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Corporate Participants

Michael Dobson  
_Schroders Plc - CEO_

Kevin Parry  
_Schroders Plc – CFO_

Presentation

Operator

Thank you for standing by and welcome to the Q1 Interim Management Statement 2013. At this time all participants are in a listen only mode. There’ll be a presentation, followed by a question and answer session, at which time if you wish to ask a question you’ll need to press star one on your telephone. I would now like to hand the conference over to your speaker today, Michael Dobson, please go ahead sir.

Michael Dobson

Good morning everybody, thank you for joining us. I will run through the highlights and then we’ll be very pleased to take your questions. I’m here with Kevin Parry, Chief Financial Officer. We had a strong start to the year as you would have seen, which I think is the reflection of the very diversified business model that we have here at Schroders. Total profit before tax was up 20% to £115 million, investment performance continues to be good with 72% of funds outperforming benchmark or peer group in the three years to the end of March. We generated £5.6 billion of net new business in the quarter, and funds under management ended the quarter up 12% at 236.5 billion which is the highest level they’ve ever been.

Turning to asset management, net revenue was up 16% to 289.8 million including 2.8 million of performance fees compared to 6 million of performance fees in the first quarter of last year. As you know most of our performance fees arise in the fourth quarter each year. Profit before tax in asset management was up 19% at 105.2 million. We had a very strong quarter in intermediary with net inflows of 3.5 billion compared to just 300 million of net inflows in the first quarter last
year. The majority of these net sales came in our branded mutual funds as opposed to our self advisory business. By asset class intermediary sales were concentrated on multi-asset and equities with small outflows in fixed income.

Regionally, we had a very strong performance in intermediary, particularly, in Asia very strong, good levels of net sales in Continental Europe and the United States, and a smaller level of net inflows were still positive at about 250 million in the UK. In the institutional business we had net inflows of 2.3 billion positive in all asset classes and led by fixed income, but also good inflows in equities and to a lesser extent multi-asset.

Regionally, on the institutional side we had a very strong performance again in Asia, good flows in the US and Latin American, and Continental Europe, and broadly flat in the UK. Taking asset management overall our net revenue margins in the first quarter were 56 basis points compared to 54 basis points in 2012 overall. The two basis point increase principally being the result of strong equity markets pushing the equity component of our total assets higher, but also some impact from mix particularly the flows in the last three quarters of last year amounting to 3 billion in total in intermediary net inflows. And I think we’ll see the benefit of these strong flows in the first quarter in intermediary come through potentially later in the year in terms of the margins.

The acquisition of the US fixed income business STW closed on 2\textsuperscript{nd} April and we will include STWs 7.3 billion of assets under management in our second quarter numbers. The acquisition materially strengthens our US fixed income capability and it adds 100 new institutional client relationships in the United States.

Turning to the private bank, profit before tax was 4.9 million in the quarter showing the expected recovery from the second half run rate in private banking last year. We continue to have small net outflows in private banking 200 million in the first three months of 2013, but assets under management in private banking increased a billion from the year-end number at the end of 2012 of just over 16 billion to 17.3 billion at the end of March.

On the 25\textsuperscript{th} March as you know we announced the offer to acquire Casenove Capital Holdings, a leading independent wealth manager and a strong investment funds business. Assets under management at Casenove Capital at the end of March were 19.1 billion. The response from Casenove clients and I would say Schroders clients has been very positive to this announcement, and subject to shareholder and regulatory approval we expect the transaction to complete at the
beginning of July and Casenove's assets under management would then be included in our third quarter results this year.

Looking at the group segment, profit before tax was 4.9 million up from 500,000 in the first quarter of last year, basically reflecting better returns available on our investment capital portfolio. Investment capital at the end of March was about £950 million and from that, of course, we will have the payment for Casenove at £424 million in due course. Shareholders equity ended the quarter at 2.2 billion slightly up on the number at the end of 2012.

Finally, looking forward, we said in the statement that after a very strong start to the year markets have, obviously, taken a pause for breath and I think retail investors have too. We, therefore, don't expect the level of demand we've seen particularly earlier on in the first quarter to continue at quite that pace, but intermediary and institutional flows continue to be positive, and long term we see further very good opportunities for growth in our institutional and intermediary business around the world. We're also very positive about the potential in private banking and wealth management through the expected combination with Casenove Capital.

So I'll leave it there, and Kevin and I are very happy to take your questions.
Questions and Answers

Operator

Thank you. We’ll now begin the question and answer session. If you wish to ask a question please press star one on your telephone and wait for your name to be announced. If you wish to cancel that request please press the hash key. Your first question comes from the line of Peter Lenardos of RBC, please go ahead.

Peter Lenardos - RBC

Hi, good morning, just a quick question on the revenue margin that you indicated at 56 basis points in asset management in Q1, you said that the mix of that and the equity markets should continue to have a positive impact on that. Does that mean that we should expect the revenue margin in asset management to slightly increase from here? Thanks.

Michael Dobson

I think you might see a slight pickup, Peter, of maybe another basis point or so. I mean it depends I guess it depends on two things, one is equities (unclear) equity markets and the other is related to that clearly flows in equities, but you would expect I suppose after the very strong showing in intermediary in the first quarter to see some, a further up tick through this year of maybe one basis point, something like that.

Peter Lenardos - RBC

And then what impact would the STW acquisition have on that, I mean I know that the fixed income institution on the US that would be a lower revenue margin product, so what impact would that have on the overall margin for the year then?

Michael Dobson
Well, STW, that revenue margin is 21 basis points so you’re right in saying it’s, I mean as you would expect in that asset class in the United States. So it’s 21 basis points on 7.3 billion, I would say it’s a fairly marginal affect.

**Peter Lenardos – RBC**

Okay, thank you very much.

**Operator**

Your next question comes from the line of Arnaud Giblat of UBS, please go ahead.

**Arnaud Giblat – UBS**

Hi, it’s Arnaud Giblat from UBS, just a couple of questions. First on costs, the cost to income ratio has come down quite a lot 66% versus 70% in fiscal year 12. I’m wondering where you’re at in terms of investment in the new business and where you could see that cost to income ratio go towards.

And the second question is how should we be thinking about profitability from the group, does guidance change there given the strong performance in Q1? Thank you.

**Kevin Parry**

Arnaud, it’s Kevin, I think in terms of costs I wouldn’t change the guidance that I gave at the end of the full year results where I said I anticipated that costs would increase by around 20 million ex conversation by about £20 million for the year sort of around 265 million because of the investment in IT and some increased accommodation and marketing costs. In terms of what that means to the cost income ratio, obviously, it is as much dependent on the income as the cost. So I think the drive of that ratio will be the income, there’s been a strong start to the year and we aren’t yet seeing the impact of the flows from the first quarter, which as Mike said are in the high
margin branded intermediary channel to a large extent. So I think you would assume that the cost income ratio will improve a bit from where it is in the first quarter.

I think the impact as far as the compt. to revenue ratio goes I think I would assume the same guidance which was around 48%, but we did say at the time of Cas that the impact of that might push it up to more like 49% when Cas is taken into account.

And in terms of the revenue you’ve got the performance fees that will be fourth quarter biased as usual. We’re not in a position to give any guidance on that beyond that they’d be the normal type of levels you know, say 35 million or so, and if you play those in that should allow you to model the year for the forward impact of Casenove.

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**Arnaud Giblat – UBS**

And the group?

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**Kevin Parry**

I think in terms of group segments the, I said that you’d have a 5 million profit for the year as a whole. I wouldn’t change that guidance, most of that’s come through in the first quarter. So I think if you plugged in zero for the remainder of the year again, ex Cas, that’s the right thing to do. There will be an impact from the finance year of Cas to take into account when you bring in their revenue and their profits.

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**Arnaud Giblat - UBS**

Thank you very much.

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**Operator**

Your next question comes from the line of Bruce Hamilton of Morgan Stanley, please go ahead.
Bruce Hamilton – Morgan Stanley

Thanks, morning guys. Just on the sort of outlook stuff just to make sure I understand, did you say that basically intermediary and institutional are both sort of positive in Q2 and that’s despite some outflows being on the UK alpha side.

And I guess I just wanted to check on what level of, what degree of confidence you had around, you know, retaining assets on the UK side on the back of departures, but obviously, the hirings you’ve made as well?

Michael Dobson

Yes, Bruce, so flows in April still positive in, overall in both asset classes but, you know, obviously, as we said much less than what we saw earlier in the year. As far as the UKs concerned I would say really three things. First of all we have a strong continuing Schroders team with some excellent talent and strength and depth. Secondly, we have a very strong team at Casenove’s with I think four triple A rated city-wire managers. You probably saw this morning the UK Investment Trust Board announced that they are keeping the mandate with Schroders and that Julie Dean from Casenove’s will be the manager of that Trust.

And then, thirdly, we’ve made two I think important hires in the market from Jupiter and Neptune again both triple A rated managers. So if I look at the line up overall I think it’s already strong with the Schroders team. It’s going to be strengthened materially with the Casenove team and I think these two hires we’ve made are very strong additions as well. So I’m very positive about the long outlook for our UK equities business where I think there’s a real growth opportunity. In the short term, you know, it wouldn’t be surprising to see some more outflows. I think we’ve named, Philip Matthews of Jupiter’s the manager, that’s been very well received but, obviously, there’s a hiatus in terms of the changeover and probably we will see some more outflows, but I think long term we’re very positive about these developments.

Bruce Hamilton – Morgan Stanley
And just one other question on the, given your comments on Casenove, the consultants sort of view on the Casenove deal stand quite positive, what’s your expectation on asset retention or sort of asset loss rather as we look forward on the Casenove business?

Michael Dobson

Well, as we said at the time of the deal announcement, I mean someone I think asked me how much are you expecting to lose and I said nothing and I didn't want to, we, obviously, factored in various scenarios, but we see this as an enhancing deal for Casenove clients and for Schroders clients. Casenove’s assets under management I think has gone from just over 17 billion at the end of December to 19.1 billion at the end of March which is markets and flows, and as I said earlier on the response from clients, from consultants, from intermediaries, from the market generally, I think has been incredibly positive and people have seen it as an absolutely terrific fit and a sort of natural move. So, of course, in any kind of transaction like that you will lose some business. We will also win business. How it pans out exactly is impossible to predict, but all I would say to you is that the reaction so far has been everything we could possibly have wanted.

Bruce Hamilton – Morgan Stanley

Thank you.

Operator

Your next question comes from the line of Jonathan Richards at Merrill Lynch, please go ahead.

Jonathan Richards – Merrill Lynch

Good morning everyone. I was hoping you could just give us a bit more colour on what you saw for the different distribution channels. You had alluded to Asia being quite strong and that money tends to be volatile. Can you let us know at all I guess what you’ve seen from the Asian side and in Q2?
And then I guess subsequently what was your experience in the UK over the three months since RDR has been implemented you said that you were positive, but any sort of feedback you could have gotten from your distribution network would be helpful. Thank you.

Michael Dobson

We’ve seen very little impact from RDR if I take your second question first. I mean, obviously, it has implications in our intermediary business and in our UK private banking business, but I would say so far we’re changing fee structures in private banking to deal with this. We’ve launched some RDR responsive funds in a UK intermediary range, but I would say so far the impact of RDR has been negligible.

Turning to flows in intermediary we’ve had very strong flows in Asia in the first quarter of 1.7 billion. We had 900 million of net and these are net numbers in Continental Europe. We’ve had 700 million in the Americas which was predominantly the United States, and we had about 250 million net inflows in the UK. So as I said every region has been strongly positive. A lot of these flows in Asia have come in our multi-asset range which has been very successful. We launched an Asian asset income fund last year. We’ve actually now had to close that unfortunately for capacity reasons, and as you know when you close a fund you begin to see rather paradoxically outflows. So we’re now seeing outflows from that fund and it’s performed terrifically well. It’s been in massive demand, but we’ve just had to close for capacity reasons and then I think some, quite a number of distributors if you can’t, if they can’t get new capacity instead of sticking with it they actually start withdrawing money so that’s what we’re seeing, but we have launched a global multi-asset income fund particularly into the Asian market. So we have other products coming on-stream which will pick up the slack there.

So it’s hard to say. I mean in the, in April we’ve had a slowdown but all regions certainly Asia, Asia’s still flat, still slightly positive, Europe’s been strong so it’s a slowdown. I can’t really predict what’s going to happen there. As I say we’re going to see some further outflows in the UK before I think a turnaround in that which I think I’m very confident of happening later in the year. The rest road depends on where markets go, and we think a pause for breath as I said earlier is highly likely and retail investors who’ve put a lot of money into equities will probably, either may take some profits or just sit on their hands, but I think long term they’re probably still underweight and there’s more money to come in.
Jonathan Richards – Merrill Lynch

Thank you.

Operator

Once again ladies and gentlemen to ask a question please press star one on your telephone and wait for your name to be announced. If you wish to cancel that request please press the hash key. Your next question comes from the line of Philip Middleton of Merrill Lynch, please go ahead.

Philip Middleton – Merrill Lynch

Thank you. I just wondered if you could say over the medium term you’re, obviously, trying to broaden out the range of products you sell into the US, do you think there’re any other gaps you have there in the US post the acquisition and what are your plans for dealing with those?

Michael Dobson

Philip, we have two, fundamentally we have two businesses in the United States, the biggest one is selling international products into the United States, manufactured, products manufactured in London, in Asia, and we have a growing business there with I think a lot of potential and this would be international equities, non US equities, global equities, emerging market equities, quant equities, a range of fixed income, multi-asset, emerging market debt and commodities products and it’s a big business for us. It is by far the biggest business we have dealing with American clients. It’s marketed, sold from New York. It’s manufactured in London or Asia and there are more products we can bring on-stream to address that opportunity which I think is significant.

And then the second business is the domestic US asset classes and here we have a good US small cap equities business which has, it’s not yet a capacity but it has potential capacity constraints at some stage, obviously, being a small cap business. We have a small, large cap US equity business and we have a fixed income business which has been doubled with the
acquisition of STW. We certainly want to grow that US fixed income business and I think we can, and these are assets managed from New York. So we want to grow those businesses, potentially there are other asset classes we can add, domestic US asset classes to our existing line up which is, obviously, at the moment not that broad particularly on the equities side, but we don’t have any current plans.

I mean large cap US equities is a very competitive space over competitive, low margins and not growing. So that’s not an area where we’re likely to put, to seek to do more. We have a good business there right now, but I think we’re unlikely to seek to do anything separate in that space, but there may be other opportunities. There’s nothing current, there’s nothing currently under consideration. What we’re really focused on is integrating STW then driving forward our US fixed income business on the back of that, one. Secondly, leveraging their 100 institutional client relationships which we don’t have, these are new clients to Schroders and potentially cross selling to those 100 mid-sized institutionalised clients. And thirdly, continuing to push the international products manufactured in London and Asia into the US markets.

Philip Middleton – Merrill Lynch

Thanks, that’s very clear.

Operator

Thank you. There appears to be no further questions at this time, please continue.

Michael Dobson

Thank you very much for joining us, and if you’ve got any questions please call Emma Holden.

Operator

Ladies and gentlemen that does conclude our conference for today. Thank you for participating. You may all disconnect.
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