

2020 Full-year results

Transcript

Peter Harrison (Group Chief Executive): Good morning, everyone. Welcome to the Schroders 2020 Annual Results Meeting. I'm joined today by Richard Keers, our Chief Financial Officer.

Even though we are doing this via Zoom, it will be exactly the same way as we've run it in previous years. I will talk briefly about the business last year and add a bit more colour on some of our strategic initiatives. Richard will then go into more detail on the numbers, give some guidance on the forward-looking numbers, I will come back and talk about outlook and take questions.

Now, we all know 2020 was an extraordinary year and for us it was more important than ever to demonstrate how robust and resilient our business is and against this backdrop, I am glad to report that both our established business and our strategy held firm and enabled us to deliver a resilient set of results.

This was only possible last year because of the strategic choices we made several years ago and I want to come back and talk more about that later.

We are pleased with today's results, starting with net income which was up 3%. As a result, profit before tax and pre-exceptionals were slightly higher than last year at just over £702 million and basic EPS was 200.8 pence.

Now let me highlight at this stage what we said five years ago about our long-term commitment to growth. We launched our 'Invest to Grow' strategy and its heart were the six things we said; accelerate growth, invest in data science, built a scalable platform, increase the number of strategic partners, diversify towards the fast-flowing waters of Wealth and Private Assets and see opportunities in North America and Asia, particularly China and we also want to be purposeful and ESG-led. I think all of these made an important contribution last year.

We hit record assets under management of £574.4 billion, up 15% during the year and what's really important is we have achieved this despite the headwinds and we are growing faster than traditional asset management industry. Over five years we have grown our assets at a compound rate of 13% and over ten years it's still 11%.

We achieved this because we pivoted the growth towards areas where we are seeing high client demand and that to my mind was absolutely key to the strategy.

Now from a flows perspective, I am pleased with what we have achieved; £42.5 billion of inflows. That's 8.5% of our starting assets under management. Now obviously we have the latest tranche of SWIFT in that, but even ex-SWIFT we achieved new business flows of £14.3 billion.

Solutions was obviously a big driver and the nice thing about solutions is they are much less dependent on market sentiment. The one thing to note, that they are large and lumpy and by their nature are hard to forecast. The Scottish Widows mandate is now fully on boarded, it's £71.2 billion, and we expect that to drip out a little over the coming years.

Mutual funds ended the year with net outflows of £3.1 billion after the pressures of March and April but institutional was flat. Wealth contributed £1.7 billion of inflows and Private Assets contributed £0.5 billion of inflows. The geographic flows aren't on this slide but it's worth mentioning. All areas were positive apart from Asia where we saw £5.6 billion of outflows, particularly Australian institutional in the first half which we spoke about.

The UK generated £33 billion of inflows, Continental Europe, £4 billion and the US, £11.2 billion. If you look at it from an asset class lens, we have added £42 billion into multi-asset, £1.8 billion into fixed income. Equities saw net outflows of £3.9 billion, but actually stripping out Quant, our fundamental equities saw inflows of £2 billion, which was really pleasing.

Our JVs also had a really good year generating £12.4 billion of inflows, primarily China and India and I want to come back to that, so if you aggregate it all up together, our flows totalled £54.9 billion.

Now this chart demonstrates the power of active management and I am really pleased with the strong investment performance from our clients. It is after all what we are about. Over three years, 72% of our assets under management outperformed their respective benchmarks and over five years, it's 81%. For the really performance-sensitive areas, equities 83% outperformance and fixed income, 95% outperformance over five years, so really excellent outcomes for our clients.

What made the difference to my mind is the strength of our investment culture blended with the power of the Data Insights Team which we set up six years ago and has been incredibly valuable during the pandemic.

Now to understand the investment performance in more detail, I've given you a different set of data here. This is our 25 largest benchmark relative clients and the chart shows the performance of those over one, three and five years and to give you an idea, it's about £65 billion of assets.

Now these funds generated 4.9% outperformance over one year and 9.2% over five years and I think if you ever want an advert for active management, this is it.

Now, I want to talk more about sustainability because it's absolutely key in the industry right now and I think as we look forward it will become ever more important. We have been active in this space for many years, but I want to talk a little bit about recent progress.

We are aiming to be the leader in the transition to a sustainable world. It makes both social sense, but it also makes very good investment sense. We have an extensive range of sustainable funds and a lot more in the pipeline. Given high client demand, I expect these products to continue to grow in the coming years with a very high level of confidence.

To support our development, we have been obviously taking a number of important steps, most importantly we have built our own proprietary tool, SustainEx. It's an award-winning tool, it measures the impact on our clients' assets. To give you an idea, Schroder's SustainEx score is 3.1% or put a different way, we create 3.1 units of social value for every 100 units of sales and the average financial services business has a score of -0.3.

We are a founding member of the Net Zero Asset Managers initiative which is important in the run-up to COP26 and we are one of a very small number of asset managers who have adopted a science-based target for our own reduction in our corporate emissions and again, what we say to others we want to do to ourselves. That alignment is critically important.

Now I think sustainability is also important to attracting and retaining talent and despite the challenges of 2020, our employee engagement survey was a source of great pride for all of us. 98% of our people said they were proud to be associated with Schroders, which I was absolutely delighted about.

Now turning to Wealth, Wealth year-end assets were £72 billion representing 18% of compound growth over the last five years. Net inflows as I said, were £1.7 billion, of which £1.2 was from Cazenove, £0.7 from Benchmark and a small outflow of £0.2 from SPW.

Despite the challenging year, I think the business is growing nicely and Richard will talk more about it. You recall you saw the announcement we acquired Sandaire, a multi-family office in the UK and whilst this wasn't a big deal in terms of AUM, it was strategically important. It gives us a compelling proposition now in the ultra-high net worth family office business, the high net worth business and with adviser networks run by Benchmark and the Affluent sector with SPW, we have all areas of the UK wealth market covered.

Quickly on SPW, all the clients have now transitioned on to the Benchmark platform which is fantastic. We can now deal with them in a much better way. The level of referrals from Lloyd's now they have been through their branch closures, etc in the middle of the year through Covid, actually the levels of referrals are now 30% higher than pre-Covid levels and eight times more what they were at the low point, so really pleased with that, very pleased with the leadership of SPW getting to grips with that.

We aim for this to be a top three financial planning business by 2025 and I am optimistic about that outlook. People need a financial plan more than ever now and we are in a very good position to help with that.

Now coming to our next strategic focus, Private Assets. Assets have reached £46 billion at the end of the year which is 21% compound growth over the last five years. We talked about the Pamflet acquisition at the half year but in the second half we have been building organically in real estate debt and in private credit in Australia, both of which we see as attractive sub-sectors.

Looking at flows, Private Assets ended the year at £0.5 billion in aggregate but actually our Private Assets business was £1.7 billion and the Alternatives saw an outflow, particularly emerging market debt on our GAIA platform, so we did see strong levels of growth in real estate, private equity and infrastructure totalling £1.7 billion, which is important. We will be having a Capital Markets Day in June to give some more colour on that.

Now I thought it would be helpful to talk you through product innovation because I think this going to be absolutely critical. As our industry gets disrupted and changed, we need to pivot.

Over the last five years we have launched about 300 new funds and closed about 150, liquidated and merged them, etc. You can see we have invested heavily. We have deployed about £1 billion of seed capital over the last five years and just that has generated £11.2 billion of assets under management.

But if you look at the strategies we have added over the last three years, these now contribute 16% of revenues and then £180 billion of assets under management. I am pleased with the change in products and I think it makes us very relevant for our clients.

I want to just touch on the performance of our joint ventures. Both JVs had a good year. BOCOM/Schroders generated net inflows of £7.7 billion and their assets are now £68.4 billion. Assets grew by 25% and profits doubled, so a good year there and again the joint venture with Axis Bank in India, assets grew 42% to £19 billion and £4.4 billion of inflows. We are now the seventh largest mutual fund business in India and the second largest equity manager, so again pleasing progress.

We have talked about our strategic diversification in the past. Here the chart is of how our asset mix has changed. Five years ago, 39% came from the growth areas we have highlighted. Now we are at 54% and that to my mind is just a continuation of the strategies as we diversify further and further into the fast-flowing waters.

If you look at that from a revenue perspective on this chart, you will see that last year we increased from 40% to 43% of revenues from these areas.

Private Assets & Alternatives has grown particularly well with a compound growth rate of 20% over three years and 18% over five years.

Pulling all this together, you can see we are making good progress in executing the strategy we have talked about. We want to be a strong, diversified, growing business that is pivoted towards Wealth and Private Assets and I think we are well on our way in all of those areas.

We have made a big investment in technology and I have to say, that was particularly valuable in 2020, as you can imagine and importantly, we were ranked first for our digital engagement with clients which, if ever there was a year to be in that position, last year was it.

Now before I hand over to Richard, I just want to give you a little bit more detail on a couple of strategic initiatives, starting with Wealth.

I mentioned previously we want a compelling proposition in all segments, but one of the areas of opportunity is a regional rollout in the UK. We currently have a relatively small footprint, despite the

amount of money that there is in the regions outside of London, so we have aligned with the Lloyd's commercial regional network and we will be opening offices in Manchester, Leeds, Birmingham and Bristol. Our recruitment is well under way and I think that is going to be an important driver of future growth.

Again, the US business we have talked about, but this year the US reached an important milestone of \$100 billion of assets under management in terms of dollars and Hartford also crossed \$10 billion.

We generated £11.2 billion of new flows in the US last year and just to put that in context, this ranks us fifth out of 200 firms over \$10 billion in the US and if you look, as a percent of assets under management of firms over \$50 billion, of which there are 68 firms, we were ranked No. 1 for our speed of growth, which I thought was a great achievement and really speaks to the team we have put together in the US.

Finally, China, I think it's important to talk about this market because it's already the second largest market in the world. It's probably one of the largest and fastest-growing opportunities in the asset management world.

The China onshore market is hard to navigate and new licences there are really only available to those managers who have committed to China for the long-term and know the market. Given our strategy, you won't be surprised that we are well positioned in the region, but also in China specifically.

We have been in China now for over 25 years and really there are three ways of thinking about this market. There is the inbound opportunity of people investing into China, there is the outbound opportunity of official institutions and others investing outbound and then there's the local-to-local flow.

Now we are active in all three channels and overall we are ranked fourth in China amongst our global peers.

Outside of the BOCOM joint venture we have about 60 people on the ground today, just to put it in scale, but looking forward it's even more exciting.

You have seen in the media that we have been granted new ways of accessing the market. Now, to date we are the only UK domiciled manager who has been able to successfully submit an application to obtain a fund management company licence and this allows us to access the vast onshore retail market.

The key here for me is that because of our JV with BOCOM, our brand isn't starting from scratch. BOCOM/Schroders is an important brand in the market. Our competitive advantage is going to this market with our investment DNA and a robust governance framework. We will transfer our existing onshore business into the new FMC and plan to begin operations mid-2022.

Now, what I am also particularly pleased about is that we have also won an ability to set up a wealth management company JV with BOCOM and we will own 51% of this. It will provide us with direct access to the bank wealth management market, as you saw in the previous slides, one of the largest sectors with £3 trillion of assets under management and we will bring our global expertise with BOCOM's substantial wealth management book and that will be a powerful combination.

Bringing that together, what does this actually mean? We now have access to each of these important sectors, most notably the wealth management JV and the wholly-owned access to the £2.6 trillion assets in the FMC market.

China is clearly a long-term opportunity, but it does have great potential and I am really delighted with the progress we've made this year. We are the only firm with this configuration of licences and we've made a really major step forward.

Now, I've covered a great deal and some stuff you have not heard before. I will come back and talk about the outlook at the end, but thank you for your time and let me hand over to Richard now. Thank you.

Richard Keers (Chief Financial Officer): Thank you, Peter, and good morning everyone. To echo what Peter has just said, we have continued to deliver on our strategy in what has been an exceptional year.

Today's results show the benefit of the actions we have taken to address the industry headwinds and the value of our diversified business model. Together, they have enabled us to deliver pre-exceptional profit

before tax of £702.3 million, a small increase on 2019. That is a good performance given the market disruption this year. You can see the key movements on the slide. First, let me give you a little more detail about the increase in net income.

It is impossible to talk about 2020 without referring to Covid. There are three areas that have been affected. First, net banking interest. This reduced £10 million following the interest rate cuts that were announced during the year. Secondly, real estate transaction fees. These decreased £16 million due to the slowdown in property deals. Lastly, the market volatility itself.

This impacted the mix of our assets with higher margin products particularly affected. Together with FX and margin attrition, mix changes reduced net income by around £23 million. What is important is that, despite this headwind, we still grew our net income by 3%. We closed the year with record AUM of £574 billion, that is up 15% from the start of the year. A key element was the net new business we generated that Peter has already talked about. It helped to increase revenues by £41 million. That is the combined impact of 2019 and 2020 net flows and it reflects the benefits of the steps we have taken to develop our solutions, private assets and wealth management businesses.

The chart on the right shows the profile of those flows and, importantly, the impact on annualised revenues. You can see the positive momentum we built up in the second half of the year, which has continued into the first two months of 2021.

Now let us look at the breakdown by business area, starting with Wealth Management.

Wealth continues to be an area of growth and here is a summary of what has been happening. This year we have seen the benefit from SPW, which launched in October 2019, and, as Peter said, the acquisition of Sandaire, which contributed £2.4 billion of AUM. These developments helped grow our average AUM 27% to £65 billion. You will remember that SPW is proportionally consolidated in our segmental results and it has helped drive the increase in net income of £73 million.

Revenue margins, excluding performance fees, were 56 basis points, that is a basis point lower than at the half year. As we said at the time, we expected this decrease due to the impact of lower net interest margins and changes in asset mix. For 2021 we expect the margin to increase by around a basis point.

Overall, this is a strong performance and we continue to see significant growth opportunities in this space.

Now let us move onto Asset Management. Average AUM increased 17% as we benefited from the strong net new business Peter has talked about. Despite this increase, management fees fell slightly as a result of the mix changes and margin attrition that I already referred to. This reduction was partly offset by £95 million of record performance fees and carried interest, as we benefited from our strong investment performance.

As you know, performance-related fees are always difficult to predict but, looking at a three-year average, I would expect to see performance fees and net carried interest of around £70 million in the future.

Net income includes profit from associates and JVs, which increased significantly and I shall come back to this shortly.

First, let me show you the breakdown of net operating revenue across the four business areas that make up Asset Management, beginning with Private Assets and Alternatives.

We continue to expand our capability here, both through acquisitions, such as the purchase of our stake in Pamfleet, which contributed £0.6 billion in AUM, and organically, for example through the development of our real estate debt team and our private debt capability in Australia.

Peter has already talked you through the net inflows and you can see from the chart that these were weighted to the latter part of the year, providing good momentum as we go into 2021.

Net new business, together with acquisitions this year and last year, notably BlueOrchard, helped increase average AUM by 14%. You can see the benefit of that growth in our management fees, which increased £29 million to £280 million. Clearly, market conditions had some impact and, as I mentioned, real estate

transaction fees decreased £16 million. Together with a small reduction in carried interest, this meant net operating revenue decreased a little to £293 million.

Net operating revenue margins, excluding transaction and performance-related fees, reduced to 62 basis points. That is a basis point lower than the guidance we gave at the half year, mainly due to changes in mix. We expect the margin to remain at that level for 2021.

Looking forward, we have a good pipeline of commitments that are yet to be recognised.

Now on to Solutions. Average AUM increased more than 60% to £173 billion, driven by strong net new business. Net operating revenue increased 12% to £253 million, while the net operating revenue margin was 15 basis points. That is a basis point higher than we guided to at the half year. For 2021 we expect margins to drop a basis point as the full-year effect of the lower-margin business we won in the first half comes through.

As I said before, the nature and size of these assets means that, while they typically attract a lower revenue margin, the incremental costs are low. This means the profit margin is similar to the Group's overall margin and the assets have significantly greater longevity. When you put these factors together, you can see why this is an important part of our growth strategy.

Next onto our Mutual Funds and Institutional business areas. Both of these areas have, of course, been more exposed to the market-wide pressures we have been talking about for some time but they have shown good momentum in the second half of the year and into the start of 2021.

You saw at the half-year, our Mutual Funds business was impacted by the risk-off environment at the start of the year. Since then, it has rebounded, helped by the strong investment performance that Peter and I have described.

The net outflows in the first six months were partly offset by good demand in the second half, where we generated £1.7 billion of net inflows, and that momentum has continued into the first few months of 2021.

Notwithstanding this performance, net operating revenue decreased by 7% to £686 million, mainly due to lower average AUM, together with the effect of mix and attrition that I referred to a moment ago.

Excluding performance fees, our net operating revenue margin was 71 basis points, which is around a basis point higher than the guidance I gave at the half year. We expect margins to remain at this level in 2021.

Our Institutional AUM grew 11% year-on-year as we delivered £16 billion of investment returns net of currency movements. Reflecting these strong returns, performance fees were up £35 million to £74 million. This increase more than offsets the impact of lower management fees and resulted in net operating revenues increasing £13 million to £515 million.

The net operating revenue margin, excluding performance fees, was 30.5 basis points, that is a touch higher than the guidance I gave at the half year. We expect margins to remain at this level in 2021.

Returning to the net income slide now, we can see the positive contribution from net new business, together with a £22 million increase in performance-related fees that I have just taken you through.

Acquisitions also had a positive impact as they increased net operating revenues by £35 million. That is mainly driven by the acquisitions we completed in 2019. The acquisition of Sandaire, on the other hand, was completed at the end of the year so the benefit would only come through in 2021.

Peter has already described the increasingly important role of our global partnerships. Our existing associates and joint ventures again showed good growth, with our share of profits increasing 77% to £51 million. That excludes SPW which I have already talked about as part of the Wealth Management business.

Given the growing importance of these businesses, you will hear us talk about them more. Going forward, we shall show our AUM both with and without these assets and provide you with more detail to help you understand their contribution.

Peter has explained the significant opportunity in China in some detail and, building on that, I shall talk you through the strong performance our existing BOCOM JV. AUM increased 25% with significant growth in

higher-quality equity products. That has translated into the fee margin increasing 11 basis points to 35 basis points and, combined with a strong growth in AUM, this has driven an increase in profits of over 100%, with our share of profits increasing £23 million to £43 million.

Now to finish on net income, other income increased £21 million due to the strong gains on our financial instruments. This largely represents the returns on our seed capital, co-investments and investment capital.

We continuously look to develop new products for our clients. Eighteen months ago, we seeded a new fund called GAIA Helix. This is a market neutral fund that brings together the best of Schroders in order to deliver robust returns, with low correlation to equity markets and a focus on alpha generation. It has delivered strong returns for both our clients and the Group. Having initially invested £150 million of seed capital, it generated £22 million of returns in 2020.

Bringing all the components together, our total segmental income for the year was up 4% at just over £2.2 billion. I shall now move on to costs.

We continue to maintain strong cost discipline but we balance that with the important role we play as a responsible employer. We took the active decision not to furlough any employees and have not accepted any Government assistance. In parallel, we reduced our travel and marketing spend as we adjusted to new ways of working and leveraged the investments we have made in our digital platform.

As a result, we have delivered non-comp costs of £502 million, which is lower than the guidance I gave you last year. I had previously highlighted that you should expect to see our non-comp cost trend downwards as a percentage of our average AUM. You can see that reduction in this year's results. The ratio has fallen from 11 basis points in 2019 to close to 9.5 basis points this year, including the savings I just mentioned as a result of the pandemic. I would expect non-comp to remain similar in basis points to last year but this depends on AUM growth and FX.

Our comp costs were £975 million, which is slightly below the 45% comp ratio I guided to at the half year. We are continuing to invest in the business, both in our people and in our infrastructure, to support our strategic ambitions. Peter described the opportunities in China, the US and regional wealth. We expect to invest a further 1% of net income in these areas.

Finally, turning to our capital position, we continue to maintain a strong balance sheet with total capital of £4.1 billion. We have a capital surplus of £1.2 billion, up £200 million from last year, which means we are able to continue to invest in our future and execute on the strategic initiatives we have talked about today.

In summary and pulling everything together, we have delivered a strong performance with profit before tax and exceptional items of £702 million. We had exceptional items of £92 million, which, as you know, principally relate to acquisitions including amortisation of intangible assets.

In 2020 we also had £16 million of costs as we exited two property leases, enabling us to bank some of the efficiency gains of remote working. For 2021, we expect exceptional items to be at a more normal level of around £70 million. This resulted in profit after exceptional items of £611 million. The tax rate after exceptionals was 20%, which gave us profit after tax of £486 million.

Reflecting this performance and the strength of our balance sheet, we have declared an unchanged final dividend.

So, overall, a strong set of results. I now hand you back to Peter.

[Ends]

Peter Harrison: Thank you, Richard. I just want to talk quickly about the outlook and then we will go to Q&A.

We've talked a lot about the strategic choices we've made over the last five years and I think these are continuing to pay off and I am confident that they will do.

Let's take a step back. Our two big advantages are that we take a very long-term perspective and we are very diversified, and that long-term perspective allows us to invest behind things like China which will pay off handsomely over the long-term and the diversification allows us to stick with things when the going gets tough and I think the breadth of our product range and the ability to keep on bringing new things in has really been incredibly valuable during the last 12 months.

Looking forward, we have entered 2021 with a strong investment performance, a very relevant product range and we will continue to invest behind that for the long-term, but very much with a focus on the long-term.

With that I'll stop and we will move over to questions. If you could raise a hand on Zoom in the normal way and the moderator will unmute you. Thank you.

[Ends]

Q&A

Nicholas Herman (Citi): Good morning and thank you for taking my questions. I have three questions please: two on market management and one on private assets.

On wealth and the guidance around net operating revenue margin, can I just clarify some of the moving parts driving your expected higher wealth management margin in 2021? I realise that recent market performance should be accretive to margin but, equally, I would have expected some dilution from onboarding Sandaire, from the ongoing mix shift towards ultra high and generally more wealthy clients, even benchmark capital as well, to some extent. I am curious about what is driving the wealth management margin higher.

Question two, on the wealth management JV that you have just announced this morning, I realise it is quite early on but I am curious as to whether you can give us some details on your expectations for the wealth management JV? Amundi, which has also launched a wealth management JV in China, are targeting 60 billion of assets within five years at about 25 basis points gross margin and about a 50% operating margin. I am just curious as to whether you would expect broadly similar, albeit with a lower operating margin or closer to your Group's average?

My final question is on private assets, in fact I have two questions if you don't mind. I was a bit surprised to see negative market performance in the second half, so could you provide a little more clarity there? Also in the first half, you talked about outflows from liquid alternatives, so can you give us an update on where we stand there please? Thank you very much.

Peter Harrison: Thanks, Nicholas. I am going to ask Richard to take the first one on wealth management margin.

Richard Keers: Thank you, Peter. As I guided, we are expecting a one basis point increase and, largely, that is down to a full year of benchmark platform fees for the SPW assets as they have been onboarded. Broadly, everything else is more or less offsetting each other, so that is really driving the one basis point improvement.

Peter Harrison: On wealth management in China, we are not going to make a long-term asset forecast but what I would say is that Amundi doesn't seem an unreasonable set of assumptions but it is very early days to be doing that. We know that this is a vast market, it is developing quite significantly and BOCOM has a very good place in it but we are not going to put numbers on that I am afraid.

On private assets, as far as the split between the less liquid private assets, all of those areas saw inflows - private equity, infrastructure, real estate, insurance-linked securities - and the less liquid, particularly Emerging Market debt and the GAIA fund range. Private assets was a little over £1.5 billion of sticky flow and the balance out was from less liquid strategies.

The negative market in the second half was partly a reflection of the fact that for private assets, you have to strike your NAVs for year-end reporting in September, and there is a little bit of a lag in that. What you didn't do was pick up the very strong end to the year, so there is a bit of latency in those numbers.

Gurjit Kambo (JPM): I have a couple of questions. First, on the US - congratulations on making a good success of that. How much of that is coming from the Hartford business and how much from outside of that? What is selling in the US, what are the key strategies that clients are buying from Schroders in the US? That is the first question.

Secondly, just on the cost side, Richard just for a bit of clarification, on the comp ratio, I know you said there is a one percentage point increase from some of the investments you are making, so do we still go for a 45% comp ratio, for 21s, that's on the comps ratio.

And then just on the non-comp, the 9.5 basis points, is that a percentage of the average AUM for 2021 or is it the year-end number just so we know where to strike that non-comp number so those are the three questions. Thank you.

Peter Harrison: Thanks, Gurjit. Hartford, in the US, was just shy of a billion of pounds of inflows so the balance was in institutional and sub-advisory, so all three channels contributed into that but Hartford was 0.7, which in the context of US mutual funds, we are very much focussed on emerging market equities, global equities, EAFE equities which is where there was some positive movement last year. Those were the main channels.

Richard, do you want to add anything?

Richard Keers: Yes, I'll pick up non-comp first. 9.5 basis points is on average AUM and the reason I haven't guided to a specific number this year, is there is obviously a lot of moving parts and we don't know when the world is going to return to normal and marketing and travel, in some ways we hope that we can pick up some of that activity, but sterling is strengthening and broadly a third of our costs are outside of the UK so there is a depressing factor there. But increasingly a large part of our non-comp is attached to levels of AUM, so Aladdin and market data costs, so there is a market in FX assumption with an AUM growth as well.

I think the fairest and best estimate I can do is the 9.5 basis points on average AUM. If you look at the guidance I gave last year, I was going to £525 million and it came in at £502, so I am just worried about giving a specific number which is why I have veered away from that.

In terms of the comp guidance for 45%, I need to clarify. That comp guidance is 45%, but on top of that we are making a larger than normal organic investment into China, into US distribution and UK regional wealth and in aggregate that is likely to add 1% of cost on a net income basis. There will be comp costs within that and there is an element of non-comp but there is sort of an exceptional over-rider of accelerated organic build out in those three areas.

Hubert Lam (Bank of America): Hi, I have three questions. Firstly on China, you talk about your new FMC licence. How does that fit in with the existing BOCOM joint venture and did you compete against each other or is it addressing a different client base? That's the first question.

The second question is on SPW. Can you give us an update on the number of advisers you currently have, what your target is and when you expect to achieve that number by?

Lastly on M&A, do you expect to do more bolt-on deals this year and in which areas are you looking at for these types of deals? Thank you.

Peter Harrison: Great, thanks Hubert. First of all on the FMC, it is broadly in the same sector as the BOCOM JV. It is a £2.6 trillion sector, so that is a massive piece of the market. A slightly different product set. BOCOM is a very locally-driven product set so we think there is a lot of white space to go at in that space and we have obviously been working closely with BOCOM to make sure that the two sit alongside each other appropriately but it's an area of the market where I think you should expect to see good growth and also where there is a lot of opportunity. You saw that in last year's number and if you look at the detail of how those market dynamics were working, there is a lot of attractive features in there.

SPW has just shy of 300 advisers. We have started the training programme to bring through more academy advisers and bringing them in and we may see if we can add more mature advisers. We think actually the nature of the Lloyd's referral business lends itself really well to people coming through academy.

As you know, Mark Duckworth, who runs that business, a long history at Openwork, where he had a very successful academy process, and we will bring the academy through. We're not targeting numbers, what we're targeting is meeting demand through the Lloyds network, so as the Lloyds network ramps up, we'll basically bring through people as we need them. There isn't a target number, but I would underline both our ambition and Lloyds' ambition to make that a meaningful business, so we're not talking ones and twos.

M&A, a really hard question to answer. We've always managed to find businesses where we can find a good cultural fit and where we have a gap. Last year we found Pamfleet and Sandaire. The areas where we're attracted is more in private assets, where particularly on the loan side there is space in real estate to do more, private debt obviously cuts across a number of different sectors.

Some of it we've decided to do organically, so we've just hired a real estate debt team, were doing some further work in Australia, we run a private debt team there. If we could find something in that space, private assets, and also in wealth, I think there's a lot going on there, both on the advice side but also in the high net worth side, so those are the two spaces.

We've found that it's key to make sure that the cultural fit is right, and the people you bring on board do so because they want to stay with you and grow the business. This is about investing for growth, not about consolidation, so those are the segments we're looking at, but we're pretty active, and price sensitive, and we missed a couple of things last year on the back of price, but I think it's probably right that we should.

Thanks, Hubert.

Nicolas Vaysselier (Exane BNP Paribas): I just have two questions. On your JV contribution, as JVs have seen quite a step up from 2019, I was wondering if there are any one-off items or maybe things related to performances there. What can we expect on this front for 2021? And if you could maybe elaborate more on what you see on flows for BOCOM and access in 2021.

My second question would be on ESG. I was wondering if you can give any numbers on the flows you have seen in 2020 on your ESG products? Thank you very much.

Peter Harrison: Richard, do you want to take the one on JVs?

Richard Keers: The BOCOM JV, in terms of profit step-up, there are no one-off exceptional items in there, what's really driving that number is the quality of the net new business that's coming in. This is a much higher margin, it's largely equities and the business that has been lost was relatively low margin, more traditional wealth management product, so it's a positive mix increase, so the assets we're managing at the end of the year are richer than at the start of the year.

Peter Harrison: Nicolas, looking forward for flows, I think we should bear in mind that China last year was a very strong mutual fund IPO market, so mutual funds were IPO'd and that market was very strong. We don't forecast future flows, but you saw the strength of Chinese equity performance, it would be wrong to put a straight line through that forever. We've all realised the world doesn't quite work like that, so that would be my only one-off element of it, there's nothing in the numbers, but there is in the market that's slightly -

On ESG, I think for us we come at it in a slightly different way, that we need to integrate ESG thinking into all of our funds, and have those considerations taken right from the ground. For me, it's about how do we green the whole piece of making sure that we have considerations when we're looking at oil companies as well as when we're looking at resource companies. That is, I think, the way it is going.

Yes, some of our thematic funds in this space saw good asset flows but for me, we think this is a broader-based shift. As you know well from BNP's experience, there is going to be much more flow into this area, so it was a decent positive but we need to look at it across the whole range rather than in isolation.

Mike Werner (UBS): I have three questions please. On the mutual fund momentum that you saw towards the end of last year and in the first two months of this year, can you give us some colour with regard to in which products or asset classes you are seeing the greatest momentum?

Secondly, in terms of the JV business, I am wondering about the cash flows from these businesses in terms of the dividends: how should we think about that as a percent of the reported earnings? Finally, we see that corporate tax rates will be rising in the UK in 2023, so I wonder whether you could say what percent of your Group earnings is generated in the UK and is taxable by those rates? Thank you.

Peter Harrison: Let me take the first question on flows. You will see from the numbers that the first half/second half experience of mutual funds was really very different and even that was coming through much more in Q4 rather than Q3. Big areas in UK/Europe were around Europe/Asia, a lot of the thematic, sustainability - big funds like Global Sustainable Growth, Climate Change saw flows but also in our mainstream European funds and it was fairly broad-based. We also see that continue into the early part of 2021. Richard, do you want to take the second one?

Richard Keers: As far as associate profits and cash flows seen as dividends, in China, historically, we have seen very strong cash return to us as the parent in the UK. Because we are investing very significantly organically in building out the WMC and FMC licence, more recently we have been retaining that capital in China to build out those new businesses. Assuming no changes in the political environment or the taxation rules, we would anticipate profits equating to future dividend flow in China. India is at an earlier stage and slightly less developed but, certainly, in China, where we have seen significant historic profits, that has been remitted back to the UK.

[No further questions registered]

Peter Harrison: Thank you everybody. It would have been lovely to see you in person but I look forward to next time when perhaps we can. Stay safe, stay sane and thanks very much for your input and questions.

[Ends]