THOMSON REUTERS STREEEVENTS
EDITED TRANSCRIPT
SDR.L - Preliminary 2011 Schroders PLC Earnings Presentation

EVENT DATE/TIME: MARCH 08, 2012 / 9:00AM GMT
Okay, good morning everyone and welcome to the Schroders 2011 results presentation.

So this was a good performance in quite a challenging environment, particularly in our Intermediary business with retail investor demand falling away progressively throughout the year. Profit before tax at GBP407.3m was marginally ahead of 2010, which itself was a record year. Earnings per share were up 4% to 115.9p. The dividend will be increased by 5% to 39p per share. Our long-term performance numbers are still very competitive with 70% of funds outperforming benchmark or peer group over the three years to the end of 2011. We generated net new business of GBP3.2b in the year. And assets under management ended the year at GBP187.3b.

The underlying quality of earnings has also been I think very strong. Profits from our two operating businesses, Asset Management and Private Banking, are up GBP22m. Management fee income in Asset Management is up by 8.8%. Performance fees are down by GBP36m for two reasons. First because, as you may recall, we had a GBP22m one-off performance fee in our property business in 2010, which was not going to be repeated. And secondly, in this market environment it’s obviously been harder to generate performance fees. But notwithstanding that, our profits in Asset Management are ahead to GBP389.4m, up from GBP381m. We’ve seen a very sharp rebound in the profitability of Private Banking, more than doubled, to GBP23.8m.

Our net revenue margins, excluding performance fees, are down by 3 basis points to 57 basis points, reflecting the growth in our Institutional business in the last two or three years.

We have continued to invest quite significantly in organic growth, not least in talent. And we’ve added 180 people to our headcount during 2011, across the board in investment, in distribution and in infrastructure. And notwithstanding that our compensation to revenue ratio has come down to 44% and our cost income ratio is down to 66%.

Looking in more detail at investment performance, our three-year numbers, as I said, are still strong, with 70% of funds outperforming benchmark or peer group in the three years to the end of December. Our shorter-term numbers have been less strong, impacted by the extreme volatility in markets in 2011. The macro picture, I think, overwhelming fundamentals in many cases. And our 12-month numbers are in the mid-40s, which is where they were when we last talked, which I think was at the end of the third quarter.
The very short numbers have improved and many of the asset classes where we were under-performing on a 12-month view have picked up in the last quarter and are back into first quartile territory. But more importantly, some of the asset classes where we’ve had shorter-term less competitive performance still have very strong three- and five-year numbers. So for example our European – Euro Corporate Bond business, fourth quartile over one year, third quartile over three, second quartile over five. This is a big asset class for us. UK Alpha Plus, third quartile over 12 months, but first quartile over three years. Our income strategy’s fourth quartile over a year, first quartile over five years.

Emerging Market Equities, second quartile and second quartile over five years, and still seeing good inflows. Our UK Mid-250 fund fourth quartile over one year, but first quartile over three years. Emerging Market Debt, second quartile, first quartile over five years, and our Diversified Growth fund, first quartile over three years. So for us the principal focus is on these three- and five-year numbers, which is still, as I say, quite competitive.

Looking at the Institutional business in a little more detail, we had a very strong year, I think our second strongest year in terms of net flows at GBP6.8b. We had GBP600m of net outflows in the fourth quarter, for two reasons. First of all, we had a GBP1.1b outflow from one European financial institution who decided to take the funds back in-house for strategic reasons, nothing to do with performance, which fell in the fourth quarter, GBP1.1b. And secondly, we have seen a lower level of new business activity in Institutional in fourth quarter and continuing into this year, I think simply a reflection of the very uncertain market environment in which we find ourselves.

We had a strong performance in terms of new business in the UK, in Asia and in the US. In multi-asset and equities, both of which generated GBP2.9b of net inflows in Institutional in the year, also in fixed income. And we had small net outflows in Continental Europe and in Alternatives.

In the last two years we’ve generated GBP12.9b of net inflows in multi-asset and fixed income in Institutional. We’ve also grown quite rapidly in sovereign wealth fund and insurance company space. And these tend to be big mandates on lower fees. As a result we have seen a small decline in our net revenue margin, 39 basis points in the last two years in Institutional from 40 basis points in 2009. But against that, we’ve seen quite a material increase in longevity. Over three years the average has moved from 4.2 years to 5.3 years, so a 25% increase. And if you take it on a one-year basis, we’re a little bit above six years.

So this strategic push into multi-asset and fixed income in particular brings with it lower net revenue margins. And we expect that trend to continue, but greater longevity. It’s exactly where we want to be.

We have a good pipeline of net new business which has been notified but not yet funded. But as I said a moment ago, we are seeing a slowdown in activity levels, I think reflecting the industry experience and very much linked to these very uncertain markets.

We had GBP3.8b of net outflow in our Intermediary business, reflecting first of all the significant European book of business we have, and, as you know, the industry had very big net outflows in European retail, particularly in the second half of the year. Secondly, as we’ve said before, we have closed a number of funds for capacity reasons and that accounted for GBP2b approximately of net outflows in Intermediary during the year.

Thirdly, I think of the margin, some of the shorter-term performance challenges I mentioned impacted flows. And lastly, we have and the industry has seen a concentration of demand in Intermediary very much around go anywhere, absolute bond mandates. And in some of those areas we haven’t had competitive products to bring to the marketplace. I’ll talk about that later on, but there has been a significant concentration of net flows, particularly in Asia, but also elsewhere, in a very narrow set of products.

We had obviously big outflows in Europe, GBP2.6b, and a further GBP1.1b in Asia. So basically Europe and Asia accounted for all the net flows in our Intermediary business. We had positive net inflows in the UK. And over 30% of our new business has been in insurance wrapped and pension wrapped products, longer-term savings channels, which is having a beneficial impact on longevity also in this channel.

Year to date we have seen net inflows in the first two months in our Intermediary business, as we said in the statement. Asia continues to be difficult. Europe has turned positive. UK is still positive. And so it’s pleasing to see quite a significant turnaround with net inflows year to date. But we believe we’re still in a very volatile market environment, still a lot of concerns for the eurozone, and we are not forecasting a sustained turnaround either in markets or retail investor demand.
We have a number of very interesting new products we’re bringing to the market, some of which we launched in 2011, on this slide, some of which we will launch this year. They are basically grouped around two themes, outcome-orientated products and income, aimed at the institutional and the intermediary market, and particularly DC. And so we probably see a better roster of new products coming to the market than we’ve seen for quite some time. And we’re very excited about the potential for these products, many of which we have seeded with our own investment capital before we bring them to either the intermediary or the institutional marketplace.

For the Private Bank it was a year of consolidation in terms of net flows. After the very strong inflows of GBP2.4b in 2010, we had GBP200m of net inflows in 2011. We had a significant increase in revenues, 11%, to GBP114.3m. Costs are slightly down, down by 3%. We have had no further bad debt charges. And our profits have more than doubled, from GBP10.1m to GBP23.8m. So we’re very pleased with the momentum in that business and the significant recovery and growth in profits that we forecast at the beginning of 2011.

I’m now going to hand over to Kevin to talk in more detail about the numbers and I will then come back at the end to say a few words about the outlook.
So I'll now move on to look at the components of the profit before tax to see how these have changed, while still coming out at roughly the same number as 2010. So starting with 2010's profits, GBP407m, and we have a decrease in net revenue of just GBP3m, and I'll take you through that first in greater detail.

So this is 2010's net revenue, GBP1.156b. First we benefited from the strong net new business performance, particularly in 2010 where you'll recall that we had GBP27.1b of net inflows. We've got the full year effect of those flows. And then there's 2011's net new business amounting to GBP3.2b. And the total effect of those wins is to add GBP64m to our revenue.

Favorable markets for just some of the year also increased revenue by GBP24m. World equity markets I guess are best described as being a bit like a yo-yo. They rose then they fell and then they staged a very late recovery at the tail end of the year. On average they showed an overall year-on-year gain of about 1%. We've got a relatively small benefit this year coming in from markets.

Performance fees are GBP36m lower than they were at 2010 at GBP36 --- at GBP37.8m. 2010 was abnormally high, where you may recall we had a GBP22m benefit from the closure of the Schroder European Property fund, a terminal performance fee on that fund. So excluding that one-off, performance fees are just GBP14m lower on our routine arrangements. Market volatility in the second half and some high water marks achieved in 2010 curtailed the level of performance fees. But overall at GBP37.78m they're in line with our broad, long-term estimate which is round about GBP40m a year. Notable fees were earned in 2011 on Asian equities and on commodities.

And finally we've got the Group segment, where revenue was down GBP55m. There was a large swing in returns on seed capital and the investment income to some extent, decline to some extent is offset by higher interest income, which obviously doesn't go through the revenue line. And I'll take you through the Group segment as a whole later in this presentation.

So those differences explain the change in revenue, as I say, overall just a net GBP3m down, but there are some reasonably significant components to that change. If I now color in those grey bars, you see the revenue by segment. And we see that the core operating income from both asset management and private banking has grown, and is offset by the lower revenue in the Group segment. So the quality of the profit, as Mike has referred to, I think has improved by the much higher quality revenue that we've seen in 2011.

So I'll now revert to reconciling the profit. So that's what we had before, the profit, and the swing in net revenue. Compensation costs have decreased by GBP6m. This equates to a 2011 comp to operating ratio of 44%, marginally below last year's level and the same as reported at the half year. It's somewhat lower than I was anticipating for much of the fourth quarter as we did benefit from the market rally in the final fortnight of 2011. As for the year ahead, it is of course early in the year to predict a comp to revenue ratio, and the outcome is undoubtedly dependent on market conditions and the extent of recruitment of talent. Therefore for forecasting in current market conditions, I would not change from our long-term cyclical target of 45%.

Other costs, we're down a net GBP6m compared with 2010, and I'll revert to the main elements of the costs later in the presentation. Net finance income has increased by GBP5m. This is part of the investment capital return that I referred to earlier and it's higher due to a complete year of cautious investment of our capital.

And finally there's the contribution from our non-managed businesses, that's the joint ventures and associates. That's fallen by GBP14m compared with 2010. Profit in the Chinese joint venture was GBP4.4m lower at GBP5.7m. They had a year of consolidation without being granted any new official quotas to launch new products. There are also losses -- there are losses, I should say, of GBP4.7m in our private equity associates, SVIL, and that compares with a gain of GBP4.3m that we had in 2010. So the net is a swing of GBP9m. So China and SVIL account for that decline in the non-managed businesses.

So in aggregate, the profit comes back to GBP407m. As for the previous slide, if I color in the gray bars you'll see that there is a 6% increase in profit from our core Asset Management and Private Banking businesses. And this is I think the other reason why I would particularly point to the quality of profit being strong in the year that's just ended.

I'll now go on talk about revenue by sales channel and I'll start with the Institutional channel in Asset Management.
Net revenue from Institutional business was GBP454m. That's up GBP21m on 2010. The increase is unchanged from the first half, because the higher performance fees that we had compared with the second half of the year. Excluding performance fees net revenue is up GBP61m. That's 17% on a year ago.

And reconciling that, GBP21m of the change is attributable to the net new business that came from 2010's wins of GBP16.8b in Institutional channel. So we've got the full year effect of the 2010 wins. And then there's a GBP14m improvement in revenue from the GBP6.8b of institutional wins in 2011. Those wins were in all regions except Continental Europe, with a particularly strong showing in the UK, and the net sales were mainly in multi-asset, particularly in LDI, and in equities, particularly in QEP. GBP26m of the increase is attributable to markets and this includes the effect of the strong market growth that we saw through to July.

Performance fees fell in 2011. However, the GBP40m reduction in institutional performance fees includes that GBP22m property one-off that I referred to earlier, so there's an underlying GBP18m reduction in performance fees. And that was due to a number of high water marks not being passed and the volatility and the short-term performance challenges that Mike referred to. So the institutional channel has seen strong core business growth.

So moving to Intermediary, the other sales channel of the Asset Management segment, net revenue from our Intermediary business is up GBP25m on last year, and that includes GBP4m higher performance fees.

The increase in net revenue excluding performance fees is due to the full year effect of GBP7.9b of net new business that was won in 2010. There were no significant inflows though in the first half of 2011 and there were outflows in the second half mainly from Continental Europe, with the resulting reduction in income of GBP2m. The outflows were in most asset classes, although there were good inflows in multi-asset.

In contrast to Institutional, market movements have reduced net revenue. This is a function of the market volatility as well as the greater proportion of fees that are earned in US dollars, the dollar obviously weakened against sterling. Most retail funds are daily priced with daily management fees whereas institutional funds are often based on month-end or quarter-end valuations. With much of the fourth quarter being weak, the different management fee convention was detrimental to Intermediary fees. Overall market movements in the two halves netted off and the net revenue reduction of GBP2m was entirely attributable to FX.

So progress in the Intermediary channel is really attributable to 2010 and 2011 just about held its own.

So if I pull that together, the graph on the left-hand side of this slide just summarizes the two graphs that we've run through.

So dealing first with performance fees, they account for 2 basis points reduction in margins. 1 basis point is attributable to the property performance fee, and the other decline I've already discussed in the two segments.

But moving to the underlying margin, excluding performance fee, this was reduced by 3 basis points to 56 basis points. And that's 1 basis point lower than at the half year. The year-on-year reduction of 3 bps is attributable to three factors, the sales channel mix, the asset class mix, and transaction fees, each coincidentally accounting for 1 basis point. The balance of our business has shifted more to the Institutional channel, which is a lower margin channel than Intermediary. Institutional business now accounts for 63% of assets under management compared with 59% a year ago.

On the product side we've been working to diversify the asset class mix. We've been successful at doing that. Fixed income and multi-asset now represent 41% of our assets under management compared with 36% a year ago. And as you know, these asset classes have inherently lower margins.

We also received some transaction-based fees and other fees that are not related to the value of assets under management. As our average assets under management grow, and the average did grow across the year as a whole, if the revenue doesn't change, then as a percentage that declines. So we've lost 1 basis point due to transaction fees being about the same level, but you're dividing by a bigger number, by a higher average assets under management.
So I think in summary the decline in margin is consistent with a strategy of diversification by channel and by asset class that we’ve been following for a number of years.

Looking to 2012 margins, a lot depends on markets. Clearly, the stronger the equity markets, the less pronounced will be any margin decline and vice versa. However, in line with our strategy of continued progress and diversification, and assuming that continues to take place in multi-asset and in fixed income, I think it would be wise to assume that we’re going to see a further decline in margins of a basis point or 2 in the year ahead.

So now turning to Private Banking, first revenues and then costs. The three components of private banking revenues, management fees, transactional income and net interest income. Overall income is 11% up at GBP114.3m. Management fees, that’s the dark blue, have increased 16% to GBP75m, benefiting from the record net new business wins of GBP2.4b in 2010. This is the highest quality revenue, being income based on assets under management. Performance fees of GBP1.2m are included in that, little change from GBP0.8m last year, 2010. Transactional income, in orange, has increased by 7% to GBP24.9m, clients being slightly more active in terms of dealing in the current year. And net interest income, in lighter blue, is reduced slightly by GBP0.9m.

If I move to costs, starting with costs, staff costs, that are in gray, they’re largely unchanged at GBP55m. There’s been a reduction in compensation costs per head consistent with the rest of the Group, but this is partially -- and this is partially offset by the effect of recruitment, so that pulls it back up. There is of course a full year effect to take place, the recruitment that took place in 2010.

We’ve not had any change in provisions during the year, neither charges nor credits, and the absence of provisions accounts for GBP7.4m of the profit improvement.

Other costs have increased by GBP5.1m. The Private Bank’s back office is in Switzerland and the appreciation of the Swiss franc against the pound has increased costs in sterling terms by about 5%. Other than that, the increase includes costs associated with the formation of our Singapore bank, and notably the migration of clients on to the Swiss platform and the costs associated with servicing the new clients that were brought in in the UK last year.

So that brings me to the Group segment. I said earlier that I would include some slides on this for the first time. The accounting in the Group segment is confusing. For example, income gains and losses go through revenue unless it’s interest, in which case it goes through net finance income. And revenue can be negative if there are mark-to-market losses. So what I’m going to do is to recut the number and put it in economic terms for you, so the same overall result, but splitting it between the two parts of the Group segment. And I’m going to just take you through the economic outcome.

So I’m going to start with the governance, management line, the GBP29.9m versus the GBP15.5m on the slide.

There are a number of one-off items in both 2010 and 2011. The items are recorded on this slide. But fundamentally the costs here at the bottom, the penultimate line on the slide, the costs here are about the offices of the Chairman, the Chief Executive and CFO, and the governance costs of the Group, things like audit costs. We also have though a number of sundry items that are at the top of this slide. In aggregate last year they were immaterial, only coming to GBP1.8m. But this year we’ve got material non-recurring gain which ameliorates the lower investment income that I’ll come to on the next slide. Let me take you through those line items.

Prior to 2010 we had a PE, private equity, admin business in Bermuda and Guernsey. We disposed of that business last year in line with the wind-down of our private equity activities. The combined trading results and gain on disposal realized a profit of GBP5m in 2010. Obviously there’s nothing to recur in 2011.

Each year we mark-to-market deferred compensation awards. The Group hedges the costs for Asset Management and Private Banking, and the amounts shown here on the second line negate the reverse of those numbers in the Asset Management and banking segments. So the combined result is a net zero for the Group but the hedging gain or loss goes through the Group segment.
We've got quite a large pension fund credit in 2011 and this is a curtailment gain because we closed the UK defined benefit scheme in April 2011 and that's given us a gain of GBP10m on the curtailment of the scheme. And there are some property provisions in 2010 that haven't repeated in 2011 and that as due to dilapidation reassessment of our portfolio of properties, and there was no adjustment required in 2011.

So in aggregate we've got a GBP12.8m gain going through the Group segment. And then we've got the routine costs of the governance and management, which are down, GBP28.3m, from GBP31.7m in 2010. Now I'll come back to all of the costs as usual in a minute.

So that's one part of the Group segment. Hopefully that's reasonable clear. And then we have the investment capital, which is the other part of the Group segment.

The total results of the investment capital is a profit of GBP9.6m down from GBP45.7m in 2010. Investment capital comprises three elements. The first is the actively managed portfolio of securities so this is the surplus capital that we seek to deliver an absolute return on, what we call using a LIBOR-plus target. Second, we've got seed capital which supports products in the course of development which are establishing a track record. And third, we've got the legacy illiquid investments so that we're not able to actively manage, the private equity and some property.

So taking those in turn, in terms of the actively managed portfolio I'm pleased to say it did achieve a positive return in 2011. You'll recall that in spring of 2010 we de-risked the portfolio and that strategy prevailed throughout 2011. And in the light of the economic uncertainties and market volatility we didn't put any risk back on the table throughout the year and we continue to be cautiously positioned.

The seed capital result was weak. It turned in a loss of GBP3.7m. We hedge out market and currency risk on relative return products, but we don't hedge out absolute return products and we cannot hedge out alpha. The seed capital was not immune to the short-term relative return challenges that Mike referred to on his slides and it incurred a small loss. I would, however, note that the purpose of seed capital is not primarily to generate a return in any accounting period; it's to develop products that are commercially viable for the future.

And finally there's the private equity and property. We generated a profit in the income statement, but this includes gains on realizations that have previously been recognized in reserves.

So as you can see on the screen, the income from the return on investment capital was GBP9.6m, substantially down from GBP45.7m due to the repositioning of the investment capital to be cautiously managed and the seed capital losses.

So now I'm going to revert to the Group as a whole and revert to the costs, as usual. So these are the consolidated results now not the Group segments results. And I'll start with the staff costs. This represents 66% of our cost base. In 2011 we continued to invest in our people and to reward success. In particular headcount increased by 180 people across our business to support the growth that we saw in 2010 and to ensure that we continue to grow in the future.

As I mentioned earlier, we had a comp-to-revenue ratio of 44% in line with 2011 -- I'm sorry, in 2011, which was down from 45% in 2010. And to avoid any confusion we've excluded the pension curtailment gain of GBP10m that I referred to, so this is, the 44% is an underlying amount. If you try and do the calculation yourself you'll probably come out at 43-point-something, but 44% is the proper underlying number excluding the one-off gain. So if you exclude that gain there's a small increase in compensation cost to an underlying GBP510m.

Other costs were GBP247.9m, slightly lower, mainly due to the absence of charges for doubtful debts in Private Banking and a general focus on managing our costs. Increased spending was on marketing, IT, travel and accommodation and it was offset by cost reductions elsewhere. Depreciation and amortization had reduced, mainly because some assets have come to the end of their lives and are fully depreciated.

In terms of 2012, looking forward, I expect other costs including depreciation, so other costs and depreciation on this slide, to be the order of GBP275m. That's up from GBP262m in 2011. And in particular we're incurring extra costs on IT systems particularly in the front office and in investment that alone will add GBP7m to our annual cost base.
The overall result is that costs have been tightly managed and it has resulted in an improvement in the cost to net revenue ratio to 66% compared with 67% last year, just slightly higher than the 65% that we reported at the half year.

So the final component of the income statement is tax. The effective tax rate has reduced to 22.5% for 2011. That's obviously below the UK rate, which would be 26.5% for a December year end, and lower than the 23.5% in 2010. It's a little bit lower than the guidance that I gave in August mainly because we were able to use net operating losses in the States to reduce the tax charge. The tax rate is likely to remain around about the 23% depending on geographic split going forward.

So after deducting the tax charge, the post-tax profit for the year is GBP315.8m. That's equivalent to earnings per share of 115.9p, 4% up on last year's 111.8p. Half of that increase is attributable to the share buybacks during the year. The total dividend of 39p is 22% up on an IFRS basis and is covered 3 times, and 5% up on a traditional basis.

So I'm now going to leave the income statement and do a couple of slides on capital. The total Group capital was GBP1.9b at the end of 2011. That's GBP102m up on the 2010 figures of GBP1.8b that's on the screen. First of all there's the post-tax profit that I've just shown you on the previous slide, GBP316m increases our Group capital.

We spent GBP122m on share purchase and if I just give you the components of that, GBP59m was spent acquiring voting shares into employee benefit trusts to hedge deferred remuneration. We spent a further GBP43m acquiring non-voting shares into Treasury that we subsequently cancelled and another GBP24m buying shares that were immediately cancelled. There's a small offset issuing shares associated with the exercise of options. Following all of that the net result is that the current ratio of non-voters to voters is one non-voting share to four voting shares.

Dividends amounted to GBP105m. This is of course on an IFRS basis so that's the amount the paid during 2011, which is 2010's final dividend and 2011's interim dividend, so not the final dividend that we've just announced.

Other movements included share-based remuneration credit offsetting a similar charge in the income statement, mark-to-market movements on various investments and foreign exchange differences, but overall a very small GBP13m credit.

So that leaves us with an increase of GBP102m and GBP1.9b of Group capital.

So finally I'll just analyze that GBP1.9b. Operating capital is GBP884m compared with GBP864m at the end of 2010. It's mainly represented by cash and other components of working capital and reflects the profits for the year that have been remitted to investment capital. It includes GBP501m in regulatory capital.

Investment capital amounts to GBP837m compared with GBP774m last year. It increased due to amounts remitted from subsidiaries and was offset by the share purchases and the dividends that I referred to. We anticipate approximately GBP250m of dividends from subsidiaries will be remitted in 2012.

The final component of capital is goodwill and intangibles. The increase is attributable to investment gains on the DB pension fund which is now closed. There haven't been any acquisitions during the year.

So overall GBP1.9b. The components of it, for the record, are there on the right in the pie chart. Very little change to the previous two half years so I won't dwell on that but it's there for the record.

And with that, I'll pass the microphone back to Mike who will make a few concluding remarks.

Michael Dobson - Schroders plc - Chief Executive

Thank you Kevin. Just to clarify one point, I think Kevin referred to operating losses in the US in the context of the tax charge and I think the US is profitable -- tax loss carry forwards, but the US business is profitable.
Now let me just say a very few words about the outlook. We see a much more positive tone in markets in the last few months. That has led to a recovery in retail investor demand. As I said earlier, we’ve seen positive net flows in Europe, perhaps surprisingly, positive in the UK but still outflows in Asia-Pacific. I have to say that we’ve seen some slowdown, which we saw in the fourth quarter and I think it’s continuing into this year, in terms of institutional activity. I think just simply because of the uncertainty in markets, but we have a good pipeline of business we have won but which has not yet been funded in Institutional.

Our view is that the eurozone is a long haul and there’s going to be no quick solution to this and we will see plenty of volatility and uncertainty. So we’re not looking for a sustained recovery in markets or retail investor demand, I think it’s going to continue to be quite choppy.

Long term, our three- and five-year numbers are still very competitive in terms of performance and, as you saw, we have a very interesting, I think, set of new products we’re bringing to the market both Institutional and Intermediary.

As always we think the long-term growth opportunities in our business both here in the UK and internationally are very exciting and we will continue to invest behind that in talent. We added 180 people last year. We won’t think add as many this year, but we’re certainly looking to add talent in investment in particular. That may, as Kevin referred to earlier, push up the comp-to-revenue ratio by 1 point or so.

We have got quite a significant new program of IT infrastructure investment to support the investment platform, which will add to costs, again as Kevin mention, over the next two or three years.

And finally, we are looking at new markets. We’re very well represented and, as you know, 35 or so offices around the world, but there are always new market opportunities opening up. And we’re looking at a couple of those and, again, that could well lead to short-term investment this year before we get long term returns on the future.

So thank you very much for you attention and we are happy to take your questions. If you could just identify yourself and your firm first that would be great.

**QUESTIONS AND ANSWERS**

**Peter Lenardos - RBC Capital Markets - Analyst**

Good morning. It’s Peter Lenardos from RBC. I just have a question on your regulatory capital. I believe Kevin mentioned that regulatory capital at the year-end of GBP501m and it seems to continue to be decreasing. I guess what is the reason for the decrease in the reg cap?

**Kevin Parry - Schroders plc - CFO**

It is slightly lower than last year. The main reason for the decrease is the closure of the pension fund and there’s also some tightening of operational risk.

**Haley Tam - Citigroup - Analyst**

Four quick questions please. Sorry, Haley Tam from Citigroup. Firstly just on new business margins, can you tell us what the new margin is now in Institutional business?
Michael Dobson - Schroders plc - Chief Executive

I think we showed 39bps in 2011 in institutional. We said that we expect that to edge downwards. It's come off 1 point in two years so very marginal reductions, this is ex performance fees, but we do expect that to edge downwards further as we continue to pick up multi-asset and fixed income business.

Haley Tam - Citigroup - Analyst

And that's coming in at, what is it, 20 basis points?

Michael Dobson - Schroders plc - Chief Executive

No, no. More than that. More than that.

Haley Tam - Citigroup - Analyst

Okay. Thank you. The second question also on new business margin. You mention that a lot of your retail flow is now coming in in tax wrap, longer-term products and tax wrapped. Is that having any impact at all on new business margins?

Michael Dobson - Schroders plc - Chief Executive

Massimo, would you like to pick that one up?

Massimo Tosato - Schroders plc - Executive Vice Chairman, Head of Distribution

First of all it depends very much in which specific market, end segment, channel segment you are talking about. In unit-linked, for example, it does not affect our margins. Wherever we have a branded product it cannot affect our margins. But of course the more we do in the US, the US can attract a lower margin, for example, than the UK or Europe. So the effect is very much very much going to be a blend of specific products, specific markets and specific distribution segments

Having said that we could expect a step-by-step reduction in margin and a contrasting effect of increasing longevity. So the final effect on net present value could be actually not much or even positive because the insurance channel and the defined contribution or rather formal long-term saving tend to have a much better longevity than Private Banking of other forms of wholesale segments.

Haley Tam - Citigroup - Analyst

Thank you. And actually one final question then just on the Group income slides. Thank you very much for giving us those. Just to make sure I'm looking at this correctly going forwards on slides 18 and 19, forecasting purposes, should I be comparing that GBP28m of normal costs to whatever I think your investment capital returns will be?

Kevin Parry - Schroders plc - CFO

Yes, I think precisely, Haley. I think you should assume that there is zero from one-offs at this stage and I think the underlying costs there of GBP28m would be offset by whatever is made on investment capital. So I think exactly what you say.
Haley Tam - Citigroup - Analyst
Okay, so in order to avoid making a Group loss this year we need you to put some more risk on and make a higher return essentially.

Kevin Parry - Schroders plc - CFO
Indeed, or indeed the seed capital performing better.

Haley Tam - Citigroup - Analyst
Thank you.

Michael Dobson - Schroders plc - Chief Executive
I don’t think, however, you should regard it as a fundamental objective that a negative GBP5m result is a problem and therefore we’re going to put risk on. That would be the wrong conclusion.

Kevin Parry - Schroders plc - CFO
Absolutely.

Daniel Garrod - Barclays Capital - Analyst
Good morning. Daniel Garrod from Barclays. A couple of questions. First, on the flows side, you mentioned about the Intermediary outflows being impacted to the tune I think you said GBP2m by funds where you’d closed through capacity issues. I was wondering are there any other funds you would flag that could see potentially capacity issues in 2012 that could change that retail flow outlook situation there?

Second question is on the performance track record. You’re clearly highlighting you’re pleased with the three-year and the five-year, but there’s been some deterioration, mid-40s outperformance of benchmarks on a one year, same at Q4 as against Q3. You’ve obviously now had two months’ worth of 2012. How has that progressed in 2012? And obviously there’s a risk that the longer it stays down at sort of a 40, that it starts spreading into the three-year. So is there evidence of that? If it continues for another three, six months at that 40%, is there a risk that you start getting an impact there?

Michael Dobson - Schroders plc - Chief Executive
There’s nothing, I think on the capacity point, there are no significant funds coming up which we expect to close. We’ve got some funds soft closed, some of our European high alpha equity funds, for example, but I don’t think there’s anything significant which is pushing up against capacity limits.

On performance I think I said that the performance this year and to some extent late last year has picked up in quite a number of strategies and we’ve got from fourth quartile to first quartile in strategies. We’ve had very strong performance in the UK, for example our UK alpha and income. But I don’t want to, we certainly don’t focus on performance on a monthly or quarterly basis. Some people may, but that’s not our interest and hopefully too much of our clients’ focus. We’re looking much more at the longer term returns. But, as I say, the very short term numbers have picked up quite well.
Massimo Tosato - Schroders plc - Executive Vice Chairman, Head of Distribution

May I add one comment on the capacity? There is some temporary effect on capacity because for those products, and not all are, that are of interest to both Institutional and Intermediary market, what we do is when capacity is released by the asset allocators because they cannot any more rebalance portfolio in a closed fund, we tend then to offer it to the institutional market. So after a certain time lag part of that capacity is taken on in institutional mandate segregated portfolios.

Michael Dobson - Schroders plc - Chief Executive

Can we just go over here and then we'll come --

Carolyn Dorrett - Deutsche Bank - Analyst

Hi. Carolyn Dorrett from Deutsche Bank. Three questions, if I may. First of all on longevity, you mentioned your Institutional longevity is now 5.3 years. Can we have a comment on how that compares to the industry.

Michael Dobson - Schroders plc - Chief Executive

Exactly 5.3 years over three years, on an average of three years and higher than that, more like 6 or slightly above 6 if you just take the last 12 months, we think that's pretty competitive. I think we would say the industry average has come down and I think 5.3 to 6 is, I would think, quite competitive.

Carolyn Dorrett - Deutsche Bank - Analyst

Thank you. Turning then to your new products, I think you were saying that you've got a UK core RDR-ready range that's coming out. Can you give us some more details on that one please?

Michael Dobson - Schroders plc - Chief Executive

Massimo, would you like to pick that up?

Massimo Tosato - Schroders plc - Executive Vice Chairman, Head of Distribution

We launched a couple of products that are going out —— have gone out at 40 basis points total expense ratio. They are large capacity managed in a core way with a benchmark-plus-one investment objective. And they tend to compete in the ETF space, in total expense ratio for the equity side, with a little bit of extra for the possible outperformance net of fees, and have a zero-rebate possibility so they are compliant with the new structure of the distribution pricing model as designed by RDR.

Carolyn Dorrett - Deutsche Bank - Analyst

Thank you. And finally, just in terms of the new markets that you said you might be looking at, can you give us any more details?
Michael Dobson - Schroders plc - Chief Executive

I would say I don’t want to go into specific details, but we think there are more opportunities in developing markets. We already have a, as you know, a very, I think, or quite a significant competitive advantage in terms of our presence in developing markets through local-to-local business, raising funds to invest globally from developing markets, and investing in developing markets from Europe and the United States and so on.

So it’s a big part of our total business. If you just look at our Global Emerging Market Equities business, it’s about $23b. Our Emerging Market Debt business and so on, our Asian Equities business, Asian Fixed Income business, this a very big part of our business. It’s been a strategic thrust for us for many years. I think there are more opportunities to invest and develop businesses in those developing markets and that’s particularly where we’re focused.

Nitin Arora - HSBC - Analyst

Nitin Arora from HSBC. A couple of questions. Firstly on the institutional demand, I was a bit surprised by a comment on the declining demand in the Institutional side because, as you’ve highlighted, one of the main product categories you have been focusing on is LDI, which I would have thought should be more resilient in, particularly in these times. So if you could spill a bit more on that.

And also, is it the case that the demand from Institutional and the product suite which you have, there’s a mismatch within that or is something more to that?

Then secondly on the Intermediary side, you say that demand in UK has been relatively stable or picking up, Europe has been improving. What do you think is holding back the Asian investors?

Michael Dobson - Schroders plc - Chief Executive

Let me pick up the first point and, Massimo, perhaps you’d like to talk about Asian retail.

I don’t want to get this Institutional slowdown out of context or exaggerated. As I say, we have a good pipeline, a positive pipeline of business we’ve won which will be funded, hasn’t yet been funded. We’re still looking at a lot of opportunities in Institutional. All I’m saying is if you look at the gross flows in the fourth quarter, the reason the fourth quarter turned negative was for two reasons. One, we had a GBP1.1b just big single client outflow, which we knew was coming for a time and this was a strategic decision on their part to manage that money in-house in future. Our performance was fine. It was nothing to do with that; it was just a desire to bring that back in-house. But secondly, there was a slowdown in gross sales in the fourth quarter.

And we’ve had, as you know, extraordinary success in Institutional in 2009, ’10 and ’11. I still think we’re looking at positive flows. We’re just saying just a slightly lower level of activity than what we were seeing a year ago. And I put it down to markets and what’s happened. Institutional has been very resilient in terms of the uncertain market conditions for a long time compared to Intermediary. Now I think not surprisingly we’re seeing a little bit of a slowdown, but I wouldn’t want to get it out of perspective.

And in terms of products we have a lot of competitive products that in demand in Institutional space and particularly with some of the new ones we’re bringing on which we talked about. So I don’t have concerns about that. So I wouldn’t want you to get that out of perspective. We’re just suggesting that in the short term at least there’s been just a little bit of a slowdown in activity.

Massimo, do you want to pick up the Asian retail part?
Massimo Tosato - Schroders plc - Executive Vice Chairman, Head of Distribution

On Asian retail it's country specific rather than regional. So, for example, in Indonesia, where we have a 26% market share, they issued a new tax rule that has been disadvantaging position in public funds. And so all the market has been very negative in January and early February when the new transparency and declaration rule was introduced.

In Singapore the market is positive, as it is in Australia.

In Japan there are new regulatory aspects that relate to the decumulation products that have slowed down the IPOs from the large brokerage power houses in a very significant way and that will take two or three more months before you see the new wave or product launches.

Hong Kong and Taiwan, my impression is that it is more related to risk being still off the table rather than Schroder or regulatory aspects.

In Korea it has been more a company issue as well as a market issue because, as we remember, we come from a history of very high concentration of product and channels in a varying number of products and very high market share in a few channels.

So I think it's overall temporary, but it's very different one country from the other.

Nitin Arora - HSBC - Analyst

Thanks.

Gurjit Kambo - Credit Suisse - Analyst

It's Gurjit Kambo, Credit Suisse. Just in terms of the net inflows that you've seen year-to-date, has that been really driven by a reduction in the redemption cycle or have you actually started to see gross sales coming back?

Michael Dobson - Schroders plc - Chief Executive

I think both basically. We've seen both. We've seen a pick up in sales and a reduction in outflows.

Gurjit Kambo - Credit Suisse - Analyst

Okay. And just one more question. Just on the new funds that you've launched, the RDR-ready funds, do you see much cannibalization there in terms of your existing funds and what are your views on RDR and the potential impact the active fund management fees?

Massimo Tosato - Schroders plc - Executive Vice Chairman, Head of Distribution

We won't see much until RDR come into effect because these products, as well as we launched new share classes for every single product in the UK that are similar to the Institutional share class we already have in Europe, specifically designed for asset allocator without commission going forward. For all these we can see the results say in 2014/2015. So it's a bit early and nothing much will happen in 2012.

Having said that, we do not expect cannibalization because while we'll be moving our product range in the higher alpha and outcome-oriented total-return or high-income space, so these are the three spaces where we've been step-by-step and we are continuing to move our product range year after year, these products have been launched in the space we occupied in the past, that is the core space. And they tend more to an experimental competition to ETFs than competition to our existing higher alpha end products.
Thank you.

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

Morning. Bruce Hamilton, Morgan Stanley. Just a couple of questions. Firstly on the comp-to-revenue, I think you said 45% long term target, which is what you've said before. Were you implying that 2012 should be now worse than that, i.e. up 1%, because I think in the past you've said it could be a slightly bigger jump on the investments?

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

It could be higher. It depends on the recruitment of talent and it obviously depends on market levels. I'd be surprised if it isn't 1 percentage point higher. I think we'll have to give you guidance as the year goes on as to how it's looking.

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

Perfect.

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

And the decision we make. We obviously accrue at a certain rate but the principal decision we'll make at the end of the year in the light of performance and talent recruitment and revenues and so on. So it's quite hard to predict now, but I think that we always believe that if there is a short-term up-tick, if it's justified by the long-term growth opportunity then it's something we're quite happy to take.

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

Then just on products, obviously multi-asset's been hugely successful. My understanding is that's substantially Institutional, but could you give me a sense of how much of that book is Intermediary, if any?

And then finally just on the year-to-date flows, has there been any real change in the dynamic or is it multi-asset, income, global EM? Is it all the same sorts of themes in terms of where you've seen a pick-up or is there any change in dynamic?

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

The multi-asset last year, I think I said it was GBP2.9b of net inflows in Institutional and it was GBP1b of net inflows in retail or Intermediary. And GBP7b of our Intermediary book is in multi-asset and GBP27b in Institutional.

Massimo, do you want to pick up the second question?

**Massimo Tosato** - **Schroders plc** - Executive Vice Chairman, Head of Distribution

Yes, at the beginning of the year I would say that there is a broad balance among all the different products and there isn't a specific theme would dominates the other.
Okay. Thank you very much for joining us.