Schroders

Full-year results 2018

Presentation

Peter Harrison - Group Chief Executive

Good morning everybody. Welcome to the Schroders 2018 annual results meeting. For those of you who haven't been to 1 London Wall Place, welcome to our new home.

We're going to follow a running order this morning very similar to prior years. I'm going to talk briefly about flows, Richard's going to take you through the detail of the numbers and the initiatives, I'm going to come back and talk more about strategy and then we'll do Q&A.

Overall, we were pleased with what was a robust set of results in what was clearly a challenging environment. Last year was characterised by a lot of important strategic initiatives. If we just take you through the headline numbers, clearly you can see that revenues were up 3%, profits down 5% to £761 million, and the dividend up a penny to 114 pence. Those are the numbers that you've got in front of you.

What I'd like to do just though is just briefly put that in a longer-term context. This meeting last year, we were at pains to point out that two things had happened. One is we'd earned more performance fees than we would normally expect to earn, and the second, that we'd had a one-off windfall from compensation that increased deferrals, which meant that the accounting charge for compensation last year fell and flattered last year's numbers. This year it reverses and hurts this year's numbers.

So if you are to look through that longer-term trend, we think this a resilient set of results.

If we get into the detail of the flows, I'll take you through each of the segments, one-by-one. In the longer-term context, clearly this is disappointing. What this doesn't show, of course, is the £85 billion of unfunded new wins which we have announced. The £80 billion from Lloyds and another £5 billion, which we hadn't previously announced. So there are negative headwinds in here, but there's also some good areas of strength.

What we saw here is - if we just take the high level, wealth management saw a £1.7 billion inflow, intermediary saw a £4.6 billion outflow and our institutional business saw a £6.6 billion outflow. So a net of £11.2 billion out in asset management and £1.7 billion in, coming back to the £9.5 billion.

This is the breakdown by region. The Americas, as we've talked about in the past, we've continued to see that turnaround in America. Here we show £2.5 billion of inflow, £2.2 billion of that was in the institutional channel, and what was pleasing was a very broad array of fund areas that that money came into - particularly, actually, in equities, which was positive.

The Hartford relationship, which we've talked about before, brought in £1.4 billion of assets, and if you look in the league tables of US that was a very, very credible performance at a time of pressure in the US.

We had a one-off outflow, which was frustrating, in Mexico of £1.9 billion, which is in those Americas numbers.

The UK, institutional saw a £0.6 billion inflow. There was £0.5 billion out in intermediary, but £1.7 billion in in wealth, so you can see that number coming in positive inflows in the UK.

EMEA we saw an outflow. £1.6 billion on the institutional side, predominantly actually Middle East, which we count as Europe, and there was another outflow in Nordics. The more important number there though is on the intermediary side, which was £4.5 billion of outflow, predominantly in those countries which are dominated by risk off environment, so particularly the two big markets which contributed to that was Switzerland, where obviously the GFIG figures are based, and Italy.

We did positive flows, particularly in Germany, which was very pleasing and it's an important market for us, reflecting a little bit the work on private assets.

Asia Pacific. Here the story I think is one of mature markets and growth markets. We saw the vast majority of that - 90% of that - 99% of that is institutional. £6.2 billion of outflows in Japan and £3.7 billion of outflows in Australia. The Australian issue we've talked about in the past, which is the pressure of that restructuring, and the super funds moving themselves.

The Japanese number was nearly all one client. So we've had one very large client move their money out. And I think one of the characteristics we feel of the business at the moment is that we're winning very large mandates, but inevitably when we're winning large mandates, you're going to have lumpy outflows, so we've had on both sides of the balance sheet, we had the Prudential a couple of years ago going out. We had very big inflows from Friends Life.

This year we've announced the Scottish Widows transaction, but I think that the characteristic of that was we made very good progress in a lot of the other Asian markets, in the growth markets and we saw those two big institutional outflows. It was a source of frustration.

In terms of the balance of flow by asset class, I think it was much more pleasing, because we're seeing rewards in the areas that we've been investing. So multi-assets or £4.8 billion inflow, of which about £4.5 billion was institutional, and importantly, a good contribution there in the UK.

Private assets we saw inflows across nearly all of our private asset strategies. £2 billion of that was institutional, £0.3 billion intermediary. Wealth management continued inflows, which again is pleasing.

Fixed income was where that outflow was in the institutional side in Japan, so broadly speaking, £7 billion of the £8.3 billion was in institutional and the balance was a small outflow of intermediary.

Equities, the outflows there were characterised particularly by outflows in UK equities, which was a little over £5 billion, and from quant strategies, which were particularly in Australia. The flip side of that, is we saw very good inflows into Asia and emerging markets, so there was very much a developed market outflow and an emerging market inflow tone within the flows within equities.

So lots of moving parts, as ever, very diversified business, and we try and give you two minutes the summary of the whole thing - it's not easy to do. Richard will take you through the revenue implications of all that, because I think what's important is that our overall gross margin held up well in the year, which was a reflection of the shape of money that's coming both in and out.

At this point I'm going to hand over to Richard, who will go through the detail of the numbers, and I'll come back and talk about overall strategy. Thank you.

Richard Keers – Chief Financial Officer

Thank you, Peter and good morning everyone.

As you just heard, 2018 has been an important year for us. We have made good progress against a number of our strategic priorities and we have delivered on some of our key operational objectives, including our new front office investment platform, which went live in the second half, and our move into our new corporate headquarters.

These strategic developments have had an impact on this year's results, which I'll explain in more detail shortly, but let me start by putting the results in context.

This slide shows the normal breakdown of the movement in profits, which, before exceptional items and tax, decreased by 5% to £761 million. Profit after exceptionals, again, before tax, was £650 million, but before we look at the results in more detail, there are two key points that I want to focus on, and Peter did touch on this.

Firstly, the movement in pre-exceptional profits. Last year I highlighted a couple of one-off benefits that increased profits by around £58 million. We generated unusually high-performance fees of £78 million, in 2017, which was significantly above our long-term experience of around £40 million. We also had a one-off accounting benefit that led us to reducing our comp ratio by about one percentage point, or £20 million, in 2017. About half of that benefit unwound this year.

In this context, we are pleased with the underlying performance, which is very similar to last year, despite a much more challenging environment.

The second area of focus is our exceptional items. As you know, these are normally acquisition-related, including amortisation of intangible assets, but this year, following the operational changes we have made and are making, they include £56 million of expenses from a significant cost reduction programme.

This is an unusual step for us, but we believe it is important to realise efficiencies from investments we are making, particularly in technology. We are continuing to reshape our business model, aligned to our growth ambitions and to address the industry headwinds. The programme enables us to manage our total cost ratio, and still reward our people appropriately. The goal is to ensure we are able to attract and retain the best talent over the long term.

Given the one-off nature of such a programme, and because it does not reflect the ongoing costs of the business, we have displayed it separately in our results. We expect exceptional items to return to more normal levels in 2019 of around £40 million, which are mainly historic, acquisition-related costs. Overall, and particularly given the market backdrop, we see this as a good set of results, with the delivery of some important milestones.

Now let me go through some of the key other points, starting with net income. Net operating revenues increased by £61 million, driven by 6% in the average increase in average AUM. As you know, the movement is normally driven by four things, investment returns, FX, net new business and acquisitions.

Markets were relatively weak in 2018, with most ending the year below where they started. However, across the year, markets increased our average AUM by £23 billion, relative to 2017. That resulted in a £28 million increase in revenues, but the FX has been a negative for us this year. On average, Sterling was stronger in 2018, compared to 2017. As a result, FX fully offset the benefit of stronger markets.

What this picture tells you is that the main driver of revenue growth was net new business and acquisitions. Given our outflows this year, the growth in revenue from flows might be surprising, so let's spend a few moments looking at how flows have impacted our results.

Total net operating revenue for the Group grew by £61 million, and as I showed you, £41 million of that was due to flows. You will remember that annualised revenue is an important measure for us. It shows the impact we can expect on revenue from each flow over 12 months, and to fully understand the impact, you need to look at a picture over a two-year period.

The chart shows you that we had a strong tailwind going into 2018. That came from annualised revenues on 2017 flows, which generated £39 million of additional income in 2018. On top of that, we started the year well, and flows continued to increase in the first quarter, pushing up the cumulative annualised revenues still further. That trend stopped in Q2, as market uncertainty combined with some clients restructuring their investment strategies led to outflows.

These outflows pull down cumulative annualised revenues over the remainder of the year. Nevertheless, 2018 net flows still added £2 million to our revenues, resulting in total contribution from flows of £41 million. In 2019 we will see revenue decline - a revenue decline of £35 million from the 2018 outflows.

If we look across the two years, the picture is still one of revenue growth, with £30 million of additional revenues on the back of no net new business. That's because on average we have lost lower margin business but gained it via strategies at higher rates, such as private assets. It is part of the reason our net operating revenue margins have held up, at 47 basis points, even though the external fee pressures are still real.

The other significant factor is acquisitions, as we increased our private asset capabilities. Let's look at the net operating revenue progression at a channel level, starting with wealth management.

As you know, wealth management is one of our strategic priorities. The growth we have seen here is again good, with net operating revenues up 6% to £282 million. That was driven mainly by a £12 million increase in management fees. A small increase came from net banking interest, which more than offset the slight reduction in transaction fees.

Net operating revenues from benchmark capital increased by £3 million, to £13 million. That's in addition to other revenues of £8 million, on assets under administration.

Let's focus on the chart on the right. This shows sustained growth, with £13 million of annualised revenues generated on net inflows of £4 billion across the two years. Importantly, and in contrast with the rest of the Group, we have a tailwind from flows in 2018, which will add to our revenues in 2019. We will also see significant growth opportunities through Schroders Personal Wealth, our new JV with Lloyds, which Peter has just talked about.

Revenue margins, excluding performance fees, were 61 basis points which is in line with 2017. For your models, we expect margins to be around the same level in 2019, but as usual, business mix, the level of transaction fees, and interest income will have an effect.

Moving to intermediary. Net operating revenues increased £8 million to £938 million in 2018. Excluding performance fees, the increase was £27 million. That increase was driven by net new business and higher average AUM. The net inflows we generated in 2017, of £3.4 billion, drove annualised revenues of around £44 million. £25 million of that is included in these results, however, the benefit has been partly offset by revenues lost as a result of £4.6 billion of outflows. Those outflows equate to a reduction in annualised revenue of £32 million, of which £2 million is included in these results.

What is important is that despite there being net outflows across the two years, we have still grown our revenues by £12 million. Revenue margins were unchanged at 72 basis points. Despite margins holding up this year, we do still see longer-term pricing pressures. This may mean our margins fall a little in 2019, by perhaps a bit, but as you know, this will depend on how business mix changes.

Moving to institutional. Net operating revenues were up £37 million, to £851 million. The increase was driven by higher average AUM, which was up £15 billion. This time last year, I highlighted the demand we had seen from institutional clients for lower margin, fixed income and multi-asset products. As expected, this trend continued in 2018, but offsetting this, we are now seeing the benefit of the investments we have made, to develop our private asset capabilities.

There is demand for this asset class, as institutions look for increased long-term returns, and for us it represents higher margin business, and importantly, a long-term partnership with the client.

As Peter has highlighted, we generated £2 billion of net inflows in private assets in 2018. That is in addition to the assets we gained through the acquisition of Algonquin. Together, they bring our total private assets AUM in this channel to £28 billion.

Including other flows, we had total net outflows of £6.6 billion in the institutional channel. That equates to a reduction of around £7 million in annualised revenues, but that has had no impact on these results, so the chart on the right is the same story as for the Group and intermediary, a tailwind into 2018 from flows and a headwind into 2019, but overall annualised revenues are up £5 million on the back of £2 billion of outflows across the two years.

Net operating revenue margins, excluding performance fees and carried interest was basically unchanged at 31 basis points. That's in line with the guidance I gave you, and reflects the benefit of the growth in private assets that I've just talked about.

In 2019 margins may come off a little, but we don't expect this to be significant, with some further benefit from our growth in private assets.

Now let's turn back to the overall income bridge. You can clearly see the benefit of the acquisitions we have made, which have added £72 million of net operating revenues in 2018. These were mainly in the institutional channel that I've just been talking about. The revenues include the impact of the acquisitions this year, most notably Algonquin, together with a full year effect of the acquisitions completed in 2017, including Adveq, which introduced carried interest to the Group.

In 2018, we earned £28 million of net carried interest, which helped offset some of the reduction from the unusually high performance fees we had in 2017. I touched on carried interest at the half year, and given it is new for you, I want to take you through this in a bit more detail.

As you know, carried interest is similar to performance fees we earn on our core asset management business, but it is received over a longer timeframe. In cash terms, carried interest is received after distributions are made to investors to the fund, and they have received a minimum preferred return. There is a catch-up phase, where we receive 100% of the return, up to an agreed share of profits. For us, this is typically 90:10 in favour of investors. After this we typically share - sorry - we share in other further returns in the same split.

We also have commitments to pay away carry, which is a percentage of the carry we receive. We have 74 investment vehicles that entitle us to some form of carried interest, although the rights can vary significantly from vehicle to vehicle. They represent around £8 billion of our AUM. The vehicles are normally liquidated after a period of around 15 years. For us, the earnings potential is significant, but in cash terms it will be received over a long timeframe.

The chart and screen shows in simple terms how the returns are attributed.

Now, we have to deal with accounting for both the income and the pay away. I would love to recognise this on a cash basis, but I'm not allowed to, under the accounting rules and to make matters worse we are required to have a different basis for recognising the income and the pay away, even though the pay away is a proportion of the income we receive. Under accounting rules we have to recognise the cost earlier than the corresponding income. I realise this is complex but it is helpful background to understand the challenges in forecasting any net income from this source over the short term.

In 2018 we have earned £56 million of gross revenue, that came from nine funds and these were generally well advanced in their life. We believe this revenue is prudent but it still may be impacted by market movements until it is realised. We have also recognised £27 million of costs in relation to the pay aways. Importantly, although carry is a new category of net revenue for us, and we expect it to be an increasing part of the financial results over the long term, for now it represents only about 1% of net operating revenues, and I don't think you need to focus on it too much in your models.

So turning again to the overall income bridge, acquisitions contributed £72 million to the growth of which £28 million was carry. I also mentioned that performance fees were unusually high in 2017 and these reduced by £52 million in 2018. Going forward it makes sense to look at carry and performance fees together. These two revenue sources contributed net operating revenues of £55 million in 2018. At this early stage, we think that about £50 million per annum for both net carried interest and performance fees is reasonable over the medium term. That's up £10 million from the £40 million I usually guide to.

Lastly, other income decreased by £6 million. This includes revenues from our assets under administration as well as the returns on our investment capital portfolio, FX, and other gains. This small reduction is mainly due to lower investment returns as a result of the market falls we saw in the second half of the year. Pulling it all together, net income was up 3% to a little over £2.1 billion. That's it on revenue, let's now look at what's happening to our operating costs.

Comp costs continue to be the biggest component of our cost base as they make up 66% of our total costs. As I've already mentioned, we're seeing the one-off accounting benefit from comp deferrals reduced by about half this year. My guidance was for this to increase our comp ratio to 43.5% however we have maintained our ratio at 43%. This reflects continued cost discipline. Looking forward, we expect the remainder of the accounting benefit to fully unwind next year. You might expect this to translate into a higher comp ratio of 43.5% in 2019 but as a consequence of our focus on managing our costs we are targeting a 43% ratio.

As you have heard from me before, our focus is on delivering long term growth. In challenging markets it's even more important to do the right thing and invest in our strategic growth areas. In 2018 we have seen some important changes being realised and we have made further investments for the future. These include our new headquarters, our front office investment platform, and the acquisitions we have made to expand our private asset capabilities. As a result, our non-comp costs were £459 million.

That's slightly higher than the £455 million I guided to but is simply due to acquisitions and FX. It means a total cost ratio of 64%, which continues to be better than our long term target. Both Peter and I have talked about the importance of the investments we are making in driving the long term growth of Schroders. We remain focused on our strategy and are continuing to invest for the future. As a result, we expect to see some increases in our non-comp costs this year.

There are three key areas driving this the first of which is technology. We are investing to deliver firstly process efficiencies, secondly to improve our client experience, and finally to deliver data insights for alpha generation.

The second key area of non-comp costs is accommodation. Despite the potential which will go to automation we are fundamentally a people business and it is our talented workforce that ultimately supports our growth. As we expand we need more space and we have therefore been making investments in our property estate.

In 2019 it is also important to understand the impact of IFRS 16. This requires us to recognise greater lease costs at the start before these reduce over time. It accounts for about half the increase in our 2019 accommodation costs. To many - well certainly to me, this is a strange outcome as it does not match cost to the benefits received. It also moves us further away from a cash view.

The third and final key area of non-comp cost is the full year impact of the acquisitions we have made. Together the changes mean our non-comp costs may increase to around £490 million in 2019.

Looking further ahead, and as I mentioned earlier, we have also been making some structural changes particularly in Luxembourg. These are an important part of the developments we are making to our operating model. As a result, in time we may see a shift between comp and non-comp costs, however, we do not expect this to have much impact in 2020 - before 2020 sorry that should have been. As always our focus remains in managing our total costs.

Now let's turn to the last section on capital. We continue to maintain a strong capital position with total capital of £3.6 billion, that's up £150 million from last year. As you would expect, our regulatory capital requirement has increased as we have grown but it is also impacted by a number of other changes. We have a £50 million increase following the final transitional change to the capital conservation buffer.

In addition, we have a further £55 million increase as a result of the Bank of England's decision to significantly increase the counter cyclical buffer on UK exposures, on top of which IFRS 16 has had a further impact resulting in a £55 million increase in our requirement. I'll pause there.

IFRS 16, I just do - anyway, I don't know what to say in terms of - a notional increase in our balance sheet further increases our capital charge by £55 million. I'm sure it makes sense to someone.

After allowing for the final dividend our capital surplus is £1.2 billion. As you know, we have been focused on making our capital work harder to support our future growth. In 2018, we have continued to invest in the development of new products and in co-investments to support our private assets business. As a result, our seed and co-investment capital has increased to £535 million. Despite this increase we are continuing to maintain significant liquidity as part of our working capital and through our liquid investments.

You can see that both our capital surplus and our liquidity are managed carefully and that we are deploying this effectively to support our growth agenda. Overall, we continue to maintain a strong position.

So in summary, it's been an important year as we delivered on a number of strategic priorities. Net income increased by 3% and our total cost ratio returned to a more normal level of 64%. That resulted in profit before tax in exceptional items of £761 million which equates to a 5% decrease in basic EPS before exceptional items to 215.8p. Despite this reduction we have maintained our final dividend at 79 pence, it means a full year dividend of 114 pence, which is 1 pence higher than 2017 and represents a pay-out ratio of 53%. I'll now hand you back to Peter.

Peter Harrison - Group Chief Executive

Thank you Richard. You got all that. There's no numbers on the next chart you'll be pleased to know. What I want to do is we've talked a lot about how we are reshaping the Group and how the investments that we are making in being a different business for the future given the trends in the industry. I want to just try and take you back to the growth drivers that we've talked about in the past and what that means for a structural change to the business. Because there's a lot of initiatives being talked about and let's just try and put them in some sort of context.

We've talked in the past of these seven drivers of growth and for those of you who remember our investor day we went through a number of these. We're having another investor day on 15 May to unpack some more, so hopefully you've got that in your diaries. But those seven drivers of growth we've had a whole series of initiatives against each of these and those are important and I'll come back to those in just a moment.

But fundamentally what are we trying to do with the business? That really splits into three distinct and clear areas. The first is we want to find a growth strategy for the core business and it's still the largest part of our business is absolutely critical. But within that we're targeting client longevity and sticky assets and being able to retain assets for long periods of time is the significant difference between an asset management business and the growth of some of the private market businesses, or some of the advisory business that we've seen, is that volatility of assets and we're trying to slow that down.

So whether it's being complex insurance mandates or different types of relationships with clients that is mission critical in that core area.

The second area where we talked about is getting closer to the consumer, and we've had a number of initiatives there. Go back in time we acquired the Hoare's business, in asset management most recently you will have seen we acquired a business in Singapore, Thirdrock, and the Lloyds joint venture, and I'll come back to that in just a moment.

Finally, the growth of the private assets business. And what we're seeing is - and this isn't news to any of you as analysts, the number of public companies continues to shrink, public markets in the West are becoming less attractive places for capital, our clients are moving more money into private markets, and private markets are increasingly becoming accessible to the mass market. So we want to ensure that we've got a strong capability in private markets that has the added advantage of having more sticky money and more capacity for higher revenue products.

So those three elements are critical, and clearly to do that you need to have a strong underpinning of technology. We wouldn't be able to be making the progress and solutions and complex mandates without a strong technology underpinning.

So how do those various - and I hope the technology works here - those various initiatives that we've taken across those seven move into the three pillars that we're talking about?

First of all, the core business, and this year the key achievement there was the acquisition of the Scottish Widows mandate but we've also seen very significant growth in our solutions business as a key area of that, and we're seeing very good momentum across a range of jurisdictions. We've launched our Helix fund, which is now out there which is a multi-strategy fund, a very different proposition in the core market place.

Clearly we've seeded a significant number of new strategies, particularly multi-asset strategies around the world. That enables growth to follow in different markets. That's not to say we're putting the white flag up on the rest, absolutely not, we still see significant growth, but new growth drivers in that core business is important.

On the consumer side we've talked in the past about the relationship with Hartford in the US which has transformed the profile of our US business. We've bought Benchmark Capital two years ago which has helped our presence in the UK and Thirdrock has now - will develop our presence in Singapore very significantly as a strong growth advisor business there.

I'll just spend a moment talking about the Lloyds joint venture. This is obviously different from and separate to the Swift mandate. Here what we're trying to do is to take the best of the banking business. So you've got a very large market share in Lloyds across mortgages, high affluent people, so 20% to 30% depending on how you measure it in the UK, the number one digital bank in the UK, and marry that with an investment brand which resonates well with advisors and resonates well with end customers. End customers when we've tested it would prefer to buy from an investment brand rather than a banking brand.

Within the Lloyds network there is clearly a very significant number of referrals, and that is to my mind the rocket fuel of advisors, that's what they need is referrals, and that is a huge - we see it as a potential to mine it a lot further. So the combination of being able to take in a large advisor force but most importantly transform the referrals which exist within that network we think gives us the potential for a new growth business between the two of us.

We'll brand it Schroders Personal Wealth, it's in the process of being established at the moment so the management team has been appointed, the offices are being drawn together, the regulatory applications are in, but the reality of the timeline of these things is we won't have regulatory approval we think until the third quarter before we can launch. But there's a lot of moving parts and looking forward on a three year view I think it's an interesting business. I wouldn't want you getting foaming at the mouth about it for next year because there's a lot to do.

But fundamentally we see the wealth business and the proximity to the consumer as a growth business, and as Richard showed in his charts, the persistence of that growth is very clear from the numbers. Then on the private asset side, we've talked about this in the past, we've made further progress this year buying a business called Algonquin, but more importantly embedding the private assets capabilities we've got into different markets. We've hired a new alternative sales team. That has worked well and is now starting to gain traction. We acquired a small debt origination business in the US, A10, which will drive our securitised credit team.

So we've made four or five primarily organic or small acquisitions in this area but what we're starting to see is good momentum. I think the challenge here is that we're late cycle. We expect debt markets - you see a lot of very low covenant issues being made, we expect the amount of distress in that market to pick up. It's not a time when you'd logically go out and acquire businesses on fancy multiples. A couple of businesses have traded at very high prices. That's not a business that we want to be in. We've been able to buy the businesses we've bought at very sensible prices.

Clearly we need to do all that with an underpinning of technology, and Richard said, that's technology for investors, technology for clients, and robotics et cetera for a strong operational platform. You can see that the three pillars is absolutely critical to how we can reshape the growth and I think if we've got one mantra that we are very clear about is that we are investing for growth. There are different strategies emerging in our industry but ours are very clearly around we see this as a growth industry and we see there are still significant opportunities and we want to invest behind those.

That is now it, thank you. If I throw the floor open for questions and answers. Richard and I will endeavour to answer them all. If I could just ask one thing that you give your name - sorry, outlook statement.

It doesn't say a great deal but we've got to cover it. I mean this is not news to this room that there are challenging market conditions but we do see there are opportunities for growth. We've talked about the strong pipeline for new business, our focus is on delivering that effectively and on finding those new markets. Richard said there are headwinds entering into 2019 based on the profile of last year's new business wins. But, yes, we do see a good pipeline of new business on the other side.

Right, we'll now take Q&A, and if you could give your name and number then that will be - most grateful. The first one to grab a microphone.

Q & A session

Chris Turner - (Berenberg)

Two questions if I may. Firstly on the regulatory capital, that increased about 20% year-on-year. You highlighted about £100 million of that was from capital conversation buffers, counter cyclical buffers which I'm guessing relate to the banking license in wealth management. Is there anything you can do there going forward to optimise that, maybe you'd consider dropping the banking license, maybe part of the Lloyds joint venture?

Secondly, your working capital also increased by about £400 million, about 27% year-on-year, can you just discuss the drivers of that? I think I said I had two questions I've actually got a third, just throw it out there as well. Peter, you spoke about client longevity, obviously 2018 was a bit tricky, your gross redemptions actually picked up year-on-year, what is it that gives you confidence? Is it the mix, is it the client mix, the product mix that gives you confidence that longevity will continue to increase, thank you.

Peter Harrison

Thanks Chris. I think first of all the banking license. Banking is an important part of our proposition to the wealth clients we have in the UK so it's not an easy decision to say we should give up our banking licence, and at a time when we've got surplus capital, that some of it is allocated to counter cyclical buffers so be it. I mean it's not capital that's burning a hole in our pocket, and as I said, at that stage of the cycle where we're somewhat sceptical about valuations, et cetera, so it's not as if we would be looking to redeploy that elsewhere.

But it's - clearly the size of those buffers are large, given the size of our UK loan book which is very, very small indeed. Do you want to talk about working capital?

Richard Keers

In working capital there is not a lot to look her, obviously we're getting bigger and some of it is just timing differences in that we haven't extracted profits from some of the overseas subsidiaries, so there's not a lot to look into there. It's just going up generally because we're getting bigger.

Peter Harrison

Client longevity is a really important metric for us and for all our distribution teams, and what we've seen is two things. An underlying - from an institutional perspective the mix of assets that we're taking on the more complicated mandates you'd expect those to have good longevity, and the more strategic partnerships one develops the better the longevity is around those.

In the intermediary markets, we're very much more at the whim of risk-on, risk-off. So, that's far shorter and that's where we saw some of the hits. Obviously, if you have a one-off, big outflow, that impacts your client longevity. So, in Japan, we had that this year. But I think the actions we're taking, to my mind, feel as if the trends are in good shape. But clearly, the more one does in private assets and if you do the maths on just having 20% of your business in private assets, that would effectively add 2% or 3% to your underlying growth rate, just from the client longevity mix.

Hubert Lam - (Bank of America)

Three questions. Firstly, on SWIP, if you can give us an update as to when you should expect the SWIP assets to come on board. Any update on the arbitration case that's currently ongoing on that.

The second question is on the Australian super funds. I continue to see outflows coming from that as they internalise their asset management. What's your exposure left on the Australian super funds? Is this something that we should expect more to come through for you going forward? Or is the risk just now minimised?

The third question is on the dividend. You've increased your dividend this year by 1 pence, although your earnings EPS has gone down. So, your payout ratio has gone up to 53%. Historically, I think you've guided towards 50. Is this a step change now in your pay-out ratio?

Peter Harrison

I'll do the first two. I'll give Richard the third one.

SWIP is a - obviously, it's not our arbitration. It's a third party's arbitration and we - confidentiality keeps that at arm's length. My understanding is it's being heard in March and the - assuming there is a positive outcome, which I think is our hope and expectation, then we will push the button in terms of implementation for a good chunk of the assets coming over this year. The details of that are all being worked through at the moment. But that arbitration is ongoing and will follow its own course.

The Australian super funds, I think, is a good question because it's been a theme of the last three years as they've been restructuring. I think the big super fund changes are largely behind us now. There is also the Australian equivalent of RDR going on in the background, and the major review of bank behaviours which has gone on and been so much in the headlines. But those are much less important for the dynamics of our business. So, I would like to think that the biggest changes are behind us.

Richard Keers

On dividend, our policy is a progressive dividend. So, we wouldn't anticipate it declining year-on-year. Clearly, profits are low this year, so it's a 53% payout ratio, but we still, in the long-term, would see a 50% payout ratio, but that's subject to profit growth. If profits decline, clearly the payout ratio is going to tick up if we don't reduce the dividend. I think it's fair to say that our balance sheet is still relatively strong and hopefully there wouldn't be a significant likelihood of a dividend reduction. We're not saying it's impossible, but it's quite unlikely.

Haley Tam - (Citi)

Just three quick questions from me, please. Firstly, just to follow up on Hubert's question, could you give us a number for the remaining Australian superannuation AUM if possible?

Secondly, just on the structural changes to the group, can we confirm that the benefits to costs is really just the comp for over 43% this year rather than anything beyond that?

Then the third thing, a question on flows as well, if I can. The Hartford success has been really impressive for the last couple of years. I guess we could now start to be concerned that those funds have been around for a bit longer, so there might be a natural level of redemption. So, is there anything you can guide us on in terms of how some of Hartford's other relationships - how sticky they have been historically? That would be great, thank you.

Peter Harrison

So, our total institutional exposure, both super funds and other institutional exposure in Australia, is £14.9 billion, and that's a pretty well-diversified exposure. The lumpy ones have now gone.

If Richard could take the question on comp, I'll just quickly cover off the Hartford. I think that there, we are actually still probably a year away from the maturity of that, or a year-and-a-half away from the maturity of that book. What we're putting in is a series of new products, whether it will be more interval funds for securitised credit, et cetera, so that it's got a growth dynamic to it. We would expect to see gross flow significantly greater than net on into the future for some while. That book is quite a sticky book, based on the experience that one other manager has had with them. So, we feel good about the difference between gross and net.

Richard Keers

In terms of restructuring, Haley, you're right. Naturally, the 43 would have moved up to 43.5 this year, all things being equal, because of the unwind of that accounting benefit we had last year. So, we are looking to hold comp costs at 43%, so that is a lasting benefit.

What is also means is we can pay our people appropriately to retain our best talent. That's really important in a talent business as well. So, that does have significant benefits in terms of delivering our growth strategies.

Gurjit Kambo - (JP Morgan)

Just three questions. Firstly, in terms of the - there are a lot of businesses that you've been entering, a lot of new strategies that you have been entering, are there any areas where you have actually been exiting or streamlining the business? That's the first question.

Secondly, in terms of the mandates, the large mandates that you lost, is there any sort of theme of why you've lost those mandates? Is it performance? Insourcing? Fee structure?

Finally, just in terms of the Schroders Personal Wealth, the costs to set that up, are they included in the guidance that you have given?

Peter Harrison

So, on business we've exited, the two that stand out are the streamlining of our wealth business, so we've exited a small business we had in Italy and we're going to exit a business in Eastern Europe. So, we just took the view that simplifying our business in those areas where we didn't see growth was the right thing to do. I think one has got to be quite clear which battles you're going to pick, and private assets is clearly a battle - wealth in the UK is a strength. Wealth, for us, in Asia, given the strength of the Schroders brand, was a clear strength. But fighting the battle in Italy and Eastern Europe didn't feel like the right thing to do.

Shape of redemptions. Well, I think there are two big ones that I would look at this year. It's probably three. One is the change of UK Local Authorities. So, you remember that UK Local Authorities went from 84 or so to a pooled eight super funds. Now, the managers' selection process for that is going on. We saw £5 billion out of our UK equity business. Part of that was around the restructuring of Local Authorities.

The second big outflow was the one in Japan. That was a Japanese buy and maintain [bond mandate whereby they consolidated managers down to one at a very, very low fee level, and we wouldn't have participated at that low fee level. It cleared at a price that - you've got to be clear about what business you're in and that wasn't one for us.

The third was a piece of business in Mexico. That was as a direct result of BlackRock buying the business and saying we'll run the money ourselves.

So, you will have these things, but I think actually, I would like to draw a contrast between the fundamental growth we've got going in some of these things and then the one-offs you're going to get along the way, which are unfortunate but sort of inevitable.

Richard Keers

In terms of costs, all costs that I'm aware of, and I've got pretty good visibility of costs, are included in my guidance. Just thinking about Schroder Personal Wealth though, it is a JV, so we're going to be equity accounting that, so it's a share of profits that comes through this year. That share of profits won't be significant in that it doesn't yet exist. So, it will be later this year when we start seeing that benefit. But importantly, it also includes all the costs relating to the take-on of the Swift mandate. Obviously, that's fully included in my guidance. Clearly, I know what we need to do to get ready for take-on. I don't have clarity in terms of when the assets arrive. But in terms of costs, everything is included in that number.

So, it should only change for acquisitions and FX, which is - I've been pretty accurate so far. This year and last year my guidance, other than FX, which I can't control - I wish I could, it would make my life a lot easier - and acquisitions, where I guess we do have some control but I don't have a crystal ball of exactly when they're going to appear. So, I wouldn't - you shouldn't be surprised by non-comp costs.

Arnaud Giblat – (Exane BNP Paribas)

Two quick questions, please. Firstly, on method, I was wondering if you had seen any impact from the ban on retrocessions in Europe from independent channels, given that you seem to have had outflow from Switzerland and Italy.

My second question is around the JV, Schroders Personal Wealth. I'm wondering if you could give us a bit more on the business model. What sort of fees are being charged, in terms of advice, in terms of platform, in terms of asset management? Is it going to be a restricted model or are you going to use independent financial advisors? You're talking about becoming a top-three player in the medium-term. How are you thinking about recruiting? Because I think the number of financial advisors out there is shrinking rather than growing. Thank you.

Peter Harrison

You're obviously right, there are changes going on in Europe. But I think that they are much more marginal in terms of the extent to which they relate to MiFID. I would actually say that by far the biggest driver of the outflows we saw in Italy and Switzerland are simply the result of risk-off appetite. You can see what type of funds they were coming out of and the timing of those flows, and you saw the fourth-quarter impact. That wasn't a restructure. But I think we have to be mindful that those markets are changing and we're working with a slightly different group of distributors in different ways. That's right and we will continue to evolve, but I think we feel pretty positive about being in a good position through those changes.

The second issue, about advice, the business model for that is it's going to be a restricted network. It won't be an independent network. The investment proposition is being worked up and, clearly, we will launch that when it's ready. But it will be a restricted network.

I think it's important, this point on advisors. There is - the UK market suffers a massive advice gap. A huge, huge gap. We are not looking to go and try and hire lots of other advisors and rob Peter to pay Paul. This is a growth market where there is a vast number of people under-advised and technology is under-utilised. So, the issue for us is how we train and build a restricted advisor network with a really world-class investment proposition to grow that over time, focusing initially on the referrals that come out of Lloyds, but then more broadly. So, I know there has been a lot of speculation about us going and poaching and other things. For me, this is about how you organically grow a new adviser network.

The opportunity - the average age of advisors in the UK is something like 56. The opportunity for this is to get the next generation right. It's to take the 20-year view of it, not take the two- or three-year view. And that's the proposition that we want to build.

Anil Sharma - (Morgan Stanley)

Just two questions please. If I look at the intermediary business, particularly over the last 18 months, and if you take out the flows from Hartford, the growth there has actually been pretty tough, and that's despite a pretty strong market backdrop. So, I'm trying to understand what the drivers might be behind some of the underperformance there and if you see a reversal in some of the growth.

Then secondly, on costs, Richard, please correct me if I am wrong, but I think you said there was £56 million of exceptional costs related to the cost-saving plan. So, I'm just to understand what cost synergies do you expect from that plan? And then, once the transition to Aladdin is complete, which I think is also due this year, what extra cost savings should we expect? Are they going to - and I'm assuming they're 2020 cost savings.

Peter Harrison

Just quickly on Hartford, first of all. Actually, it's easy to get - unfortunately, some of the wins we get from Hartford are institutional. So, when I gave you the Hartford number, I gave you the aggregate Hartford number, but that is a mix of intermediary and institutional. So, sorry but that will probably confuse your model. Before you ask me the question of how much last year was institutional or intermediary, I haven't got it off the top of my head. But it is something of the order of, I think, £600 million of it was camped under intermediary. Something like that.

I think intermediary - if I was to say - we've performed credibly but one area that I feel we've under-batted has been on European multi-asset. We've been short a low-vol product at a time when that's been the best-selling category in Europe. Part of the seed capital has gone into developing those products, but the reality was we didn't have the right products on the shelf as the market moved into that segment. So, that, if you like, has been - not playing in the high growth segment within Europe has probably been the challenge, and having rather more market share in equities than multi-asset.

We have fully participated, I think, in credit and done a very good job there. But that was the headwind. We've lost a bit of - I think in Asia there has been a lot more competition that came into the income space. So, we were very early innovators in multi-asset income and that's now a much more competitive marketplace. But that's a relatively small point.

Richard Keers

On costs, on the £56 million, that's all about the comp ratio and we're at 43% this year. I think we should go back to last year, where we were at 43%. I think I've set out - that should have moved to 44%. 43% was artificial. So, by taking that restructuring cost we are, essentially, trying to deliver an ongoing ratio of 43%. So, a whole 1% increase, not the 0.5%, because it should have moved to 44%. We've done some of that this year.

In terms of Aladdin and other efficiencies that we should be deriving from that, we've got a lot of decommissioning to do and this year is a hard year in that there is a lot of work to be done to turn off a lot of other applications and to really get the real benefit of a simplified business process. So, this year, there isn't much. Actually, there are more incremental costs because it costs money to turn things off. But 2020 is the year that we're looking forward to because we will get to a more simplified, globally consistent business process.

This year was always going to be painful and you probably, in the meetings that we've had, have picked that up. I haven't been promising very much in respect of 2019 but it's all in the cost guidance I've given you so I've been fairly transparent in what I think our costs are going to be.

Mike Werner - (UBS)

Two questions, please. I saw in the press release this morning that your management fees in North America were up 10% year-on-year. I know that's a key area of growth for you guys, but I was just wondering if you had an idea of what portion of that was organic versus inorganic through acquisitions.

Then, second, I also saw a sharp decline in terms of the one-year performance for the Company down to, I think, about 43%, if memory is correct. I was just wondering, is that something that we saw throughout the year? Was that something that was more specific to Q4? If you could just provide a little bit more colour there.

Peter Harrison

Yeah, sure. North America is an easy one. It's 100% organic and when we talked about flows, one of the characteristics of North America was we were taking in a lot more equity mandates, particularly emerging markets. So, that was the major reason for that increase. I wish I could say it was because we were putting up prices, but it wouldn't be true.

One-year performance numbers were based around two areas, fixed income and multi-asset. Multi-asset was the impact of markets, particularly in the fourth quarter. Fixed income was, again, fourth quarter as well. But, if you remember that last week of December, we saw a very significant and rather odd shape of markets and we've had a good bounce back for the first two months of the year across both fixed income and multi-asset.

One-year numbers are not the basis on which clients make decisions. But if you look at the three-year numbers, if we look at what's - if I was to make a bet of which way the numbers are going to go at the next reporting point, I think if anything they're going to move up rather than down because the short-term noise, which is moving out from three years ago. So, in terms of performance, we're pretty comfortable about where that sits.

Are we there? No more? Thank you all very much, and I look forward to seeing those of you who want to come along on 15 May Investor Day. Thank you for joining us.

[End]