Thank you for standing by and welcome to the Q3 interim management statement 2014 conference call.

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

Please be aware that this conference is being recorded today, November 6, 2014. I would now like to hand the conference over to your speaker today, Mr. Michael Dobson, Chief Executive of Schroders. Mr. Dobson, you may go ahead.

Thank you very much and good morning, everybody. Thank you for joining us. We announced, as you know this morning, our results for the nine months to the end of September and I’ll run through the highlights and then we can throw it open for questions.

Profit before tax and exceptional items was up 16 percent to GBP404.4 million in spite of an adverse impact on profit of approximately GBP27 million, due to the strength of sterling over the past 12 months. Net inflows for the nine months were GBP7 billion; assets under management at the end of September were GBP276.2 billion.

And we have, as we reported, had competitive investment performance across institutional and intermediary, with 80 percent of assets under management outperforming benchmark or peer group in the three years to the end of September.
These are record results in terms of profit and assets under management and I think are a good reflection of the diversity of our business by channel, by asset class and by region, with more than 60 percent of our assets under management and revenues coming from clients outside the U.K..

Looking in more detail at asset management first, net revenue for the quarter was up 5 percent at GBP329.5 million, despite a reduction in performance fees from GBP17.5 million in the third quarter of last year to GBP3.4 million in the third quarter of this year.

For the nine months, net revenue was GBP950.5 million, up 6 percent on last year and that GBP950.5 million includes GBP11.7 million of performance fees, (technical difficulty) GBP29.3 million of performance fees in the first nine months of last year.

You will remember that last year we had an exceptionally high level of performance fees for the year as a whole, at, I think, around GBP81 million. Our more normalized expectation is around GBP50 million, but for 2014 we are expecting around GBP30 million for the full year in terms of performance fees, given more challenging market conditions.

Asset management profit before tax and exceptional items for the quarter was up 9 percent at GBP119.7 million and for the nine months was GBP354.8 million, up 10 percent. Net inflows in asset management for the nine months are GBP6.6 billion, including GBP2.1 billion in the third quarter of which GBP1.3 billion was in intermediary and GBP800 million in institutional.

I think, again, these strong flows in the third quarter, in quite a challenging market environment, are a good reflection of the broad diversity of our business.

In intermediary, we had another good quarter, taking net inflows for the year to date to GBP5.1 billion, with the majority of sales, once again, in our higher-margin branded funds and with a particularly strong performance in Asia Pacific and in Continental Europe.
In Asia, in terms of asset classes, the flows were principally in multi-asset and equities; and from Continental Europe, the flows were principally fixed income, also multi-asset and to a lesser extent equities. We had good equity inflows in the U.S. also in the third quarter.

I think a theme that we saw pretty much across the board was a strong demand for income products, particularly from Europe and Asia, and not only focusing on multi-asset but also our dividend maximizer range in equities and in various fixed income strategies.

In the U.K., we had net outflows in the quarter reflecting some challenging short-term performance numbers in some asset classes after strong returns in 2013.

On the institutional side we had GBP800 million of net inflows in the third quarter, taking net inflows year to date to GBP1.5 billion. Asia Pacific again was particularly strong and the flows coming mostly in fixed income and multi-asset. We have a significant pipeline of business in institutional which we have won but which is not yet funded, so we expect a strong fourth quarter in our institutional business.

Turning to the wealth management business, net revenue for the quarter was up 31 percent to GBP61.7 million and this includes performance fees of GBP2.7 million, relatively unusual in our wealth management business; and a GBP7.5 million write-back on a loan loss provision which we previously took in our Swiss business.

Profit before tax and exceptional items in the third quarter was up from GBP10.4 million to GBP22.9 million, but this includes the one-off revenues relating to the loan loss write-back and, to an extent, the performance fees as well.

For the nine months, profit before tax and exceptional items in wealth management was GBP49.2 million, up from GBP21 million for the first nine months of 2013. Net inflows in the third quarter in wealth management were GBP100 million, taking net inflows for the first nine months to GBP400
million. And assets under management at the end of September were GBP30.5 billion.

Turning to the outlook, I first want to touch on the subject of the possible banning of paying for sell-side research out of dealing commissions, which has generated quite a lot of coverage in terms of the potential impact on Schroders. The first point to make, obviously, is that is far from clear as to whether these proposals from ESMA will in fact be implemented, and, if so, when and in what form.

But if paying for research out of commission does go completely, some of the higher estimated numbers we have seen from the sell-side don't take full account of a number of important factors.

First of all, out of scope assets under management that we have; zero research commission equity assets in our quantitative equity products; the significant hard payments we already make for external research; the changes in the availability of data and research information, which we are increasingly accessing directly; and last but not least, the very significant internal research capability we have here at Schroders.

So in our view, although as I say, it's far from certain as to whether and if so, when and how these proposals are implemented, in our view we don't expect the impact on Schroders to be material.

More generally, as regards the outlook, and as we said in the statement, despite the market volatility in recent weeks, October has been a strong month with positive flows across all channels, institutional, intermediary and high net worth.

Intermediary demand, therefore, has held up well, and we've seen a number of institutional mandates fund in recent weeks, to some extent, I think, as clients have taken advantage of the market weakness in October to (technical difficulty) capital.

We're now very happy to take your questions and I am here with Richard Keers, our Chief Financial Officer.
Operator: We will now begin the Question and Answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Your first question comes from the line of Daniel Garrod.

Daniel Garrod: A couple of questions from me. Obviously you do in the release comment around what you're seeing in October. So I just wanted to probe a little bit more on that.

You've obviously had a headline departure of Julie Dean from your U.K. team. Wonder if you could comment about anticipated impact of that. You do indicate significant institutional pipeline. Obviously the Friends Life contract had been well flagged. Is that all expected to fund in Q4 and is there significant pipeline over and above that?

And then my second question, just a bit more detail on that loan loss provision in the wealth management, the write-back of it. Did that relate — I think you previously took some provisions against property loans for individuals, did it relate to one of those? Is there anything remaining that might be written back in future quarters? Thank you.

Michael Dobson: So October, starting off with your first question. October has been strong. We've seen some good funding of institutional mandates and we've seen continued positive flows in intermediary, again predominantly in our branded products.

In terms of regions, pretty much the continuing trend with a very strong performance in Asia Pacific and Continental Europe.

On the impact of the Julie Dean departure, we actually had as much, or actually slightly more in terms of net outflows before her departure was announced, as we did in the few weeks after her departure was announced remaining in the third quarter. So after strong performance last year, the performance of those funds has been quite weak this year; I think prior to her departure about 10 percent under the index.
And that was leading to quite significant outflows, which actually were running ahead of the outflows of those, as I say, in the period following the announcement of her departure.

We've had some continuing outflows in the month of October in relation to those funds. I think that is now tailing off. And as I say, notwithstanding that, we've had significant net inflows in intermediary retail overall in the third quarter and continuing in the month of October.

On the institutional pipeline, as we say in the announcement, it is a very strong pipeline of business, with one which has not yet been funded. And that is in addition to the Friends Life mandate of GBP12.2 billion, some of which funded in October. We expect that to fund, the rest of it, in the fourth quarter.

It could be delayed a little bit into the first quarter of next year, but currently our thinking hasn't changed on that, and it will probably fund in its entirety in the fourth quarter of this year. But over and above that, we have a very good pipeline of business in institutional, with one that has yet to fund.

And then finally on the loan loss provision. As I said, this relates to a provision we took in Switzerland originally in 2009 and I think we made another couple of provisions against it in the year or two following that. And we've taken, as we said, a useful write-back on that of GBP7.5 million.

It does not relate, therefore, to the property, the enterprise zone property loans that we made in the U.K., which we provided for. We are working our way out of those, not expecting write-back. It’s possible, but we’re not counting on it. This write-back relates – unrelated to those property loans and arose in Switzerland.


Operator: Your next question comes from the line of Arnaud Giblat.

Arnaud Giblat: Could I just follow up quickly on the institutional pipeline? What is the nature of the mandates? Is it LDI, or do you have a range of mandates?
Second question on your costs. I was wondering if your guidance for 47 percent comp to income ratio is still valid. It seems as though you're slightly under that.

And finally, could you give us a bit more granularity on intermediary margins, excluding performances? It seems as though they're around about 78 basis points right now, so we've seen a tick-up there. Is that an averaging effect, or is there more to – or is it a mix shift here you've seen in the underlying business?

And the same in wealth management; even if we strip out the GBP7.5 million loan loss provision, it seems as though there's been a pickup in management fee margins.

Michael Dobson: OK, Arnaud, the pipeline of institutional business, not particularly LDI. It's more in a range of other strategies, including equities. We've won some quite big equity mandates which are coming through fixed income and multi-asset. But less so in LDI. Although we continue to win business in LDI, but the business we won, which is not yet funded, is predominantly equities, fixed income and other multi-asset.

On the comp to revenue ratio, we are, as you know accruing at 47 percent. As we did last year, we will make a call at the end of the year, in the light of results, market levels and so on, as to the overall number. But through the nine months, 47 percent is the number.

And I wouldn't guide you away from that number for the full year, but last year we brought it down, I think, one point in the fourth quarter. And we will make that judgment call in a couple of months' time.

On margins, intermediary, ex performance fees, is about 77 basis points. And that has been fairly consistent throughout this year, and is a little bit down on last year and (technical difficulty) is about 67 basis points, which is a little bit up probably on where we were a year ago.
I wouldn't read too much into that. I think that as the Friends Life mandate funds, we will see, and we've said this before, a small impact on our overall blended margin rate, certainly on the institutional side of the business.

And I think on wealth management, we're not looking for an increase in margins. We're looking probably at stable margins.

Operator: Your next question comes from the line of Jonathan Richards.

Jonathan Richards: Just one question, if I could. You alluded to seeing income products receiving high demand from the intermediary side of your business. I was wondering if you saw a corresponding demand for that product suite on the institutional side.

And just, I guess, a little bit further there. You alluded to the fact that you saw demand, or rather that you had unfunded institutional mandates that were coming through in Q4 in your equities and multi-asset businesses. But I was wondering what conversations you were having with institutional investors currently about new mandates that might happen in Q4, Q1, where is the institutional demand moving to at the current moment. Thank you.

Michael Dobson: I think the overwhelming demand for income products is the retail (technical difficulty) (intermediary side of the business). Although we've been doing well in fixed income and institutional as well. And, therefore, it's not exclusively retail, but that is, I think, the principal area of focus for income products. But various strat bonds and other fixed income products are also gaining traction on the institutional side of the business.

New mandates; we obviously continue to work with institutional prospects around the world on a – and consultants on a continuing basis. So we have a – we have two pipelines in our own minds.

One is a pipeline of business we've actually won, where we've won the mandate, and which has yet to fund. And as I said before, that is at a very good level. But also, a longer-term pipeline of semi-final and final presentations coming up in the longer term. That's a continuing process of responding to requests for proposals, and actually generating new ideas and
new opportunities by direct calling on consultants and end clients. And that's a continuing process.

And again, there is a long pipeline of potential business for which we are competing, which will take us through into 2015.

I don't know whether that's answered your question, but come back to me if you want any more on that.

Operator: Your next question comes from the line of Bruce Hamilton.

Bruce Hamilton: A couple of follow-up questions. On the Julie Dean effect, could you just give us a sense of the residual assets in her – that were under her management, and also, any other U.K. equity products that might be underperforming? Just to give us a sense of possible risk in Q4. I take your comment about the tail-off post-October.

And then, secondly, in terms of the cost guidance. Are you still sticking with your GBP300 million other cost guidance for the full year, or is there any improvement on that, in light of, say, the integration of Caz, which sounded as though it was going slightly better than planned? Thank you.

Michael Dobson: I think the amount of assets now in strategies she ran is about – is just under GBP2 billion. We, as you know kept the investment trust, which is the Schroder U.K. Growth fund, which is about GBP400 million. And I think the total assets are a little under GBP2 billion.

I'm going to ask Richard Keers to pick up your question, Bruce, on costs.

Richard Keers: Bruce, in terms of the GBP300 million, I think that's still the best guidance. Although I would say there's probably more risk of a slight undershoot than a slight overspend. But I wouldn't be changing the models at the moment.

Bruce Hamilton: Great. Thank you.

Operator: Your next question comes from the line of Philip Middleton.
Philip Middleton: I just wondered, could you say a little bit about have you seen any changes in product demand over the last quarter? Because the sense I've got overall is people have become more risk averse, and that's played through in terms of the assets they're buying.

It's not obvious from what you've been saying that you've felt that, but maybe it's a more detailed level you have seen. I just wondered if you could give us some sense for what your clients are saying to you about risk appetite at the moment.

Michael Dobson: We haven't seen that much change, Philip. We're still winning emerging market equity mandates. We've had net over GBP1 billion inflows into emerging market equity strategies. We're launching some new emerging market equity products, even though that asset class has been under critical focus recently.

I think fixed income flows have picked up quite a lot for us. We've got very strong performance there, pretty much right across the board. And we're now seeing that really come through, particularly in the second half, in good flows. I think that will continue.

Multi-asset continues to be very strong, both right across institutional as well as intermediary.

But we're seeing a very broad range of mandates, from sovereign wealth funds, from insurance companies, from pension funds in the United States, and in our retail intermediary business. And I don't – I suppose, strategic bond, return bond products, some of our absolute return equity products have been attracting attention, which plays to that point you're making. But nevertheless, demand has been pretty broad across quite a range of relative and absolute return strategies.

Philip Middleton: OK. Thanks.

Operator: Your next question comes from the line of David McCann.
David McCann: Three questions, please. Firstly, just on this performance fee you've had within the wealth management division. Just wondered to what extent is that potentially repeatable? Because I don't ever recall seeing one in that division before. So just – is it a one-off, or is it actually something that could recur from time to time? And maybe give a potential quantum there.

Related to that, does that figure within the GBP30 million guidance you've given for the full year?

Secondly, just back to the loan loss provision write-back. Is – does the comp ratio of 47 percent equally apply to that? Or is this – that's outside of that?

And then finally, just on the tax rate guidance you gave us in the summer of 20.5 percent. Are you still accruing at that level so far in the second half? Thank you.

Michael Dobson: So the performance fee related to a private equity fund for our clients in our Swiss private bank, and is – and as you correctly say, and I – it's not a common occurrence within the – within our wealth management business.

It does – it is included in the GBP30 million guidance we gave you on performance fees. That guidance obviously is extremely difficult; we don't know ourselves, and we won't know until the end of the year. But that's our estimate at the moment.

Year to date, (we stand) across asset management and wealth management of GBP14.5 million, which is almost exactly half of what it was last year, GBP29.3 million at this stage.

The loan loss write-back is outside the compensation ratio. And I'm going to as Richard to pick up your tax point.

Richard Keers: No change on tax guidance.

David McCann: OK. All very clear, thank you.
Operator: Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from the line of Peter Lenardos.

Peter Lenardos: Just two quick questions. First of all, I see your regulatory capital had increased by about GBP100 million year on year; and I was just curious if the reason for that was the increased size of the business, and the increased cost base.

And the second was I know that your surplus capital, as of June 30, was just south of GBP1 billion. I was wondering if we could give us an update on that as of September 30. Thanks.

Richard Keers: Peter, in terms of the reg capital position, clearly, as you say, the business has got larger. And it’s counter-intuitive; as the business gets larger and you hold more investment capital, so the capital requirement increases at the same time. So we’re having to hold capital.

But also with the integration of the Cazenove non-banking book into the wealth management banking platform, there’s also been an increase in the capital requirement there, a marginal increase there. But broadly it's in line with the increasing size of the business.

In terms of – your second question related to surplus capital?

Peter Lenardos: Correct.

Richard Keers: The GBP1 billion. If you look at the data pack, I've slightly re-jigged how we disclose ...

Peter Lenardos: I noticed.

Richard Keers: Investment capital is still no change, but I have moved and restated what we previously showed as other operating capital. The changes I made are to take software, associates, joint ventures and deferred tax out and put that in with other goodwill and intangibles, because that's not really surplus.
Another way of looking at it is, other operating capital now (technical difficulty) properly could be described as surplus, which you could add to investment capital of (GBP684 million), giving a sum of (GBP853 million).

Peter Lenardos: Great.

Richard Keers: I've always said before, take half of that other number, because it's got some stuff we can't spend, so I've stripped that out.


Operator: Your next question comes from the line of Owen Jones.

Owen Jones: Could you comment, please, on any levels of interest that you've seen from the re-opening of the U.K. Dynamic Fund?

And then secondly, related to that, on the wider theme of capacity constraints, could you comment on any other funds that might be coming up against any capacity constraints, given the recent strong inflows in the intermediary? Thank you.

Michael Dobson: On the Dynamic side, it's too early to say; but it is re-opened (technical difficulty) interest will pick up over time. But there's no – it's not going to be an immediate turnaround there, or result in immediate flows, I don't think.

On other capacity constraints, nothing imminent. We have a very big business in Asia, and some of our strategies in Asian equities are soft-closed; not hard-closed, but soft-closed.

We've had a – we've got a very big emerging markets business which continues to grow; and a little bit of headroom. But not – so I don't see that being an issue in the short term. But looking – depending on what happens, obviously, looking two years out, maybe we could be soft-closing some of those strategies.

I think we're intent on trying to soft-close these strategies, rather than hard-close them. Occasionally we have to hard-close a product, and that
inevitably leads to big outflows, and disappointments with distribution partners.

So we're much more interested in managing this is a very forward-looking way, well ahead of the event, and soft-closing in – and really slowing down inflows. And that's where we are on some products, but I think no hard-closed products in the foreseeable future.

Owen Jones: OK. Are you able to talk about a typical lag-time that you might see from a fund such as U.K. Dynamic reopening? Because that's been a – one of your better-performing funds of late, this year aside. Is there a typical lag-time that you might see from reopening to material funds coming back through?

Michael Dobson: I think I made a comment in my introductory points about outflows in the U.K. as a result of some challenging performance this year after very strong returns (in) 2013. And I think U.K. Dynamic will be an example of that.

So very strong long-term (returns), an excellent year last year. And in a way not surprisingly, some short-term challenges. And we have – we still think it's a great product, with a great manager; and I think so does the market. But in the short run there's been, as I say, not surprising in the result of the returns generated last year, a bit of a reverse.

So I think as that works its way through, works its way out, then I think you begin to see flows back. But I think it'll take a few months.

Owen Jones: OK. Thank you, Michael.

Operator: Your next question comes from the line of Richard Perrott.

Richard Perrott: Could I just ask for a few more details on investment performance? You indicated at 80 percent of funds are outperforming over three years; 20 percent underperforming.

I was wondering if you could give a little bit more color on exactly what products you're seeing particularly strength, and on what products are you
seeing more a weakness over this three-year benchmark. And what particular fund products, and what particular asset classes. Thank you.

Michael Dobson: Yes, 80 percent outperforming over three years, as we said. And that is the same in both intermediary and – (ironically), or unusually, we're exactly the same number; 80 percent in institutional and 80 percent intermediary.

Over one year it's slightly lower than that; intermediary is about 75 percent outperforming, and institutional is 65 percent.

I would say that, as I mentioned a few minutes ago, our fixed income performance has been really universally very, very strong, right across the board. Multi-asset has been quite competitive; and equities has been good. U.K., as we've discussed, has had some short-term challenges. Some of our global and EFA portfolios the same.

But long term, the numbers are still very strong, and I think it reflects what has been quite a challenging market, not just in the last few weeks, but this year. And I think a lot of – leaving aside Schroders, if you're looking outside, I think a lot of strong performing funds, and strong managers, have (technical difficulty) in 2014.

So I would say that where we have had – where we've had examples of that, I think it's in line with what some of our strongest competitors have seen; and it doesn't really weaken the long-term track record and the long-term proposition.

Richard Perrott: Thank you.

Operator: There are no further questions at this time. Please continue.

Michael Dobson: Thank you for joining us. If you've got any follow-up questions, please talk to Emily Koya. You've got the number on the press release. Thank you very much.

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