

2021 Half-Year Results

Transcript

Peter Harrison (Group Chief Executive): Good morning everyone, and welcome to the Schroders first half results for 2021. I'm joined today, as usual, by Richard Keers, our Chief Financial Officer. I'm afraid we're doing this remotely again. I keep saying to you that hopefully next time we will be back at 1 London Wall Place, and I'll say it again. Hopefully, next time we will be back at 1 London Wall Place! We will stick to the usual format. I'll talk briefly about the business and strategy, and Richard will then provide more detail on financials, I'll come back and talk about outlook, and then we'll do Q&A.

Turning to the overview, as you can see, we had a strong first half, net income up 24%. Our business is growing and we're gaining operational leverage. That means we've improved our cost income ratio, which fell by 3 points to 67%. Profits were up 33% compared to the first half of 2020 and reached a new record of £407.5 million. That's an exceptional result and I want to emphasise that almost all of this is driven by organic investments that we've made in the past. I'll give you a few examples of that later on. Assets under management, including JVs, are also up 15% on last year, and we've now surpassed the £700 billion mark. Net new business was solid with £17.9 billion of inflows, and we saw good client demand throughout the first half. Our basic EPS, before exceptionals, increased 38% to 118.5p. As you can see, the first half has gone well and, given the strong performance of the business, the Board recommended a dividend increase of 6%, which brings the interim dividend to 37 pence.

Obviously, one thing which is key to the success of our business is investment performance. Our investment teams ensure they reposition themselves well as economies changed and the vaccine announcements came out, and that means that our full year performance numbers improved even further. One year 87% of our assets outperformed, over three years it's 75% and over five years it's 82%. That's an excellent result, but I'm pleased that in those areas where performance is really important to net sales, like Equities and Fixed Income, we deliver particularly strongly for clients. The numbers are these. In Equities we delivered outperformance of 84% in funds over one year, 75% over three years and 84% over five years. In Fixed Income the numbers are particularly strong: 97% of assets outperformed over one year and 96% over both three and five years. Over the short term we'll certainly see fluctuations, but the long term numbers are looking strong.

Turning to assets, I've already mentioned that AUM growth, but it's good to see where it's come from on this chart, and I'm particularly pleased we've been able to grow the assets we manage on behalf of clients to over £700 billion, which is up 6% on last year. Our AUM in JVs and associates was up 11%, which reached £98 billion.

Turning to net new business, starting with our Asia Pacific business, it delivered strong flows of £7.3 billion, which was driven by solid flows in both Hong Kong and Singapore, but also our JVs in Asia were very strong contributors. In Continental Europe, flows were positive across every jurisdiction, and particularly strong in Italy, Switzerland and Germany. Total flows in Continental Europe were £5.3 billion of net new business. We continue to invest heavily in sustainability in Europe, and we've repositioned our product set to make the right changes ahead of the SFDR regulation, and that should really help our competitive position.

In North America, we saw positive flows from both the US and Canada, totalling £4.6 billion. The US, the Hartford range sold very well, and we also saw small net inflows from our joint venture with A10. I told you a few years' ago that we were investing organically to build our presence in Latin America, so it's particularly pleasing to see that come through. Every country in the region contributed positively and we saw a total of £1 billion of net new flows from the region.

The UK actually had a good first half, especially in intermediary. We did suffer from the run-off of the SWIFT, which I'll come to in a moment. However, on a net new revenue basis, we were positive, as low margin assets were replaced by higher margin mutual funds.

Turning to our joint ventures and associates, both our Bank of Communications and Axis Bank joint ventures performed very strongly in the first half. Combined, their assets under management continue to grow at a compound annual growth rate of 8.4% since 2016. In China, markets regained their strength in the second quarter, which supported flows in AUM as the business has shifted more towards equity strategy. There's a lot happening in the background in China, particularly the work that we're putting in to launch our wealth management JV with Bank of Communications, which hopefully we will get launched this year. In India, our JV with Axis Bank is now the fastest growing asset manager in the country, and we're the largest manager of Indian equities in the country. It picked up the Asset Manager of the Year award and the Equity Manager of the Year award, which was particularly pleasing. It's remarkable how well these businesses are performing, particularly in India, given all the challenges. I know Richard is going to talk you through the financial contribution later, but it's really great to see those coming through.

Turning to our key business areas, I've already mentioned full-year results. We saw flow momentum pick up strongly in Q4. This has continued throughout the first half of the year. In aggregate, net flows of £17.9 billion, but excluding joint ventures that number is still £10.5 billion. I'm going to go into more detail on each segment, but the key point I want to draw out here is the concentration of flows into higher margin areas like wealth management, private assets and mutual funds, and even within mutual funds there's a strong bias towards equities.

So, if I just go into those areas in order, starting with Wealth Management. There's an awful lot of momentum here. Net operating revenues were up 13% to £204 million of revenue contribution, and net operating revenues are at a new record high. Net new business came in at £1 billion, so assets up 6% at £76.3 billion. In Cazenove Capital we've completed the integration of Sandaire which, as you recall, creates a global family office service. We're also investing in the regional expansion, which is on track. We're incurring the costs of that in this period. There isn't a revenue contribution yet, but we are confident that that will follow. Within Benchmark we recently launched the Schroder Investment Solutions, which offers IFAs, a range of managed portfolio services, both with a strong track record but also with very competitive pricing. Benchmark contributed £0.3 billion to net inflows.

Within SPW, Schroder Personal Wealth, there's an awful lot happening. It's very good to see the business turning the corner into net positive flows. You'll recall that we made a lot of changes at the end of last year under Mark Duckworth's leadership. The run rate of cost today is running 26% lower than it was at the end of last year, so net operating profits swung positive in March, which was three months ahead of our expectations, and we're seeing a good level of referrals coming through from Lloyds Banking Group, about 1000 referrals a week going into that business. Because there's so much to talk about, rather than unpack it here, we will hold another deep dive in October, as we did with our private assets business in June.

Turning to Private Assets, we set out some ambitious targets for you, and I'm pleased to say that we are on target for that. The business is highly profitable, it contributed £157 million to net operating revenues in the first half, which was an 11% increase compared with the first half of 2020. Assets increased by over £2 billion, despite the fact that in the Alternatives area we were in small net outflow of £0.4 billion, mostly our externally managed GAIA, third party fund platform. We expect Schrodgers Capital to generate £5-8 billion of net new business per annum, and year-to-date we feel we're on track to deliver that. We've also said that we expect assets under management to double by 2025. In this period, our private markets business delivered net flows of £2.9 billion. Demand was particularly strong in securitised credit and private equity. In addition to that £2.9 billion, there was a further £2.7 billion of dry powder which was won but which we're not yet earning a fee on, so we don't include in our assets under management figure.

Moving on to Solutions, we had a solid first half, contributed over £130 million of net operating revenues, up 9% from the first half of 2020. As you know, the nature of this business is lumpy, so we're focused here very much on long-term revenue growth and operational leverage. During the first half we did see the headwind from SWIFT, as you would expect. The outflows were £0.8 billion from SWIFT, and this will be an ongoing feature, given the maturity of that book. But in aggregate, assets under management was up slightly and closed the period at £194 billion.

Now moving on to the Mutual Fund sector, which was particularly strong, therefore I feel it might be quite helpful just to break it out by region. In total, that was £6.4 billion of net inflows, positive across all regions. I did mention earlier that some are more performance sensitive, and that was certainly a key driver here, particularly in the equity area, which was a standout performer. Now I've also talked in the past about revamping our product set and making it more thematic, putting seed capital to work, ensuring a strong range of sustainable

funds. That was really helpful during the period. Our thematic range was particularly strong in Continental Europe, particularly Italy and Benelux. In addition, in the US we saw strong demand from Hartford Schrodgers, and their assets now surpass £10.5 billion of AUM. In total, Mutual Fund assets up 10% to nearly £115 billion.

Finally, Institutional business. In aggregate, generated £1 billion of net inflows, and the positive momentum we saw at the end of last year has continued into this year. Here the regional picture is slightly more mixed. We saw outflows in Asia Pacific, old chestnuts Australia and Japan offset by inflows in institutional clients, particularly in the US. I've talked in the past again about making that organic investment in our sales distribution effort in the US, and you've seen a regular pattern now of good strong flows there, and that's a particularly pleasing reward for that organic investment. In aggregate, our institutional assets under management was up 6% to nearly £170 billion. Going into the second half, we also have a pretty good unfunded but won pipeline.

I'm going to hand you over to Richard and then I'll come back to talk you through the outlook.

Richard Keers (Chief Financial Officer): Thank you Peter and good morning everyone.

Today we are reporting a very strong set of results. They reflect the successful delivery of our strategy with good organic growth across our priority areas. Our mutual fund business has performed particularly strongly, demonstrating the continued value of our core asset management business. At the same time, both our Schrodgers Capital and Wealth Businesses have made good progress as they provide an increasing contribution to the group. As a result, we have been able to grow our AUM to £700 billion and to deliver pre-exceptional profit before tax of £407.5 million. That is an increase in profit of more than £100 million or 33% since H1 2020.

Let me explain how we have delivered that growth, starting the drivers behind our segmental net income, which increased to £1.3 billion.

As I mentioned, our AUM increased to £700 billion, including £98 billion of assets managed by our associates and JVs. But what matters most to our revenues is average AUM. Excluding associates and JVs, our average AUM increased 17% from the same period of 2020. The increase in value of our AUM due to markets increased revenues by £118 million. That includes a FX headwind of approximately £35 million. Net new business increased net operating revenue by £30 million. That is predominantly driven by net flows in the second half of 2020 and the continued momentum we have seen in the first half of 2021. In addition, our strong investment performance has enabled us to generate £25 million of higher performance fees and carried interest, compared to H1 2020, taking us to £43 million for half year.

At the start of the year we guided to £70 million of performance fees and carried interest for the full year. As always it is difficult to predict the final outcome, however, given the performance to date we can see some upside to this. Let's now look at how this breaks down by business area, I will then come back to the other key movements in net income.

Our Wealth Management business continues to show good growth. Peter has already mentioned the £1 billion of net inflows we have seen in H1. Looking at this chart, you can see how that has contributed to strong growth in our annualised net new revenues. This is especially important given the higher longevity of our wealth clients. Together with good investment returns, the positive flow momentum increased average AUM by 16% compared to the same period of 2020. As a result, net operating revenue increased £24 million. That was despite a £3 million reduction in net banking interest, due to the low interest rate environment. The net operating revenue margin excluding performance fees was 56 basis points. This is a bit lower than we guided to due to lower initial advice fees. We expect the margin to be around the same level the year as a whole.

Moving on to the business areas within our Asset Management segment, starting with private assets and alternatives.

Our average AUM increased 5% to £47 billion in the first half of the year and as Peter has said this growth was largely driven by flows in Schrodgers Capital. In the half year, net operating revenue increased 11% to £157 million including £12 million of carried interest and £2 million of real estate transaction fees as the real estate market opened up again. Taking account of these fees, which are an important part of this business area, our net operating revenue margin increased from 64 basis points to 67 basis points. Excluding carried interest, the margin was 61.5 basis points as we deploy some of the £2.7 billion of dry powder that Peter mentioned earlier. We expect the full year margin to increase to 62 basis points.

Next let's look at our Solutions business.

Average AUM is 18% higher than H1 2020, principally due to the significant wins we generated during the course of last year. As a result, net operating revenue has increased to £132 million. We had a net operating revenue margin of 14 basis points. That is in line with my guidance for the full year and we expect this to remain stable for the remainder of the year.

Now, moving on to the more traditional business areas of Mutual Funds and Institutional, which continue to make an important contribution to the group. Starting with Mutual Funds.

As I mentioned earlier our Mutual Fund business has performed very strongly. We ended 2020 with positive flow momentum and as you have heard from Peter, this has continued in the first half of this year. You can see on the slide the impact of these flows to our annualised net new revenue. This has grown significantly, helping offset the ongoing margin pressures. Together with good investment returns these flows help to increase average AUM by 18% to £110 billion. As a result, compared to H1 2020, mutual funds net operating revenue increased £72 million to £402 million. Our net operating revenue margin was 74 basis points, that's three basis points higher than the guidance I gave you at the start of the year. This is driven by the demand for our equity products, together with the impact of markets and the mix of our AUM. We expect this margin to remain flat for the full year.

Finally to our institutional business.

Average AUM increased to £164 billion and net operating revenue was £284 million, up £57 million from H1 2020. This includes performance fees of £28 million. Our net operating revenue margin excluding performance fees was 31 basis points. That is half a basis point higher than my guidance. We expect the margin to remain stable for the rest of the year. Let's now return to our net income slide.

As explained, private assets are an increasingly important part of our group. This asset class often requires us to co-invest alongside our clients. We also continue to deploy seed capital in the development of new products. As a consequence, returns from our balance sheet are an increasingly important component of our results. This is illustrated by the £40 million of net gains on financial instruments we have made in the first half of the year. This is up £50 million from the same period last year, when we experienced short term unrealised losses due to the depressed asset prices as a result of the pandemic.

Moving on to returns from our Associates and JVs.

Developing our strategic partnerships is a core part of our group strategy particularly as we continue to expand our geographic footprint. As Peter has mentioned, our Associates and JVs have again delivered strong growth for the half year. AUM has increased to £98 billion and our share of profits increased 88% to £38 million. That excludes SPW, which is included within the wealth results I talked through earlier. Our partnership with Bank of Communications in China is the largest contributor, which nearly doubled its profits compared to the same period last year. This was driven by the growth in AUM and an increase in revenue margins as the business continues to develop its higher margin equity products. The revenue margin across all our associates increased from 32 basis points to 42 basis points.

Bringing all this together, our segmental net income was up £245 million to £1.3 billion.

Now let's turn to costs. Starting with a compensation costs, we have accrued these at 46%. As I said in March, that represents 45% on a like for like basis with 2020 and an additional 1% investment in the organic build out in China, the US, and UK regional wealth. As always, bonuses will be finalised later in the year based on market conditions. Non-comp costs were £265 million, that is up £17 million compared to H1 2020. Largely driven by depreciation of the IT investments we have made in recent years. To help you, and as I explained last year, a better way of understanding a non-comp costs and the operational leverage of our business is to look at them as a percentage of our average AUM excluding JVs and Associates. This is approximately 9 basis points, compared to 10 basis points in the first half of 2020. There have been some Covid related savings, mainly in relation to travel, but you should note the reduction also reflects the benefit of the increased scalability of our platform. For the full year we expect non-compensation costs of around £545 million.

Now a quick look at our capital position. As you can see, we continue to maintain a strong capital position, with a capital surplus of £1.3 billion.

In summary, we generated profit before tax and exceptionals of £407.5 million, with exceptional items of £33.6 million. These are acquisition related, principally amortisation of intangible assets. For the full year we still expect these to be around £70 million. Profit after these exceptional items was £373.9 million. The tax rate after

exceptional items was 18.5%, resulting in a post-tax profit of £304.6 million. That represents an increase in our post exceptional EPS of 37%. Reflecting our progressive dividend policy, we have declared an increase in the interim dividend of 2 pence per share, meaning an interim dividend per share of 37 pence. As always, we will assess the final dividend in light of the full year results. Overall, we see this as a very strong set of results and I'll now hand you back to Peter.

Peter Harrison: Thank you, Richard.

As you can see, the business is performing very nicely and, importantly this year, it hasn't stopped performing. In mid-June last year everyone seemed to disappear off, so we've actually seen good activity through to the end of July. I'm acutely aware that there is a tussle going on at the moment between the easing effects of low interest rates, lots of quantitative easing and a historical belief that inflation was transitory. On the one hand, we have a worry that inflation is a bit more sticky, and on the other hand we have this fear that growth isn't going to come through. With that tussle going on, there is a risk of some market volatility.

Set against that, if I look at the strength of our investment performance, the amount of organic investment that we have coming through, and a number of areas where we are incurring cost but not yet seeing the revenues, I am confident about the fact that long-term growth and diversification of our business does leave us pretty well placed going into the second half of the year. Obviously, going into 2022, we have the benefits, for example, of the wealth management JV coming through with Bank of Communications. There are plenty of opportunities for future growth, and we are very much focused on continuing to invest the surplus profits we're making in some of those areas of growth back into long-term organic growth rates and get that virtuous circle going.

With that, I'll stop and move on to Q&A. If I could ask you when you speak, to name your organisation and name, that will be really helpful. Thanks ever so much.

Q&A

Nicholas Herman (Citigroup): I'm going to be a bit cheeky and ask four questions, if that's okay? Firstly, on wealth, although the overall net operating margin excluding performance fees has fallen, it looks like the fee component has been rising, despite, as you said, lower advice. I'm just curious, firstly, if that is correct and secondly, what is driving that particular component, because I would have thought Sandaire would have been dilutive.

The second question is on compensation, sorry if I missed this, but would you be able to decipher a bit please how much of the increase in compensation is investments versus increased variable comp on the improved performance?

The third question is on ESG, it looks like your ESG flows have been really quite strong, could you provide an outlook on the pipeline there, and what's going on there, please?

Then the final question, just another one on investment performance. It's incredibly strong, so kudos there, I guess I'm a little bit surprised because you were traditionally a value player, and value has been underperforming versus momentum growth strategies, so I'd be interested to understand what is driving the really strong investment performance, please? Thank you very much.

Peter Harrison: Thanks, Nicholas. I'm going to get Richard to take the first two, and I'll pick up the second two. Richard, wealth fee margin?

Richard Keers: There's not much more to add to your question – you are quite right, there's obviously a blend going on there, the initial advice fee is slightly down from what we anticipated at the start of the year, Sandaire is slightly dilutive, but in the mix it is broad, it's not far off where we thought, and it's a very narrow difference from my expectations at the start of the year, so there's no real single key driver, it's a very narrow change from what we forecast in February.

Peter Harrison: Compensation?

Richard Keers: Compensation, again, the answer is, in February I described the comp accrual as 45% on a like for like basis, the extra investment really is a step change, and that's the additional 1%. That is, as I mentioned just now, in relation to China, UK regional wealth and into the US in improving our distribution capability. That is the extra investment - there is always some going on, but the real step change is those three areas. We

wouldn't anticipate that level of additional investment over the underlying rate in a normal year, but this year is a big exceptional in terms of the real deployment of organic capital in those areas.

Peter Harrison: If I just take the ESG question, an update on the pipeline: we've obviously done a lot of work in anticipation of SFDR, our current estimate is that about 75% of our funds in Europe will be Article 8 or 9 compliant, so that's a big number and we think will put us in a strong competitive position. We've also done a lot in terms of creating a range of thematic products as well, and we saw good flows in there, global climate change being the biggest winner, but across a range of ESG funds, particularly popular. Also, the sustainability component, ability to win business against competitors was also strong.

On investment performance, I think our teams have navigated the change in markets very well, we've obviously had value doing well, immediately post-vaccines, and then growth doing well of late. I'm very nervous about making predictions about whether short-term performance will be sustained, but we've seen our fixed income performance, 96/97% of our funds, outperforming over one year and five years, so the longer-term metrics are much more important here.

I'm really pleased, and the investments we made in things like data science were very helpful when there was a lot of noise over the last 18 months, data was poor, being able to get good reads on unstructured data was very helpful, which I'm sure would have helped our investment performance.

I should probably keep going, because I know you guys have a busy day.

Richard Keers: Can I just add one further point to that 46 versus 45: the reason why it's a one-year effect is, clearly we anticipate strong revenue growth for those initiatives, so it will be self-funding in '22, so that additional 1% will drop away.

Peter Harrison: That's an important point. Can I take the next question?

Arnaud Gibrat (Exane BNP): Good morning. I have two questions, please; firstly on the private assets business, could you talk a bit about fund managers that are coming up in the coming quarters? You also indicated £2.7 billion of dry powder, what sort of pace of investment should we expect for that management fund to work?

Secondly, in terms of the JVs, are you seeing any further opportunities to launch further JVs? More specifically, on the BOC one in China, I was wondering if you could take advantage of the rules to increase your ownership, is that something we could think of?

Finally, more generally, on the M&A side, I suppose we've seen quite a lot of consolidation happening amongst private asset managers now that you have an established position there, do you think there are opportunities to do something from bolt-ons in private assets? Thank you.

Peter Harrison: Arnaud, thanks ever so much. First of all on private asset fund launches, we have launches coming up in securitised, in private equity, in insurance-linked securities and a couple of debt funds raising money.

We are just closing off a junior infrastructure debt fund, so lots of activity there and I think we gave some guidance at our last Capital Markets Day. We said between £5-9 billion a year of net flows and we think that is reflected in the pipeline of new launches we have coming through. I am nervous about giving it for any one short period but the long-term growth rate seems clear and expecting to double assets by 2025.

In terms of the use of dry powder, I don't have the aggregate number in my head but a number of the funds have quite a big implementation scheduled for the second half of 2021 so we would expect that to run down, but equally a number of the wins that we will get will create further dry powder into '22 but that lead-in lag will be a feature of future results, but it is nice to have that dry powder building up.

On JVs, Richard might want to add something here. We announced a new partnership, a slightly different partnership with LU International which is one of the big China tech businesses working in Singapore, Thailand, Malaysia on digital wealth which is a different sort of partnership but an interesting one. Increasing our stake with Bank of Communications, it actually works incredibly well where it is with our 30% stake in the FMC and we obviously have a controlling stake of the WMC and that feels like a good balance. We have a number of talks with other partnerships and it would be inappropriate to disclose them until they are further baked, but Richard, if you want to add anything?

Richard Keers: I think you covered it, Peter.

Peter Harrison: M&A, you are absolutely right, Arnaud, in your observation on M&A. We have seen a lot of activity. We have also seen it at very high prices and I have to say that our moves have been characterised by not trying to overpay by getting good cultural fit, so yes, we are looking.

We do believe that we want to continue building out both our Wealth and Private Assets businesses but right now we see a much better return from doing that organically than we do for seeing it inorganically and that won't be true of everything, but broadly speaking with prices where they are at the moment, organic investment seems a better route to go.

Thanks, I'll move on to the next question.

Hubert Lam (Bank of America): I have three questions. Firstly on finance gains and JV associates. They were all well above expectations; how sustainable are they or have they benefited from the strong market environment in the period and how should we think about these lines going forward?

That's the first question and secondly on SPW, inflows were only about £100 million in the first half. Is this what you expected and how much do you expect this to improve over the next months or year?

And the last question is also on SPW. Can you talk about the hiring of new advisers, where are we today, what's the growth been and how should we expect adviser hiring to accelerate as things get back to normal?

Peter Harrison: Thanks, Hubert. I'll get Richard to take the question on financial gains.

Richard Keers: Yes, so JVs and financial gains. On financial gains a comment; we are clearly deploying more co-investment capital, so you should anticipate stronger returns looking forward than we have enjoyed historically.

On JVs and is that sustainable? Two of the key JVs we have are Axis and BOCOM and clearly we have talked about those in some detail before. They are enjoying strong monthly AUM flows and there is a compounding effect on that and consequently profits are growing and it's no surprise whatsoever in terms of what we have delivered in those areas. Unless there is a very significant marked change in the flow environment I would expect those numbers to continue to improve this year.

Peter Harrison: I think it's worth bearing in mind, but both the India and China markets are growing savings markets and that makes the dynamics of getting those long-term businesses really, really important but we are operating in a growth market, albeit with cyclical volatility around that and they have good market share. Particularly in China we have particularly strong investment performance but we are now the largest manager of Indian equities. Our overall market share I think is about 6.3% of an important growth market, so that's important looking forward.

Richard Keers: And I also highlighted in my presentation, Hubert, the very substantial increase in revenue margin from the JVs as well. Again, the quality of the business that has been written, again we talked about it at the year-end. It's the same trend, it's a very positive mix of business that's being sold.

Peter Harrison: Coming on Hubert to SPW inflows, the inflows turned positive about three months earlier than we expected, so the legacy book is quite an old book in terms of the age profile, so you obviously have assets coming in and assets going out but going positive and you have seen a very strong increase in referrals into the business, so looking forward we would expect that number to keep growing.

The other pleasing thing is that the non-referred business, so this is business which hasn't come through referrals into Lloyd's, has also started to see a good rise and that is an extra leg of growth, so I'm pleased with the progress there.

Hiring advisers, our academy is pretty full. I am going to have the number wrong, but of the order of 70 advisers are in the academy and working through, so an important growth engine for the future.

I will just give one advert. We will be sending you an invitation for a wealth deep dive which obviously includes a lot of detail on SPW which will be in October this year, so we can unpack that in some more detail then.

David McCann: Yes, good morning. Most of my questions have actually already been asked. There are only really a couple of more technical ones.

Just, firstly, performance leads in the first half looked pretty solid, just if you had any expectations for the full-year, given where you are at the moment where they are accruing, that would be handy, even if it was just a range.

Then, just on the tax rate again, it looked a little bit lower than might have been expected. Why was that, and what should we forecast in the outlook, at least for the time being until the corporation tax gets changed in a couple of years, but, actually, any thoughts on that to get your view.

Peter Harrison: Thanks David, I am delighted we are answering the right questions. Richard, go on performance fees.

Richard Keers: Our performance fees, as I mentioned in the presentation, we forecasted at the start of the year £70 million, that's a three-year rolling average. Clearly, last year was £95 million, that's always hard to predict.

Clearly, they are much stronger at the half year than we anticipated. As I indicated, there is clearly some upside potential from the £70 million, but it is so dependent on the next six months, so it is really difficult to forecast, but I would anticipate them being on the right side of £70 million, not a reduction.

Peter Harrison: I think the other more general point, a bit like Richard made the point on co-invest, as the nature of our business changes and the proportion of performance fee-earning assets, particularly in carry assets in private markets changes, that is helpful for the long term, which is why we upgraded the portion of assets, performance and performance fees a couple of years ago, and we are seeing that validated now, which is pleasing.

Richard Keers: Yes, as Peter mentioned, we used to forecast 50, it is has improved to 70. The three-year rolling average at the end of the year might be – it is always difficult, David, in terms of forecasting that number, but upside potential not downside.

Peter Harrison: Tax rate?

Richard Keers: Tax rate – the tax rate pre-exceptionals is 17.5, tax rate post-exceptionals is 18.5. That sound really low, but the one key ingredient that you need to understand is associates, we bring in our share profits post-tax, so as our associates generate strong profit growth, that has the impact of depressing that disclosed tax rate, and I would anticipate the tax rate that we have in 2022, i.e. next year, is not dissimilar to this year's.

It is difficult to look out to '23. Clearly, there is some underlying increase in the UK rate, but it is so dependent on where those revenues accrue and the future growth rates of our associate share of our profits, but I am very confident on the 17.5% for '21, and all things being equal, with the same mix of business, 17.5% next year.

Peter Harrison: Thanks, David. Next question?

Bruce Hamilton (Morgan Stanley): Yes, most of my questions have been asked, but maybe just on the sustainability side, Peter, you mentioned quite a lot of investment ahead of SFDR, and, clearly, trying to move or get funds classified as Article 8 or 9. How else are you trying to differentiate, because I guess most players are saying we will try and get funds into 8 and 9, so thinking around use of data and proprietary data, and that sort of thing? What are the other sorts of things you are pushing on to differentiate, and should we expect that some of the costs incurred in the first half linked to sustainability fade, or is this just going to be an on-going area of investment?

Secondly, and slightly linked, and you have probably given us this, Richard, so I apologise, but you mentioned the temporary 1% increase in the comp ratio linked to investments. Should that fall away by 2022 or is it slightly longer as the revenues build in some of those new areas?

Then, the third point, finally, on the outflows from the SWIFT area in Solutions, that £0.8 billion, is that a sensible run rate to assume? Obviously, you will get wins on the other side, but is that the natural drag on a six-monthly basis?

Peter Harrison: Thanks, Bruce. Yes, so I think the point on SFDR is an important one, but what I would say is that sustainability happens across the whole portfolio and we are very focused on European mutual funds in this conversation, but I think there are some much bigger things going on elsewhere. You have seen Biden's Executive Order in the US, which is potentially a big change, and a lot of Asian regulators looking at this, so it impacts the institutional business and our competitive position there.

A couple of things that we are doing – measurement tools is really important. Our SustainEx tool has won loads of awards, which is all about measurement, so, as distinct from handwaving or using MSCI ratings, etc., I think measurement is going to be key, data is going to be key, and we have paid a big investment in there.

Reporting – I think impact reporting will get a bigger part, and, again, if you can measure it properly you can then report on it well, so that's a big change.

Will costs fade? I don't think they will. I have talked in the past about our industry used to be about two factors, which was risk and return. I think it is now about three factors: risk, return and impact, and being able to really be clear about that impact and be engaging with policymakers, engaging with companies is going to become a bigger and bigger part of our industry and a huge point of competitor advantage, so I think on that one, Bruce, expect us to keep running very hard at it, but you are absolutely right in calling out data as a key leverage point.

A couple of other points. You saw us take a stake in a natural capital measurement business. It has the same mindset, but I think we've talked a lot about listed equities. Private Markets is going to become ever-more important and thinking about science, nature-based solutions to climate change I think is going to be another item on the agenda, so, again, plenty of fast-flowing water to be investing in here.

I am sure we will spend more time talking about sustainability at future results, but it is a big part of my time and the organisation's time at the moment. Comp ratio for 2022 we are saying we expect it to fall off, Richard?

Richard Keers: That 1% uplift is temporary, it's a '21 issue only. There is no upside pressure to that additional 1%, in fact quite the reverse. It is an accrual at the moment but, clearly, our net income is somewhat higher than we forecast at the start of the year. There is some downward pressure on that additional 1% and we true that up as we always do except when the bonus accrual turns into bonus payments, there will be some upside in terms of reduction in our cost base rather than any further pressure on that 46%.

Peter Harrison: The other point to make is that you have quite good visibility on the way in which you hire sales teams and the way the revenue build out. We have seen the impact in the US and we will see the impact with a high degree of probability in the Regional Wealth Initiative and China we are hoping to launch at the back end of this year. There is quite a lot of clarity around the revenue side which makes it easier to predict the cost side.

On the SWIFT number, is £0.8 billion the right number? I think it is probably a tad low. It is a mature book but it is really hard to get good visibility on it. I would say that, on balance, we would expect it to be slightly higher in the second half but it is a guesstimate.

Bruce, I hope that answers your question and perhaps we can move to the next question?

Mike Werner (UBS): I have two quick questions as most have been asked. First, on the Lloyds relationship, they have another £30 billion which is currently being managed I believe by Aberdeen, and you have obviously gained a large portion of the previous mandate. As we look out into early next year, I wonder when the lock-up on that mandate expires and is that something that you expect to win a large portion of? If so, my understanding is that your Solutions business is very leverageable, there is a lot of capacity there and my understanding is that it would cost very little for you to take on that mandate, if you could confirm that it would be helpful.

Secondly, as far as your data science, you indicated how this has been an important part of some of the performance that you have been able to rack up over the past one and three years. As far as investments, is there much in terms of incremental investment that you expect going forward?

Peter Harrison: Mike, thanks for your questions. First, on the Lloyds monies, most of that £30 billion is passive money and, if I remember correctly, there is £4 billion-ish of real estate funds which will flow to us, and the balance I believe will go to a passive manager. I am not certain of the timing of the passive inflow, our flow is next year if I remember correctly on that. I am sorry to disappoint you that it is only £4 of the £30 but probably more of the revenues.

The Solutions business is lumpy, we are constantly on the chase for big mandates and you are absolutely right, that is very leverageable, so when it comes in it tends to come in at the same profit margin as the rest of the group and, potentially, even a bit better as that business scales up more.

To your question on data science, it is really hard to attribute performance but what we do believe is that the infrastructure that is there has been particularly helpful on applying it to ESG thinking. I would say there is not any further incremental investment required there. Where we are making incremental investment is on digital marketing, client insight. We have directed the science at markets but directing the science and understanding client behaviour is another big piece. You won't notice the numbers but from my perspective getting data science in product intelligence and client intelligence is important. I hope that answers your questions, Mike. I am not sure if there are any other questions?

Gurjit Kambo (JP Morgan): I have two questions and the first is on Asia: what is the momentum in Asia in terms of client demand, and what are the key products that clients in Asia are looking to buy from Schrodgers? Secondly, in terms of organic growth, it feels like the strategy for the business in the near term, so what are the two or three major organic growth initiatives that you are undertaking at the moment?

Peter Harrison: Thanks, Gurjit. On Asia, we saw good inflows into all Asian markets with the exception of two old chestnuts being Japan and Australia. Japan was net new revenue positive in the first half, particularly good growth in intermediary, and in Australia we are seeing good development in private markets there. Overall, therefore, the theme in Asia is positive in equities, in income products, in multi assets, institutional in North Asia again continued nicely as has intermediary.

On organic growth initiatives, the big ones that spring to mind, as Richard has already mentioned, are US sales, he has mentioned Cazenove Regional Wealth and China is a big piece. Digital Wealth is also a big piece, Digital Marketing is a big piece, European intermediary we think we can do more in those markets, so I think Solutions we see more opportunities for growth there. Sorry, and we have a number of private debt initiatives, which are maturing as well, so we feel there is a moment here to run pretty hard at organic growth, and so we have seven or eight different strings that we are investing very deliberately into over and above the steady incremental investment to maintain the business in the background, but those are probably the main ones scheduled.

Next question?

Nicholas Herman (Citigroup): Just a follow up on an earlier question regarding the amount of investment in H1. You delivered a 46% comp ratio in line with that guidance. At the same time revenues presumably were a bit better, so is it fair to assume that you're, let's say, 50% at two thirds deployed in terms of that incremental investment for this year?

Peter Harrison: Thanks, Nicholas. Richard?

Richard Keers: As I said, I think it is unlikely when we come to the end of the year that we are going to need the full additional 1%, so I would anticipate it being slightly lower, but it is difficult to predict that with certainty at the moment, so we continue to accrue at 46%. I don't see any upward pressure on that 46% going north. It is more likely to come down because it is based on a larger net income number than we anticipated at the start of the year. Let me re-emphasise – within the 45% we have always invested organically in our business. The reason we talked about the additional 1% was those three areas were very significant organic developments because we saw real value within a relatively short period of time and we have gone for it.

Peter Harrison: Richard is right, the revenue picture has been better, and if you think about the way mutual fund flows into high margin mutual funds and private assets have spread right the way through the fourth quarter of last year but also all the way through the first half, that gives you a pretty good following wind coming into the second half, so it is a judgement about your revenues as much as about your costs, and I think Richard is pointing out the revenue picture, which is important for part of it.

Richard Keers: Yes, and I will just re-emphasise that the quality of the revenue that we delivered in the first half, as Peter says, there is a compounding benefit of the trend we saw in Q4, in October, November, December, January, February, March, April, May, June, the first three weeks of July, they all compound, and that equity mutual fund flow dynamic is really, really valuable, and it is a high quality revenue flow, so a fair degree of confidence that the second half, subject to very significant market changes, the second half should be quite encouraging.

Peter Harrison: I hope that helps, Nicholas. Any more questions? *[No further questions]*

Thank you very much, everybody. I wish you all the best for a very good summer and for a very busy couple of days before that, but thanks ever so much and look forward to seeing you in person hopefully soon. Thank you.

[Ends]