Schroders

Schroders Half Year Results 2017

Presentation

Peter Harrison, Group Chief Executive

Schroders Half-year results, 2017. I gather today is the busiest reporting day in history, so thank you all for coming. I will do the normal thing of going through the high-level results and flows. Richard will give you the detailed financials and then do some Q&A.

Perhaps just a word of context before we get into the numbers. It feels like this is a moment of a bit of a crossroads in the asset management industry, where half the firms are going towards transformational mergers and other firms are going in an opposite direction.

We very much feel that we've got sufficient scale, sufficient diversity, not to need to do a transformational transaction. I want to take you through some of the reasons why that is today, but I think that context is important as we look at the figures.

First of all, the headlines. You've seen the actual numbers, but net income was up 17%, profits before exceptionals, up 23%, the dividend up 17%. I think for me the two more important numbers on this page are the cost numbers. We cut our cost-to-income ratio from 64.9% to 62.8%, despite a number of new initiatives going on, and Richard will talk more about those, but I think that's an important point to make in terms of cost control.

And the second was the positive flow number. A number of you picked up that we had a large individual outflow of £5.8 billion in the US during the first half. These numbers were - those volatile things happen from time to time, but these numbers were despite that outflow coming through and being recorded.

What I'll do now is go through into the individual flows of the areas, although I would say we see this as an increasingly blunt way of looking at the way our business is performing, because you've got very different types of assets coming in. You've got an LDI mandate on single-figure basis points and some mandates on 10, 15, 20 times that, so we will be looking to try and improve the way in which we talk about the dynamics of the business over time, because I think flows are not best measure, although I appreciate in your community, they're the primary tool.

Overall picture, between Institutional and Intermediary, Institutional had saw positive flows in of £1.4 billion. That was in the US, in Asia and in Europe. Intermediaries saw outflows of £1.2 billion, predominantly driven by the US, and Wealth Management saw a better tone this half year of inflows of £600 million, and that was particularly skewed towards the UK, where we saw a much better flow picture.

If I just look at that last half year in more detail between Institutional and Intermediary, over the half-year periods, the picture looks like that, and you can see that dark-blue section, the £1.6 billion into Institutional, the yellow section, which is £4 billion into branded intermediary, and wealth on top of that, and then this very large outflow, £5.2 billion in sub-advised mandates, of which one client was the £5.8 billion that I referred to.

So a very big skew, but the underlying performance we feel across the regions was more positive. If we look at that by asset class, Fixed Income continued to perform. The flows into fixed income were across pretty well all the investment desks. There were one or two small exceptions, but the flows broadly across our fixed-income platform, and that was despite the slowing down our flows into our credit funds, which we did early in the year.

Multi-asset saw outflows for the first time in a long time. The underlying flow ex that one was an inflow, £4.3 billion of net new business, but we did see an overall outflow recorded in the books. Equities was a small negative. That's made up of £2.4 billion of outflows in institutional Equities and £2.1 billion of inflows in branded equities. And of that institutional outflow, the vast majority of it was in Australia, where some of you may be aware, we've, a) got a big business, and b) the dynamics of that market have been changing, more internalisation of assets, etc. So the Equities business on the branded side has been positive, but on the Institutional side, been more impacted.

If we just look at that by region, a bit more detail, you can see the strong performance in the UK. UK flows in total aggregated to £3 billion, split roughly £1.6 billion to UK intermediary and £1.4 billion through UK Institutional. Europe, as I say, was about £0.8 billion, predominantly intermediary, and Asia was £0.8 billion, and that was the very positive impacts of Japan, of China, small contributions from Hong Kong, Singapore, Taiwan, and negatives from Australia. European Intermediary was a positive, and as I mentioned, European Institutional, we had a couple of individual outflows which tipped European Institutional negative, but overall, it was a £0.8 billion.

The feature of that chart is obviously the negative performance in the Americas, and as I've said to you last time we were here, I expected the American flows to turn around, so that yellow bar needs talking about, which is the next chart. And you can see there that there's two very different trends going on in this next chart. This is US flows over the last five years.

Again, the dark blue is the Institutional flow, and as we've rebuilt our sales force and entered new sectors like the Taft-Hartley union sector, we've seen good flows in Institutional. We've talked in the past about our new relationship with Hartford, selling branded funds. That came into effect at the end of October last year. The effect of that is starting to come through, and you can see in the yellow bar, the branded Intermediary sector in the US now starting to do quite well. The full effect of that isn't yet on. There are still some distributors of Hartford which haven't yet started coming through, so we expect that yellow bar to continue to perform well.

Going forward, we feel that the underlying piece of the US is that, and without wishing to call special pleading, the US flow is very much focused around that one grey bar at the bottom. So I think there's a - we do feel that momentum has changed in the US and we're on a growth trajectory.

Just looking at that in a little bit more detail between Institutional and Intermediary in the US, this next chart. You can see that the flows in Institutional were surprisingly equity oriented. The death of active management in the US is slightly too early to call that one. We saw good flows in Equities. We saw good flows in Multi-asset, particularly north of the border in Canada. Actually, relatively muted flows in Fixed Income, and what I would say in fixed income is that I see that as a big opportunity looking forward. If you think about the US DB market, it is the largest institutional defined benefit market in the world. What the UK has been through in terms of de-risking has been industry leading in a global context, and one of our big exports is teaching pension funds how to de-risk their funds. And I think we would expect to see more fixed-income activity in the US as the US pension fund cycle goes through into de-risking.

Conversely, on the Intermediary branded side, we've seen good flows into equity products, which are primarily the funds that Hartford are promoting in the intermediary sector. So that's the picture in North America.

Strategically, I set out in the past seven areas of growth that we were focused on developing. One of them was obviously the US. One of them was turning around our Wealth Management business, which you see we've made good progress on, and the other one was building out private assets, and for me, this is a really important initiative. We see more and more client assets going towards the private asset sector, partly as a result of the banks not functioning well in private asset markets, partly as a result of them wanting a higher carry for less liquidity.

So as clients move that way, we want to move our business that way. We've got $20 billion of assets today - $20 billion of assets today - in Private Assets. We want to grow that investment. We've arranged it now under one leadership, pulling all those things together. That's important, because when you go see a client, you want to take a franchise in. You just don't want to take an individual product in to sell them.

We've announced the acquisition of Adveq, which is an important string to the private assets bow. Adveq is a private equity solutions provider. Does secondaries, does turnaround, does co-investment, but importantly, it plays at the small and mid-end of the market, where big, marquee names don't play, and it's - so if you're a major private equity investor in the US, you will give your allocations to the KKR, Blackstones and Apollos.

But where it comes to accessing smaller managers, you tend to go to specialists, and that's the area that Adveq plays. It's got a great performance. It's got a very high-quality client base, particularly Switzerland, Germany and the US, and I would say that since we've announced the acquisition, we've seen the business continuing to perform very well, very, very high levels of performance, which gives us good confidence that the momentum in that business will carry on.

We expect that transaction to close very shortly. While it was subject to regulatory approval, it no longer is, so we've just got - finishing off the final steps towards closing. So building private assets business, important initiative to us, and Adveq is a step along that way.

What I'd like to do now is to hand over to Richard, who will take you through the detailed financials, and I'll come back, talk about outlook, and Q&A. Thank you.

Richard Keers, Chief Financial Officer

Thank you, Peter. So good morning. I'm pleased to report that we have again delivered a strong set of results, with profits up 23%. I'll take you through the drivers in a moment, but first, let's look at the highlights. Net income increased by £140 million, or 17%, to £974 million.

We have a total cost ratio of 63%, which is 2 percentage points better than the same period last year. Thanks to this improvement and the growth in net income, we delivered profit before tax and exceptional items of £361.5 million. We're estimating a full-year tax rate of 21%, which is slightly higher than the 20.5% we had last year. The increase is driven by strong profit growth in higher-tax countries, including the US and Japan.

That means a tax charge of £76 million, which takes profit after tax, before exceptionals, to £286 million. Exceptional items were £16 million, bringing us to profit after tax of £270 million, an increase of 21%. Okay, first, let's look at what's behind the increase in net income.

Starting with acquisitions, these increased our net operating revenues by £17 million. We acquired the wealth migration business of C. Hoare & Co. in February of this year. This contributed £8 million to the increase, with the rest from Benchmark Capital and the securitised credit business we acquired in the second half of 2016.

The biggest change to revenues came from markets and FX, which together increased net operating revenue by £131 million. That's driven by a £78 billion increase in average AUM, partly offset by the decline in our revenue margin that we had anticipated. Net sales this year and last year together reduced operating revenues by £9 million. However the mix of flows this year has increased revenues by £6 million, whilst the mix last year had a negative impact and reduced revenues in the first six months of this year by £15 million.

This isn't always easy to understand, so let me expand for a moment on how we think about flows. One of the key measures we use when looking at new business is whether it increases our annualised revenue. That's the amount of revenue that the AUM generates over a 12-month period. Our small positive inflow in the first half of this year of £800 million generates annualised revenue of £20 million. That's the net impact on revenues of our gross inflows of £52.4 billion being at higher margins than the outflows of £51.6 billion.

It's driven by the strong sales we've generated through our branded intermediary business that Peter just talked about. As I just mentioned, about £6 million of that revenue is included in our results to date.

However, from a modelling perspective, what you need to know is our AUM and the likely net revenue margin that we'll generate from that AUM.

With that in mind, the guidance I give you takes into account how annualised revenues on existing flows will change the rate, along with some estimates based on how we see the year progressing. I will share with you our latest thinking on margins in just a moment.

Performance fees were up £6 million compared to the same period of 2016, and we saw a small decrease in other income. Altogether, that means a 17% increase in net income to £974 million, so let's look at this by segment and channel. Starting with institutional, net operating revenues were up £57 million. £7 million of that increase relates to performance fees. The other £50 million was driven by higher average AUM, which was up £45 billion.

That's the combined impact of four things, markets, FX, new business and the acquisitions we made in 2016. As I have previously explained, we've seen a change in the business mix, with high demand for lower-margin fixed-income and multi-asset product. In March, I highlighted that this trend could cause margins to fall by one basis point in 2017.

We have already seen that decline come through, with Institutional margins falling to 31 basis points. Looking forward, we may see margins move from here, but we don't expect that to be significant. Importantly, we are continuing to build scale to increase operating revenues and grow profits. With AUM at a record high of just under £240 billion, we're well positioned.

Turning to Intermediary, net operating revenues were up 17% to £437 million. That's driven by a £23 billion increase in average AUM. That includes the combined impacts of markets, FX and acquisitions. It also included net sales, which is - as you've just heard from Peter, were negative in the first half. This was due to the loss of a large sub-advised mandate at low margin, with positive sales into branded products.

Revenue margins declined by just over two basis points to 71 basis points. This was due to the changes I highlighted in March. Reflecting our sales and the positive markets we've seen in the first half, we're now forecasting the full-year margin to be around 70 basis points. That's one basis point higher than the guidance I gave you in March and is mainly due to the annualised revenue impact of the sales in our branded Intermediary business I just talked about.

Moving to Wealth Management, net operating revenues were up 22% to £131 million. That increase was mainly driven by management fees, which were up 28% to £99 million. Remember, our Wealth Management business segment now includes Benchmark Capital, which we acquired in December last year. We generated £5 million of our operating revenues from Benchmark in the first six months.

Excluding Benchmark, the increase in management fees was driven by higher average AUM, which was up 19%. Net banking interest was up 7% to £11 million. We've also seen an increase in transaction fees, which are activity based, although that's been offset by a lower performance fee number compared to last year, which included the large one off.

Revenue margins were 62 basis points. That's down three basis points and is entirely due to the inclusion of Benchmark's results. At this stage, we expect margins to be around this level for the full year.

Right. Let's now look at operating expenses. Comp costs are the biggest component of our cost base and make up a little under 70% of the total. We have accrued comp at 44% of net income. That's 1% lower than the same period last year. The decrease reflects our continued focus on cost control.

If market conditions remain unchanged, we do not currently see any need to review the ratio from here, but this will be reviewed later in the year. Non-comp costs were up £19 million to £185 million. That's a little lower than you might expect from the guidance I gave you for the full year, but that's simply due to the timing of costs, and we are still forecasting £380 million for the year as a whole.

The increase compared to the same period in 2016 is mainly down to two things, FX and acquisitions. Starting with FX, just under half of our costs are incurred outside the UK. The weakening of sterling has increased these costs by around £9 million. The rest is mainly due to the acquisitions we've completed over the last 12 months.

So our total cost ratio, a key performance measure for us, has improved from 65% last year to 63% in 2017. That demonstrates good cost discipline, but importantly, what you need to understand is that we have delivered that reduction while investing in transforming how we run the business.

Technology is one of the seven areas of growth that Peter has talked about in the past. We've been doing a lot here, and I'll spend a moment now outlining some of what we have done and what we are doing. We've talked before about changes to the investment platform. This is on track and will provide a scalable platform capable of managing the increased investment complexity, particularly within our growing fixed income and multi-asset businesses, and we have continued to invest significantly in our data insights team, adding a new dimension to our traditional in-house research capability.

We've implemented a new CRM system and consolidated the investor websites, providing us with greater depth of understanding of client behaviours and helping us to deliver the right solutions for their needs. We have six new data centres in London and in our other principal operating centres, providing us with the IT infrastructure necessary to manage the increasing volume and demands for data.

We're investing in robotics, helping us to automate routine tasks, supporting the ability to build scale and releasing our people to focus on supporting business growth. You should also know that we are moving into a new head office next year, and in the past two years, we have moved into new locations in both our Singapore and New York hubs.

These are important moves for us, increasing capacity, rejuvenating our work space and supporting our drive for collaborative working practices. Furthermore, as you know, registry demands continue to be significant, with the current focus on MiFID II and EMIR.

We are delivering a lot of change, some driven by us and some that is required, but all of that has been absorbed within the lower cost ratio that we have delivered today. The pressures on cost will continue, as we explore new markets and provide new products, but we are focused on maintaining good cost discipline as we invest in future growth.

Finally, we've had £16 million of exceptional operating expenses. These rate almost entirely to the amortisation of acquired intangibles. We were budgeting for exceptionals of around £30 million, but this will increase with the Adveq acquisition to around £35 million.

Finally, let's turn to capital. As you all know, we have a strong capital position, and we see this as a significant competitive advantage. Equally, we recognise the importance of putting this capital to work, and you've seen over the last 18 months we are doing just that.

We look at our capital base in two ways. Firstly, in terms of our available surplus, but we also focus on our available liquid resources. This is the capital that has been released from the operating businesses and is held in liquid investments. We've separated these two views in a new presentation you can see on the screen. To the left, you can see how we focus on available surplus, and to the right, how our capital has been deployed and the available liquid resources.

So we have a capital surplus of just over £1 billion. Remember, registry capital will go up at the year end, when the capital conservation buffer that I mentioned in March will increase again, by around £50 million. That will reduce the capital surplus, but second-half profits and other movements, such as completing the acquisition of Adveq, will also have an impact.

So available liquid resources are slightly lower than our surplus capital at £820 million. These are available to support acquisitions, organic growth, including seed capital, which has increased to £409 million and may rise further in the second half. We manage both our capital surplus and the liquidity carefully to ensure that we have sufficient resources available to support our growth agenda.

Overall, we still maintain a strong position, and as I've already said, we see this as a positive. So in summary, net income was up 17% to £974 million. To put that in context, it's more than an increase for the whole of 2016. We continue to invest in the future of the business, with a number of strategic initiatives to transform working practices and capabilities.

We delivered these changes whilst continuing to maintain good cost control, with total costs down 2 percentage points to 63%. That's allowed us to deliver 23% increase in profit before tax on exceptional items, with basic EPS up 22% to 103.5p before exceptional items. So as a result of this strong performance, we have increased our interim dividend by 17% to 34p per share.

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

Peter Harrison, Group Chief Executive

Thanks, Richard. Thank you, Richard. What I'd like to do very quickly before we talk about the outlook is just talk about our Investor Day. On 3 October, we're going to give the opportunity to get much deeper into the strategy that we've talked about that's so important.

We will have a number of managers from across the Group, particularly Europe, Asia, some of our key franchises - at the moment, looking like our income franchise, our emerging market franchise, and also talk about insurance, but importantly, an opportunity to really meet a number of our senior managers, and not just hear from Richard and I.

In terms of outlook, I think that we've had a period of very sustained low volatility, and I don't think we can expect that to continue for a lot longer. However, we do think the underlying position of the Group in the UK, in Europe, in Asia and in the US is in a good position for future growth, and we're very willing to get behind and invest in those areas.

If you look in the last 12 months, we've made significant moves in our wealth business by buying the C. Hoare wealth business, in buying Benchmark Capital, in the private assets business through acquiring Adveq, and allied to that, an asset-backed securities team from Brookfield, and also, in buying - having a strategic relationship with Hartford. So five important strategic moves to back up that strategy, and I think that willingness to invest is absolutely critical.

Finally, in terms of outlook, I think this focus on costs is going to be really key in terms of making sure that that growth of the top line does fall through to the bottom line on an on-going basis. So all in all, a solid outlook, but one where the short-term market volatility is clearly out there as a risk.

I'm very now happy to open it up for questions and answers. If you could just start by giving your name and your firm, and Richard I will answer any questions you may have. Thank you.

Q&A Session

Please note that technical issues resulted in two questions and their answers not being recorded. The two questions covered our guidance towards our total cost ratio and our response to the FCA Asset Management Market Study. Our views on both are detailed below.

Total cost ratio

Our current total cost ratio is 63%, which is better than our long term target of 65%. This is as a result of maintaining strong cost discipline, while continuing back into the future growth of the business.

Response to the FCA Asset Management Market Study

We welcome the emphasis in the final report on the importance of putting investors' interests first: they are at the heart of what we do.

We have worked with the FCA throughout the market study process and we welcome the fact that the FCA will be consulting on a wide range of remedies. We will continue to engage with them in that process.

We are pleased to note that the final report is clearer about the contribution of active asset management to investors, savers and the economy.

We believe active asset management delivers significant long term value and performance, outperforming benchmarks and tailoring products to clients' needs and their future prosperity. Active asset management also means active involvement in the companies in which we invest our clients' money.

We believe that the UK asset management industry is already very competitive – it is not concentrated and, as the FCA recognises, there are low barriers to entry. It competes in a global market: UK asset managers compete with non-UK based asset managers. It is important to ensure that the UK remains competitive as an international centre for asset management especially in the post-Brexit world.

Daniel Garrod (Barclays)

This is Daniel Garrod from Barclays here.

Peter Harrison

The microphones are working, if you could please use them. Thanks.

Daniel Garrod (Barclays)

Daniel Garrod from Barclays. Two questions. Firstly is a follow on from that asset management market study. Your guidance around margins for 2017 is clear, but there was a lot in that study, which focused on an increased duty to ensuring that retail customers are pushed into the cheapest share classes. I wanted your thoughts on feasibility of doing that, if most of your distribution is intermediary led, as it were. How do you know that it's the cheapest option for your - or most suitable option for your retail customers? So how much onus does that push on you?

And second, there's a platform market study, as well, where in the terms of reference for that, the FCA seemed to put a lot of emphasis on the larger distributors using their size to push down manufacturing fee rates on their platforms. Your thoughts on future pressure from that? Thank you.

Peter Harrison

In terms of using cheapest, the analysis we've done, actually, people feel that that is in a good place. The key one actually is around the legacy pre-RDR share classes, where there is - historically, there's been a contractual problem of moving people into the new share classes couldn't be achieved. We've worked with the regulator on this now for 12 months, and we've now got I think the regulatory position clear, that those assets can move. Actually, our Benchmark acquisition potentially leaves us in a very good place to create the right move for that and give people the right online portals.

There's still more work to be done, but it's a relatively small issue for us with that legacy. So it's a bigger issue for people with bigger legacy books, but as a portion of our business, it's a small issue. I think the platform one is an important one. We've always said that the asset management value chain is very long and very complicated, and that's not news to anyone in this room, but we are a B2B business, and then we sell to other businesses who ultimately sell to end consumers in large part.

And the platforms are an important part of that value chain, and they're quite a big lump of the total cost as it ends up with consumers, so it's not unexpected that the regulator should look at our business model. And they concluded that, very clearly, that barriers to entry allow there's good competition. The next thing they're going to look at it is the platform business, and we'll see where that comes out. I think it's too early to judge though. They're gathering their data.

It's - there are clearly some powerful companies in that link, and there's much more concentration in that part of the value chain than there is in the asset management part of the value chain. I think we'll have to wait and see. I don't want to try and prejudge it.

Daniel Garrod (Barclays)

You can't see any step up in them using that as justification for coming around and asking for….

Peter Harrison

Oh, look, let's be under no illusions. The fee pressure in our industry that people are asking for has always been intense, and that's been part of management. I will - anybody who is a major buyer of assets will always ask for a discount, but that's the market system working. I don't see that changing materially, and we don't see that becoming a bigger feature or a less big feature over time. It may become so, but it doesn't feel that that is materially different at the moment.

I should just add that we have a small platform business within Benchmark, so we will be responding to the regulatory response on platforms.

Arnaud Giblat (Exane)

Hi. It's Arnaud Giblat from Exane. I've got three questions, please. First, on the cost to income and profitability, it seems as though most progress has been made in wealth management over asset management. I was wondering if you could maybe unpick what specifically has driven up that profitability in wealth management? Secondly, in terms of the longer-term outlook, you gave some information on slide three about the retail flows.

It seems as though branded funds have been selling better in intermediary, at the expense maybe of sub-advised mandates. Is that a trend that we should expect to continue, and maybe could you give us maybe a bit more disclosure around the difference in fee margins, in both sub-categories? And finally, you mentioned there could be more appetite for further bolt-ons. Which areas are you looking at building out? Thank you.

Peter Harrison

Richard, do you want to take the first one, wealth management versus asset management?

Richard Keers

Yeah, no, wealth management, it's largely about scale. So we've got a relatively efficient engine, back office, that's based in Zurich, so that's a different question. But it is scalable, and we have added the C. Hoare & Co. business without taking on any of their back-office resources, so it's been driven by increased scale from a nice front-office bolt on. And we've also got Benchmark within wealth management now as well. Benchmark has driven good growth.

Peter Harrison

Just taking the second one, in terms of the outlook versus - branded versus sub-advised, it's a good point. Our branded flows were £4 billion. Our sub-advised flows were minus £5.2 billion, which is minus £5.8 billion for one client and only plus £0.6 billion for other sub-advised. And I think the point I make there is sub-advisedd can be a little bit more like institutional in terms of the lumpiness of those flows, because they tend to sit in various parts, so they might be part of a VA programme in the US. It might be a very specific product that sits on the shelf, so they don't follow the general trend of branded.

One of the points I made earlier was that we see flows as quite a blunt measure to understand our business, and giving you more granularity of revenues and the different sub-sectors within those channels I think is important as we go forward, and we're looking at how we can do that better.

So you're right, branded perform better, but I would think sub-advisory can move a little bit more like institutional in a blunt way, so that's absolutely right. If I can get my classes - the difference in fee margins between categories, do you want to take that one, Richard?

Richard Keers

Arnaud, was your question on institutional fee margins? I think I said we're moving to 31 basis points. We got there probably a little bit earlier than we thought. I don't think there's going to be significant change for the rest of the year there. On intermediary, if we go back to the guidance I gave in March, we were at 72.6 last year. We had UK - we had transfer agency changes. This was down 0.9. UK unit trust transaction revenues, off 0.8, and flows straight mix, another 1.7 is what we were forecasting, so we were anticipating 69.2, which was the numbers I gave you previously.

If I compare that to today, the real change is in mix, so everything's the same until that last negative 1.7, and we see that moving to negative half, so giving a forecast best guess of 70.4 versus previously we were at 69.

Arnaud Giblat (Exane)

Maybe just what I was trying to get at is what was the size of the intermediary branded versus intermediary sub-advised.

Richard Keers

Well, as Peter said...

Peter Harrison

Sorry. Could you just grab the microphone and, sorry, just repeat that for the benefit of those online.

Arnaud Giblat (Exane)

Yeah, I was just trying to get to the size of the intermediary branded and sub-advised.

Richard Keers

Yeah, as Peter mentioned, we're looking at providing you with greater disclosure in the future between sub-advisedd and branded, but we haven't historically done that, but that's something that we're looking to do at the year end.

Peter Harrison

Great, and on bolt-ons, I think there's two or three things. We have some simple rules. They must be culturally aligned with what we do, and I think bringing in businesses that there isn't a cultural alignment is a real risk in this industry, so cultural alignment. Secondly, Schroders must bring something to the party, so when we've brought businesses in, you tend to see an acceleration in their growth rate, rather than an attrition, and that's not often the case in M&A in this sector.

But you've tended to see that, and you've seen that again with Adveq, that people see that what we can bring is a positive, not a negative. And in terms of the areas that we'd like to be in, I think we're looking in other private asset segments and corners of the market where we don't currently have an offering, where clients are saying, we see long-term demand trends.

That's particularly in the non-public debt areas, where there's clearly - the banks have retreated. If you want to fund a long-term infrastructure project now, you tend to go to asset management and insurance companies. You tend not to go to banks, and I think that's an area where there's good long-term growth dynamics, so financing infrastructure, financing real estate, financing growth in real estate. We've got insurance-linked securities. I think there's more we can do there around long-term life, et cetera. It's that sort of area, those non-public markets. But as I say, there's nothing in the pipeline that's burning at the moment.

Haley Tam (Citigroup)

Morning. It's Haley Tam from Citigroup. Some quick questions, please. Just in terms of the bolt-ons, could you give us some idea of what financial metrics you use to assess the suitability of deployment of capital, just so we can perhaps start to value your surplus capital a little more than we have in the past. That will be interesting - returns on investment, that kind of thing.

Secondly, in terms of MiFID II and the bans on retrocessions that will be coming through in Europe for some intermediaries, could you give us some idea of what your mix of intermediary network is in Europe and to what extent they might be affected by that? The third and final question was just a quick one - in terms of cost, which as you mentioned that you'll be turning off Charles River next year, could you give us an idea of the potential financial impact of that on your cost base? Thanks.

Peter Harrison

Great. In terms of the financial metrics, you would expect us to use all the normal metrics in terms of earnings, EBITDA and a reasonable return. We tend to find that most of the deals we look at have mid-teens IRRs. Now, the shape of when those IRRs come in are always difficult, and obviously we don't want to put a huge emphasis on the terminal value, seeing those flows internally.

The typical valuations, most of them will be buying assets off the private market, and obviously not off the public market, and they will typically be trading six to 10 times EBITDA is a reasonable measure, depending on the growth. But on top of that, we would expect to add another layer of growth. It very much depends on market position, opportunities, how built out the franchise is, et cetera, how much efficiencies we can take out of it. The C. Hoare business was a very different business from the Adveq business. The C. Hoare business had a very large back office, which we didn't need because we had a service centre, so there was a big chunk of efficiencies that we could see there, whereas Adveq, we could see very significant growth as we went from a German and Swiss client base to a global client base.

And the investment team there can be built out over time, although we're not going to rush that growth, because we think giving good investor outcomes is an important part of it. So it's hard to give a precise answer, because each deal has its own dynamics, but those are the sorts of numbers that we look at.

MiFID, we're going to have a good session on MiFID at the offsite, because it is a complex area. In fact, probably the main change we think is largely behind us, which was the GFIG change, as they changed their models to going to a clean fee basis, so as the big banks distributing across Europe changed. The fees that we've received, rather than the retrocessions, we don't see a major change in that, but we'll pick it up more when we have the investor day on 3 October. Richard, do you want to take the final one?

Richard Keers

On Charles River, Haley, the answer is next year, we're not really forecasting very much at all, because you've got to decommission Charles River, and we've got to - and the hard bit is retaining the historical data sets, so we think whilst we might go live with Aladdin earlier than in the first half of next year, actually turning Charles River off entirely won't happen until quite later in the year, so next year I don't see a significant change.

But going after that, when it's properly turned off and gone, yeah, it should give us the operational level that we're anticipating.

Mike Werner (UBS)

Thank you. Mike Werner from UBS. I have two questions. First, on the private assets businesses that you've been acquiring, in terms of the pace of acquisitions, is this something that you're comfortable with? Is this something that you'd like to see pick up? For example, if more opportunities came at a more attractive price? Just trying to, again, take a look at that usage or potential usage of the surplus capital.

And then second, on slide seven, you show very good equity demand coming from North America from the branded products, in particular. Are there specific products that are selling well that you have noted? Specific - is it European equities? Is it global? What products are selling well in North America? Thanks.

Peter Harrison

Okay. On the pace of private assets, I think there's a function of two things. One, it's very easy when they're in non-contiguous areas, so you've got different teams bringing the integration in, and they're not tripping over each other. That works well, and then you can run at quite a good rate. Where you get them bumping into each other, we'd be very nervous. So Adveq is actually a very different business from the ABS business that we brought in.

ABS was about building a big research interface and real complexity in systems, et cetera, whereas Adveq is straightforward in terms of systems. It's getting the distribution models right. So those you can do in relatively quick succession. I absolutely don't want to give you the signal, because it would be wrong, that this is other than a steady build-up process. But if three red buses came along together, so long as they weren't tripping over each other, that wouldn't cause us a problem.

I think the key constraint we have is finding businesses which are culturally aligned, where we can bring something to the party. That's absolutely critical, that we don't kill the long term for the sake of short-term experience, so that remains the focus, if that answers that question.

And the second one, on North American demand, three products really stand out, EAFE, where we've got I think a track record which over 10 years is top percentile in that competitive universe. That's going very well, in emerging markets, where we've obviously got a very big franchise and in US small cap – SMID cap, actually, technically, are the three products which are strong. And we'd expect tax-aware munis to come through perhaps later in the year, but those are the three at the moment which are leading the charge.

Gurjit Kambo (JPMorgan)

Hi. Good morning Gurjit Kambo, JPMorgan. Just again on the private markets business, in terms of Adveq, what sort of asset classes is it in? Is it private equity, debt, infrastructure, et cetera, and how are you thinking about that division? I think you just mentioned you don't want to overlap with other businesses, but does that mean there's going to be less synergies when you grow that business? Because again, when I look at the private markets business, you had the big US buyout firms, but there's a number of firms which are smaller, and they're all saying the same thing, that we want to be in the midcap space, the smidcap space, because there's less competition. How does Adveq differentiate itself in that space?

Peter Harrison

Perfect. So the key - they operate in three spaces, the funds business, the secondaries business and the coinvest business, and the synergies for us are not so much in those areas, but they're in distribution synergies, in operations synergies and in taking to clients a full package of products. So I think it's really important that if you have a top of the house conversation with a client, you want to go in there and say, we want to help solve the bigger problem, not sell you an individual - so if you're going with the selling a product, and the client doesn't want that product, you go away and that' the end of the relationship.

So it's actually being able to have a franchise of meaningful things that you can engage, which are diversifying assets for the client, and that's to my perspective where the synergy comes from.

Gurjit Kambo (JPMorgan)

Just within private markets or…

Peter Harrison

Sorry. Just grab the microphone.

Gurjit Kambo ((JPMorgan)

Is that just within the private markets piece or across the broader investment assets?

Peter Harrison

We tend to find that private markets tend to trade - you tend to have a head of private markets within a big sovereign wealth fund, et cetera, so it tends to be within private markets. But there are some clients we've got where the CIO will have responsibility for the whole thing, and you have a - at the moment, we've got conversations going on with insurance-linked securities and infrastructure debt with the same people who are responsible for the multi-asset mandate and the equities mandate. There, clearly, we've already got a good entry into that business and a good standing with those clients. So, Peter here?

Peter Lenardos (RBC)

Thanks. Good morning. It's Peter Lenardos from RBC. I had a question about your non-voting shares. Now with the discount nearly 30%, I guess, is that something that you monitor or that concerns you, and can you take any actions to tighten the discount to more historical levels? Thanks.

Peter Harrison

I have to say, I'm surprised to see the discount out at 30%, because they receive the same dividend rights that other shares receive. We've obviously bought a lot of non-voting shares in in the past, and we've got to a level now where the liquidity of those shares, if we were to buy more in, would damage that even further. And I think ironically, there's an element of you create - you buy them in to boost the discount, and then over time you create a liquidity which creates a discount.

So I think it's certainly something that we do monitor, and it's not easy to see a quick solution to it. But it is something that is monitored.

Peter Lenardos (RBC)

Thanks.

Peter Harrison

Thank you. Anymore? Great. Well on the busiest day of the year, thank you all very much for coming along. Appreciate it.

[Ends]