Schroders PLC
2015 Half-year Results

Analyst Presentation

Michael Dobson

Chief Executive

You will have seen our results for the first half of 2015 that we announced this morning. Net revenue up 11% to £806.2m, profit before tax and exceptional items up 17% to £305.7m, we generated £8.8bn of net inflows in the six months to the end of June, taking assets under management to £309.9bn at the end of the period and we are increasing the interim dividend by 21% to 29 pence per share.

The story behind these results is the strength of our very diversified business model by client type, by asset class and by region. So we had positive net inflows across Institutional, Intermediary Retail and High-net-worth.

We generated £4.8bn of net inflows in our Fixed Income business following £4.2bn in the second half of last year. We've been saying here for quite a while that we have materially strengthened our Fixed Income capability with new talent, with new investment strategies and strong performance, and that we had great confidence that this could come through in business growth. And we're now seeing that; we have significant momentum in our fixed income business.

We generated £3.8bn of net inflows in Multi-asset, continuing the growth of this business that we've seen for the last several years. And we generated £1.4bn of net inflows in our core equity business in the six months. We also, I think, saw very clearly the strength of our international franchise behind these numbers, £6.6bn of net new business across Asia Pacific, following £4.4bn of net inflows in Asia Pacific in the second half of last year, and we generated £3.7bn of net inflows in Continental Europe.

So, as you know, we've been following a strategy of diversifying sources of growth for many years and that will continue to be the principal focus of our strategy going forward here at Schroders.

So, looking in a little more detail behind the numbers, first of all with asset management, net revenue up 12% to £694.3m, profit before tax and exceptional items up 15% to £271m. 77% of our assets under management are outperforming benchmark or peer group in the three years to the end of June, which is a competitive number and this is pretty much across asset classes. We generated £8.4bn of net new business in asset management. Significant growth in Asia, as I mentioned before. £3.9bn of net inflows in Asia in institutional and £2.7bn of net inflows in Asia in our Intermediary Retail business, and strong inflows in European intermediary, with £3.3bn net.

We're getting to scale in Fixed Income, with £57.2bn of assets under management in Fixed Income at the end of June, and in Multi-asset, with £77bn of assets under management in Multi-asset at the end of the period. I mentioned earlier £1.4bn of net inflows in our core equity business. That was offset by £800m of outflows in Quantitative Equities.

Quant Equities has been a big growth area for us now for several years and this reflects principally a rebalancing of some very big clients who gave us some very big mandates in quant equities, which we knew they would wish to diversify over time and that's what we've been seeing in the past six months, but we continue to believe our Quant Equities business is a big growth opportunity for the firm.

In institutional we won £16.7bn of new mandates in the last six months. 15 asset classes across Institutional generated £500m or more in new mandates, so it's a diversified profile underlying this high level of new business wins. Net inflows were £3.6bn, a particularly strong performance in Japan with £2.7bn of net inflows in Institutional, and in Greater China, China and Hong Kong, Taiwan, with £1.2bn of net inflows.

In terms of asset classes, Global Fixed Income, US Fixed Income, together about £2.5bn of net inflows; a range of Multi-asset strategies across risk mitigation, income, risk controlled growth and real return; and a strong performance in Japanese equities with £1.2bn of net Institutional inflows.

Offsetting that we have some small outflows in Commodities, which is a continuation of the trend we've seen in recent years, with the very weak performance in commodity markets causing Institutional clients, principally from the US, to withdraw assets from that asset class. That I think will continue going forward for a while.

And we saw some outflows in Global Equities, Quant Equities, which I referred to earlier, largely rebalancing, and some client losses in our core Global and EAFE Equity franchise, particularly out of the United States, which is a hangover of weaker performance some years ago. That has been turned round, we've strengthened the team there and we are convinced that this is a very interesting long-term growth opportunity for the firm, but in the short run we've seen some net outflows. I think that's coming to an end and I think we are going to increasingly see that turn around into a positive picture, which I think has very significant long-term growth potential.

You can see that the US was slightly negative, therefore, in terms of flows, driven by Institutional outflows in Commodities and Global and International Equities. We remain very positive about the outlook for our US business; we're seeing a turnaround in Global Equities that I just referred to. The integration of STW Fixed Income is complete, the performance is outstanding and we think there are going to be a lot of interesting Fixed Income opportunities coming our way. And we've invested quite heavily in strengthening our distribution capability in the US.

So we've said before we expect to see the US over the medium-term, five years or so, become a growing proportion of our total business. We haven't in any way backed off that, notwithstanding in the short run some small net outflows in the US market.

Turning to our Intermediary Retail business, we had £28.6bn of gross sales, the highest we've ever had in a six month period. 19 asset classes generated in excess of £400m of gross sales, so again a very diversified picture behind this overall big number of gross sales, which led to net inflows of a strong £4.8bn in the six month period.

Significant inflows in Asia of £2.7bn and positive in every market in which we operate in Asia, which is about 10, and in Europe with £3.3bn, positive everywhere apart from some small outflows in the Nordics, and a very strong performance in Italy, in particular, but also Spain and Switzerland.

We've had outflows in the UK, largely in UK Large Cap Equities. To some extent the industry has seen redemptions in that asset class and we've also suffered from that and, in addition, we've had some recent performance challenges, which have increased that. We don't think that's a serious issue, indeed performance has picked up recently, and we have great confidence in the existing team, but in the short run it's led to some outflows in UK Retail.

Looking across asset classes, a diversified picture across European bonds, across a range of equity asset classes. Interestingly, just as we had outflows in Global and Institutional, we've had quite significant net inflows in Global and Retail. So, Global, Japanese and European equities have been big generators of new business wins for us and also our Asian multi-asset product.

Net revenue in Wealth Management was up 5%. We suffered somewhat from negative rates in Switzerland, which we have not passed on to our Swiss clients, so we absorbed that in this period. Profit before tax and exceptional items up 14% to £30m as we realize the benefits of the Cazenove Capital integration and the synergies we've got from that business. Cost/income ratio just under 72%. Our target is 70%. We're running below 70% in our UK business, offset by a higher cost income/ratio in some of our smaller, far less mature businesses internationally.

Net inflows £400m in the period, which is exactly in line, indeed somewhere around the higher end of our expectations. And that marks £500m of net new business in our UK and Channel Islands business, which I think is testimony to the logic of putting Cazenove Capital and Schroders together and the success of that integration and the strength of our client offering. So £500m of net new business in the UK and Channel Islands, offset by about £100m of outflows principally from Switzerland as we reposition that business.

We have a differentiated client proposition for the UK market. Investment led, strong investment performance, access to a range of Schroders investment capabilities, supported by wealth planning and banking services. A diversified client base as you can see from the pie chart, running the full range from £1m up to in excess of £250m, particularly in the charity and endowment market, where we are the market leader. We are advising more than 100 families with in excess of £25m, offering therefore in effect a family-office-type service to that very important market place.

We're very pleased with the positioning of this business and we think that we can develop this into a leading proposition for the UK market.

Internationally, we have further work to do to reposition our business, particularly in Switzerland, with the changes in the Swiss private banking market. We are actively engaged in that and reshaping our business, serving new types of clients with new products, and that will take time to come through. We have small, very new businesses in Hong Kong and Singapore, which are --

Hong Kong is developing quite well, Singapore needs a little more work, but we are long-term quite positive about the prospect there. And we have a small but very good business in Italy.

We now have a single integrated investment process covering these businesses and we're streamlining the international businesses and we expect them to over time, but it will take a little time, make a larger contribution to our results in wealth management overall.

I'm now going to handover to Richard Keers to take you through the numbers in more detail.

Richard Keers

CFO

Good morning. As you've already heard from Mike, we have again delivered good growth and strong results for the half year. Our diversified business model has enabled us to generate organic growth despite the headwinds we've experienced from all the macroeconomic uncertainties and the strengthening of sterling. You can see that organic growth in our net revenues, which are up 11% at £806m. That's a strong performance especially in this uncertain market environment.

With good control over costs, we've increased profit by 17% before exceptional items to £305.7m. After exceptional items of £15.4m, our profit before tax is £290.3m. That's a 24% increase over the first half of 2014. FX has had a small effect on our profits across the half year, but the strength of sterling in the second quarter, particularly in June, has reduced assets under management by over £10bn.

You can see the impact of the increase in profit in our EPS calculations. Diluted EPS is up 16% at 86.1p. Basic EPS is also up at 88.5p. So, as Mike has said, because of these strong results and our continued confidence in the business, the Board has declared an interim dividend of 29p. That represents a 21% increase on the 2014 interim dividend and is right in line with our higher target pay-out ratio.

I now go through a bit more of the detail. So, as I have just said, net revenues are up 11% to £806m. That's a £78m increase. Our strong revenue performance is very much driven by the good levels of organic growth that we've seen over the last 12 months combined with investment growth for clients.

Net new business contributed £40m, with a further £44m coming from the growth in our assets under management. Performance fees were only slightly down period on period and, as you know, it's very difficult for us to predict the level of performance fees, but we are still budgeting for £40m for the full-year. We've also seen a small decrease in other revenues.

On the right you can see a breakdown on net revenues by segment. Asset management is up 12%, with good growth in both Institutional and Intermediary, and Wealth Management is up 5%, which is ahead of our 2 to 3% target. Group generated net revenues of £6m, which largely represents the return on our investment capital.

I now give you a bit more detail on the Asset Management and Wealth Management segments. So, starting with Asset Management, Institutional revenues are up £37m to £310m. As Mike has already explained, we generated good levels of new business this year, particularly in Asia, along with good flows towards the end of last year and those flows have contributed to that revenue growth.

As we expected, revenue margins, excluding performance fees, have declined from 37 basis points last year to 34 basis points for the first half of this year. This decline in margins reflects the success we've had with strong sales in fixed income and LDI, and the impact of the Friends Life mandate that funded late last year.

As Mike has highlighted, our continued focus on building scale in both Fixed Income and Multi-asset has the effect of lowering the Group's average net revenue margin. But, to be absolutely clear, we focus on delivering shareholder value through increasing net revenue and profit growth, both of which we have achieved. It is always difficult to predict future net revenue margins. However, at this point I would anticipate margins being similar for the full-year.

Turning to Intermediary, here our net revenues are up by £37m to £384m, we have again generated strong inflows, particularly in Asia and Europe. Margins, excluding performance fees, were 75 basis points. That compares to 76 basis points for the whole of 2014 and that's exactly where we expect it to be. The slight reduction reflects a change in mix of business.

Overall Wealth Management generated revenue of £106m, up from £101m in the first half of 2014. Net revenue margins were 66 basis points, down from 67 basis points, sorry down from 67 basis points in 2014. That decrease is mainly driven by changes in the mix of business. We are budgeting for the same 66 basis points for the rest of the year.

Now I'd like to take you through our operating expenses, starting with compensation costs. We are accruing compensation costs at 45% of net revenue. That's unchanged from the guidance we gave you earlier in the year. Reflecting the strong growth in net revenues that I've just taken you through, compensation costs are up 7% to £366m. We keep compensation under review and take into account market and regulatory developments and, as usual, we will only determine the final ratio at the end of the year.

Non-compensation costs were at £155m, compared to £137m in the first half of 2014. That increase reflects the strategic investment in our IT systems in response to increasing regulatory demands and to maintain the efficient operation of the business as we continue to grow. We still expect non-compensation costs to be around £315m for the year as a whole.

In total this gives a cost to net revenue ratio of 65%, down from 66% in H1 2014. It remains in line with our long-term target and KPI of between 65% and 70%.

Finally, we have 14.3m of exceptional items. Here we're talking about acquisition-related costs and they're right in line with previous guidance.

Turning to profits, these were up 17% at £305.7m. You can see on the slide the increase in net revenues of £78m that I've already explained. That £78m is partially offset by the increase of £25m in compensation costs, that I have also taken you through. We've seen a £9m increase from net finance income and income from associates, which comes through in both Asset Management and in the Group segments. That brings us to profit before tax and exceptional items of £305.7m. We have a tax rate of 21% for the period. That results in a tax charge of £64m. This is slightly higher than the rate we experienced in 2014. That gives a profit after tax, but before exceptional items, of £241.6m.

Turning to capital, our Group capital has increased by £72m. Profit, after tax and exceptional items, was £229m, which you can see here. In May we paid the final dividend for 2014. That's £147m returned to shareholders. Next we have foreign exchange movements. The strength of sterling has reduced net assets of overseas operations by £12m. Together with other movements, that results in total capital on June 30 of £2.6bn.

On the screen you can see the usual analysis of our Group capital. Regulatory capital has increased to £695m. That increase reflects the growth in our business. Other operating capital has fallen to £116m as we have increased investment capital to generate returns and we paid last year's final dividend. Investment capital is now £957m with total returns of £21m. Seed capital is currently £154m and the other items of £688m are largely unchanged since the year-end.

We see our strong capital position as a real competitive advantage and, as we've said many times before, we are not contemplating a one-off return of capital. We believe that capital is best returned through increasing the normal dividend, which is consistent with the 21% increase in the interim dividend we announced today.

We have again delivered record half-year results, both before and after exceptional items. Operational efficiency remains a key focus, but our cost control continues to be good and we have seen further improvement in our profitability, all of which is good news.

I now hand you back to Mike. Thank you.

Michael Dobson

Chief Executive

Thank you, Richard. So, looking forward, we have a solid pipeline of new business in Institutional that we have won but which has not yet been funded. It's average or possibly slightly higher than average. So we go into the second half with I think a good set of opportunities in our Institutional business.

In July so far, three weeks, we've had actually quite a good experience in our Retail Intermediary business, but we're saying that given continued uncertainties in the eurozone, the fallout in China, the prospect of rate rises in the US and the UK, that in our view market volatility is likely to remain high, and that that will have an impact on retail investor demand, and particularly obviously in the summer which is quieter anyway. So although the first three weeks in July have been good for us, I think that is probably going to tail off, although we haven't seen it yet.

Longer-term our focus is on building scale overall for the firm and particularly in some of the areas I highlighted, Fixed Income and Multi-asset, generating greater efficiencies as a result of that to offset what we believe will be a continued slow decline in fee margins, not Schroders-specific, but it's something the industry faces in our view across Retail and across Institutional.

As Richard said, our focus is not on net revenue margins, which we don't basically control. We do not generally compete for new business on the basis of fees and we often lose out on mandates because we're not prepared to cut fees as low as some of our competitors. But our focus is not principally on the net revenue margin; our focus is on the cost/income ratio and on profitability and the revenue margin will be what it will be, but our assumption is it will continue to come down slowly. And we think we can continue to run this business at our target cost/income ratio of 65%, irrespective of that.

We continue to invest in organic growth. We have a continuing program here of heavy investment, in infrastructure particularly information technology, in new people and our existing talent pool, in developing new products, in seeding new products, in building new distribution relationships. And that hasn't changed and it won't change. So we continue to plough a lot back year by year into laying the groundwork for continued organic growth in the future.

That is what drives us as a firm. Acquisitions for us are at the margin. We've made a few, we're very pleased with the two recent ones, Cazenove Capital and STW, but that hasn't changed our view that the best way of building shareholder value in the long-term is organic growth.

And we think that our diversified business model, which came through strongly in these six month results, will continue to deliver for the firm. It's core to our strategy to develop diversified sources of growth and we'll continue to do that and we think that gives us an edge in both strong markets when investor demand is there and in tougher market conditions when demand falls away.

Thank you for your attention and we're very happy to take any questions you have. Could you please just give us your name and your firm, before you ask your question? And there'll be a microphone coming round.

Q&A Session

Bruce Hamilton - Morgan Stanley

Good morning. It's Bruce Hamilton from Morgan Stanley. Can I just ask firstly on, and you partially answered this I think in your closing remarks, but in terms of client appetite or nervousness around Fixed Income as we move towards a US rate rise, are you seeing any signs of that yet? And how are you seeking to protect and manage potential liquidity challenges within the credit markets?

And then secondly, on the Multi-asset side, growth is still good although perhaps not quite as strong as it's been. How is the competitive dynamic changing within that sector? How is your relative performance looking? And are there any changes in terms of the type of products being demanded? Is it still very income driven or is it a bit broader? It sounds a bit broader in Institutional? Thanks

Michael Dobson

In Fixed Income we've seen a fall away in retail investor interest in recent months. Concerns about the eurozone, concerns about the rates going up in the US and the UK. So our expectation is that retail investor demand will remain very quiet, very subdued until we see the first few rate rises. On the institutional side we've continued to see interest, including in terms of buy-and-maintain strategies, so big institutional investors, many from Asia, giving us mandates to build bond portfolios with low turnover for the long-term.

Our view is that we're going to see rate rises in the US in probably the fourth quarter of this year, beginning of the fourth quarter. We don't see the long end of the bond market backing up that much because it's already quite well flagged and there will be demand coming back. And if rates go up a bit then we think institutions, pension funds, insurance companies, sovereign wealth funds will start looking at that market more actively.

So, paradoxically, our expectation is that when rates back up a bit, we don't see this as a prolonged rate rise, nor do we see it as a very extensive rate rise. We're going to remain in a low interest rate environment, where cash will remain a very expensive asset to hold. And, therefore, we think that the opportunities in Fixed Income will continue to be quite significant, even though in the short-term, particularly on the retail side, we're going to go through a hiatus period.

On liquidity and funds, we have been looking at this very closely for years, several years. We monitor our funds closely in terms of investor concentration, in terms of liquidity. We're holding slightly higher levels of liquidity in our funds than we would normally for that reason. And we have a disciplined process of analysing risk, both investor concentration and asset allocation, and we remain very vigilant on that.

It is of course a subject which is receiving immense coverage from regulators, from the press, from the industry and especially the clients. It doesn't mean to say there won't be problems, but they're less likely when you have intense coverage, which there is right now. So we're not complacent at all. We monitor it very carefully. We're not taking any special measures other than paying very close attention and carrying slightly higher cash levels than we would normally.

On Multi-asset, short-term we've had some weaker performance relative to some of our major competitors, partly because we are running different strategies, with lower equity content in some cases. That should benefit us now. So after a strong performance in 2014 we've given some of that back relative this year.

The flows, as I said, are quite widespread, income will return, risk-controlled growth, volatility-capped strategies, LDI. So it's quite a broad spread. It has been a slowdown. We obviously had a stellar year last year, £17bn of net new business in Multi-asset. This year £3.8bn so far. We think we're going to win net new business in the second half, but we think it's going to be at a lower, slightly lower rate. We remain very positive long-term about the asset class, both in Institutional and in Intermediary.

Chris Turner - Goldman Sachs

Good morning. It's Chris Turner from Goldman Sachs. Two questions, if I may. Firstly, in terms of the revenue margin declines, some of these lower-margin products you spoke about, LDI, some of the Fixed Income products, the Friends Life mandate, although they're lower revenue margin, can you give us some more clue on that? I guess the EBIT level or the cost/income level, are they comparable to other products?

And then secondly, in terms of your capital, there was a moderate increase in your regulatory capital requirement from an operational basis, but given the growing regulatory drum beat across the whole industry in a variety of areas, would you expect that to grow more significantly in the future? Thank you.

Michael Dobson

Our capital?

Chris Turner

Correct, yes, your regulatory capital requirement.

Michael Dobson

Okay. If you take the Friends Life mandate, which is on a very low fee, obviously our profitability is much lower than normal. It's a very big mandate; you would expect that.

We look at our business in a blended way, if you see what I mean, so we like a diversified business model across Institutional, with fees of in the high 30s basis points, across Intermediary and the fees in the 70 basis points, across Wealth Management with fees around 65 basis points. We like the mix. We have different longevity profiles in those businesses. And then within asset classes we have different longevity profiles. So if it's a buy-and-maintain bond portfolio, it's going to have greater longevity on lower fees. If you take our Fixed Income business as a whole, the fees are pretty good. They're 35, 36 basis points, which is pretty competitive, which is a high number.

So we look at the overall business mix. Incremental business coming in to this firm is profitable. Once you have a fixed cost base basically anything incremental is going to deliver a profit, but I'm not saying that some of this very low fee business has lower costs associated with it, therefore the profit margin's the same. That's not correct. But we're not writing any business that we don't want in this firm and that we don't think is net positive, contributive to the firm overall.

Richard, do you want to pick up on the regulatory capital point?

Richard Keers

I'm not anticipating any major movements in the short-term. Clearly there's uncertainty out there over the longer term, but we remain very well-positioned in terms of any future increase in regulatory capital requirement, so it's not something we lose too much sleep over.

Chris Turner

Thank you.

Daniel Garrod - Barclays

Good morning. Daniel Garrod, Barclays. A question on US Institutional and then a question on the UK. US institutional, I think you spoke previously about your optimism of the flow turnaround from that area of the business. It looks like outflows are slowing. Any thoughts on the point at which you might get positive inflows on a net basis from that business and what are the key milestones there? I think you spoke previously of the drag out of the commodities area just being reduced. Are there other factors at play there you could provide some colour on?

And second, it sounds like the UK is actually geographically the weakest area from the impression I take away. Some of that is legacy performance issues. It sounds like performance is improving there. Are there other factors? Is the industry demand recovering a little bit post the election? What other factors could you point to that could lead to improvement there on the UK?

Michael Dobson

So on the US - Massimo, perhaps you could pick up the UK and I'll just talk about the US.

On the US we still have a decent size Commodity business, unlike many who have lost most of their business or exited it, and therefore paradoxically we're still suffering from that and seeing some outflows. Not significant; it was £300m or so in the first six months, but I think that's going to continue at that sort of a rate for a while.

In terms of Global and International equities, I think the outflows are behind us. We have a very strong team. We've added importantly to that team, some very strong new talent about 18 months ago. We've improved our investment process and performance has picked up and turned around quite significantly. So what we're seeing is a lag effect of people looking back at performance two or three years ago, and possibly looking at some changes, even though they're changes for the positive, and taking a decision to exit. Some of which surprised us and disappointed us because things have picked up and I believe we have a very strong offering.

And, as I said to you, we are paradoxically winning Global Equity business in Retail, as we have lost it in Institutional, particularly in United States.

I think that is substantially at an end. It's always hard to predict, but where we are completely convinced is that medium term we have a very strong Global and International Equity capability and that the US institutional market is a very big growth opportunity for us in that asset class. And if one takes, say, a three-year view, I think we'll be here telling you that we're seeing significant inflows in that asset class from the US, but also elsewhere from Asia and from Europe.

And also I would say Fixed Income, I mentioned STW, but not only STW, other Fixed Income strategies from our existing Schroders Fixed Income business in the US, there we're seeing an increasing level of interest. We had some outflows with STW soon after the acquisition; they've finished. We've got very strong top-decile performance in those strategies and we are very positive that that is a big opportunity also for us in the long term.

So one doesn't want to be a hostage to fortune particularly, but I would say we would expect this to turn around quite soon. We can't control what happens in the short-term and we don't particularly focus on that, but taking a three-to-five-year view I think we have a great opportunity in the United States.

Massimo, UK?

Massimo Tosato - Executive Vice-Chairman and Global Head of Distribution

Within UK we have the two main channels and the Institutional one has been historically dominated in the market by the pension system. And in this transformation from DB to DC, for active managers it's more difficult to maintain the same market share and the same margins that they have enjoyed in the DB sector.

Having said that, however, we have been developing a strong and competitive Multi-asset capability through which we are able to maintain volume if not margin in mature and closed DB schemes. And we are starting to penetrate Defined Contribution, continuing to be component provider to those that are still looking for specialty Equity and Fixed Income capabilities. So in the UK there is a structural change and I wouldn't be surprised to see similar volume at lower margin going forward.

In the Intermediary, I think we are very well positioned, notwithstanding some vertical integration that has been happening in the UK market between insurance companies, platform, asset manager and distribution channel. And to serve this way we're naturally changing and improving our operational distribution model. Up to now, the last year and a half, two years of weaknesses have been mainly and specifically product-led, but the performance of those products has now started to be turning around and we are very confident that we are going to regain our position and market share in both gross and net, and actually gross has kept up very significantly during this period.

Tom Mills - Credit Suisse

Good morning. Thanks. It's Tom Mills from Credit Suisse. I think in the past you've spoken about seeing some pressures from fund consultants on the Institutional side. I'm just wondering, it looks like there's some consolidation in that side of the industry, do you think these guys are going to get more powerful and throw their weight around more than they're doing so at the moment and you could see incremental pressure coming through there than what we've seen more recently?

Michael Dobson

Massimo?

Massimo Tosato

Well, unquestionably, the consolidation improves their pricing power and their influence. There has been also this trend to recover margin from on the consultant side and going into fiduciary management or implemented asset allocation model. We actually could have some question mark about the compliance of having an advisor that advise itself and suggests itself as asset allocator. So my question is, is that a viable long-term model? At the moment it's open and uncertain regulatory environment.

Having said that, we have very strong relationships with all of them and we continue to work positively and actually we have been advised on some of our package Multi-asset product and we continue to do so. We have seen some pricing pressure, yes, especially in the DGF sector.

David Boyd - Santander

David [Boyd] from Santander. I would just like to know what is your strategy, if you can reveal, apart from Nutmeg, on digital, going direct on digital to your customers?

Michael Dobson

Massimo, do you want to pick that up as well?

Massimo Tosato

We are investing in people and technology across all the business. Peter is very heavily involved in digital investing to improve our processes in the Fund Management side. We are investing in the operational platforms and obviously we are investing as well on the Distribution side, starting from our website and mobile application. Beyond Nutmeg specifically, we have not, however, invested in capital anything more than what has been already declared.

Marcus Barnard - KBW

Yes, Marcus Barnard from KBW. On your intermediary business, can you talk a bit about the difference between your gross sales of £29bn and your net inflows of short £5bn? I'm interested in what the other, the £23bn of redemptions are, and how that's split out. Thanks.

Michael Dobson

First of all, I would say that the longevity of this business is marginally increasing, but there's nothing significant behind that delta; it's pretty standard. In a lot of areas where we've had significant gross inflows, we've had quite significant outflows. So in European bonds we've had £3.8bn of new business and we've had £2.5bn of exiting business. And that is a pattern pretty much across the piece. So we've had £3bn of new business in European equities and we've had £2bn of outflows. So these are asset allocators, these are discretionary managers, advisory, changing asset allocation. There's nothing significant or particularly unusual about that number.

Marcus Barnard

Is some of it switching?

Michael Dobson

Yes, yes.

Okay. Well, if there's nothing else, thank you for joining us and we can answer any of your questions individually in the next few minutes. Thanks a lot.

[End]