Operator: Good morning. Thank you for standing by, and welcome to the Q1 interim management statement 2015 conference call. At this time, all participants are in a listen-only mode. There will be a presentation, followed by a question and answer session, during which if you wish to ask a question, you will need to press star one on your telephone.

Please be advised that this conference is being recorded today, April 30, 2015. I would like to now hand the conference call over to your speaker today.

Mr. Michael Dobson, you may begin your conference.

Michael Dobson: Thank you very much everybody. So I will just run through the highlights and then Richard Keers, our Chief Financial Officer, and I are very happy to take your questions.

Essentially the first quarter of 2015 continued the trends we saw in the business during 2014. Profit before tax and exceptional items was up 14 percent to GBP149.6 million. We generated GBP5.1 billion of net new business in the quarter, with positive inflows across all channels: Institutional, Intermediary and Wealth Management.

Seventy-six percent of assets under management outperformed benchmark or peer group in the three years to the end of March. Our assets under management increased 7 percent from the end of December 2014, from GBP300 billion exactly to GBP319.5 billion.

During the quarter we benefited significantly from the strength of our international franchise, with high levels of new business wins in Asia and Continental Europe in particular.

Looking at asset management in more detail, net revenue was up 13 percent to GBP348.5 million, including performance fees of GBP1.7 million in the quarter compared to GBP6.3 million in the first quarter of 2014.
In the first quarter last year we had some one-off performance fees on some of the Cazenove Capital funds. So I would say this level of performance fees this year in Q1 is at a more normalized level. As you know, we expect the overwhelming proportion of our performance fees to fall in the fourth quarter every year.

Profit before tax and exceptionals in asset management was up 14 percent to GBP133.7 million. We had net inflows of GBP4.9 billion, of which GBP2 billion was in institutional and GBP2.9 billion was in intermediary.

Asia Pacific was particularly strong across both channels, with net inflows of GBP3.1 billion in institutional and GBP1.7 billion in intermediary. Continental European intermediary was also very strong, with net inflows of GBP2 billion. Offsetting that, we had outflows in the U.K., small outflows in institutional, slightly higher outflows in intermediary and we had small outflows in the U.S.

The asset classes driving the new business flows included: in institutional, U.S. and global fixed income, Japanese equities, emerging market equities and multi-asset. And in intermediary it was principally European credit, European equities, global equities and multi-asset.

So in an asset class level overall, we had net inflows of GBP2.9 billion in institutional, GBP2.2 billion in multi-asset and GBP200 million in equities, with net outflows of around GBP400 million in a combination of real estate, emerging market debt and commodities.

Turning to wealth management, net revenue was up 2 percent at GBP52 million. Profit before tax and exceptional items was up 12 percent at GBP14.9 million as we saw the benefit of cost synergies coming through in relation to the integration of Cazenove Capital.

Net inflows in the quarter in wealth management were GBP200 million, which is pretty much exactly in line with where we would hope to be. So we see that as quite a strong result and the validation that this combination of Schroders and Cazenove Capital in the high-net-worth sector is creating a very powerful client offering.
So I'll stop there and very happy to take your questions.

Operator: Haley Tam, Citigroup

Haley Tam: Good morning, Michael. Good morning, Richard. Can I ask a question about the costs in Q1, please? I think that your comp revenue ratio was kept at 45 percent and you had incurred I think it was GBP261 million operating costs in the quarter. So if I crudely split that into comp and non-comp, I think your non-comp costs are only about GBP81 million a quarter. I just wondered if you thought that analysis was correct and whether there is anything perhaps unusual about the shape of the cost this quarter or whether I can use this as a good guide for the future. Thank you.

Richard Keers: I think you can use the first quarter as a good guide for the future. At the year end we guided to GBP350 million in total for non-comp. And I think broadly that remains our best estimate today. As you've already identified, Q1 is broadly in line with that.

Haley Tam: OK. So I shouldn't interpret the GBP81 million as being ahead of that run rate. You're still happy to stick with the GBP315 million.

Richard Keers: We're still happy to stick with the GBP315 million at the moment, yes.

Haley Tam: Thank you.

Operator: Chris Turner, Goldman Sachs

Chris Turner: Yes. Good morning. It's Chris Turner here at Goldman Sachs. Just two questions from me. Firstly on flows. Clearly the net flows were very strong, can you give us a little colour there? I think you touched on this in terms of the strong flows we're seeing into European credit. But are there any other funds and strategies there that are driving the strong fixed income demand you saw in the first quarter?

And then secondly in terms of the performance fees, clearly you had very strong performance in absolute terms but it didn't translate into performance fees. Could you just give some colour on whether we should expect a pick up in the second quarter there, please?
Michael Dobson: So on fixed income, we had strong flows in European bonds, that's European credit, in global bonds and in U.S. taxable bonds. Those would be the three biggest asset classes within fixed income overall, which, as I said, did GBP2.9 billion.

As far as performance fees are concerned, as I said, we generate 80 percent to 90 percent of our performance fees in the fourth quarter. The reason is because we measure most of our funds which have performance fees on an annualized -- on an annual basis end of December. So we do not expect high levels of performance fees in the first three quarters of any year.

And I think the second quarter of last year on performance fees, after GBP6 million in Q1, which were slightly unusual, as I say, related to Cazenove, the second quarter was at a more normalized GBP2 million, basically exactly what we just generated in the first quarter this year. So don't expect significant performance fees until Q4 2015.

Chris Turner: That's very clear. Thank you.

Operator: Hubert Lam, BAML

Hubert Lam: Good morning. Two questions from me. Firstly, can you give us some color as to how Q2 has started so far?

Secondly, in terms of your investment capital, looking at your presentation it seems like it's grown to GBP951 million. Just wondering what drove the big delta between that and what you reported at the end of 2014, the GBP725 million? Thanks.

Michael Dobson: On Q2, we've had pretty much a continuation of the first-quarter experience in intermediary, with good flows. As you know, our focus is long term, so here we're talking about three weeks.

But in institutional we've actually had some net outflows. That's to do with some commodity losses in the United States. This is an issue we discussed with our full-year results. That asset class has really suffered. People are pulling out of allocations to commodities. We saw that for us in 2014. It's continued into 2015 and indeed into April.
So after two or three weeks I think we're negative in institutional, but fairly modestly. And our pipeline of business that we have won but which has not yet been funded is pretty strong. So we're not concerned about that; it's just a timing issue.

And then I'll ask Richard to talk about your investment capital question.

Richard Keers: Hubert, in terms of investment capital, you're right. There's an increased GBP951 million at the end of Q1. That's largely due to dividends received from subsidiaries into central treasury. So you see a corresponding decrease in other operating capital from GBP284 million down to GBP204 million. The other operating capital represents capital within subsidiaries that hasn't been up-streamed to group treasury. So that's the switching effect that's going on there.

Hubert Lam: OK. So will that switch back or is that?

Richard Keers: No. What is transferred to investment capital, unless we spend it, it is essentially a permanent transfer to group treasury to manage. So in -- the harshest definition of surplus capital, once it's in investment capital, it is clearly surplus. There's clearly a question mark in terms of do you categorize other operating capital as surplus or not?

But once it's investment capital, it is managed by Group treasury and is there for investment purposes if we would chose to deploy it in that way.

Hubert Lam: OK. Great. Sorry, one more question, if you don't mind me asking. I think you mentioned that in Q1 you saw U.K. retail seeing some outflows. Just wondering, what do you attribute to that? I know that overall sales weren't great for the sector as a whole. But what do you think drove the outflows? Is it performance or something else?

Michael Dobson: Well, as you say, for a sector that hasn't been great, I think there's been some holding back ahead of the election, particularly in equities. But for us there were some more specific issues around performance. We talked earlier about, as I say, when we had our full-year results in March, we talked about some of our U.K. equity funds and a manager change. We've continued to see the tail of that.
Our multimanager range has been quite cautiously positioned. So some of our investment styles have caused us to be more cautious. And in the short term that's been with markets continuing to perform, that's affected our performance in some of our U.K. retail funds, and that's (led to outflows).

It's disappointing. Does it concern us? Not particularly, because we know that at this stage of a market cycle our investment styles tend to be moving more towards a more cautious positioning. And this is not just in the U.K., we have the same situation in Australian equities, which is a very, very strong business. And so we might expect to underperform a bit at this stage of the cycle. But that has had an impact on our U.K. retail flows.

Hubert Lam: Great. Thank you.

Operator: Peter Lenardos RBC

Peter Lenardos: Good morning. It's Peter Lenardos from RBC. Just a quick question on the revenue yield, please. In the asset management group I see it was 50 basis points versus 52 for all of last year. I was just curious if the 50-basis-point level for the division is maintainable for the remainder of the year or you expect further declines throughout the year. Thanks.

Michael Dobson: Well it depends, Peter, obviously on further changes in business mix. Just to put this in perspective, you're right in saying in Q4 last year it was 51 basis points and it's 50 basis points in Q1 of 2015. If you break that down into intermediary, it's gone from 75.3, to be precise, to 74.9. And institutional has gone from 36.3 to 36.1. So we're talking about an incredibly marginal shift quarter on quarter.

As for the rest of the year, we don't have any reason at the moment to think that it's going to erode from here. But it will depend on where our flow is coming. At the moment branded mutual funds are a big part of it, which would suggest that they're going to stay quite robust. But big institutional flows and fixed income and multi-asset will tend to push it out a little bit. But broadly we've talked in the past about a one- or two-basis-point decline. That's what we are looking at. And that's where it already is, so I'm not sure we'd necessarily adjust it much further from that.

Peter Lenardos: Great. Thanks, Mike.
Operator: Daniel Garrod, Barclays Capital

Daniel Garrod: Good morning, Michael. Just one quick one from me. Operating margin trends in wealth management, they're up now at 28 percent/29 percent, so a pretty good performance this quarter from that area. (Is there) potential for that to continue to rise there or do you see that 29 percent/30 percent as a stable level for 2015?

Michael Dobson: Well, Daniel, we've said I think at the full-year result, 70 percent is the target cost/income ratio for wealth management. We're almost there. We want to get there. There's scope then medium term to drive that a little bit lower maybe, but we haven't publicly said that's our target. We publicly have said 70 percent. So that's really where we want to drive it to. It's coming in that direction quite nicely.

Daniel Garrod: Do you think you can get there by the end of 2015 or is that a little bit?

Michael Dobson: I would hope on a run-rate basis we'll get there by the end of 2015, yes.


Michael Dobson: Thanks.

Operator: Bruce Hamilton, Morgan Stanley

Bruce Hamilton: Morning guys. Just a couple of quick ones from me. On performance, obviously the three-year looks good and I know that's the bigger focus. But can you, and if I've missed it, apologies, could you remind me what the one-year performance is looking like, if that's drifted at all?

And then secondly, just on the increased regulatory focus, what are your conversations with U.K. regulators suggesting in terms of where they might move next? Is your expectation stress-testing certain credit funds or any incremental cost you think you might have to bear? Or do you think you're already pretty well positioned on that front?

Michael Dobson: Our one-year numbers are 64 percent, and that is pretty much the same in intermediary as in institutional, which comes back to what I said about our dialogue or process, which at this stage in the cycle, has in the past led to some short-term underperformance.
And then, as in the past, if markets have corrected, we've done well. So we'd like it to be better, but we're not particularly concerned about that. And the three-year numbers at 76 percent are more important.

And I should add, I think our 12-month numbers at the end of last year, so when we announced the full-year results, were 62 percent. Running through to the end of March they're 64 percent, so actually they've marginally improved.

In terms of regulatory focus, bond liquidity, liquidity in bond, in daily pricing bond fund is certainly a focus for regulators. We've been looking at that hard ourselves in relation to our own business for quite some time. The scope of regulation is very broad and, if anything, widening.

We don't see anything huge on the horizon other than a very broad approach which is impacting the industry in everything from pricing to product design to sales to competition, et cetera, so it's a pervasive and very significant issue. And I suppose our costs continue to increase in that regard, and I don't think that's going to change.

Bruce Hamilton: That's helpful. Thank you.

Operator: There are no further questions at this time.

Michael Dobson: OK. Thank you for joining us. And if you've got any follow-up questions then by all means just call us directly. Thanks a lot.

Operator: This concludes today's conference call. You may now disconnect.

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