Schroders

Schroders in Focus: Private Assets

Event transcript

Peter Harrison

Welcome everybody, and it's a great pleasure to introduce you to the first of a new series we're doing 'Schroders in Focus'. This is an attempt to do a short form capital markets day so that we bring together one subject in detail over a couple of hours. And it's a format that we will follow on a fairly regular basis going forward. Today, 'Schroders in Focus' is going to focus on our private assets and alternatives which we've been building over the last five years, we're very proud of it, we think it's a really important part of the group, and it is going to be a number of our key leaders from across the capital markets, Schroders Capital business. We'll talk in detail about their areas, and then we'll come back and do questions and answers at the end. For me, the private assets business has three really important elements, and I want to come on and talk about that in great detail. But before I do, let's just take a step back and think what why is this important to the group? The first thing is that Schroders has, for a long period, believed that we want to be relevant to our clients across the business, and that for me, private assets epitomises where the puck is going in our marketplace. Can you pull on the next slide, please? Secondly, the stickiness of private assets is significantly greater than traditional mutual funds, and I want to talk about that in more detail. And thirdly, it helps build our resilience as a business. We believe there are some counter cyclical elements to this business, and I think that's really important to us. But more importantly, I think Schroders has an opportunity in this space which isn't open to everybody. We can blend public and private together in ways which we've already done in a couple of investment trusts, but we see that market as being pretty unexploited and only open to those who are both excellent at public and at private markets. Secondly, we bring strong sustainability credentials. And those sustainability credentials, we believe, are going to be really, really important in private markets in the years to come. And thirdly, the ability to define solutions for complicated clients is, we believe, absolutely central to a long term private assets offering and again, that's a capability that we've got right at the heart of the Schroders group. So not only is this an attractive asset class, it's also a very attractive place for Schroders, specifically, to play. And we put together a series of businesses which we believe will now contribute between 6 and 9 billion of net new business across the cycle, which would be an important addition to our underlying growth rate. And I think that this business needs putting in the context of other growth strategies which we've got both in our wealth business and in our core asset management business. So, if you take a step, one removed from private assets, we've got a growth strategy in wealth, and we'll come back and talk to you more about that later in the year, we've made five acquisitions in that area. And we've got a growth strategy in our traditional asset management business where we want to change our product offering and focus on performance, and being really relevant to clients and in new geographies and in our existing geographies, particularly, obviously, expanding in North America, China. So those key building blocks in wealth and in asset management are still there, but private assets is the third leg of that stool, and we believe, a really important part of future growth. If you could put the next slide on. Why private assets? Well, first of all, the stock of assets is growing quickly. I mean, we know that mankind has got to build the biggest industry, probably in the history of mankind, and we've got about 30 years to do it. And that's on route to net zero. So interestingly, this is an industry with no capacity constraints, the way public markets are constrained. Secondly, institutions are allocating a growing portion of their assets that we give a number of 1.4% last year. And thirdly, individuals are still very under allocated, only 5% of individual assets orientated there, and again, a number which we expect to grow. I think, moreover, if you take a step back from that, and say, why are these trends happening? And the first thing is that institutions know they've got to capture the equity risk premium, but historically, they've done that through public markets. And I think Yale and others have shown the way that that equity risk premium can be captured in other ways, it can be captured through venture through buyouts. And in debt markets, whether it be access to more interesting transactions or Solvency II and regulation making it actually more attractive to hold private debt and infrastructure than public debt, you can see these trends are going to run for some while longer because the pension buyout market, insurance markets will carry on and we see institution allocations continue to grow in this space. So whether it be illiquidity premium, equity risk premium or regulation, these trends are here to stay. If you could take the next slide. We have been building throughout the period, five years ago when we set out the strategy to you. If you take our real estate business, we've acquired a hotels capability, a German value added capability in Blue Asset Management, and most recently, a business in APAC Pamfleet, which has again a value added capability. On the equity side, we acquired Adveq, and we’ve developed that into more of a semi-liquid space. And on the debt side, we've done a number of things. We’ve bought the Brookfield securitised credit team, a business called A10 in origination, Sequero in insurance-linked securities. And more recently, we've announced a deal in Australia with RF called RF Eclipse in debt and debt markets, and we made some organic investments in real estate debt, over here. The things these businesses have in common are strong track records, led by strong teams with a focus on sustainability and impact and a mindset around solutions. And we believe those three things are performance, sustainability, and solutions are critical. And I think the acquisition which didn't fit directly into those categories, BlueOrchard which is focused on impact, but it does both debt and equity, I think has been really transformative, and you'll hear from Maria Teresa early on. Now today's an important day for us because we're bringing those sub brands together under one new brand Schroders Capital, and I think that's an important step in saying we're going to go to market as one business, Schroders Capital, and clients will better understand what it is we stand for. So the timing of this meeting is no coincidence as we're launching that brand globally today. So if I could just go to the next slide and show you this business today is 48 billion of assets, partly as a result of acquisitions, the AUM has grown by 21% compound over that period, and the cumulative assets under management to around 10 billion of assets. I think we're seeing it mature nicely. I've talked about a 6 to 9 billion of annualized net new business we believe it can create, this year we've already seen flows of 2.9 billion up to the end of May and 2.3 billion of commitments, which we don't count as assets under management because they're not fee earning, but obviously they will become assets under management as those monies get drawn. So the business is becoming meaningful, but has got good forward momentum. If you could go to the next chart please? I've talked about longevity at our first capital markets day and how, to my mind, it's the big number in our industry which we just need to focus on to a much greater extent. And just to remind you, of those big numbers, if you took a business with 500 billion of assets under management and said, the average client stays for five years, you'd need to win 100 billion of new business to fill up the bucket each year. Now, if you want to record, let's say, net new business of 20 billion, you would obviously need to sell 120 billion of assets, in order to both fill up the bucket from the 100 billion of client longevity losses, and then to record a net new business number. Now imagine you can improve that longevity number to six years. So suddenly, your hole in the bucket if you like, has got considerably smaller, you'll effectively almost double your rate of growth. And I've put here the chart of how our longevity efforts have changed the group over the last four years. It's a very clear trend, we believe there's a lot further to go. The average client longevity in our private assets and alternatives business is over seven years. So as this business grows, as a portion of the group, it helps our efforts elsewhere to increase longevity. And we think, again, this is a really important subject in making our growth rate accelerate, and improving the quality of our clients engagement. Go to the next chart, please. The analysts on the call will be well aware that we report private assets and alternatives as one stream. And in fact, there are two underlying elements of this. There’s an alternatives business, which is predominantly, if you want to characterise that, hedge fund business, and a private assets business, which we call now Schroders Capital. So, if I could just spend just a moment on the alternatives business, it consists of two parts. One is an in-house set of funds, and the other is a third party set of funds. The third parties are funds that we don't manufacture in house, so capabilities like Two Sigma, Wellington, and really first rate products that we want to be able to bring to our clients to help solve their wider problems. But in ourselves, we don't say that we can manufacture them. And on top of that, we build some in-house products, and there's a nursery garden for new alternatives products that we've got. The most important of those is Helix. Helix is a fund that we launched just over two years ago, you'll be aware that we put $150 million of seed capital into it. For us, it's going to be, we think, a very important product, I put the track record of it here. It's a multi-strategy fund, which looks at the very best of Schroders alpha across the business, and is designed to add incremental returns, month after month. And you can see that even in periods of market drawdown, it's both held up well or bounced back very quickly. So again, a leading product and one that strictly isn't Schroders Capital, but we report it under the heading of private assets and alternatives. The GAIA fund range is the third largest in Europe. And we do see good growth potential for that in its own right. And finally, the final chart, before I hand over to others, that of Schroders Capital itself. This is a business of 247 million of revenues, we believe is now getting well diversified and you can see on the pie chart on your screen that it has a good contribution from very many different areas of the private markets, and it's by no means fully built out and we see more to go for. I'm sure there'll be some questions on where next, but I think I've touched on already strong investment performance, ability to democratise those assets and make them available into intermediaries is something that Schroders brings and we see great potential for a really strong sustainability position, which we think will be absolutely critical as clients put that front and centre in their objectives. And perhaps less obvious today, but Georg and others will tease this out, a vast number of relatively early stage strategies where we're on fund one or fund two, as you will see, as we get to the third and fourth vintages, those products are able to grow very significantly. So, in some respects a relatively immature product line up, but one that where we see the underlying growth being strong and relatively predictable. That's all I will say at this juncture, we'll come back later on. I'd now like to hand over to Georg Wunderlin. Georg joined us from the private assets world, and is now our head of Schroders Capital and our global head of private assets. Georg, over to you.

Georg Wunderlin

Thank you, Peter, and good morning. What we would like to do today is the following, I would like to give you an overview of the key facts and figures of our business, showcase the strength of the platform, introduce to you some of the key leaders to explain to you in-depth how our business is set up, and how we're positioned to deliver on our ambitions in the future. Now, Peter has explained to you why we're doing this as a firm. And obviously, with private markets growing by about a third in the next five years, and a 500 billion client footprint in institutional and intermediary business, we're obviously perfectly positioned to profit from that opportunity. Secondly, Peter has also explained to you how we've gone about in disciplined, and deliberate steps in building our private assets platform. And now we've arrived at a point where we've given a name to our platform, and it's Schroders Capital. It's really the name for our ambitions in private markets, and it's unifying our private assets businesses that we've built over the past couple of years. Now, what's more important than the brand, is actually what's behind it. And we're currently running a business of 43 billion in assets under management, spanning across six asset classes. And they're covering private equity, securitised credit, real estate, infrastructure, insurance linked securities, and impact investing. And across those six asset classes, we're operating more than 30 capabilities run by 250 investment professionals, and 451 people dedicated to private assets. This team is creating excellent performance and effectively 82% of our assets are outperforming over five years. The performance, in combination with the business model that we operate, leads us to some very sticky business, and we are actually operating and delivering a client longevity of more than 11 years, as of today. So, this is actually quite interesting and sticky business for you as shareholders off the firm. As I've mentioned in the beginning, we have compiled and build up an excellent leadership team of people who've spent their careers in private markets. And as you all know, this industry typically measures the cumulative experience of its leadership team by their years spent in private markets in combination. And in our case, this adds up to a staggering 328 years, it's really a team to be proud of, and I'm genuinely proud to be leading this team. This team is the entrepreneurial driving force behind Schroders Capital, and it's also a testament to the attractiveness of our platform to top notch private assets talent. Now, have we delivered, and do we actually have the stuff to deliver in the future? What you see here is we've actually grown twice as fast as the market since 2016. And we have the ambition to double again in the next five years, we have grown our assets under management by on average 28% in revenue terms in AUM terms since 2015. And 45% of the assets that we have raised are in closed-ended and locked-in vehicles. While a good portion of this growth has been from acquisitions, we've also proven that we can grow organically and that we're leveraging the group's client footprints. And I'm tempted to say that we are set for a record-breaking fundraising year this year, with 3.9 billion raised in the first five months of the year, which translates into 2.8 billion in net new business for that same period. We're also well positioned to profit from the fundamental trends shaping these markets in the next decades. And there are really five trends to mention. The first is the sustainability and impact revolution that's sweeping across the industry. And it really is a revolution, there are billions of capital that need to be invested in the next decade to overcome some of the most important challenges in terms of sustainability and impact. And Maria Teresa will explain to us in a second, how we're positioned to profit from this trend and how we will be leveraging our successes that we have achieved in BlueOrchard across the platform. The second trend really relates to and is driven by lots of capital flowing into private markets, and the fact that strategies which are slightly less differentiated, and which are more coming from an allocator perspective than an operator perspective, are getting commoditised. So, in order to deliver returns in the future, it is imperative to be in control of the assets and to really have specialised asset management skills. Sophie van Oosterom will introduce our real estate franchise and will explain to us how we're positioned to deliver value to our clients under this paradigm. The third trend relates to private investors coming into private markets. And Peter has spoken to this in his introduction as well. Individual investors are under allocated to private assets and it's a huge opportunity for us, of course, to leverage our intermediary client footprint. Now, while this is a trickle, we see this growing every year and at some point, the DC floodgates will open and make this a huge opportunity for us. Moving to the fifth through the fourth trend, and this is not really a new one, really, since the global financial crisis, institutional clients have been grappling with zero or in some regions, even negative interest rates and have been craving to access income to plug the funding gaps through their liabilities and their balance sheets. And now providing income solutions to those clients, in order to be able to deliver the level of incomes they need, is what we do and what we excel at. And Nick Pont will be speaking to this trend and how we're offering our entire income suite to clients. The fifth trend really relates to provide a concentration in private markets. And obviously, clients want to work with fewer providers that can offer deployment across a broader set of capabilities, and even more often and more and more often they're seeking entire portfolio building blocks and not just individual funds to be sold to them. So, providing solutions and private assets is absolutely key. And David will be speaking about this trend and how we're delivering our franchise end to end to our clients. Now with that, let me hand it over to Maria Teresa. Maria Teresa, you are deputy head of BlueOrchard and you've just recently taken over the lead for our sustainability and impact practice here at Schroders Capital. I dare to say as well that you've been a pioneer in this industry and you have been one of the engineers behind the operating principles of impact management's which have been developed through the World Bank and you're one of the one of the people who have co-developed that with this group. So you're really one of the driving forces behind the impact revolution in this industry. Maria Teresa, please share with us some of the secret recipes behind launch and success and why we are positioned to profit from the impact revolution here at Schroders Capital. Over to you Maria Teresa.

Maria Teresa Zappia

Thank you, Georg, and good morning, good afternoon and good evening depending on your time zone. Let me start saying that one of the reasons that I'm here today is that sustainability at Schroders is indeed, as you can see high up on the agenda. Today, I like to start and share with you three main points. The first one is why sustainability and impact are the defining characteristics of the new private markets. The second point that I like to share is why at Schroders we are well positioned to lead in the new private markets. And the third point is how sustainability and impact can contribute to Schroders' growth. So, if we look at the first slide, you can see that this shows clearly that sustainability and impact investing has been growing over time, in particular over the past six years. On the left-hand side, you have the ESG committed private capital funds raised, and you can see that these reached close to $500 billion in 2019. On the right-hand side, you have the similar path, but of course, much stronger growth in the impact investing assets under management, with these impact investing assets under management, really passing the 700 billion mark in 2019. What is interesting as well is that we can gather from an ESG asset owner survey by bfinance, data as of December 2020, that the asset owners are more and more advancing in their ESG approaches. In particular, they are moving from, you know, integration, negative screening, to really concentrating on new approaches in their investment portfolios, in particularly 40% of them are now focusing on new metrics and new measurements like carbon measurement, and report in an impact measurement and reporting. This really means that there is a shift, a behavioural shift on the side of investors, and really a focus on ESG as impact. Let me explain that asset owners are more and more seeking environmental, social and governance impact that their portfolio can generate. And also, needless to say that COVID-19, if anything, has even accelerated this behavioural shift on the side of the investors. We also have experienced in 2021, the biggest ever regulatory shift with the sustainable financial disclosure in Europe, and we are pretty sure that other regions will follow. So, to get to my second point, if sustainability and impact are the new defining characteristics of the private market, how are we placed at Schroders to really take this challenge? And how can we effectively meet the expectation of asset owners in terms of ESG impact? The main difference with our competitors is that we've been preparing for this shift of mindset of investors while sustainability and impact investing. And in fact, in terms of private assets since 2019, we have among our private asset expertise an impact investing powerhouse, BlueOrchard finance. And this actually leads to my second slide. As you can see here, you have a snapshot of the 20-year track record of BlueOrchard finance. There are many, many things on this slide, but I'll try to summarise them. So BlueOrchard finance started its business in 2001, at the initiative at the United Nations, and effectively since then deployed more than $8 billion since inception in 90 emerging and frontier markets. And how it has done this it has done this with private debt, private equity listed debt, and more recently in sustainable infrastructure. It's worth saying that BlueOrchard was the first ever manager of microfinance funds. And still today that is the largest micro finance in the industry with over $2.5 billion of assets under management. BlueOrchard has demonstrated that is to institutional investors that you can effectively combine attractive market returns with long lasting impact. And of course, it has done so through its local offices as you can see here on the map across four continents. Well known for its provision of finance to micro finance entrepreneurs, and to small and medium enterprises, it's important to say that BlueOrchard is farther expanded its innovative investment solutions in other themes, like climate finance, education finance, women empowerment, and more recently sustainable infrastructure. In addition to being a trusted partner of an asset manager of a large number of development finance institutions across the globe, and I'll name only some of them because they are far too many, like the European Investment Bank, the IFC, the private arm of the World Bank, CDC, the UK development finance institution, the German Development Bank, KFW, BlueOrchard, has also been the preferred partner of reputable pension funds, insurance company and private banks. This has resulted in a strong asset under management growth. And if we take the impact investing period that we have just seen from 2013 to 2019, BlueOrchard over the same period increases assets from 600 million of assets under management to over 4 billion. And as you can see here on the chart, it has now 2.7 billion of assets under management. Impact, it's at the heart of what BlueOrchard, it is in the DNA of the company. And so BlueOrchard has been really unpacking the so called ESG impact that asset owners are so desperately looking for, by developing a proprietary impact management and measurement system called Be Impact. It is important to say that Be Impact in 2020 has also been reviewed and independently assessed by a leading impact in verification services provider. And now let me get to my third part of the story. So more concretely, how can effectively this impact investing powerhouse, contribute to Schroders' expertise? And how can this effectively generate growth? As you can appreciate, it's needless to say that leveraging this impact investing expertise of BlueOrchard has been a real differentiator for Schroders Capital's offering. Sophie, my colleague in real estate will cover later how we have, you know, started a collaboration to develop a real estate impact fund in the UK, by combining the sustainability expertise of the real estate team with an impact know how our BlueOrchard. This is the first of many collaborations and we really are clearly working on a number of different collaborations in process with the different private asset teams. If we look at the next slide, you have a concrete example of how we you know joining forces can really contribute to growth. Here you have, you know, a collaboration and a fund investment strategy that was developed in 2020 in the midst really of the COVID-19 pandemic, and this is a COVID-19 blended financing (inaudible) fund. And on the left-hand side, you have you know, the investors as of today. So, as I said these include, you know, reputable and very renowned development finance institutions, Schroders and BlueOrchard, you have the number of SDG Sustainable Development Goals the mandate is tackling. And more importantly, you can see that the expected impact for each $100 million of the mandate. And now I'd like to tell you that we started this strategy in December 2020. And we will be with a second closing in June already reaching 200 million, these 200 million will be crucial to provide, you know, financing to micro entrepreneurs and SME in emerging and frontier markets that have been impacted by that COVID-19 lockdown and business you know, stops. If I may, I like to take you to my next slide, which is the closing slide. And so, this really pictures how we can leverage the sustainability and impact capabilities across Schroders Capital's products and how we can do this to tackle the UN Sustainable Development Goals. It is clear that, you know these the challenge that we have in front of us if we think that you know, the UN Sustainable Development Goals are many, but we are extremely well positioned, and you have here at the bottom of the page some of the elements. Today, we are collecting more than 300 plus asset specific asset class specific ESG metrics across the entire private asset team. We are also implementing and aligning to the best impact investment management framework, the operating principle for impact management established by the private arm of the World Bank, and we have a coordinated approach to net zero and of course, we have dedicated ESG sustainability and impact resources. So, before concluding, let me just say that that UN sustainable development goals are not a sprint, but rather a marathon and this is exactly why we are very well placed in private assets to really deliver on these goals. And as a concluding remark, I like to say that it is combining the strength and the expertise of Schroders sustainability teams that we can execute on our group CEO call for a beyond profit private asset business and meet the expectation of asset owners in terms of ESG impact. Thanks a lot for your attention.

Georg Wunderlin

Thanks Maria Teresa. It's actually quite fascinating to hear from you about the size and growth of the impact investment opportunity. And with this market already being at 750 billion per year and growing by 40%, every year, it's obviously a huge opportunity for us. It's also great to hear that through 20 years of impact engineering at BlueOrchard, we really have a head start here, and this cannot easily be copied by any of our competitors. Now, let me move over to Sophie. Sophie, you've been head of CBIE’s EMEA business and now you've moved over to Schroders to head real estate here in the firm. You've been in this industry for 25 years, and you've been a figurehead and business leader in real estate. You'll be talking about operational value creation solutions, and sustainability and impact and what this means for real estate. Sophie, can you please share with us your view on our real estate business? And how you will take it further.

Sophie van Oosterom

Thank you, Georg, and good morning everyone. Georg talked in his opening comments about the changing market dynamics in private assets. And it were exactly those that attracted me to the opportunity at Schroders, as I joined earlier this year. In my view, investors are looking for trusted partners that can think outside of the box and bring them innovative ideas that link across different disciplines. And then combine that with deep subject master expertise. And to be able to offer that to clients, one cannot just sit in a sector silo, one actually needs the link across the different divisions. And that's why the opportunity at Schroders Capital is so exciting. But today, I will just speak about real estate, because I believe the changing market dynamics in the real estate industry as well really play to the advantage of our real estate team at Schroders. If I summarise the opportunity in two sentences, it will be growing market size, but more importantly, expertise wins. I have a couple of slides here. Over the past five years, allocations to real estate have increased from 7% to 9%, on the total balance sheet of institutional investors like insurance companies, and pension funds. As a result, global real estate transactions averaged 1.6 trillion per annum over the last five years, as this capital flew into the market. And according to INREV investment intentions, allocations are going to grow again from 9 to 11%. And so, in theory that you bring a similar amount of capital into the real estate market again. What that means is a very competitive capital market environment, competing for a limited amount of stock, and that will drive yields even further down. At the same time, these investors have been consolidating themselves and professionalised. And as a result, with given their size, they now need to concentrate on fewer, but more significant manager relationships. But the real estate investor market dynamics are different than they are in liquid markets. When investors are looking for a manager, they're not looking just to allocate, we're not in a market competing with passive investment strategies. It's in fact quite the opposite. In this low yielding, competitive environment, increasingly, asset management expertise and operational skills are required to secure that income that everybody is looking for with their real estate allocation. More importantly, as well, it is crucial that by using that operational expertise and in-depth knowledge, that the assets can be prevented from becoming obsolete, because we have an increasing ESG demands on the way buildings are managed and are being constructed. But also, as we've seen over the last 18 months, tenant preferences can change overnight, and what needs to be adaptive. The times of just signing a lease contract and sitting back and collecting the rent are long over. So, in my view, the winning attributes of the manager of the future, are breadth and depth of a platform, in depth operational expertise to manage individual assets as if they're companies by themselves, businesses by themselves interacting with all the stakeholders, and then a fully integrated ESG approach to investment. Over the next couple of minutes. I will show you that Schroeder's real estate has invested in exactly these capabilities, a diversified platform, increased specialist operational excellence to sit on that platform. And we move from an ESG focus to a completely integrated ESG approach. And as such I believe this group is perfectly positioned for the next phase of growth. Our business today has 20 billion of assets under management, and with a team of 200 experienced professionals in all major real estate markets in Europe and Asia, it has expanded quite significantly, the total amount of assets under management is 70% more, has been has increased by 70% over the last four years. But our business didn't just add assets under management. Through the acquisition of Algonquin, Blue, Pamfleet, essential real estate skills and geographies were added to this platform. And that will now allow us to offer worldwide investment solutions to our clients and create that performance.

Through the combination with Schroders Capital, we can leverage the group's resources and punch above our weight with our ESG approach and our distribution reach and as such, I believe we can double our assets under management from here. Let me substantiate these comments and share some of the building blocks that were put in place over the past years. And help us also answer the question that our (inaudible) asked us, why work and with Schroders? Schroders have been managing real estate assets for its 200 clients since 1971. In fact, we have our 50th anniversary in about two weeks time. And over this period, it has built up a strong performance track record of managing diverse listed and non-listed Investment Trust, in the traditional sectors of office, retail, industrials, and retail. Has done so in the UK and the major markets on the continent. Just as a testimony, 90% of the UK assets are outperforming, or were outperforming their relative benchmark on a one, three, and five year basis, and we have a similar track record in Europe. This business has been steadily growing and taking over mandates from other managers. And the UK market represents relative good value and is ready for international capital. On top of this base though, more specialist expertise and geographies were added, to better service existing clients and as such, grow the margin and diversify income for the group. If I take you through these building blocks that were added, firstly, the orange one on the left-hand side. In 2018 the hotel business Algonquin was acquired. The platform included 40 hotel specialists and operates more than two and a half billion of hotel assets in value added strategies. To give you a sense of their track record 100% of the assets that were sold since 2015 have outperformed the return targets and actually created carry income for the group. The opportunities that this presents for Schroders is significant. First of all, the business has raised 500 million of equity, under the Schroders umbrella, in one of the worst hits parts of the real estate market over the past 18 months, so during COVID times. The reason? Investors expect some distress in the market, but then that markets to significant recover thereafter. But importantly, they understand that deep operational real estate knowledge of a specialist team is required to unlock that opportunity. And that's exactly the additional piece of the attraction of this expertise to us. Very importantly, this team brings exactly the hospitality type of skill sets and operational excellence, that we believe is required to also think innovatively through the use of our buildings in a new world. In our new world of working, of living, of shopping, and the flexible contract terms that we would have to amend to, to cater to our tenants' business needs. And do this in a sustainable way. In short, we're bringing property and operations closer together. They've been linked to optimise value. And that skill is typically residing in the hotel business and with hotel managers. The next in 2019, a German value-added business was added and was acquired. And that brings integrated value-added skills, and an important residential foothold in one of the core markets in Europe. Various new German strategies are already being developed, and amongst which are recently launched, first BaFin approved article 8 German open-ended fund which is available for retail investors. We've done it with a strong retail with a strong German part in the market and we expect significant growth from this initiative. In July 2020 now going to the grey box, the widely recognised and reputable pan Asian value ads platform Pamfleet joined our group. It's got a long, standing track record in the market, the team has been there for 30 years. And importantly, it provides our group with a good expertise centre for our global business in Asia, and more importantly developing boards as well to set up a scalable core business in the region in the near future. And then in January of this year, we kick started our debt business with the hire of a very experienced desk team. This team we expect will capitalise on the 1 trillion market opportunity that results from banks retracting out of the typical real estate lending space as a result of new regulation. At the same time as investors are looking to, Insurance companies are looking to allocate in the most optimal way for their balance sheet capital requirements into real estate income and doing so by debt. Our debt team will leverage on our real estate knowledge, it can use the entire platform to set up. And without any legacy portfolio to deal with, it's already ready to commit into three debt strategies along the risk curve, as well as investing into green bonds program. As you can see, and hopefully laid out here through active add-ons, the group has added significant and relevant expertise and geographies, to now be able to provide global solutions and drive value with the hospitality and sustainability mindset. Maybe a few words more on sustainability, as I noted our ESG approach on all the pages and it's integral to what we're doing. A lot of managers are talking about ESG and most managers will focus on what risk climate change and increasing ESG regulation can mean for their business. But our organisation goes a step beyond. As I mentioned, it's fully integrated in all parts of our investment business. What do I mean with that? In very simple terms, it's integrated in our sourcing decisions, in our day to day management, but also in how we can focus our investments to create that positive impact. So if I take that through as a first step, we use Schroders proprietary tools to measure the potential impact of transition and physical risk across many geographies, to support our understanding of climate risk, and the resilience of our strategies, our funds, and our assets, to those risks. And this guides our acquisition and disposal decisions. And then we measure the impact of our portfolio on the environment. And we've established business plans per asset to get to net zero. This is for our group, this is for individual assets, and then for our total organisation.

And as being part of Schroders, we have a strong influence in very various industry groups, on the direct direction of travel of regulation, and of self-regulation. And as such, we can constantly stay ahead of the game. But thirdly, we're ready to use our investments in real estate to generate that positive impact. We're launching a new impact fund series with a strategy that is aimed at regeneration of the deprived areas, which exactly links into the levelling up agenda of the UK government. But we're also rolling this strategy out across Europe, with an equal social impact focus, but also including affordable housing, and care. We've developed this concept, and more importantly, for the market as well the way to ultimately decide and measure the impact, together with Schroders Capital BlueOrchard, a business that hasn't just started, it's been in this industry for more than 20 years and has experienced in this field of measuring impact. That is what investors are asking for. And that I think is our unique advantage point in this field. As Maria Teresa already mentioned, the impact market is estimated to come to about 750 billion worldwide. And being part of the Schroders group, we have the resources to position ourselves as the expert in this field. Now, in summary, connecting the dots between the broad range of we believe highly in demand competencies that are required into this new world of real estate. Together with our geographical reach, we believe we have an edge on the competition. We can provide our clients with comprehensive solutions, accessing all real estate strategies as we can consistently underwrite risk and the best execution to secure that best risk return weighted strategies for our clients. Doing this, we believe we can create true momentum for our business in this very dynamic market. So on the last page, I've highlighted these main building blocks that I've talked about over our growth plan, and how we look to double our current AUM. I've already taken you through these drivers of growth, their hotel and specialist strategies. It's our debt business, and it's the impact opportunities. These grow, this growth sits on top of an already very solid business that's supported by long term clients. We think the growth is possible as we're taking the business from local to local as it was set up, to offering a full range of services to our total existing and new client base. And David is going to talk to you more about how we're interlinking our client base to provide these solutions. To do this, we need a very entrepreneurial approach and this group linking with the Schroders Capital team that entrepreneurialism is already there, and it's fun to make the connections and to really create lift-off for our real estate business whilst doing that. Thank you.

Georg Wunderlin

Thanks Sophie. It's actually great to see how we're positioned in real estate as a solutions and sustainability and impact provider of choice in a highly competitive industry. And I really like the term that you use as the hospitality mindset which really demonstrate nicely how we're looking at buildings, as businesses and not really just as bricks and mortar. Now, this leads me to Rainer. Rainer, you've been in the private equity industry since a quarter century. And private equity here at Schroders is a real success story. It really proves how an acquisition, if done right can generate massive value for the firm. Please help us understand about our private equity business and what makes us unique in this space. We'll also be interesting to hear from you how we've been leveraging our intermediary client footprint to tap into the democratisation opportunity. Rainer over to you.

Rainer Ender

Thank you, Georg. I'm delighted to provide you with concrete insights into the strength and growth of our private equity platform. Our private equity business has more than 20 years history and became part of Schroders in 2017. On the Schroders we generated strong organic AUM growth. Next slide please. From 6.5 billion pounds to 9.1 billion pounds. On an FX adjusted basis, this is about 50% AUM growth within three and a half years. This has been possible because we now build on the strong private equity platform combined with the global strong organisation of Schroders. Our private equity practice really fulfils all the elements that the consultant would want to see; a stable investment team. This is highlighted by the fact that our investment committee has worked together for more than 15 years. We also have a differentiated investment strategy. We are looking for investments that are clearly outside the mainstream market. We have a very strong track record, and I will elaborate on that in more detail. Obviously, we also have a high emphasis on sustainability and ESG. And we were one of the first signatories of the United Nations principles for responsible investing. We are constantly further strengthening our sustainability practice in collaboration with Schroders and Schroders capital sustainability, as just elaborated by Maria Teresa. And additionally, last but not least, we are an early mover in applying data science to our investment approach and investment sourcing, as also private equity is becoming more data rich. As mentioned, our private equity practice has proven itself for more than 20 years. It's on the next slide. We are investing globally across the full private equity market spectrum from venture capital through growth capital to buyouts, and turnarounds. We cover five main industries, which is healthcare, technology, consumer, business services, and industrial. And we're doing direct investments, co-investments, secondary transactions, as well as primary fund commitments. We thus have a global strong network with GP's fund managers around the globe. And we build on their deal flow generation together with us to do more direct investments. It's worth mentioning that about 50% of our investment approach and investment volume is executed through direct investments, co-investments and secondaries. That means that only 50% of our investments, our primary fund commitments, which are associated with traditional fund of fund concept. So let me highlight our strong performance. All the investments we have made since over the last 10 years have for until today generated a net IRR of 19% for us. If you compare that with the MSCI world total return index on a public market equivalent basis, this is a full 7% outperformance. And if you look at our realised direct and co-investments, our net IRR for all investments done that way so far is even 31%. And to look at 2020, which was definitely a special year, our portfolio stands out with a full 25% performance over the year. What you see on the chart on this slide is the quarterly investment results of our overall portfolio over the last 10 years. And what you will recognise is that the volatility is really low. And it is really less than half of what the MSCI world total return index has. So that all emphasises the strength of our performance execution in private equity. So therefore, it does not come as a surprise that we have been able to generate strong growth over the last four years. Based on the benefits of being part of Schroders. Let me quickly highlight the development of some key aspects of our platform. A key success factor of our private equity practice is definitely the consistent investment strategy and the stable team over a long time. This has successfully been leveraged with the global distribution and product management rollout through the overall Schroders organisation. To look at the table that we show on this slide, we have expanded our product range, which was historically limited to closed and limited partnership structures, and we are more creative with Product Solutions on the Schroders support from the product management department. Our client reach historically was predominantly the incumbent home markets in Germany and Switzerland. And through the Schroders global distribution organisation, we have expanded and internationalised our client base meaningfully. We have also broadened the client type, which historically was purely institutional to also include intermediary. I will further elaborate on that, as this is a big growth proposition, building on the democratisation of private equity. As a result, overall, our fundraising in the last 24 months has been two and a half times bigger than what we had before joining Schroders, and there is more growth to come. Let's focus on the democratisation of private equity, as wealth and retail clients are the next big growth opportunity where we as Schroders can be well positioned as an early mover. The retail investors make up more than 40% of asset management industry, but they are very low in their allocation to private assets and private equity, specifically. With Schroders platform and its strength in intermediary as well as in product management, we are well positioned to create products that overcome the two main challenges of tapping into the retail market. These are the regulation that is constantly changing and evolving as well as the liquidity needs of the end clients. Both can be tackled and addressed successfully and therefore, access to this market is possible. And we have proven that over the last one and a half years already by launching 4 products that fulfil these criteria. And they make up 675 million pounds of AUM today starting from zero, and have 100 bips fee margin. So it's a very promising market for us to grow further. And we think that the retail market on top of the growth of the private equity market overall will bring us to significant growth for the private equity practice of Schroders Capital. Thank you.

Georg Wunderlin

Thanks Rainer. What really strikes me in your presentation is the 19% track record, which is absolutely stellar. And that it was achieved across all investments over the last decade. On top of that, of course, the democratisation success story is a business school where the synergy case and I'm very much looking forward for this to continue to grow. Now, let me move over from capital gains to income. As we've discussed in the beginning, closing the funding gap in the balance sheets of institutional clients is a big theme. And Nick, you're a private debt veteran. You started your career at PIMCO and then later moved on to Accenture to now head private debt product strategy at Schroders. In our discussions, these clients' problems, which I just mentioned, feature as a constant theme. So how do we go about helping our clients to access alternative income sources in this current environment?

Nick Pont

Thank you Georg. My goal today is to help you to understand how and why our private debt platform is able to both help clients achieve their investment objectives, as well as simultaneously grow our own business. Furthermore, what is driving our execution strategy is predicated on three key inputs. First, is there a secular economic opportunity? Second, can we add alpha and third is there client demand? The secular opportunity is underpinned by something that we have called The Zero. The Zero is a moniker neatly summarised by my colleague, Michelle in the US, which describes the current economic backdrop as characterised by low interest rates, low risk premiums, low returns globally for the foreseeable future. The five year US Treasury yielding only 80 basis points today, and inflation expectation over the same period, resting at two and a half percent, we live in a world of financial repression of returns on one side, but also we live with the inevitable economic scarring as a result of a global pandemic. There are two key reasons why our private debt franchise can address these twin challenges. These are depicted here in the following charts. On the left-hand side as you can see, the private debt market is able to deliver excess returns versus the public market. Secondarily, private debt affords a level of control that simply you do not have in the public market. This leads to infinitely better outcomes in terms of client portfolios. It really is little wonder, then, the private credit has quickly established itself as the third biggest private asset class globally, behind private equity and real estate, both of which you have heard from my colleagues previously. All are key asset classes to the Schroders Capital value proposition. Importantly, we are doing this across a range of different private debt asset types. There are a variety of different ways that we at Schroders can deliver platform alpha, and there is one huge benefit that we can pursue our growth strategy in a variety of different ways, allowing us to be very precise in our execution, whether it be through strategic acquisition, and our ambitions are well telegraphed to you all. Second, we can build adjacencies to what we already have, or we can organically grow what is inside the fold. The progress already made has been well thought out, and is already considerable. We have the securitized credit and asset based lending team based in New York. This was a 2016 acquisition from Brookfield managing $6 billion at the time, and by the close of this year, we should be through $18 billion. It's a world class team, a world class acquisition, but also importantly, seamless integration to the Schroders platform. Our infrastructure debt business under Chantale covers both debt and equity with an infrastructure, but importantly, is at the forefront of mega trends, such as climate change, and digitisation. Our insurance wing security business is already a deeply established platform, with a performance track record that is exceptionally dependable, and the envy of many. We have BlueOrchard, in regards to impact, a group founded in conjunction with the United Nations some 20 years ago, and a demonstrable track record across 90 countries. We are talking about an impact on a truly global scale. Then we have real estate and corporate loans under Natalie and Nicole, respectively, offering full capital structure solutions, specifically aimed at a specific client need at one given time. We've even gone as far as launching a multi private credit fund, which utilises objectively the very best of which Schroders has to offer, but also the very best on offer in the marketplace. As you can see, importantly, this is relevant across all of the client spheres, regardless of geography. So how does this map out in terms of client products that are available? Our current offerings span a continuum, across the x axis we have both liquidity and return and on the y axis, we have volatility. This allows clients to fine tune their allocations across the liquidity and the volatility spectrum, utilising underlying different collateral types, real estate infrastructure, ABS, corporate loans, which is vitally important to a diversified portfolio. We believe in a world of taking more risks, not more risk.

Also, importantly, with this diversification, we are not simply out in the marketplace at any one given time, raising capital for a single fund. Private debt will continue to mature towards its path of maturity, and we are with it every step of the way. The final aspect to this of course is, is there demand? One of the benefits to a diverse business at differing points of maturity is that we can be both disciplined and discerning, allowing us to deliver the right tool at the right time. And we already have proof of concept. For our securitized credit business, we announced in the press last year to you all, that we raised one and a half billion dollars in focus II, and from my idea generation, to closing the fund at capacity was only six months. Importantly, we will be fully invested in three months, we are already above our performance hurdle, earning performance fees, and we will be back out to the market before the end of this year. Similarly, for infrastructure, another evolved business, we are at the latter stages of closing Julie II, at our capacity of just over 1 billion euros separated between separate accounts, as well as funds. For ILS and impact, we're already at scale, and we have the world's largest catastrophe bond and micro finance fund, we were able to use that foundational base to pivot towards closed ended funds focused on sustainable outcomes, focused on sustainable assets. What's to come is our real estate debt platform, our corporates and our multi private credit, able to address every part of the capital structure in terms of high-grade mezzanine loans, and also whole loans. All of these individual successes aside, all of this scale accrues to the benefit of both Schroders clients and to the benefit of our business across origination, our research synergies, but also our operational delivery, the private credit market will definitely bifurcate between those who can get to scale and those that cannot, and as you can see, we have worked hard worked hard to leverage the full footprint of the firm, and we will continue to do just that, to build franchise value further out the revenue spectrum. Thank you.

Georg Wunderlin

Thanks for that presentation, Nick. And as you can see, we've been very deliberate and disciplined in how we've built up our private debt strategies. And really, after blockbuster fundraisers in securitised credits and infrastructure, we are now going on to build out our newly set up capabilities, and I'm very much looking forward to seeing those scale. Now, let's move up a level and re-look at our business in totality. David, you're based in Hong Kong, and you're co heading us specialist private asset sales team as well as our private asset solutions team. I dare to reveal as well that you're an ultra-marathon runner, and with 30 years in this industry, you're uniquely qualified to lead these roles. David, can you please explain to us the key distribution levers behind our business behind our business plan and how we're set to double our AUM in the next five years?

David Seex

Thank you, Georg, and good morning. By now you'll know we have a solutions mindset at Schroders. I believe that across the firm, we work together very well in trying to create the outcomes our clients want. And as you've now heard from my colleagues, this is true of each of our private asset class businesses. Today, we already run 22 billion pounds in private asset client solutions. I emphasise this because it's nearly half our assets. In some cases, these are about providing customised access to our investment strategies. But in others, it's about extending our clients workbench, and giving them the capacity they need to achieve their objectives, with limited resources. We have the opportunity to do much more of both. Of course, winning new clients and broadening our private markets franchise is critical. And we're targeting this by bringing innovative new products to market and by leveraging our ability to cover clients locally all around the world. For example, in the last weeks, we won a new client in Australia attracted by our unique access to onshore Chinese private equity. And this year, seven new institutional investors in South Korea, brought in by our team in Seoul, and investing with us in European infrastructure debt. Today, I'll talk mostly about our institutional growth priorities. But will also comment on how we're positioned to capture the opportunity with individual investors, and which Reiner addressed at greater length. One important trend we see is institutions wanting fewer, but broader relationships with managers as partners. In our business, we are seeing that clearly within asset classes, but as we mature, we'll target more cross asset collaboration too, and this really plays to the solutions approach. As Gail said, over the last 5 years, our asset base has more than doubled. And over that time, we've seen substantial growth in relationship size. Let me illustrate that by reference to our private equity business. If we look at the left-hand panel in the slide, between May 2017, which was just before the business was acquired by Schroders, and May 2021, our number of accounts grew by 19%, but the average size of our accounts grew at double that rate, or 38%. And for our top 50 accounts by 65%, from an average 105 million pounds to nearly 175 million pounds. This reflects not only our growing share of our client's private equity wallet, but also an increased confidence in the business as part of Schroders, showing that post acquisition account growth can be very persuasive, for when we try and acquire new businesses, or attract new talent. In some of our businesses, we're also seeing clients moving from product-by-product relationships to collaborative long-term solution-based mandates. In the right-hand panel, you can see that in the growing proportion of our overall private equity flows coming through customised single client pools. These have grown from 45% of flows in 2017 to 60% currently, that's important because we see very high renewal rates amongst our mandate clients, which extends the longevity of our average account relationship. As our private asset platform broadens, it allows us to work with the firm's clients across more of their investment agenda, more asset classes from public to private, combining asset classes to create holistic solutions across themes, particularly in things like sustainability and ESG, and the zero. And as our funds grow in scale through successive vintages, investment sizes will increase too, and this will have a multiplier effect on AUM. Looking ahead, we'll also target singular large partnerships, where the scope of engagement spans the balance sheet and is more strategic. This would be important to us in securing larger pools of discretionary capital, and important to larger investors wanting to secure deal flow, gain transparency and flexibility, meet increasing regulatory needs, and reduce agency costs. We're working on several such opportunities currently. Our existing relationship base broadly across Schroders and more narrowly within private assets has to be the foundation of our growth. This slide sets out the way we think about fundraising growth. Schroeder's has more than 4000 institutional relationships globally. As Nick said, this would be the envy of most private market focus managers, about 900 of these are investors with us in private assets. In other words, 3000 do not currently invest with us in private assets. Now, it would be true to say that winning new clients, and establishing new relationships is harder than extending existing ones. So, a priority for us is to focus on doing more with our large global relationship base. And we've set two objectives for our institutional client business with clear KPIs against them. Objective one, is to cross sell our capabilities to our existing private asset clients. So today, each private asset client invests on average in just over one of our private asset capabilities. We can extend this ratio from the 1.1 today to 1.8, it would generate a further 20 billion pounds in AUM. Put another way, if 70% of our existing private market clients invest in just one more capability each, that would drive 20 billion of asset growth. The second objective is to extend our private assets reach into the broader client base of the firm. We have 3000 relationships to target if we can add just 100 new clients per year at our average initial investment size that would generate 3 billion of new assets per year. Taken together, achieving these two objectives alone could account for 32 billion of gross sales in the coming 4 years, putting us in the target range of annual net new business that Peter referred to earlier. And that's before we consider the opportunity in private wealth. In our sales business, we now track and celebrate our new client wins and our cross-sell wins. So far this year, we've added 34 new clients, and with some great cross-sell successes. In the last quarter, one of our long standing European private equity clients made a significant investment with us in our infrastructure debt capability. To help us deliver our objectives, we have many assets. And it's important that we use them all. That's easy to say, it's harder to do, but we have 528 salespeople in Schroders globally. 29 specialist private asset salespeople located close to the customer in key markets. Our dedicated private assets solutions team is working in partnership with our public side portfolio solutions team and our multi asset teams. We also have a powerful intermediary and wealth management franchise. Reiner talked earlier about the scale of the opportunity for private assets in this fast growing under penetrated sector. Several things are important to capturing it. First is brand, and ours is good. Second is delivery, or how we structure the product to make it accessible. We've made a great start and learned a lot with the closed ended investment trusts and the semi liquid UCITS products, but we need more. The third thing is about the way we support this channel, which needs a lot more educational help in private asset and alternative selling. So, our private asset sales team covers both our wealth management and our intermediary coverage teams as we would an institutional client. We're working with them on training events, on thought leadership papers, on holding seminars and educational events and co working on the products this client group needs. So, in seeking to redouble our assets, we'll try and do four things well. First, cross-sell to our existing private market clients. Increasing the number of investors who invest with us in more than one thing. Leverage our global relationship base with integrated distribution and across firm approach to problem solving. Use our investment edge to initiate new relationships and seek ways to access the wealth market through innovative new products and structures, and through providing first class support. Thank you again and I'll turn it back to you, Georg.

Georg Wunderlin

Thanks David, for this very clear presentation. You've laid out the growth drivers behind our business plan very clearly, this is very much about cross selling within private assets into the client relationships that we have in the firm. And of course, it will also be about winning new clients. And it's great to see that we're delivering on all dimensions already. Now, let me summarise the key points of today's presentations to you. We have a strong and fast-growing business today, we are 43 billion in assets under management, and we've grown our revenues by 28% per year since 2015. Now, based on that, and the strong performance that we have generated, we are currently producing 5 to 8 billion of net new business every year out of the 6 to 9 that that Peter Harrison mentioned in the very beginning of the presentation for private assets and alternatives in totality. Our business model, and the success that we have with our clients leads us to longevity of our book of more than 11 years, which positions us perfectly to achieve our future ambitions. We have more than 30 capabilities covering all asset classes, and we're pursuing a discipline build out as you've heard in our presentations. We also sit nicely in the most important growth trends of this industry. The impact market, which is doubling in size every two years, the need to deliver income to institutional clients, private clients pushing into private markets in what we call democratisation, and being a provider of choice to solutions clients will seek deployment across a broader platform. And most important to say as well is that we are an attractive home to private assets talent, as proven by our M&A track record, and most importantly, the group of people that you've heard presenting today. Now, this leads me to my conclusion when you put all this together, you can see we're set to double our AUM by 2025. I'm sure that you will have many questions, and we look forward to taking them in the following Q&A. Thank you.

Q&A

Richard Keers

Good morning, everybody. I hope you've enjoyed that presentation this morning from Peter, Georg, and some of Georg's private asset leadership team. We're delighted now to go to Q&A. If you can state your name, and the organisation you represent, that will be helpful. Thank you very much.

David

Thanks, Richard. So good morning, everyone. Should you have a question, please raise your hand and we'll invite you to unmute yourself. The first question is from Arnaud Giblat. Arnaud, please introduce yourself, the company you're calling from and who your question is for.

Arnaud Giblat

Yeah. Good morning, and thanks for taking the questions. My name is Arnaud Giblat from Exane BNP. I've got three quick questions, if that's okay. Firstly, you disclose the 68 basis points revenue margin, including performance fees, I was wondering if you could give us a bit more colour in terms of what the margin per product looked like, and how that's going to evolve over the long term? I mean, some of the pure play alternative managers are 'north of' a hundred basis points. I was wondering if that's an ambition for you? Secondly, the business has done quite well at bolting on all these smaller businesses together, I was wondering how, what the outlook for further growth through M&A looks like; the GP stakes market is pretty hot. There's been a number of deals out there. Do you see opportunities to do further bolt-ons? And finally, you talk a lot about tapping more into the retail market, the retail intermediary market. You talked about investment trusts and use of semi-liquid funds. But there's scope to do more, I was wondering which areas you see the biggest opportunities in the intermediary market and what sort of products you could be envisaging in terms of leveraging on the Schroders brand?

Richard

Thank you, Arnaud, I'll take the first question, and then I hand over to Peter to take the second question. And then Georg, if you can take the third question. So, Arnaud in terms of margin, we actually disclosed 66, not 68 today as the key margin for private assets and alternatives. That includes performance fees and transaction fees. Another way of looking at that, and I'm thinking of your models, and what's most helpful for you is at the year end, I guided to 62 basis points, ex transaction fees and performance fees and carry. So, if you take the net new business that Georg has described of 5 to 8 billion, and if you overlay on that the alternatives, which Peter's also described, so 6 to 9 is our net new business target on annual basis. So, if you take that 6, and apply 62 basis points to it, and then I've already given guidance in February in terms of performance fees and carry of 70 million this year, which is an uplift from 50. So, I think for your models that will probably give you the best revenue guidance. In terms of why that looks different from some pure play private asset managers which are over 100 basis points, clearly this is a mix of different capabilities. And indeed, some of the components are delivering revenue margins over 100 basis points, especially that more wholesale fixed income products such as securitised credit are more like 30. So, the mix effect is really driving that 62. Peter over to the second question.

Peter

Thanks, Richard. I think it's also fair to say on margin that if we get the right growth trajectory, and Georg will talk more about that I'm sure, then the margin mix may well help that but I think it's too early to make, that's not a forecast. That's just the things that are looking to expand and mature over time are on more of a higher margin products. But it's too early to say that definitively. In terms of M&A, I think that your observation on valuations is absolutely right that this strategy has become very popular, and there's big demand on new acquisitions. And

I think as a result, we have put much more emphasis of late on organic development. So, I'm not saying that we won't be looking out for acquisitions, we continue to look at a number of things, but we also see opportunities to build out. We're building a debt team in Australia at the moment, Sophie mentioned the real estate debt team. In Europe, we see other opportunities coming down the pipe to build organically, and I think that that, for me, has remained always where we will be, we'll make a trade off. If we find a good acquisition, great, if we don't, we'll build it organically. We are absolutely convinced on building this business. That that won't change. If we can accelerate that through acquisitions that makes sense, we will do, we won't do them for the sake of it. Georg, over to you.

Georg

Yeah, thanks, Peter. Just maybe one more sentence to the margin points more as an outlook. What we're doing across all the private asset, asset classes is we're building more strategies, which have carry and performance fee, and so over time, you will see more of that. Historically, we only had that in private equity, in the meantime, we have funds in real estate in ILS, on the infrastructure side in securitised credit which have carry, and provide interesting potential for the future. Maybe then taking, going to the third question which you asked, which is about retail markets. As we've shown throughout our presentation, this is obviously a big opportunity for us, starting with a significant client footprint in the intermediary space, approximately a third of the clients of the group's assets sit there. For us in private assets, naturally, that is far less, however, we are quite well positioned in this area, and far ahead of our competition with respect to our intermediary footprint. And Rainer has laid out in his presentation, a couple of examples where we've launched funds, and semi-liquid funds, which have been tremendously successful for us. So naturally, that leads us to do more of that, and within private equity, for sure, but also in other asset classes where we can pursue a similar path. So, I hope that answers the question.

Arnaud

Great, thank you very much.

David

Thank you, Arnaud. The next question is from Haley Tam, Haley, you've been invited to unmute yourself, please introduce the company you're calling from and who your question is for.

Haley Tam

Hi there, it's Haley Tam from Credit Suisse, and can I have three questions as well please, at the risk of being greedy. First one, I guess is for Richard. The doubling of AUM target for private assets, if I take that 5 to 8 billion flow target per annum, it seems to me that the implied return target therefore to reach a doubling is only 5% per annum, and that just seemed a little bit low to me, so just wonder if you could comment on that at all? Second question, just in terms of impact investing was mentioned a few times, 750 billion pounds total addressable market, I wonder if you could just clarify for us how much Schroders' existing market share is of that TAM, please and how important that is to your growth aspirations? And then the third and final question, I suppose, just to clarify, in my mind, institutional solutions or mandates, currently 60% of flow and obviously, we had some good numbers there in terms of just upping the target number of products from one to two for 70% of clients will make a big difference. Would it be fair to characterise that as the earlier opportunity for growth for Schroders Capital before any sort of retail market opportunity, or am I oversimplifying? Thank you.

Richard

Thank you, Haley. In terms of that underlying growth assumption, for Adveq, we assumed, which is private asset business, we've assumed a lower growth percentage. But broadly, what we're trying to indicate here is as a portfolio, private asset capabilities, we believe organically, we can broadly double our assets over a five-year horizon. Now clearly M&A on top of that we would hope to deliver a stronger growth. But hopefully that answers the question in terms of that market growth assumption. The second question was in respect of market share of the impact, Georg, perhaps over to you first of all on that one.

Georg

So, while it's not, it's not easy to give you an exact market share and impact, again you know this, the impact market falls into various sub-markets by asset class. We can tell you and we've said it in the presentation that we operate the world's largest microfinance fund. So that's clearly the case, with respect to opportunities maybe, there is sustainability impact is a big topic and it's a growing market in all asset classes. And of course, you know, BlueOrchard is leader in this space, and it has been in that market for 20 years, but we see similar demand increases in real estate, we see that in private equity, we see that on the private debt side as well. To provide a bit more colour on the market, I would pass it over to Maria Teresa, you can give us a bit more colour on the development of the segments of the impact market, please.

Maria Teresa

Absolutely. Thank you, Georg, and thanks, Haley for your question. So, a few things that I like to precise is that first of all, the chart that we show is indicating 2019, information in dollars. So that's actually 715 billion dollars. It also includes public and private assets. So, these are if you want some points in looking at the data. In terms of the market, as Georg said, we have clearly a leading position in impact investing at BlueOrchard with, you know, 4 billion of assets under management, where I think it's really the growth potential as I tried to convey in my short presentation is really in collaboration across the private asset pillars. So, the one aspect that we're working on is, for example real estate, looking at, you know, deprived areas, for example, in the UK, and we are convinced that many more opportunities will really yield results and really be able to grow this part of the impact investing portfolio across Schroders Capital. Thank you.

Richard

And perhaps the third question, Georg, I'm not sure if you want to take that or you want to give that to David but over to you.

Georg

Just a sentence up front. So naturally to the question, where are the client flows coming from, private markets here as well as for the entire industry is still is very much an institutional play. That's also the case for us. But we see increasing flows from intermediary clients, and for more detail, I'll pass it over to David.

David

Yeah, I was going to confirm your understanding, Haley, I think the cross selling our private market clients, opening the private market accounts with our existing Schroders clients, you know, involves existing clients, existing products and ideas in relatively mature markets. So that would very much be the priority, I think, fully exploiting the democratisation opportunity requires new product development, so I think that will take time. It's a fantastic opportunity, but it will take time to develop the products that we need to kind of fully leverage the opportunity. Thank you.

Haley

Thank you.

David

Thank you, Haley. The next question is from Hubert Lamb. Hubert, you've been invited to unmute yourself, please introduce the company you're calling from and who your question is for.
Hubert Lamb
Thanks. This is Hubert Lamb from Bank of America. I've just got two questions. Firstly, on the slide for the breakdown on private asset revenues, how do you see the mix changing over time, and where do you think you can grow more of over the next five years? The second question is on M&A, when you're considering acquiring a private asset manager is comp structure an impediment as they usually pay differently than your traditional core asset management business, or do you try to harmonise the comp structure over a period of time? Thank you.

Richard

Thank you, Hubert. Peter, perhaps you can take a second question on M&A first?

Peter

Thanks Richard, thanks Hubert, nice to speak. Comp structures are a challenge across every part of our industry, and I think private assets is no exception to that. We've always avoided a heavy emphasis on formulaic compensation, we think that's tends to be bad for culture. We've actually found that all of our transactions we've recently brought people in culturally who fit our philosophy and culture, who buy into that mindset. But clearly there are some elements of private asset schemes, particularly around carry, where we need a set of house golden rules, we have a set of house golden rules, and we bring people in to do that. I think where the challenge lies is there are certain regulations, which are top down industry regulations, which Schroders is caught by, which are in the process of being expanded into other parts of the industry, and that they do require certain things like deferral of compensation. And that's true in UCITS, it's true in other areas where Schroders has to abide by certain standards which are currently being broadened, and that can be a challenge. But I have to say that, because we put such an emphasis on cultural fit, the people who are joining us are comfortable with deferral, etc. So, it hasn't been an impediment that’s been insurmountable. Richard, back to you.

Richard

Thank you. So Hubert, I'll start with revenues question and then I'll hand over to Georg. In terms of that revenue mix, I think it's worthwhile looking at 2020 was somewhat unusual year for revenues in that performance fees and carry and real estate transaction fees were quite a bit lower than they have been in the past. So, to illustrate that, real estate transaction fees last year were 3 million, whereas the year before, it was 20 million. And you see a similar trend in performance and carry. So, in an ordinary year on year progression, I would expect to see more revenue in real estate and private equity as a result of this sort of 2020 impact. But Georg, perhaps over to you for some longer-term trends there.

Georg

For longer term revenue developments, first of all, the important point is to know that we see all of our businesses growing nicely currently. So, when you look at the existing businesses, we think they all have a fantastic trajectory in front of them. And when you look at the future revenue mix, it will of course, also be influenced by new adjacencies that we that we're developing and building. In our presentations, we have spoken about new teams we've set up on the debt side, for example, real estate debt and, and both in Australia, and in Europe, as well as, as other areas in that space, and so historically, we've even spoken about M&A and our interest to look at that inorganically. So of course, if any of that would happen, it would change the revenue mix, in the future revenue mix will be influenced by those organic and inorganic build outs and adjacencies. Beyond that, like I said, the business is on a fantastic growth path right now.

Richard

Thank you.

Hubert

Great, thank you.

David

Thank you, Hubert. The next question is from Gurjit Kambo, you've been invited to unmute yourself, please introduce the company you're calling from and who the question is for.

Gurjit Kambo

Hi, good morning everybody, hope you can hear me? So Gurjit from JPMorgan. So, the first question is just in terms of your structure of funds, so in terms of primary investments versus I guess other funds structures, do you think primary will be a smaller focus? I think you said it's about 50% currently, So that's the first one. then secondly, just on the kind of closed end funds, and do you expect the proportion of closed end funds to be greater as you go forward? Or do you see more liquids as being the more I guess, faster growing area? And then thirdly, just on the distribution and deal sourcing and just can you just give us a bit of colour on you know, how you distribute you know, is it internal, is it via banks? And when you source deals, is it auction deals or are you doing more proprietary deals, bilateral deals? Those are the three questions. Thank you.

Richard

Thanks, Gurjit. I think they're probably all three for you, Georg, initially.

Georg

The first one, primary investments, I would pass this on to Rainer, I think it's very much a private equity related question. And if I understand it correctly, it relates to our mix on the PE side between primary, secondary and co-investments. So, Rainer, if you could take this, please?

Rainer

So, pleasure to answer that one. So, we've constantly grown our non-primary activity over the last seven, eight years to reach this 50:50 ratio today. It's clear that few get a mandate that is primary only this is a lower margin mandate. If you do more transactional direct investments, co-investment it’s higher margin. Therefore, it's a clear shift for us to be more direct overall, and that's also the client demand currently to be more direct. So we expect that to grow further as a ratio.

Georg

Then going on to your second question, proportion of closed ended funds, it's a bit hard to say on the aggregate to be honest, because the direction of travel is different by area. And private equity historically had almost only closed end funds, and we've explained in the presentation that Rainer has given to you, how we've expanded into more liquid formats. Real estate always had a combination of closed ended and open-ended structures, and other areas come more from the open-ended side such as ILS, for example, or securitised and has now added closed ended structures. So, the aggregate is probably not changing that much, it's a bit hard to say how it will change in per area, the direction of travel is different depending on the history of these businesses.

Richard

And the third question, Georg?

Georg

The third one was on distribution approach, I believe, how do we distribute direct or indirect? David, if I may pass this on to you. This question will explain how we how we’re organising our distribution.

David

Yeah, happy to. So, our business is predominantly today, institutional. We have 500 salespeople globally, in Schroders, we have a team of private asset sales specialists around the world, working with our generalist distribution capability. What we try to do, if a client has a specialist buying centre, in other words, like a private equity investment team, then we try to cover those people with our specialist private equity team members. If the client doesn't have a specialised buying centre, then they would typically be covered by their generalist account officer, and in private asset sales we'd support them in providing them the content that they need. As our business grows more in the sort of the against the democratisation theme, which would be much more of an intermediary oriented business, then I think we would wholesale kind of we would operate as wholesalers working with our intermediary distribution partners. That's a small part of our business today.

Richard

Thanks, David. Perhaps, Nick, you can give another illustration? Yeah, on the private debt side, how that works.

Nick

You're right. And I think just to round up on an earlier question, I think, importantly, we have pools of capital that work when liquidity works, and we have pools of capital for when liquidity doesn't work. And one thing that's important is that someone sits in the middle of having hybrid portfolios that allows us to deploy capital quicker, but also to accrue performance fees much quicker. I think the only other thing I would talk to as well, Richard, is that we're kind of agnostic, where the opportunity is with clients, we are Schroders, we're very visible, we're seen as a constructive partner. And so, we have a lot of partnerships with both institutions, and of course, our retail partners as well. Thank you.

David

Thank you, Gurjit. If there's anyone else that has a question, please raise your hand.

Richard

So, thank you. I think that's it then for morning. Sorry.

Nicholas Herman

Hi, this is Nicholas Herman from CITI, I don't actually seem to have a raised hand function below. So sorry, for..

Richard

Apologies. I nearly cut you off then, didn't mean to!

Nicholas Herman

Yeah, it's no problem at all. I had a couple of questions outstanding, if that's okay. Just on the operating margins, we talked about the revenue margin, but just on the operating margin, on my understanding it's not uncommon to see peers operating margins more than 50%. I mean, can you talk about the operating margin for private assets? And also quite by segment as well, that'd be helpful. On wealth, I think this is a question for Peter. Does having this level of capability does it give Schroders' wealth an edge versus other global wealth managers that maybe offer just more third-party products, is there anything you can point to there? And what kind of structures are you offering for your wealth clients? And then finally, just in terms of it's more of a technical question, but just FX, I understand private assets is mostly dollar denominated, I mean, what is the currency mix for revenues and costs, please? Thank you.

Richard

Okay, if I take the last question in terms of that mix, I can give it you by assets because I've got that in front of me. So dollars 35%, Euros 35%, Sterling 24%, Swiss Francs 5%, and other 2%. So an AUM sort of equates to revenues, if you use that blended margin, so hopefully that gives you the answer? In terms of operating margin, Georg, do just want to touch on that one? Others over 50%, no, we're not at that level, but I hope we will be in a few years time, but yeah, perhaps you can answer that one?

Georg

Operating margin in the sense of cost income ratio? So, we're not disclosing the details of the cost income ratio for the 'sub' business, were we doing this as a group only. By nature, as you can imagine, it's a very nice and profitable business, I think we should say that way. But it's of course, a growth business, the cost income ratio is slightly higher than for the group, I think one can say this, as well. However, and this is a business which is, which is scaling nicely. It's growing and scaling nicely. And we've explained that this business is producing approximately, and we were sort of on producing 5 to 8 billion in net new business every year. And of course, with the growth of the business, there's the opportunity to scale both on the distribution side with clients writing larger tickets, as well as on the investment side, and us being able to invest larger tickets, which has, which has benefits from a cost income ratio perspective as well. And then, of course, the overall cloud platform itself doesn't need the same level of investment independent of the sort of more or less stays similar, independent of the amount of asset that we run over them. Take, for example, branding, we've just announced a new brand today.

And this is something that we do once so to speak, it's not a higher investment if we operate a higher asset base under the same brand, for example.

Richard

Yeah, so in summary, I think what Georg's saying is, at the moment, it's slightly dilutive of our overall profit margin within the group, but as it scales, we expect private assets to be a, a very nice contributor to future profit and revenue growth. Peter, over to you on the on the second question, which is about wealth opportunities.

Peter

Yeah, thanks Richard. I also, the other thing I would add, Richard is, I think from, from our perspective, the organic growth that we need to continue to make in future growth initiatives in this area is going to remain high. Because we see this as a very major long term growth opportunity. So whether it be bringing in new teams, whether it be having funds in their early generations, which will, will gradually mature, I'm very pleased that it's diluted to the group margin, because it's reflective of the fact that we're making a large investment in it and its future growth. And I think we, we could easily cut back that investment. But it would be at the expense of future growth. So I think we're not taking short term gains out of this, this is very much in the Schroders mould of focusing on the long term growth potential. On wealth, it's a channel which we have yet to really exploit. So we launched a GAIA semi-liquid fund, which got off to a flying start in terms of investment performance, which works quite well with our mid -level clients within wealth. But as we come together under Schroders Capital, I think making products available for wealth clients in the right packaging is pretty high up Georg's list of priorities. So today, very low contribution for wealth as a future competitive advantage, I think it's significant, but not there today.

Nicholas Herman

Very helpful, thank you. If I could ask a follow-up please, just on the, I'll try again, on the cost income side? I understand you don't you don't intend to disclose that? I mean, just if I guess if you do achieve the level of growth that you're targeting, so doubling your assets, just I guess it, would you be able to provide a steer on roughly by how much the cost income would improve broadly in this business, by then, please?

Richard

I'm not going to give you the answer to that question. I think we've indicated that clearly within the existing businesses, our profit margin will improve as those businesses scale, and we've invested substantially in the past few years. What will dictate that is, if there is a new asset class within private assets that we want to build out, clearly bringing in a team is something that we see delivering future revenue, then we will continue to do that. So yeah, I think that gives you the answer. Yeah, it's improving, but we're still going to make further investment as Peter's alluded to.

Nicholas Herman

Understood, thank you.

Georg

Ultimately, it's about finding the right mix between growth and profitability, right?

Richard

Absolutely. Which is why the portfolio effect is so important. We've got the opportunity of doing this within a very stable, growing global franchise, on public assets as well as private assets, so we can afford to make that investment.

David

Thank you, Nicholas. The next question is from Mandeep Jagpal. Mandeep, you've been invited to unmute yourself, please introduce the company you're calling from and who your question is for.

Mandeep Jagpal

Morning. Mandeep Jagpal from RBC capital markets. My question is on cross-selling. It's one of the building blocks between getting your getting your AUM from where it is now to where it's going to be in 2025. I was wondering is this a new priority now for Schroders in growing the AUM, or is this something that's always been happening, and if it's something that's always been happening, is there going to be any change in how the salesforce approaches this going forward? Maybe up-skilling the salesforce on the new products available? Or how should we think about how this is going to be different from how it was before?

Richard

David, you want to take that one?

David

Certainly, I think we've always tried to sell more to our clients. I think the perhaps one point of evolution this year is we put some specific numbers around our ambitions in that area. And we're tracking them as KPIs, so, working on, you know, on a much more integrated basis, across the private assets business, to try and present, you know, the great ideas that we have in one of our investment businesses to clients of the business who are invested with us in another.

Mandeep Jagpal

Thank you.

David

Thank you, Mandeep. If there's any more questions, please do raise your hand.
Well, thank you, everybody. I hope you found this morning helpful. I'm sure you've got many questions and I know Simonetta, as always, will be there to answer them outside of this forum. Thanks very much again for your time. Thank you.