Schroders plc
Full-Year 2013 Results

Michael Dobson

Chief Executive

Okay. Well, good morning everybody and welcome. We announced, as you saw this morning, record results for 2013. Net revenue was up 24% at just over GBP1.4b. Profit before tax and exceptional items was up 41% to GBP507.8m. The Board is recommending a 40% increase in the final dividend to 42p per share, taking the dividend for the full year to 58p per share, an increase of 35%. We generated net new business across the Group as a whole of GBP7.9b in 2013. We completed two strategically important acquisitions in STW and Cazenove Capital Management. And our assets under management ended the year up 24% to a new high of GBP262.9b.

So looking at the asset management business to start with, a strong level of new business. We had gross new business of just over GBP70b in 2013, which was close to the all-time record back in 2010, which was about GBP75b. So well up on the previous year to GBP70.3b and within our intermediary retail business we had the highest ever level of gross sales.

Net inflows I think where a good, pretty competitive GBP9.4b in asset management. Revenue margin stable at 53 basis points, excluding performance fees. Well-diversified by channel and region. In terms of channels, the split was almost exactly 50/50 between net inflows in institutional and net inflows in our intermediary retail business.

In terms of region, a very strong first half in Asia. A very strong second half in the UK. A strong first quarter and strong fourth quarter in continental Europe. But I think most importantly every region, Asia, the UK, continental Europe and the Americas, was positive in terms of net inflows in 2013.

We operate, as you know, in many countries round the world. Every single business we have is profitable apart from one. We're in something like 27 countries, so 26 out of 27 are profitable. And it's quite a diverse range of earnings. Coming out of the UK, which is obviously our largest business, we have about five equally sized businesses making a broadly equal contribution to profit in Hong Kong, Australia, Switzerland, Italy and the United States.

Looking at the institutional business, net inflows of GBP4.6b, I think a good year, solid, not an outstanding year. I think we saw fewer opportunities, particularly amongst official institutions, and we had a number of clients moving money away from us for asset allocation reasons. But, nevertheless, I think GBP4.6b of net inflows is a pretty solid result. We had positive inflows in every asset class. In multi-asset leading the way, with GBP2.9b in equities, about GBP1b net in fixed income and in alternatives.

The big negative in the second quarter we discussed at the interim stage in fixed income was due to two things. First of all, a very large US client who parked a very significant fixed income portfolio with us on a temporary basis, reallocated part of that to other managers, which we knew was going to happen and happened in the second quarter. And secondly we had some outflows from STW shortly after that acquisition closed.

70% of institutional funds are outperforming over one year and we generated GBP35m of performance fees in our institutional business in 2013.

Looking at intermediary, a very strong year I think in intermediary. GBP4.8b of net inflows, up from GBP3.3b in 2012. Net inflows in every region and concentrated in multi-asset and equities. As you know, outflows in UK large cap in the second quarter, but we've recovered obviously very well from that in the second half.

We had a number of new product launches which have been quite significant for us this year. Our global multi-asset income fund, particularly in Asia, which was an innovative new product launch and very successful in the first half of the year. And a number of other product launches, including some on our GAIA platform where we have a UCITS capability for hedge-fund-type structures. Two in particular I'd mention. One is our insurance-linked securities business which has been very successful and, secondly, a long-short equity product where we've raised well over GBP1b in the last seven or eight months.

70% of our intermediary funds are also outperforming over one year and we booked performance fees in our intermediary business of GBP45m.

Looking at some of the individual asset classes. A good year in equities, net inflow of GBP2.8b. I've highlighted here the principle asset classes into which we saw net inflows last year. Asian equities very strong at GBP2.5b. We had GBP700m of net inflows into emerging markets. We had a very strong performance in Japanese equities. I think we were one of the strongest sellers of Japanese equities here in the UK. Last year we generated GBP1b of net inflows in Japanese equities global and European equities. So well spread across the piece.

70% of our funds are outperforming over three years and we have a competitive track record in our equity business. We have a highly diversified range of strategies. We have integrated the Cazenove equity team so they're all now embedded here in this building with our equity colleagues. And we've made and continue to make some I would say very selective additions to our talent pool on the equity side. We did that in 2013 and we'll continue to do that very selectively in 2014.

Multi-asset, now GBP52b of assets under management. It has been in volume terms the fastest growing part of our business for the last three or four years. We've generated GBP21.3b of net inflows in multi-asset since 2010. We had another very good year in 2013, with GBP6.9b of net inflows, of which GBP2.9b was in institutional and GBP4b of that was in our intermediary business.

We have a competitive range of outcome-orientated solutions and we're organized in this business across investment outcomes. Wealth preservation, aiming to generate a stable diversified total return. Risk-controlled growth, equity-like returns with lower volatility. Income, aimed particularly at the retail market. Inflation protection, which is a very big product for us, particularly in Australia. And risk mitigation, LDI and volatility-controlled equity strategies.

We see growth opportunities in this business pretty much across the piece in terms of each of these solutions or products and also in terms of geography and channel. We think this business can continue to grow at a good pace.

Turning to fixed income, I think this is a turnaround story on the back of changes to the, some important changes to the investment team, some changes to investment processes, and we think that this business is well-positioned now, to grow. We've got very strong performance and the trend is extremely good, 70% outperforming over three years, 78% outperforming over one year.

We're seeing a number of consultant upgrades and new business opportunities. In unconstrained bonds, targeting typically returns over three years. Absolute return, targeting positive returns on any 12-month rolling basis. Long duration US bonds with STW and global and European credit.

The STW acquisition I would say is well on track. We've seen some outflows from STW, absolutely within our expectation, about GBP450m of lost clients and probably around GBP350m of clients who reduced their commitment but remain clients of the firm. Performance is extremely good. They have a very good long-term track record, which has been maintained, and we think we're now very well-positioned to grow that business.

We acquired a 30% shareholding in an insurance-linked securities business in Zurich called Secquaero in about the middle of last year – a very small business. It had $250m under management when we bought that stake. We now have $1.1b under management in insurance-linked securities, which we think is an interesting albeit niche growth area. And Schroders distribution getting behind a very high-quality investment team, very high-quality product, has resulted in a quadrupling of that business in seven months.

We established in December last year a capability in convertibles. Previously we'd worked with a third-party manager where we had distributed convertible funds on their behalf. We decided to terminate what was a very successful and friendly relationship and actually now do it ourselves. And we've brought a convertible team in house and we've brought those sub-advised funds back in house, and we're now running GBP1.4b in convertible bonds.

So, as I say, I think our fixed income business, which overall last year was marginally positive, I think it's well-positioned to grow in the future.

Turning to wealth management, this business, as a result of the Cazenove acquisition, is fundamentally repositioned now as part of Schroders, a much larger part of our total business, and in terms of its market presence, particularly here in the UK. Net revenues were up 59% to GBP150m. That was GBP53m in the first half and then GBP96.5m in the second half with Cazenove. Profit before tax and exceptional items was up 191% to GBP34.3m, GBP10.5m in the first half, GBP23.7m in the second half.

We've had some exceptional items relating to Cazenove, as expected, integration costs and amortization of intangibles. Richard will talk more about that in a second. But we've also made a GBP15m provision for a Department of Justice program, looking at potentially non-compliant US-related accounts of Swiss banks. This was a program announced on I think August 29, 2013. Most if not all Swiss banks are participating. You may have seen Coutts made an announcement in relation to their Swiss banking business just a week or so ago as part of the RBS announcement.

We are participating in that program. This doesn't only relate to US clients. It also relates to clients with any kind of a US connection where there may have been, inadvertently or otherwise, some non-compliance with US tax. This is our best estimate of the result. We don't expect a conclusion to this for probably 12 to 18 months. We're working through all the documentation. Most of these clients are no longer clients of the firm, but we've taken this provision, as I imagine most Swiss banks have, against our 2013 results.

Last year we had net outflows in this business of GBP1.5b. We highlighted this at the half year stage and again I think with the third quarter results. Two very large low-margin clients for various reason to do with generational change and so on, terminating their relationship with the firm.

The underlying business I think is doing well and indeed we've seen positive net flows from the Cazenove side since the acquisition closed in July. And my sense is the client reaction has been very positive and people see the logic of this transaction and a very similar culture. So I think the underlying opportunities there are quite encouraging.

In spite of these outflows, obviously assets under management up very significantly to GBP30.1b at the end of 2013 against GBP16.5b at the end of 2012.

We have significantly increased scale in the UK in terms of assets, in terms of clients, in terms of number of client-facing people, in terms of our market presence, all of which I think is very positive in what I think is a potentially big growth opportunity for us. We have a broader client offering, as we have discussed before, importantly with financial planning now as a central part of our offering for clients. And we have new leadership here in the UK and in our Swiss business to take the private bank forward.

I am now going to hand over to Richard.

Richard Keers

Chief Financial Officer

Good morning. As you have already heard from Mike, we have delivered record results this year. Our numbers demonstrate the benefit of good investment performance as well as the impact of higher equity markets. Our positive investment performance has also allowed us to generate higher performance fees. We've also benefited from the success of the acquisitions we completed earlier this year. In a minute I'm going to take you through the usual financial summary, but I'd like to start with the financial highlights.

Net revenues are up strongly by GBP273m, as you can see here. That is 24% up on last year. Higher markets and good investment performance for our clients mean that we are now seeing the benefit of the significant organic growth we have delivered in recent years. We've recorded over GBP47b of net inflows since the start of 2010 and that excludes recent acquisitions. We've also earned significantly higher performance fees at some GBP81m, and I'll come back to that in a minute.

The combination of the increase in AUM and higher performance fees has led to a significant increase in underlying PBT, at GBP508m. That's GBP148m up on last year or some 41%. We have exceptional items of GBP60m. GBP45m is mainly due to the STW and Cazenove acquisitions. There's also a GBP15m provision for the US Department of Justice program applied industry-wide in Switzerland. I'll return to both of these items later.

I know you focus on underlying diluted EPS, which is up 43% to 144.6p, not in line with our increase in PBT. So with these strong results and taking into account our financial strength and management's confidence in our long-term growth prospects, the Board has recommended a 40% increase in the final dividend of GBP0.42. The total for the year will be GBP0.58, as you see here. This means the total dividend is up 35%.

Our approach on the dividend is right in line with our stated policy for the long term, to increase the dividend progressively, in line with the trend in profitability. As always, we will set the interim dividend in 2014 in light of the actual results we produce later this year.

So, as I said, net revenues are up strongly. I'll now spend a couple of minutes taking you through the detail. Here is where the GBP273m increase in net revenue came from. With a total of over GBP1.4b our organic growth strategy and positive net new business continued to deliver revenue growth. That accounts for GBP56m of the increase. The higher market levels and good investment returns I mentioned right at the start, contribute some GBP96m.

Our excellent investment performance has benefited performance fees, contributing GBP81m, up GBP52m over 2012. Equity mandate is dominated in the first half, especially Australian and Asian equities. And in the second half of the year we got strong contribution from the Cazenove funds and the Schroder European special situations fund. It is very difficult for us to predict but we expect performance fees this year to return to more a normalized level of around GBP50m.

Finally, our acquisitions of Cazenove and STW contributed GBP80m of additional revenue, excluding performance fees. That's GBP110m in total.

Other revenue movements were broadly neutral, leaving us with total 2013 revenue of GBP1.4b. Asset management generated almost 90% of our net revenues and I'd like to give you the split between our two sales channels, institutional and intermediary.

Starting with institutional, revenues of GBP557m, up GBP68m on last year. Excluding the performance fees we earned, net revenue is up GBP57m. That's 12% on a year ago. Some GBP26m of this increase is due to positive net new business we brought in over the last two years. A further GBP21m is due to good investment returns, offsetting a slight reduction in other revenues within institutional. During the year STW has contributed GBP10m of revenue. Performance fees have increased by GBP11m to GBP35m. So the institutional channel has produced good core business growth and that's been one of our key objectives in recent years.

Now, turning to intermediary, here our net revenue was again way up on last year by GBP164m. Performance fees are a lot stronger this year at GBP45m. We've also generated relatively consistent net inflows, increasing our net revenue by some GBP32m. Market movements have also helped and increased revenues by another GBP60m. Finally, Cazenove's funds business, when you exclude performance fees, has added around GBP30m.

Overall, asset management margins excluding performance fees are down slightly from 54 to 53 basis points. Within this splendid margin, institutional margins are 38 basis points. That's 2 basis points down on 2012. Half of that, or 1 basis point, is due to the acquisitions of STW -- sorry, is due to the acquisition of STW in Q2, where we picked up some GBP7b of AUM at 20 basis points. A further 1 basis point decline is due to the lower margin business such as QEP. Institutional margins are expected to come off a further basis point in 2014. In intermediary margins excluding performance fees were unchanged at 78 basis points.

While margins are difficult to forecast and are always subject to market levels, in 2014 we expect to see a further 1 to 2 basis point decline in the overall asset management margin.

So now let's turn to wealth management. Net revenues were 64 basis points, 1 basis point up on a year ago. Cazenove Capital had margins very close to our existing business, but we've seen an increase due to the expected loss of the loan-margin business in H2, as Mike has already mentioned.

Net revenue is made up of management and transactional fees plus net interest income. Overall wealth management generated revenues of GBP150m, up GBP56m or some 59% on 2012. That's mainly a result of a Cazenove acquisition, with AUM increasing to over GBP30b. Management fees and transactional income are both up due to the increased scale of our business at GBP110m and GBP27m. Net interest income is broadly unchanged year on year at GBP14m.

So that brings me to the end of our look at revenue. Now what about profit before tax? Well, as Mike said right at the start, it's a pretty good picture on PBT with an increase of GBP148m.

This slide shows the movement year on year. You can see the impact of higher revenues of GBP273m there in green. Compensation costs have also increased by GBP107m although we have reduced the compensation to operating revenue ratio to 46%. That's down from 49% in 2012. We have continued to keep tight control of costs, which were up GBP22m. That number is, however, flattered by the GBP6m credit in the Group segment mostly from Q1, which you'll be aware of. For 2014 we are expecting other costs of GBP300m and I'll return to this in a minute. So that brings us to record profit before tax and exceptional items of GBP508m.

So if you look at it by segment, you can see that the movement really comes through in asset management, up GBP121m, then wealth management, up GBP22m year on year, and Group, up GBP5m.

Now I'd like to take you through costs in some more detail. Here we're talking about the numbers before exceptional items.

Starting with compensation costs, compensation makes up 71% of our cost base. Within those comp costs 51% of our spend is fixed. The fixed spend is up 13%

because of Cazenove and continued investment in our people. Headcount has increased by 517 this year to a total of 3,528. 366 of those people come from the acquisitions we have made and 151 from organic growth, particularly in operations and IT. We continued to recruit for our three-year investment platform program as well as the integration of Cazenove and STW.

As I mentioned earlier, we have reduced our comp to revenue ratio to 46% from 49% last year. For 2014 we expect that ratio to increase to 47%. That's because we are expecting a more normal level of performance fees. But, as always, a lot depends on market conditions.

Other costs excluding depreciation were GBP255m, GBP114m in H1 and GBP141m in H2. Excluding the insurance recovery of GBP6m mostly in Q1, other costs are up 12% on last year. We've seen the half-year impact of Cazenove as well as additional costs in areas such as accommodation.

For 2014 we're expecting non-compensation costs including depreciation of GBP300m for the full year. The GBP300m reflects the full-year impact of the STW and Cazenove acquisitions plus additional IT expenditure. We have to put more into IT to meet the latest regulations as well as making the technology upgrades we need to keep pace for the demand for more complex products.

The guidance I'm giving you is before any exceptional items. In total our spend is equal to cost to net revenue ratio of 65% in 2013. We expect this to increase to 66% for 2014. This is right in line with our long-term target and KPI of between 65% and 70%.

I'd now like to take you through exceptional items you can see in our accounts. I'll also give you some guidance of what you can expect to see in 2014.

At the half year I mentioned that we expected some GBP30m of exceptional costs in the second half and that's broadly where things have turned out for acquisitions on top of the GBP6m of exceptional items that we took in H1. We've seen slightly higher amortization charges because we treated other amortization for past acquisitions such as Axis and FC etc. as exceptional. That's the GBP4m of other amortization you can see in the middle of the table.

As Mike mentioned earlier, we've taken a provision in wealth management for the industry-wide US Department of Justice program that applies to Swiss banks of GBP15m. We signed up to this program in December. The provision is our best estimate based on what we know so far. It's still subject to change as the program isn't due to complete for a further 12 to 18 months.

For 2014 we expect to see further exceptional items of some GBP54m. GBP30m will be in the first half. The GBP54m is split GBP22m for amortization, GBP16m for deferred compensation related to acquisitions, and another GBP16m of further integration costs.

I'd now like to turn to the Group segment. What we are looking at here is investment capital returns offset by governance and other central costs. With a profit of GBP5m compared to small loss last year, the total return for the segment is a profit of GBP4m compared to a loss of GPB9m last year.

Investment capital returns are some GBP19m of the GBP23m returns shown above. That's made up of the total of net revenue, interest income, share of JVs and associates plus what has gone through reserves. Central costs or operating expenses, as you can see on the slide, were GBP19m. We still expect to see a run rate of some GBP28m to GBP30m a year. For forecasting purposes we continue to expect investment capital returns to cover costs, so a nil result for 2014. Again this excludes exceptional items.

The final part of the income statement is the tax charge. Our effective rate of tax is 20% before exceptional items. I would expect it to remain around this level for 2014. After deducting the tax charge, our post-tax profit before exceptional items is GBP404.8m, and GBP353m after exceptionals. This is equal to earnings per share of 149.9p.

So leaving the income statement and turning to capital, overall Schroders' capital has increased by GBP199m. On the last slide we saw that post-tax profit after exceptional items was GBP353m. During 2013 we've acquired GBP142m of own shares. That GBP142m works out at GBP97m related to acquisitions and the balance to hedge employee share awards.

In May we paid the final dividend for 2012 and in September the interim dividend for 2013. That represents a further GBP124m returned to shareholders.

Next we have foreign exchange differences on our overseas operations after hedging. Net FX differences decreased capital by GBP19m overall. That's a GBP46m reduction in the second half, mainly reflecting the strength of the sterling towards the end of the year.

Together, with other movements such as share-based payments, that leaves us with a year in position of nearly GBP2.3b.

This is a busy slide but I know it's one that you're familiar with. On the left hand side you can see the breakdown of the GBP2.3b of capital. GBP1.1b is operational capital, mainly cash and other working capital balances. Regulatory capital of GBP603m is within operational capital.

Investment capital has decreased to GBP677m which mainly reflects our acquisition of Cazenove. You can see the investment capital on the right of the slide. Cash and fixed income holdings have decreased to GBP345m within overall investment capital compared to GBP784m at the end of June, but it's still a very strong financial position which we'll rebuild further during 2014. This is a key element of our long-term strategy, allowing us to invest in future growth and making sure that Schroders has the ability to repeat the record results we have reported today.

So to wrap up my part of the presentation, we have generated record results in 2013 both before and after exceptional items. Cost control has been good with key cost ratios coming down year on year. Maintaining our operational efficiency remains a key focus. This record profitability translates into strong cash generation and we are rebuilding our investment capital post the Cazenove acquisition. These record results and our confidence in the future outlook have allowed us to significantly increase returns to shareholders, increasing the dividend by 35%.

I now hand you back to Mike. Thank you.

Michael Dobson

So, looking ahead, we've had quite a good start to the year, particularly in our intermediary business, quieter in institutional, to some extent continuing the trend of the fourth quarter of last year. But we have a good pipeline of business we have won but has not yet been funded in institutional so I think if we are seeing a quieter period I think it's probably temporary.

Our priorities this year, to complete the integration of Cazenove Capital and STW, both of which are on track. A key date for Cazenove Capital will be the end of July when we plan to move the administration of our wealth management businesses on the Cazenove Capital side to our Zurich service center to build on the I think really totally repositioned capability we now have in wealth management. We see growth in our opportunities in, frankly in most asset classes and most regions we're looking at.

We're looking for cost efficiencies. Not cost cutting, but we want to use our scale, move towards more industrialized processes, if I can put it that way, to get better cost efficiencies in this firm so that as we continue to grow we really try and keep a lid on cost expansion. And I think there is long-term opportunity for that.

And then finally, and I say this every time, but I think it's an important point, please remember we focus here very much on the long-term. We're not focused on really so much this year, let alone this quarter. We're trying to think how do we reposition this Company for the next three to five years, and that remains our absolute predominant focus and underlies every decision we make on acquisitions on people, on new products, on investment, on cost efficiencies.

Okay. Thank you very much. Now we'll be very happy to take your questions. There'll be a microphone coming to you. If you could just say who you are and your company to start with, that would be great.

Questions and Answers

Arnaud Giblat – UBS

Good morning. I have three questions please. First of all could you maybe comment a bit more about your performance fees and your guidance? Is there a proportion of AUM illegible? Has that changed? Is there a big proportion of your AUM, the performance on the AUM, linked to absolute returns rather than relative to benchmark?

Secondly, on your guidance on reducing management fees, and specifically in retail, is that a mix shift you're expecting or are there other pressures you're expecting ahead?

And finally on the GBP400m reduction in investment capital we saw over the second half, is that -- are you expecting -- should we expect investment capital to stay at those levels?

Michael Dobson

Richard can deal with the third one and I'll deal with the first two. On performance fees, GBP80m performance fees this year, as you know. I suppose our more normalized number is around GBP50m, GBP40m to GBP50m, and I think we're saying for conservative reasons think more in terms of the normalized number going forward.

There's been no fundamental change other than Cazenove funds have generated some of these performance fees so it's been a combination of Cazenove's funds and Schroders' funds. It is alpha-related but also in some cases absolute-return-related. Typically one would expect higher performance fees in better markets. Obviously we had a good performance in developed market equities last year that benefitted us. So there's a Cazenove element there, there's an element associated with stronger markets and there's a big element associated with our performance. But I would say that we are modelling internally a return to a more normalized number of about GBP50m in the future.

In terms of management fees I think what Richard said doesn't represent any change from what we've said in the past. We are expecting fees to come under pressure in this industry particularly in intermediary, but not only in intermediary; we're seeing it right across the piece. To some extent our fee declined from the peak of about 65 basis points. This has principally been change in business mix. So it's been the growth of our institutional business, the growth of our multi-asset business, the growth of our fixed income business. That is what has principally driven this reduction from a peak of about 65 basis points to the 53 basis points you see today.

So for me that is a sign of success. It's exactly what we wanted to do. And so far we haven't seen much in the way of fee compression because of market forces, but I think that will come. And we've said in the past here I think we expect to see a 15% reduction in intermediary fees over the next five years or so. And so I think what Richard said today is consistent with that.

Will you pick up the point on capital, Richard?

Richard Keers

I will. You will see from our annual report that we are expecting dividends from our subsidiaries to flow up to the parent company of about GBP300m, so that will flow into investment capital in 2014.

Daniel Garrod – Barclays Capital

Good morning. A couple of questions. First, on flow outlook, you had GBP7.4b of flows for full year 2013. Can you comment on the size across the year the headwinds you had out of the UK Alpha Plus fund or just effect of Buxton leaving more generally? That would be the first question.

Second question. You commented around the restructuring and turnaround of your fixed income business. It looks like in Q3 and Q4 you had virtually zero net flows out of the fixed income asset class. Are you more optimistic underlying around turnaround being delivered than that picture would show? And what are you doing on that front to improve the consultants' recommendations with you? Thank you.

Michael Dobson

So I think on Richard Buxton, probably GBP2.5b or something like that, but that is completely tailed off and what we're seeing in our alpha and UK large cap products is the typical flows you would expect for a book of business this size. So there's no impact there now. That, as we discussed before, all happened I think probably in the second and to some extent third quarters.

On fixed income, yes, we've had pretty flat because we had reasonable positive net inflows in institutional, we had some outflows in retail. I think that was probably an industry, not a Schroders-specific factor. So retail investors taking profits in fixed income rather than anything Schroders-specific.

But as I said in the presentation on that part, on fixed income I think it's positioned for growth. We've made some people changes, some important people changes. We have a much stronger team here in London, in Asia, in the United States. You've seen the performance trend, 70% outperforming over three years, 78% over one year. It takes time for consultants to buy into that even if they rated the individuals in the previous firms they worked at. As you know, when there's a switch like that they take time before they buy into that same individual in a different firm. That I think is now happening. We're seeing consultant upgrades in many areas.

And I'm very positive about this capability. It's the strongest fixed income capability we've ever had at Schroders without a doubt in terms of talent, process, products and performance. When it comes through in significance flows we can't obviously judge, but in terms of are we happy with where it's positioned and do we think it's going to do well, absolutely.

Daniel Garrod

Thank you.

Michael Dobson

Thanks.

Bruce Hamilton – Morgan Stanley

Morning. I've got three or four if I may. Firstly, just on the capital position again, can you remind us what the surplus or excess above the required minimum rate cap in the operating divisions is, so in terms of that GBP1b or just above that you have against asset management and private bank?

Secondly, on the cost saves within Cazenove, how far are you through the GBP12m to GBP15m of savings, so how much more to come?

Thirdly, back to fixed income, could you just give us some sense of how much of your asset base there is unconstrained areas, absolute return areas that where growth might look more likely versus the traditional core benchmark stuff that could be a bit more of a flow risk?

And then finally, just on the outlook, in terms of you've obviously given us a little bit of colour at the start of the year being good in intermediary, kind of okay in institutional, but as you look ahead in 2014 any colour around geographies that you think look more or less interesting?

And around any product shifts. So, for example, in multi-asset would you expect that the demand for income gives way to more risk-controlled growth given the performance of markets? Any sort of color there would be helpful.

Michael Dobson

So, Richard, will you pick up the first two? I will pick up the asset base, the fixed income, and then Mass maybe you'd like to talk about product flows this year.

Richard Keers

Bruce, the first question I think was surplus operating capital. Within operating capital there's GBP468m over and above the regulatory requirement. I'm sorry I was looking for the answer to the first question. The second question?

Bruce Hamilton

The cost saves in Cazenove to date. Out of that GBP12m to GBP15m, how much is already in the 2013, been delivered in 2013, if you like?

Richard Keers

In terms of the cost savings from Cazenove most of that will actually come through in Q4 this year in that we are still maintaining the Cazenove platform and as part of the migration to the Swiss service centre, which is currently scheduled for the summer, we're still carrying those costs. So really the benefit of those cost savings in Cazenove will come through in Q4.

Bruce Hamilton

So we should expect a GBP10m drop in Q4 or something of that order of magnitude in Q4 2014?

Michael Dobson

I would say a little bit less. I think some of the cost savings are in distribution, which came through last summer. I would say 50-50 probably, taking the whole.

On the bond, on your question on bonds, the absolute return, unconstrained, these are relatively newer strategies for us. They are growing pretty well, but they as a proportion of the total it's relatively small. Having said that, we have a pretty diversified business. Our biggest single product area, global bond, is GBP10b. We then have five products at about GBP5b each. So we have long-duration bonds. One of those GBP5b products will be long-duration US bonds with STW. Actually we think if yields back up a bit we could see more flows into that business with people moving to immunizing portfolios and so on.

So I don't think we don't see significant risk in the index-relative, as you refer to, or more the core areas. I think it's more we see growth opportunities in some of these more unconstrained areas.

Massimo, will you pick up the last one?

Massimo Tosato - Executive Vice Chairman and Global Head of Distribution

Bruce, as you might be already aware, last week we published our retail investment trend report. This is a survey we implement every January on a sample of about 15,000 people in more than 20 countries and that gives us an indication of investor sentiment. But that doesn't mean there is a check waiting the next morning. That gives you more or less where the middle and upper-middle-class saver are in their state of mind.

And the message was that a majority of them were more positive and more likely to invest or continue to invest than last year. And 70% were looking at equity, so moving out of still a significant portion of assets in cash and fixed income, and investing into equities. That was quite differentiated across country and, as you would expect, with more equity-friendly countries like the UK and United States were leading those allocations. That might give you a broad sense of where the sentiment is in the market because it's a sentiment that might change very rapidly based on political or economical turnaround situation.

What we've seen today is a strong business coming out of the UK, out of Europe, and a restart in Asia geographically. We continue to see interest in income and while there has been an exceptional wave last year due also to the fact that we created a new space with an Asian and global multi-asset income over the last couple of years that has been copied by most of the competitors, almost all the large ones now, the demand for income is driven by economic and demographic factors. So it's there to be for the long-run because it answers to a specific ageing middle-class need.

We are well suited for any other type of turning strategy for more dynamic balance because we have the full range in controlled growth or risk-managed growth as well as income. But multi-assets in our view will continue to be a long-term dominant part of intermediary demand.

Tactically this year we're seeing a surge in equities as well and that in our view will continue, and actually might even increase after the market has settled down due to the instability that has been happening in February and early March.

Gurjit Kambo – Credit Suisse

Hi. Good morning. Just a couple of questions. Firstly, just in terms of the funds you're seeing in terms of the flows, and if some of these trends which you've highlighted in the report materialize, do you see any risk of you not having the right products or capacity restraints in some of the funds?

Massimo Tosato

In terms of product range I think we are well-prepared, as I mentioned, because in fixed income as well, which continues to be a significant part of demand in more cautious countries like southern Europe, for example, we have moved most of our capabilities into either total return, unconstrained or higher alpha strategies, so we become much more of a specialist that is well-designed for the current environment.

The second part of your question, sorry?

Gurjit Kambo

Just is there any sort of funds which are basically at capacity or nearing capacity?

Massimo Tosato

Yes, well, we manage capacity, as you know, very carefully. It's part of the quality of our offering and we are very careful in continuing managing it on a day-to-day basis. To give you an example, last year we had closed three funds, two Cazenove funds, the

Absolute UK Dynamic and UK Smaller Companies, and the long-short GAIA Egerton equity fund.

We also have at the moment six soft close funds and there again they are mainly in UK, equity UK high alpha sector, some of which will probably become hard close in the coming months. We are also managing the capacity of the UCITS version of the catastrophe bonds because they've been so successful that we think we will have sold out the UCITS way to manage it by the end of April in just six months from launch.

So that's part of the management. However, we do have 650 funds around the world, we manage over 200 strategies, so the limitation in capacity in one doesn't mean that we have a full market limitation.

Michael Dobson

I think a good example was we closed our Asian multi-asset income fund, which was very successful. We probably talked about this six or nine months ago. We closed that and we launched as a follow-up a global multi-asset income fund. So it's an example of success but also successive strategies to pick up that opportunity.

Gurjit Kambo

Just one very quick question, just in terms of the market moves, what proportion of that was linked to FX? If you could just give us some sort of number there roughly.

Richard Keers

In terms of FX broadly, where we started the beginning and end of the year we're broadly the same. There was three currencies that really moved and that was Australian dollar, yen and Indonesia. It's quite difficult to look through the impact on assets under management, but certainly those three countries the most affected. And Australia was probably impacted by about GBP2b in terms of the assets under management and I would guess a similar sort of number in aggregate for the other two currencies I mentioned. But that's very broad. It's quite difficult to actually look through between markets and FX, but that's broadly how FX impacted AUM.

Gurjit Kambo

Thank you.

Michael Dobson

Anything else? Okay. Thank you very much for joining us.

[End]