

## Half Year Results

### Transcript

**Peter Harrison (Group Chief Executive):** Good morning, everybody, and welcome to the Schroders first half results 2022. We are going to do the normal format. I am going to go through flows. Richard will come back and talk about financials and then we will open up for Q&A and Outlook.

#### **Our diversified business model has delivered resilient performance**

Let's start with the headline numbers, operating revenue up 3%, operating profit up 2%, assets under management up 5%, new business up £8.4 billion – I will come and obviously give you the breakdown of that – and the dividend at 37 pence, which is flat on the prior period.

For my part, there is quite a lot going on in these numbers, and some more transparency, which I think is really important as we move more towards a platform business, we are keen to give you much transparency as to all the moving parts, so we are going to unpack that in perhaps a little bit more detail than normal.

#### **Market impact offset by positive NNB, FX and acquisitions**

First of all, let's start at the high level AUM bridge because obviously there is a lot going on in markets, and actually there was an £87 billion negative impact on assets under management, but offset by £34 billion of FX. Acquisitions was £52 billion in so AUM actually ended the period on a new high, but the AUM growth obviously was a big chunk of acquisitions and some new business.

#### **Positive NNB supported by strategic growth areas and JVs despite challenging markets**

Let's get into the flows. Of that £8.4 billion, it splits across a number of really important channels, and actually almost £15 billion of it was into the areas that we have talked about in the past, that are strategically important to us. Of the £8.4, £4 billion was into JVs and associates, £3.8 billion was into wealth. £6.1 billion into the Solutions business, and our Mutual Fund business saw £2.8 billion of outflows, and the Institutional business, which I will come and unpack in a little bit more detail, had £7.1 billion of outflows.

Investment performance remains strong – 77% over three years, 79% over five years. The one year number dipped, given market rotation down to 52%, but to my mind, the performance we had in our Mutual Funds was the stand-out of those numbers, albeit that the overall number was negative, and I will come and talk more about that in just a moment.

### **Multi Asset and Private Assets and Alternatives were supported by demand from institutional clients**

If we break the numbers down by asset class, positive flows into Private Assets and Multi Asset, particularly driven by our Solutions business, equity saw just £2.6 billion out, which considering the markets are down 20%, we regarded as a very resilient outcome, and fixed income £6.1 billion of outflow, and broadly speaking, that was £4 billion of one mandate and then European credit obviously receiving quite a lot of outflows given market sentiment.

By region, the UK was the standout performance both in Mutual Funds, in Solutions, and Institutional. Latin America saw net inflows despite Chilean pension fund giving the all clear to withdraw. We actually saw positive flows overall. Asia was impacted by that one-off outflow I mentioned in Japan, but pleasingly, we saw positive inflows in Australia, which I know has been a theme of these meetings in the past. US saw £3.3 billion of outflows but positive on the Mutual Fund side, which I will come back to, and negative on Institutional, and EMEA £2.8 billion which was really the Mutual Fund flows, which I'll come back to again to talk about in some more detail, but that picture, to my mind, overall, was surprisingly resilient given the market backdrop and given some of the industry data that we have seen in terms of the aggregate surveys about flows.

### **Mutual Funds affected by 'risk-off' client sentiment. Institutional impacted by one-off losses**

Let's get into Mutual Funds because I think that is an important driver. We actually saw positive flows, despite the IA recording the second worse quarter on record. We saw positive flows overall in Mutual Funds in the UK, and we saw positive flows in North America, and I think if you looked at all North America Mutual Fund complexes, I think you would find that this is second percentile performance so right at the top in terms of resilience.

Singapore was a standout performer in APAC, but clearly a little bit of rotation there, but I think again a pleasing result just to see £0.4 billion out in that environment. EMEA, the key determinants of that were Italy, Germany and Spain, the normal suspects. When you see big market drawdowns, you get flows out, but actually that flow is no worse than the inflows that we saw first half of last year, so actually, to my mind, it was a much better performance again than I might have expected, given the way markets are behaving.

Just in terms of the Institutional side of the business, I said there was £7.1 billion of outflows. To put that in context, a big outflow in APAC in Japan of nigh on £4 billion, and there was one mandate in North America which was a dominant part of that £2.8 billion which frustratingly we are one of two managers in a fund for a client where the fund has seen significant outflows.

We have actually out-performed but the other manager in that area has under-performed and so we have seen assets go, despite actually put on a good investment performance, which is kind of the nature of the business, so two lumpy numbers which frustrate me because they have taken the gloss of what was otherwise from our perspective a good performance.

## **Sustainability is a key driver of new business flows**

Now I want to dig more into why the Mutual Fund performance was so resilient. I think for me this issue on sustainability has become really, really important. If you look at where the flows are going in this sector, and we always talk about net flows, but if you just took the growth picture overall you are seeing a very significant move out of effectively the traditional old, non-sustainable world, into either the thematic funds or new sustainable funds.

The way we have repositioned our product range has meant that actually in Mutual Funds we saw £0.6 billion into Equities, £3.1 billion [*later amended to £3.6*] out of Fixed Income but £0.6 billion into Equities, at a time really when you would have said you are going to see very significant equity outflows. This is all around our SustainEx product has become I think recognised as the industry leading tool for measuring sustainability impact for public companies.

Our engagement blueprint has won the award for sustainable engagement with businesses. We have a very strong brand emerging across a number of these areas and I think we often talk about sustainability but the impact on the business for sustainability is becoming important. We have had on this chart for many years the fact that we are AAA rated by MSCI and our Sustainalytics rating is very much top quintile. But the bit that's driving it is that ability to engage with companies and engage with clients, so a lot going on there. I will come back and talk about Greencoat in just a minute.

## **Three strategic acquisitions completed in H1 2022 already contributing to NNB**

We made three acquisitions that we announced last year. All of them have now closed, so River and Mercantile closed in January, Greencoat in April and Cairn in January, so the full effect of those being seen in net new business, which is the £52 billion number.

I think the point I would make on the River and Mercantile business is normally when you close an acquisition like that, you expect to be put on hold for consultants for a year, two years, three years. We have won on average one and a half mandates per week since that new business closed. Many of those haven't yet funded but we have won one and a half mandates per week and I think as a reflection of the strategic value of that business is that people have said, 'we are delighted that Schrodgers is in there, we think the integration is going to be a great success and the product proposition is spot on', so the River and Mercantile business already earning its crust.

Greencoat, you need a bit of luck sometimes but to buy a renewable energy business just before an energy crisis has been really valuable. We have opened up in three European countries during the first half of the year. It's already, despite the acquisition, generated another half billion of net new business and clearly we have strong plans for that. The amount of capital which is going to be allocated to building more renewable power is clearly going up and the opportunities to extend the capabilities beyond wind and

solar, biomass, etc into batteries and hydrogen is obviously very significant, so over time there is much more we can do with Greencoat.

Cairn, as we have said before, just builds out our Real Estate franchise, so we now have every European area covered.

### **Private Assets and Alternatives generated NNB of £4.8bn now with £3.8bn of dry powder**

But what that does mean for our Private Assets franchise we now have the four columns that we have been building towards; a Private Equity column, a Private Debt column, an Infrastructure column and a Real Estate column and all of them capable of standing alone but more importantly being able to build solutions across all of those businesses. There are three well-known archetypes in this area of StepStone, Hamilton Lane and Partners Group. We have positioned our business to be able to offer solutions across all of those and particularly play in the democratisation of Private Assets which we see as a very big trend still to come.

The Private Assets build-out we think is now complete. There will always be little bits more we can do but there is a lot of organic investment going in to new Private Debt teams, etc which we are building out at the moment, so a lot of work has gone in there.

It was pleasing to see the flows continue to come through. We said last time that we had £2.5 billion of dry powder which we hadn't invested. That number has gone up now to £3.8 billion of dry powder that we have which isn't recognised in our AUM because it's not yet fee-earning, but in aggregate this business is now just shy of £70 billion. But importantly from a revenue perspective, our Solutions business and our Private Assets business are now larger than our Institutional business, so that transformation of the group into areas of fast-flowing water, I think we are crossing the valley and avoiding those headwinds and finding these rapidly growing businesses starting to become the largest part of the business.

### **Solutions net new business supported by River and Mercantile's solutions business**

I mentioned Solutions but the growth of £6.3 billion in there, we announced two important new wins in the first half, one was Centrica and the other was Lloyds of London. There is a lot more we can do with Lloyds of London. We are just literally in the foothills of that agreement, but again it shows the power of the franchise to start winning these really big mandates where there is a lot to do, and frankly, the number of firms we compete with is really very, very small indeed because just no-one else has the combination of systems, actuarial knowledge, and breadth of product to meet those needs. We wouldn't have won the Lloyds mandate without the private asset capabilities that we are able to offer on the other side.

### **Wealth Management performed strongly, generating £3.8bn of net new business**

Wealth Management was pleasing. I said Richard was just going to come and break down the numbers and give you more granularity in a moment, but what we have done is we wanted to do something which gave you the ability to understand the platform nature of this business. We have broken out our advice

business, our platform business and our managed business, and we are reporting those separately, so our advice business saw £3 billion of inflows, our platform business saw £0.5 billion of inflows, and our managed business saw £300 million of inflows. It does mean that the aggregate AUM is higher, so where we have a separate contract, which is independent, we recognise it independently. Had we reported wealth AUM on the old basis, we would have reported £3.2 billion so there is an element of change in that, but I think underlying we saw much stronger flows than I thought we may see given the market environment, but we also feel that the 5% target that we set is achievable, even on this higher AUM base, and that is an important number for the future.

### **JVs and associates AUM rose to £135.9bn and contributed £4.0bn of NNB**

Finally, JVs and associates were again a positive number; overall £4 billion of inflows, positive flows in SPW and across China and India. So a quick whirlwind tour, I will let Richard get into the detail, and I will come back and talk more about the underlying outlook for next year.

**Richard Keers (Chief Financial Officer):** Thank you, Peter. Before I get into the detail of the results, I just thought I would spend a few minutes talking about the presentational changes that we have made. So as our business has grown and become more diverse, there are more moving parts, as Peter said. This has led to us making some improvements that provide you with a better understanding in terms of our underlying performance.

We have also listened to your feedback and are confident that the new presentation represents a real improvement.

### **Increasing granularity and transparency on the underlying dynamics of our business**

Let me summarise the three changes. The first is to provide more transparency of our Wealth business, as Peter has just alluded to. The second is to no longer proportionately consolidate SPW within our Wealth segment, and the third is the re-presentation of the income segment.

I will begin with the first of these relating to the analysis of our Wealth business. You will remember that in 2019, we broke down the asset management segment into business areas to help you better understand our strategy. We are now breaking down our Wealth segment to help you further understand the components of that business. The breakdown aligns with how we described the business at our Investor Day in Autumn. We are analysing the business into three separate services, as Peter just said, that we provide to our clients; namely, financial advice, platform services and investment management.

One of the key features of our Wealth business is the ability to provide several services to the same client. These services are subject to distinct sales efforts and agreements. Previously the value and the growth of these successful efforts was not visible as it was wrapped up in our revenue margins. We are now

separately reporting AUM and flows for each of the services we provide, along with their associated fee margin, thereby helping the accuracy of your modelling.

To enable this change, we have restated our opening AUM for the Wealth business to £102 billion, with the increase driven by the separate recognition of the different contracts we have with our clients. This new approach also provides you with more insights into our Solutions business. As we grow our fiduciary and OCIO services following the acquisition of R&M we will increasingly provide a combination of advisory, LDI and investment management services to the same client.

It will be important for you to understand the value that each generate.

Moving on to the second change, which I am sure you will like, given we are providing additional information on advised platforms and managed services, we can simplify our treatment of SPW. The AUM of this business will now be included within associates and joint ventures and we will no longer be proportionately consolidating the revenues and costs in our segmental reporting. I know that has caused a fair degree of irritation amongst many of the analysts.

Moving on to the third and final change, we are no longer reporting profit before tax and exceptional items. Instead, we are now presenting operating profit, along with profit before tax, which of course is unchanged. This is much more consistent with other asset managers. We have included a reconciliation between the two formats in the press release and data pack.

By focussing on operating profit we can provide you with the clarity of our performance on the engines that drive the Group's results, namely Asset Management and Wealth Management. We are providing a clear breakdown of items that are not part of these operating businesses below operating profit but before profit before tax.

These comprise firstly central costs. These are the expenses related to the Group's Treasury, corporate development, governance and in corporate management activities. Secondly, acquisition-related costs and the amortisation of acquired intangible assets and finally the net gains and financial instruments managed within our Group Treasury, including C capital.

This new presentation will make it easier to understand the drivers of our performance and importantly our underlying business.

That's a summary of the presentational changes you will see. Moving on to the results.

### **Re-presenting our income statement to highlight the core financial performance of our operating businesses**

A key feature of H1 was the challenging market environment. Despite this backdrop, the net operating income from our business segments increased 3% to £1.2 billion. Our operating expense ratio was consistent with H1 2021, at 67%. I note a few of you this morning have commented that our total cost ratio

has deteriorated on the old basis, but this is not the best measure of operational efficiency. If you want to include central costs in our operating expense ratio, it has actually marginally improved to 69%.

Operating profits from our Asset Management and Wealth Management segments increased by 2% to £407 million. That's a resilient performance that reflects the strength of our diversified business model. However, our balance sheet returns were impacted by the fall in asset values. As a result, profit before tax reduced to £313 million.

### **Net operating income**

Turning to net income, you can see the movements that have contributed to the 3% increase on the slide. Whilst the combination of Markets, FX and mix led to a reduction in net income of £48 million, it is broadly offset by a contribution of £46 million from net new business. This includes the tailwind from the strong flows we generated in 2021.

Going into the second half of the year, there is still a tailwind but it is now £8 million although this is going to be more than offset by the current impact of markets. We will however benefit further from the acquisitions we have completed this year. These contributed an additional £37 million of income in each one.

Our net income from performance fees and carry fell to £21.5 million. This is due to the high water marks we achieved in the past and the challenging market conditions that have impacted asset values in each one. At the start of the year, we guided to £70 million in performance fees and carry. In a year like 2022, these will be lower, possibly around £50 million but as ever it is always really difficult to predict these midway through the year.

I want to highlight that excluding the volatility of performance fees and carry, our underlying net operating revenues grew by around 5%, representing strong growth in the context of the market environment.

### **Private Assets and Alternatives**

Let's look now at how these revenues break down by business area, starting with the Asset Management segment.

In Private Assets, as Peter said, we generated good flows and completed the acquisitions of Greencoat and Cairn. These factors helped management fees increase by 27% compared to the first six months of 2021. Our Real Estate team also successfully completed a number of property deals, earning transaction fees of £9 million. Excluding performance fees and carried interest, our net operating revenue margin was in line with my guidance of 62 basis points. We expect the margin to remain at this level for the full year.

## **Solutions**

Next, our Solutions business. As you know, we completed the acquisition of the Solutions Division of River and Mercantile and we have had some significant client wins as Peter mentioned earlier. As a result, average AUM increased to £223 billion, helping net operating revenue increase by 12% to £147 million. We had a net operating revenue of 13bps. That's in line with my guidance for the full year and we expect this to remain stable for the remainder of the year.

## **Mutual Funds**

Overall, across these two strategic growth areas within the Asset Management segment, we have achieved good underlying growth. This has enabled us to weather the broader market challenges that have had more of an impact on Mutual Funds and Institutional business. However, relative to the wider industry our Mutual Funds performed well. Our average AUM was broadly flat compared to the same period in 2021. Management fees, however, reduced by 6% to £379 million due to the impact that the fall in markets has on the mix of our AUM. Lower equity values means the proportion of our AUM earning higher fees reduces. As a result our net operating revenue margin excluding performance fees, fell to 70bps. We expect the margin to stay at this level for the rest of the year.

## **Institutional**

Finally to our Institutional business. Average AUM reduced by 5% to £155 billion, compared to the first half of 2021. Management fees were broadly flat, reflecting an increase in the revenue margin. This increased to 32bps, principally due to the loss of the two lower margin Institutional clients Peter referred to earlier.

We expect the benefit of this to continue over the rest of the year through the higher margin.

## **Wealth Management**

Now moving on to the Wealth Management segment. As a reminder of what I said about the new reporting, we are no longer proportionately consolidating the revenues and costs of SPW within the Wealth segment, so our figures today now exclude this. We have re-presented the comparative information accordingly.

Moving on to the numbers, overall, the Wealth Management business continues to show good growth and is on track to achieve the 5% NMB target that we set out in Investor Day earlier this year. As Peter said, but let me re-emphasise, in effect, this is a revision upwards because we re-presented our AUM, so there is more AUM, so a 5% growth on a higher number is more growth.

Average AUM grew to £99 billion, helping management fees increase to £160 million, up 8% compared to the same period last year. The rise in interest rates has also had a positive impact, helping our net banking

interest more than double to £13 million. This is now included in our net operating revenue margin, which excluding performance fees, increased 2bps to 40bps on a like-for-like basis.

Let me break this down into the individual components of financial advice, platform services, and investment management. Our financial advice business generated strong growth with average AUM increasing about 8% to £60 billion. This helped drive a 12% increase in revenues to £159 million, with a net operating revenue margin of 53bps, up 3bps, due to the higher net banking interest, and we expect the margin to stay at this level for the full year.

Average AUM for our platform assets increased by 7% compared to the first half of 2021. Revenues increased by 3% to just over £13 million, whilst the net operating revenue margin was broadly flat at around 15bps. Again, we expect it to stay at 15bps for the rest of the year.

Finally, the revenues we earn from providing investment management services to our Wealth clients, increased 5% to £22 million. Revenue margins were 21bps, down a bps from 2021, principally due to the impact of markets and a shift to more defensive strategies. We expect the margin to stay around this level for the full year. Putting it all together that is a good performance across the three Wealth services.

### **Share of profit of associates and joint ventures**

Moving on to the returns from associates and JVs, which is the final component of net operating income I want to talk you through. Overall, AUM across all our associates and JVs increased by 4% to £136 billion, and they contributed 16% of the group's profit after tax. This underlines the importance of these ventures to the group as a whole. Within our Wealth Management segment, SPW continue the sales momentum of 2021, and contributed £3.2 million to profits.

Within Asset Management, our existing venture with BOCOM continued to grow its AUM despite the market conditions and the ongoing impact of Covid in the region. Management fees grew by 15%, although we saw a shift away from equity products. Our share profit from the venture reduced by 8%, due to lower performance fees and slightly higher operating expenses. We expect these expenses to return closer to historic levels for the year as a whole.

Summing up on net operating income, overall we earned £1.24 billion, an increase of 3% compared to 2021.

### **Group costs**

Now moving on to operating expenses, as I explained earlier, our new presentation focuses on the profits of our operating segments. Within this, operating expenses were £833 million. That represents an operating expense ratio of 67%, which is in line with the prior period. We had central costs of £23 million, which meant total costs of £857 million. This includes compensation costs, which we continue to accrue at 45% of our old measure of net income, in line with the guidance I gave you in March.

As always, bonuses will be finalised later in the year based on market conditions. For the full year, I expect our total non-comp cost to be around £628 million. That is £8 million higher than the guidance I gave at the start of the year. This is due to FX, but remember, we get a higher benefit from FX to our income so the net FX impact is positive overall.

This guidance includes the non-comp cost presented in a central cost line. We expect our total central cost to be around £45 million for the full year.

That covers all the main drivers behind the increase in our operating profit for the half year. I now turn to the other items that impact profit before tax.

### **Profit before tax**

Earlier, I talked about the impact of markets on our operating income. They also had a significant effect on our net gains and financial instruments. In the first half, we had a loss of £35 million, compared to a gain of £33 million in the same period of 2021. Our acquisition related costs, which were previously included within exceptional items, increased to £13 million due to the acquisitions we completed.

Finally, the charge for amortisation of acquired intangibles was £24 million. We expect this to be around £50 million for the full year.

### **Group Capital composition**

Now an update on our Capital position. As you know, we have been making our balance sheet work harder. The acquisitions we completed over the year reduced surplus capital by around £770 million. After allowing for other movements including regulatory changes, our capital surplus at the end of June was £622 million.

### **Summary**

To summarise, our operating profit for the first half of the year was £407 million, an increase of around 2% compared to the same period in 2021. After taking account of items managed outside of the Business segment, our profit before tax was £313 million. Our effective tax rate was 17.4%. We expect this to stay broadly flat for the full year. This resulted in profit after tax of £258 million and in light of these results, we declared an unchanged interim dividend of 37 pence per share.

Overall, and given the current market backdrop these results demonstrate the resilience of our diversified business. Now back to Peter.

### **Outlook**

**Peter Harrison:** Thank you, Richard. One of the joys of speaking unscripted is sometimes you get a number wrong, so anybody who wrote down the number that said our outflows from Fixed Income Mutual Funds was £3.1 billion, I am afraid it was £3.6 billion. The inflow number was right at £0.6, apologies for that.

## Outlook for 2022 and beyond

Let's talk quickly about the outlook and then go into Q&A. I am not going to try and predict markets for the rest of the year but as Richard has already said, we are clearly starting the second half with markets lower than the first half of the year, but the growth plans that we have for those areas of fast-flowing water in Solutions, Wealth, Private Assets, the growth targets we have said, the £7-10 billion of Private Asset flows, we are going to stand behind those because we think those will be achieved in the second half.

The Wealth growth target of 5%, we think will be achieved on a higher asset base. We do believe that the changes we have made around sustainability and making our Mutual Fund range fit for purpose, will put us in a good position. Solutions again, we see there is a reasonable backdrop, so there is clearly a lot of uncertainty in markets and that will be what it will be but the things that we are able to control, we see that there are still opportunities out there.

There is probably one area that I didn't touch on in the main presentation and that's one we made yesterday of a joint venture with an NGO called Conservation International called Akaria. Now Akaria is a move by us into Natural Capital. We believe there is going to be a very significant change as more people focus on COP27 and biodiversity and what changes we can make to nature, we think more and more pension funds will want to put a chunk of their investments into this area, so by partnering with Conservation International into a new joint venture company there is an opportunity to do a lot more in that area. We didn't put it in the presentation but I think from an outlook perspective it's going to be an important part of how we move the dial and help that transition growth, because without getting nature right there is no transition to net zero.

I'll stop there. Probably we will do questions in the room to start with and then we will go online. If you could state your name and firm for the record that would be great.

## Question & Answer Session

**Hubert Lam (Bank of America):** Three questions, if I may. The first question is on the new China Wealth Management business, I don't think you spoke about that during the presentation. I am just wondering how progress has been since it started at the end of the period, any flows that contributed to your numbers this half year and any change in terms of guidance just given what you have seen so far.

The second question is on SPW, again, if you could give us any sense as to the progress you have made so far in the half year. I saw that profits went down year-on-year, any explanation for that or just market driven? So any clarity on that would be great.

Lastly, on capital surplus it sort of fell down to £622. I know that's still a good number but it's low versus what you have had historically. I am just wondering where you feel that should go to until you start looking at acquisitions again.

**Peter Harrison:** Thanks, Hubert. Let me kick off on the WMC. We recorded £400 million of net flows which were in the Institutional segment for the China WMC. This was probably less than we expected and the reason for that was very simple, that we launched the business pretty well the first day of Shanghai lockdown, so we ended up with a lot of people sleeping in the office for a very long period of time but being able to get on the road and really present those funds, we didn't see that follow through.

As lockdowns ease, clearly we would expect the underlying rate of flow to be stronger for that. It's too early to know because literally it's a brand new business but it was £0.4 billion in the first half of flows.

SPW; I saw Lloyd's yesterday announce a 17% increase in referrals. The metabolic rate of that business is growing strongly. If you remember, there was a profit margin guarantee for the first three years of the business, so that dropped off last year, so that shift, the underlying profits of the business have been growing strongly and I think there has been a lot of wood to chop to make sure that referrals flow through well and the conversion rate of those referrals goes up. I have been really pleased with the rate of transition that the business is making into making the most of the referrals that come from lawyers, making sure that (a) they are high quality referrals and (b) the advisors make the most of them. A long way to go, but it is really good to see, but the profit number is not a reflection of the underlying business because of the profit margin guarantee.

Richard, do you want to talk about the capital?

**Richard Keers:** The capital, yes. Hubert, you have referenced £622 which is where it is today and you are right, that is weaker than it's been for some time. But at the same time we entered the period with a capital number of just over £1.4 billion which was an all-time high.

We have always talked about having about £1 billion gives us optionality for M&A. So anywhere between £600 and £1 billion, we feel very comfortable with. Clearly, when it got to £1.4 at the end of the year, we knew we were going to be deploying that because we had announced those three transactions, but on the assumption that we have a successful EGM vote on the franchise, we will also have in our capital armoury the ability to do share buybacks going forward. So that is another mechanism to manage that surplus capital to an appropriate level, but I would not expect it to be significantly above £1 billion unless there was some M&A that we were anticipating in the future.

**Bruce Hamilton (Morgan Stanley):** Thanks very much for the presentation. First question on the mutual fund business; clearly you have had quite a lot of success with the move to thematic and a range of thematic products, how do you see client interest evolving? Obviously some themes have been impacted

by factors and so maybe that changes a little. Is your confidence in that part of the business still as strong as it was?

Secondly, on the minority interest you have taken in Fortius, I guess that is quite interesting given the opportunity that gives to help personalise portfolios for Wealth clients including both privates and publics, how quickly do you think tokenisation will really take hold and maybe if you cast five years forward, what do you think your affluent client allocations might move to, in terms of their private market allocation? Linked to that, will you be tokenising your own private market funds as part of that process? Thanks.

**Peter Harrison:** First of all, on mutual funds, what is the client interest, I think there has been a fundamental change in that market, particularly in the Wealth sector. The notion of building blocks has changed completely. So more people have moved to a passive core and are putting if you like, thematic funds around the edge, and if they are going to have country exposure, many of the European distributors defaulted to - it must be Article 8 and Article 9. So effectively, you have stranded assets in Article 6 where you are not going to see new flow and unless you have a really well built out range of Article 8 and 9 funds, then you are not going to participate. Thematics is a really important part of that and the ability to keep innovating in that area will be a feature of the future, so I don't think we are going to go back to the old country view to a great extent. Clearly, allocations to gems will stay, allocations to global will stay, but really the rest of it will be much more thematic going forward.

I didn't mention the Fortius acquisition but for those of you who didn't see it, we have taken a stake in a digital assets business, really to drive thinking about tokenisation. The thinking is this, that mutual fund technology is probably now a hundred years old, certainly 80/90 years old. Investment trust technology, the first one was founded in 1871 or something, so that is 150 years old. We are due something a bit more modern, and that I am sure will be a tokenised form, so effectively in your re-wallet, you have a range of assets which can be personalised to you, and they can be tokenised funds or they can be tokenised private markets exposure. Probably in the future, it will be much more a blend of both public and private and certainly our view is that in order to be competitive you are going to have to have both, so you are going to have a slice of a wind farm, a slice of another piece of infrastructure, a slice of real estate and maybe even a slice of specific property alongside your thematic baskets or whatever.

How quickly it happens is anyone's guess at the moment, but if you look at the States as a lead indicator, really mutual funds are only now bought by boomers, the next generation is direct indexing, it is separately managed accounts, it is ETFs, and I think that mindset has shifted. I think if we are to get proper engagement from investors in terms of what it is they own, they are going to want to be able to relate to the asset a lot more. One of the issues we have today is savings behaviours are distorted by the fact that people feel a long way from the underlying asset, so more people own crypto than own shares in UK

companies. The reason why buy-to-let is so big, and if we are able to make these other assets readily acquirable, and easily understood and accessible through tokenisation, it will be transformative.

There is a lot of regulatory wood to chop as well. That is undoubtedly the case, but it is interesting to see the Swiss, Singaporeans moving ahead strongly. So I think you are going to see allocations of private assets continue to rise in private portfolios. Already, if you look in the big wealth channels, it is growing very strongly at the top end and regulators will increasingly enable that to happen. Remember the number of public companies has pretty well halved over the last 30 years or so, and the antidote to that is to be able to make these other assets available, and if we are going to build these new industries they are probably going to be in private markets, not public, so I am probably a little bit biased on that, but I see there is a long way to travel, and we will see allocations rise pretty quickly, both of tokenised assets but of private assets in individuals' portfolios.

This is not about crypto. This is about using the underlying technology to reduce costs as well, because the value chain at the back end is just way too long, way too cumbersome and way too expensive. There is a great deal to do there.

Does that cover everything?

**Bruce Hamilton:** Yes it did. Will you take....

**Peter Harrison:** Yes, I can see us doing that, absolutely. We clearly have a big investment Trust business, and UK Wind being the largest, which is now just outside the FTSE. The next iteration of that will not be 150-year old technology, it will be tokenised technology.

**Hayley Tam (Credit Suisse Financial Services):** Could I also ask three questions, just to follow the trend?!

To follow up on Hubert's question about capital, and your answer on share buybacks Richard, could you talk to us about how you will look at the relative merits of share buybacks versus M&A, and also whether we should think about if there is something you can do, from a £600 million surplus level, or if you would have to go back to £1 billion first?

The second question, just in terms of the Wealth Management re-statement, given that you now have these three pillars to think about in terms of 5% net new business, could you help us reframe the 5% perhaps on a sub-divisional level, to understand if there is any particular bias in those three.

The third one is on that same theme. Given that you have reframed Wealth Management, if we think about your Solutions and your outsourced CIO business, could you tell us how much of your net new business this period was perhaps also into Schroders funds as well as being advisory, if that makes sense?

**Richard Keers:** That is a really difficult question to answer, Hayley, because the relative merits change, they will depend on the share price at the time, clearly, if you are contemplating buybacks. Whether there

is any interesting M&A in the pipeline – often there is a very long gestation period. All I can reiterate is that we are very conscious that we don't want to have an excessive balance sheet and, if it was over £1 billion, we would have an explanation of what we were going to be doing that. However, between £600,000 and £1 billion, we are fairly comfortable. We clearly haven't gone through the franchise vote yet anyway, and so I think this is one to talk about at year-end, when the capital position will probably have been re-built through the second-half earnings as well.

**Peter Harrison:** I think if I were observing the UK market, Next have done a really neat job of explaining their strategy. They have done it for 10 years and they say that it is about the opportunity, the price of your equity, and the alternatives and what your view of all those variables is. As we go through and it becomes irrelevant, we can set out a statement rather like Next, about how we can make those decisions. It would be nice for it to be a reality for us to get through the vote first, although I have to say on that point that all the proxy agencies have come out as very supportive, which is great.

On Wealth Management, can we break it down at subdivision level? That is really quite hard. I am always concerned that we narrow our guidance down to more and more bits and pieces and we end up trapping ourselves in a corner. One of the things we have done recently is that we have launched an MPS product, where we have started to see a good take-up of that, over and above the growth we saw before, and I think there is more to come there.

Clearly, if we can add more businesses onto the platform, that is a very good way of then being able to engage them in the wider Schroders funds. I would, however, be nervous about being able to give you targets for each of them.

**Richard Keers:** It is worth reiterating that we think that the 5% reiteration is a slight enhancement to the guidance given – the denominator is increased.

**Peter Harrison:** The amount into Schroders funds on the Solutions bit in the first half, I think amounts to zero, or 0.1. It is negligible.

**Richard Keers:** Hopefully, it will be much more important feature, going forward.

**Peter Harrison:** Part of the reason for bringing the River and Mercantile business into Schroders, was to enable that cross-sale of private markets' capabilities into these long-term stable pools. That is certainly something for which we have quite strong plans, and it really transforms the economics of that business into creating really long-term pools of stable capital. Apollo, will have an insurance company, ?KK will have an insurance company. To my mind, our low-cost equivalent is a solutions business that provides the opportunity to do that.

**Mike Werner (UBS):** I have two questions, please. First, on the Wealth Management business, we saw, as you know, that the net interest income essentially doubled, year on year. Could you let us know the sensitivity of that? Is there an opportunity for that to double again next year? What type of interest rate environment do we need to see?

Secondly, with regard to the new presentation, thank you for the changes which make a lot of sense. The one thing I still have a question on is the central cost. With regard to where you put it outside of the operating profit, we tend to see some of your competitors putting their central cost within the operating profit. I was wondering about your thinking behind that decision from a comparable perspective.

**Peter Harrison:** I think those are both for you, Richard!

**Richard Keers:** The second one I believe is the easier one to answer. In essence, it is a representation of our group segment and we don't characterise our group segment as an operating segment going forward; at its heart, it's not. By being very transparent and putting on the face of the income statement what those central costs are, if you do want to allocate those, you have two choices, you can allocate it on profits of the two segments or revenues of the two segments but it would be totally arbitrary. If I were to do that, you would have less disclosure and less understanding of a sum of the parts valuation. I have given you the choice but we have never allocated those in our management accounts, that is how we have always presented them.

**Peter Harrison:** We really didn't want to change the presentation of what we gave you before, because I think you immediately look at it and say, 'what's going on here?'. Therefore, to give the same numbers but re-presented, rather than lose information didn't seem to be a good -

**Richard Keers:** On the banking interest leverage in the model, clearly when rates were zero, there was very little earning capacity but we have to look after our clients as well, so we can now charge a reasonable margin. I don't see that margin doubling next year because the rates increase but that margin probably wasn't in place for the total full six months, so there is a little bit of upside but not a doubling into 2023, if rates double again. There is an appropriate margin that a wealth manager bank can earn but not an inappropriate margin.

**Tom Mills (Jefferies):** I have a question on the Private Assets business. It feels like their renewable infrastructure piece is quite a key differentiator for this business now versus some of your traditional asset management peers, who are playing in the old space. I believe you mentioned that you have expanded three offices year to date in that business. Can you give us an idea about what your near-term plans are for expanding that, which channels you will be addressing, and perhaps more of an idea as to how much that business can scale, because it feels like it really should be able to scale a lot on this platform?

**Peter Harrison:** Thanks Tom. Broadly speaking, there is a very large UK wind business, there is an Irish renewables business, which is just starting to do bits and pieces in Europe, and there are a few separate managed accounts for some pension funds. The opportunities are two or three-fold. First of all, to expand the European business across those broader number of countries, and you will have seen that we have acquired some quite big assets now in Europe. I believe we have bought Europe's largest wind farm off Germany, something in Finland and Sweden and other countries, and we consolidate our position in France as well. Therefore, building out the infrastructure across Europe and raising a European fund and separate accounts for European investors for continental European power - that feels like opportunity one.

Opportunity two, is to build out of the US and the US market is structured slightly differently but, in effect, there is still a market for US renewables. Here the average size of a solar field is five or six acres; in the US it is 500 acres plus. There are some big ones coming in this country as well but they are doing it on a much larger scale in the US and there are some interesting tax issues that one has to get round in terms of credits that are sold. However, in essence, the US opportunity to US pension funds and to Asian pension funds for that business exists.

Then there is the work in the UK, which has worked very well but I am mindful that we don't want to scale that team. That will carry on at the normal pace because there is a set of clients there and we don't want to over-expand that area.

What I do think is, if you look at that market, by being a very big player, when big assets come up for sale, such as Hornby, which is the world's largest wind farm, that is a billion pound ticket and we are able to participate in that. The number of people who are able to add a billion pound ticket straight away for an asset is very low. Therefore, the fly-wheel effect gets quite strong as you become a dominant player and most of the people we have been working alongside are utilities, which want us to take on those assets and there are a lot.

The interesting point is that we are hiring engineers here rather than portfolio managers, which is a relatively easy business to scale as a formula for doing it, so there is a lot that we can do. I don't want to make a forecast as to asset raising, not least because the competing assets, as in some fixed income assets, have changed valuation, so the client appetite will be an interesting one to judge but it's certainly a very attractive space. I think pension funds that are de-risking who are looking for negative carbon assets, it's a great way to put money to work, so more to do. Thanks, Tom.

**Richard Keers:** Peter, can I just go back to Mike's question in terms of the opportunity on banking interest? He says one is the margin and as I said that's virtually stable, but you should expect a slightly increased appetite to lend against client portfolios given we can now earn a commercial return from that activity, so I do see it growing but not through an increase in margin but an increase in the banking book.

**Peter Harrison:** Good point. Any more questions? Are there any questions online?

**Arnaud Giblat (BNP Paribas Exane):** I have three questions please. You talked during the presentation about competing against Hamilton Lane StepStone & Partners Group in Alternatives. I suppose you were alluding to maybe retail products. What offering do you have there and what are you developing until tokenisation takes off?

And a subset of the question, I think is in secondaries. That's a part of the market that is seeing some good traction now given the market dynamics. Do you see opportunities to gain access there and perhaps is that an area you could look at doing for the bolt-ons?

My second question is on costs. If markets remain challenging, what sort of flexibility should we think about in that context?

Finally, on surplus capital, you talked about £600 to £1 billion but for the right sort of acquisition, where could surplus capital drop down to? Thank you.

**Peter Harrison:** Just on private markets first of all, Arnaud. Basically the primary offering we have is in our GAIA Fund range at the moment, which is a semi-liquid product. We will also be doing an interval Fund in the US which we are in the process of putting on the shelf and LTIFs obviously in Europe, make that available and obviously the new LTUF regulations over here also is a UK equivalent, so there are quite a lot of vehicles that we have in the pipeline. Their degrees of specialisation will vary by market, everything from venture on the one hand right the way through to a fully diversified proposition, so that piece of it, there is a lot going on.

Clearly what is interesting about that is how few competitor products are available today, so this is just an area where a lot of people have either not got the breadth to play or not got the mutual fund distribution mindset to play and the spaces on the decks of the big distributors are still relatively open.

Your question on secondaries, if you think about the dislocation that we are going to see ahead which I think there is an inevitability in private assets given the froth that was in that market historically, if you look in 2007, the biggest opportunity was in secondaries afterwards and so I would expect that you will see. We actually hired a secondaries team and have just raised for that team and people are recognising there is going to be a lot more activity in secondaries.

There are very few businesses in that area. One or two of them have changed hands. It's an area we have always kept our eyes on whether there would be some inorganic opportunity but whilst we have been waiting, we have gone on and hired a team as well, so that's progressing.

On cost, if I start and then I will hand over to Richard, the first thing to say is we have kept our guidance of 45%. We are not seeing the great resignation here. Actually if you look at our staff turnover numbers, they are actually running at levels that were almost identical to pre-pandemic, so our ability to retain staff has been very high and our ability to attract the people we wanted to has been very high.

The pulse survey we did with our employees the other day said 95% of them are proud to work for Schroders which is against an FS average of high 70s or something, which suggests that we are in a pretty good place in terms of retention. That obviously helps us in terms of numbers. 85% of employees here are shareholders in the business, so there is a good alignment.

Richard, do you want to comment?

**Richard Keers:** Yes, I do. As Peter said, 45%, so our comp is 67% of our total costs broadly, so in some way we are insulated if markets are down, revenue is down, our key cost metric will go down if we can maintain that 45%.

But within that 45%, we are always reinvesting for the future. We have a number of subscale new businesses that we are developing. Peter has referred to a number in the Private Credit space in his earlier presentation and that's a really important part of what Schroders does. We are investing for future growth and I don't see a change in appetite in that area.

On non-comp, we are comparing '22 against '21. '21 had a lower level of marketing costs and a lower level of travel costs and they have broadly normalised this year. I also talked at the year-end about the Cloud migration. Do I want to stop that? Yes, it's expensive in the short-term but the savings that I talked about are tangible and real.

Again, the nature of Schroders is we are not going to divert our attention on the short-term markets from doing the right thing to generate longer term efficiencies and profits, and an enhanced cyber resilience, which is actually fundamental to preserve our reputation in the future because that would be the ultimate risk factor if our business was severely damaged.

We run a lean back office. I do have some levers in marketing, a little bit on travel, I could stop the Cloud investment, but they would be short-term and the wrong things to do, so at the moment we don't have any intention of going back on the guidance I have given you, but clearly it has been impacted by FX. Sterling is weaker, but we benefit from a weak sterling from a profit perspective, so I don't think you should get too excited by the FX inflation element of non-comp costs.

We have bought some new businesses, and they come with non-comp costs as well, but they are growing our franchise, growing our profits, growing our revenues. You have to factor that into they weren't in the comparatives, but they are in the new base.

**Peter Harrison:** To my mind, if you look at where the growth is coming from in this business, I think with a business where you have 30% operating margins, growth is incredibly valuable, and the growth we are seeing at this time is the organic investment we made in Sustainability and Private Markets and Solutions. That is what is driving these numbers, so we don't want to give that up. Do you want to talk about the balance sheet?

**Richard Keers:** And capital. The answer is theoretically we have an early warning indicator. We are required to have that with a PRA. So we have an internal buffer over and above the numbers you see, so we need a buffer but it does not need to be £600 million. There are regulatory changes afoot. The counter-cyclical buffer that the PRA took off a few years ago is probably going to be reimposed by the end of the year, so the £600 may not be £600.

If we increase our banking book, lending book, this is an important area for potential future growth. The unfortunate impact of that is that also reduces our capital surplus because we have to reserve capital against lending. So it appears a big number, but actually in reality it is a smaller number than that, so it cannot go much lower without having a real business impact on day-to-day activities.

**Peter Harrison:** I think the other point is we have spent a lot of time over the last six years buying the businesses that we wanted to, and we said the last time we met that we have actually bought the businesses we wanted to buy. We have those four pillars in place in private market, so the need to do something has gone down a great deal.

The point that I think it was Hayley was making about share buybacks, that to my mind, is a very interesting alternative way, which is a sensible conversation.

**Nicholas Herman (Citigroup):** I have three buckets. Firstly on Private Assets, you clearly do need to invest in that business to platform it, and I guess that is a drag on operating margin. Can you help investors frame how much investment is required to platform that business and how long that process could take?

Just a couple of small follow-ups on Private Assets; just curious on how big the fundraising in secondaries was and how long you expect the first build-out phase for Greencoat to take? That is the first bucket.

Secondly, on cost, what is the underlying of cost inflation that we should be thinking, you are clearly quite broadly geographically spread with also some exposures in the US and Asia? That would be helpful. I guess presumably, that affects your non-comp more than your comp.

Finally, we have seen some peers struggling incrementally in the current environment which would be expected, given the strong market drawdown. There have been some reports of restructuring by some of the trust managers, both on potential sales and the alternative sides. Do you see an opportunity here to pick up any teams or pick up a couple of smaller assets? Thank you.

**Peter Harrison:** Thanks, Nicholas. In terms of private asset re-platforming, we are busy doing that, and we have been doing that for a little while already, and that is included in the on-going costs that we have today, so there is not a big number out there that is going to come along and hit us out of the blue.

The secondaries number I can't remember. My recollection was that the first close was at £300 million, and we are still raising, but I may be wrong on that, so perhaps we can come back to you on it.

The Greencoat build-up phase we are looking for that to happen pretty quickly, so you should see those assets hitting. The first half of next year will be the start of that build up, just hitting the road in September. The fund structures are being set up now, so by the time we have got through closings, etc, it will be the first half next year or second half of next year. It will take time to build. These things always take time because we are taking effectively a new proposition to investors, but I think that will happen with a reasonable degree of certainty.

Underlying cost inflation rate, Richard?

**Richard Keers:** It is fair to say we have already dealt with the comp cost side of that. We are committing to a comp income ratio of 45%, so, in a way, that is self-correcting. On the areas of our non-comp costs, an increasing proportion are linked to AUM so, again, they are self-correcting. Clearly, there is inflation in travel and we are committed to reducing our travel in number of flights, by a half over 2019 levels in order to reduce our carbon emissions but the cost of that 50% reduction is such that, in real terms, flying to the US or Asia is significantly more than it was before. However, we are talking of a few million in the context of our cost base. I am sure you will see a bit come through in Marketing because that is third-party exposed and there will be an inflationary element there.

On our market data costs, we have lived with significant inflation over the last five years, and we are now managing that number much more carefully and reducing usage wherever possible. However, I don't see the inflationary environment over the last five years in market data reappearing in the next five years. It is round the edges but largely our business is -

**Peter Harrison:** It is nothing like the headline inflation numbers we see talked about in the media, simply because so much of it is either comp or buildings and stuff that is already hard-coded in, or agreements for software licences etc. Any more questions on line?

**Mandeep Jagpal (RBC Capital Markets):** There is a question on Solutions from me please. There have been some good wins in this business recently but given the significant improvement in pension scheme funding levels from rising rates this year, trustees are seeing bulk annuities as a much more affordable and realistic proposition than they probably were even six months ago. Therefore, do you see any kind of risk for a fundamental reduction in demand for Solutions or fiduciary for Schroders, as schemes have previously been thinking about fiduciary instead of going straight to a bulk annuity?

**Peter Harrison:** That is a good question. You have seen two things going on. You have obviously seen the value of the liabilities that need to be hedged come down but, because it was hedged, pension fund

funding rates have only improved by a couple of percent. Therefore, although rates have moved significantly, the ability of pension funds to take advantage of it was muted because the hedging has effectively worked against them in this period. We had one outflow of over a billion for a scheme we have managed for a long time that got to buyout, and we regard that as a success when a client gets to buyout but it does mean we lose the assets. However, we are not seeing a wholesale shift in that market because of the nature of the hedging, it hasn't manifested itself in that big move.

It will be around the margin and, inevitably, the objective of a lot of DB schemes is to get to buyout, so over the next eight or nine years you will see that headwind but I don't believe you will see a sea change at the moment because of the existence of that hedging. Thanks, Mandeep. Any more questions online? *[none]*

Thank you all very much. I am sorry we have run over slightly but thank you for being here and our very best wishes for a nice summer holiday - hopefully, everyone is getting one!

[Ends]