Operator: Thank you for standing by, and welcome to the Q1 interim management statement 2016 conference call. At this time all participants are in a listen only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question you may do so by pressing star then one on your telephone. Please be advised that this conference is being recorded today. I would now like to hand the conference over to your speaker today, Mr. Peter Harrison. Thank you. Go ahead.

Peter Harrison: Morning, everyone, and welcome to our Q1 call and my first with you as Chief Executive of Schroders.

First I'm going to run through the highlights of our management statement, and then Richard Keers and I will be happy to take any questions you have.

I'm pleased to say the business continued to perform well, despite the market conditions and the economic uncertainties in the first three months. Profit before tax and exceptionals was GBP144.5m, just ahead of consensus I believe, and after exceptionals profit before tax was GBP137.9m. Both these numbers were down slightly on 2015.

We stepped up investment in the business, including upgrading our front office technology systems, in line with what we outlined to you at the year end, so consequently operating expenses were up 3% to GBP267.2m. Net revenue and operating revenue were broadly in line with the first quarter of last year, at GBP411.7m and GBP387.7m, respectively.
74% of our assets outperformed their benchmark or peer group over three years, slightly up on the figure at the end of December, which was 72%. Assets under management increased 4% at the end of 2015 to a new high of GBP324.9m.

That was driven by three factors: negative market movements of GBP2.8bn, a positive FX impact of GBP11.5bn and net new business of GBP2.7bn. And I think these flows reflected both the resilience of the business model against a background of industry wide subdued demand from intermediary clients.

In asset management, net operating revenue was GBP335.8m, including GBP0.5m of performance fees. Net operating margins, excluding the performance fees, were 48 basis points, which is a decline of 1 basis point from the end of 2015. That was in line with the guidance Richard gave to you in March and reflects the further growth of Multi-asset and Fixed Income and the strong growth of our Institutional sales.

GBP4.5bn of net new business was funded in the Institutional channel during the quarter, predominantly, again, Multi-asset and Fixed Income compliance in the UK and continental Europe. Institutional net operating margins fell 1 basis point to 33 basis points as a result of that change in mix, whereas within Intermediary, we saw net redemptions of GBP1.8bn over the quarter. These outflows were mainly in Multi-asset and Equity funds, partially offset by some strong sales in European equities.

So, net operating margins in Intermediary were unchanged at 74 basis points, although we're still forecasting a decline of 1 basis point during the course of the full year. That makes asset management profit before tax and exceptionals GBP127.9m.

In Wealth Management, net operating revenue was GBP51.9m and net flows were flat across all regions, and net operating margins were also
unchanged. Wealth Management pre-exceptional profit before tax was GBP15.7m.

And the Group segment saw revenues of GBP9.8m and profit before tax and exceptionals of GBP0.9m. Shareholder equity at the end of the quarter was GBP2.9bn.

So, in summary, we've made a solid start to the year, with revenues and profits in line with expectations. We are continuing to invest back in the business in order to gain market share both now and in the future and in line with the guidance we've given you. And despite the challenging conditions, we've generated good levels of flows during the quarter and continue to add scale in Fixed Income and Multi-asset, which is important.

In terms of outlook, I think we see this volatility may well continue in the short term. Frankly, our focus is on the long term and diversifying the business. We've got a strong financial position and we consider ourselves well placed to meet those challenges.

So that's a quick run through. I'll open it up for questions, which Richard and I would be happy to take.

Operator: At this time I would like to remind everyone that if you wish to ask a question you may do so by press star then one on your telephone keypad. We will pause for just a moment to compile the Q&A roster. Your first question comes from the line of Arnaud Giblat.

Arnaud Giblat: Good morning. It's Arnaud Giblat here from Exane. A couple of quick questions on Institutional flows. Could you perhaps give us a bit more detail on how they shaped up across geographies? I'm interested to see what's happening in Asia.

And secondly, I think you had a launch or a ramp up of your European absolute return fund in Institutional. Could you give us maybe a bit of an indication as to how well the asset gathering has gone there and how much an offset to the outflows it has been over the quarter?
And finally, could you perhaps comment on the level of outflows you've seen in Intermediary and Multi-asset and how much performance has been an issue there? Thank you.

Peter Harrison: Yes, certainly. Just in terms of geography, the UK, we saw inflows of GBP1.8bn split -- insurance and Multi-asset being the key drivers. There was an outflow in Intermediary, but insurance was a good, strong part of that.

In Europe, we saw inflows of GBP1.3bn, positive in both Institutional and Intermediary, and particularly in European equities. And the SISF European Alpha Absolute fund of that was GBP0.6b of our aggregate flow, and most of that was sold into Europe.

Asia overall was flat, split between an inflow of GBP600m in the Institutional business, and that’s from a range of different places, Japan, Korea, Singapore, and there was GBP600m of outflows in Intermediary, Hong Kong, Taiwan, Singapore being the main places there. But there’s a general risk appetite issue in Asian intermediary.

And sub-advisory in the US led to a GBP400m outflow there. A lot of that was algorithmically driven as markets declined.

So a fairly broad spread, but focused predominantly in UK and Europe.

Arnaud Giblat: Thank you.

Operator: Your next question comes from the line of Daniel Garrod of Barclays.

Daniel Garrod: Good morning, Peter. A couple of questions from me. Firstly, one of your peers likened the quarter to being of two halves, of the momentum very much improving from mid-February onwards into March. Wondered whether you would share that experience and any thoughts as you’ve headed into April.
You did make a comment about subdued demand likely to continue. Do you think that's just generally volatility driven, or is some of it due to particular fears around Brexit? Do you think if it is the latter, are we likely to see the subdued flow environment, particularly, I guess, amongst UK clients into UK funds, until after the summer? Thank you.

Peter Harrison: Yes, it's a good point. My own sense is that it's volatility that's the key thing that keeps people away. You are right that it was a quarter of two halves. In the first -- up to about February 10, there was a very different mood. And as the world changed post February 10, February 11, sentiment did improve, and that did certainly help Intermediary flows.

I think it's very hard to predict where risk appetite goes over the next few months. There's so many big macro factors out there at play, not just Brexit, but they're everywhere. So I don't see a clear trend. Obviously, in the institutional sector, one's got better visibility on client decisions. And we've seen, for example, in European equities but also in emerging market equities, institutions being willing to put money back on the table.

So I think we will see an ongoing bifurcation between a more stable institutional environment and a more risk appetite driven intermediary one, and I think discerning that trend's going to be quite tricky.

Daniel Garrod: Thank you.

Operator: As a reminder if you wish to ask a question please press star then the number one on your telephone keypad. Your next question comes from the line of Haley Tam of Citi.

Haley Tam: Morning, Peter. Morning, Richard. Two questions, please. The first one actually again, I'm afraid, on the Institutional flows. You did mention most of those came into the Multi-asset space. Could you give us any more color on the split? Was that perhaps risk controlled or LDI or anything of that nature, and whether there was anything lumpy in there, or unusual in the quarter.
And the second question, just in terms of the investments you're making into the business. Obviously, you have highlighted those in the past. I think your cost to net revenue ratio is now running at 65%, which I think is your long-term average. Would you encourage us to think about it perhaps running a little bit above that in the near term, given some of the additional regulatory costs and infrastructure investments that are going on? Thank you.

Peter Harrison: Yes. If I could take the second one first, we have made an investment back into the business, and we do see that that investment is going to be sustained. That said, we see 65% as something we do strongly aspire to. So we’re taking action elsewhere. And some of the investments have a good payback as well, so there's some cost reduction on the back of that.

So my sense is that we won't see that 65% change very much, and that’s certainly what Richard and I are working to. There are some one-offs in the pipeline, like MiFID, but there seem to be one-offs every year these days from regulatory stuff. So I'm not certain that I can be definitive, but certainly our objective is to stick at the 65%.

So hopefully that answers that bit, Haley. On the split of Multi-asset, there was quite a broad split, but effectively the growth overall of Multi-asset was GBP2.3bn, and there were two quite lumpy parts of the inflow, which were insurance mandates and LDI. On the negative side, there was GBP1bn of Intermediary out, which was about GBP400m of this algorithmically driven mandate. And then the other one was our income funds, which suffered in the de-risking and with some performance challenges.

So, of the net GBP2.3bn, GBP3.3bn in of Institutional and GBP1bn out of Intermediary, which is why you've seen that margin shift overall at a Group level.

Haley Tam: Thank you. And if I dare ask, since you mentioned MiFID II, with the draft delegated acts having come out in the last week or so, is there
anything yet which seems to be very different from what you anticipated?

Peter Harrison: Thankfully, not. Obviously, the draft delegated acts are coming out bit by bit, and we feel that -- we will deal with them as we go, but I think there will be some stuff which requires system work and some more governance. But having an extra 12 months to attain compliance makes those system projects a little bit easier. And we've cracked on with them because we think it's important, but I don't think we need to be overly concerned that they're going to cause an issue at a Group level.

Haley Tam: Thank you.

Operator: Your next question comes from the line of Hubert Lam from Bank of America.

Hubert Lam: Good morning. Just the one question on revenue margins. You mentioned already that the revenue margins for Institutional is already down a basis point, and that was your budget already for this year. I'm just wondering if you think that you need to change your guidance for this year on the Institutional side, as well as a similar question for retail.

On Intermediaries, I know you said that retail intermediary was flat this quarter, but I'm just wondering if you're still targeting 1 basis point for this year. Thanks.

Peter Harrison: Yes. On the Intermediary, we are targeting a basis point. We think it's probably right to do that, given the environment. We've come down 1 on the Institutional side already, but partly that's picking up the fourth-quarter effect from last year, as well as that's worked through the pipe.

I think, looking forward, it very much depends on the mix of new business. I said we're -- on one hand, we're taking in emerging market equity business. On the other hand, we're taking in Fixed Income Multi-asset, and that mix is quite complicated. At the moment, we're happy
where we are in terms of guidance, but clearly predicting the shape of
these things is quite hard over short periods.

Hubert Lam: OK. Thank you.

Peter Harrison: Thanks.

Operator: Anil Sharma, Morgan Stanley.

Anil Sharma: Morning, guys. It's Anil Sharma from Morgan Stanley. Just two
questions, please. Well, sorry, David Cameron put an article in the FT
last night, entering into this debate around fees on investment
management products. I just wondered, how much do you think that
increased the pressure on this competition review to actually come in
and be a bit more of a rate setter? I know the Nordic regulator has
intervened in fees in the past. I just wondered what your best sense on
that is at the moment.

And then secondly, Richard, we talked back in March about M&A, and
in particular CLO businesses. I just wondered if there had been any
progress on that front.

Peter Harrison: The market study is obviously going to be a very full study of our
industry, and we expect some news in September. At the moment, that
may slip further. Who knows? And the final result next year.

And the issue of fund management fees isn't new to us or to anyone on
this call, so I think it's going to be an ongoing issue. My observation is
that clients have been for many years keenly aware of fees, and that
isn't going away. The growth of passive is clearly bringing that into
focus evermore.

But I don't think David Cameron's intervention or anything else. This is
something which is an ongoing thing set by thousands of clients every
day in negotiations with fund managers. And at the end of the day, our
best defense is having 74 percent of funds outperforming, and that's
really what we're focused on. But there are headwinds on fees. There's no two ways about it.

On the M&A, you've seen that we've done two little things in the course of the last three months. One was a little business in Holland, NEOS, a direct lending business, which we think is an interesting segment. We've just taken a small stake there. And the second stake in Safe Harbor an insurance business, where we believe that long-term opportunities in bulk annuity buyouts and managing the long-term stream of fixed income assets that come off the back of those buyouts is very interesting indeed.

So, again, it's not breaking from what you've heard in the past. We're not looking to do big transformative things, but we do see opportunities in individual sectors and asset classes. And we are continuing to talk to a number of different teams that we can bring in, either through transfers, M&A transfers, or through team hires.

We've made a hire of a team, you may recall, in infrastructure finance at the back end of last year, and part of the flows that you've seen in Europe and in Institutional this year have been that team ramping up, and it's been very successful.

Anil Sharma: That's very helpful. Thank you.

Operator: As a reminder if you wish to ask a question please press star then the number one on your telephone keypad. And there are no further questions.

Peter Harrison: Great. Well, thank you, everybody. And my first call over and done with, but I look forward to spending more time with you all in the future. Thanks ever so much.

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