

Full-year results 2019

Presentation

Peter Harrison – Group Chief Executive

Morning, everybody. It's nine o' clock, so I'll make a start, but thank you for coming in person, and thank you to all those of you online. Welcome to the Schroders 2019 financial results. We're going to run this in exactly the same way as we ran it last year. I will stand up and talk a little bit about flows, structure of the business, and an overview. Richard Keers, our CFO, will then go into detail on the numbers and give you some guidance on forward-looking numbers, and then we'll both take questions, both from the floor and then from online.

This was a resilient set of results from our perspective. There were three major events which happened during the quarter. One, organic growth of the taking on of part of the Swift mandate, £45.4 billion of assets in aggregate flowing into the business. The second was inorganic activity in the acquisition of BlueOrchard, which gave us a leadership position in impact investing. The third was the kicking off of the joint venture with Schroder Personal Wealth with Lloyds Bank, which was an important partnership for us.

So, you've seen the results, but I won't go through these numbers in detail. We'll obviously unpack them a lot more in a moment, but really the highlights are revenues up by a small amount to £2.142 billion. Profits of £701.2 million, and a dividend per share in line with your forecasts at 114p.

We do think that it's very important to give you more granularity of how our strategy is developing. So, there is a change to the reporting this year, and I want to take you through that in some detail as we go through this to better understand the different growth dynamics of the business, and how it's aligning with strategy. I hope you will recall it, but just in case anyone's forgotten, the strategy highlights are really three pillars. First of all, to grow our core Asset Management business. We're doing that predominantly through three things. One is a growth in Solutions. The second is a growth in new geographies and developing smaller markets, and the third is through leadership in ESG. I will talk more about all of those three things in a moment.

The second is getting close to the consumer. We're prevalent now in all the wealth channels, both from the mass affluent through to the ultra-high net worth in the UK. We made a further acquisition in Singapore this year of ThirdRock. But getting close to the consumer is an important part of it. Alongside that, you should also bear in mind the joint ventures we've got with banks in Asia. So, both Axis Bank and Bank of Communications, where again we're getting closer to banking consumers.

The third is doing more in private markets, and we'll talk more about the progress we've made there. But those three pillars are all driving towards creating more longevity in the business, and we talked about that at the capital markets day. It's been a recurring theme, but what I want to do now is to just give you the granularity to show you how that's developed in the four years since we've put the strategy in place. So, we want to report, going forward, under five business areas. So, our high-level segments have remained unchanged, but beneath that we're going to break out into five business areas, and in your

packs, you've got both the old basis and the new basis, and a map to get between the two. So, there should be nothing lost, and we're very happy to give you all the granularity of how to get to the two, but going forward this will be the basis we'll report from. I think it much better helps explain the way we run the business.

So, first of all, going through the definitions. Wealth Management, I think, is very self-explanatory. It includes Schroder Personal Wealth, the Benchmark Capital businesses, including the platform. It includes the Cazenove businesses, and our offshore wealth business, so what we call Schroder Wealth. So, those businesses, that segment remains unchanged.

Private Assets & Alternatives is sort of what it says on the tin. Private equity, infrastructure, and all the things we do in alternative assets including our GAIA platform where we host third-party hedge funds on our platform.

The Solutions business is probably the one which needs the most unpacking. It is everything we do which is outcome-orientated. So, if it's a DGF mandate, if it's a partnership with an insurance company looking after their balance sheet, if it's a risk mitigation product, if it's a liability matching product, where the outcome is more important, and you will be aware that that is a significantly faster-growing segment than other parts of the market. We haven't shown this separately before, and we think it's important that we do.

The fourth area, Mutual Funds. This is our Schroder-branded mutual funds or co-branded mutual funds. So, it does not include the sub-advisory business, where we might advise a mutual fund for somebody else, because we think it's important to give clarity to that bit which is Schroder-branded.

Finally, it's the index-relative business, so predominantly our equity and fixed-income, index-oriented strategies, which we've called Institutional, but it does include sub-advisory business, because I think that has Institutional characteristics, and the mandates run like institutions, are priced like Institutional mandates.

So, those five things align pretty directly with the strategy. As I said before, we will report on this basis going forward. But what I want to do now is just give you the numbers which underpin that, and may provide the basis for further discussion later on.

First of all, the assets under management in each area. So, Wealth Management, £66.7 billion, as you can see in the historical segment. Private Assets is now £44 billion of assets. Solutions, £142 billion of assets, but as you'll see in a moment that's a lower-margin business, so the revenue contribution is lower. Mutual Funds, £102 billion of assets, and Institutional, £144 billion of assets.

Let me just put that not in asset basis, but as a proportion of the total Group, and then on a revenue basis. So, if we look at this as a Group level, for the first time those three first segments, the growth areas of the business that we've been pushing, are now more than 50% of our assets under management. So, that's an important milestone for us, as we cross the bridge towards having a greater preponderance of our business in growth markets. Those three make up over 50%. Actually, that doesn't include our mutual fund business, where the dynamics are not unattractive at all. But that was a nice milestone to pass.

So, let's now just look in revenue terms at each of those five buckets. Wealth Management at £300 million, just over. Private Assets, again £300 million of revenues. Solutions, as I said, big in assets but smaller in revenues, £226 million, and our mutual fund business still the highest revenue margin business, £734 million of revenues. The Institutional business, the bit which is the index-relative business, if you recall, £502 million of revenues.

So, what you take from this is that revenues on the left-hand side, the £820 million of those first three columns, now exceeds the £500 million of revenues that we get from the Institutional business, and the partnerships and acquisitions which we struck late in the fourth quarter of this year, so the onboarding of the Swift mandate, the acquisition of BlueOrchard, and the Schroder joint venture, will only further exaggerate this shift as we go into next year, because all of those were fourth-quarter events. So, you're going to see this chart develop further and reinforce the strategy which we put in place going forward.

If I just carry on expanding this a little bit further, this is the net new business by channel expressed in the new format. You can see there's £14.7 billion of inflows into our Wealth business. That is in three parts, £12.6 billion of inflows from the Schroder Personal Wealth business, £1.2 billion, 4% of AUM, into the Schroder Wealth, Cazenove, and International business, the ultra-high net worth business, and £0.9 billion into the Benchmark Capital business.

Private Assets saw £2.8 billion of inflows. That was predominantly private equity, some securitised credit, infrastructure finance, et cetera. Solutions saw the largest inflow, £34.5 billion. The largest share of that, but not all of it, was related to the Scottish Widows onboarding, which we did the first part of it in the fourth quarter.

Mutual Funds saw £1.5 billion of outflows. There was an important mix change in that £1.5 billion. So, what we saw in that was that there was £7.1 billion out of Equities, £4.6 billion into Fixed Income, and £0.8 billion into Multi-asset. So, you're seeing, as you saw through most of last year, we're in a risk-off environment. Our assets under management at year-end were up 23%, but as Richard will come on and talk about in more detail, our average assets under management were only up 2%. For most of the year we were operating in a risk-off environment, and that was behind the shift between equities and fixed income and Mutual Funds which we saw, which went on really for the first nine months of the year. Finally, the Institutional business, minus £7.1 billion of flows. That was minus £8.5 billion out of Equities, and £1.4 billion into Fixed Income. So, again, a mix change within the Institutional which was negative from a margin perspective, and again Richard will talk about that some more.

But the key strategic driver, to my mind, is the left-hand side of this where you're seeing very consistent flows into each of these three columns. I want to talk more about the long-term performance of each of those.

If we do first of all the Wealth channel. This is the five-year numbers for the cumulative net new business and revenues for that business. You can see that whilst we took in a steady flow of new assets in the period, the compound growth in Wealth revenues over the five years is 46%, which will be higher when you have the full-year effect of Schroder Personal Wealth, because the assets are up over 100% in that period.

The acquisition of ThirdRock didn't make a vast difference to these numbers. It was a relatively small acquisition, but it was important strategically because it gives us a strong foothold with an advisor base in Singapore, and we think Singapore represents an important market insofar as the characteristics of it are ones that we recognise closely, and we already have a very strong brand with Schrodgers in Singapore today.

If we just move on into Private Assets, again you'll see a very similar chart of steady incremental growth. We've seen 123% growth in our revenues in Private Assets over five years. We would expect to see that grow further going into the next year. There is a slight margin mix issue going on here, because there is both our GAIA platform, which is slightly lower-margin, and our full-fat Private Assets business in there, but very consistent growth. I think, as you can see from the pie chart on the right-hand side, a very good, diverse mix of assets.

The same chart again for the Solutions business. Revenues in the Solutions business has grown 95% over five years. Again, we would expect to see further good follow-on growth next year as we have the full-year effect of the Swift assets that we've already taken on, and the additional assets that we'll see next year, and an interesting pipeline of other new business.

If we look at the same chart for our mutual fund business, you'll see the dynamics of this are less attractive. So, net-net, we've managed to sustain revenue increase of 25% in Mutual Funds, but actually, given the beta effect, that is really only a small net new business over the five-year period. Over the four years, revenues have gone from £631 million to £734 million, which is up, but clearly not the same growth numbers that we've been seeing in the other areas, but the five-year CAGR is still at 5%, which is not unattractive.

Then finally, the business where we think nobody would argue there are headwinds, and that's the Institutional index-orientated business, and here, over the four-year period, you can see revenues are flat. Over the five-year period, they're up 14%. But the number on the bottom right-hand side, we have seen steady incremental outflows from this business. We don't expect those headwinds to go away. This is where we're seeing the substitution from traditional passive insourcing and all the things we've talked about in this meeting before. But what's important, to my mind, is that the aggregate revenue of this business is £500 million, and you'll be able to monitor that much more closely going forward than you have been able to hitherto.

So, that was a quick overview of the new segmental reporting. I'd just like to go back and look at some of the other segments that you're used to reporting on. The dotted line on this chart is the traditional Institutional flow number that we would have shown you historically, including Solutions and including sub-advisory, and those bits and pieces. So, you can see the difference in dynamic. When we split out the two businesses, those jaws between the dotted line and the other line are really what I would call the industry headwind delta. So, hopefully that's helpful in terms of giving you the dynamics of those two. The measure that we've often said to you is important to us is longevity. We've said consistently that if we can have more sticky assets, the business will be more durable. Although we're very geographically diverse, we want sticky clients. This is a measure of outflows and starting AUM. So, it started at 32%, at the start of this chart. It is now down to 22%. Again, we would expect to see that trend continue as we move into more high-longevity segments. The first three, Solutions, Wealth Management, and Private Assets. So, that's an important trend, and an important thing for us to keep on monitoring.

If we look by asset class, we saw inflows into all asset classes last year, when you include Swift. I've already given you the numbers. Excluding the Lloyds assets, we saw an underlying flow out of Equities into Fixed Income, and into Multi-asset. So, Fixed Income, Multi-asset, Private Assets, all positive. Equities was the only area last year that we saw outflows.

Again, if we just look the same lens but through geography, clearly the UK saw a very significant inflow, as you'd expect, because of the funding of that mandate. It saw £3.3 billion of underlying flows in, taking that out. Asia-Pacific saw small outflows of £1.1 billion. That is, I think, a number that needs putting in context. Australia saw £2.2 billion of outflows. So, the rest of Asia saw inflows. It excludes, importantly, our two joint ventures, Bank of Communications and Axis Bank joint ventures. Both of those saw very strong inflows, and obviously both are Asia-based, but we don't include those as part of our consolidated reporting.

In Europe we saw £2.1 billion of outflows. That was very largely the mutual fund environment. You can imagine it's the normal markets that are high-beta, so Italy, Spain. We saw good inflows in Germany. We saw good inflows in eastern Europe, et cetera, but we did see outflows in eastern Europe. Then, the Americas. We saw £3.3 billion out. Again, we saw positive inflows in Mutual Funds of £0.4 billion, and in fact the Hartford Schroder range was 63rd out of over 800 managers in terms of net flows,

so we were pleased with the performance of Mutual Funds in a US mutual fund environment which was difficult, but we did see one or two quite lumpy outflows, particularly in Mexico, which is in that number. So, in aggregate, the diversity of the business again being a very important consideration, that there were many positives and many minuses across the overall flow picture, but in aggregate £44.5 billion of inflows, we feel, is a very good number, and particularly first half versus full-year, our underlying business excluding the organic growth from Swift was actually flat, which was an important step in the right direction in an industry going through disruption.

I'll stop there, I'll hand over to Richard, and I'll come back and talk about the outlook in just a moment. Thank you.

Richard Keers – Chief Financial Officer

Thank you, Peter, and good morning everyone. As you just heard, 2019 has been a good year, as we made important progress towards our strategic goals. Today we are giving you additional detail to help you understand the impact this is having on the shape of our business. This will add more clarity on how our business is growing, and enable you to make sense of the changes we are seeing in our revenue margins. It means we are moving away from our traditional channel split of Institutional and Intermediary. We recognise that this is a significant move, and to help you we have provided the old channel view within your data packs.

Before I take you through the change in detail, let me start with an overview of what we think are a resilient set of results, given the challenging environment that is facing the Asset Management industry. Net income was just £1 million higher, so broadly in line with 2018. In July we increased our comp ratio to 44%, and as a result our comp costs were £24 million higher. In line with our guidance, non-comp costs increased £37 million. That means profit before tax and exceptional items of £701.2 million. We had exceptional items of £77 million. These are typically acquisition-related, principally amortisation of intangible assets, but this year they also include £29 million related to a further cost-reduction programme. This is another step to realising operational efficiencies from the investments we have made in technology.

The programme enables us to manage our total costs and still reward our people appropriately in order to retain talent. It reflects our continued commitment to cost control, which is a key factor in delivering sustainable shareholder returns. Looking forward, we expect exceptional items to be at a more normal level of around £65 million in 2020.

We have a tax rate at 20.6% after exceptional items. That gave us a post-tax profit after exceptional items of £495.7 million, which was 2% down from 2018. Despite this reduction, we have maintained our final dividend at 79p, which gives a full-year dividend of 114p. Overall, this is a resilient performance.

Now, let me explain the movement in the average AUM that Peter's already referred to. Understanding that movement is important for these results. It was up 2% year-on-year, and compares to a 23% in closing AUM. The difference is driven by the timing of movements. So, let's look at how AUM has moved as a result of markets over the two years.

You can see that markets increased average AUM by just over 2%. Although markets ended 2019 strongly, the average was impacted by market falls we saw towards the end of 2018, with many equity indices suffering double-digit falls in the final quarter.

Now, let's look at how AUM moved as a result of FX. The movements are less pronounced. Although sterling did strengthen in Q4 2019, it was on average weaker for us than in 2018. That's mainly due to

movements against the US dollar. The overall effect was to increase our AUM by around 1% relative to 2018.

So, both markets and FX had a positive impact, and you can see how that has impacted our net income on this slide. Markets increased revenues by around £43 million, with a further £14 million increase from FX, but that benefit was partly offset by mix changes and margin attrition, which reduced our revenue margins by about 1bp, and that reduced revenues by around £50 million. We also saw a headwind from net flows, which decreased average AUM and reduced operating revenues by a further £51 million, and that's the combined impact of 2018 and 2019 net flows.

This chart shows the strong headwind we faced at the start of 2019, and that I highlighted this time last year. That was the result of the annualised revenues we lost from the outflows in 2018, which reduced revenues by £35 million. As you've just heard from Peter, we had net inflows of £43 billion in 2019. The majority of those flows came through towards the end of the year, but you'll recall we had net outflows in H1. Remember, we're looking at a waterfall here of year-on-year change, so this profile has an impact. It means the in-year impact of 2019 flows was to reduce revenues by £16 million. However, we had net inflows, so this is just timing, with the revenue benefit to come in 2020 of £6 million.

As I mentioned at the start, our business is changing with net inflows increasingly focused around our strategic priorities. To help you understand this, I'll move on to the detail I referred to in my opening remarks by breaking down our performance into the five business areas that Peter described, starting with Wealth Management.

We have again seen good growth, with net operating revenues up 7% to £302 million. Average AUM rose 12% to £51 billion as we generated net inflows of £15 billion. That builds on the positive momentum we have seen over the past few years, and reflects the increasing significance of this part of our business. Our new JV with Lloyds Banking Group, Schroder Personal Wealth, contributed £13 million of revenues. We acquired our interest at the beginning of October, so that's just the revenues from the last three months of the year. SPW brings together our investment capabilities and impressive product offering with the distribution footprint of Lloyds, providing Wealth Management services to a currently under-served part of the UK market. It leverages Benchmark Capital's technology platform, and the client assets and flows are included in our Wealth Management AUM.

Although this is a joint venture, our segmental results include our share of SPW's revenues and costs in the respective line items. Showing it this way reflects how we manage the business, and provides more information about the revenue margins we earn on the assets.

In accordance with accounting rules, our statutory income statement shows our share of the post-tax profits in a single line as part of our share of profits from associates and JVs.

Wealth Management revenue margins excluding performance fees were 59 bps. They are 2 bp lower than 2018, mainly as a result of lower transaction fees and a reduction in our net interest margin relative to the increase in average AUM. The margins also include the impact of the ThirdRock wealth management business we acquired in Singapore, which is at a slightly lower revenue margin. That investment is part of our strategy to further diversify our business by geography, and to develop our wealth management capabilities across Asia. To be clear, the revenue margins also include our share of the net operating revenues earned by SPW.

For your models, we expect our margin to decrease by around 1bp in 2020 due to lower transaction fees and the full-year impact of ThirdRock.

Moving to Asset Management. Asset Management net operating revenues decreased £26 million in 2019. We generated performance fees and net carried interest of £72 million, reflecting strong investment

performance. That's up £18 million compared to 2018. To help with your models, we are again budgeting for around £50 million of performance fees and carried interest in 2020. Excluding these, net operating revenues were down £43 million, or 2%. The decrease was driven by a change in mix, including a £37 million headwind from the outflows we had in 2018, partly offset by a 1% increase in average AUM. Let's now look at how that breaks down across the four business areas that make up Asset Management, Private Assets, Solutions, Mutual Funds, and Institutional. First, Private Assets.

Revenues from our Private Assets & Alternatives business have more than doubled in the past five years and, as Peter explained, we now manage more than £44 billion of assets. These products typically command a higher revenue margin than our other Institutional business, and that's before carried interest and real estate transaction fees. As well as being at higher margin, these assets have a greater longevity, with many products existing in close-ended structures that can have a lifecycle of over 10 years. This means that the cumulative revenues earned over the life of the assets can be very significant, even from relatively small flows.

In 2019, we had a net operating revenue margin excluding carried interest and transaction fees of 63 basis points. That was a reduction of 3 basis points on 2018, mainly due to acquisitions. In 2019 we generated £3 billion of net inflows, which added £16 million of annualised revenues. We expect our net operating revenue margin to reduce by 1 basis point to 62 basis points in 2020 due to the full-year impact of Blue Asset Management. Remember, this is before potentially significant carried interest and real estate transaction fees.

Next, let's look at our Solutions business. Institutional clients are increasingly looking for us to help them meet their financial objectives by providing complete Solutions. This includes partnerships with insurance clients, who are looking for us to help manage their balance sheets over a lifecycle. The flows here are often very large, and the portfolios can be complex, requiring an understanding of the client's risk profile. Our strong investment offering helps differentiate us, and we are one of only a small number of managers with the necessary scale and capabilities to manage mandates of this nature. At the end of 2019, we had £143 billion of assets under management.

Net operating revenues from Solutions were £226 million, and we had a revenue margin of 21 basis points in 2019. That was 1 basis point lower than 2018. We expect this margin to decrease by around 7 basis points in 2020, reflecting both the impact of the Scottish Widows mandate when fully funded, and a pipeline of other notified inflows of over £10 billion.

The nature and size of these assets means that they typically attract a lower revenue margin, but the incremental costs are low. As a consequence, the profit margin is similar to the Group's overall margin. Importantly, the assets also have significantly greater longevity. It's these characteristics that make this business so attractive, and why it is an important part of our growth strategy.

Our success here creates a mix change. This is one of the key drivers of the revenue margin compression. That's why the additional information we are providing to you is so important. But our focus is on profits, and as I've said before, the profit margin here is generally consistent with the rest of the business. So, good growth across our three strategic priorities. Let's now look at our more traditional business areas. As you can see on the slide, these face more significant market pressures, starting with our mutual fund business. These vehicles provide access to the retail investment market through our Intermediary relationships, and continue to be an important part of our investment offering. Our Mutual Funds contributed £735 million of net operating revenues in 2019, including £3 million of performance fees. Although 2019 saw positive returns across financial markets, a risk-off environment persisted within this intermediated business, particularly within Europe.

As you just heard from Peter, we delivered a resilient performance here, with net outflows of just £1 billion, and AUM ending the year up 8% at £102 billion. However, we continue to see both longer-term

pricing pressures of around 1 bp a year and mix changes impact our revenue margins. As a result, our net revenue margins, excluding performance fees, are set to decline by 2 basis points from 73 basis points to 71 basis points in 2020.

Finally, to our new view of our Institutional business. We've already talked about the growth that we are generating from Institutional clients through our Private Assets and Solutions business. That's excluded here. The remaining assets relate to the index-related products we provide to institutions, either as a component of their overall investment strategies or as part of a sub-advised mandate.

At the end of 2019, we had £144 billion of AUM. That was up 7% from 2018, mainly as a result of strong investment returns. Net operating revenues were £502 million, including £40 million of performance fees. Equities have been an important part of this business, but as a consequence of the current market environment and as a result of regulatory changes, we have seen clients de-risk their portfolios and move asset allocations further towards lower-margin fixed-income products. We are also facing headwinds as clients increasingly move their growth assets away from public markets in search of higher returns, but bear in mind, this is the part of the growth opportunity within our Private Assets business.

Net operating revenue margins, excluding performance fees, were 32 basis points, 1bp down on 2018. We anticipate the revenue margins for 2020 to be broadly similar to 2019.

Going forward, you will continue to hear us talk about the results from these five business areas. I hope the additional information is helpful, and we would be happy to answer your questions - or certainly Alex will - as you take these on board and adjust your models.

Let's now return to our net income slide. As you've heard, our strategy is helping to offset the headwinds faced by the more traditional parts of the business. Targeted acquisitions that expand our capability is a part of this. You can see acquisitions increased net operating revenues by £21 million in 2019. That's mainly the acquisition of BlueOrchard, but also includes Blue Asset Management and the wealth management business of ThirdRock.

Our associates and JVs are also an important part of our growth strategy. I've already talked about SPW as part of our Wealth Management business. Excluding that, our share of profits from associates and joint ventures increased by £9 million. The growth was principally driven by the value created by our long-standing partnerships with Bank of Communications in China, and Axis Bank in India. These are an important part of our strategy to grow in new geographies. They are principally consumer businesses, and fit with our strategy of getting closer to our end client. Just to remind you that AUM and flows from these businesses are not included in the Group metrics.

The Chinese market represents a significant opportunity for us, and is also an area of continued investment as we build our footprint in light of the more open regulatory environment. Thanks to our partnership with Bank of Communications we are already well positioned, with a recognisable brand presence through our 30% interest in a co-branded Asset Management company. That business generated £4 billion of net new business in 2019, and at the end of the year had £55 billion of AUM. We have evolved the products sold by the business over the last few years. This has resulted in a significant increase in revenue margins from 18 basis points to 24 basis points, and that has translated into increased profits.

In India we have adopted a similar strategy, this time with the third-largest private sector bank, Axis. We have owned 25% of their Asset Management business since 2012. In that time, AUM has increased from £1 billion to £14 billion, with £5 billion of net new business won in 2019. Historically, we haven't talked about these businesses, but increasingly they are an important part of our strategy, both from an income generation perspective and also as a platform to some of the fastest-growing economies in the world.

To wrap up on revenues, other income also increased by £8 million thanks to good returns from our investment capital, seed capital, and co-investments. Bringing all of that together, we had net income of £2.1 billion, which was marginally up on 2018.

That's it on revenue. Now, let's turn to costs. At the half year we increased our comp ratio to 44%. That is still below our target range of 45% to 49%. It represents a return to the level we had prior to recognising an accounting benefit from material risk takers in 2017.

Turning to non-comp costs, these increased £37 million to £496 million, which is in line with the guidance I gave you at the half year. The increase from 2018 was driven by four things that I talked about at the half year. Investment in technology and the development of our Benchmark platform to support our new JV, higher accommodation costs, including the impact of the new lease accounting standard IFRS16, acquisitions, and FX.

Our technology investments over the past few years mean we now have a sophisticated scalable platform. This is key given the changing product composition, and is a competitive advantage as we look to grow the business. Having made these significant investments in our IT infrastructure, we are now able to reduce our project spend to more normalised levels and, going forward, we expect spend to be targeted around new strategic opportunities. As a result, we expect our cash spend on technology to reduce by £35 million in 2020. That's cash spend. Remember, the accounting rules require us to capitalise cost, so this won't translate to an immediate reduction in expenses. Also, as you will understand, a proportion of our non-comp costs are variable based on the level of AUM. We therefore look at our costs as a percentage of AUM. This percentage increased as we invested in our systems and technology over the last few years, but as you can see on the slide, I am anticipating our expenses as a percentage of AUM returning to more normalised levels.

In 2020, I anticipate that our non-comp costs may increase to around £525 million due to the full-year impact of acquisitions made in 2019, and the depreciation of our intangible technology asset. As always, our overall focus remains on careful management of our total cost.

Turning to capital. We continue to maintain a strong capital position, with total capital of £3.8 billion. That's up £230 million from last year. The main driver of the increase is the £154 million gain we made following the sale of a 19.9% interest in our Cazenove Capital business to Lloyds Banking Group. We cannot recognise this gain in the income statement under accounting rules, but it does increase our retained profits, and, from a shareholder perspective, it represents us realising value from the business and is a distributable gain.

Our regulatory capital requirement is largely unchanged this year, and after allowing for the final dividend our capital surplus is £1 billion. Overall, we continue to maintain a strong capital position. So, in summary, we have delivered a resilient performance despite the ongoing industry headwinds. This is thanks to the progress we have made and continue to make towards our strategic goals. I will now hand you back to Peter.

Peter Harrison – Group Chief Executive

Thank you, Richard. Just quickly on the outlook, I think there's three things. One is the traditional business, Richard's talked about it, we've talked about it. I don't think we see any change in the direction of travel for the pricing environment mandates. We start with good investment performance. That will be key in terms of winning new business, but those headwinds will continue.

The second area is coronavirus, which we've got to talk about. I don't have an answer to the long-term impact, but I would say two things. One is, we've seen central banks getting aggressively ahead of the

problems, and the gyrations in markets of late are testament to that. But the impact on economic activity, to my mind, is going to be very clear, is going to cause - and is already causing - quite big dislocations in stock outlooks. There is a silver lining in that for an active manager. You get paid for thinking, and I think from my perspective, whilst we're going to see a lot more turbulence, you are going to see opportunities for active managers to really differentiate themselves.

I should also comment that our resilience in terms of our ability to work on a split office basis has already been tested in Asia, where most of our offices in Asia are working on a split basis where key staff don't come into contact with each other. That's worked incredibly well, and I think it's an important part of being able to operate in what's going to be a difficult environment.

But key to the outlook, to my mind, is the growth that we've talked about in the core strategic areas of growing in wealth, growing in private markets and alternatives, and growing in Solutions. If I look into next year, the future growth of those is already in good stead, so I feel confident about the strategic delivery being able to continue to come through, year-over-year, to '21 over '20 as well as '19 over '18. We've got quite a few people online, so in terms of Q&A I suggest we start on the floor, and then we'll go to all the online questions. If I could ask you to give your name and your firm when you ask your question, thank you.

Q & A session

Arnaud Gibrat - (Exane BNP Paribas)

Good morning, it's Arnaud Gibrat from Exane. I've got three questions, please. You highlighted during the presentation that a big part of the drop in revenue margins per asset category was due to mix. At constant mix, what is the change in revenue margin per category, please, at constant mix?

Peter Harrison

Richard, do you want...

Richard Keers

I think, Arnaud, it's fair to say that if we strip out mix changes, the 1bp change that we've been talking about for the last five years is what we've seen, and we will continue to see for the next few years as well. So, the underlying attrition is 1bp.

Arnaud Gibrat - (Exane BNP Paribas)

Okay. My second question is on M&A. Obviously, that's helped in terms of growing your private asset business. How are you seeing the market there? Are there opportunities? Some of your peers are talking about being quite active there as well?

Peter Harrison

Yeah, it's important that we find new capabilities. What we're not looking to do is put together other traditional businesses and take out costs. So, we would say our strategy is quite different to some of the other quoted firms that are pursuing that strategy. You're right, though, in Private Assets and in wealth we've been very willing to add relatively small bolt-on acquisitions in order to create that new capability, and we will continue to do it. I think the acid test is, is the valuation acceptable? Is there a good cultural fit in terms of the people, and can we see good follow-on growth? Thus far, we've been able to find a dozen or so businesses that fit that mould, and we will stay alert to other opportunities.

I think that the slight caveat I would give is that valuations in some areas are quite extended, and I think private debt, which has been an area that we've looked at for quite some considerable time, I think we're going to see quite a lot of stress in that area. With a combination of coronaviruses and low covenants, you're going to see a moment in time where there may be some opportunities, but it will be slightly more distressed than it has been hitherto. So, we're very much on the lookout, but only if we can satisfy the three criteria, evaluation, culture, and follow-on growth.

Arnaud Gibrat - (Exane BNP Paribas)

That's great, thank you very much.

Peter Harrison

Thanks. Next?

Mike Werner - (UBS)

Hi, you've got Mike Werner here from UBS, thanks. I've got three questions. I guess, first, a couple of years ago, two, three years ago, you talked quite a lot about the investment into the data insights team. I was just wondering if you could give an update there, let me know what you think of that in terms of growth from a headcount perspective going forward.

Second, one thing I didn't hear much about during this presentation was really with regards to ESG, and I was wondering how you were implementing your ESG strategy into, in particular, the new segments that you have described today.

Then, finally, I guess a bit of a follow-up on the M&A. With regards to Private Assets, you mentioned private debt being a particular area of interest should you see distressed scenarios. What other capabilities do you think that Schroders is missing in the private market space?

Peter Harrison

I'll try and take those. Data insights has been a really important part of improving the quality of our - so, we've got two groups now. We've got a centralised group, which is of the order of 25 or so people, which is in the middle of the investment floor with a view to trying to interrogate alternative sources of data. An easy example would be if you look at our brand database, round numbers it's 30 billion rows of data. It's not something that you want to put on a portfolio manager's desk and ask him to get any insights from. You need a data scientist to do it. So, that's really around constructing a data layer.

There's also now a much bigger embedded group of technologists who sit on investment teams to help generate better thinking, whether they be geospatial experts or data engineers, and that's an ongoing reskilling of our population. But I think the biggest area, funnily enough, leads into the second question that you raise around ESG. The one area that we believe we can differentiate ourselves significantly is on ESG data. I think there's a lot of hand waving in that sector, but the reality is that we're going to have to be driven by data, and that's going to come from alternative data sources. So, the significant investment we've made in data science is being directed a lot at, how do we get better ESG insights?

For me, that is - and I should have talked more about it, because it's a really important new battleground. We've got a leading position in it. We've made a commitment as an investor to have 100% integration of ESG thinking into all of our products this year. As a business, we've made a commitment to be net zero in carbon this year, because we think that's the right thing to do. We're very engaged on the governance side as well as on climate, and as well as on social issues like modern slavery.

The bottom line is that our clients now care as much about how you invest as the returns you get from investment, and if you can demonstrate that both through good technology and good data, you're going to be able to differentiate yourself. That's very different from using rating agency data to say what's good

and what's bad. There's a good article in today's *FT* on exactly that subject. But to my mind, it's a critical thing for any asset manager to be successful on, and it's been an important part of our growth, is being able to address that correctly, both through specific ESG funds but also greening the whole system. We see greening the whole system as the key answer.

On, finally, your third question on M&A, debt is the one major area. I think there are more opportunities in real estate. I think our real estate capabilities are quite European-centric, and if I look at that, what might be done, we don't do much in real estate debt, we don't do much in real estate outside of Europe, so that would be a nice to have. But the core ingredients are there.

I think, if you think about what we're serving in terms of the Solutions business, is how do you answer an insurance company's big, long-term interests? How do you answer a pension fund's liability matching issues? So, long leasehold issues as a good match for liabilities is a good place to be. So, can we use more of our expertise in real estates and hotels to satisfy pension fund issues? Those are niche things, but they're nice, 20-year sticky money, which has been an important part of our thinking. So, it's across the whole spectrum, but we feel we're in a much, much better place today.

I should just touch on, finally, BlueOrchard a little more. That for us was a gamechanger, because what it does is, development agencies are often the largest investors in having impacts today, and what we're going to see is a very significant move of private sector money, insurance money, pension money, high net worth money, wanting to have positive impact. At the moment we talk about ESG. We'll soon start talking about impact. We've got the world's leading firm who've written most of the standards now in the Group, and that is a really important part of being at the forefront of impact investing, we would argue. Other firms are there, but I feel really, really confident that BlueOrchard is a gamechanger in terms of being able to open up that new market.

Mike Werner - (UBS)

Thanks.

Hubert Lam - (Bank of America)

Good morning, it's Hubert Lam from Bank of America. I have three questions. Firstly on comp revenue ratio. It was 44% for '19. Wondering what your forecasts are, or target is, for '20. That's the first question. Second question regards Schroders Personal Wealth. What are your expectations for this year? I think last year you had a big boost in flows, mainly coming from Swift. What are your expectations in terms of flows as well as earnings for this year, and maybe next year as well?

Lastly, on the virus, I know it's very, very early days. I'm just wondering how your clients have been reacting. Are they panicking? Are they selling their assets, or are they mainly staying on the side-lines, just waiting for things to calm down first before doing anything? Just wondering about your thoughts.

Peter Harrison

Great. Richard, comp first?

Richard Keers

In terms of comp, no change. Sorry, I should have mentioned that. So, 44% this year, 44% in 2020.

Peter Harrison

I perhaps should add that we took on a large number of staff, both to onboard the Swift mandate and to upgrade the Benchmark capability. That was funded by the increase, but we don't see that needing to go up again.

Richard Keers

That's right, there's a sort of timing mismatch. A lot of costs came on in 2019.

Peter Harrison

Yeah. SPW's had a good start. The focus is very much on, how do we retool advisors? How do we create a new technology platform in order to really boost the productivity of the advisor network and make the most out of the Lloyds referral business? So, at the moment the focus is not on how do we drive net new business? How do we create a really, really good proposition with a strong bank of advisors with the right tools? That uplift in productivity will give us a very big step up. Richard, do you want to talk to the numbers for...

Richard Keers

Well, there's more than one component to our revenue. I touched on one, which was we saw £13 million of revenues from October. So, annualising that, multiply that by four and you get an idea of that source of revenue. Within Benchmark we've also got a platform fee, and there will be strong growth in Benchmark users as a result in 2020 over 2019.

Peter Harrison

Coronavirus. I do think it's very early days. What we haven't seen is capitulation. If you think that we have a market which was down 11% last week, in normal circumstances you would have expected to see outflows. If I look at our mutual fund flows through to the end of last week, actually Asia and Americas were actually still positive. UK and Europe were in slight outflow, but we're talking about rounding errors. So, I think you would expect to see a few leads and lags, but I think early days.

I think in equities, it's quite easy to see across the valley. We do know that the world will return, it's just going to be an uncomfortable period for all of us and our families. I think in debt markets you might see a bit more of shocks, because actually, if you've got leverage in the system and you've got cash flow covenants, a big step-change in trading is an issue. But we're not seeing it in flows, markedly, at all. Does that help?
Sorry.

Tom Mills- (Jefferies)

Sorry, it wasn't really worth all that wait. Tom Mills from Jefferies. Sorry, I forgot. I just wanted to ask a question. You spoke about the importance of asset longevity, and you've got that impressive improvement. I was just wondering how much of that improvement has come from the mix shift, changes in your business and the growth in Solutions, and how much is underlying better retention of clients? Because I guess you're kind of struggling, and you've struggled for a few years now on the Institutional and mutual fund side of the business, and I just wanted to understand how those dynamics were working.

Peter Harrison

I'd say two things. One is, if you look at underlying market longevity, it's quite clear - I mean, if you look at longevity of UK Mutual Funds as a statistic, which you can get quite good figures on across the industry, I would say it's declined by about a year, say from three years to two years, in a relatively short period of time, and against that we buck that trend. So, it's quite important that you - part of it is the service you offer and the performance you offer, and you can't escape those factors, but that line's been coming down actually over six years, irrespective of the strategy. But you would expect it to come down more quickly as you do more Private Assets, more Solutions, and you get more locked-in revenue. I see this, the industry benchmark, I think, is, if anything - it's shortening.

Tom Mills – (Jefferies)

Thank you. Sorry, just one more question on the private markets side of the business. I know you were talking about fee margin compression as a result of acquisitions there, but beyond that are you seeing more stable fee margins in that part of the business?

Peter Harrison

On a like-for-like basis, absolutely. I mean, very robust pricing environment. I think where you do see mix, if we grow our securitised credit business, or we do more real estate partnerships, which tend to be up-front transaction costs and a relatively low fee for a long period of time, those are mix changes. But that fee, if you like, is not really changing at all.

Richard Keers

Perhaps I could add, on revenue margins that I talked about, that was post transaction fees and performance fees at 63bps. If I had those back for 2019, it would have been 76bps. They're harder to forecast, but the nature of that business, they do come with more significant other revenue streams. So, 63bps might sound low, but add on those other revenue sources and what we saw this year was 76bps.

Tom Hills – (Jefferies)

That's helpful, thank you.

Peter Harrison

Are there any more questions in the room? Otherwise, we'll go to the ones online. Catherine, have you any questions online?

Catherine Armstrong, Head of External Affairs (Schroders)

So, the first question is from Bruce Hamilton at Morgan Stanley who asks, is there an intention to take a majority stake in a Chinese JV, and is there any other colour we can give on China plans going forward?

Peter Harrison

Okay. No, there isn't an intention to take a majority stake. Our joint venture is working really well, and we feel it works for both parties. I think importantly, the point we haven't made but it is worth just making, which wasn't Bruce's question, but I'll make it anyway, our one, three, and five-year performance in the JV has been excellent because they've been good at staff retention. We're seeing some very successful fund launches coming through. I think we've got to a good place where you can keep investors, grow good investment performance, and that's because we've had stable ownership and the good backing from both parties. So, we're very comfortable with it as it is.

Catherine Armstrong

Thank you. The second question is from Haley Tam at Credit Suisse who asks, can you tell us how much of the profit contribution in 2019 came from businesses that were acquired in the last five years, and how that outcome looks from a return on invested capital basis?

Peter Harrison

I look at Richard at this moment. Thank you, Haley.

Richard Keers

I'm going to have to calculate that, so if I can get back to Haley, but I haven't got that number to my fingertips.

Peter Harrison

What we do know is, we did a review for our board in terms of the IRR we've earned on those businesses, and all of them were good double-digit numbers, and all of them were seeing good follow-on growth, at least in line with our initial expectations. But perhaps Richard will come back with...

Richard Keers

I'll come back with a more detailed answer. You're right, we saw high-teen digit IRRs.

Peter Harrison

Sorry, I didn't answer the second part of Bruce's question, which was other feedback on China. Perhaps there's two things I should say. We've got a number of other licences in China and plans outside the joint venture, and we've also recently seen the PBOC come out with 11 new rules offering the opportunity to invest in Wealth Management subsidiaries. So, you should expect to see us doing more, both in the private equity side and on the fund launch side. We think that strategically China's the second-largest equity market in the world, the third-largest bond market in the world, a vast amount of saving going on, and very significant alpha contributions.

So, whether it's inbound investment from overseas investors wanting Chinese alpha - big market, one where we've got a good position - outbound for Chinese institutions wanting to invest in the rest of the world - good market, we've got a good position - and then China-to-China, again where we're getting the right licences. We've got some of the right licences already, and again we see good growth. So, that's all over and above our position with the JV.

Catherine Armstrong

Thank you. The next question comes from Paul McGinnis at Shore Capital, who notes that the dividend pay-out rose from 53% in 2018 to 58% of pre-exceptional EPS, but is asking for clarification of the policy going forward in the event that falling markets have an impact in 2020.

Richard Keers

Well, our policy is unchanged. It's a progressive and sustainable dividend targeting a pay-out ratio of around 50%, but being progressive we don't anticipate the dividend declining.

Catherine Armstrong

Thank you. The final question from Gregory Simpson at Exane BNP, noting that 68% of AUM outperforms over the three years. Does investment performance vary significantly within the different segments such as private markets?

Peter Harrison

There is a slight difference across segments, so if you look at our private markets, performance is very strong indeed. Our fixed income performance is very strong indeed. Our equity performance is slightly lower, particularly over one year, it was 61%. You would expect that from a house that has a slight value orientation when you're in a growth market, and you've got very narrow markets. So, particularly the drag on that is any quant-orientated strategies, which are having a tough time when markets are so narrow.

But the helpful bit is, our performance is in the areas of the market which are in demand at the moment.

Catherine Armstrong

Thank you, that concludes all the online questions.

Peter Harrison

No more questions online? Any more questions from the floor? Great. Well, thank you all very much, and thank you for staying a full hour. Thank you.
