FINAL TRANSCRIPT

Thomson StreetEvents℠

Conference Call Transcript

SDR.L - Preliminary 2010 Schroders plc Earnings Presentation

Event Date/Time: Mar 10, 2011 / 09:00AM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Michael Dobson
Schroders plc - Chief Executive

Kevin Parry
Schroders plc - CFO

Massimo Tosato
Schroders plc - Vice Chairman

CONFERENCE CALL PARTICIPANTS

Nick Burgess
RBS - Analyst

Haley Tam
Citi Group - Analyst

David McCann
Numis - Analyst

Bruce Hamilton
Morgan Stanley - Analyst

Carolyn Dorrett
Deutsche Bank - Analyst

Daniel Garrod
Barclays Capital - Analyst

PRESENTATION

Michael Dobson - ***Schroders plc - Chief Executive***

Okay, good morning, everybody. Thank you for joining us.

The results we have announced today stem from these key factors. First of all, investment consistently in organic growth; our conviction in the organic growth prospects of this firm, both here in the UK, and internationally, and our consistent investment behind that, be it in strong or weaker market environments.

Secondly, an absolute priority, focus on delivering superior performance for clients, which continues to be our number one objective on a very broad product range across most asset classes within equities, fixed income, multi-asset and alternatives.

A proven distribution capability, our global franchise, 32 offices in 25 countries around the world; and a strong financial position, which enables us to take a long term view as we build this business, gives confidence to clients and counterparties, and is a fundamental part of the Schroders brand.

And it's these features that have led to what, on most measures, was a record year in 2010. Starting with 81% of our funds outperforming either benchmark or peer group over the three years to the end of 2010. It's the longer term number that we focus on principally, and 81% is an exceptionally strong result. Over one year, 67% of our funds have been outperforming, which is still a good number.

Net new business, on the back of that, was a record GBP21.7 billion, taking funds under management to their highest level ever of GBP196.7 billion, up 33% on the year.

Profit before tax was GBP406.9 million. Earnings per share were 111.8p, and the dividend has been set at 37p per share, up 19% on the year, with a 24% increase in the final dividend to 26p per share.

Gross inflows in the year were up 44% to a record GBP78 billion, so well in excess of the previous high in 2007 of GBP56.6 billion, and, as you can see, broadly diversified across asset classes. So, unlike 2007 when 65% of our gross inflows were in equities, we had a much better balanced picture, looking at the gross inflows, in 2010; 37% in equities down from 65% in 2007, 30% in fixed income, 12% in alternatives, 11% in multi-asset, and 10% in Private Banking.

On a net inflow basis, GBP27.1 billion of inflows for the year as a whole consistent with significant positive flows in each quarter; the first quarter, as we said at the time, being unusually high for seasonal reasons, as we have a lot of Institutional clients funding, with GBP6 billion of Institutional net inflows in Q1, which each of the following three quarters have been somewhere between GBP5.5 billion and GBP6.5 billion, with a slight increase in the fourth quarter to GBP5.6 billion.

Taking the year as a whole, again, a very diversified picture; 36% of our net inflows in fixed income, 21% in equities, 18% in multi-asset, 16% in alternatives, and 9% in Private Banking. It's worth noting, I think, in the fourth quarter that close to 50% of our net inflows were in multi-asset. I'll come back to the impact of that later on.

Looking at where the flows have come from on a regional basis, Asia Pacific was the leader with GBP9.5 billion of net inflows in 2010, GBP8.8 billion of which was in Institutional. The UK, GBP6.5 billion; broadly spread GBP2.6 billion in Institutional, GBP2.4 billion in Private Banking, and GBP1.5 billion in Intermediary. Europe GBP4.4 billion of net inflows; GBP3.7 billion in Intermediary and GBP1.7 billion in Institutional business. A strong performance in the US, GBP4.0 billion of net inflows; half in Institutional, and half in our relatively new Intermediary business, GBP2.0 billion pound of net inflows in each area. In South America and in the Middle East combined GBP2.7 billion of net inflows, essentially entirely in Institutional.

76% of the business we won last year, net, therefore came from clients outside the UK. And if you look at where our funds under management are today, a similar picture; 67% of our revenues from clients outside the UK, and a pretty well balanced picture, GBP68 billion under management here in the UK, from clients here. GBP52 billion in Asia Pacific, including a little over GBP5 billion from our China joint venture asset management company, which we don't include in the GBP196.7 billion of funds under management that we report, because we own 30% of that business, but GBP5.2 billion at the end of the year in that business. Close to GBP50 billion in Europe and the Middle East; and an increasingly important business in North America, with GBP21 billion and GBP6.5 billion in South America.

Our Institutional business had a very strong year in 2010; significant increase in gross inflows to GBP31.4 billion, and also very significant increase in net inflows to GBP16.8 billion. We're seeing something of a shift from defined benefit pension plans, which is still a very, very important client segment for us, towards sovereign wealth funds and financial institutions, where we've made significant progress in the last few years. Another feature behind these results are that we have been winning increasingly large mandates from large clients in our Institutional business.

In terms of asset classes, excellent momentum in fixed income, in emerging market equities, in alternatives, including funds of hedge funds, where we won close to $1.5 billion of net new business in 2010, commodities. And also, in what we call new asset classes, such as our quant equities business, which made significant progress in terms of new business last year, multi-asset, and LDI, which together as we highlighted in the management statement, accounted for GBP5 billion of net inflows in 2010.

A remarkable turnaround from the period just a few years back when we were having significant net outflows as our UK balance book of business ran off. We see multi-asset as a major growth priority for this firm and a net GBP5 billion of new business in that segment last year.

Our revenue margins on the year, ex. performance fees, were unchanged in our Institutional business, but you saw in that previous slide I showed a significant inflow of multi-asset business, part of which is LDI, in the fourth quarter of 2010. This is a priority target area for us, but obviously on lower fees, so I would expect that to have some impact on our average margins ex. performance fees in Institutional in 2011.

In Intermediary, our gross sales were up 36%, close to the previous peak of 2007. And in terms of net sales, this was one of the three best years we've ever had, as you can see from this slide, 2009 being number one, 2007 with GBP8.8 billion, and we had GBP7.9 billion of net sales in Intermediary in 2010, so a very strong year.

We've seen higher redemptions in Asia, particularly North Asia, Korea in particular, also Taiwan, which to some extent has carried on this year. But even there we had positive net sales in Intermediary, in Asia in 2010.

Significant progress in our sub-advisory business in the US, with GBP1.7 billion of net inflows, and in Japan, with GBP1.6 billion of net inflows. We are diversifying our distributor mix, and focusing particularly on insurance companies, and on the pre and post retirement products, which we see as a significant long term growth opportunity for the firm.

And we're also shifting a little bit of our focus now onto high capacity, scalable products. We are very active in managing capacity in this firm, and when we have an asset class which gets towards what we perceive to be the right capacity for us to be able to continue to deliver superior performance, then we are not hesitant in closing it. We've recently closed our US mid-cap product. We have closed our Asian total return product. We've closed commodity products in the past.

So we're very mindful, with these kind of flows that we've seen, but we still absolutely put first our ability to continue to deliver investment performance for clients. And it is, of course, a -- it goes with success, but reaching capacity in these products causes us to, first of all, soft close them, and then hard close them. And we've done that quite a bit in 2010, and we'll continue to do that in 2011, if we consider that to be the right course of action.

In terms of laying the foundation for future growth, 2010 was a success for the Private Bank. The strength of our proposition for high net worth individuals, both in an investment and client service context, I think, was -- became increasingly apparent. And we backed our conviction that there is an opportunity to grow our UK on-shore business by adding materially to our client facing Private Banking capabilities here in the UK, but also in Switzerland and in Italy.

And the result of that was a level of new business that was far higher than we've seen in the past. The previous strongest year in the last 10 years, I think, was GBP600 million of net new business in the Private Bank. And in 2010, we did GBP2.4 billion of net new business, directly as a result of the work we have done to strengthen the proposition for high net worth individuals and add client facing Private Bankers to our headcount.

We have seen a reduction in revenue margins from about 84 basis points to 72 basis points in 2010, and prior to '09 they were higher than 84 basis points, of course. So we've seen quite a reduction in revenue margins recently, for three reasons. First of all, we've been successful in winning quite large mandates on, as you would expect, lower fees. That's where we've focused. Secondly, lower interest income. And finally, lower transaction fees.

So our revenues in Private Banking are up only slightly in 2010. But that masks quite a good increase in management fee revenues, but lower interest income and transaction income.

Together with higher staff costs as a result of the investment we've been making, and a small increase in doubtful debt provisions compared with 2009, that has led to a fall in profit in the Private Bank to GBP10.1 million. But we see the business now well positioned for increasing profitability in 2011, as some of those one-off costs fall away and, as you see, a full year effect on the new business levels we won last year.

I will hand over to Kevin, to take you through a little more of the detail.

Kevin Parry *- Schroders plc - CFO*

Well, good morning, ladies and gentlemen. I'm going to start with giving you some key numbers to provide some context to this strong set of results. I'll then walk you through the main drivers of both revenues and costs, and end up with a couple of slides on our capital position.

So, profit before tax, GBP406.9 million. That's 196% up on 2009's pre-tax profit of GBP137.5 million. Last year, though, we had exceptional losses of GBP62.7 million, and if I adjust for that, you get the numbers that are on the screen now, so GBP200 million before exceptional items in 2009. In 2010 there were no exceptional items, and so if you make that comparison, the underlying increase in profitability is a 103% increase.

These results are 4% better than our previous high, which was GBP392.5 million, back in 2007, but those results included GBP58.5 million of private equity gains from the legacy portfolio that we had at that time. Those of you who've been following Schroders for some time will recall that that was a feature of the results that we had over many years, up to 2007. So, excluding the private equity gains, the underlying result compared with 2007 being the previous high is 22% up.

And I'll analyze the movement in profits in a moment or two.

Moving to the cost to revenue ratio, we've traditionally talked about the cost to operating revenue I've shown on the slide at the moment. But I think it's more logical to talk about total costs, the total net revenues. I know that's the ratio that many of you prefer anyway, so we changed it.

And so the slide has now changed to that, showing that the cost to net revenue ratio has dropped from 78% to 67% in the current year, so a significant improvement. It does though remain above 2007 because we're now investing heavily in the business, as Mike has referred to, particularly in areas such as multi-asset and fixed income. The percentage achieved though is higher than our target of 70% over the course of the cycle. So changing the ratio, the data pack that you have will have both sets of numbers in it.

Moving to earnings per share, they recovered strongly in 2010, being 226% up at 111.8p per share; that's just ahead of the improvement in pre-tax profits. And if we also show the EPS adjusted for the exceptional items last year, you'll see that the increase is 107%, so 54p to 111.8p; and that is also just ahead of the improvement in pre-tax profits.

Finally, in the context of these results, we have recommended an increased dividend of 26p for the final, bringing it to 37p for the year as a whole. That's 19% up on 2009 and 23% up on 2007. And that is in line with our stated policy of paying a progressive dividend in the light of profitability. And it will be paid on May 12, 2011 obviously.

So I'm now going to take you through the key drivers of the improved profitability. So starting with the profit before tax in 2009 of GBP138 million, the absence of exceptional item increases profits to GBP200 million as our starting point. The exceptional items, just a reminder, last year were around investment losses and the rationalization of the business coming out of the economic conditions that prevailed there and the year before.

So we start with a profit before tax of GBP200 million. Taking it from there into 2010, we've seen an increase in net revenue of GBP367 million. And so I'm going to just dwell on that for a moment and explain how that increase arose.

So, there's the net revenue of 2009, GBP789 million, and the end point of GBP1.1 billion -- GBP1.2 billion. So, Mike has referred to the strong net new business, and that is the biggest driver of the increase in revenue, and that has contributed GBP154 million to the total. Favorable markets also increased revenue to the tune of GBP129 million, and that includes GBP7 million of foreign exchange, so not a big foreign exchange story at all this year. Margins were unchanged at 64 basis points.

The greater Institutional business and more sales in lower margin asset classes, such as fixed income and LDI, were offset by higher performance fees. The pricing of individual investment strategies is little changed.

Performance fees are GBP39 million higher than in 2009, but predominantly reflect the abnormally high GBP27 million reported in quarter 1. You may recall GBP22.3 million of that related to the realization of a property portfolio culminating from many years work, and that is unusual in its size. To put that in context, individual performance fees are normally of the order of around GBP2 million each. So the second half we saw much a more routine level of performance fees, albeit just slightly better than we expected as the year ended strongly; so overall, a GBP39 million improvement in performance fees.

And then finally the Group revenue improved by GBP45 million, mainly around the solid results in the investment capital, which I'll come to at the end of the presentation. So that takes us to almost GBP1.2 billion of revenue. So returning to the profits slide, you will see the net revenue there is where we left it.

Moving on from there, compensation costs increased by GBP115 million. In 2010 bonuses have been accrued on the basis of a profit share ratio of 40%. That's compared with 45% last year, so significantly down. And if you prefer the comp to revenue ratio, that's 45% compared with 49% that we had last year, so a 4 percentage point reduction in the comp to revenue ratio.

I don't expect these ratios to improve any further. Indeed, 2011 could go marginally the other way, because they should be at a low point in a year like 2010 where we've seen strong market growth and strong net new business at the same time.

Other costs have increased by GBP44 million, and I'll revert to detail on that in a moment. And net finance income is broadly flat as interest rates were basically unchanged for the year. There's no change on joint ventures and associates, there's nothing I can show on the graph for that as the impact was the same this year as last; the main contribution being from our China joint venture and the SVIL associate, the private equity associate. So that brings the profit before tax to GBP407 million for the year.

So if I look at our revenue in a bit more detail, first in Asset Management and in the Institutional channel, the net revenue from Institutional business was GBP433 million, that's up GBP147 million on last year. And I think that does conclusively break the long term decline in Institutional business emanating from the demise of the old balance mandates.

37% of that increase, that's the blue and the orange segments in the circle, is attributable to net new business arising from the full year effect of last year's wins of GBP4.9 billion, and the partial year effect of the wins during the course of 2010, and that's amounted to GBP16.8 billion.

That GBP16.8 billion was won in all regions, with a particularly strong showing in Asia, as Mike referred to, and it was evenly spread amongst all asset classes. An equal amount, 38%, is attributable to markets, and the balance is attributable to performance and other fees. Of the Group's GBP39 million improvement in performance fees, the majority of that is in the Institutional channel and does include that GBP22 million from property.

Performance fees were earned in hedge funds, or funds of hedge funds in QEP, in multi assets and a range of single country equity strategies ranging from Indonesia to the UK, amongst others.

So moving to the other sales channel, Intermediary, net revenue is also significantly up in this channel, GBP563 million for 2010. 55% of that increase, again the same, the blue and the orange segments, is attributable to net new business; the full year effect of last year's wins, which were GBP9.6 billion, and the partial year effect of this year's wins, or 2010s wins, of GBP7.9 billion.

In Intermediary the net new business was strongest in Continental Europe, the UK and North America, and like Institutional it was spread across all asset classes, but with the highest net new business being in fixed income. 40% of the increase in income is attributable markets, and there's just a small contribution from performance fees because, as I say, they're dominated by the Institutional channel.

So if I pull that together so the graph on the left hand side, just for convenience, summarizes the previous two slides. So first of all, excluding performance fees, they've stayed constant; the margins have stayed constant at 59 basis points. And just to avoid any confusion, I said earlier, the Group margin before performance fees was slightly down, that's to do with Private Banking and I'll come on to that in a minute. So for Asset Management they're constant.

The mix of our business is getting broader through higher sales in the Institutional channel, which is a lower margin channel than the Intermediary channel, and on the product side, in asset classes like fixed income, which also have lower margins. But offsetting the effect of the changes in business mix, we continue to win specialist mandates at higher fees than mandates that are lost and that's why, overall, the impact was neutral.

Inevitably, with the trends that we're seeing, that will not continue indefinitely and I can foresee a modest decline in margins in the current year due to business mix as opposed to pricing pressures. If we include performance fees, the margin improved marginally to 63 basis points, up 1 basis point. But on an underlying basis it was also unchanged because there was that abnormal property performance fee.

I've included 2008 in this slide to show the longer term trend, and I have already commented that I can see margins dropping slightly in the current year. We continue to be unconcerned by any decline in margin coming from the changes in mix and changes in channel, because we do see that as further diversification of Schroders. And that we see as a key strength of the firm.

So I said I'd come back to costs, and I'll start with the staff costs. So staff costs, as they say, are our most important assets, and how true it is. It's, also, our most important cost, representing 65% of our costs base. That's 2 percentage points up on 2009 as a result of investment in people and rewarding the success attributable to these results.

We continue to tie our employee costs to profitability and, as I mentioned, the comp to revenue ratio was at 45%, down from 49% for 2009; and down from 46% was the ratio at the half year. Other costs are up 23%, or GBP46 million. The increase includes GBP10 million as 20% of the increase arising from the reassessment of property dilapidations, and that I think you can see is non-recurring.

We also have non-discretionary increases in costs associated with governments and clients. This includes increases in indirect taxes, largely recoverable VAT; new regulation by most regulators around the world; additional fees and levies imposed by regulators; new extra territorial laws generally emanating from the United States; more regulatory visits and more onerous obligations in client contracts. And in the UK, of course, there was the Financial Services Compensation Scheme and the levy that was imposed in respect of key data.

I'm not going to give a detailed breakdown of all of that amounting GBP18 million, that's 40% of the increase in costs. And whilst the costs are, of course, unwelcome, we do believe in high standards of compliance and working with regulators to assist them in the fulfillment of their duties.

More positively, we previously indicated that we would invest in marketing and IT on the back of improved market conditions. Those discretionary costs, together with higher travel costs associated with the volume of new business activity, account for approximately one-fifth of the increase in costs. And the remainder of the costs rose by about 5%, which is partly inflationary and partly volume driven.

So as I look to 2011 for costs I would exclude the one-off property dilapidations, leaving us with a cost base of around GBP240 million before inflationary and volume related increases. The significant increase in revenues though far outweighs the increase in costs, and so the cost to net revenue ratio improved and comes out at 67% compared with 78% last year, and that is 3% better than our target over the cycle.

So now turning to Private Banking, and looking first at revenue and then at costs, there are three components of Private Banking revenue, as Mike referred to; management fees, transactional income and net interest income.

Overall, income is up 6% at GBP103.3 million. Management fees, that's the dark blue, have increased 23% to GBP64.7 million, benefiting from net new business won this year and higher markets. This is the highest quality revenue being recurring income as based on funds under management. Transactional income, in green, has declined 9% to GBP23.3 million due to lower dealing activity undertaken by clients. And net interest income, in grey, has fallen GBP4 million due to customers moving out of cash and back into other forms of investment.

So looking at costs, starting with staff costs, in light blue, they've increased from GBP44 million to almost GBP56 million. In Private Banking our back offices in Switzerland, the strengthening of the Swiss franc against sterling, increased costs by GBP2 million; but excluding the effect of exchange compensation, costs have increased by 21% in Private Banking.

We've invested heavily in additional bankers, and we've seen a direct correlation with their recruitment and the record new business that's been achieved. Whilst that builds a high quality revenue stream for the future, we have to wait to see much of that coming through in the profit and loss accounts to next year, to the current year.

So there's a slight increase in provisions against loans, and other costs have gone up 9% excluding exchange, almost entirely driven by technology spend and the regulatory burden.

The final component of our income statement is the tax charge. I've put the 2009 numbers up here before and after exceptional items. And I think, looking at the before exceptional items gives the best, easiest number to understand.

So 24.8% effective tax rate last year, it's come out at 23.5% for the current year. That's a bit less than the guidance I gave you in August of 25%, and it's obviously below the UK tax rate of 28%. And that reflects much of the increased profitability, with profits being earned in many countries that have got lower tax rates than the UK tax rate, and the utilization of brought forward tax losses in the United States. We expect the effective tax rate in 2011 to be similar to the current rate.

After deducting the tax charge, our post tax profits were GBP311 million, that's equal to earnings per share of 111.8p, and the total dividend of 37p is covered 3 times. It gives us a post tax return on capital of 18.1%; that compares with our cost of capital of 9.8% and last year's return of 5.8%.

So that concludes the analysis of the income statement. I've now just got a couple of slides on capital. Total Group capital was GBP1.8 billion at the end of December. It's GBP151 million up on December 2009, and I'm going to just take you through the movements.

On the last slide you saw that the post tax profit was GBP311 million, and there are two other gains that go directly to reserves, and don't go through the profit and loss account. There was GBP28 million gained on foreign exchange and GBP7 million of actuarial gains on the defined benefit pension plan.

We had non-voting share issuance of GBP45 million attributable to remuneration schemes, but offsetting that was GBP152 million of net share purchases. This comprises GBP119 million of shares brought into employee benefit trusts to hedge all of the outstanding deferred remuneration and GBP33 million of shares brought into treasury. In particular, we took advantage of the rising market to avoid future cash outflows.

The average of all the shares purchased was for the voting shares GBP13.88; that compares with the share price last night of GBP18. And for non-voters, we paid GBP10.88 on average, and that compares with GBP14.29 last night. Most of the purchases, as you'll be aware, 92% of them were in the first half of the year and they were all completed by September. The abnormal level of purchases, because we were hedging entirely, remuneration schemes will, obviously, not be repeated in the current year.

And then finally there's the cost of the dividends, GBP88 million. Just to avoid confusion, that's on an IFRS basis which means that the dividend's paid in the year rather than the interim and a final that we commonly talk of. So that leaves us with the GBP1.8 billion of Group capital at the year end.

Finally, just analyzing that capital a little bit more, operational capital, the second line on the graph, GBP64 million compares with GBP709 million at the previous year end. That's mainly represented by cash and other components of current assets and includes the profits that were made in 2010 that have not yet been remitted to investment capital, pending all of the subsidiary audits being finished.

Investment capital amounts to GBP774 million compared with GBP814 million. It's down because of the GBP152 million that was spent on share purchases. And in the table this time, we've split out intangible assets, mainly goodwill which was previously included investment capital because its investment and subsidiaries, buts it's not something that we can obviously invest.

Let me give you a bit more detail though on the investment capital. 43% of the total is investment capital. We hold 35% of that in cash and UK Government securities. That's the blue segment. 20% shown in grey is seed capital which we invest in investment strategies for the future, seeding future projects, and we generally hedge out the market risk associated with those. And the balance of the portfolio, excluding the legacy private equity holdings, are invested in a diverse portfolio of investments to obtain a libor plus absolute return with modest volatility as I've talked of before.

All of the sub portfolios were managed by Schroder Fund Managers and I am pleased to say all of them delivered positive return for us, and also in common with the service we gave to our clients, they also delivered outperformance. So, the total return on investment capital was 3.5% which obviously beats the libor plus strategy.

So with that slide I'll conclude and just hand back for Mike to make one or two concluding remarks.

Michael Dobson - ***Schroders plc - Chief Executive***

So looking at the outlook for this year, our view is that the economic recovery is continuing, which underpins equity markets. Companies are generally doing pretty well. Valuations are not excessive. So our view on equities is reasonably positive with the caveat of risks around the next move in interest rates clearly upwards and probably quite soon; inflationary pressures in developing, as well as emerging, markets and obviously heightened political risk, particularly in developing markets.

So in summary, I think we believe that markets will continue to be volatile, but that the underlying fundamentals for equities are reasonably positive.

We will continue to invest, I think, quite heavily in talent, in consistently trying to improve our IT infrastructure and in all the areas of risk, compliance, audit, that Kevin alluded to. There is a real cost to a different regulatory environment here in the UK and internationally which we have to comply with and, indeed, be ahead of, and that will entail continued investment.

The start of the year has been good in our Institutional business, slower in our retail business. We've continued to see quite a large redemption in some Asian markets, particularly, as I mentioned before, Korea and Taiwan. Still positive net flows in Intermediary overall, but slower than the fourth quarter, which was quite strong and more in line probably with the third quarter of last year.

Institutional still has a decent pipeline of business that we have one but has not yet been funded. We obviously can't predict short term fluctuations in either markets or in investor demand, but we remain convinced that our strategy puts the firm in a good place for continued long term growth.

So thank you very much and we are happy to take your questions.

QUESTION AND ANSWER

Michael Dobson - *Schroders plc - Chief Executive*

Yes, Philip?

Unidentified Audience Member

I wonder could you say a little bit more about what you're doing in multi-asset? And in particular you seem to be badging this as an Institutional product and yet you're also flagging the pre and post retirement segment, where you'd imaging that these products also would work quite well retail.

I'd just wondered if you could talk a little bit more about what you're thinking is there? What startup products you're looking to develop.

Michael Dobson - *Schroders plc - Chief Executive*

Indeed, we did GBP5 billion in multi asset last year as I said. GBP3.8 billion of that was in Institutional net inflows and GBP1.2 billion of net inflows came in our Intermediary business. So it is, indeed, an asset class that plays in both Institutional and in Intermediary space. Massimo, would you like to pick up some of the product points that Philip was making?

Massimo Tosato - *Schroders plc - Vice Chairman*

Well, you are absolutely right in your comment, in the sense that the multi-asset component for Institutional is mainly driven towards the [liability] driven investments, while the life cycle target date, or any other type of outcome of the entered product that is designed to produce a result in the long term, is specifically designed for either defined contribution or other form of other retirement products. As well as in the decumulation segment of the market, you have the high dividend product that tend to manage the income over a long cycle. So that is a key component of growth in the long term for the intermediary market.

Unidentified Audience Member

Thank you.

Nick Burgess - *RBS - Analyst*

Two questions on Intermediary flows if I can. Most of the market data pointed to a strong pick up in equities in the fourth quarter, particularly November and December. Wondering if that was your experience in terms of asset class in the fourth quarter?

And also on the European Intermediary business, that's obviously been a very strong for two years now. Take on board what you said about Asian Intermediary flows, but Continental flows, particularly the sustainability of that, that you think?

Michael Dobson - *Schroders plc - Chief Executive*

Yes, in the fourth quarter we had quite good flows in Intermediary into equities. And but we still saw good flows into our fixed income business in Q4 as well. But there was an increase Intermediary flows in equities in Q4.

Massimo, would you like to talk about the European position?

Massimo Tosato - *Schroders plc - Vice Chairman*

Yes sure. The European market was very liquid coming out of 2007/2008 crisis because in the continent, and I'm now extrapolating from the UK, the distribution channel are strongly controlled by the banking industry. And the banking industry had been selling substitute product for balance sheet needs over 2007/2008. So what has been happening had been a reinvestment into the market over the second half of 2009 and all of 2010.

I think that will continue, because next to this major wealth management opportunity. You are starting to see additional assets coming from long term personal saving needs. So while I don't think we can expect the similar I think gross level and at the industrial level as we have seen in the past 18 months, we are still optimistic about the medium term picture for the European industry. You have to consider what the saving ratio in the Continent is quite high and actually has increased again over the last two years. And this is a component what we see in industry is are component are the saving ratio, it's a financial investment part to a saving ration.

Nick Burgess - ***RBS - Analyst***

Thanks.

Haley Tam - ***Citi Group - Analyst***

Two quick questions please. You have mentioned the Korean and Taiwanese outflows. Could you tell us what the level of AUM in those two areas was at the end of the year?

And secondly in terms of your profitability, clearly, it was a record year for profits this year, and on slide 18 Kevin did spend some time going through the different cost elements of that. Can I ask whether I've interpreted you correctly, that you are basically saying the cost income ratio will go up from the 67% that we saw in 2010? And could you give us some idea of how we should think about that in terms of investment that you flagged versus compensation and versus regulatory costs? Thank you.

Michael Dobson - ***Schroders plc - Chief Executive***

Well I think we're not saying it's going to go up. But I think we're saying it's too early to tell is the short answer. I think we're saying that the comp to revenue ratio has come down to 45%. 10 years ago is was 60%. 45% is our long term target and it come down 4 percentage points last year.

And we're saying it won't come below that, because we want to continue to invest in talent and to reward people who are already here and to attract additional talent where we see a fit. And so we regard that as in a sense part of our organic growth structure as opposed to an acquisition structure to invest in talent, and that comes through in the comp to revenue ratio.

So I think what Kevin said was, it certainly won't come down. It could edge up a huge amount depends on obviously revenues, markets and so on. In the '08/'09 period, it obviously edged up quite a lot, reflecting the fact that we continue to want to invest in talent even though revenues were down, markets were down.

But I don't think we would expect it, in view of what we're looking at today where we're budgeting, I don't think we're expecting a significant increase on that at all. And I think in terms of non-comp costs, pretty much the same. But we want to use these kind of results and these levels of profitability to continue to invest in the business. If we believe it is right to bring forward IT infrastructure projects which have a -- to a (inaudible) cost to them, we'll do it.

And that again is part of our organic growth strategy, investing in not just people, but the whole infrastructure of this firm, which is key to success and absolutely key to being able to accommodate these growth rates, which we've done so successfully. So I want to do that.

But again I don't think we're talking about a significant increase. I think what we're saying is where this has come from this is the long term target. We don't expect to get below it. I think it would be wrong to get below it, because it probably suggests we're not investing enough -- reinvesting enough in the business. And it could edge up, but that's not baked into our numbers at this stage.

Kevin Parry - ***Schroders plc - CFO***

I think Haley, you've got three components. You've got the revenue and you've at least got the full year effect of the winds of 2010. And then you obviously have what will markets do this year, but at this stage, you'd be expecting revenue to be slight up probably on that basis.

On the cost components, the point I was making, as Mike's just reemphasized, that around the comp to revenue that could be a bit tougher this year if we don't have both. 2010 had both high market growth and high net new business. So you might not have such a great combination at such high levels, so could be a little bit of downward pressure there on that one.

And on the costs, I drew attention to the fact there's GBP10 million that I would see as non-recurring. So that would be a base that was slightly lower than we got last year; but against that will obviously be a bit of inflation and a bit of volume-related stuff, but that will be revenue dependent.

So I think the -- I think you've got those three factors, but the ratio itself could -- wouldn't necessarily get worse on that basis.

Michael Dobson *- Schroders plc - Chief Executive*

I don't have the answer, but maybe Massimo does on Taiwan and Korea.

Massimo Tosato *- Schroders plc - Vice Chairman*

In Taiwan we have GBP3.8 billion of assets under management, and in Korea we have GBP4.4 billion of assets under management. In both they are overwhelmingly Intermediary market, even if the growth segment, at the moment, has been more in Institutional for the last 12 months.

I think we have to be clear here. In both countries we have a very established and successful franchise. We have strong distribution, strong brand, local operation and also local to local production of asset management services in domestic asset classes. The reasons why we have had a couple of years of divestment in our franchise in Korea and one year in Taiwan are very specific to the market.

In Korea, we were by far the largest foreign players in the cross-border segment. And most of our assets were concentrated in one product, in emerging market BRIC. Due to specific performance reason and a change in market demand, we had outflows more towards that specific product, not balanced completely by inflows in other products.

And, at the same time, we had too large a shelf space and some of our distributor thought that the 20%, 22%, 25% of shelf space among the international financial institution, for example, with one institution was too large. So, it's a rebalancing rather than anything else, which will be probably overcome by our new capabilities in Korean equity that we have started up and revamped last year.

In Taiwan, it was related to a specific large distributor changing his asset allocation policies into a global bond, strategic bond, go anywhere type that we didn't have in the country on offering.

Haley Tam *- Citi Group - Analyst*

Thank you.

Michael Dobson *- Schroders plc - Chief Executive*

Okay, thank you. Anything? Yes, one here; can we get a microphone?

David McCann *- Numis - Analyst*

Just two quick questions. Firstly, you touched on the Institutional margin you expect to fall a little bit this year, predominantly as a result of the change in business mix. I just wondered if you could quantify that perhaps, because you've just mentioned it rather than quantified it before.

And secondly, given the level of capital generated last year and the dividend that's been paid, do you think you'd entertain another buyback program of the non-voting stock this year?

Michael Dobson - ***Schroders plc - Chief Executive***

On the Institutional margins we -- I can't give you a specific figure; 40 basis points ex. performance fees currently. And we're winning multi-asset. We're winning LDI. We're winning larger mandate, as I referred to, typically on lower fees. Some of that is back ended in 2010, as we showed in the quarterly slide of net inflows. So you would expect -- it didn't have an impact on 2010. You would expect it to begin to have an impact of 1 basis point or 2 basis points, or something like that, this year.

We've said -- or I think I said before, we've said for a while we expect margins to come down. They haven't. I think they will and I think it's a function of the momentum we have in some of these important areas, which have lower fees but greater longevity. And as a balance to some of our other higher margin, shorter longevity business it's exactly where we want to be.

David McCann - ***Numis - Analyst***

And just to pick up one point there, what would be the typical margin on these new multi-asset products you're taking on?

Michael Dobson - ***Schroders plc - Chief Executive***

Well, a LDI -- a large LDI mandate can be on 7 basis points or 8 basis points, something like that.

David McCann - ***Numis - Analyst***

Thank you. And just on the non-voters?

Michael Dobson - ***Schroders plc - Chief Executive***

Well, we bought back some and I think our intention is to, to over time, reduce the level of non-voters outstanding. But -- and over the last two or three years we've done that from time to time. And that is still our policy, but it's also a function of market levels, clearly.

David McCann - ***Numis - Analyst***

Okay, thank you.

Michael Dobson - ***Schroders plc - Chief Executive***

Bruce, over here, yes.

Bruce Hamilton - ***Morgan Stanley - Analyst***

Two questions. Firstly, on the capital position, I think you said that there were profits that would be remitted up to the investment capital level but hadn't yet. Can you give us a sense of what you view as surplus within the operating divisions?

And then secondly, just going back to the operating margins point for clarity; so what you're saying is the comp to revenue isn't going any lower and it could marginally drift up; the rest will just be a function of how much revenues grow versus other costs. And you're saying the other cost growth should be lower than it was last year, because you had this GBP10 million of non-recurring; correct? So you should still get operational leverage, assuming revenues grow the decent tick; correct?

Kevin Parry - ***Schroders plc - CFO***

Perfect.

Bruce Hamilton - *Morgan Stanley - Analyst*

Okay, thanks.

Kevin Parry - *Schroders plc - CFO*

A very good summary, thank you. Yes, on your first question in terms of how much of the operational capital is yet to be remitted up, of the order of GBP200 million to GBP250 million would be a good number.

Carolyn Dorrett - *Deutsche Bank - Analyst*

Two questions if I may. First of all, those net fund flows into the US seemed very strong in 2010. Can you give us a little bit more color on that and give us an indication of whether they're continuing so far year to date?

And secondly, you mentioned the Institutional pipeline was good. Can you give us a bit more color on that, preferably size, but definitely in terms of product? Thank you.

Michael Dobson - *Schroders plc - Chief Executive*

Well, we don't, as you know, give you a number for the pipeline, because we don't tend to announce the same thing twice. So you'll have to take my word for it that there is a pipeline of business there, and it's really across the board. It's in fixed income; it's multi-asset; and it's in equities and alternatives. So there is no big change in the mix.

In terms of traction in the US it's across quite a broad range of products. We're making well inroads now in a EFA product, one from here with US institutions and intermediaries. In emerging market equities where, in spite of short term results in 2010 which weren't great in performance terms, the long term track record is still very strong, and the process is very strong.

And we had, I think, net new business in excess of GBP2 billion in emerging market equities, in spite of their short term blip in the performance record. And that's doing well in the United States; fixed income.

So it's quite a broad spread, and in terms of Intermediary, it's again a lot of our international products that we're now putting on distributed platforms in the US. And that plan, which we really only started three or four years ago, to build a retail intermediary business in the US is on track and delivering quite well. And as I said, accounted for half the net inflows of GBP4 billion that we had last year in the US in a range of products.

Massimo, do you want to add to that?

Massimo Tosato - *Schroders plc - Vice Chairman*

I think you've said it absolutely right. In essence, that it's a long term strategy to revamp our Institutional business around specialist asset classes and so we started with commodities and emerging market equity, and now it's expanding through all our international range and as Mike has mentioned, EFA and global are the key drivers of it.

Fixed income is important. We sold also US fixed income, not only in the US but internationally. And in intermediary, after a slowdown in the 2007 -- half 2007 up to '09 of our plans, because of the crisis, we have resumed the growth rate and the growth base that we had projected to build a significant position as a complementary player to the American competitors.

Daniel Garrod - *Barclays Capital - Analyst*

I just wanted to recap the Q4 flows of GBP5.6 billion, you said that 50% was in the multi-asset area and the bulk of that was LDI. So I'm guessing that a much higher proportion coming there than you would have expected. What is your expectation for that proportion in 2011?

And you mentioned a bit of detail on the LDI versus the Institutional average revenue margin. How does the multi-asset compare against the average intermediary revenue margin?

Michael Dobson *- Schroders plc - Chief Executive*

I'm not sure I said the multi-asset flows in Q4 were LDI; they were more broad-based multi-asset. But LDI is a priority focus for us. We've made some important breakthroughs in that area, both here and internationally last year, and we want to continue to do that. And as I say it's a balance between lower fees, much lower fees, and much, much greater longevity, which attracts us to that business. And also gives us spin-off benefits in growth assets elsewhere in the firm that we can use in those mandates.

In terms of multi-asset, it depends obviously on the size of the mandate, and we've won some big mandates, therefore, on lower fees. But multi-asset, in and of itself, is not that low a margin business, 30 basis points, something of that kind, plus is there. But it depends very much on size.

Nick Burgess *- RBS - Analyst*

I was just going to ask one follow-up question on the US, on the Intermediary business. Obviously revenue margins are different depending on asset class. But how like for like revenue margins in the US Intermediary business compare to say Europe or what the Group is used to?

Massimo Tosato *- Schroders plc - Vice Chairman*

Well, what you raise is interesting because we are actually working with European Fund Management Association to dispel one of these large myth, that the US mutual fund market is much less expensive than it is the European one.

And the reality is that they are much closer than people think, because in the US, mutual funds are hardly sold without a wrap around it, and mainly a retirement wrap, that is not very different in cost to the distribution share that a commercial bank would get in Europe. If anything, it is the distribution side of the cost on the European side that is higher, not the underlying fund management margins. So our net fee in the US are only marginally lower than the one we have as a world-wide average.

Nick Burgess *- RBS - Analyst*

Thank you.

Michael Dobson *- Schroders plc - Chief Executive*

Okay, thank you very much for joining us.