Schroders plc
Annual Results Presentation Transcript – 7 March 2013

Michael Dobson

Chief Executive

Okay, let's start. Apologies for my voice, and don't get too close would be my advice.

We announced our results for 2012 this morning. We had a small decline in revenues of about 2%, which was lower performance fees and a 2 basis point reduction in net revenue margins. Costs were 4% higher as we continue to invest in our business and as a result, our profits were £360m, down 12% on 2011.

Earnings per share, 104.7p. We increased the final dividend by 15%, making a 10% dividend increase for the year as a whole. As we said in the statement, it reflects the strong financial position of Schroders and the Board's confidence in the long-term growth of the business. So this, to some extent, is a re-basing of the dividend. We're not moving away from our declared dividend policy of increasing dividends in line with profitability over the long-term.

Investment performance has been very competitive. Over three years, 71% of funds are outperforming and we've had very strong results over the 12 months, which I'll show you in a minute.

Net new business, I think a very competitive £9.4b for the year as a whole, including a very strong fourth quarter taking assets under management at our highest-ever level of £212b, as we go into 2013.

We completed, or announced, two acquisitions during the year. The acquisition of 25% of Axis Asset Management Company, the asset management subsidiary of the third-largest private sector bank in India, Axis. This is the first time we've moved into India. We have, in Axis, a partner who shares, I think, our long-term approach to building businesses and they have a very strong distribution capability. So this is what attracted us to Axis as a partner.

Together with Axis, we intend to build the top 10, and even the top five, asset management company in India over the medium-term. It's early stages, early days, but so far our co-operation has been very pleasing and very satisfactory.

Towards the end of the year, as you know, we announced the acquisition of a US fixed income manager, STW, with $11.6b approximately of assets under management. We expect that to complete in the first half of this year; and the early feedback from clients, consultants, and so on, again is encouraging.

Both those transactions I think complement our organic growth strategy. The first one takes us into a major long-term mutual fund market in our view and the second one increases our presence in fixed income, and in the United States, which are two strategic goals for the firm.

If you look back just a few years to 2008, you see that our assets under management have almost doubled from £110b at the end of 2008\, to £212b at the end of 2012.

We saw a very big jump in revenues, on the back of that rapid growth through 2010, since when revenues have more or less levelled off. Also, a pickup in costs associated with that, as we increased the level of investment in the business. Costs have remained pretty much flat since then. Our costs in 2012 were 2% higher than they were in 2010.

Again, looking at this history since 2008, you can see that the increase in assets under management has come pretty much across the board. We've had good growth in our flagship business, Equities. We've also had significant growth in some of the newer activities in Multi-Asset and Fixed Income. At the same time, we've seen a progressive decline in net revenue margins in asset management from 66 basis points to 55 basis points in 2012, reflecting that change in business mix. So we're not really seeing margin erosion for competitive reasons. We're seeing net revenue margins come down, particularly as we've been very successful in growing our Institutional business, which as you know is a key strategic objective of the firm, but also as we grow some of these newer businesses in Multi-Asset and Fixed Income.

Coming back to investment performance, I think these are very competitive numbers. Over one year, in Institutional 80% of our assets under management are outperforming, and 79% in Intermediary, and the three year numbers are also strong and I would draw your attention particularly to the pickup in performance in Equities, and even more so in Fixed Income over the shorter term, which is obviously very important.

Multi-Asset performance is also strong, particularly on a risk-adjusted basis. So adjusting for volatility, these returns in Multi-Asset in both Institutional and Intermediary I think are very competitive.

Looking at the new business trend by quarter in 2012 in three ways - by channel, by region and by asset class - in terms of channels we had four quarters of positive flows in Intermediary and Institutional in 2012, which I think is a very creditable performance. If you look back and see where Europe was, investor concerns/investor sentiment in the first half of the year, it was pretty tough, but we generated four quarters of positive net sales in our Intermediary business. We had a particularly strong fourth quarter in Intermediary with £1.5b of net inflows in Q4.

By region, we had small net outflows in the UK and you can see that was concentrated entirely in the fourth quarter. This was the loss of a large very low margin LDI mandate, which we saw in the fourth quarter, not for performance reasons, I should add.

This is why we flagged to you at the time of our Q3 results we had some hesitancy around our net inflows in Institutional in the fourth quarter, for that reason. However, as it happened, very strong new business momentum elsewhere in Institutional in the fourth quarter led to, I think, £2.6b of net inflows in Institutional in Q4 despite the loss of this large LDI mandate in the UK.

We saw a big turnaround in Continental Europe, as you can see from this, in Q4. A really remarkable set of inflows in the fourth quarter from Continental Europe, particularly in Intermediary and we had three good quarters after the first one, three good quarters in Asia Pacific.

By asset class, £5.4b of net inflows in Multi-Asset, £3.6b in Equities with, again, a standout performance in the fourth quarter, strong flows in property more than offset by outflows in emerging market debt absolute return where our absolute return strategy lagged the EMD Index and we saw some redemptions in Intermediary from that strategy as a result, although returns picked up in the fourth quarter and I think we go into 2013 a strong story. And, in any event, this is an absolute return strategy and we're not really offering this strategy from this Group in Alternatives in a relative return context.

And we had £1.2b of net inflows in Fixed Income in 2012.

Turning to the Institutional business, net inflows of £6.4b for the year as a whole, a very strong performance in Asia with £3.7b of inflows, £2.2b in Europe, £1.1b in Latin America, outflows net of about £0.5b in the UK relating to that large LDI mandate I referred to.

Interestingly, by contrast with Intermediary where we had net outflows in Equities for the year as a whole, we had a very strong performance in Equities in our Institutional business, the largest asset class in terms of new business with £4.2b of net inflows, £1.2b in Multi-Asset, £900m of net inflows in Fixed Income and small net outflows in Alternatives.

Our Sovereign Wealth Fund business continues to do well. We now have £18b of assets under management from official institutions and we had net inflows from that segment of £2.8b during the year.

Net revenue margins are stable, in fact, marginally up by 1 basis point in 2012.

And the average longevity, which is a very important factor for us, has continued to increase. If you look back over the last three or four years, it's increased materially and probably now it's pushing up, in 6.2 years, to a level which is about as high as I think we're going to get it.

In Intermediary, four quarters of positive net flows and £3.3b for the year as a whole. Very good performance, again, in our US Sub-Advisory business with net inflows of a little over £2b over the year, a remarkable turnaround in Europe with £1.3b of net inflows from Continental Europe in branded mutual funds in the second half. So, big redemptions in 2011 and the early part of 2012 and a big change recently. Also, Asia a strong performance in the fourth quarter, again after net outflows earlier.

Significant inflows in Multi-Asset. We've been very successful, for example, with our Multi-Asset Income Fund in Asia. We had £500m of net inflows in Equities in Intermediary in the fourth quarter, which was a significant turnaround, again.

Net revenue margins in our Intermediary business now are 78 basis points, down from 82. That is basically the change in business mix with Multi-Asset, in particular, being very strong in this channel in recent years.

I think we'll begin to see an erosion to some extent of net revenue margins in Intermediary, for reasons other than business mix for a number of reasons - transparency, the impact of RDR, distributors concentrating their relationships. That's a two-edged sword. I think it's going to lead to pressure on the revenue margin on the one hand, but concentrations with fewer providers on the other and we can potentially benefit from that. So, in our view, scale in this business is very important, and we have significant scale and diversity.

Turning to the Private Bank, assets under management ended the year up slightly despite about

£300m of net outflows for the year as a whole. Looking at underlying revenues, they were down 10% to £102m.

Lower management fee income and lower transaction income, both really linked to low levels of client activity.

Costs were well-controlled and were down 12% on an underlying basis and underlying profit down about 4% at £22.9m.

However, we had £7.9m of loan loss provisions, principally against the commercial property loans where we've taken impairments in the past. This is a deduction from revenue, as we present it now.

Then we took a £3.2m provision relating to a change in the regulatory environment in Switzerland. FINMA, the regulator in Switzerland, is telling private banks to potentially return retrocessions that have been charged going back five to ten years in relation to clients. Some private banks in Switzerland are taking no provision against that at all. We've decided to be conservative and take a £3.2m provision against that, which is in addition to costs. It may be that we don't, in fact, have to pay that. That's something we'll work through in the next year or two. But this is Schroders-specific, this applies to Swiss banks across the board. So, taking account of those provisions, profit was down at £11.8m.

Clearly, this is a disappointing performance in the Private Bank. Although the underlying health of the business is there, this is not a satisfactory result. We are streamlining the management structure. We're bringing the management of our business between Switzerland and London much more closer together than we have done in the past. We are looking at a number of global functional roles in investment, in finance, in risk management and business development.

We need to leverage what is a competitive track record for clients and a strong client proposition into a better performance in terms of new business and we're intent on doing that. I think in the short-term we may see further outflows, say in the first half of this year. But we do believe we will turn this business around and there are some important opportunities for us in Private Banking in the medium- to long-term.

We have repositioning our Swiss business. For example, we terminated our relationship with one or two distributors in Switzerland, which led to an outflow of about £200m. So, we're taking steps to reshape our business, which has costs in the short-term and is manifested in some of the outflows we've seen, but that is now coming towards a conclusion and our target remains to achieve a 70% cost-income ratio in this business in the medium term.

I will now hand over to Kevin.

Kevin Parry

Chief Financial Officer

Well, good morning, ladies and gentlemen. As usual, I'll take you through the results, starting with some key numbers and then go on to some greater detail to explain the drivers of both revenue and costs. I'll end, as normal, with a few slides on the capital position. So, key figures first.

Profit before tax £360m. It's down 12% on 2011's £407.3m. The economic uncertainty continued throughout 2012, and whilst we generated good net sales and the asset classes in demand for much of the year had the effect of decreasing the revenue margin earned on assets under management, however, the strong second half rally combined with a strong net new business resulted in record assets under management in 2012. But we'll have to wait until the first quarter of this year to see that revenue increase coming through.

Moving to the costs, the costs to net revenue ratio, this has moved to 70% in 2012 compared with 66% in 2011. Whilst that's in line with our long-term target, it has increased by 4 percentage points compared with 2011 and that results from the continued investment in people and infrastructure in line with the strategy for growth. General costs unassociated with investments continue to be tightly controlled.

Earnings per share is down 10%, that's 2 percentage points better than pre-tax profits, which were 12% down and amount to 104.7p per share.

The Board has recommended an increase in the final dividend of 4p to 30p. That's a 15% rise, which brings the full year to 43p. You should look at this as a one-off rise reflecting the strong capital position, and there haven't been any limited share buybacks in the year. Our policy remains to grow the dividend in line with increases in operating profit. The dividend will be paid on May 9.

So if I look at the components of profit before tax, bridging from last year to this year, 2011 PBT £407m, as shown on the graph, and we've got a decrease in revenue of just £18m, but let me show the underlying movements of that £18m decrease.

So, here's net revenues last year, 2011, £1.153b. Although we had net new business in 2011 and throughout 2012, we had net redemptions in the second half of 2011 and that decreases 2012's revenue. In 2012 we won lower margin business whilst having higher margin redemptions, which also serves to reduce revenue.

Inflows, as Mike said, were notably multi-assets, global bonds, property and QEP and outflows were notably in emerging market debt absolute return and, until latterly, equities. Overall, the impact is a £17m reduction in revenue.

Market conditions were volatile but the impact was only a small £6m reduction, but it does conceal a lot of noise and I'll come back to that when I go through the sales channels.

Transactional net revenue reduced by £15m, and this includes a £7.9m of loan loss provisions in Private Banking, and I'll give further detail on that when I go through the Private Banking results.

Performance fees were £9m lower than in 2011 at £28.5m. Notable fees were in from equity mandates, including emerging markets in QEP. Total performance fees were just a little bit ahead of the £25m that I predicted at the third quarter results, so it wasn't a vintage year for performance fees, despite the strong performance, and that's to do with funds not having exceeded their previous high watermarks.

Finally, we've got the Group segment. Net revenue was up £29m. There was a large swing in returns on seed capital, and we crystallised gains on legacy and investment portfolio in private equity, mainly on the disposal of SVG. The increase was partly offset by lower interest income, which is not recorded in revenue, and I'll address the Group segment as a whole later.

So that explains the decrease in revenue and if I now colour in the grey bars, you'll see what has happened on a segmental basis. So we see that net revenue from both Asset Management and Private Banking has reduced and it's been off-set this year by Group segment revenue.

So, if I flick back to the previous chart and reconcile the profit before tax, so there's the £18m that we've just run through. Compensation costs have increased by £46m, year on year. It equates to a comp to revenue ratio of 49%, which is higher than 2011's underlying ratio of 44%. I indicated on the Q3 call that the ratio, which was then at 48%, might need to increase, and that was indeed necessary.

In 2011 you will recall that we had a one-off reduction in staff costs with the closure of the UK defined benefit pension scheme. Excluding non-recurring pension credits, the underlying increase in compensation costs is £36m and I'll, as of always, revert to compensation costs towards the end of this presentation.

Other costs were down a net £17m compared with 2011. I'll revert to costs in detail later on too.

Net finance income was down £3m due to less cash on deposit and more capital being held in short-term securities, which are where the return is recognised in revenue.

Joint ventures and associates, a £3m improvement, particularly associated with the private equity associate SVIL, which improved its performance. So the profit for the whole of £360m and if the bars are coloured in in two colours you will see that on a segment basis.

So in Asset Management, a £41m reduction which has been impacted by lower revenue and higher costs, broadly in the proportion two to one, o the revenue proportion twice as important as the costs.

In Private Banking, there's a £12m reduction, largely attributable to loan loss provisions and the industry-wide ruling that Mike referred to and that's been partly offset in the case of Private Banking by lower costs, particularly in respect of compensation.

In the Group segment, the losses have been all but eliminated. But, as usual, there is a number of one-off items in there that I need to take you through.

So, I'll start with now going through the segments, starting with the Asset Management segment and the Institutional sales channel.

So net revenue from the Institutional business was £489m. That's up £35m on the year. The increase is mainly due to strong net new business with positive net flows in 2011 and 2012 and, notably, every quarter throughout 2012. We've also had positive market movements each quarter except for the second quarter of 2012.

Excluding performance fees, the net revenue is up £38m. That's 9% up on a year ago. £9m of the increase is attributable to net new business through the channel of 2011's full-year effect of the £6.8b that we had in that year and 2012, the £6.4b of net new business and that contributed a further

£10m to net revenue. The £6.4b in 2012 was won in all regions except the UK, with a particularly strong performance in Asia Pacific.

Net sales were mainly in equities, particularly in emerging market equities and QEP and they were also in Multi-Asset.

£14m of the increase is attributable to markets, which fell off in the second half of 2011 but recovered well in the early part of 2012, and then again since the third quarter of last year.

Transactional income was £5m better mainly from gains on investments held for regulatory capital requirements and from funds associated with deferred comp. The performance fees fell just £3m, due to the high watermark levels that I've referred to.

So the Institutional channel experienced good core business growth throughout the period of market uncertainty. Growing assets under management has, of course, been a key objective of Schroders' strategy through this channel.

So moving to the other sales channel, Intermediary, the net revenue for the Intermediary business is down £62m on last year and includes £6m less performance fees. The revenue decline arose mainly in the first half of the year where the management fees were down £51m on the same period of 2011.

The decrease, excluding performance fees, is £56m and that's mainly due to redemptions of higher margin equities and alternatives and they're being replaced by lower margin Multi-Asset and Fixed Income throughout most of 2012 as retail investors de-risk their portfolios.

Redemptions in the second half of 2011 resulted in a full-year net revenue fall of £28m, and this includes the move to lower margin business.

We've seen growth in net new business flows throughout most of 2012 and a steep increase in Q4, which accounted for £1.5b of the £3.3b of sales through this channel.

Investor risk appetite returned in the final quarter, but the effect of the difference in margins for sales and redemptions and the growth in the Sub-Advisory business throughout 2012 resulted in a reduction in net revenue of £7m. Net inflows in the year were dominated by Multi-Asset.

In contrast to Institutional, market movements have reduced revenue. This is attributable to the market volatility with most retail funds being priced on a daily basis whereas most Institutional fees are based on month-end or quarter-ends. So, let me illustrate this by a chart.

This is the MSCI World Index, which is just there to show the volatility that we saw throughout 2012. You'll obviously be familiar with that. The index has grown overall, with the average index above 2011, but the daily movements have been, really, quite volatile.

So, Institutional fees based off month-ends and quarter-ends, Intermediary based on daily fees and if you look at the table underneath, you see a very contrasting pattern. So, eight month-ends were up and only four were down, so that was the benefit of Institutional because of the way they're priced.

On the other hand, if you do it on a daily basis, the way Intermediary is priced, you had a different pattern, with 1.7 times as many falls as rises. So that explains why Institutional benefited from markets, whereas Intermediary did not benefit. Not immediately obvious, in my view, that, unless you look at that graph.

So, reverting to that Intermediary slide, transactional fee reductions were mainly lower profits on holdings in unit trusts which facilitates client purchases and redemptions, as well as lower transactional fees, bringing the revenue to £522m, a reduction of £56m on the previous year.

So, if I just pull that together for Asset Management as a whole and look at margins. So the slides, on the left, just summarise the previous two slides for convenience.

Dealing first with performance fees, they account for 1 basis point reduction in margins. The underlying margin, excluding performance fees, has reduced by 2 basis points to 54 basis points. That's no change from the half-year. So the year-on-year reduction of 2 basis points is attributable to two factors equally; the sales channel mix and the asset class mix, which each account for 1 basis point of the reduction.

I said throughout 2012 that I expected margins to be down by 1 basis point or 2 basis points due to the expected progress in Institutional sales and the performance of the lower margin channel of Intermediary. This emerged at the half-year. I think it's my view now that the proportions of businesses have rebalanced, and with higher equity markets my anticipation is that we will not see further margin decline in the current year.

Moving to Private Banking, both revenue and costs, the other operating segment. So, Private Banking revenue is down 17% at £94.4m. However, this includes loan losses of £7.9m, which are charged against revenue. The underlying net revenue is £102.3m.

Excluding loan losses, there are three components of the revenue in Private Banking - management fees, transactional income and net interest income. The management fees, there in dark blue, have decreased by 8% to £68.7m. 6% of that is due to the absence of any significant performance fees this year compared with £1.2m last year.

Like the Intermediary channel, Private Banking has suffered from the market conditions and also changes to the asset mix, with more clients seeking high security in leading government bonds and in cash.

Transactional income, in orange, has decreased by 20% to £19.8m as client activities continued to be slow, particularly reducing dealing in FX commissions.

Net interest income, in lighter blue, has reduced slightly by just £0.6m due to reduced interest-bearing securities.

The total loan losses for 2012 were £7.9m. On the third quarter call, I reported that when we received the year-end valuations of the related property securities, I could foresee a further £5m to £6m provision on top of the £2m that we reported at the half-year, and that has indeed happened.

These are non-recourse loans secured on provincial commercial property, and they have continued to reduce in values. They remain sensitive to property values, and further provisions cannot be ruled out. But, as I have noted before, no non-recourse lending has been undertaken since 2009.

Moving to costs, starting with staff costs, which are in grey, they're lower at £49.7m. And there's been a reduction in compensation costs to take account of the performance of Private Banking.

Other costs are decreased by £2.5m. We carefully managed the costs during the period and benefited from a weakening of the Swiss franc against the pound. You'll recall that the Private Banking back office is in Switzerland.

Offsetting the reduction is a market-wide regulatory issue concerning rebates retained by fund managers and we provided £3.2m in connection with that exposure.

Now, finally, the Group segment. A number of variable items in both years, as usual, and they're on the first three lines of the slide here. There are then the routine costs of the offices of the Chairman, the Chief Executive and the Board, and the central costs around insurances and governance.

So, to get to the consolidated effect here, you need to add on other comprehensive income. So the investment gains go through both the P&L and through the statement of comprehensive income. What I'm going to do is analyse this here between the two types of function in the Group segment, so governance costs and investment capital returns. So this is the economic basis at the bottom, taking into account all of the items associated with the Group segment.

Let me start with governance and management costs, the first three lines here. A number of variable items in both years. Each year we mark to market deferred compensation awards. The Group hedges the cost for Asset Management and Private Banking of compensation awards and they negate corresponding gains that are in transactional revenue in those segments. There's no material consolidated effect, but the Group segment suffered a £0.9m loss in 2012 compared with a £3m loss in the previous year, so just from hedging, and cancels out on a Group basis.

The pension fund, we had a credit last year as a curtailment gain on the closure of the DB scheme. That doesn't recur this year and there's just a small credit in 2012 and I think this number will remain small in future years and probably won't warrant separate identification.

Last year we had no significant movement in net provisions. In 2012, we've got a charge of £11.9m. The charge is primarily associated with an insurance claim made by Private Banking in connection with securities that we now consider was not fit for certain clients' mandates. We've not yet been able to recognise the related insurance recovery to the extent of £8.1m, and we're self-insured to the extent of £5m. Consequently, we have a charge of £13.1m, and the strictness of accounting rules mean that we'll have to wait until 2013 for the recovery.

Additionally, there are some other swings and roundabouts which were a small credit of £1.2m. So the net charge on provisions is £11.9m.

As far as 2013 goes, I think for these variable items I would suggest that you anticipate a profit of around £5m to take account of the insurance recovery that should come back in later this year.

That leaves the underlying costs in the Group segment that are up £1.4m, at £29.7m, which is just under 5%. The main rising costs were associated with consulting and the strategic review that we carried out during the course of the year.

So, if I now move to the other element of the Group segment which is the investment capital returns, the investment capital result is a profit of £32m, significantly better than last year's loss of £7.4m.

Investment capital comprises three components. First, there is an actively managed portfolio of securities which seeks to deliver an absolute return described as LIBOR plus, second, seed capital, which supports products in the course of development, which are establishing a track record and thirdly, there's the legacy illiquid investments that are not able to be actively managed by us.

I'm pleased to report that the actively managed portfolio did achieve a positive return of £14m, and that includes a very strong second half where we saw gains on multi-asset, emerging market debt, and credit holdings. In the light of the economic uncertainties we are, however, maintaining a cautious investment portfolio.

The seed capital result was a profit of £5.9m compared with a loss of £6.3m last year. We hedge out market and currency risk on relative return products, but we do not hedge absolute return products and cannot hedge alpha. The purpose of the seed capital is not primarily to generate a return over all accounting periods but to produce marketable products over the medium-term. The gain in the context of the current markets has been satisfactory.

Finally, there's the private equity and property. We generated a profit of £12.1m, which coincidentally negates last year's loss. So, in 2012, we certainly achieved the Libor plus outcome and that remains out objective for 2013.

So that concludes the Group segment. In summary, we've got higher costs due to low pension fund curtailment gain and adverse timing difference on insurance. We've had strong investment gains with the managed portfolio being as expected, and a good profit on the Legacy and Private Equity business.

So let me go back to the Group as a whole moving from the segments to the total picture and go to the cost base. I'll start with the staff costs, the top of the box that's highlighted, as they seem to have highlighted all three together. This represents 69% of our cost base up from 66% in 2011.

In 2012, we've continued to invest in our people and reward success. In particular, we've increased our headcount by some 109 people. That's an increase of 289 over the last two years, bringing our headcount to just over 3,000 people.

As I mentioned earlier, we had a comp to revenue ratio of 49% in 2012, up from 44% last year. To avoid confusion that's been calculated excluding the pension curtailment gain, which was a reduction in our compensation costs. So excluding that gain, compensation costs increased by £35.7m, to £545.7m. On a per head basis, it was down about 16%, and that reflects the lower profitability of the Group.

Other costs were £233.5m. They're lower than last year due to reduced marketing, reduced fees and property costs, partly offset by development costs on our IT systems. We also benefited from a one-off profit of £11.6m relating to a lease disposal recognised in the operating businesses.

The depreciation and amortisation charge has reduced as some of our assets have come to the end of their lives, notably in respect of IT systems, and property fit-out costs.

We stayed within a cost to revenue ratio of 70%, which, as I said earlier, is in line with our long-term target over a cycle but is 4% higher than last year due to lower revenue and higher compensation costs, as we grew the employee base to deliver growth for the future.

Looking forward I expect other costs, including depreciation, to be of the order of £265m for 2013. That's up from £245.5m. It takes account of the one-off nature of the property lease profit. It takes account of the anticipated insurance recovery in the Group segment, together with the cost increases, particularly in IT, in accommodation, in marketing and in fees, which will add to our cost base. So, overall, the 2013 costs, excluding staff, are likely to be about £20m higher than in 2012.

For 2013 compensation, I see markets continuing to grow. If markets continue to grow as we've seen in the first couple of months, I can see that the comp to revenue ratio should fall by around 1% to 48% as we look at it in early March.

The final component of our income statement is the tax charge. The effective tax rate has reduced to 21.3% for 2012, below the UK rate of 24.5% and lower than 22.5% effective rate that we had in 2011. It's lower than the 23% that I'd been anticipating at the half-year due to quarter four Private Equity capital gains, which were covered by brought-forward capital losses. That's benefited the tax rate by 1.25%. In 2013 the effective tax rate is likely to stay below 22% because of the 1% reduction in UK corporation tax rates from April this year.

After deducting the tax charge, our post tax profit for the year is £283.2m, which equates to earnings per share of 104.7p, 10% down on last year's 115.9p due to lower profits before tax, partly offset by the lower effective tax rate.

The total dividend of 43p is 10% up. This is on a traditional basis. We decided to increase the payout recognising the strength of the capital base and the prospects for the business. Going forward it remains our policy to increase the dividend when operating profits are higher than previously reported.

So leaving the income statement, a couple of slides on capital. The total Group capital at the end of the year was £2.1b, is £168m up on December 2011, and I'll just run through the movement.

On the last slide you saw the profit after tax was £283m. During 2012 we spent £39m on share purchases. After the purchase and cancellation of something over £100m worth of shares in the last three years, the only share purchases in this year were to acquire shares to hedge employee share awards. Our issued share capital continues to be one non-voting share to every four voting shares, as it was last year.

Dividends amounted to £104m. To avoid confusion, this is on an IFRS basis. So that's the amount of 2011's final dividend and 2012's interim dividend, and not the final dividend that we've announced this morning.

There's an accounting credit of £45m, which relates to share-based compensation, where there's an equivalent charge that goes through the income statement.

And FX has reduced the capital base by £28m, due to the strengthening of sterling relative to, particularly, the euro and the Swiss franc. Our capital is of course held in many overseas locations, and is a permanent aspect of the business.

Other movements include actuarial gains on the pension fund, and tax credits and reserves. Together they increased equity by £11m, giving us overall £168m increase, and a balance of £2.1b at the end of the year.

Finally, let me analyse that £2.1b of capital. Operational capital amounts to £957m compared with £884m last year. It mainly represents cash and other components of working capital and reflects the profit for the year that has not yet been remitted to investment capital and the regulatory capital requirement is now £539m on a Group basis - £539m. We anticipate £315m of dividends will be remitted by operating subsidiaries in 2013 into investment capital.

The investment capital amounts to £926m compared with £837m last year. It increased due to profits on investment capital and amounts remitted from operational capital partly offset by the share purchases, the dividends and the acquisition of the Axis business in India for £23m.

The final component of capital is goodwill and intangibles. The increase is attributable to investment gains in the pension fund.

The pie chart on the right shows the components of the investment capital as it was invested at the year end, and as I noted it remains cautiously invested to take account of potential volatility that we might yet see in markets.

So, with that I will hand you back to Mr. Dobson and his man flu.

Michael Dobson

Chief Executive

Thank you. So, our priorities for this year are to, first of all, leverage the strong investment performance we have generated for clients in the last 12 months and three years, the product range, the distribution strengths and our global footprint in what is a, in our view, much more positive environment for investor sentiment. I think we're very well positioned to do that and clearly, it is also a priority for us to improve the performance of the Private Bank.

The buoyant equity markets of the fourth quarter of 2012 have, clearly, continued into the first quarter of 2013. We've seen a significant increase in investor demand. We've had strong flows in the first quarter of this year into our Intermediary business, continuing the trend of the fourth quarter last year; continuing positive in Institutional. And as I said before, we expect in the first half of this year some net outflows in our Private Banking business.

Longer term, we still think there are very exciting opportunities for this firm around the world given our positioning and we continue to selectively invest behind them.

Question and Answer Session

David McCann - Numis Securities

I just wondered if you could perhaps give a little bit more colour on those positive flows you've seen year to date perhaps, just around exactly the scale that you've seen there? It would be helpful.

And then just secondly on the dividend, am I right in reading from your comments that around the 40%-ish payout ratio should be what we should be looking for going forward given the rebasing this year?

Michael Dobson

So on flows it's been a pretty much a continuation of the fourth quarter. We've seen good flows in our Intermediary business, particularly out of Europe and they are running ahead of Institutional which is still usefully positive. Equities continues to be strong as is Multi-Asset.

On the dividend, as I say this is a somewhat of a rebasing of the dividend in the light of some the financial position and our confidence in the long-term and we'll continue to move it ahead in future in line with the online trend in profitability. We don't target a specific dividend cover number. So I think after this move we'll move it ahead with the trend in profitability. In the long-term we seek to move to achieve a position where the interim is roughly one-third of the total payout for the year.

David McCann

Thank you.

Catherine Heath - Cantor Fitzgerald

Two questions please. First of all, regarding asset management, can you give us a feel for actually where the margin is as you go into the New Year on the entire book? Is it in line with the 2012 average?

Michael Dobson

Yes, it's in line. It's in line. I don't know whether Kevin said this, it's very hard to predict, but I wouldn't expect a reduction this year. It's possible it can edge up because of the flows in Equities and Intermediary.

Catherine Heath

And then against that comment can you say a little bit more about your longer-term expectation of margin erosion on the Intermediary side, quantum and timing please?

Michael Dobson

Well, so as I said, in the presentation the reduction in margins we've seen so far is entirely mix in Intermediary. We haven't really yet begun to see a reduction for any other reason. However, we do think that will happen, maybe up to 15% over time for a number of reasons - transparency, RDR, distributors concentrating their business on fewer manufacturers, and particularly with larger firms.

That, as I said, is a double edged sword. So we will probably get lower average revenue margins but we would hope to get bigger volumes as a result. So I think that we're well placed to do quite well in that environment, but that's the way we see the industry going.

Catherine Heath

And in terms of the time frame for that 15%?

Michael Dobson

Massimo, do you want to elaborate a little bit on that?

Massimo Tosato - Schroders

Yes. In the different jurisdictions where we operate, I don't really see a structural change in managing this in the United States where we are growing significantly because the realignment there already happened with the change in the regulatory framework at the end of the '90s, in the early 2000.

It's in Europe, within the European Union, where we see the effect of concentration of distribution and greater transparency and low yield environment that will drive some pressure on margins over the next five years and we are building our business and designing it to sustain that change in margin. Asia will come a bit later, but it will happen as well there, probably between two and three years from now.

Personally, I would expect that in Europe the margin decline could be due to markets rather than product mix or channel mix up to a range of 15%.

Catherine Heath

Thank you.

Chris Turner - Goldman Sachs & Co

Just two questions from me. I think the first for Kevin and then the next for you, if I may.

With regards to the £3.2m provision in Switzerland for the retrocession payments, can you tell us what £3.2m is as a percent of the actual potential liability; so the total retrocessions over the 10 years? That's firstly.

And then secondly, in terms of the investment portfolio, you mentioned again that you're targeting a Libor plus return, which presumably will be below most investors' cost of equity and so can you just outline how the management and how the Board think about that investment portfolio as a value creation entity, please?

Kevin Parry

If I take the retrocessions first, the issue around the retrocessions is the extent to which it is reasonable to presume that the clients knew that retrocessions were being retained. In our case, we have informed the clients of that previously and so it's a matter of interpretation as to how well they understood that.

And so the provision that we've calculated, it's very hard to say what is its percentage and what is the worst possible outcome. We're just taking a view of particularly some earlier years where perhaps it was less clear rather than more recent years whereas ever communications get better and better. So it's our reasonable estimate of the outcome. As Mike said, I wouldn't necessarily suggest we will be paying all of that out over the next few years, but time will tell.

Michael Dobson

I think on investment capital, we wouldn't change what we've said in the past. I think it has been a strength of this Company, their capital position. I think it's in terms of building an independent asset management firm with £212b under management I think and giving confidence to clients, Institutional clients, Intermediary clients particularly who are distributing our products and entering long-term partnerships with us I think, the financial strength of the firm is one differentiating characteristic, which is very, very positive.

Secondly, we think it's very possible we will find acquisition opportunities to accelerate organic growth. We did two small ones in 2012 and I think that as I said probably at the half-year stage, in this environment today we're probably seeing more opportunities than we have done in the past and I think that's likely to continue.

But thirdly, if we don't find those opportunities over the next year or two then I think that there will come a time, again as we've said in the past that, yes, we will return some of that capital to shareholders.

So I think those are the three responses I would give to that question, none of which really have changed from where we've been in the last year or two.

Jonathan Richard - Bank of America Merrill Lynch

Just one question on the UK retail side of the equation. Can you give us an idea of what you've seen into 2013 with the implementation of the RDR?

And then I guess going back in Q4 of last year, you said that the UK outflow was concentrated from an LDI product. Could you just give us a flavour of what your UK retail business did in Q4? Thank you.

Michael Dobson

Mass, do you want to pick that up?

Massimo Tosato

In 2012 our major issue in the UK has been the lack of competitive product range in the bond sector that has been dominating the flows. There has been little demand in equity and we have done well in properties. As soon as risk start to be back on the table, then our flows have started to improve and they have been improving significantly in the first two months of this year.

In respect to the RDR we are very well prepared. We don't see any high alpha in our flows. We were among the first prepare the no retrocession share classes and we are winning business with those large entities that are reorganising themselves with a different pricing model. Let me explain that.

For large institutions that have a sales network themselves, what's happening is that they are concentrating the number of fund providers, fund managers. They are building their own fund range with their own brand and then asking for external sub-advisory in slices. So, instead of having 50, 60, 70 product providers, they choose 10. They give a much larger amount of assets to those 10, and those 10 become the strategic partners.

Now, clearly, being a sub-advisor relationship, it comes with lower margins. However, you also have lower administration, and operational cost and lower branding cost and, possibly, much better longevity. So it's a change in the business model.

Being a large provider with an all-weather product range, with a large capability in specialised high alpha product, we are one of the better suited to win in that position; much more difficult will be for the smaller firms.

Gurjit Kambo - Credit Suisse

Just a couple of questions. Firstly, could you just give us a reminder of the fees on the Multi-Asset?

And secondly, given the strong performance, where are you in terms of the high watermark on the performance fee legible funds?

Michael Dobson

Do you want to take that?

Massimo Tosato

Yes, well, concerning Multi-Assets, it's a difficult question to answer, because we go from a pure LDI, which would come at 8 to 10 basis points to sophisticated, multi-management, multi-assets global balance product that could gain 75, 80 basis points. So there is a multiplicity of products within Multi-Assets.

Kevin Parry

In terms of high watermarks, the number of performance fees in the total was over 100 performance fees, so it’s, again, very hard to generalise. But, clearly, with markets having gone well ahead, so far this year, I would be more optimistic on performance fees for 2013 than for 2012.

Abhishek Parthasarathy - Exane BNP Paribas

Just two questions really. One is a follow-up on Chris’ question on the deals’ pipeline. Can you give us a flavour of how many deals you’re looking at right now, for example, what sort of opportunities are out there in terms of where your next inorganic expansion could come from?

Then the second question is on the institutional push. I think you guys said before that the US is a big target for you and developing there was important. But what about countries like in the ASEAN regions. You have the sales trade picking. You have trade balances picking up. What are you doing to target these other wealth bands in the Institutional mandates that could come out that region? Thanks.

Michael Dobson

On potential deals, I said, again about six months ago, I think, that we expect this is an environment we will see more potential transactions, which would range from banks or insurance companies seeking to divest their asset management, or part of their asset management businesses in this kind of environment, which I think is possible to smaller opportunities.

And we’ve said that in terms of what kind of asset class are we reaching in the United States? We’ve just done one in the United States. We’ve said Private Banking in the past is a possibility. We’ve talked Fixed Income. So I wouldn’t, again, change really, what I’ve said for the last year or two on that.

On Institutional, yes, the US is a big target for us. Actually, it’s been relatively quiet for us last year. We expect that to pick up. Again, I think I’ve said this before, we think it’s a big opportunity to grow our US business. It’s about 10% of our total business. It is, of course, the largest market in the world. We have strong performance. We are in a net business winning position in the United States. We have a profitable business there and we think we can really grow that quite significantly in the next five years, and that is our intention.

As a proportion of the whole, we would expect the US to increase, I think, quite significantly over the next five years, and Institutional will be the key part of that.

As far as ASEAN is concerned, the Asian Institutional business has been very strong; Australia, in particular, but also ASEAN region and that includes Sovereign Wealth funds. So we have a strong Sovereign Wealth fund business. Across the board, I said £18b in total, £2.8b, I think, of net inflows in Sovereign Wealth funds last year, much of which comes from Asia; the Middle East as well, obviously; Latin America to an extent. But significant relationships in Asia, in Singapore, in Hong Kong, in Korea, in China and we work on that very hard and I think it’s a continued, interesting long-term growth opportunity.

Bruce Hamilton - Morgan Stanley

Yes, just a couple from me. Sorry, on the Private Bank, and I may have missed this because I arrived a bit later, on the legacy risk from commercial real estate loans, is there any way for us to try and bracket what else could come through in that line? And can you remind me how much of the £7.9m was in Q4? Was that all in Q4 or not?

And then the second question, just to clarify, Massimo, where you're talking about the strategic partners' thing or sub-advise business, were you specifically talking about the UK there? Or is that more a European point, just to check?

Kevin Parry

So on Private Banking, we've taken about £2m in the first half and the remainder was, indeed, in quarter 4 and the total was, obviously, the number I put up.

In terms of trying to get to grips with it, I think the way I would look at it is for the loans that are causing us problems, which is a small number of loans, the balance that is outstanding on the impaired loans, I was just checking here, I think it is just about £30m. Let me just get that number for you, Bruce, and I will say it in a minute while the other half of your question is answered.

Massimo Tosato

In the UK, there was more urgency, because from January of this year those institutions that have a strong distribution power had the need to transform rebate into profit. So there was this, if you like, business model change and transformation to try to obtain the same margin to then pay their own sales force.

We see less transformation of this kind in Continental Europe. Of course, there are already a large number of affiliated businesses within the large commercial banking and insurance companies, which operate in this way through their own affiliated business. So, the landscape is rather different from the one that you see in the UK.

I would estimate that there are a few large groups that could go down that road. But that would be more in the form of outsourcing a specialised part of their business rather than transforming their business model because it's already there.

Kevin Parry

So just to finish my answer, the value of the loans, Bruce where we've got impairments at the end of December were £37.7m and that's down from £47.3m a year ago. The reduction is obviously the provisions plus some repayments.

Bruce Hamilton

Okay.

Kevin Parry

That’s probably the best way to size it.

Bruce Hamilton

Thanks.

Michael Dobson

Any other questions? Okay, thank you very much for joining us.