

Schroders PLC  
Half-Year Results 2016

**Peter Harrison**  
**Group Chief Executive**

I think we're a bit early, but we might as well get going anyway. Thank you all for coming. I hope the new time works a bit better for everybody. But today is a busy day so we're going to go through the results quickly in terms of flows, and I will spend a little bit of time talking about longer-term growth drivers because I think that's important at the moment, and then Richard will take you through the financials.

I think it was clearly - there was a challenging element to the period, but I think overall our profit before tax was down just 2.7% to £282 million. And assets under management actually grew 10% to £343 billion in an environment where clearly sterling was weaker. But for me the issue was that our diversification paid off and so some of those long-term investments came through, and I'll talk more about that in more detail as we go through.

But perhaps if I could start with flows, which I know is a subject of great interest. I've put a longer-term context on this chart, because I think that's important. But overall, during the period, our flows were positive. Asset Management actually saw inflows of £1.1 billion, and there was some outflows of £400 million from Wealth Management.

And that was driven primarily by three things, the UK, by continental Europe and by Asia ex-Australia, and if I just go through those in turn.

In the UK, the Institutional business has actually performed very well. We saw - overall we saw flows of £1.2 billion in and Institutional flows over the period were £2.8 billion in. They were offset by Intermediary flows - outflows of £1.6 billion, split roughly equally between first quarter and second quarter. And the main feature of the UK outflows was clearly around equities, as you'd expect in this environment. The Institutional flows, by contrast, were into multi-asset products.

In Europe, we saw flows in of £1.6 billion. Again, all of that was Institutional, with Intermediary being a wash. It came in across quite a wide range of different areas actually, emerging markets, infrastructure debt, real estate, bonds. For me that balance was that breadth of inflow was very encouraging.

And in Asia we saw an outflow which, as you can see from that chart, isn't something that's happened before. But actually if you break that down into its constituent parts, what we saw across Asia was flows in of £1 billion, but within Australia we saw outflows of £2.2 billion.

And that was driven really by a one-off commercial issue for one significant multi-asset client and some outflows from our Australian equities business, which, as we've highlighted here before, had some performance challenges, which actually have now turned, I believe. But those were the two contributing factors to that Asian outflow. But I think broadly speaking it felt better than those numbers suggest.

And then in the Americas, lots of small numbers. But I think the number which pleased me most was you'll have heard us talk before about the investment we've been making in turning round our Institutional business. And in the second quarter we saw flows there go positive, which is I think a good achievement.

So although North American flows were flat, actually in Institutional they were in somewhat, and Intermediary there was a small out. So those two offset each other, and some small outflows in South America. So regionally, I think the picture shows a skew towards the places which have been traditional drivers, with one change in Asia.

If I turn now to the Intermediary marketplace, clearly there has been a general risk aversion around risk assets. That's not new to anybody in here. But I think what I would say is there hasn't been a notable deterioration post Brexit. And in fact if you look into July, there's some positive days, some negative days but there's a much more balanced tone to it, which I think is an important point.

So overall we saw £3.3 billion out of Intermediary over the period, as against the £4.4 billion into Institutional. And if we split that down by asset class, we saw outflows of £2.2 billion in the equity sector. And really that was across a wide range of different, so UK, global, Japanese, pretty well all areas suffering a little bit, no one area standing out. And in fixed income we saw continued inflows of about £0.5 billion.

Multi-asset, as we talked about in the first quarter, had seen some outflows particularly around our global multi-asset income products and our open architecture GAIA fund range. Those slowed considerably in the second quarter. But overall there was an outflow of £1.3 billion in contrast to the significant inflows in institutional. So in aggregate, £3.3 billion out of intermediary over the period.

Institutional is always lumpy, but I've put the longer-term period here and you can see the distorting effect of the Friends Life mandate in there. But we again should break it down into the constituent asset classes.

Equities saw an outflow of a little over a £1 billion, £1.1 billion. And I've mentioned Australian equities was the major feature of that. And clearly there is still a tail of UK equities which are going through de-risking, so that was again a small drag. But interestingly, positive flows into emerging markets, for example, during the period.

Fixed income was, again, a story of continued growth. I think it's something which has been a feature for a while, but we saw £2.4 billion in. A wide range of things, everything from infrastructure finance, and I'll return to talk about that in a bit more detail, through US and Europe, so both quarters seeing very good inflows.

And multi-asset, a further inflow of £3.5 billion, mainly into risk-controlled growth, LDI type mandates, where the changing structure of the UK particularly. There was a one-off outflow, as I mentioned, in Australia, which depressed that number somewhat, but still an inflow of £3.5 billion.

What I would say is the timing of fundings in Institutional is always difficult. We inevitably experience a lumpiness there. But I do feel a comfort when I look at the pipeline. Looking forward, I think we're in a good place there as ever.

It would be incomplete if I didn't talk about Brexit, but I suspect you've all heard quite enough of it already. I think there's a few points I would make. And we are a genuinely global diversified business. And I think that it's a really, really important point, this, that - if I just take you through what I actually mean by that.

In the UK we have a broad fund range, 149 different funds, £59 billion of assets which we sell to UK holders, UK mutual fund buyers. Only 1% of that is sold into Europe. Conversely, in Europe we have 169 funds, £79 billion of assets, which we sell to Europe and the rest of the world, only 9% of that is sold back to the UK.

And we have real substance in continental Europe. We have over 370 people working in the EU, ex Switzerland, ex the UK. So we feel that there is genuine

substance in Europe. And in Europe we feel genuinely European. We have strong local businesses in 10 different offices - 12 different offices across Europe. And that is a - for me that genuine substance is really important.

There is obviously one other aspect to this, and that's freedom of movement of people. And I should say that 13% of our investment professionals are EU nationals in the UK, 8% of our UK staff are EU nationals. And continuing access to their skills I think is certainly on the government's agenda that it's absolutely critical to us that that continues. But I think, as a business structure this feels to be as near right as it possibly could be for the Brexit scenario, which we're dealing with. So for me it would be wrong not to talk about it, but I do feel well placed.

Clearly obviously the biggest single issue in the short term has been the weakness of sterling which boosted assets to £343 billion. And of that, £28 billion-ish was currency impact. So that's the big short-term impact. But it's £343 billion of assets that we'll be earning profits on in the second half, so that's not necessarily a bad thing either. It's an important factor, but we feel well placed for it.

This room, of all rooms, is very well versed in the pessimism that seems to surround the asset management industry at the moment, and growth of passives, the switch to lower-cost products, etc. I thought it was just worth taking a moment, because I think there's certainly a number of growth opportunities. And there's certainly a number of things we've been investing in for the long-term, which need focusing on in this environment. So I just want to take a moment just to go through what we see those growth drivers are.

And we would broadly say there were seven. And I just want to take a moment just to go through them. First of all, product. I think what you sell is absolutely critical, and product we've actually stripped out as a separate division, so a third division of the business within asset management so that we have a real focus on it.

We've separated out our multi-asset and portfolio solutions business, because we think, given more oxygen, they're more likely to succeed better. And you will be aware from the past that product innovation has been a big part of what's driven Schroders. We see that being evermore important, whether it be in the DGFs range years ago or the maximiser range, but perhaps looking forward in insurance products on the fiduciary sector.

So there's a lot of work going into product, but I do feel it's mission-critical to get right. I think also making sure we've got a diverse talent base is one of the big drivers of that and it's something that we also made a big investment in in the second quarter.

Fixed income, fixed income was a business that - those of you who are students of history, 10 years ago fixed income was 10% of Schroders Group, but today it's 21% of the Schroders Group, and actually £73 billion of assets, which is up £12 billion since the beginning of 2015. Scaling this business further is going to be a big driver of growth. The world we live in with Solvency 2, with de-risking, this is an important business to us and the capabilities we've put in are important.

You'll have seen that added a couple more during the quarter. We added a team of ABS specialists from Brookfield. That deal hasn't closed yet, but we have announced it. And we also announced a stake in a company called Safe Harbor, which will give us long-term access to bulk annuity de-risking, which again is going to be a major feature, we think, throughout the major DB markets of UK, US, Canada, Japan. So again, future investments but that breadth of capability will be a big driver of growth.

An old theme, but North America, we think, obviously it's 12% of the Schroders Group. It's 48% of the world's assets. We've given you a stated intention that that

should be 20%. We made an important step during this quarter. We announced a partnership with Hartford Funds. They'd previously partnered pretty well solely with Wellington.

We have joined that partnership, whereby 350 of their advisors will be selling to 85,000 independent advisors around the country. That gives us access to a far larger pool of talent, people on the road. And I think that, for us, is a major step in terms of getting our Intermediary business scaled in the US.

And I mentioned already our Institutional business, where we've made both a big investment in terms of the sales force and the consultant sales force, that pipeline has filled really nicely and we've seen positive flows coming through. So I think in North America that is nicely on track.

Asia is obviously an area where we are widely associated. And I think it just bears a little bit more looking beneath the lid. There are a number of markets that are very significant, Hong Kong, Singapore, Indonesia, where we've got intermediary market shares well over 10%.

This is an area where mutual fund penetration is still really low, savings rates are still really high, and, from my perspective, it's an area where we will continue to invest significant effort. We've got good standing both with institutions and in the intermediary market. And the structural drivers of this, we're going to go for many years to come. I think it's an area of continued growth.

Technology, much talked about. If we are a data-processing industry, which, in crude terms, we probably are, having good data processing technology must be core to it. This quarter we've signed to take in the Aladdin system, which will give us real scalability in our fixed income and multi-asset capabilities. I think long term it also helps to drive down our cost base.

I think as importantly, there's a whole raft of other technology initiatives in the way in which we engage with clients. I was very pleased, we actually came second across financial services in terms of digital engagement in a survey the other day. But I think digital engagement with clients is mission-critical in terms of the long term of the business, in the way in which we work, in our personal technology but also in terms of alpha insights.

We've made a big investment in a data insights team of data scientists to help get equity and fixed income alpha, which is different from the run of the mill, and I have to be careful in this room saying that, but a group of people who look in different places for data insights. And I think that investment is something which will stand us in good stead, particularly in a post-MiFID broker commission environment. So, again, that investment is already in place. But technology is critical to the future.

We've talked in the past about Wealth. I won't dwell on this here, but I think it is worth saying that we have a leading position in the UK charity sector. We have a very strong position with offering multi-family offices to some of the largest families in the country. And that business has got the potential to carry on growing nicely, although obviously in the last quarter we did see a small amount of outflows.

And then finally, private assets. And private assets for me is a theme which isn't going to be disrupted by passives, where you still see good - really good longevity. Our real estate business we've rebuilt over the last couple of years. We see a couple of interesting partnerships coming through there.

We've made investments in an interesting direct lender, small business in Holland called NEOS; obviously in insurance-linked securities where we increased our stake

in Secquaero to over 50%, that business having gone from £200 million is now well in excess of £1 billion.

And we will continue to look for other areas. Sorry, the final one I should mention was infrastructure finance. The team we took on at the end of the fourth quarter last year has already got under management £360 million of assets, and again a good pipeline. So the growth in this area I think has got a long way to go, and interesting longevity characteristics.

So perhaps to draw that together, there is a pessimism around. I do think that the diversity of this Group and the opportunities we have are still material. Not easy to predict the next week or the next month, but actually what we can continue to do is invest for the long term in this sort of area.

I'll take questions at the end. But if I could just hand over to Richard, he'll take you through the detail of the numbers. Thank you.

### **Richard Keers**

#### **CFO**

Good morning, everybody. Peter has taken you through our flows, our position for Brexit and where we see our growth drivers in the business. I will now take you through the numbers and update you on our outlook for the rest of 2016.

But to begin, the usual highlights. The business has continued to perform well despite the market conditions and economic uncertainties that we've seen. Net income was up 2% compared to the same period of 2015 increasing to £844 million.

Profit before tax was down slightly to £282 million. This reflects the continued investment in the business that Peter has just referred to and I have talked about previously. But before exceptional items of £11 million, profit before tax was £294 million. That's ahead of consensus but down 4% compared to last year.

Basic EPS was down 4.5% to 84.5 pence before exceptional items. We've maintained our half-year dividend at 29 pence per share, which is in line with our progressive dividend policy. Overall, these are a robust set of numbers in what is a challenging market environment.

Now let's look at net income in a bit more detail. As I mentioned, our net income was up 2% to £844 million. Net operating revenue was down £4 million, mainly due to lower management fees. Net new business generated throughout 2015 and the first half of 2016 increased our management fees a little for the six-month period. But the mix of flows has pulled down the revenue margin. Some of that will come through in the second half.

The volatile market conditions again throughout 2015 and in this last six months mean that our average AUM, excluding the impact of FX and flows, was lower than for the same period of 2015. This reduced our management fees by around £33 million. However, this was largely offset by FX, which we estimate increased fees by about £25 million.

For H2 the important thing to note is that AUM is now at a record high of £344 billion. That increase mainly came through in June, in fact the last week of June, so we've not yet seen the full impact on our run rate management fees. This should more than offset the margin decline that I've just referred to.

So with management fees down a little, the growth in net income comes from gains on financial instruments. That's £19 million of higher gains on our investments and is included within the £23 million you see on the screen. £10 million of this gain was from financial instruments held to hedge employee fund awards. There is an equivalent increase in our comp costs which match this. I would love to net those off, but accounting rules dictate I have to show them gross.

A further £5 million FX impact makes up the rest of the £23 million. This time when I refer to FX it is principally on the retranslation and settlement of fee debtors and takes the total increase in our net income due to FX to £30 million.

Our investments in associates and joint ventures continued to perform well and now includes our investment in NEOS that Peter has just mentioned. Profits are largely unchanged year on year, with a strong contribution in both periods. The weakening of sterling increased AUM by around £28.5 billion. That's a 9% increase, most of which came through in June.

What we've got here is the usual breakdown of AUM that we provide in your data packs. This analysis is based on the currency of the underlying securities. It shows that over 70% of our assets are in non-sterling, with 30% in US dollar and US-dollar-pegged currencies but it doesn't reflect the full complexities of FX. It used to be a reasonable proxy to understand the sensitivity of our revenues to FX movements. But given the significant FX changes, I have this year given you more detail of how assets are impacted by currency by segment and channel. I hope this additional information will be helpful for your models.

Our diverse business model means that we manage local business in a wide variety of locations, but always have in your mind that we are a significant exporter of investment solutions out of the UK. This means that our costs are not as sensitive to FX rates as our revenues.

Of course, our people costs are determined by the comp ratio, and our non-comp costs are only around 40% in non-sterling currencies. The weakening of sterling has had some impact on these, around £3 million increase for the half year, but a much lower impact than on our revenues. The overall impact of FX on our profits is therefore an increase of £14 million. Clearly there is a lot of complexity when dealing with FX, but I hope this gives you an understanding of the positive impact this has had on our outlook.

Now let's look at what's happened in the net operating revenues from each of our channels in the first half of the year, starting with Institutional. Net operating revenues were up 2% at £316 million. Average AUM was up £9 billion from market and FX movements and positive net new business. As we discussed last year and Peter has just highlighted, we generated strong levels of new business within the Institutional channel. These net inflows are mainly into lower-cost products.

Fixed income has again delivered strong sales and we continue to see high demand for our multi-asset products, particularly risk-controlled growth. This contrasts with less demand for equities in the current risk-off environment. The impact of this sales trend is a change in the mix of the business. And this is the main driver for our margin compression, together with some limited re-pricing given the competitive landscape.

The Institutional revenue margin declined from 34 basis points last year to 32 in the first half of this year. We had anticipated a 1-point reduction, but the change in mix has pushed margins down a bit more than we anticipated. So the growth in average AUM has been offset by this margin reduction, with some other one-off fees pushing up net operating revenue compared to last year.

Looking forward, we expect the trend towards lower-cost products to persist. And this is likely to drive margin decline further, particularly if the move away from equities continues. But our focus is on growing total net operating revenue. There have been some short-term challenges here, but our long-term strategy has not changed.

Turning to Intermediary, net operating revenues were down 3% to £372 million. Average AUM declined by around £3 billion, mainly due to market declines in 2015, with outflows in 2016. But of course, AUM increased significantly in June and starts H2 at a record high.

Revenue margins were largely unchanged from the full year 2015 at 74 basis points and only 0.5 points down on H1 2015. But we are seeing a longer-term trend of underlying margin pressure and expect the margin to be approximately 1 basis point lower for the rest of the year, so maybe 0.5-basis-point impact for the year as a whole.

Moving to Wealth Management, net operating revenues were up 1% to £107 million. The main driver was our net banking interest, which increased as a result of higher cash deposits being placed with us, and enhancements to our treasury activities that I mentioned at the year end.

Within Wealth Management, revenue margins were 65 basis points. These are difficult to predict, given the importance of transaction-based commissions, but at this stage we expect a 1-point decline in the second half, so perhaps again 0.5 basis point for the full year.

Right, now let's look at operating expenses. As you know, comp costs make up approximately 70% of our cost base. We're continuing to accrue comp costs at 45% of net income. That's in line with our budget, but is around 1% higher than it was last year.

The increase from prior year reflects the impact of currency, as well as the additional headcount I've talked about at the year end. It's driven by a commitment to invest in the business for the long term.

As I mentioned earlier, FX does not have a direct impact here as we managed through our total comp ratio. But some 55% of our people are located overseas and they represent about 40% of our total comp costs. We're currently not expecting any change to our comp ratio at 45%.

The increase in the ratio compared to last year, combined with higher net income, represents £9 million of the increase in our total comp costs. The remaining £10 million arises as a result of the changes in the value of the fund awards that I referred to earlier. So you can see the total comp costs are up £19 million.

Non-comp costs were £166 million, compared to £155 million in the first half of 2015. That's a little lower than the guidance I gave you at the beginning of the year, but that's simply due to the timing of costs. Again, it reflects the strategic investments that we've been making in the business.

Around £3 million of the increase was a result of foreign currency movements. It won't surprise you that we are expecting a greater impact from FX in the second half of the year. And as a result, our best estimate of non-comp costs is now £347 million for the year as a whole. That's £7 million higher than the guidance I gave you in March due to the further weakening of sterling. Obviously this depends on how markets behave for the rest of the year.

So we're on track to deliver our total cost ratio of 65%, which is in line with our long-term target and KPI of between 65% and 70%.

Finally, we have £10 million of exceptional items, which includes £1 million in respect of associates. That's slightly higher than previously forecast, mainly as a result of the investments we've made in relation to our US business that Peter has already talked to you about. We're now expecting full-year exceptional costs of approximately £25 million.

So pulling that all together, net income was up £18 million, which is offset by increases in our operating expenses. Comp costs were up £19 million and non-comp costs up £11 million. Profit before tax and exceptional items was therefore £293.7 million.

We have a tax rate before exceptional items of 20.9% and we expect the full-year rate to be the same. That results in a tax charge of £61 million and gives a profit after tax but before exceptional items of £232 million. After exceptional items, profit after tax was £223 million.

Turning to our balance sheet, it won't surprise you that we continue to maintain a strong capital position and here's the normal breakdown. We believe that this gives us a competitive advantage, particularly in challenging markets. It means we can invest where we need to and take advantage of opportunities as they arise. As you've already heard from Peter, we're starting to deploy more of this and we see more opportunities ahead.

So in summary, a robust set of results and record AUM at June 30. Yes, there is more uncertainty around, but our diversified business model means we're well placed for the future.

Thank you. I'll now hand you back to Peter.

**Peter Harrison**  
**Group Chief Executive**

Thanks, Richard. In terms of outlook, we do see this market volatility continuing for potentially quite a long period. It's very hard to call, but I think what's as important is the Institutional business continues to perform well. And within the Intermediary business we have a very broad spread of risk-off products in fixed income multi-asset, as well risk-on products in terms of equities, and I think that spread and balance is very important looking forward.

So it's hard to make short-term predictions. But as I said, we have not seen a deterioration into July in the post-Brexit world. I think that's an important point to make. We do have in place a strategy to address the headwinds of the industry, and I think that's again something where we do see a number of areas for growth.

What I would like to do now is take questions. If I could ask that you give your name and your firm before asking your question, I'd be most grateful, and wait for the microphone before doing so for the benefit of those online.

Peter?

**Q&A Session**



**Peter Lenardos – RBC**

Hi. Good morning, it's Peter Lenardos from RBC. Two questions, please. The first one would be on your growth initiatives. Are those all organic initiatives or do you anticipate also M&A opportunities in there to achieve those growth initiatives?

And the second would be on the potential impact to demand that you referenced in your statement this morning. I was hoping you could give us an update on how the quarter has progressed so far. Thanks.

**Peter Harrison**

Sure. On the opportunities, as you know, we've always had a mixture of organic and inorganic, but we've made sure that anything inorganic is very culturally accretive and is of a size that can be easily assimilated, and that doesn't change. So in this period, the Brookfield team was a team we bought, so you could say it was inorganic, it felt very organic to my mind because of the cultural nature of that fit. So I suspect you will continue to see that it's a combination of the two.

And in terms of this quarter, as I say, there's positive days, there's negative days, but I would say there hasn't been a deterioration post-Brexit and the institutional pipeline is comfortable. So it feels all right.

**Daniel Garrod – Barclays**

Good morning. Daniel Garrod, Barclays. Three quick questions from me. First, you mentioned a risk-off environment, you're having particular fixed income products. Can you highlight ones particularly where you think the performance is strong there, where you could see the demand come in?

Second, Michael Dobson, I think in February/March time, spoke of periods of dislocation being relatively good for Schroders with your balance sheet of being able to take advantage of them. Are we already seeing evidence of teams being more prepared to move? Any more colour you can give about areas you might want to invest there?

And lastly, the second most popular question of asset management teams after Brexit seems to be on the FCA industry review and the response from all management teams seems to be one of not expecting any nasty surprises, which seems - I've never heard of a regulator's review where they conclude everything's absolutely fine.

So are we not in danger of being a little bit complacent here? If you had to put your devil's advocate hat on, where might we be surprised? What particular areas could there be some wobbles thrown? Okay. Thank you.

**Peter Harrison**

Let me start with that. The timing of the review, I think we just don't know. My suspicion is that we all lost a chunk of our lives during the Brexit carry on, so it wouldn't surprise me if that was pushed back a little bit, but we've no information to say that that's the case.

I think the reality is we just don't know, and the FCA is clearly in the midst of doing a lot of analysis. There's a lot of detailed work going on and I just think it's wrong to

speculate, whether positive or negative. The industry is highly complicated and I think, more importantly, the asset management piece is a small piece of a much bigger value chain. And I think this often gets lost, that what we do as a business is to business opportunity, where we are an intermediary that then sells onto people who give advice, etc.

And the FCA's trying to get its head round that full value for consumers. And I think it's wrong for us to draw too many conclusions just about asset management, when one needs to look at the whole ecosystem. So there's a long way to go in this and it is only an intermediary report, but I wouldn't be trying to speculate positively or negatively; I just don't think we know at this stage.

Remind me of your second question.

**Daniel Garrod**

Fixed income.

**Peter Harrison**

Fixed income. Yes, pretty broad spread actually. I mentioned that the inflows in infrastructure, where we see there's really good demand, simply because it works so well with Solvency 2 for insurance companies. But the big driver of late has been European credit, where we've both got a good track record in an environment where people have wanted to put money to work.

Buy and maintain mandates I think is another interesting one, where there's clearly a weight of money, of people wanting to park long-term assets and fixed income for de-risking or matching liabilities. But I would say it's across the piece where there's a number of interesting things. There's clearly some areas, like high yield, where the appetite isn't there yet. But I'd say that's probably a more risk-on asset class, rather than a risk-off one, in any event.

Was there another?

**Daniel Garrod**

Dislocation of investors.

**Peter Harrison**

Yes. My sense is there's always a bit of dislocation somewhere in the world, but you are right in the general thought that having a strong balance sheet and having the ability to invest when everyone wants to row back, it feels very good. And I think that we have seen - for example, we're looking to make really high-quality hires as a result of the pessimism in the world and we're in the process of bringing in a couple of people at the moment. And I think it's those sort of things which are opportunistic.

There will be teams as well and it's absolutely right; we are on the front foot out there looking for them. This last quarter we hired the ex CFO of Nomura, Kashiwagi-san, to run our Japanese business. Now, to get the CFO of Nomura to come and do that, who was a Group CFO, it's a great, great coup from our perspective that will really drive our Japanese strategy. So it's that sort of opportunity which I think we're in a position to take.

**Arnaud Giblat – Exane**

Hi. It's Arnaud Giblat from Exane. A couple of quick questions, please. First of all on M&A. You did highlight that you're looking at non-organic opportunities. I'm wondering with the market dislocations we've been through, whether there is - and we've perhaps seen a mismatch between buyers' expectations and sellers' expectations, whether that is an issue in the short term for you to move on and complete on some of the non-organic opportunities you might see.

Perhaps if you can also flesh out what you're thinking about. I think last time you talked about real assets and other investments, whether you can discuss maybe what opportunities you're currently looking at.

And then secondly, I'm wondering on UK Wealth Management, I understand the business is very exposed to charities and small institutions, but if we exclude that from the piece, I'm wondering what the flows are looking like. And if I compare that to other UK wealth managers, perhaps could you discuss why the flows might not be as good as what we're seeing elsewhere?

### **Peter Harrison**

Let's take the Wealth Management piece first. There was £400 million of outflows. About half of that was charities. But if we look at the - and some of it was people spending their income, which is entirely understandable. When you haven't got much income, you tend to draw down a bit more heavily and we report our assets after that income drawdown.

Now, the underlying trend actually, I think, is of pretty good growth in that business, but there's always going to be the bigger distortions, movements of low-margin money, etc., that come in and out. I don't feel it's materially different from its peers actually.

It is an area where we are making - putting a lot of attention for opportunities. And you said I highlighted inorganic; actually I highlighted the opportunities generally, rather than inorganic. But I think that's a world which has been going through quite a lot of change, and it's an area where we feel we've got a very, very strong brand in Cazenove and an attractive place for people to come and work. So I think the opportunities are as organic as anything.

And more broadly in private assets, you've seen we've done a couple of things. I feel that that could go on in a small way. The mismatch between buyers and sellers is very much a public market thing.

When you start talking about teams and the rest of it, that is about the strength that Schroders can bring and this is an attractive place for people to work. And I think that's really the way in which we bring people into the firm, rather than it being about valuation.

People tend to come here because they look at our distribution capabilities, they look at the environment, they look at what we're able to do for them. That's the reason people come in rather than the fact that we're prepared to pay more than the next guy. That's not the way to do it.

Haley?

### **Haley Tam – Citigroup**

Thanks. It's Haley Tam from Citigroup. Two questions, please. The first one in terms of the structural growth opportunities you've outlined on slide 6. I don't know to what extent you can, but could you give us some idea perhaps of if any of those seven are more important to you than others or whether there's any change in timing expectations from that perspective.

And then the second question, perhaps more tactically, you have seen very good Institutional inflows from the UK and into LDI and fixed income recently. Given the fact that interest rate expectations have changed materially, people are now expecting them to go down, what is your feeling for demand there, given it perhaps

now is more expensive for institutions to match their liabilities at this stage? Thank you.

**Peter Harrison**

Yes, first of all on the growth. I think the issue is actually one of timing. So Asia, the US is very much an opportunity now. I think private assets is going to be a longer, slower burn because of the nature of building that market position. The de-risking opportunity has been postponed somewhat by the collapse in bond yields, I think you're right.

But the opportunities in multi-asset and fixed income, there's still a lot of them, a lot of conversations. I was with a big client yesterday, where they have a challenge, brought about really by the structure of the UK consultant market changing. And that's allowing firms like ourselves to step in and fill the gap where consultants have left.

So I think there's a lot of changes going on. But if you've been in this business for a long time and you're seen as a good adviser to businesses, there's always somewhere, and that's the point about diversification. So I wouldn't say that one's more important than the other. The technology is - it's quite hard to lay your fingers on precisely what it is, but you know that being a thoroughly modern company with really good data insights people will yield good alpha over time, which will ultimately drive fund flows. But the connectivity between the two is quite hard to nail down.

So I wouldn't want to speculate really and try and scale them. We've nailed our colours to the mast on the US, but I think that's turned quite nicely and validated that. And I think the Hartford deal is a good step along the way. That will probably close October time, so we won't see the impact of that probably until the first quarter next year, but nevertheless it's in the pipeline.

Your other question tactically about de-risking, yes, but I think that it does mean that people want to have more multi-asset conversations. The purpose of splitting out our solutions team I think is quite important here. We used to run multi-asset and portfolio solutions as one group. And what we're seeing is that not every solution is a multi-asset solution, and more and more of the big schemes want a strategic partner to help them work through their problems.

So it's not about whether they de-risk today or tomorrow; it's can we help them with the bigger picture of understanding their liabilities and how they match those off. So that's a process which goes on anyway and there's a role for us in all time environments for that. Thanks.

**Hubert Lam – Bank of America-Merrill Lynch**

Hi. Good morning. It's Hubert Lam from Bank of America Merrill Lynch. Just one question on your property assets. You've a significant amount of property assets. How much of that is in the UK and should we expect a markdown on that? As well, has sentiment changed on these types of assets?

**Peter Harrison**

Yes, of the £10.4 billion - I don't have the exact number but I would say that north of 60% of them will be in the UK, although an increasing portion has been into continental Europe of late.

The client base, however, is increasingly global. It's grown from a UK business into an international business, and particularly some partnerships in Asia and in continental Europe, so it's a more international business. It's now £10.4 billion, having been reworked under the leadership of Duncan Owen. So I think it's got a more international flavour to it.

We didn't play in the daily priced real estate business, and that was painful for growth whilst we deliberately decided not to do it, but that has now come through and I feel it was right not to have played. There's no evidence that there was a major markdown in NAVs. In fact, I think if you look at the recent transactions that have been going on, they've been going 3% or 4% below pre-Brexit valuation, so there hasn't been that big drop.

Our next valuation point's the end of September for our quarterly cycle funds. Obviously we've got some REITs that are out there, but there isn't a big sense from the team that there's a major drop. And in fact you've seen most recently people cutting their haircuts back quite a long way.

#### **Anil Sharma – Morgan Stanley**

Morning. It's Anil Sharma from Morgan Stanley. Just two questions, please. The technology piece which you talked about, just quite interested as to whether - or if you could potentially quantify the cost saving opportunity as you roll onto the Aladdin platform and the other things you're doing, and whether that's going to be 2019, 2020, or if it could possibly be sooner.

And then secondly, just in terms of the Institutional pipeline, you mentioned you're obviously quite encouraged as to where it is today. But was there anything one-offish in nature in Q2 then as to why the flows were perhaps a bit weaker than what consensus expected?

And as to whether the conversations you're having with clients, presumably the behaviour has changed a little bit and you probably expect those mandates not to fund for longer. If you could just give us some colour, that would be helpful.

#### **Peter Harrison**

Yes. There was a one-off. It was the Australian multi-asset outflow which was the surprise, as it were. And I think there's always real uncertainty as to when mandates fund, but it does feel that if I look at the pipeline and I look at the conversations we're having and what's in transition at the moment, that's the thing that gives me comfort. But I think it's very wrong to speculate quarter to quarter. This is the ultimate long-term business, so where it turns out is always hard to know.

And your first question was - remind me?

#### **Anil Sharma**

Just about the technology.

#### **Peter Harrison**

The technology, yes. So it's very hard to know. I think what technology gives you is two things, well three things. One is obviously the alpha piece. The second is the

ability to do complicated things. So as we go into clearing and collateralisation, the ability to run more and more sophisticated mandates for more sophisticated clients drives your revenue. That's not an efficiency thing.

But I think long term, having one process which you drive through the organisation and you really get the benefits of scale does drive out cost. Quantifying that is very hard. And what I would say in the short term is extra cost, not extra - you've got double costs for market data, for example, over [the] transition period, you've got the cost of the change teams going in and doing that process.

But actually if you look further out, those will come out and the ability to do that extra business is the real opportunity, I think. We need to be capable of running real scale in multi-asset and fixed income, because there are multi-year opportunities there that are very different. Running a long-only SEDOL equity business is something that's been very simple. The new world is much more sophisticated and I think stepping up to that investment is critical.

### **Gurjit Kambo – JP Morgan Cazenove**

Hi. Good morning. It's Gurjit Kambo from JP Morgan Cazenove. Peter, I guess over the last few months, since you've taken over the role, I guess you've been meeting with local management teams and also clients. Are there any particular surprises, either positive or negative that perhaps you could share with us?

### **Peter Harrison**

That's a good question. You're letting Richard off lightly today. It's fabulous. Yes, I've clocked up a few air miles in the last three months. And I think what's been - that wasn't my first visit to all these offices, so in that sense there wasn't surprises. But I do think the strength of our distribution platform and the quality of our Asian businesses is really I think the thing that probably I took away most.

So where you've got really good market shares in places like Hong Kong, Singapore, you're shaping the change and helping shape the future markets. The opportunities in China, the opportunities in Japan. I think that's the bit where I sit and look at it and think, yes, there's really things that we can do there.

Our European offices are also well placed. But the other thing I'd probably draw out is the sheer breadth and diversity of the Group. There is a lot of different things going on in different places and that gives me great comfort that the - in terms of finding areas that you can invest in for the future, there's a lot of them. And I think that's helpful in an environment where there's some structural headwinds coming that you can find things with a high ROI to get behind. But nothing shocking thankfully.

### **Paul McGinnis – Shore Capital**

Morning. Paul McGinnis from Shore Capital. Just a question on the unchanged dividend. I just wondered, given that Schroders' policy is already relatively conservative versus the peer group, and given you, as you said, even though it was currency induced, had a high level of AUM going to the second half of the year, I just wonder whether the Board considered just putting up the dividend anyway.

### **Peter Harrison**

I'm going to ask Richard to answer this.

**Richard Keers**

There's no change in our dividend policy. We said very clearly we're moving to a 50% payout ratio. It's a progressive policy. Profits are down for the first six months. So actually I thought it was a very straightforward decision. Profits are down. We want to move to 50% payout ratio, no change in that guidance. If the profits come through in the second half, you should expect, yes, the payout ratio to reflect that and the dividend to move upwards. But at half year on half year it was down. So holding the dividend we thought was a very sensible move.

**Peter Harrison**

Any more? Great. Well thank you all for coming. I really appreciate it and look forward to meeting you all over the coming years. Thank you.

[End]