of moving closer to our clients through Wealth Management, expanding our investment capabilities in Private Assets and growing our core business through Solutions. These objectives remain unchanged and clearly map into the first three business areas.

At the end of June the strategic growth that we've achieved together accounted for 54% of AUM. That's up from just over half at the year end. But if you look from the start of 2016 when we set this strategy out, it's grown from 35%. Similarly their revenue contribution to the Group has grown over the period from 29% at the beginning of 2016 to 44% today.

Now, that's not to say that Mutual Funds and Institutional are not an important and valued part of our business. They still account for over half our revenues. We see growth opportunities across both. But moving forward we expect these first three areas will be the primary drivers of future growth.

Now I'd like to walk you through the highlights for the first half in each of these business areas. I'll start with Wealth Management.

Wealth continued to see strong momentum in the first half of the year. Richard will give you the details but we've seen good growth in both revenues and profits. Now client experience is obviously key in this area. We've been helped by continued strong investment performance right across the business area. Over three years, 80% of our Wealth Management assets have outperformed their objectives.

We also continued to see good client flows. We saw £1.3 billion of net new business in the first half, another good performance from Cazenove of £0.8 billion of inflows. But we're also supported by £0.4 billion of inflows at Benchmark Capital.

Now Schroders Personal Wealth also saw positive flows but these were somewhat more muted at around £0.1 billion. You will be aware that the growth of this business relies on client referrals from the network of Lloyds branches across the country. With these branches being forced to close as a result of Covid we inevitably saw a decrease in the amount of referrals coming through.

This is absolutely a short term issue. Our confidence in the business model and underlying growth story remains unchanged. We've made very good progress at transitioning clients onto the new technology platform for future growth.

Now moving on to areas within Asset Management. Firstly if we start with Private Assets & Alternatives. Overall we saw a small net outflow of around £0.4 billion. But actually we need to look underneath at the underlying story to draw a distinction between private assets and alternatives. If you look at private assets first of all, we continue to see good net inflows in real estate, private equity and infrastructure cumulatively around £0.7 billion.

What drove the outflows however were redemptions from the more liquid alternative side, most notably emerging market debt absolute return strategy and in our third party managed GAIA fund range.

We also saw some really good progress on future fund raisings which are to close in the second half of this year in real estate, private equity and impact investment funds. It's worth considering that in many cases the private assets business model relies upon client roadshows, getting out there and meeting investors to raise new capital.

It's clearly not an environment in which it has been easy to do this or in many cases even possible. So against that challenging background I am reassured that we have seen both inflows in private assets and good levels of fundraising activity looking forward.

You might have also seen that we announced an acquisition a few weeks ago. Pamfleet is a real estate manager with an exceptional track record of investing in Asia. This allows us to expand our real estate capabilities and build yet further our global footprint of private assets. It joins the group with just under £1 billion of AUM and we expect it to complete in the coming days.

Now on to our third business area, Solutions. It's clear from the graph on the right that there has been another successful period for our Solutions team and really driven by a bulk of new flows in the first half of over £42 billion of net new business. Of that, Swift accounted for £28.7 billion of inflows. So there's good growth beyond that.

We saw a number of other mandates including a significant US win which we alluded to at the half year stage. There's also good momentum here and strong growth in both inflows in AUM. Solutions now accounts for one third of our total Group assets.

Now what could be considered the more traditional areas of the business, Mutual Fund flows and Institutional. Clearly the backdrop here has been more challenging. We've seen a 'risk off' environment purveyed across both areas through much of the first half and particularly concentrated in the 6 week period in March and April.

I'll come back and look at the asset class view shortly. But we've seen across both of these charts is a move out of equities and into fixed income. In Mutual Funds we saw net outflows of £4.8 billion, the vast majority of which came in March as that global crisis first hit. The second quarter, while still slightly net negative, saw a good degree of stability of flows and indeed in many global markets.

In Institutional there were small outflows of £0.7 billion despite some mandate funding across the UK and US based clients.

If we look at the asset class view we can immediately see there's a very clear picture of flows into multi-asset and to a lesser extent, fixed income and some flows out of equities. Interestingly, this can be attributed to the 'risk off' environment and the resultant change in asset allocation, rather than anything performance related.

Our investment performance in both equities and fixed income has held up really well. 69% of our equity assets outperformed, bearing in mind they are primarily judged against demanding market indices, 79% of fixed income outperformed over the three year period.

To look at each in turn, multi-asset inflows at £42.1 billion largely driven by Solutions mandates, largely in risk-controlled growth and LDI. Fixed income saw £2.2 billion of net inflows. Institutional demand for US and global bond strategies and ongoing retail flows into European credit which you would expect.

Private assets I've already discussed with £0.4 billion of outflows.

Finally on to equities where the 'risk off' environment led to outflows totalling £7.1 billion. We did have some positive inflows into global equities but otherwise the crisis really hit across all regions and all desks.

Finally on flows, a quick look at the regional view. The UK had a very good first half for the year with £34 billion of inflows, £28 billion of that obviously being Swift. But the Private Assets and Institutional business areas also produced good positive flows.

In America £9.4 billion of positive flows. Again Solutions was the largest contributor. It is encouraging to expand that capability from outside our home market of the UK into the US.

Latin America also had a good first half £0.5 billion. I think what really encouraged me was the breadth of new product sales which are now going into the US in terms of the number of different strategies we've been able to export there.

If we look across Europe we saw £2.8 billion of outflows, which I think is to be expected given the cyclicality of the region and mutual fund redemptions which impacted most of our regional offices, with the notable exception of Spain.

Asia Pacific, where of course the crisis hit first, it really was a case of 'risk off' right across the region. We saw £3.7 billion of outflows again led by redemptions in Australia, which were offset with some positive inflows in our direct China business.

Before I hand over to Richard, I just wanted a quick word on our joint ventures and associates which are becoming increasingly important. They've been growing steadily over recent years and making a real contribution to results. So I want to go into a little bit more detail on the main three.

BoCom Schroders in China, Axis in India and Schroder Personal Wealth in the UK. First of all BoCom has been a fantastic success story and continues to deliver really strong performance both in investment terms and financially. Fundraising activity has been very successful this year with a number of over-subscribed IPOs.

Net new business in the first half of the year was over £9 billion. The business in aggregates has now almost reached £70 billion. Neither of these numbers are included in our net new business or our assets under management figures.

We've also seen good growth from our JV partner in India, Axis Bank. They saw over £2 billion of inflows in the first half, growing AUM to over £15 billion. Their market share continues to move upwards and is now over 5.5% reaching the eighth largest mutual fund complex in India and fourth largest in equities.

I've already touched on Schroder Personal Wealth earlier, but to reiterate it's understandably been a challenging period to raise inflows with bank branches being forcibly closed. But the process of moving clients onto a new technology platform continues apace and lifting that business out of Lloyds, we've made good progress on that. We remain very confident for the long term growth story and the business potential.

On that, I will hand over to Richard and come back and talk about the outlook in a moment. Thank you. Richard.

Richard Keers, Chief Financial Officer

Thank you Peter. Good morning everyone. As you just heard the business has continued to function well in what are extraordinary times. This performance is reflected in the resilient results that we have announced this morning which demonstrate the benefit of our diversified business. I will now talk you through the key components starting with net income.

Net income was £29 million lower than H1 2019. You will remember that our segmental reporting now includes the proportional consolidation of SPW. Showing it this way reflects how we manage the business and provides more relevant information about the revenue margins we earn on the assets.

The slide shows how net income has moved on this basis. As you know, markets and FX impact both the value and mix of our AUM. Together with margin attrition they have reduced revenues by around £25 million. This reduction has been largely offset by net new business which has increased revenues by £20 million. That's the impact of flows in the second half of 2019 together with the net inflows we have generated in the first half of 2020.

As you may expect, performance fees and carried interest are slightly lower but still reflect a strong performance. I'll come back to the other items shortly but first let's look at how these movements in net operating revenue come through the business areas.

Starting with Wealth Management. We have continued to see strong growth from our wealth business. We generated net inflows of £1.3 billion in H1 with average AUM up 35% compared to the same period in 2019. As a result, net operating revenues increased to £180 million including £35 million of revenues from SPW.

This performance sustains the positive momentum we have seen over the past few years in this strategically important part of the Group. Wealth Management revenue margins excluding performance fees were 57 basis points. This is a bit lower than we guided to at the start of the year due to lower net interest margins and the impact of markets on the mix of business. The full year impact of these factors could cause the margin to reduce a little further, maybe half a basis point.

Moving to Asset Management. Asset Management net operating revenues decreased £33 million compared to the same period in 2019. We generated performance fees and carried interest of £18 million reflecting strong investment performance in the context of the current environment. At the start of the year we guided to £50 million of performance fees and carried interest. But as always it's very difficult to predict the final outcome for the year.

Excluding these, net operating revenues were down £24 million or 3%. Let's look at how that breaks down across the 4 business areas that make up Asset Management; Private Assets & Alternatives, Solutions, Mutual Funds and Institutional.

Starting with private assets. We have delivered strong growth in management fees as these increased 20% to £140 million. That was driven by a £7 billion increase in average AUM which included the contribution from the acquisitions we completed in 2019, most significantly BlueOrchard.

Peter has already mentioned that the current conditions have impacted fundraising activity. But there has also been an impact on carried interest and the volume of real estate transaction fees which fell from £31 million to £2 million, more than offsetting the increase in management fees. These fees are excluded from our net operating revenue margin which was 63 basis points. We expect this to remain broadly stable for the year as a whole. This is slightly higher than the guidance we gave at the start of the year as we have had outflows from lower margin alternative products.

Next let's look at our Solutions business. As you've heard from Peter we have generated net inflows of £43 billion into solutions in the first half of 2020. That's greater than the pipeline I referred to at the year end and reflects continued client demand in this growth area. As a result, AUM increased to £175 billion. This is the main driver of the net operating revenue increasing to £121 million.

We had a net operating revenue margin of 15 basis points. That's a bit higher than my guidance for the full year but this is simply due to the timing of net inflows. We still expect our margin to be around 14 basis points for the full year. As I explained in March the nature and size of these assets means that whilst they typically attract a lower revenue margin the incremental costs are low. As a consequence the profit margin is similar to the Group's overall margin and the assets have significantly greater longer longevity. It's these characteristics that continue to make this business an important part of our growth strategy.

So overall a good performance across our three strategic growth priorities. Let's now look at the Mutual Funds and Institutional business areas which continue to make an important contribution to the Group

As you can see on the slide these more traditional parts of our business remain subject to wider market pressures. Starting with our Mutual Funds business. Mutual Funds contributed £330 million of net operating revenues in the first half, down 9% compared to H1 2019. Average AUM was down 6% as it was impacted by markets and the current 'risk off' environment.

Our net operating revenue margin was 71 basis points which is in line with the guidance I gave at the start of the year. That's 3 basis points lower than H1 2019 as a result of longer term pricing pressures and changes in mix. We may see the margin drop a bit further in the second half as the impact on markets on mix continues to come through, maybe a bit.

Finally, to our institutional business. Net operating revenues were £227 million, a little down from the £234 million we recognised in H1 2019. The decrease is principally a result of the current market conditions and the headwinds that I highlighted in March. We have continued to see clients de-risk their portfolios and move asset allocations further towards lower margin and fixed income products.

As a result our net operating revenue margin has decreased to 31 basis points. That's one basis point lower than guidance we gave at the start of the year due to the impact of falling markets on mix. The effect of that margin reduction has been partly offset by higher performance fees of £17 million demonstrating our strong investment performance in equities and fixed income which Peter referred to earlier.

Like Mutual Funds, we may see the margin drop a bit further in the second half to around 30 basis points for the full year as the mix impact continues to come through. Clearly there will be some offset if equity markets perform strongly in the second half.

Let's now return to our net income slide. As we said before, targeted acquisitions have a part to play as we build our capabilities in line with our overall strategy. Acquisitions increased net operating revenues by £20 million compared to the same period in 2019. That's driven by the acquisitions we completed in 2019, mainly BlueOrchard, Blue Asset Management and the wealth management business of Thirdrock.

You will also recall that our associates and JVs are an important part of our growth strategy. I have already talked about SPW as part of our Wealth Management business. Excluding that, our share of profits from associates and JVs increased by £6 million for the half year. That was principally driven by the continued growth in our partnership with Bank of Communications in China. Given the increasing significance of BoCom in our results we have set out some additional detail on this slide.

Peter has just talked about the £9.1 billion of record net inflows in the first half of the year. At the end of June the business had £69 billion of AUM. These flows have primarily been into higher margin products. This has helped to improve revenue margins from 22 basis points in H1 2019 to 29 basis points in the first half of this year which has translated to increased profits.

Now to wrap up on net income. Other income increased by £17 million compared to the same period in 2019. This is largely due to fair value movements on financial instruments. They include unrealised losses of £13 million on seed capital, co-investments and investment capital. Whilst we have marked these positions down in line with accounting rules the movements are considered temporary.

So we have seen the recent market volatility impact the results in three areas. First, management fees which are directly impacted by lower asset values and lower margins as a result of changes in business mix. Second, lower carried interest due to falls in net asset value of the underlying investments, although we have seen an offset from higher performance fees which generally arose earlier in the year.

Finally, our proprietary investments that I have just mentioned – bringing all of that together with other movements net income was down £29 million to just over £1 billion.

Now let's turn to costs. Comp costs continue to be the biggest component of our cost base as they make up 65% of our total costs. We have increased our comp ratio to 45% which brings it to within our target range of 45% to 49%. It means total comp is still down despite an increase in headcount.

Non-comp costs were £248 million, up £9 million compared to H1 2019 mainly due to acquisitions. This is better than I guided to at the start of the year reflecting cost savings principally in marketing and travel. We may see some return to more normalised cost levels in the second half but this will be dependent on Covid-19 related developments as well as FX rates.

You will recall the chart on the right from the year end presentation. It shows our non-comp costs as a percentage of our average AUM. The percentage increased over the last couple of years as we invested in our systems and technology. But as I previously highlighted it is now starting to come back down. On an annualised basis non-comp costs have fallen from 11 basis points in 2019 to 10 basis points in the first half of 2020.

You will appreciate that this incorporates some of the cost savings I have just highlighted. But importantly it also demonstrates the efficiencies we are able to deliver as we build scale and leverage our new operating platform. Our investments in systems and technology have also provided operational flexibility. In the current environment that has been especially important in enabling a smooth transition to remote working and allowing the business to continue to operate as normal to deliver against our strategy priorities.

As an illustration of this operational resilience we have successfully completed a major operating model change by moving our UK transfer agency services to HSBC. That's the culmination of a two year program which was completed in line with our plans but while in lockdown.

Now let's turn to the final section on capital. Notwithstanding the current market environment you can see we continue to maintain a strong capital position. This is a key strength particularly in the current environment. It means we can continue to invest in the future growth of the business and demonstrates once again the resilience of our business model.

So in summary, we generated profit before tax and exceptionals of £306.2 million. We had exceptional items of £26 million. As you know these are typically acquisition related and are principally the amortisation of intangible assets meaning a profit after exceptional items of £280.1 million. The tax rate was 20% resulting in a post-tax profit of £222.7 million.

Reflecting this resilient performance and our strong balance sheet we have declared an unchanged interim dividend of £0.35. Overall we believe this is a robust set of results delivered against an extraordinary backdrop.

I’ll now hand you back to Peter.

Peter Harrison, Chief Executive

Thanks Richard. A quick word on the outlook and then we'll move straight on to Q&A. We've clearly been through an extraordinary time in the first 6 months. I don't think any of us could have predicted it. The end of the first quarter finished with extreme market volatility. We've clearly seen markets stabilise a little and volatility recede significantly.

I do think there's uncertainty remaining. I think any recovery will be correlated with the effectiveness of containment measures taken by governments and efforts around the world.

But as far as our business is concerned, we very much remain focused on delivering our strategy. We will continue to invest for future growth of the business, repositioning towards those areas of high quality and high client longevity.

The resilience of the business model and diversity of the business model is really important to us. I think it's shown – paid real dividends in this period and will continue to do so during further periods of stress.

With this focused strategy and a highly diversified model we do believe that we're well-placed to carry on delivering long term value for both clients and shareholders and particularly delivering good investment performance which at the end of the day is fundamental to active managers beating market indices.

With that, let's go straight on to questions. I'm very keen that you should be free by 10 o'clock to be able to do the Man results. So let's move straight on to questions.

Q&A Session

Gurjit Kambo – JP Morgan

Hi there. Thank you for the presentation. Just a couple of questions. Firstly just on the private assets side of things, can you give us a bit more colour around are you seeing more appetite with the liquid structures or are you seeing some of the closed-ended areas seeing more demand? I think you mentioned a couple of launches in the second half – what sort of areas those are, linked, whether they're closed or liquid?

The second one is just on the US, just sort of Hartford, any sort of update there, what sort of product ranges are being sold?

Then one for you Richard, [inaudible].

Peter Harrison

Gurjit thanks for the question. I got the first two clearly. We might ask you to repeat the third one. But let me just take the first two through. First of all on private assets fundraisings that we're seeing in hotels where we've just raised a fund the timing of which looks very opportune if you think about what's happening in that sector.

In infrastructure and in helping developing economies, particularly there's a Covid related fund but there's also a climate related fund. So those impact funds I think are well timed. But there's also a couple of securitised vehicles there. So a TARF product which is a response to what's going on in the US and I think is opportune in its timing.

The more liquid structures actually are the ones causing the challenge. I think in the short term we've seen a real slow-down in liquid alts. There is a degree of cyclicality. I have to say I was slightly surprised by that because our liquid alt strategies have really delivered to label – the investment we've made for example in Helix has done exactly what one would have hoped to do and limited downslide drawdown.

But I think what tends to happen is those things bounce back as markets normalise and people look at the compounded returns over time. But the private asset momentum is more in the longer term fixed life stuff.

On the US, Hartford has continued to deliver. We're seeing active – particularly in international equities – but I think that's a market share game really in there. But activity in emerging markets and some tax aware bonds. But more, I think for us we are – we're in a very decent position of taking share and exporting good products.

The really interesting thing to my mind is what is it that we've been selling around the rest of the world that we can take to the US institutional market? There we – you will be aware that we've restructured our US business a couple of years ago and we're starting to see that pay dividends.

The amount of business we're getting through the consultant channel has pretty well doubled as a proportion of the total. So not only in the intermediary Hartford channel but also institutional it looks like a much better quality mix Gurjit.

Richard did you get the third question?

Richard Keers

Gurjit we lost you half way through your third question. Could you just repeat it?

Gurjit Kambo – JP Morgan

Yes sure. Richard it's just on – thanks for set of guidance around the margins. That's very helpful. Just in terms of the non-comp – I think it was £520 million the number you'd given at the full year results stage. So just given clearly you were running below that and I suspect some of that is related to Covid, so less travel et cetera. Should we expect a normalisation in the second half or a catchup? So any guidance on that would be helpful.

Richard Keers

The full year guidance wss £525 million. Clearly we've seen in the first half an extraordinary drop in travel. We were looking to decrease our travel by 30% but that was for doing the right thing for the environment and using our technology. But clearly we didn't anticipate our almost 100% drop-off post February.

In terms of where – travel is an important part of the cost base – where travel goes really depends on how well the market opens up. If it does because there isn't a significant second spike in the – I'm not a predictor of the future – then we would want to get back in front of our clients and we would see some normalisation. But I don't see that any time soon Gurjit. So it's not going to be immediate pick-up.

The same in some degrees to market activity as well. It's sort of closely correlated. So the quicker we can get back to normal levels is a good thing. But I wouldn't anticipate it being a full impact in the second half. So there's clearly savings that are going to be banked. But we're also looking – I think one thing this crisis has taught us is we can use our technology better. We could be more efficient in terms of how we see our clients.

As Peter has referred to, this has been a quantum change in human behaviours and how businesses are going to respond. So I think there will be some long term things that we bank as well.

There were a few things that distorted the first half compared to the year before. In 2019 we did have a very significant compensation credit for the late delivery of our building. Largely the increase against 2019 to 2020 is we haven't had that £12 million credit and FX has hurt a little.

I hope that gives you some colour. It's quite difficult to be precise. It really depends on how quickly the global market opens up.

Gurjit Kambo – JP Morgan

Okay, but it feels like – it's probably fair that we could maybe trim a little bit off that £525 million.

Richard Keers

Oh, definitely. Definitely.

Gurjit Kambo – JP Morgan

Okay.

Richard Keers

But the less we deliver in terms of the saving the more the market has opened up. So it's a catch-22. We want marketing activity and to get back to seeing our clients.

Gurjit Kambo – JP Morgan

Okay, understood. Thank you.

Nicholas Herman – Citi Group

Yes, good morning. Thank you for taking my questions. A couple of questions please, firstly on the wealth side, particularly SPW. I think I heard you say that the net operating revenue for SPW was about £35 million. That suggests that it would be something in the range of about 100 basis points margin if I've got that right. But it's a fair bit lower than the 160 basis points I think that we were previously guided to. So interested to hear what's going on there and if you could update us on the margin expectations for SPW please.

Secondly, also on SPW in terms of advisor build-out I appreciate that it's been difficult to get flows given branch cuts. But can you also update us on your build-out of the advisor network in SPW?

Then finally on investment performance you noted strong performance in equities and fixed income but equally it looks like your aggregate investment performance deteriorated in the first half versus end 2019. So where are you seeing weaker performance please? Thank you.

Peter Harrison

Great, thanks Nicholas. I'll let Richard take the first one.

Richard Keers

The first one in terms of those SPW margins I think the difference is the 100 basis points is our share of those revenues and the 190 basis points that you referred to was the aggregate fee. But clearly we only enjoy half of that, which is basically the 100 basis points that you referred to.

Peter Harrison

If I could talk about the build-out of the advisor network – we've been working incredibly hard to upgrade the technology platform and basically re-platform the whole of that business. So advisor numbers is not our short term focus although clearly getting the academy set up and running is critical.

You will see that we've brought in Mark Duckworth, CEO – previously CEO of Openwork who had an excellent track record of building out the advisor numbers at Openwork. So we remain very focused on it but it wasn't the priority in the first half. Nor is it the priority actually in the second half. The key is to deliver people the right technology platform and get the referrals coming through. Then we want to ramp up. There's just a phasing period of getting the pipelines full.

On investment performance, it's a really important point you make. You talked about 69% of equity, 70% of fixed income, the big belter with the three year number is the multi-assets performance number which many of those funds have an absolute return or a CPI hurdle. So we're down in the 20% of our multi-asset funds not beating the absolute return hurdle.

That is a very tough measure. We don't report on narrow competitor numbers. But if you look at our competitive positioning of our multi-asset performance we're still seeing good inflows. We're typically second quartile against peers but we choose to report it against the absolute return benchmark. So in this environment it's hurt the reported numbers but it hasn't really hurt our competitive position.

Nicholas Herman – Citi Group

Got it, thank you very much for your help. It sounds like therefore you're not concerned either that not meeting absolute return targets won't actually impact at a future date either then.

Peter Harrison

No, look I think that if you take the very long term view you clearly want to beat those absolute return hurdles because that's what clients are in it for. But we think that almost 70% of clients beating market indices, that's been a really tough hurdle for active managers and the performance numbers that we're getting in are absolutely not a cause for concern at all.

Nicholas Herman – Citi Group

Great, thank you.

Charles Bendit – Redburn

Thanks very much. A couple of questions from me. One more in regards to Schroders Personal Wealth. Clearly flows rely on network referrals from Lloyds and therefore been impacted by branch closures. But what are your expectations for the second half of the year around net new business now that things are opening up a bit?

The second question on BlueOrchard which you acquired fairly recently. How is progress there? You mentioned it being a game-changer in regards to impact investing at Schroders. Have you noticed clients increasingly engaging on ESG over the past 6 months particularly after Covid?

Those are my two questions, thanks.

Peter Harrison

Good questions, Charles, thanks. So I think two things on the network referrals from SPW. Not only were the branches closed but also within the branches most of their senior advisors were focused on dealing with people's mortgage rescheduling, et cetera. So they weren't really focused on issues of wealth.

Really quite hard to call the second half. I mean it really – you can see from the High Street that there isn't a great deal of normality in people wandering around. So I don't want to predict that. Do I think that fundamentally the UK has a massive advice gap and a huge shortage of people are now starting to think about their well-being and long term financial planning? Absolutely.

How that manifests in referrals, it's really quite hard to call. I mean fundamentally the long term is very bullish but the short term is – just hard to understand consumer behaviour. Difficult to be much, much more precise than that but I think that we're clearly working hard on it. I can see – I think probably by the back end of the year we'll get some good momentum. But it's very much guesswork I'm afraid at this stage.

On BlueOrchard I think impact becomes a new paradigm. My personal view is that ESG will cease to be something we all talk about in 5 years' time. I think it was just taken for granted. We'll all be focused much more on impact. That's clearly much easier to have in private markets than in public. There's been a huge amount of engagement on it.

The notion of this whole area of blended finance where you work together with development agencies to have specific impacts and is often measured against UN SDGs, say how can you effect change in quality jobs or whatever it may be. That's been a big area of discussion. I think you're seeing clearly development agencies stepping up more and more around the world to address those problems. So good progress there.

Also we've just now got all the distribution agreements in place to get the full Schroders sales force being in a position to properly market the BlueOrchard products. So again expanding that through the rest of the group will be an important part of it.

But we've also benefited I think significantly from understanding their thinking and knowledge. These guys are real leaders. The business was set up by the United Nations – by the United Nations initiative. That for me is – they've been at it for 20 years. Most people have only just started out. That knowledge base has been really important to helping our own thinking.

Thanks Charles.

Charles Bendit – Redburn

Thanks very much.

Arnaud Giblat – Exane

Hello can you hear me?

Peter Harrison

Yes, we can now.

Arnaud Giblat – Exane

Sorry about that. I've got two questions please. Firstly on private assets. Clearly that's doing very well. You gave a bit of colour on where the focus is in the near term. I'm just wondering longer term, what sort of product initiatives, agreements might you be working on? What sort of seed money is going there to try and develop what's coming over the next 5 years?

A sub-question too now – when I look at what's going on globally it seems to be that wealth channels are more and more pushing private assets. Is there an opportunity to leverage the ownership of both a wealth and private assets of business to put them together to try and expand growth there?

My second question is on BoCom. Thanks for the incremental disclosure. Do you have any thoughts about the rule changes in China where you can increase ownership? Is that something you might be looking at? Thank you.

Peter Harrison

Sure, thanks Arnaud. First of all private assets – I mean the product initiatives are – we've seen them in a number of different area. So infrastructure is really important to many insurance books. So there are several new initiatives there and an infrastructure equity funds to follow the debt fund that we're about to close.

We're also seeing – we're just seeding a private debt capability in Australia which we're quite excited about. We do the there's a number of opportunities in real estate in all sorts of different markets but particularly in Europe.

The other one I should mention is we're building out our secondaries team because I think one of the things out of this crisis is that secondaries are going to become a much, much bigger opportunity as people get – holding things that they didn't previously expect to be called on. So I think there is good opportunity in private assets space.

Yes, we do see opportunities in our wealth channel. It's not something we have made the most of yet because obviously the capabilities are relatively new to us. But we're just starting to introduce that. We've done one or two products thus far but I think there's a long way to go in that. You raise a very important point.

On BoCom, look the first thing to say is we've spent 25 years building out our business in Shanghai. As you drive in the BoCom Schroder brand is an important part. We are a 30% shareholder in that business. I don't see us taking majority control. I don't think it's what our partner wants. It's not a business which is for sale and frankly I don’t think it's right. I think the business is working incredibly well as it is. The track record is absolutely top drawer and I think we should let that business continue to thrive as it is.

But we are very involved in 2 other opportunities in China which are coming down the pipe. You've seen there are opportunities for us to have a wholly owned business, an FMC, which is next stage of development from the PFM that we've got. There's also a change of rules at the end of last year after the party conference whereby you can take a stake in a WMC – a wealth management company.

We're not at the end point of any of that thinking yet. But we do see that given the brand and given what we've been able to deliver so far there are considerable more opportunities in China beyond our JV.

So plenty of work to do. We see this as second largest equity market, third largest bond market, is going to internationalise, is highly digital and it does play to a company with the breadth of our knowledge and critical mass. So I'm hopeful we'll be able to say more on that in due course.

Arnaud Giblat – Exane

Thank you.

Hubert Lam – Bank of America

Great, thank you very much. A couple of questions. Firstly on the comp ratio. I think it was 45% in the first half. I think you guided to 44% at the start of the year. How should we think about it for the rest of the year and also into 2021?

Second question is on your real estate exposure. I'm just wondering if you can give us a little bit of colour in terms of your funds exposure to the retail shopping malls, commercial, et cetera and how these funds have been performing. Thank you.

Peter Harrison

Thanks Hubert. I'll get Richard to take the first.

Richard Keers

So Hubert in terms of the comp ratio we've been below our 45% to 49% target range for quite a few years now. I guess that's because we saw very strong market conditions and we wanted to get the balance right between looking after our – two of our key stakeholders are staff and our shareholders.

Our staff numbers have increased largely to acquisitions. When we looked at that we got to retain our talent and therefore we've increased our accrual rate to 45%. The overall comp accrual is still down on that basis notwithstanding our headcount has gone up through those acquisitions.

So that's what we're accruing to in our management accounts. It's something we need to look at, yes, in the second half of the year. But that's our best expectation at the moment.

Peter Harrison

Quickly on real estate. Our fund performance has been excellent, partly because we've been very much avoiding areas – particularly High Street retail. Our primary focus is on logistics. That's a key – we were very early on to that – and storage. We've been focused on the real growth cities particularly Manchester, Berlin, et cetera, which have been – because there's Spinningfields developments in Manchester for example. So those – on real estate we've got good momentum because we're in the right places.

Hubert Lam – Bank of America

Thanks.

Haley Tam – Credit Suisse

Good morning everyone. Just a few points of clarification if I may. First of all on BoCom it's obviously very impressive growth in the first half. I just wondered whether there were any specific drivers of the net new business of £9 billion or whether that was a momentum we could look to continue from here.

Secondly just in terms of costs, the non-comp costs, if I can just simply clarify. How much benefit exactly did we get in the first half from lower travel and marketing costs? Just if you could help us think about that, that would be appreciated.

Then the third and final point just for clarification. The investment performance I think you said 69% equities and 70% fixed income funds outperforming over three years. Forgive me if I've missed it. What were those numbers at the end of December just so we could have the comparison? Thank you.

Peter Harrison

Firstly, I'm very conscious of Man's results. BoCom net new business of £9 billion, I don't think you should put a straight line through that up to the skies because you'll see that the retail environment in China has been very buoyant in the first half. But there's been a number of successful fund launches which have got that – no doubt that for us have proved really quite sticky which is not the case with all the fund launches.

So I think the underlying businesses have good long term momentum and it's particularly got good investment performance going forward. But please don't annualise £9 billion for too long.

I'll get Richard to take the non-comp question.

On investment performance at the end of December equities was 70%. It's 69% at the end of June. Multi-asset was 49% at the end of December. It's 21% today. Fixed income was 92% at the end of December. It's 79% today. Those were the key drivers.

Richard Keers

In terms of those variances, travel and marketing, about an £8 million benefit in terms of travel and marketing was down about £5 million. But we were – that's against the first half of last year Haley. But as I mentioned before we were budgeting for a decrease in travel costs anyway which was non-Covid related.

So in aggregate, £8 million plus £5 million but – against the first half of last year but we were looking to reduce travel anyway.

Haley Tam – Credit Suisse

Thank you. That's very clear. I think Man was at 10:30am in case that helps.

Peter Harrison

Oh is it? Oh good. Oh great, okay, perfect. Pressure is off.

Michael Werner – UBS

Thank you everyone for the presentation. So very, very clear. Just a quick question. Regarding the momentum and strength that you've seen in the solutions business, I guess in a lockdown environment are you guys able to refill the pipeline there as effectively especially considering that most of your sales force is confined to their residences? Thank you.

Peter Harrison

Mike, thanks for the question. I think it's something we've been very focused on. But I think that this environment does help those firms with relationships where you are already a part of the ecosystem. It's much more difficult if you're a challenger to establish new relationships. So in a perverse kind of way if you've got brand and you've got standing and you've got relationship you should be in a better position to pick up incremental bits and pieces because you're already a known commodity.

So from a pipeline perspective and a relationship perspective we feel we're in a pretty reasonable position actually. What I'm more focused on is if we stay in this position for let's say 24 months, we're going to have to become a very much more digital industry. That could change buying habits in a different way, particularly in mutual funds. But I think for the time being I feel pretty relaxed largely because we enjoy many of the relationships. We're not trying to make them for the first time

Michael Werner – UBS

Thank you.

Peter Harrison

Great, thank you everybody. Very much appreciate all the questions and look forward to seeing you all again in person in due course. Thank you.

[End]