Schroders

2022 FULL YEAR RESULTS

Transcript Thursday, 2 March 2023

Peter Harrison (Group Chief Executive): Good morning everyone and welcome to the Schroders 2022 annual results. I know you have had a busy few days so, hopefully, we will get through this in an hour. We shall follow the normal format of prior years. I shall spend a little bit of time on strategy, flows; Richard will take you through the detail of the financial numbers, I'll come back to do a quick outlook and take any Q&A that you may have.

This is a set of results that we found pleasing and robust, primarily because of the strategic progress we have made. I just want to spend a little time before we go into the detail and numbers, on the reshaping of the business because, to my mind, that was the effort we have been making over prior years to get this dynamic of the business changing.

Resilient performance due to our successful pivot towards high quality growth areas

If you look at the high level, 53% of our Group's assets are from the high growth areas that we have been talking about in the past, and I shall come back and unpack that in more detail. Our recurring revenues, our operating revenues, were up 1% last year but underlying that, the drivers of that were really strong fund-raising in our Schroders Capital business and we raised £17.5 billion of new capital there.

The Wealth Management business, our advisory businesses there grew at 6.7% and our Schroders Solutions business which was in a challenging market in the fourth quarter, and we shall come back to talk more about that, showed flat flows of -0.2%, so that is entering 2023 very much with the wind to its back.

On the operating level, we have made a lot of good progress this year and that reinforcing nature of growth has come a long way. When we have had this meeting in the past, we have always talked a lot about enfranchisement of non-voting shares, and that was done and concluded on a 1 for 5 rights issue, so that has all been done and put behind us. Therefore, at a high level, quite a lot of headlines for 2022 moving in the right direction.

Our growth has become self-reinforcing

I have put this chart to try to demonstrate the nature of the change that we have in the business. You are familiar with our Wealth Management businesses and we shall talk more about those but long-term sticky clients, high-growth markets where we have really good market shares and we are growing those market shares.

Schroders Capital, which is now across alternatives but, most importantly, private equity, private debt, real estate and infrastructure, a full service proposition: that is benefiting significantly also from our positioned Schroders Solutions. Schroders Solutions is a big business now, it is a £220 billion business, and there are very few people able to deal with the needs of complicated clients, and this is really a reference point for the most complicated things we deal with in our industry.

Then our institutional mutual fund business, Schroders Investment Management, where, as you know, we have invested very heavily in new products, thematics, sustainability. If you look at things like sustainability, it is driving growth in our Charities business, it is driving growth in our Wealth business and our Solutions business is benefiting from it. To my mind, you can think of these as standalone entities but you can also think of them as a bigger ecosystem where there is a self-reinforcing growth. The feature of 2022 was the point at which that flywheel started working and that self-reinforcing growth started to come through, which is why you are seeing best-in-class fundraising in areas like Wealth and Schroders Capital.

Evolving composition of our assets under management

Regarding that transformation I was talking about, when we first talked to you about this strategy in 2016, 35% of our assets had been in these areas; we are now up to 53% of our assets and, perhaps more importantly, revenues have gone from 31% in those areas to 46%. Clearly, as we enter 2023, the organic growth rates that we have embedded in those other areas will take that further into the future.

Solid financial performance

Let us get into the numbers now. I talked about underlying net operating revenues pre-performance fees up 1%, and it was key for us to show that resilience. Operating profit, our KPI was down 14% and I shall come on to talk more about that but a mixture of markets, lower performance fees in particular, but also the changing nature of our cost base where we have done a really good job of constraining the inflationary element but with a lot of investing for growth still going on. Assets under management £737 billion.

Flow numbers: we saw out of our main asset management businesses £1.6 billion of outflows and I shall break those down in more detail, and the dividend per share up marginally at 21.5 pence.

Delivering strong active investment performance for our clients

Clearly, the key metric for us is investment performance: the numbers are here, the three-year KPI is at 73%. That is a really important thing for continuing to grow. The chart on the right-hand side, which is one I have talked to you about in the past a lot about, the longevity and stickiness of our client base.

If you look at our fundraising last year, gross fund sales, we're actually at 4%, at £128 billion, so the thing that changed last year was that we had a higher redemption rate, and it's obviously been well reported that 2022 was a tough year for the industry, lots of cyclical effects going on, but the reason why our asset base was resilient was that we were able to increase the fundraising rate by 4%, to absorb the redemptions. That did have an effect on longevity, but you can see that long-term effect, that trend is still underlying intact.

Our strategic transformation continues

Just breaking the business into the segments now, I'll talk to each of these segments in more detail but this is a high-level AUM chart just showing the compound growth rates of the various businesses we've achieved over the six years since we put the strategy in place. At an operating level, wealth has shown a 10% revenue CAGR, Schroders Capital 24% and Schroders Solutions at 7% because of some of the bigger mandates we've taken on. During that period our JVs and Associates profits has grown very considerably.

To my mind, what we're talking about is a transformation that not only is the underlying growth of those businesses on the left of the chart, but the businesses on the right of the chart have shown a good deal of resilience. To my mind, that is the thing that I want to really emphasise: getting those businesses to be resilient into the future has been a big part of our investment proposition, and I think we've shown that this year.

Flows impacted by cyclicality of markets

If we could just go now into more of the detail: our institutional business, £7.3 billion, it saw some inflows in the second half of the year. That number, my sense is it's a slight disappointment to me, because there was one Japanese outflow, which I talked about, in the first half of the year, and there was one in the US. They really account for all of that £7.3 billion, which is a frustration, when you think how much work has gone on in there. Aside from that, there was quite a lot of progress made, particularly in changing the trend lines we've talked about in two difficult markets in the past, which were both Japan and Australia, where we've arrested that issue, so that's progress.

Our Mutual Funds we'll come and talk more about, but effectively £5.9 billion of outflows was driven in large part by the cyclicality in Europe, but over the last two years less inflows into Mutual Funds, which I think, against the industry background, is a positive one.

I'm going to come back and talk about the rest of those segments in detail, so I won't crack into that, but for my part, £11.6 billion of flows into Schroders Capital and Schroders Wealth.

Wealth Management saw particularly strong growth

So first of all the Wealth Management segment, and we set out an objective to deliver 5% growth in the Wealth Management segment, we've achieved that – we've actually achieved 6.6% in our advised businesses around the place, which we think is a really important test of our organic investment, which we've talked about in the past. You're seeing that starting to deliver, we've also continued to invest in new advisers, so we've further increased the number of advisers around the regions. We would expect and feel confident about our ability to continue that commitment to future growth in the past.

We do want to unpack this business for you in more detail, so a number of further Capital Market events we're going to do this year, the first one we're going to kick off in June, with a deep dive into our different wealth businesses, so you can get more granularity on those.

A growing wealth platform

A few headlines here for you: I think Schroders Personal Wealth usually brings a number questions, so let me address that one. As you know, we have set about a transformation of this business over the last three years, it's now in steady monthly inflows, in fact, the gross inflow level, we're running at 9%, so the advisers are starting to become a lot more efficient, the conversion rate has moved up very significantly during the year to 13.2%, but to my mind the challenge we face is the relatively old demographic of clients within this business, about 40% of the client base is right at end of life, so here there's a really good gearing for future growth, because we've now hit a level of referrals and writing of new business which offsets that. Looking forward the business is feeling like we've turned that corner, we feel that the conversion rates, the referrals from Lloyds, are all working well.

Benchmark continued to grow its adviser base, the adviser firms on there, so we've made further investments regionally within Cazenove, because we see there's more to go for in a market which is really getting stronger.

Record fundraising year for Schroders Capital

Now, Schroders Capital, and I talked about the £17.5 billion of fundraising, that's a 34% fundraising rate, and you can also see that the number of new clients we've been able to cross-sell into the Schroders business has gone up very significantly during the course of the year.

However, the £6.4 billion is below the £7-10 billion that we talked about at the end of last year, and the frustration there is two things. One is the dry powder which we carry into this year with some of the deployments that were going to happen at the backend of last year have been postponed, so there is about a £1.5 billion or so which will be deployed early in 2023. That is the first thing.

The second is that during the gilts crisis, we saw about £2 billion of forced redemptions which went out of our business which impacted that NNB number. I think we feel very pleased with the fundraising number. The £6.4 billion was hit by some headwinds, but the underlying pattern of growth and a sense of the dry powder we take into next year, which is about £4 billion of dry powder, we feel very comfortable in reiterating our target that we have set before of £7-10 billion of fundraising per annum.

Schroders Capital benefitted from demand for real estate and private equity

The areas where we saw growth were really across the piece. We saw growth in Blue Orchard, we saw growth in real estate, private assets, private equity, private debt, infrastructure, in insurance linked securities, and I think for me, the breadth of that business really is now a one-stop shop and a competitive advantage against many of our peers that are able to offer that breadth.

The second point, just to reiterate, is if you have a strong Solutions business, if you have a strong business serving DB pension funds, there was inevitably a crossover between the impact on private markets and this business, and there has been a hiatus in that during the fourth quarter of the year.

If I look forward into 2023, we definitely feel that is behind us, and the pipelines that we're seeing and the progress we're making feels confident. I'll talk a bit more about that in just a moment.

Schroders Solutions has navigated the gilt crisis well

Our Solutions business. The underlying assets for Solution during the year went up. Our flows were -£0.2 billion. The gilts crisis was clearly the major issue that happened in the year. The outflows from our Solutions business in the last six months of the year, which includes the September period and October, November, December, was £6.5 billion, so we finished the year at -£0.2 billion in Solutions, but the £6.5 billion outflow was in the second half of the year.

I have to say that in the first two months of the year that has been recovered, so we saw a sharp dip and a bounce-back. The River and Mercantile acquisition has proved to be strategically really important. Many of you will have seen the independent research on this sector. We navigated that crisis very well indeed and I think the opportunity to take market share in fiduciary management, LDI and OCIO into 2023 is a very good one.

Join ventures and associates driving long-term growth

Joint ventures and associates had a challenging fourth quarter. We saw £10 billion out just in the fourth quarter, so net flow of £6 billion for the year, but it's a high growth business, it's a cyclical business. I think it's hard to make short-term calls looking forward as to where the assets will go. Our sense is that we had a difficult period, November, December, January, but February has turned around and now become positive.

The key element for this is these are high growth businesses. They are in markets which do have a degree of cyclicality, but the underlying dynamics and investment performance, particularly, of our main businesses is in good shape for the year, but disappointing in the final few months.

Mutual Funds and Institutional resilient given challenging environment

Our Mutual Funds and Institutional, the Schroder Investment Management piece. The challenge in the Mutual Funds space I have talked about was £3.7 billion out in Europe. The UK was relatively resilient at about £1.2 billion out, and our equities book was relatively resilient which also had £1.2 billion out. The issue really across both Institutional and Mutual funds was in the fixed income markets where we saw, in aggregate for the Group, including Solutions, £6.8 billion out, but for these two segments, about £8 billion of outflows for those two segments in fixed income markets.

As fixed income markets are finding a different level, one might hope that demand stabilises. I don't want to make that prediction, but I think the first couple of months of the year have definitely seen that.

One highlight from my perspective is, we talked a lot in the past about Hartford. Hartford actually saw net inflows for the year. I think there are very few US asset managers that saw inflows into active funds for the year last year. They actually saw a £0.5 billion of net inflow so progress there.

One final issue is China, our WMC launched in March in the thick of the Shanghai lockdown, which raised £2.3 billion for the year and importantly, at the beginning of January we were granted a licence for a wholly-owned FMC in China, which is the final piece of that jigsaw. We now have the FMC joint venture with Bank of Communications, the Wealth Management majority-owned business with Bank of Communications, and now a wholly-owned fund management company which will probably begin work, subject to inspections etc, right at the very end of 2023. It has been a long journey but I feel very pleased to have those building blocks in place.

Acting with purpose

This time last year, we were always talking about the great resignation, the challenges on staff and maintaining staff, of being able to act with real purpose and attracting the right people. I have put on this page a series of things that we feel make us an attractive place to work and when we surveyed our staff, 96% of people say they are proud to work for Schroders which makes retaining talent relatively strong. Glassdoor said we are one of the best places to work in the UK and we have made a lot of progress with objective analysis of where we stand on sustainability. We know that this is an area where being objective is really important in terms of how we will be seen over time, whether you look at surveys like Global Canopy where we were the No.1 financial institution globally on deforestation, or with ShareAction or our plan for nature - the number of proof points here gets ever stronger, which is really important to clients because, at the end of the day, proof points are what determine the actions that they take.

With that, am going to hand over to Richard who will take you back through the financials and then I will come back for the outlook.

Richard Keers (Group Chief Financial Officer): Thank you, Peter, and good morning everyone. Let me now take you through out results which represent a robust set of numbers giving the challenging environment.

Results summary

The performance reflects the benefits of our pivot towards high growth areas that Peter has already talked about. The performance of our Wealth Management and Schroders Capital business in particular helped to offset the impact of wider market volatility. Including Schroders Solutions, revenues from these three strategic areas of focus were up 11% and now exceed £1 billion.

Given the extent of the fall in markets during the year, that is strong growth. This helped us to deliver 1% growth in net operating revenue, excluding performance-based fees, and a robust operating profit of £723 million. Let me now unpack this for you in more detail.

Net operating income

You all know the extent of the bear markets in 2022 with falls in the mid-teens for both equities and fixed income. Clearly, this has had an impact on our business and, while FX movements helped to offset this by £80 million, our revenues reduced by £137 million as a result. Despite this reduction, our net operating income was up 1% year on year when you exclude performance-based fees.

The revenue growth was driven by three main factors: net new business, acquisitions and an increase in the interest margin we earn from the banks in our Wealth Management segment.

Taking each of these in turn, it was great to see that our net new business generated an increase in revenues of £48 million. A large part of that stems from wins in the first half of the year, as well as a tailwind from the previous year. As you heard from Peter, we had net outflows in Q4, although these were primarily from lower-margin products. This meant that we started 2023 with a headwind of £7 million. However, I am pleased to say that we now have a tailwind as a result of the net inflows we have since generated.

Peter mentioned the acquisitions we completed in the first half of the year, which contributed £87 million of additional revenues and, due to the timing of the transactions, we still have the benefit of around £15 million to come through in our revenues in 2023.

The final key driver in the growth of our net operating income was the net interest margin from banks within our Wealth Management business. As you know, that is a core revenue stream for us but it has been impacted by the low interest rate environment of recent years. This increased by £26 million to £37 million following the rise in interest rates.

Finally, to finish off on the aggregate view of our net operating revenue, we earned £60 million in performance fees and carried interest, which is higher than my guidance despite the market volatility.

Looking forward, we are budgeting for a similar level of performance-based fees in 2023 but, as always, that is difficult to predict. This took total net operating income to £2.5 billion. Now let me show you how these movements break down between our business areas.

Wealth Management

Starting with our Wealth Management segment, average AUM increased by 3% to £98 billion, driven by strong net new business. That is despite a £9 billion year-on-year fall in the value of AUM as a result of markets. Along with the higher net interest margin I have just explained, this led to a 10% increase in net operating revenue which grew to £394 million. The net operating revenue margin increased by 2bps to 40bps.

Breaking this down into the individual components of Advised, Platform and Management, our Advised business generated strong growth. Higher average AUM and an increase in net interest income drove a 12% increase of revenues to £331 million. Our net operating revenue margin was 2bps higher than my guidance, principally due to the high interest income. We expect this to increase by a further 2bps in 2023 to 57bps.

Moving on to our Platform business, average AUM and revenues were broadly flat. The net operating revenue margin of 15bps was in line with my guidance. We expect it to stay at this level for 2023.

Finally, to our Managed business: average AUM increased to 20.5 billion, principally as a result of the net flows we generated in 2021. Our net operating revenue margin was 18bps, and we expect it to remain at this level for 2023.

Overall, that’s a strong performance across the Wealth segment, now let’s move on to the Asset Management segment, starting with Schroders Capital.

Schroders Capital

The acquisitions of Greencoat Capital and Cairn contributed AUM of £9 billion. This, together with the net new business that Peter talked about earlier, drove an increase in average AUM of 35%. The market volatility did have an impact on our performance fees and carried interest, which reduced to £19 million from £44 million. It’s worth me adding that, given the environment, we were conservative in the recognition of carry.

Excluding these fees, our net operating revenue increased by 26%, that’s good underlying growth. Going into 2023, we have a tailwind of around £25 million, as a result of both 2022 net new business and the full year impact of our acquisitions.

Peter mentioned the £4 billion of non fee-earning dry powder in the business. We expect around half of that to be deployed and become fee-earning in 2023, with annualised revenues of around £11 million.

Our net operating margin, excluding performance-based fees, was 61bps, that's a little less than my guidance, principally because we have moved our EMD book to the mutual funds and institutional business areas, to better align with how we manage these businesses. We expect the margin to remain at this level in 2023.

Schroders Solutions

Next, our Schroders Solutions business. Although the value of our AUM reduced, reflecting the movement in markets, including the impact of the gilts crisis in the UK, this was offset by the acquisition of R&M's Solutions business. As a result, our average AUM increased by 12%, driving an increase in our net operating revenue from £276 to £292 million. Excluding performance fees, our net operating revenue margin was in line with my guidance, of 13bps. I expect this to reduce to 12bps for next year, due to the mix of net new business, including the strong flows we have generated since the year end. With a strong start to the year, and the strong order book, we expect the annualised net new revenues to revert to showing growth for H1 2023.

Overall, as I mentioned earlier, we have had good growth across our strategic growth areas of Wealth, Schroders Capital and Schroders Solutions. This helped us to mitigate the broader market challenges that impacted our mutual funds and institutional businesses. Both of these business areas were impacted by the fall in asset values and the risk-off environment.

Mutual Funds and Institutional

Average AUM for our mutual funds reduced to £106 million - this translated into an 8% reduction in net operating revenue, and a net operating revenue margin of 71bps. That's a touch higher than my margin guidance earlier in the year. It is always difficult to predict the margin, due to the impact of markets on our mix, but for 2023 I would revert back to my guidance of 70bps.

For our institutional business, net operating revenue fell by 13% to £520 million. That includes a reduction in performance fees from £79 million to £32 million. Excluding those fees, our net operating revenue margin was 34bps, that's 2bps higher than the guidance I provided, principally due to the transfer of the EMD book I mentioned earlier.

The make-up of our institutional business has changed in recent years, and has become less prone to fee attrition. As a result, for 2023 I expect the margin to remain flat, at 34bps, although as ever, market movement could impact this.

Overall and in total across the business areas, our net operating revenues remained robust.

Interests in joint ventures and associates

Now, moving onto returns from our associates and JVs. This is the final component of net operating income I want to cover. The development of our partnerships remains an important part of our strategy. As you can see from the chart, we've had excellent growth from these businesses in the last five years, with a CAGR of 41%, despite the market challenges of 2022. Going forward, we continue to expect good growth from the markets in which they operate.

In 2022, SPW delivered good underlying growth, with revenues increasing by 3%, driven by an increase in initial fees as a result of the flows that Peter mentioned earlier. Our share of profits from asset management interest was broadly in line with 2021, with good growth from our Indian venture with Axis Bank helping to offset a fall in profit from our longstanding BoCom JV, the latter principally due to a smaller gain on seed investments in 2021. It's worth me pointing out that we consider the underlying performance of BoCom to have been really strong: not only did it have the market headwinds to contend with, but it was also impacted by the China lockdowns which were only recently lifted.

Overall, that's an important contribution from these partnerships, and in 2022 their contribution to our profit after tax increased from 13% to 16%.

Operating expenses

Now moving on to our operating expenses. Reflecting our good cost discipline, we reduced compensation costs by £15 million, or 1% year on year, despite the increasing headcount resulting from acquisitions we completed. This cost discipline enabled us to maintain our compensation costs at 45% of net operating income.

For 2023, as always, bonuses will be finalised at the end of the year, based on market conditions. Moving on to non-compensation costs, these were £631 million, up from £543 million in 2021. It is useful for you to understand the drivers of this, so I have set out the key movements on this bridge.

Let me take you through each of these in turn, starting with FX. As you know, around a third of our costs are non-sterling. The weakening of sterling let to an increase in our costs of £19 million, although this was more than offset by the £80 million positive impact that the changes in rates have had on our revenue, which I referred to earlier.

Next, on to travel and marketing costs, the ability of our people to travel and meet with clients is an important driver behind the success and future success of our business given the global distribution footprint of our business. Fortunately, the end of travel restrictions has enabled activity to return, albeit in a disciplined way, as we remain mindful of our aggregate carbon footprint in costs.

For 2022, the increased volume in travel and higher marketing activity has contributed to an increase in costs of £18 million. That said, our focus remains on managing expenses and we have embraced new technology to help people to communicate more effectively. This has helped us to limit the increase and our travel costs remain 25% below pre-Covid levels, despite the increased size of the business and significant rise in airline prices.

Moving on to our investment activity, as you know, we continue to think long-term and invest in the right opportunities. Our strategic acquisitions and continued expansion in China, including through our WMC, a new approved wholly owned FMC, contributed to £23 million of additional expenses. Both the acquisitions and investment in China will lead to increased revenues.

Another area where long-term is our approach to investing is the development of our flexible scalable technology platform through our Cloud migration programme. We have made significant progress here and have been able to accelerate the programme, completing the migration phase nine months ahead of schedule. As a result, we are already benefiting from greater cyber resilience and operational agility.

This programme led to an increase in costs of £15 million, but we will generate significant savings in the future. I will come back to that in a moment.

Finally, on our 2022 costs, we continue to drive efficiency and cost savings wherever possible. As a result of a number of efficiency measures, the impact of inflation was limited to £14 million. That is only 2.5% of our prior year costs, despite the strong inflationary pressures.

Turning to 2023, we have a continued FX headwind of around £7 million. Again, through our cost control, we expect to limit inflation to around £5 million, which is less than 1% of our 2022 costs.

We will continue to build out our presence in China, with a full year of WMC operating costs and our wholly owned FMC going live later in the year. This along with the full year impact of acquisitions we completed in 2022, will drive an increase of around £15 million.

Finally, we are entering the next phase of our Cloud programme which involves further decommissioning and data optimisation. One of the benefits of the Cloud migration is that it has enabled us to avoid spending £100 million in server updates, and with that, we have avoided the associated depreciation of around £20 million per annum.

We have also avoided the material costs of renewing our datacentre leases and associated electricity maintenance costs.

When you put all those factors together, they translate into a like-for-like saving of £15 million per annum, which we now expect to realise in late 2023/early 2024. Pulling this altogether for your models, I would assume non-compensation costs of around £660 million within operating expenses for 2023.

I hope you now have a clearer picture of all the main drivers behind the movement in our operating profit year-on-year.

Lastly, before I sum up, let me quickly update you on our Capital position.

Group capital composition

As you know, we put a large part of our surface capital to work through acquisitions. This together with other movements, including regulatory changes, means that our surplus now stands at £655 million, compared to £1.5 billion at the end of 2021.

We will continue to hold a level of capital that allows organic investment and continue to target a dividend pay-out ratio of around 50%. In addition, we will be putting forward a whitewash resolution at the AGM which, if approved, will provide us with an additional option of share buybacks to manage our surplus capital position.

Profit before tax

Now to sum up. Our operating profit for the year was £723 million, a decrease of 14% compared to the prior year.

Our central costs, which reflect the costs of the PLC, were £49 million, down from £54 million in 2021.

We had a net loss on financial instruments and other income of £7 million, mainly relating to the changes in the value of our seed and investment capital. That is a real improvement for the position at the half year. In a normal year – and you can see this if you look back at the past ten years – we would expect gains from these investments to broadly offset the central costs.

Our acquisition-related costs increased to £86 million, reflecting the impact of the transactions that we completed in the first half of 2022. These costs include the amortisation of intangible assets and expenses related to contingent consideration. For 2023, we expect these costs to increase to £95 million, as the full year impact of the 2022 acquisitions comes through.

These items result in a profit before tax of £587 million. Our dividend pay-out ratio is now based on our operating earnings per share and our effective tax rate on operating profit was 17.1%. We expect this to increase to around 20% for 2023, principally as a result of the change in the UK tax rate that comes into effect in April. This meant a basic operating earnings per share of 37.4p. In light of these results and to reflect our progressive dividend policy we have declared a final dividend of 15p per share. This provides a total dividend per share of 21.5p.

After allowing for the change in our share structure, this represents a slight increase on the prior year and represents a pay-out ratio of 57%. Overall and given the market backdrop, these results demonstrate the resilience of the business. Now back to Peter.

Peter Harrison: Thank you, Richard. Let me spend a moment on outlook.

Outlook for 2023 and beyond

I have already spoken about how the strategic focus change of the business will be an important part of the profit drivers going forward. What we want to do today is to underline our confidence in the Wealth growth and the Private Asset growth that we have talked about before. There will inevitably be a market impact, and many of us will have views on what that is and I am sure you will factor in your views on that, but the underlying resilience and growth dynamics of Wealth, Solutions and Schroders Capital will remain strong. Regarding the comments I made about the year starting well, I would just put out there particularly in Solutions but a much more stable environment in Mutual Funds and Institutional Worlds has also come through.

We are confident in the business we are building, we think the strategic focus is right and the Board has re-emphasised that investment for future growth is the right thing to carry on doing. We are very willing now to take any questions you may have.

Questions

Hubert Lam (Bank of America): I have three questions. Firstly, on Solutions, Peter, I want to clarify what you said about the flows coming back. Did you say that the £6.5 billion you lost in the second half has come back this year?

Peter Harrison: Yes.

Hubert Lam: Okay, and can you give the reasons as to what is driving that?

Peter Harrison: There was a very major change and quite a lot of independent research published how different managers responded in different ways. We were very fortunate that we didn't have to forcibly redeem anybody, our pricing worked, we had sufficient collateral so when the analysis was done at the end of the day, our pipes worked incredibly well, our governance models worked incredibly well and we had sufficient people to talk to clients through that.

What I believe that will lead to is a shift in market share over time that will both reflect our business model and the quality of the pipes that we have. Therefore, we feel confident that there will be a net gain of market share in a market that is changing.

Hubert Lam: Thanks. My second question is on Schroders Capital. Is one of the consequences potentially of the LDI situation that people are looking for more liquidity? I just wonder how that changes the outlook for UK pension funds going into private assets and how that affects you?

Peter Harrison: You are absolutely right, there was something of a fundraising hiatus in the UK DB market in Q4 and the denominator effect of people feeling over-exposed to less liquid assets will be a feature going into 2023 and possibly even into 2024. We are reiterating our overall guidance, because we think we can achieve the growth elsewhere but, undoubtedly, it is a headwind in the UK DB market.

The converse - and we don't know where the Government will finally come out on this - is whether or not there will be a change in Solvency II, which would free up more money to flow into private markets and risk assets over time but that is still work in progress.

Hubert Lam: My final question is on your surplus capital position which is about £650 I think. I just wonder what your target for that is. I think historically people always think about it as being close to £1 billion before you are able to do more deals or buybacks. What is your target for capital before you start to do external acquisitions or buybacks?

Richard Keers: Hubert, I wouldn't characterise it in quite the way you described. What we have said is that, if it is in excess of £1 billion, we would find a way of returning that to shareholders but anywhere between where we are now and £1 billion, we might have plans for M&A, we might have plans for organic investment, but within £500- £1 billion, we feel very comfortable but over £1 billion we would be looking at ways of returning that to shareholders.

Peter Harrison: We get embarrassed over £1 billion!

Nicholas Herman (Citigroup): There are three from me. Regarding costs, I was interested in your comment about £5 million inflation for 2023. Can we just dig into the moving parts there?

Richard Keers: There are lots of moving parts. There is the inflationary environment particularly with IT costs, licence costs, Microsoft - most organisations use Microsoft - has a price increase of 9% year on year, so to limit that to 1% requires a lot of other programmes to mitigate the inflationary environment we are in. The background inflation, especially in technology, is significant but we are working really hard to mitigate that.

Nicholas Herman: Are there other savings as well from integration of businesses too, having overall investment budgets trending year on year?

Richard Keers: In terms of the change programme, we have reduced our change appetite by 20% this year. At the same time, costs are clearly impacted by full year acquisitions, that's unavoidable because they are obviously part of our strategy in terms of driving revenue growth, and the roll out of those two – one wholly-owned business in China and a subsidiary in WMC - the full year effect of that is significant, but they are real growth business that will deliver real enterprise value in the future.

Nicholas Herman: Thank you. Another two questions, one ESG and one Schroders Capital: you talked about a strong focus on investment in ESG, any comment about the particular areas of investment there, I think it would be quite interesting if you could comment on that, please.

Peter Harrison: I think this is an area which is growing quickly, and I think if you look at the flow dynamics of the industry, getting it right is critical, so despite all the noise in 2022 about changing dynamics in the world, sustainable funds still took market share, and I think that's a really important underlying dynamic, despite what's going on.

From my perspective, we've started by making a very significant ability in data and helping people understand their portfolios, that's the first thing, and that's a really important basis from which to manage and give regulators comfort that you're doing what you say you're doing, so the data piece was a big part of that, and helping your analysts really understand what's going on.

Where this goes to next is engagement, and I think we published our blueprint for engagement earlier this year, that ability to demonstrate that companies are moving along the curves that they've set out, or helping companies establish the curves they've set out, and being clear on the governance position. The ability to speak with and understand companies and then explain that back to the asset owners, is a really important part of the next stage of sustainability.

I would say, people do tend to over-simplify this discussion: there's a narrative which says, 'the US doesn't do this stuff and the rest of the world does'. We're seeing very significant growth in socially-orientated funds in the US, so being able to slice this through an environmental and a social lens and a governance lens is an important part of having a more nuanced debate with people about what people want out of their investments beyond return. Some people want impact, some people want something societal, some people want something environmental, so that's where this goes next.

Nicholas Herman: The last question - I'm conscious of time - but on Schroders Capital, clearly very constructive on the flow outlook, we've seen a lot of the listed alternatives seeing much slower growth this year in a tougher environment, and at industry level it looks like the overall commitments will be down on this year. Can talk about the specific areas where you expect to be defying those trends to take share?

Then I guess, you also commented that the business will now focus on operating leverage, can I just repeat a question I asked at the half year, which is, how much of a tailwind is that now, and then I guess for the overall asset management business? Thank you.

Peter Harrison: It's an important question. We recognise that many other people have downgraded their expectations for growth. I spoke a little bit about the flywheel effect, and the self-reinforcing growth that you can get from being involved in other parts of the industry, I think that will help our position. We also have the benefit of having acquired Greencoat during the course of the year, which is a helpful piece, but most critically, having the full hand of cards – private debt, private equity, real estate and infrastructure - is a really important part of being able to have holistic conversations, so you can solve someone's private assets answer as a whole, and that's a relatively unusual position to be in.

Hayley Tam (Credit Suisse Financial Services): Thank you. Can I ask two quick questions, please, could I just confirm, are you not giving any compensation costs to revenue guidance any more, because I didn't pick that up in the presentation, so I just wanted to check?

Richard Keers: Hayley, I haven't done, it clearly depends on market conditions, and if I was doing it now, if you could tell me what markets are going to do I will give you an absolute commitment, yes, we will be very disciplined; but if we look back, the real proof point is 2022 was a really difficult year, we didn't increase our ratios, and we actually reduced compensation costs, notwithstanding quite a significant increase in headcount, principally due to the acquisitions we've made. We have a track record of being disciplined, but I don't want to look forward and tell you what revenues are going to do, which are clearly dependent on markets.

Peter Harrison: There's one more nuance to this, Hayley, the crossover between non-comp and comp costs is quite complicated - what you bring in, what you put out, and I think one of the things we're doing this year is focusing more on, what's the total envelope of costs, do we have things in the right place, and should we be insourcing or outsourcing? It's another thing where we're reluctant to say it's all one way, because we're not entirely certain where we're going to fit what we're going to achieve in that next change during the year, but we'll be very transparent at the end of the year.

Hayley Tam: Thank you. A second question is about the 44% of funds that are out-performing over one year: is that a metric that matters? Is it something that has already been seen in the outflows you saw in Mutual Funds and Institutional last year, or was it maybe something you might take into account for this year?

Peter Harrison: I think it's very much a reflection of the fact that indices are down, so where you have, particularly in multi-asset, for example, many multi-asset funds have a CPI hurdle or an absolute return hurdle, so you get this impact that when markets are down, you've missed your strict hurdle. If you look at where we sit versus competitor funds, the picture is much better, I think that's the first thing.

The second thing is that yes, asset managers had a bad year versus index last year, and so although that 44%, in the short term it doesn't feel like there's an impact on flows – the three-year number is still very strong, the five-year number is very strong - if you saw those weakening I think that would be a bigger conversation, but I don't feel under any performance pressure at the moment, relating to flows.

Richard Keers: But it's also very pleasing to see, since October every month it's been a very strong relative performance.

Bruce Hamilton (Morgan Stanley): Just one question from me: obviously significant progress in terms of your strategic pivots, to the growth areas, in terms of the flywheel benefit from here, are there any missing ingredients or things that you still need to strengthen in organic, or is it more a case of accelerating that virtuous circle.

You mentioned a bit about private capital, but where would the other opportunities be, perhaps in private wealth bespoke solutions or other portfolio delivery, but I'm interested in that.

Peter Harrison: That's a really good question, Bruce. Do I feel there's a big gap? No. Getting those four pillars in place and getting a good sustainability and impact offering together was the priority.

Getting that integrated into the business in a different way I think is the next major challenge. We have made some quite fundamental changes in how we go to market. Our industry in the past has talked about distribution. Distribution feels like something you do to electricity or water, where you do to your client, you send them something. Professional services firms or other industries focus much more on what the customer need is, and because we're able to wrap round every element of that, figuring out how you put the client piece in the centre to accelerate the flywheel is the next piece. If I take something like sustainability, the ability to help clients understand the whole of their assets, that opens up conversations about OCIO, it opens up conversations about you're solving the problem, you need a matching asset for that, or create wealth needs, or, if you think about post-retirement, micro-LDI being a long-term solution for individuals' retirement, rather than it just being an institutional product.

I think that development function of meeting the client needs becomes the next, if you like, third generation of our industry when we start to think about people other than being at the end of a distribution hose, and do you want a pink one, a red one or a blue one. That doesn't feel the right way to go to market.

Thanks, Bruce.

Greg Simpson (BNP Paribas Exane): Can I just ask about the potential ban on retrocessions inducements in Europe? Any thoughts at this stage how that might impact your business in Europe?

Peter Harrison: We're very relaxed about it. We have obviously worked very closely with distributors who are imbedded in a lot of what they do, much as a Brains Trust. Where Europe finally settles down? We've been talking about this issue for ten years. RDR turned out to be a relatively good thing for our business in the UK. We have seen the same happen in other markets. I'm relaxed about where Europe comes. The power of the banking distribution model is a really embedded part of how Europeans save.

Greg Simpson: Thanks. Are you seeing any signs of changing appetites between asset classes in a high rate environment, between equities-based income, multi-assets, and how would you characterise your relative fund performance? Is there a return to fixed income, high rate of value?

Peter Harrison: There's a massive return to demand for asset allocation conversations and the role of multi-assets because I think last year was the first year where people - this stuff matters. Those are important.

The second is I think we've seen a complete stabilisation of fixed income, so you went through a really difficult period last year where fixed income funds were very much out of favour, some quite strong changes of direction. That has definitely stabilised coming into the beginning of this year and demand for credit funds is returning quite nicely, and we are seeing that come through.

In the core real estate space, particularly in the UK, there was a comment that was made earlier – was it Bruce or Hubert? – on demand for real estate in the post-DB environment. That is clearly weak but the value-added space is alive and well. There are some nuances, but the big shift is the governance and asset allocation thinking within clients is the area where they're thinking 'we've got to get this right going forward'. How are we going to deliver in a world of inflation and lower returns is a really big issue for clients around the world. If you're a low risk European saver, last year was a really difficult year, and that is challenging people's thinking and making them think about their business models, and that's a good thing from our perspective.

[*No further questions*]

Great thank you! Five minutes ahead of time! Thank you all very much and I look forward to seeing you either in June for our Capital Markets Day or July for the interim results. Thanks, everybody.

[*Ends*]