The changing face of UK Retail Investment Distribution and implications for Fund Managers

Robin Stoakley
Managing Director, UK Intermediary business

Schroders

May 2012 | For professional investors only. This material is not suitable for retail clients
Agenda

- Schroders Global business
- Schroders UK intermediary business
- The Retail Distribution Review
- The changing distribution landscape
- Summary and Q&A
Overview

£199.6bn Assets under Management

- 33 offices in 26 countries
- 18 investment centres
- Over 350 investment professionals worldwide
- Exclusive focus on asset management
- Organic growth
  - Bolt-on acquisitions
- Deliver superior performance for clients
- Highly diversified business model
  - growth and defensive characteristics
- Financial strength

Source: Schroders. 31 March 2012. * Investment centres
Putting our Intermediary business in context…

34% of AUM, 47% of net revenue

Source: Schroders Q1 results 2012
Schroders £19.0bn UK Intermediary business

Channel diversity

Source: Schroders. March 2012
Intermediary channels
Routes to market

Source: Schroders May 2012
Schroders’ UK Intermediary business
A market leading business development team

- Focus on discretionary asset managers (DAMs)
- Well resourced team comprises:
  - 5 regionally based Sales Professionals
  - 4 Telephone support managers
  - Dedicated investment trust business development resource
- Working closely with institutional & property business development teams
- Supported by specialist marketing team & award winning PR team
- High penetration of the advisory (IFA) market through a 14 strong advisory sales and tele-sales team

Source: Schroders May 2012
Strong relationships with the discretionary asset manager market

Results of the latest ORC Survey of DAM companies in August 2011

<table>
<thead>
<tr>
<th>Category</th>
<th>Schroders position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall relationship with investment house</td>
<td>1st</td>
</tr>
<tr>
<td>Relationship with consultant/sales team</td>
<td>1st</td>
</tr>
<tr>
<td>Relationship/frequency and ease of contact with fund managers</td>
<td>1st</td>
</tr>
<tr>
<td>Overall marketing</td>
<td>1st</td>
</tr>
<tr>
<td>Best information gathering/educational events</td>
<td>1st</td>
</tr>
<tr>
<td>Staff understanding of client business</td>
<td>1st</td>
</tr>
</tbody>
</table>

Participating companies in the survey: Artemis, Blackrock, Fidelity, First State, Gartmore, Henderson New Star, Invesco Perpetual, Jupiter, M&G, Neptune, Schroders, Thames River, Aberdeen, JPM

Source: Schroders, ORC
### Relationship management

**Overall relationship with Investment House**

<table>
<thead>
<tr>
<th>Company</th>
<th>Very Poor/Poor</th>
<th>Very Good/Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schroders</td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>M&amp;G</td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>Invesco Perpetual</td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>Market Average</td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>Neptune</td>
<td></td>
<td>21</td>
</tr>
<tr>
<td>Artemis</td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>Jupiter</td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>Henderson New Star</td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>BlackRock</td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>Fidelity</td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>Thames River</td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>First State Investments</td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>Gartmore</td>
<td></td>
<td>13</td>
</tr>
</tbody>
</table>

Q9e: How would you rate the following companies in terms of the Overall relationship with Investment House? BASE : All DAM supporters

Source: Schroders, ORC
Our service remains highly rated
In the 14 marketing categories we are never ranked outside the top 3 firms

ORC Ranks us #1 for:

- Investment Bulletins
- Fund Factsheets
- Salesaids
- Product Brochures
- E-mail communications
- Newspaper articles / editorial
- Teleconferences
- Webcasts

Source: ORC Investrack September 2011
The Retail Distribution Review

Objectives

- To remove product and provider bias (fees replace commissions)
- To unbundle charging structures
- To improve advisory professional standards
- To improve consumer choice
- To reduce headline product charges
RDR: Implications for the marketplace

- RDR to be introduced in stages
- 25% to 30% of IFAs could leave the industry (circa 8,000)
- Banks and insurance companies re-enter the lower end of the market vacated by the departure of IFAs through XO services
- Execution only business will significantly increase with more firms setting up web-based XO businesses

Source: Schroders estimates – May 2012
RDR: Implications for the marketplace II

- Demand will continue to increase for low cost passive (quasi-passive) products
  - Schroders and JP Morgan have already introduced low cost active ‘core’ funds in Q1 2011

- All parts of the cost chain will come under pressure

- Advisers will attempt to retain their own margin by reducing costs in other parts of the chain
  - Particular pressure on platform and fund management fees

- Some fund managers will re-enter the D to C (direct to consumer) market
  - JP Morgan have already launched a B to C fund supermarket in the UK

Source: Schroders – May 2012
Schroders: our response and plans

We support the main principles of the RDR

But we are concerned that:

- Many good IFAs will leave the industry
- Many consumers won’t pay for advice
- XO platforms of mixed quality will spring up
- Many investors will be ‘misguided’ on XO platforms

HNW individuals will continue to get good advice

But mass affluent and LNW individuals will struggle

Source: Schroders May 2012
Schroders: our response and plans II

We are concerned about the platform market

- There are too many
- They are generally unprofitable
- Their margins will come down
- Future capex will be enormous
- Auto re-registration could transform books of business

The platform market will change dramatically in the next five years

Source: Schroders – May 2012
Schroders: our response and plans III

Two fund unit classes

- ‘A’ Class: 150 bps AMC 170 bps TER, Legacy, XO and direct
- ‘Z’ Class: 75 bps AMC 90 bps TER, Platforms and discretionary

- No others planned – yet

Low cost, clean-fee funds

- ‘Core’ in approach
- Utilising institutional investment processes
- Competitive in price

Source: Schroders – May 2012
## The Schroder core range

<table>
<thead>
<tr>
<th>Fund name</th>
<th>TER bps</th>
<th>Performance target p.a.</th>
<th>Tracking error/ volatility</th>
<th>Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schroder UK Core Fund</td>
<td>40</td>
<td>FTSE All share +1% net</td>
<td>1.5 - 3.5%</td>
<td>£38.4m</td>
</tr>
<tr>
<td>Schroder QEP Global Core Fund</td>
<td>40</td>
<td>MSCI World +1% net</td>
<td>1.1%</td>
<td>£528.7m</td>
</tr>
<tr>
<td>Schroder Dynamic Multi-Asset Fund</td>
<td>50</td>
<td>CPI +4% net</td>
<td>6.7%*</td>
<td>£9.5m</td>
</tr>
</tbody>
</table>

Source: Schroders, as at 12 March 2012  
* Since DMAF does not have a benchmark, it has no tracking error. It has a target return of CPI+4% (net of institutional fees), with a volatility objective of between one half and two thirds of global equities  
The absolute volatility of the fund as of 31 January 2012 is 6.7% p.a.
The changing distribution landscape I

**Advisory business to decline**
- RDR: harsher environment outsourcing
- Scale: smaller but bigger advisors
- Platform solutions: platform owners increasing value share

**Discretionary business to increase**
- Outsourcing from IFA’s
- Developing in-house distribution

**XO business to increase**
- Lack of available advice
- Increasing number of participants
- Costs
The changing distribution landscape II

Schroders' UK Intermediary business

Source: Schroders estimates – May 2012
The changing distribution landscape III

Implications I

Product – Discretionary
- More component funds
- Increasing sophisticated investment strategies
- More sub-advised mandates
- Income generation

Product – Advisory
- Solutions based/outcome-orientated
- Income generation
- Managed/Multi-asset
- Decumulation

Product – XO/Direct
- All of the above
The changing distribution landscape IV
Implications II

Service
- Resource shift from Advisory to Discretionary
- Greater focus on technical and consultative skills
- More fund manager/client interaction

Brand/PR
- XO/Direct significantly brand influenced
- Increase in consumer awareness spending
- Consumer influencing PR increasingly important
Consumers ‘know’ relatively few asset managers

Question: Which, if any, of the following investment management companies are you aware of?

Source: YouGov 511 UK Adults AB Age 40+ Financial assets of £50,000+
The changing distribution landscape V

Implications III

- Longevity
- Margin
- Costs
## New Schroders fund managers

New additions in the last 12 months:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position/Team</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bob Jolly</td>
<td>Head, Global Macro and Fund Manager, Schroder Absolute Return Bond</td>
</tr>
<tr>
<td>Gareth Isaac</td>
<td>Fund Manager, Schroder Strategic Bond</td>
</tr>
<tr>
<td>Rajeev De Mello</td>
<td>Head, Asian Fixed Income</td>
</tr>
<tr>
<td>Julia Ho</td>
<td>Fund Manager, Schroder Fixed Income</td>
</tr>
<tr>
<td>Aurore Blair</td>
<td>Senior Investment Strategist, Global Fixed Income</td>
</tr>
<tr>
<td>Alix Stewart</td>
<td>Will be joining the Schroder Fixed Income team</td>
</tr>
<tr>
<td>Kosta Leidman</td>
<td>Will be joining the Schroder Fixed Income team</td>
</tr>
<tr>
<td>James Barrineau</td>
<td>Co-Head, Schroder Emerging Markets Debt Relative</td>
</tr>
<tr>
<td>Alec Moseley</td>
<td>Portfolio Manager, Schroder Emerging Markets Debt Relative</td>
</tr>
<tr>
<td>Fernando Grisales</td>
<td>Senior Portfolio Manager, Schroder Emerging Markets Debt Relative</td>
</tr>
<tr>
<td>Chris Tackney</td>
<td>Will be joining the Schroder European Emerging Markets Debt Relative team</td>
</tr>
<tr>
<td>Duncan Owen</td>
<td>Head, Schroder Property Fund</td>
</tr>
<tr>
<td>Nick Montgomery</td>
<td>Fund Manager, Schroder Property Fund</td>
</tr>
<tr>
<td>Tony Smedley</td>
<td>Will be joining the Schroder European Property team</td>
</tr>
<tr>
<td>Nicholette MacDonald-Brown</td>
<td>Fund Manager, Schroder European equities</td>
</tr>
<tr>
<td>Matthias Scheiber</td>
<td>Fund Manager, Schroder UK &amp; US New Balanced</td>
</tr>
</tbody>
</table>
New Schroders products
We are continuing to upgrade and enhance our product line up

<table>
<thead>
<tr>
<th>Spring / Summer 2011</th>
<th>Core range launched</th>
</tr>
</thead>
</table>
| Autumn / Winter 2011 | Revamped Absolute Return Bond Fund launched  
New US Alpha Plus Fund launched |
| Spring / Summer 2012 | New Small Cap Discovery Fund launched  
New Strategic Bond Fund launched  
New Monthly Managed High Income Fund launching  
New Secure-Distribution Fund launching |
Summary
Schroders: well placed in the New World

We should be a ‘net gainer’ from RDR

- No.1 Discretionary distribution capability
- Scale and resource
- Not conflicted
- Modern and versatile product range
- Strong brand
Awards
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